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**Commercial pressures and social justice  
in the Indian textile and garment industries:  
rules, conventions, commitments and change**

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**Submitted for Doctor of Philosophy**

**University of Sussex**

**August 2011**

## Declaration

I hereby declare that this thesis has not been, and will not be, submitted in whole or in part to another university for the award of any other degree.

Signed: \_\_\_\_\_  
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**Submitted for Doctor of Philosophy**

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**Summary**

This thesis explores the tensions that arise when business enterprises respond to situations that have both commercial aspects and implications for workers. Using Grounded Theory methodology it examines data from 56 case profiles, extensive interviews and secondary sources in order to understand the nature and variety of the social and commercial commitments that enterprises in the Indian textile and garment industries make and how these are influenced by the rules and conventions inherent in global value chains and in the local culture. It uses concepts drawn from Convention Theory, from social realism and from the social justice literature to develop an analytical framework that explains how priorities are coordinated in three arenas – within enterprises, in interactions connected with the workplace and in society as a whole.

The findings show that, in the mainstream, social commitments are generally weak and behaviour towards workers is inconsistent, reflecting a reactive stance that ethical trading has done little to change. Most social enterprises have similarly weak commercial commitments and efforts by Fair Trade organisations to reach mainstream markets have proved problematic. Few examples have been found of commercial success achieved in a way that also meets the criteria of social justice. Those cases that have come closest have created new business models that integrate social and commercial values, forged by means of long-term business relationships or partnerships.

A variety of mutually-reinforcing factors combine to determine the balance of priorities – public discourse, engagement by stakeholders, including workers, and internal processes for resolving differences – and these are affected by the level of scrutiny and openness to organisational learning. Interventions aimed at greater social justice in the industry or at scaling up social enterprise need to recognise the complexity of these interrelationships and the ways in which rules, conventions and commitments blend to determine behaviour.

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## Definitions

**Arena:** a place where *coordination*, or balancing of priorities, can take place; it may be within the subjective sphere of an individual actor, in debates that take place in society or in the process of responding to situations as they arise.

**Brand:** an enterprise that controls global value chains; includes retailers with an established reputation as well as companies that sell branded products through non-owned outlets.

**Business case:** the *justification* of proposed actions based on commercial reasoning.

**Capabilities:** the effective freedom of workers and producers to pursue their lives without their rights being infringed; a measure of ultimate *outcomes*, which may be the object of *social commitment* by business enterprises and other actors.

**Commercial model:** the strategy and set of approaches adopted by an enterprise to fulfil its commercial objectives and priorities, including sources of revenue and profit and the basis of its competitive advantage. An enterprise that gives its commercial model greater importance than its social model is a *mainstream enterprise*.

**Commercial priorities:** an internal ordering, within a business enterprise or system, of important tasks, processes and objectives that are aimed at satisfying the demands of customers profitably.

**Commitment:** an actor's state of intention towards an object, which may be a state of affairs or a course of action (see also *social commitment*).

**Conventions:** informal rules about how to act in particular situations; a set of mutual expectations about behaviour.

**Coordination:** the process of ordering, or balancing, actions, priorities and commitments: these may be related to an actor's intentions (*subjective* coordination); to actions involving several actors (*interactive* coordination); or to agreements, e.g. rules or conventions, (*inter-subjective* coordination).

**Domain:** a business system with established commercial and social practices; includes clusters of similar value chains; historically-determined and slow to change.

**Expectations:** anticipated behaviour on the part of an actor, as held by other actor(s); it may take the form of the conduct that is looked for in given circumstances and may take into account constraints and particular requirements.

**Global value chain:** a set of business structures and operations that connect all the activities required to deliver a product, from raw materials to the final consumer.

**Governance:** the ways in which those in positions of power exert influence over the behaviour of others, including the methods used by the lead firms of *global value chains* to circumscribe the scope of other companies and determine their actions.

**Justification:** the reasoning by which an actor defends his actions by reference to moral principles; may be based on civic, domestic, reputation, market, industrial, inspiration or other 'world'.



**Learning:** a change in perception, understanding, attitude or other subjective state held by an actor (individual or corporate) as a result of experience.

**Mainstream:** enterprises, markets and activities dominated by commercial considerations; social enterprises engaging in mainstreaming are attempting to enter mainstream markets, usually by cooperating with commercial enterprises.

**North:** the more economically developed countries, such as Western Europe and North America.

**Outcomes:** the results of actions, especially the effects on workers, such as employment outcomes; may be substantive (i.e. directly impact on their *capabilities*) or instrumental (e.g. conditions of employment).

**Principles of justice:** the foundational ideas that are called on when *outcomes* are considered; may include the balance between social and other priorities and the processes employed in reaching decisions.

**Regulation:** a general term used to denote attempts by certain actors to define discrete parameters, or *rules*, by which other actors should carry out certain activities.

**Rules:** formally agreed injunctions and procedures relating to appropriate action in particular situations, which are established away from the place at which they may apply; embody *commitments* that actors wish to impose on others.

**Scope:** the extent to which actors are able to determine their actions in given situations; limitations on freedom to act. Scope may be determined by others through *governance*.

**Scrutiny:** the amount and quality of information available about what is actually going on; includes the process by which information is obtained and distributed and the opportunities that people have to evaluate and debate it.

**Social commitment:** in general, an inclination to consider the welfare of workers and producers; more specifically, desires or undertakings to act in a way that improves the *capabilities* of workers and producers. It is expressed at four levels: (1) principles; (2) ideas; (3) rules and conventions; and (4) practical courses of action.

**Social model:** how an enterprise pursues its social priorities and delivers *social value*. An enterprise that places higher importance on social than on commercial priorities is a *social enterprise* and will normally make the commitments contained in its social model explicit.

**Social value:** the actual provision of *capabilities* to workers or producers through employment in an enterprise; the purpose of social priorities.

**South:** the less economically developed countries, such as India.

**Standards:** a set of prescriptive criteria or parameters that may be applied to products, to methods of production or, in the case of labour standards, to conditions of employment; include codes of conduct and other *rules* applying to workers.

*Note: the wording of the above definitions has been formulated by the author alone, although he acknowledges the influence of a variety of original sources, including those listed as references at the end of the thesis.*

## Abbreviations

**BSCI:** Business Social Compliance Initiative  
**CCC:** Clean Clothes Campaign  
**CEO:** Chief Executive Officer  
**CSR:** Corporate Social Responsibility  
**CT:** Convention Theory  
**EFTA:** European Fair Trade Association  
**ESI:** Employee State Insurance  
**ETI:** Ethical Trading Initiative  
**EU:** European Union  
**FLA:** Fair Labor Association  
**FLO:** Fairtrade Labelling Organizations International  
**FT:** Fair Trade  
**FTF:** Fairtrade Foundation (UK)  
**FTFI:** Fair Trade Forum India  
**FTO:** Fair Trade Organisation  
**GPN:** Global Production Network  
**GVC:** Global Value Chain  
**GT:** Grounded Theory  
**HR:** Human Resources  
**ICC:** International Code Council  
**IFAT:** International Federation of Alternative Trade  
**IFOAM:** International Federation of Organic Agriculture Movements  
**ILO:** International Labour Organisation  
**ISO:** International Organization for Standardization  
**IT:** Information Technology  
**MSI:** Multi-Stakeholder Initiative  
**NEWS:** Network of European World Shops  
**NGO:** Non-Governmental Organisation  
**PF:** Provident Fund  
**Profit:** Promoting Fair Trade in India project  
**SEWA:** Self-Employed Women's Association of India  
**TC:** Textiles Committee  
**UN:** United Nations  
**UK:** United Kingdom of Great Britain  
**USA:** United States of America  
**WFTO:** World Fair Trade Organisation  
**WWW:** Women Working Worldwide

## Diagrams

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## PREFACE

My personal interest in development issues was sparked in the 1960s when I travelled around India researching the market for bread-making equipment. It strengthened in the mid-1970s when I worked in Tanzania on a consultancy project advising the government on organisation for rural development. I was struck by the persistence of extreme poverty on both continents and by the apparent inability on the part of government and private sector to tackle livelihood problems. When I retired from business I worked with an NGO in Nepal and found the poverty issues substantially unchanged, despite global economic development over the previous 30 years.

I asked myself why it was proving so difficult to find ways to improve the lives of the vulnerable and disadvantaged. There was no shortage of ideas, from letting free markets work more efficiently to providing education and improving infrastructure. But it seemed that the track record of development projects was not impressive. Too often there was a gap between ‘good intentions’ and actual results.

It appeared that the activities of business enterprises were not linked with those of development agencies. As I studied the literature I realised that lack of coordination on the ground was paralleled by a failure of integration at a theoretical level. The development literature had comparatively little to say about business<sup>1</sup> and the coverage of social issues in the business literature was extremely limited<sup>2</sup>. I came to understand the lack of connection between the foundational theories: standard economic theory, supplemented by empirical studies of specific commercial issues, on the one hand; and sociology and anthropology, with their own disparate empirical studies, on the other. The concepts and language used in each field were quite different and few attempts were made to reconcile them.

This understanding led me to conceive a research project that would aim to explain aspects of the process of development from both ‘commercial’ and ‘social’ standpoints.

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<sup>1</sup> An exception is the Global Value Chain literature, which is reviewed in section 5.4.

<sup>2</sup> Apart from some coverage in the Corporate Social Responsibility literature – see chapter 2.

<sup>2</sup> Apart from some coverage in the Corporate Social Responsibility literature – see chapter 2.

I chose for empirical study the production of textiles and garments in India. This is a large and dynamic sector of the Indian economy, encompassing cotton farming, a globally competitive export garment industry, numerous family concerns serving local markets, modern manufacturing plants and small-scale social enterprises, thus providing a rich diversity of examples of both commercial activity and of social structures.

Despite its commercial success, numerous published surveys and media reports show that low pay and abuses of human rights are endemic in garment factories and other workplaces. The persistence of poverty in a large, commercially successful industry, despite strong critique from civil society, raises doubts about the effectiveness of current thinking on corporate social responsibility and on ways to improve worker livelihoods.

# INTRODUCTION

In order to explain why commercial success has not led to improved livelihoods for workers in the Indian textile and garment industries, this thesis introduces and develops a new concept, social commitment. Social commitment represents the attitudes and intentions of business enterprises (and other actors) towards the welfare of workers and is expressed in the form of policy statements, plans and actions. It is influenced by the social rules that govern behaviour, including formal rules, such as codes of labour conduct, and informal conventions. But, in the intensely competitive industrial environment, social concerns often take second place to commercial exigencies, with the result that worthy intentions are not always matched by appropriate actions. The tensions between social and commercial priorities and the resulting fragility of social commitment in many mainstream enterprises lie at the heart of this research.

In exploring these tensions this thesis uses Grounded Theory methodology and a multi-disciplinary approach in a novel manner. Rather than starting from a set of hypotheses drawn from a single body of literature, it explores the evidence about actual labour practices in the Indian textile and garment industries in a way that is open to a wide range of perspectives and explanations. Theories on conventions, regulation and rules, agential choice, global value chains and social justice are all incorporated in the analytical structure and are integrated by means of the unifying concept of social commitment. This approach allows a wide range of empirical data to be incorporated in the analysis, including extensive case study material, interviews and secondary data, and it encourages connections to be made between observable facts and value judgements.

Social commitment fills a void in descriptive and normative theories about the impact of business on the wider society and it provides a new means of evaluating approaches, such as ethical trading and Fair Trade, that seek to protect human rights in global value chains. Although based on a limited sample of cases in a single industry the analytical and policy implications for those concerned with corporate social responsibility are significant. The thesis forges links between business behaviour and foundational theories of justice that could usefully be explored further by research in other sectors and countries.

Using the concept of social commitment the thesis explores the central question: ‘How is the balance struck between commercial and social priorities in the cotton textile and garment industry in India?’ It focuses on three main groups of questions or lines of enquiry:

1. What is the actual balance between social and commercial priorities, and how does this vary among mainstream and social enterprises? What are firms’ dominant employment rules and conventions? What is the nature of their social commitments and how are these related to their commercial commitments?
2. Which main factors explain the balances, conventions and commitments? How do companies explain and justify them? What is the influence of outside stakeholders? And do individual enterprises have much discretionary scope, or are they heavily constrained by their business environment?
3. Is the balance changing, and, if so, why and how? Are the conditions for greater social justice being met? Do initiatives, such as ethical trading and Fair Trade, help to challenge the conventions that affect worker livelihoods and do they strengthen social commitment?

Part A of the thesis, comprising three chapters, gives the background to the research and identifies issues for empirical investigation. Chapter 1 briefly reviews the structure of the Indian textile and garment industries and identifies the main commercial drivers and social challenges. Production, from farming through intermediate processes to final manufacture, takes place throughout the country, employs tens of millions of people and makes a significant contribution to economic output and exports. Although some parts are increasingly driven by the demands of international buyers, a large part of the industry is hidden from view in the informal and unregulated sector where social outcomes are poor.

Chapter 2 charts the development of Corporate Social Responsibility (CSR) and of ethical trading as approaches designed to protect the interests of workers in international supply networks controlled by large corporations (‘global value chains’ or GVCs). It reviews the CSR literature and the published evidence about labour standards and business practices. Claims about the effectiveness of CSR and ethical trading are contested and there are major gaps in knowledge about the actual conditions of workers

in many parts of the industry. The theoretical framework underpinning CSR, which rests on the notion of a ‘social contract’ between business and society and on stakeholder theory, lacks secure foundations.

Chapter 3 looks at the evolution of Fair Trade (FT) as an alternative way of ensuring just treatment for workers and small-scale producers<sup>3</sup>. It explores various aspects of FT, from campaigning to traditional hand-crafted operations to larger-scale production and labelling linked to mainstream value chains. FT’s claims are also contested and there are gaps in the empirical evidence about the value actually delivered to producers. Furthermore, there are tensions between the different branches of the movement, some of which confront mainstream business practices while others rely on cooperation. FT lacks a clear theoretical base in its call for greater social justice and strengthening of producer capabilities. Although ethical trading and FT take radically different approaches, they are based on the same human rights principles. The thesis distinguishes the two approaches using a common conceptual and analytical framework.

Part B describes the approach I have adopted to tackling the research questions. Chapter 4 outlines the methodology, which draws on Grounded Theory (GT), an empirically-led approach, which does not rely on determining hypotheses in advance. In the early stages it involves open enquiry, in which explanations emerge from close analysis of data. Later on, focus is provided by a ‘core variable’ (social commitment, in this thesis) around which further data are then collected. The process is iterative, with constant comparison of data to concepts and of empirical findings to the literature.

Chapter 5 reviews the theoretical literatures on conventions, regulation and rules, agential choice, GVC analysis, social justice and on commitment. All of these have played a part in helping me interpret the empirical data and develop an understanding of the issues. The French school of Convention Theory (CT), which emerged from empirical studies of normative differences among actors engaged in economic coordination, is essential to the analysis, as are Amartya Sen’s ideas about social justice, which emphasise the plurality of principles of justice and the importance of process.

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<sup>3</sup> The term ‘producer’ is often used to denote farmers and artisans in small-scale operations, while ‘worker’ is normally used for those working in industrial conditions in factories. Both ‘workers’ and ‘producers’ cover a wide range of employment situations, from contracted wage earning to part-time and casual work, self-employment and informal arrangements.



Chapter 6 describes the analytical framework, which provides a broad ideational structure to which the empirical data can be related. It is based on a heuristic model, in which actors respond to practical situations or problems as they arise. The process of coordination, in which social commitments are formed and priorities balanced, takes place in three arenas: (a) the interactive arena, where actors jointly tackle real situations and agree on courses of action; (2) the inter-subjective arena, in which distant actors discuss issues and attempt to influence events; and (3) the subjective arena, where individual actors review situations and set their own priorities.

Part C contains the findings, divided into five chapters. Chapter 7 outlines the empirical data<sup>4</sup>, collected from primary and secondary sources, reviews their nature and quality and explains how they have been analysed. The abundance of secondary data, as well as the plentiful opportunities for empirical research afforded by the industry, provide a rich resource for the application of Grounded Theory. Chapter 8 pursues the first line of enquiry, posed earlier in this Introduction. It looks at evidence about how organisations actually behave, not just what they claim, and explains the effects of their business models. It finds that social enterprises generally have an articulated, stable set of social commitments, geared to substantive employment outcomes. The commitments of many mainstream enterprises, on the other hand, are essentially procedural and their behaviour towards workers is inconsistent, even when they adopt codes of labour conduct.

Chapter 9 tackles the second line of enquiry, examining, in turn, four different types of explanation for variations among enterprises in the way priorities are balanced. First, it looks at how companies judge situations and justify their actions in relation to workers. It uses the six ‘worlds of justification’ postulated by Convention Theory to explain why market and industrial logic is decisive in some circumstances whereas arguments involving social justice hold sway in others. Second, it examines the influence of stakeholders on enterprises. In the mainstream, the voice of workers is not generally heard and many social enterprises are reluctant to engage with commercial actors. Third, the chapter explores how companies tackle differences that arise when social and

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<sup>4</sup> The 56 case profiles, 44 interviews in India and 15 surveys by other researchers are listed in the Appendices.

commercial priorities conflict, finding that many are not resolved but remain in a state of chronic tension. Fourth, it analyses the effects of the business environment on enterprises and the scope for individual firms to exercise discretion in social matters. The business ‘domain’ plays a major part in determining business models and in shaping employment conventions, stakeholder roles and ways of resolving differences.

Chapter 10 assesses questions of change in social commitment, as raised in the third line of enquiry. Over the past 20 years there have been rapid commercial developments in the industry but social outcomes have been slow to respond. Examples of progressive approaches, resulting either from external pressures or from strategic intentions, provide the basis for identifying the circumstances under which interventions, such as ethical trading and FT, can be effective. From a social justice perspective these initiatives have had limited impact because the basic conditions for change, which include wide participation in coordination, open scrutiny and collective learning, are not present in large parts of the industry.

Chapter 11 summarises the conclusions and relates them back to the theoretical and analytical framework. The polarised responses by enterprises to situations and their inconsistencies in behaviour are attributable to failures of commitment in each of the three arenas. It is argued that prevailing theories, rooted either in the world of commerce or in livelihoods and rights, are poorly connected and are unable to explain how priorities are or should be balanced. Bridging concepts are needed, which are provided mainly by Convention Theory, in showing how compromises may be reached between competing values, by social realism, which establishes the moral agency of the business enterprise, and by Amartya Sen’s idea of justice, which defines the conditions necessary for fair outcomes. Social commitment provides the glue that binds these explanations together and also takes into account the effects of rules and of constraints imposed from the outside.

To sum up, the thesis sets out to examine, both analytically and empirically, the role of social commitment in order to gain a deeper understanding of how business enterprises in the Indian textile and garment industries tackle the complex issues involved in balancing their social responsibilities towards workers with the commercial need to survive and make a profit in a competitive environment.

## **PART A – BACKGROUND**

The contest between commercial and social commitments takes place in a specific industrial and market environment. The rules and conventions governing business behaviour are shaped by history and traditions and the effects of past interventions on employment practices need to be taken into account. The three lines of enquiry arising out of the central research question (see Introduction) therefore need to be explored in context in order to fully understand how business enterprises balance competing demands in determining their employment practices.

The three chapters of Part A seek to provide this context. Chapter 1 outlines the commercial pressures and main social challenges facing the industry. Chapter 2 reviews how ethical trading, as part of the broader CSR movement, seeks to protect workers from being exploited in global value chains. Chapter 3 describes the activities of the Fair Trade movement and reviews its literature.

### **Chapter 1: Commercial and social priorities**

The textile and garment industries form an important part of the Indian economy. Their sales in 2008-9 amounted to US\$55 billion, of which 39% were for exports and 61% for the domestic market. The industries provide approximately 4% of Gross Domestic Product, 14% of industrial production and 14% of exports<sup>5</sup> (CITI 2010). India makes about 10% of the world's textiles and garments, employing over 35 million people directly and another 45 million indirectly, more than any other non-agricultural sector<sup>6</sup>. Recent growth has exceeded 10% p.a. and this pace is expected to continue. A report prepared by the industry in 2006 anticipated the creation of 6.2 million new jobs over the following five years, of which 4.4 million were expected to be in garmenting (CRISIL 2006). The industry has been a commercial success story, but one with a

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<sup>5</sup> These figures do not include the considerable economic contribution of cotton farming and production of other raw materials for textiles.

<sup>6</sup> Cotton is an important cash crop for up to 10 million farmers and India is a major producer and user of jute, silk, cellulosic and synthetic fibres.

darker side as many workers live a precarious existence, vulnerable to changing patterns of employment and to various forms of exploitation.

## **1.1 Structure of the industry**

Textiles and garments have been in the forefront of industrial development in India since the government decided in the early 1990s to liberalise the economy. The government relaxed or swept away many detailed regulations and encouraged entrepreneurs to set up factories capable of competing internationally. Two key sectors of the industry responded quickly to the new commercial freedoms. First, small powerloom operations burgeoned, capable of producing fabrics more cheaply than the existing larger-scale composite mills. Second, modern factories were set up to produce garments for exports. These two sectors have led the way but other parts of the industry have changed little, though they now face increasing competitive pressures.

India's near neighbours, Sri Lanka and Bangladesh, compete vigorously in specific segments of the garment market, as do other countries. However, compared with smaller countries, India has the considerable advantages of cheap cotton, abundant labour and a large array of companies, of all sizes and specialisations, capable of manufacturing virtually any type of end product (Padhi et al 2004). China is recognised as being more cost-competitive for longer production runs, since it has invested far more heavily in both technology and infrastructure and is consequently more productive (Vijayabaskar 2002). India's main advantages lie in the combination of large capacity and great flexibility.

Final garment manufacture, traditionally carried out in cramped inner city premises in Mumbai and Delhi, is now dispersed throughout the country and new plants have been established on greenfield sites in the outskirts of Bangalore, Hyderabad and other cities. Clusters of enterprises, such as knitwear companies in Tirupur, have grown rapidly, bringing together large numbers of specialist companies geared to serving specific markets.

A legacy of previous governmental regulation has been the split into two main sectors, domestic and export (Krishnamoorthy 2006) but this division is beginning to break down. The number of overseas buyers is shrinking, a consequence of Northern retail concentration, and Indian export manufacturing is consolidating, with smaller companies losing ground. Traditionally, the domestic sector included large numbers of small, unregulated workshops churning out cheap clothing for sale in small shops and bazaars. It also now includes higher quality production, in modern plants, of branded merchandise aimed at the growing numbers of affluent Indians who shop in malls. Major Indian industrial groups have started to invest in larger-scale, efficient plants for both domestic and export sectors. And a certain amount of vertical integration is taking place, with Indian-owned groups having interests in both retailing and manufacturing.

Below the final stage of manufacture lies an intricate web of businesses of varied size and character. A small number of large spinning mills<sup>7</sup>, which have invested heavily in modern machinery, manufacture standard fabrics in large quantities. However, the majority of fabric for made-up garments is now produced by the ‘powerloom’ sector, which consists of clusters of small-scale enterprises, largely unhampered by governmental restrictions<sup>8</sup>. Although highly cost-competitive and flexible, there are concerns about variable product quality and poor working conditions in this sector.

The fabric processing<sup>9</sup> sector is still largely unregulated and is mostly carried out on a small scale, using traditional equipment, with uneven results in terms of quality. Massive investment would be required to bring processing up to international standards (Panthaki 2004). It follows the characteristic Indian pattern, originally encouraged by the tax and regulatory regime, of having several small plants, rather than one larger one (Padvi et al 2004). Handloom production of fabric on a very small scale still accounts for a significant proportion of total output, and an even larger proportion of employment, but it relies heavily on government subsidy (e.g. through bulk procurement) for its survival. It is now seriously uncompetitive for products that can be made by powerlooms and it maintains its pre-eminence only for fine quality

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<sup>7</sup> Spinning turns the cotton fibre into yarn that can then either be woven or knitted into fabric.

<sup>8</sup> Companies employing less than 20 workers (without power) or 10 (with power) are not subject to the Factory Act, which imposes various requirements on the use of labour and other matters.

<sup>9</sup> Processing includes washing, dyeing and chemical treatment of fabric.

fabrics used in traditional clothing, such as saris and kurtas, which are made up by local tailors.

A large part of the production of textiles and garments is still carried out in the ‘informal’ sector of the economy, in which there is virtually no state protection or support for workers. Less than 20% of the Indian economy as a whole is ‘formal’ and half of this is publicly driven (Kompier 2006). In the formal sector, to which only the larger textile and garment companies belong, an extensive array of labour laws, some dating from before independence, apply but they are weakly, if at all, enforced. And there are many ways in which large companies can get round what they often perceive as ‘excessive, inflexible, antiquated and ungovernable’ regulations, such as by obtaining exemptions, by using contract or casual labour<sup>10</sup> and by sub-contracting work to informal operators. The division between the formal and informal economy is fluid, and nowhere more so than in the textile and garment industries (De Neve 2010).

The bulk of cotton is still grown on small family farms, mostly under 2 hectares. Yields are low, by international standards, and quality is inconsistent. Few farmers are organised (e.g. into cooperatives) or carry out activities jointly, such as buying inputs and adding value downstream<sup>11</sup>. As a result they are in the hands of traders, often receiving a poor price for their crops and lacking support.

The overall picture is of an industry that is fragmented and uncompetitive by international standards (CII-McKinsey 2004). Despite liberalisation, it is still suffering from the legacies of tight governmental regulation and underinvestment and the new commercial freedoms have left a governance gap. The private sector has not been able to muster sufficient funds to establish internationally competitive manufacturing facilities on any scale and the government has failed to provide a modern infrastructure of roads, communications networks, water supply and environmental services. The industry’s success, despite these handicaps, appears to have been due to its ability to adapt and respond quickly to changing market demands, by means of complex

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<sup>10</sup> For example, in a study carried out in 2002, 87% of workers in the Mumbai export garment industry, 64% in Delhi and 80% in Tirupur described themselves as casually employed (Krishnamoorthy 2006).

<sup>11</sup> The stage that immediately follows harvesting is ginning, which involves removing the cotton seeds and producing oil, but few Indian farmers participate in this value added activity.

networks of highly specialised companies operating in a largely unregulated environment with very low overheads.

## **1.2 Commercial drivers**

The structure and circumstances of the industry explain the intense competition, especially on price, that pervades it. Companies at all points of the multi-stage production process can, and frequently do, shop around for better deals, forcing suppliers to find lower-cost ways of fulfilling orders. Uncertainty about future business, however, tends to prevent companies from investing in the equipment, people and systems in a way that might improve efficiency in the longer term. Many companies seem to view their business on an order by order basis and are reluctant to commit to higher fixed cost levels and to longer term projects (Panthaki 2003).

For Northern brands India offers substantial capacity and a host of specialised production resources. It can react quickly to changing demands, caused by shifts in consumer preferences or fashion trends, and this flexibility often translates into short-term contracts and/or small orders. Most brands source from a large range of suppliers, sometimes intermittently, limiting the level of influence they are able to exert, as well as their ability to monitor the production process on a regular basis (Locke and Romis 2006).

Successful brands and retailers base their strategies on the view that consumers want low prices, without compromising quality, and expect the latest designs, with up to twelve 'seasonal' changes per year. Manufacturers therefore face increasingly powerful buyers, higher quality expectations, shorter lead times and more concentrated selling seasons as well as lower prices (Acona 2004). Some suppliers are tempted to take business at unsustainably low prices, forcing cost savings, which, in a labour intensive business, can most readily be found in labour costs. This inevitably leads to a 'flexible' workforce, characterised by casual or short-term employment and large amounts of mandatory overtime when required.

Value chains are often very complex. For example, major Northern brands (such as MB02<sup>12</sup>) have over 1,000 ‘first level’ suppliers for their clothing ranges, each of which not only buys the fabric and other materials they need from hundreds of suppliers but may also sub-contract all or part of the manufacturing work<sup>13</sup>, depending on their capacity and loading. At the lower end of the industry, which still represents the vast bulk of domestic production, value chains are ruled by dealers and traders.

### 1.3 Social challenges

The statistics quoted in the introduction to this chapter indicate that cotton farming and the manufacture of textiles and garments vitally affect the livelihoods of a substantial part of the Indian population, in both rural and urban areas and in most parts of the country. Many of the problems these workers face are the same as those faced in other branches of agriculture and small-scale economic activity but with the added complication, in some cases, of greater exposure to the vagaries of international markets. Globalisation of the industry appears to have led to more flexible, informal and insecure patterns of work, making greater use of migrant and contract labour (Barrientos 2007).

The best documented examples of working conditions are in the ‘sweatshops’<sup>14</sup> that supply garments to Northern markets. A raft of studies have revealed a pattern of low pay<sup>15</sup>, chronic job insecurity, excessive hours, intense pressure to meet production targets, unsafe working conditions and abuses of human rights (e.g. Roopa 2003; Krishnamoorthy 2006; Kizhisseri and John 2006; Sood and Arora 2006). Female workers frequently face discrimination and bullying and sometimes sexual harassment (Roopa 2003; WWW 2004). An inadequate labour inspectorate seems unable to enforce the most basic of rights at work, such as minimum wages. Many workers face both

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<sup>12</sup> See Appendix A for a full list of cases, listed by reference number.

<sup>13</sup> Sub-contractors are estimated to produce 74% of Indian garment exports (Krishnamoorthy 2006).

<sup>14</sup> The emotive term ‘sweatshop’ reflects the critical viewpoint of observers (e.g. Roberts and Engardio 2006) who judge conditions against the standards of ‘decent work’, as promoted by the ILO and others (see section 1.4). Of course, to people used to traditional working practices in India, the same factory situations might be described as modern and better for workers than the alternatives they face.

<sup>15</sup> Despite minimum wage legislation, large numbers of workers, even those working for main contractors, are paid less than the mandated figure and have to make up their earnings through substantial overtime, for which higher rates do not always apply (Roopa 2003; Krishnamoorthy 2006).



physical and psychological health issues, especially women, who are expected to continue with their domestic responsibilities and whose needs are not well catered for, even in the best equipped factories (Global Alliance for Workers and Communities 2002a and b). The majority of workers need to take out loans, frequently from moneylenders at penal rates.

But, however poor, conditions in these factories are generally better than those in the small-scale enterprises supplying the domestic market or acting as sub-contractors to exporters. The few studies that have managed to document practices in this sector reveal even greater uncertainties and vulnerabilities and almost complete absence of social protection<sup>16</sup> (e.g. Krishnamoorthy 2006). Payment by piece makes it difficult for all but the most nimble to earn even the minimum wage without putting in very long hours and work is highly dependent on a fluctuating, seasonal market.

Some factory owners seem to have no compunction in closing or moving operations in order to avoid even minimal compliance with the law (Roopa 2003). To facilitate this, they may register each factory as a separate company. Working conditions often pose serious risks to health, with high temperatures, dust, poor ventilation, inadequate lighting, noise, bad sanitation and lack of safe drinking water (WWW 2004). As well as illness, workers frequently suffer from fatigue, headaches and fevers, yet find it difficult to take time off. Female workers are subject to verbal, sexual and physical abuse and, after working late, many have no secure transport back to their lodgings (WWW 2004). Contract workers often have to live away from home in appalling conditions (Barrientos and Smith 2006).

Home-workers, who still play an important role in the industry, earn the least of any group and cannot claim any health, maternity, education, old age or retirement benefits. They work to a price per piece and must redo rejected work at their own expense. Girl children who drop out of school to look after younger siblings and the home while their mothers stitch garments are never compensated. Without an education they in turn become homeworkers (Sood and Arora 2006).

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<sup>16</sup> In a survey of the export garment industry in 2002, 81% of workers in Mumbai were found not to be covered by the Provident Fund (the main vehicle for social protection); 79% in Tirupur and 73% in Delhi. Even where contributions to the Fund were deducted from pay, there were record-keeping failures by companies and lack of provision when employees left (Krishnamoorthy 2006).

Little is known about the position of workers in a host of intermediate processes, including small-scale spinning, weaving, knitting, dyeing and fabric treatment. Apart from the larger-scale spinning operations and composite mills, which employ few people under relatively good conditions, this sector is hidden from view. On the whole, enterprises are small and seem to follow the same pattern as the small, unregulated garment factories. But in some operations, such as dyeing and processing, there are also considerable health risks associated with the handling of noxious chemicals without adequate protection.

There are some regional variations in employment practices. For example, tailoring work is done almost entirely by young female workers in southern India, whereas men traditionally perform this role in cities such as Delhi. In some places, jobs are strictly allocated by ethnicity, religion and caste while in other areas, especially in newly established plants, a great variety of people of all types may be found together on the factory floor. In many areas immigrants (from other parts of the country) form a major part of the work force. Local influences are important in determining employment practices while, at the same time, new forms of factory organisation are starting to break down established social structures.

Cotton farmers are vulnerable to exploitation by traders, seed merchants, moneylenders and other agencies. They are highly dependent on the world price<sup>17</sup> for cotton, which can be volatile and which has been steadily declining in real terms for the past 70 years. The uncertainty of the climate poses threats to traditional low-input and low-yield forms of cotton farming, using local varieties. For example, in Gujarat the rains are said to fail two years in every five. Attempts to counter climatic challenges and to increase yields through greater use of inputs leads to other risks to farmer livelihoods, such as greater financial outlays on irrigation, fertilisers and insecticides and, consequently, greater dependence on suppliers, increased debt and health risks. New methods using genetically-modified seeds have been enthusiastically welcomed by farmers in some areas but at a cost of even greater dependence and risk.

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<sup>17</sup> The world price is held down by agricultural subsidies, especially in the USA.

As pressures in agriculture have mounted over recent years, suicides have become a tragic feature of farming communities. Between 2002 and 2006 more than 17,500 Indian farmers a year killed themselves, as a result of overwhelming debts and other factors (Patel 2008), and many cotton farmers are numbered among them. The landless rural population faces much greater challenges than do the farmers. They may find some seasonal work, such as weeding and crop picking, but at very low pay and without any security or support. In the worst cases bonded labour is employed. Traditionally the children of farmers will help their parents at peak times, even if this means missing school, but large numbers of children of families without land find themselves forced by deprivation to work regularly for others at a pittance<sup>18</sup>.

## **1.4 Relating commercial and social priorities**

This analysis shows that commercial drivers have significant impacts on social outcomes in the mainstream industry. For example, the pricing pressures manufacturers face results in low wages; their uncertainty about future orders makes them reluctant to provide secure jobs; and the flexibility insisted on by their customers leads them to sub-contract work, often into unregulated environments. But is the relationship always this way round? Must commercial and social priorities always be in opposition? Can they work together –i.e. can enterprises treat workers well and be commercially successful too?

It seems that commercial priorities are transmitted directly to suppliers via value chains. Failure to respond to them risks loss of business and may even put corporate survival in jeopardy. But it is not clear how social priorities are being conveyed. The weakness of union activity in most work places and the absence of collective bargaining (Roopa 2003) mean that workers do not have the means to express their concerns directly to the companies that employ them. Some companies face pressure on labour issues from other sources, such as through codes of conduct, NGO campaigns and media reports of

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<sup>18</sup> At least 100 million children are out of school in India and almost half of all children under five years are malnourished. The exact numbers of child labourers in India is unknown but the government puts it at a minimum of 10 million (Kompier 2006). More than 400,000 children aged under 14 years work in the cotton fields, doing cross-pollination, inter-cultivation and harvesting (Venkateswarlu 2007).

abuses. Pressure groups often refer to internationally agreed labour standards, notably those established by the International Labour Organisation (ILO) and the Universal Declaration of Human Rights. The ILO has developed the concept of ‘decent work’, which is work that takes place ‘under conditions of freedom, equity, security and dignity, in which rights are protected and adequate remuneration and social coverage is provided’ (Barrientos 2007). How does this pressure translate into social priorities comparable to the commercial ones that so clearly drive the activities of mainstream companies?

It appears from this review that commercial and social priorities in many companies do not have the same standing. The former are vital and urgent, the latter are not always so clear or compelling. A major question for theoretical and empirical exploration is how such mismatched priorities can be reconciled.

## **Chapter 2: CSR and ethical trading**

Corporate Social Responsibility (CSR) and ethical trading have emerged in response to the social issues described in the last chapter. Pressure from civil society has encouraged companies to agree voluntary arrangements aimed at ensuring, among other things, that the workers in GVCs are treated more fairly.

This chapter describes how these approaches have evolved, the difficulties they face and how they fit into the overall context of mainstream business. It goes on to outline the vigorous debates about CSR and ethical trading that are taking place, both within the business community and outside it, and to examine the key assumptions and theories behind the different viewpoints. This review raises broad questions about how effective voluntary initiatives, based on rules, can be in altering the commitments, conventions and behaviour of mainstream companies.

## **2.1 Evolution of CSR and ethical trading**

While CSR and ethical trading are relatively recent terms, a concern with the social dimensions of business has been around much longer (Blowfield and Frynas 2005; Jenkins 2005). The growth of interest in CSR is connected with the gradual replacement, in the 20<sup>th</sup> century, of private companies by publicly-owned corporations. The personal social commitments of pioneering Victorian philanthropist entrepreneurs (Welford 1994) have been lost and more formal mechanisms are thought to be needed. A wide range of activities come under the overall umbrella of CSR, from charitable projects to community involvement and environmental impacts, and there is no accepted definition of its boundaries. In fact the basic idea, that firms are capable of acting in a socially-responsible way and of policing themselves in the absence of binding international and national law, is contested (Blowfield and Frynas 2005).

The current wave of interest in CSR dates from the early 1990s (Henderson 2001) and is related to globalisation, to the changing role of government and to the growth of NGOs (Jenkins 2001). Non-governmental regulation has developed in response to weak national regulatory systems, the increased power of multinational corporations, the importance of brands and growing demands from civil society (O'Rourke 2006). Globalisation has created a governance gap and provided a permissive environment for wrongful acts by companies, without adequate sanctioning or reparation (Ruggie 2008).

Ethical trading, a specific form of CSR, is associated with liberalisation and deregulation of labour markets, which have contributed to a perceived downward spiral in labour conditions in export sectors (Barrientos 2000). It is a response to the considerable expansion of NGO activity that has mobilised around issues such as child labour, sweatshops, Fair Trade and other issues (Utting 2005). Businesses have been forced to respond to media criticisms of labour abuses, some of which have turned into public relations disasters (Locke and Romis 2006).

Ethical trading aims to safeguard the interests of workers in GVCs by means of agreed rules. Retailers and brands that source their supplies from various countries establish

labour standards and require their suppliers to comply with them. These standards take the form of labour codes, typically coordinated by Multi-Stakeholder Initiatives<sup>19</sup> (MSIs), which bring together various parties with interests in international trade and labour matters, including Northern NGOs and unions (Kompier 2006). The standards are based on internationally recognised agreements, such as the UN Declaration of Human Rights and ILO Conventions (Kompier 2006), but the actual wording reflects compromises, reached during lengthy, sometimes continuing, negotiations (O'Rourke 2006). Participating companies may water down some provisions in the codes they actually adopt (Giovannucci and Ponte 2005). For example, the ETI Base Code refers to paying workers a 'living wage' (ETI 2003) but most brands subscribing to the ETI refer in their company codes only to paying at least the legal minimum wage. Codes of labour conduct set out basic principles, focusing on wage levels, conditions of work and health and safety issues. These provide, in theory, minimum standards but they leave many details to local determination and often fail to spell out guidelines for social dialogue and worker representation.

It is generally recognised that the implementation of ethical trading is, in practice, heavily influenced by purchasing practices (Acona 2004; Hurst et al 2005). Over recent years buyers have increased their power and leverage over their suppliers. Manufacturers chosen as 'strategic partners' receive greater support and predictability of orders but become dependent. Those not chosen get little help and face great uncertainty about future business. In both cases code compliance activities appear to operate separately from day-to-day commercial dealings, with the latter seen as undermining the former. The challenge of adapting purchasing practices to accommodate ethical trading has been recognised and attempts are being made to tackle it (ETI 2004, 2007).

Some companies have invested heavily in ethical trading. A leading American brand, targeted by activists in the 1990s for labour abuses in supplier factories, now has 90 compliance staff in 21 countries (Locke et al 2006). All their suppliers must sign up to labour codes and be subject to inspection. Visits by compliance staff, which are

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<sup>19</sup> The most prominent UK MSI is the Ethical Trading Initiative (ETI), to which the majority of large clothing retailers and brands belong, but there are others, including the Fair Labor Association (FLA) and the Business Social Compliance Initiative (BSCI).

announced in advance, may last up to two days. A small sample of suppliers are also subject to unannounced audits by third party inspectors. However, despite these efforts, the company recognises that many abuses continue and that very few manufacturers are fully compliant.

Approaches to ethical trading have changed over the past two decades. Initial responses and initiatives by individual companies evolved into ‘cooperative conflict’, a stand-off, which has now matured into a period of collaboration (Barrientos 2000). The combined forces of NGOs, unions and businesses are thought to have more legitimacy than individual efforts. They set out to create a ‘level playing field’, which avoids the perils of the ‘race to the bottom’, where companies simply pursue a strategy of lowering costs. However, the efficacy of MSIs in delivering real improvements in worker welfare is questioned by critics, some of whom point to the dilution of radical agendas and ‘regulatory capture’ by business, due to the more cooperative NGO stance (Utting 2005, 2007).

## **2.2 CSR and ethical trading in India**

The concept of CSR in India has a long history, dating from the start of industrialisation. Sundar identifies four phases. The first, from 1850 to 1914, was concerned with a shift from charity to western ideas of philanthropy. The second, from 1914 to 1960, was a ‘golden period’ of maturity, nationalism, freedom and social/cultural causes, while in the third, during the 1960s and 1970s, the government took on social obligations. Interest in corporate philanthropy declined during this phase and there was more focus on malpractice. The fourth and current phase is one of corporate citizenship, involving more direct engagement by companies (Sundar 2000).

Industrial giants, like Tata and Birla, have long supported charitable work and established model industrial towns. Currently global players in the IT sector support foundations in health and education (Kompier 2006). Traditionally, the social activities of Indian companies are more oriented to philanthropy than towards corporate

governance, giving rise to anomalies between charitable projects and practices in their core businesses.

Since the onset of economic liberalisation in 1991 there has been a change in public and governmental expectations of business. Making money has become acceptable and managerial rights have grown (Sood and Arora 2006). NGOs have been encouraged by government to be service providers and discouraged from being 'radical'. There are now between 1½ and 2 million NGOs in India, mostly funded by government or by foreign agencies, but they do not, on the whole, play the critical and campaigning role characteristic of many NGOs in the North. The Indian government has been accused of giving out mixed messages, with strict labour laws contradicted by weak enforcement and by decisions to set up export processing zones, in which such laws are suspended in order to attract foreign investment.

India's emergence as a major exporter of manufactured goods has brought in its wake new imported ideas and procedures, including codes of conduct and associated ethical trading practices. Although the need for some form of CSR is broadly agreed, in principle, across many parts of Indian society, changing embedded practices has proved problematical (Kompier 2006). Only recently has the government taken steps to encourage CSR by issuing voluntary guidelines to companies (Indian Ministry of Corporate Affairs 2009) but these guidelines are very general.

The barriers to implementation of CSR in India have been cited as unclear government policies, ineffective bureaucracy, poor monitoring, a complex tax system and poor infrastructure (Brown 2001). And good business-community relations have not been generally considered important (Mahajan 2004). The main recent drivers of social responsibility have come from outside the country and there has been little domestic pressure. As a result, many companies are adopting a 'wait and see' attitude. The new standards regime favours large registered firms with distinct legal identities and structures but, even there, a dichotomy may exist between corporate ownership and management control. The Board is sometimes a shadow, with real power resting with executive management, making introduction of better corporate governance and self-regulation difficult (Sood and Arora 2006).



A number of factors have combined to make compliance with codes of conduct in India problematical, including the complexity of value chains, competition to win contracts, prevalence of temporary and casual labour, poor law enforcement, exploitation of loopholes, absence of worker organisations or unions and high labour turnover (Sood and Arora 2006). Trade unions are not seen as effective in tackling labour issues. They evolved in the large-scale industrial sector and have largely ignored the informal sector<sup>20</sup>. Their involvement in the struggle for independence has earned them a place in politics but today the perceptions about them as agents for social change are negative (Sood and Arora 2006).

### **2.3 Business attitudes**

There is broad and growing support in the international business community for some form of CSR<sup>21</sup>. In an extensive survey carried out by McKinsey, the management consultants, in 2006 84% of business executives said they believed that business has a broader contract with society than just serving shareholders and that more transparency and ethical policies were the right way forward. But, at the same time, most companies were seen by business observers as struggling to find an approach that met both profitability criteria and the public good (Yankelovich 2007). CSR has generally been seen by business in terms of risk management and as a burden, rather than as an opportunity (Oppenheim et al 2007).

A survey of senior managers involved in supply management in 2008 revealed that risks were seen as rising sharply, due to the greater complexity of products and services, higher energy prices and increasing financial volatility. However, concern about human rights came last of 13 risk factors cited as having most influence over supply strategy (McKinsey & Co 2008). Not only were human rights issues seen as less important than other challenges, such as cost reduction, customer service, speed of getting products to market, reliability and product quality but they were perceived as being more difficult to manage. A further survey in 2009 concluded that the most important CSR activity was

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<sup>20</sup> With a few exceptions, such as SEWA (Self-Employed Women's Association of India).

<sup>21</sup> All the studies referred to in this section were carried out internationally, including, in most cases, India and China, but the overwhelming weight of research was from Northern respondents.

compliance and transparency, while the second was changing business processes. Long-term investments to address social issues came only third, with only around 10% ranking it as important. On the whole, charitable giving to the community was thought to be more important than considered long-term investments (Bonini et al 2009). In an analysis of the importance of different stakeholders, as perceived by business, employees came first, followed by consumers and government (Oppenheim et al 2007). NGOs, in seventh place, were expected to increase in importance over the coming years. Organised labour and suppliers were both ranked at the bottom of the list.

An extensive survey, commissioned by the World Bank, of garment manufacturers in several Southern countries, including India, revealed many unresolved tensions between meeting delivery times and price expectations, on the one hand, and the requirements of social responsibility, on the other (Jorgensen et al 2003). In a separate piece of research, a business consultancy specialising in the garment industry found that retailers and brands were inadvertently pursuing a buying strategy that created tension, or sometimes directly conflicted, with their commitments to ethical trading. For example, aggressive demands for lower prices and shorter lead times made it very difficult for suppliers to meet the required standards for workers' pay and working conditions (Acona 2004).

This state of affairs is not unique to the textile and garment industry. In a survey of 391 respondents from companies around the world, all of which participated in the UN Global Compact<sup>22</sup>, 72% said they believed that their companies should embed social, environmental and governance issues into their core activities. Yet only 50% of respondents thought that they actually did so, a 'performance gap' of 22% (Oppenheim et al 2007). Out of six functional areas the gap between 'good intentions' and 'good deeds' was biggest in global supply management, with only 32% of respondents considering that they were embedding social and other issues into these activities, against 59% believing that they should do so. This evidence is all the more powerful for being provided by business executives themselves, not by outside critics. It echoes the gap identified in the Preface and strikes at the heart of the challenge presented by the central research question.

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<sup>22</sup> The Global Compact is a voluntary association, set up by the UN, that asks corporate participants to uphold ten principles relating to human rights, labour, the environment and non-corrupt business conduct. It has published guidelines on corporate social responsibility and created a network including companies, NGOs, unions and UN agencies.

The apparent weakness of corporate social commitment is mirrored in public attitudes. A survey carried out in 2007 revealed that 88% of UK respondents thought that companies were ‘powerful’, 86% considered them ‘greedy’, 64% ‘arrogant’, 50% ‘deceitful’ and only 14% described them as ‘caring’, 20% as ‘generous’ and 31% as ‘trustworthy’ (Bonini et al 2007). Large corporations come bottom of a ‘trust list’, which is headed by NGOs. Smaller companies, unions, the UN, the media and even governments are rated more trustworthy than large companies. The contrast with attitudes in the South is striking. In India, people see business much more positively, with 53% considering companies ‘caring’, 43% ‘generous’ and 59% ‘trustworthy’, rating their social performance more highly than that of NGOs.

## **2.4 Debates and unresolved issues**

The previous section highlighted the confused and sometimes contradictory attitudes in business towards social responsibility. Researchers and academics have pointed out specific problems with the ethical trading approach. For example, they point out that very little is known about actual outcomes for workers, especially the poor and marginalised (Jenkins 2005; Blowfield 2007) nor about the causal links between ethical trading and outcomes (Barrientos and Smith 2006; Blowfield 2007). There are deficiencies in scrutiny (O’Rourke 2006), lack of engagement by workers (WWW 2004; O’Rourke 2006) and failure to adapt global standards to different sectors (Kolk and van Tulder 2006) and to local conditions (Blowfield and Frynas 2005; Oppenheim et al 2007). The way the code compliance system is implemented ignores the complexity of supply systems and tends to focus more on meeting technical outcome standards than on the process of empowering workers to claim their rights (Barrientos and Smith 2007).

Very few thorough empirical studies have been carried out and the impact of ethical trading on employment has not been systematically monitored. Information is largely limited to anecdotal evidence, occasional NGO investigations and media reports (Frenkel and Scott 2002). There is widespread suspicion of the motives of business,

which are assumed to be solely concerned with their own self-interest (Pearson and Seyfang 2001; Mahmood and Kabeer 2003). This cloud of suspicion extends to the buyer-supplier relationship, each side accusing the other of selfish motives (Jorgensen et al 2003), and even leads to tensions within organisations –e.g. between brands’ buying and social compliance departments (Acona 2004; Raworth 2004).

Arguments about the nuts and bolts of ethical trading are part of a broader debate about the responsibilities of the business enterprise and its relationship with society. On one side stand the free market fundamentalists, such as Milton Friedman, who has declared ‘the social responsibility of business is to increase its profits’ (Friedman 1993) and *The Economist* newspaper, which considers the concept of CSR flawed and a hindrance to the public good (Crook 2005). It is also opposed by some because it involves companies in issues that they are not competent to deal with (Henderson 2001). But CSR is seen by others as consistent with neo-liberalism in that it replaces state intervention with a concept of self-regulation that responds to market and societal signals (Utting 2005). CSR is also supported by many critics of the free market system, on the basis that it encourages business to take responsibility for the consequences of its actions and allows civil society organisations to have a voice. And it is advocated by those who believe that all companies should play an active role in promoting social welfare, going beyond what the law requires (Nussbaum 2004).

CSR is closely linked to ideas about regulation. Standard-setting processes are viewed by some as constituting a new form of social contract (Giovannuci and Ponte 2005). Public-private partnerships (e.g. MSIs) provide the normative framework that corporations use to establish their social legitimacy. It is also related to concepts of organisational learning (Argyris and Schön 1978). Corporations are assumed to have the capacity to reflect critically on their role and performance, engage in organisational or social learning and reform themselves (Utting 2005). Interaction and dialogue with stakeholders help learning and adaptation.

Some commentators argue that business should play a leading role in setting higher standards, given the governance gap in a globalised world (e.g. Werther and Chandler 2005) but many are cautious about its competence to deal with social issues (e.g. Drucker 1973). The greater part of those involved in CSR, both academics and

practitioners, take a pragmatic middle position, arguing that companies should try and take account of stakeholder pressure, in their own interest. However firms are often reluctant to act (Blowfield and Frynas 2005; Blowfield and Googins 2006), because they are not sure of their mandate, and their approach tends to be defensive (Davis 2005; Beardsley et al 2005). Commitment to CSR is not helped by the lack of conclusive evidence as to whether CSR is good for profits or not (Blowfield and Frynas 2005).

A minority of commentators believe that CSR is at best irrelevant, at worst damaging (Doane 2004; Sood and Arora 2006). Others are more positive but highly critical of certain aspects, such as the narrowness of its approach (Jenkins 2005), or of its marginal impact (Newell and Frynas 2007). The CSR umbrella covers widely disparate views on fundamental questions, such as the place of the business enterprise in society (Newell and Frynas 2007), the specific activities that should be included (Keys et al 2009) and the need to include environmental challenges (Elkington 1997).

The UN Special Representative<sup>23</sup>, John Ruggie, has stepped in to try and clarify the confusion. His conceptual framework consists of three main components: the duty of governments to protect people from human rights abuses; the responsibility of business to respect human rights; and the provision of effective access to remedies. This places the primary responsibility for defining social priorities on the state but it requires business not only to abide by the law but also to ensure that, within the sphere of their operations, human rights are not infringed. It also requires that businesses put in place a due diligence process with the aim of avoiding harm (Ruggie 2008). He has now published guidelines on how the framework can be implemented (Ruggie 2011), which have been subject to extensive consultation.

## **2.5 Theories and assumptions**

The fractious debates and long list of unresolved issues reflects the lack of an agreed theoretical framework, a gap noted by other researchers who have struggled with similar

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<sup>23</sup> John Ruggie's full title is 'Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises'.

issues (Blowfield and Frynas 2005; Tallontire 2007). Margolis and Walsh carried out a thorough review of various studies that set out to identify links between companies' social and financial performance<sup>24</sup> but failed to find a clear correlation (Margolis and Walsh 2003). They concluded that the underlying tension between societal and financial demands has not been resolved and that there is a gap in the descriptive and normative theories about the impact of business on society.

An approach that is commonly used to analyse CSR issues is stakeholder theory. Stakeholders can be any group that has a legitimate interest in a business and may include workers, unions, managers and staff, suppliers, customers, governments, and outside bodies, such as civil society and trade organisations. The theory holds that the stakeholders constitute the social environment within which the firm operates and that its legitimacy depends on meeting their considerations (Werther and Chandler 2005). A company builds legitimacy by conforming to stakeholder expectations, thereby strengthening relationships and trust, which can assist the organisation in adverse conditions (Bansal and Bogner 2002).

Stakeholder theory is based on three claims: descriptive accuracy, instrumental power and normative validity, which are supposed to be mutually supportive (Donaldson and Preston 1995). It is linked to other approaches, such as institutional theory, which stresses the importance of the organisation maintaining 'social legitimacy' within its operating environment (Werther and Chandler 2005) and governance approaches (Utting 2005), which focus on establishing a set of internal processes and practices that enable the organisation to present a responsible face to the outside world while undertaking good management practice (Zadek 2001). It is tied in with regulatory reform (Braithwaite and Drahos 2000) and new institutional economics. It leads to calls for companies to report not only on their financial results but also on their social (and environmental) performance, in what has been termed the 'double (or triple) bottom line' (Elkington 2001; Thompson and Doherty 2006).

A 'socially responsible' business enterprise is expected, then, to engage with stakeholders and to respond to their legitimate demands (Hopkins 2005). However, the

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<sup>24</sup> The studies were mainly of major corporations operating in Northern countries.

theory raises more questions than it answers. For example, how do companies evaluate the demands of one group against those of another? On what basis do organisations become recognised as stakeholders? For example, can a Northern NGO represent the interests of vulnerable workers in the South? What processes of coordination are needed to convert disparate external demands into coherent corporate strategies?

All approaches to CSR must make some basic assumptions about the nature of the relationship between the business enterprise and society. The idea of a ‘social contract’, as proposed by John Rawls (Rawls 1971), is usually implicit. In return for their license to operate, businesses must recognise that they are subject to certain rules and constraints before they can claim legitimacy (Davis 2005). This assumes that companies are adept at reading societal signals and are able to respond appropriately. Companies are expected to take account both of external expectations and of internal considerations when making decisions (Selznick 1957) but, in practice, many firms seem incapable of mediating between profits and broader social concerns (Cogman and Oppenheim 2002). There is a suspicion that many people in business lack the tools, even the language, to address social issues, limiting their ability to exercise control over social performance (Blowfield and Frynas 2005).

Critics accuse business of confusing stakeholder issues with social issues (Clarkson 1995) and of attempting to set the terms of the debate itself (Zadek 2001). Rather than waiting to respond to pressures, firms use their influence to shape the agenda for their own purposes, through lobbying, networking and other means (Utting 2005). In doing so, they make a distinction between ‘negotiable’ issues (such as forced labour) that do not endanger their core values and ‘non-negotiable’ ones (such as the right to invest at will and to dispose of property), which they see as central to their role (Blowfield 2005; 2007). This can lead to adversarial situations in which it is not clear how a fair balance between commercial and social priorities can be struck.

Another way of looking at CSR is in terms of companies’ ‘business models’, which have been defined as ‘stories that explain how enterprises work’ (Magretta 2002). Traditionally business models are solely concerned with how to meet commercial objectives, such as customer acquisition, value creation and growth strategies. CSR assumes that social concerns, such as fair treatment of workers, have a place in a shared

understanding, within the enterprise, of the way it goes about its business, and thus in its business model. The company is seen as a moral entity with a responsibility to go beyond the ‘business case’<sup>25</sup> and consider the ethical aspects of its decisions. This contradicts a widely held view, elegantly expressed in Albert Carr’s treatise on bluffing in business (Carr 1968), that the ethics of business are game ethics, distinctly different from personal morality.

Commentators seem to agree that the ‘social model’ of many companies is not made explicit, it exists only as a sub-set of the business model (Zadek 2004; Utting 2005; Blowfield and Frynas 2005). This means that any plans or actions for social benefit that are not reducible to financial or reputational terms tend to be excluded (Bonini et al 2009). Managers are, in effect, rewarded for ignoring societal issues that cannot be justified commercially, so they wait instead for regulation that allows the costs to be shared across the industry (Blowfield and Googins 2005). The prevalence of this view is shown by the fact that even the ILO promotes good labour practices as sound business, on the basis that ‘a happy worker is a productive worker’, and downplays the costs (Kompier 2007).

A related set of questions centre on the internal operations of the enterprise, in which social and commercial issues are seen as decoupled (Mamic 2003). Recent academic work stresses the importance of integrating CSR into the day-to-day practices of companies (Smith and Lenssen 2009). The decoupled approach, which simply provides the appearance of conformity to socially-responsible processes and practices, needs to be replaced by hardwiring, in systems and structures, and softwiring, in the corporate culture, skills and competencies. Ethical trading presents a particular challenge because the labour employed in the production process is not subject to direct management control. This explains why its implementation is seen as being part of supplier management, operating alongside product specification, quality control and methods of manufacture (Blowfield 1999). Consequently approaches to ethical trading are rule-based, relying heavily on setting standards, establishing procedures for how standards are to be met, monitoring performance and taking remedial action in case of failure.

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<sup>25</sup> The business case is generally understood to mean justifying actions solely in relation to their commercial benefits. These may include longer-term reputational advantages, as well as short-term profit, but they exclude measures undertaken simply because they are ‘the right thing to do’.



The CSR literature provides valuable background information and identifies a raft of issues for investigation. However, it does not provide a clear path for tackling the issues. The lack of an agreed theoretical framework, unclear boundaries, divergent viewpoints, both within and outside the business community, and differences between Northern and Southern actors all present major challenges that existing approaches have not been able to overcome. From this I conclude that fresh ways of thinking about the social responsibilities of business are needed. These will be described, as part of my overall research approach, in Part B.

## **Chapter 3: Fair Trade**

According to its central coordinating body, the World Fair Trade Organisation (WFTO), Fair Trade (FT) is ‘a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South’ (WFTO 2010). It explains that FT ‘is a response to the failure of conventional trade to deliver sustainable livelihoods and development opportunities to people in the poorest countries of the world’.

It is clear from these, and other, statements that FT is not just a variant of ethical trading but signals a more radical approach, based on a different conception of the way in which the world should be ordered (Barratt Brown 1993). This chapter traces the origins and development of the FT movement and reviews how it is practiced in India. It goes on to summarise the debates taking place within the movement and examines the theories and assumptions behind it. FT and ethical trading offer contrasting solutions to the problems of balancing commercial and social priorities, based on radically different rules, conventions and conceptions of commitment. The comparison between them, summarised in the last section, highlights issues for empirical investigation.

### 3.1 Evolution of Fair Trade

The roots of FT can be traced back to a variety of sources: the desire to confront the hegemonic power of multinational corporations (Barratt Brown 1993), the positive example of the cooperative movement (Kocken 2006), solidarity with poor communities in the South (Wilkinson and Mascarenhas 2007), student radicalism in the 1960s (Redfern and Snedker 2002) and the concerns of faith movements (Barrientos et al 2007). From an early stage, two distinct, but related, spheres of activity emerged: first, a campaigning and advocacy movement, which highlights and publicises injustices in the prevailing economic and trading system; and, second, an alternative trading model, which seeks to demonstrate the viability of a different system and delivers benefits to the poor through trade.

In 1964 Oxfam created a trading subsidiary, which sourced from Southern producer groups, and in 1969 the first ‘World Shop’, devoted to selling FT hand-crafted products, was opened in Holland (Kocken 2006). During the 1960s and 1970s organisations were set up in various countries to assist with marketing and to provide support to producer groups. Craft products were seen as providing supplementary income to families, benefiting women especially, and as being untainted by association with industrialised manufacturing processes.

In 1973 the first commodity, coffee, was imported and sold as ‘fairly traded’ and other food and agricultural products followed. The Max Havelaar label was launched in 1988 in Holland, followed by similar initiatives in other countries, including the Fairtrade Foundation (FTF) in the UK, established in 1992. In 1997 Fairtrade<sup>26</sup> Labelling Organizations International (FLO) was established to set international standards and procedures for certification and monitoring, enabling FT products to enter into mainstream markets. Traditional FT hand-crafted products were not covered by these product labelling schemes so a monitoring system was established for FT organisations

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<sup>26</sup> In keeping with the literature generally, this paper uses the term ‘Fair Trade’ (or FT) to mean the movement as a whole and as a general descriptor of FT activities and it employs ‘Fairtrade’ to refer to certification and related activities, which form an important part of the movement.

(FTOs) in 2004. As a result of these initiatives, Fair Trade now has two separate certification systems, one applying to products that have met FLO criteria and the other applying to organisations that have met WFTO requirements.

Cotton textile products, including hand-loom materials, silk-screen printing and hand decorated clothes, had been made by FT producer groups and sold in World Shops from the early days and in 2005 Fairtrade certified cotton was launched, opening the way for conventionally-manufactured products, such as T-shirts carrying the FT cotton label, to be sold in mainstream outlets. The European Fair Trade Association (EFTA) was founded in 1987, followed by other geographical coordinating groups, such as the Fair Trade Forum India (FTFI). In 1994 the European network of FT World Shops (NEWS) was established and this now represents 3,000 shops across 15 countries. An advocacy office, coordinating the work of the main FT networks, was set up in Brussels in 2004 to influence European policy makers.

The development of what is now a fairly complex institutional structure is symptomatic of changes in the nature and scope of FT activities. The focus has progressively shifted from advocacy to providing market access to providing support and capacity building. At the same time, the 'alternative' vision has gradually been overtaken by emphasis on working with mainstream business in order to increase impact. While new activities have been added, all the original ones still remain, resulting in a kaleidoscopic range of projects.

The movement now comprises three distinct types of activity (Wilkinson 2006). The first type, 'campaigning FT', emphasises the role of the movement as a radical critique of the existing economic order and of the operations of mainstream business. It seeks to draw attention to injustices and to improve business practice. Although some FT work, such as investigative reporting and advocacy, are solely devoted to this role, much FT campaigning takes place alongside trading. All FT trading organisations are enjoined to 'raise awareness and campaign for changes in the rules and practices of ordinary international trade' (WFTO 2010). The sale of products in World Shops is accompanied by information about producers and consumers are encouraged to take part in campaigning for social justice (Kocken 2006).

The second and third types of activity focus on establishing trading models, workable alternatives to mainstream business that deliver tangible benefits to producers.

‘Traditional FT’ is based on the concept of an integrated value chain, each part of which respects FT principles; and ‘mainstream FT’ is an arrangement in which only part of the total operation, usually the provision of raw ingredients, is controlled by FTOs and the rest is the responsibility of commercial partners. Mainstream FT normally involves product certification, so that the consumer, finding products in a commercial outlet, such as a supermarket, can identify them as Fair Trade.

Although conceptually distinct, there are some points of overlap between the two trading types. Most traditional FTOs do not control every part of the value chain and rely on mainstream businesses to carry out some operations. Certification is carried out differently in the two cases but, from a consumer’s perspective, both carry the endorsement of the FT movement<sup>27</sup>. What all three types have in common is that the welfare of producers is accorded a central place, that social, not just commercial, values are taken into account and that consumers are expected to be engaged with ethical issues.

The FTF records £1.1 billion of FT product sales in the UK in 2010, compared with £713 million in 2008 (FTF 2011). These figures do not include the (rather smaller) sales of non-product certified Fair Trade products. The FTF estimates that 74% of people in the UK now recognise the Fairtrade mark. However, although over 4,500 products have now been licensed to carry the mark in Britain, annual FT purchases amount to only around £20 per head of population.

The sales of ‘ethical products’, a much broader definition, are growing steadily in the UK. According to the annual report published by the Cooperative Bank total ethical purchases have grown over the past ten years from £13.5 billion in 1999 to a grand total of £36 billion in 2008 (Cooperative Bank 2009). This includes all public transport, local shopping and ‘ethical investment’. The market for ‘ethical clothing’ has more than quadrupled over the past 5 years, reaching an estimated £175 million in 2009, but this represents only 0.4% of the total market (Mintel 2009).

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<sup>27</sup> Some FTOs rely on their own brand for endorsement, rather than applying the FT mark, but the proposition is similar, from the consumer’s standpoint.

According to the Cooperative Bank, one in two UK adults claim to have purchased a product primarily for ethical reasons last year but this apparent interest does not seem to have been fully translated into sales of FT products. As with business enterprises, there appears to be a large gap between consumers' good intentions and their actual behaviour (Tallontire et al 2001; Nicholls and Opal 2004). There has been strong growth in other countries too but worldwide sales of Fair Trade products still represent only about 0.01% of all goods exchanged internationally (Nicholls and Opal 2004).

### **3.2 Fair Trade in India**

Although agriculture and crafts are both still dominant sectors of the Indian economy and huge sources of employment there is no precise home-grown equivalent to Fair Trade<sup>28</sup>. Gandhian concerns for the poor and for the maintenance of craft traditions still resonate powerfully in some quarters (Deshpande 2004) but this is being displaced elsewhere by rampant consumerism (Varma 1998). The FT movement in India has resulted from external initiatives and it is still almost entirely dependent on exports through Northern FTOs.

FTFI is the national network and has 75 members. Because of the size of the country, most activities are coordinated regionally and 4 'umbrella' organisations, based in Delhi, Mumbai, Kolkata and Chennai, provide support and services to many individual Fair Trade organisations and producer groups within their regions. Until recently, producers have concentrated on handicrafts, using a variety of materials and drawing on the rich Indian craft heritage. Faced with static or slowly growing exports, Indian FTOs have recently been attempting to develop domestic sales (e.g. through shops) but the lack of recognition of the Fair Trade name, or even of the concept of ethical buying, has hampered their efforts. Until recently India has been largely ignored as a source of Fairtrade certified products, although it has now emerged as an important supplier of FT cotton.

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<sup>28</sup> There are many social projects in both agriculture and crafts but these have not coalesced into a movement comparable to Fair Trade, either in the form of advocacy or of alternative trading models.

Pressure to expand the domestic market was a major factor behind the ‘Profit’ (Promoting Fair Trade in India) project, which resulted, at the end of 2009, in the launch of the ‘Shop for Change’ label. In partnership with the private sector the project has established standards for the agricultural value chain<sup>29</sup>, together with a certification system that combines self-assessment with third party inspections. ‘Profit’ is an interesting amalgam of FT and ethical trading ideas and combines certification of organisations (intermediaries as well as producers and buyers) with product labelling<sup>30</sup>. Most significantly, it is an Indian initiative, though supported by Northern FTOs, aimed at improving the livelihoods of poor farmers and artisans through indigenous solutions. Only a small number of organisations have yet been certified and, at the time of writing, sales have just started.

### **3.3 Debates and unresolved issues**

A vigorous internal debate has always taken place about the basic principles of Fair Trade and how they should be applied and about priorities. Trade-offs between social and commercial priorities have been recognised by FTOs and explicitly addressed. For example, the compromises producers need to make to achieve export-readiness (Redfern and Snedker 2002) and the uncomfortable boundaries of partnerships with the private sector (Lewis 1998). The movement is able to be self-critical, recognising that the positive impact of FT on producer outcomes has not yet been conclusively proved (Tallontire 2002).

Although there is plenty of anecdotal evidence remarkably little empirical research about sustained social value creation has been done (Young and Utting 2005). A review of 80 studies<sup>31</sup> on the impact of Fairtrade (Nelson and Pound 2009) found that, although there was some evidence of reduced vulnerability and increased resilience, this was not conclusive, nor was it clear to what degree FT helps producers escape poverty. Although data were found to support claims of empowerment, organisational

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<sup>29</sup> Standards for handicrafts will be developed later.

<sup>30</sup> Unlike FLO standards, those of Shop for Change are not product specific – certification applies to all products grown by a producer (Shop for Change 2009).

<sup>31</sup> The main evidence base comprised 23 studies, mostly of coffee producers in Latin America and the Caribbean. None were in Asia and none covered cotton.

strengthening, provision of training, increase in knowledge and self-confidence, there was little information about how FT premiums were used or on the impact of social investments.

According to some researchers, impacts are difficult to assess because of FT's multiple objectives and the difficulty of ascribing causality (Tallontire 2002). There may, in some cases, be negative impacts on those excluded from FT and a single commodity focus may not encourage sustainable natural resource management. Indirect effects, including the impact on communities, should be taken into account (Nicholls and Opal 2004) but have received little attention. The longer term effects of capacity-building may be more important to producers than short-term financial benefits (Raynolds et al 2004) but reliable data on this are not available.

Traditional FT has been running longer than mainstream Fairtrade and 18 producer groups in 6 countries, including India, all supported by Oxfam UK, were found to have experienced significant improvements in producer income, capacity building and some dimensions of gender relations (Hopkins 2000). But the study found two related weaknesses: first, dependency on Oxfam and consequent vulnerability due to lack of an alternative market; and, second, Oxfam's inability to manage the whole process in a competitive and dynamic market.

More generally, there are continuing tensions between commercial and developmental objectives (Humphrey 2000) and between the main strands of the FT movement, i.e. campaigning, traditional trading and mainstreaming (Wilkinson 2006). Campaigning involves confronting customary business practice whereas trading requires a degree of acceptance of it and mainstreaming depends on cooperation. Proponents of mainstreaming stress its wider distribution, allowing FTOs to speak to a greater number of people and organisations (Doherty and Tranchell 2007) but critics portray this as 'partnering with the enemy' and compromising ethical principles (Renard 2003). A related difference is about whether FT should focus on the poorest and least well-connected or on those who simply 'need a leg up' (Tallontire 2002). FT principles point to the former but market considerations of volume, quality and reliability are easier to meet with the latter.

Dilution of FT principles is a constant worry and comes to the fore in debates about mainstreaming where, by working with commercial partners, FT risks losing its ability to make a more radical challenge from the outside (Moore et al 2006; Barrientos et al 2007). The lack of a conceptual framework that allows issues of ‘broadening’ vs. ‘deepening’ (Watanabe 2008) to be addressed leads to accusations that mainstreaming is an uneasy marriage of convenience, open to accusations of abuses in the non-FT parts of the value chain and of misleading consumers (Maquila Solidarity Network 2006).

Other contested areas include the roles of Northern and Southern actors<sup>32</sup>, the role of intermediaries<sup>33</sup> and attitudes to industrialised methods of production. These are to do with means, rather than ends (i.e. producer outcomes) but they all feature in FT principles, which are concerned with processes as well as results. Many of the struggles are between those who maintain a ‘pure’ commitment to FT principles and those who take a more pragmatic approach (Barrientos et al 2007). Failure to resolve these issues, and related differences with FT’s ‘natural allies’ in the organic, environmental and anti-sweatshop movements, has led to a movement with a great diversity of perspectives.

Criticism from outside the movement is made at several different levels. Fair Trade is compared by some with the liberal ideal of free trade (e.g. Maseland and de Vaal 2002; Hayes 2006). Others assess its practical impact relative to conventional business (e.g. Leclair 2002) or its role in raising awareness of issues of corporate responsibility (e.g. Young 2003). The debate is confused by the variety of disparate aspects of FT that are brought into consideration.

This extensive catalogue of unresolved issues may be regarded as a weakness, symptomatic of incoherence in ideas and confusion in practice. On the other hand, if one of the prime purposes of FT is to mount a radical critique of prevailing orthodoxies, it may be regarded as a sign of vigour. Whereas mainstream business has a few, simple goals – profit, growth and customer satisfaction – and tends towards uniform business

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<sup>32</sup> For example, there are concerns in the South about labelling systems, plantation products, imposition of certification fees, lack of transparency and limited participation (Wilkinson and Mascarenhas 2007).

<sup>33</sup> Intermediaries are considered by some as ‘sharks, coyotes and piranhas’ ... ‘pursuing their own interests at the expense of the poor ...’ (Barratt Brown 1993) and by others as opening up new and potentially challenging approaches to development (Lewis 1998).



models, FT has multiple goals and tolerates a large variety of models and interpretations (Redfern and Snedker 2002).

### **3.4 Theories and assumptions**

A general theory of FT seems to be absent (Moore 2004) and Fair Trade does not occupy a secure position in any established academic field, although it has attracted attention from a variety of disciplines, including economics, agriculture, rural studies, development studies, sociology and theology (Moore 2004) as well as social entrepreneurship, marketing and business strategy (Nicholls 2006).

In seeking to create awareness of radical inadequacies in current practice and outcomes, such as market failures (Hayes and Moore 2005), persistent poverty (Young 2003), exclusion of the poor and disadvantaged (Redfern and Snedker 2002), unequal power relations (Tallontire 2002), lack of sustainability (WFTO 2010) and deficiencies in business practice (Moore 2004), Fair Trade is implicitly rejecting the customary thinking that has given rise to these conditions. Essentially, FT has taken a pragmatic approach (Redfern and Snedker 2002) and appealed to people's innate sense of fairness, without constructing a theoretical justification for its position. While calling on universal principles of justice, it rejects the idea of universal solutions, believing instead in local solutions (WFTO 2010), even accepting that goals may sometimes conflict (Tallontire 2002).

Fair Trade has always insisted that people, not money, should be put at the centre of trading (Barratt Brown 1993) and this limits the possible connections with some academic disciplines, including mainstream economics and business, that rely heavily on financial analysis. There have been attempts to argue for Fair Trade by recourse to orthodox economic concepts, such as market efficiency (Nicholls and Opal 2004; Hayes and Moore 2005), but there is no evidence that these have been influential in shifting mainstream academic thinking or in altering public perceptions. Nor have arguments based on ethics been conclusive (Nicholls and Opal 2004).

Two threads consistently running through FT thinking do not yet appear to have been theorised: first, its call for greater social justice; and, second, its focus on building producer capabilities, as expressed by the hope that ‘everyone, through their work, can maintain a decent and dignified livelihood and develop their full human potential’ (WFTO 2010). The work of Amartya Sen and others on social justice and capabilities will be reviewed later as an essential part of the analytical framework that seeks to make these connections (see section 5.5).

FTOs are a form of social enterprise, whose defining characteristics are a focus on a social mission (Nicholls 2006) and the creation of community benefits through trade (Thompson and Doherty 2006). At the heart of Fair Trade are values that are not generally recognised in conventional markets (WFTO 2010) and the use of trade as a means, not an end (Redfern and Snedker 2002). The concept of the business model (see section 2.5) can be applied to a social enterprise. Commercial factors do not dominate the business models of FTOs in the way that they do in the mainstream and social goals, such as supporting producers and social value creation, come to the fore.

### 3.5 Fair Trade compared with ethical trading

There is widespread confusion about the difference between FT and ethical trading (Redfern and Snedker 2002; Moore 2004). Some of their distinctive features are summarised in Table 1:

*Table 1: Comparison between ethical trading and Fair Trade*

	<b>Ethical trading</b>	<b>Traditional Fair Trade*</b>
Scale of operation and technology	Large-scale, using modern industrial methods	Small-scale, using traditional craft skills
Business model and emphasis	Commercial priorities dominate; social ones are subordinate	Social priorities dominate, with commercial ones seen as means
Main intentions of strategic actors	To satisfy main stakeholders (those with greatest influence)	To maximise outcomes for producers

Source of social priorities	Based on standards and rules, externally defined	Based on FT principles with scope for local definition
Concept of social value	Conditions of employment	Producer capabilities
Basis of evaluation and judgement	Calculation of reputational risks vs costs of social measures	Assessment of benefits to producers and to FT movement
Coordination of social priorities	Compliance system, using industrial systems and criteria	Self-assessment and peer group review
Role of workers and producers	Passive actors, with virtually no say in process or outcomes	Some participation in decision-making process

\* Mainstream FT has elements from both columns

*Sources: the CSR, ethical trading and FT literatures*

Ethical trading and Fair Trade both claim to be based on the same principles, i.e. the Universal Declaration of Human Rights and ILO Conventions, but they have entirely different approaches to applying them. The dominant mainstream idea is that businesses should concentrate mainly on their vital wealth-creating function – i.e. producing goods and services that satisfy customers – and not get side-tracked into dealing with social issues, which are in the province of governments. CSR implies a certain amount of self-regulation but no more than is required to avoid abuses that might damage corporate reputation.

In contrast, FT is ruled by the idea that business enterprises have moral responsibilities to ‘help workers and marginalised producers move from a position of vulnerability to security and economic self-sufficiency’ (FINE 2001). Commercial priorities, including meeting the reasonable demands of other stakeholders, are accepted as valid but not at the expense of failing to meet the needs of producers. Related to this central idea is the conviction that market forces cannot be relied on to produce fair outcomes and that protection of the poor cannot be entirely left to governments. FT’s notions of capacity-building, empowerment and sustainability rest on the belief that specific forms of intervention are needed to equip producers to be able to participate fully in economic life.

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### **Summary of Part A**

The Indian textile and garment industry is facing intense commercial pressures and social priorities appear to be taking second place. Ethical trading and FT represent two contrasting approaches to tackling problems of worker exploitation and vulnerability but there are major questions about their effectiveness. Both suffer from confusion of aims, due, in part, to the lack of an accepted theoretical framework.

Part B lays out the methodological and analytical approach I have developed, drawn from a variety of disciplines, offering a new theoretical synthesis and fresh perspectives. The specific questions raised in Part A will be carried forward to Part C for empirical investigation. These may be grouped into three broad categories, reflecting the three lines of enquiry defined in the Introduction:

1. Questions about the actual situation: what are business enterprises really most concerned about (as opposed to what they may say); what form do their basic business and social models take; which customs and practices most affect employment outcomes; and what are the variations in these and in the balances between commercial and social priorities.
2. Questions about the reasons behind the commercial/social balances: the influence of the business and social environment; the power, perspectives and scope of different actors; and the difficulties faced by enterprises in reconciling differences and achieving a fair balance among competing priorities.
3. Questions about possible remedies aimed at a fairer balance: the impact of pressure from campaigners; the implementation of CSR and ethical trading; the experience of Fair Trade mainstreaming; partnerships and other approaches.

## PART B – APPROACH

The contextual complexities and the breadth of the research questions call for an approach that is not confined to a single discipline or method. Commercial issues are normally explored using concepts and tools drawn from the business literature and social issues are tackled by reference to the social sciences. As well as incorporating both these perspectives, I introduce, in this part of the thesis, bridging concepts in order to analyse the interface between the two and shed light on the clash of priorities.

The approach is designed to tackle the wide range of issues identified in Part A: matters of fact (e.g. actual employment practices); questions of opinion and attitude (e.g. differences between Indian and Northern perspectives); and value judgements (e.g. what are the most important social priorities). It seeks to understand the behaviour of manufacturers and their links to other actors, such as brands, raising issues of power relationships. And it aims to address questions of causality (e.g. the effectiveness of interventions, such as codes of conduct, on working conditions) and to encompass diverse circumstances, from small-scale FT producer groups to large-scale manufacturing operations and High Street brands. The multi-disciplinary approach uses an open methodology, able to incorporate a wide variety of data and perspectives, and a broad analytical framework.

Chapter 4 outlines Grounded Theory (GT), on which the methodology is based, and explains the key choices I made in planning the empirical work. Chapter 5 reviews the literatures from which I drew concepts and analytical approaches, notably Convention Theory, regulation, GVC analysis, social realism and theories of justice. Chapter 6 describes the framework that integrates these concepts in a form that has allowed me to analyse the research questions. All three chapters break new ground. No previous instances have been found of GT having been applied to development studies; the combination of literatures and the use of social commitment as a unifying concept are original; and the analytical framework provides fresh tools for analysis of complex issues where commercial and social priorities are opposed.

## Chapter 4: Methodology

It was clear from an early stage that the main empirical focus had to be at the level of the business enterprise, where decisions are made about employment and working conditions. The need for in-depth investigation of complex relationships and processes pointed to a case study approach. However, the range of actors involved, and the importance of exogenous influences, meant that I needed to incorporate a range of other data. The literatures on CSR and FT contained valuable empirical studies and analysed issues from either a social or a commercial standpoint. But there was no theoretical model of how the two might be related and therefore no sound basis for forming hypotheses about my research questions.

Grounded Theory (GT) is a methodological approach that develops explanations from careful evaluation of data, rather than by testing pre-determined hypotheses. I chose to adopt it for four main reasons. First, it has a strong empirical orientation, suited to a case study approach but also capable of incorporating a wide range of other qualitative and quantitative data. Second, it allows open-ended, non-prescriptive lines of enquiry, which can be adjusted as ideas develop and new data appear. Third, it is sympathetic to a flexible and evolving conceptual and analytical framework, made up of many disparate elements, and provides a way to manage complexity. And fourth, it is capable of encompassing diversity among actors in their values and perspectives.

The first section of this chapter explains Grounded Theory, its history and application, in more depth. The second section explains how I adapted it to take account of the nature of the investigation and the practicalities of carrying out the research.

## 4.1 Grounded theory

GT was ‘discovered’ in the mid-1960s by two researchers, Barney Glaser and Anselm Strauss<sup>34</sup>, who were studying the social processes that occurred in hospitals when patients were dying. In the process of conducting their study and writing up the results (Glaser and Strauss 1965) they developed a new methodology, based on careful observation of ‘what was going on’, rather than directed at proving or disproving current theories. Glaser and Strauss define theory as the best explanation that can be made of what is going on. A foundational idea is that theories should ‘emerge’ from thoughtful evaluation of the actual data, not be ‘forced’ to fit in with existing thought structures (Glaser and Strauss 1968).

Grounded Theory is well suited to dealing with a large variety of data sources and disciplinary perspectives (Glaser 1978). It is a rigorous, action-oriented method, which is processual and purposeful (Strauss and Corbin 1998) and in which data is scrutinised for relevance, fit and workability through constant comparison of concepts and indicators (Glaser 1998). It relies heavily on inductive reasoning and guards against over-use of deduction, which can lead to ‘logical elaboration’, in which explanations, unconnected with reality, are derived by logic alone. Initially developed as a way of understanding social processes in the health care system GT has since been applied to a variety of other fields, including psychological research, education and business (Goulding 2002).

The foundation of the GT approach is data, which include all observations and statements, whether solidly ‘factual’ or more airy. ‘All is [sic] data ... even if the researcher does not particularly care for it’ (Glaser 1998 p.9). His or her job is to let the data emerge and induce their meaning. Glaser defines four types of data that may be obtained from a respondent:

1. Baseline data: the best description that a person can offer.

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<sup>34</sup> Glaser had trained in quantitative research, methodology and theory generation at Columbia University, New York, and Strauss was from the Chicago school of qualitative research.

2. Properline data: what the person thinks is proper to tell the researcher, i.e. what they feel they are supposed to say, no matter what the reality is. In this case 'they have no stake in correct description, only in correct distortion'.
3. Interpreted data: which is given by a trained professional, whose job it is to make sure that others see the data his professional way, despite the fact that it may be different to the normal way of seeing it.
4. Vaguening out data: where there's no stake for the person in telling the researcher anything meaningful. This occurs where certain information is regarded as 'confidential' and is therefore concealed.

This typology of data has immediate resonance in the world of business, where problems of confidentiality, spin and 'correctness' are endemic. The implication of Glaser's approach is that distorted, or even intentionally misleading, statements can still be evaluated for their underlying meaning. What is not said might be as significant as what is and the ways in which statements are distorted may reveal hidden motives. Secondary data are treated by GT in the same way as primary data and the literature is also considered as data. The researcher's aim is to collect sufficient data to achieve 'saturation', which occurs when additional data merely confirm an understanding that has already been reached and add nothing new.

All data are coded, line by line, as soon as possible after they are collected. Codes, which are not pre-determined but are suggested by asking what the data are fundamentally about, conceptualise the underlying pattern of a set of empirical indicators. They describe categories and properties and how these are related (Glaser 2005). There are two types of code, substantive and theoretical. Substantive codes conceptualise the empirical substance of the area of research (e.g. compliance with labour standards) whereas theoretical codes conceptualise how the substantive codes may relate to each other as hypotheses to be integrated into the theory (e.g. the effect of scrutiny on rule-following behaviour).



New codes are generated by constant comparison of: (a) indicator to indicator, noting similarities, differences and degrees of consistency from case<sup>35</sup> to case; and (b) indicators to broader concepts. As concepts emerge, they get grouped into categories with the codes describing their emerging range of properties. Typologies are based on behaviour, not people. People can walk in and out of many behavioural patterns without being typecast. This is consistent with the focus on the incident as the unit of analysis, not the individual actor.

At the start, ‘open coding’ is used, which involves identifying and labelling categories and properties in every possible way, leading to a wide proliferation of codes and concepts. As patterns emerge, and as categories and relationships are defined more precisely, a core category is chosen, which represents the variable that lies at the heart of the study, with the most connections to other categories, and is often a basic social process. The choice of ‘social commitment’ as core category for this study is described in section 4.2.2. After the core category is established ‘selective coding’ is used. Some codes are abandoned and data are now analysed purely for their significance for the core category and its related sub-categories, which are the variables that are most closely linked to the core category (e.g. codes of conduct and employment conventions in this study).

At all times, the validity of conclusions and interpretations are judged according to four main criteria: fit, relevance, workability and modifiability. The concepts have to fit closely to the incidents they are representing and they have to address the real concerns of the people involved (i.e. not just be of academic interest). The explanations have to be robust enough to work under a wide variety of situations and also be capable of being modified when new relevant data come to light. A Grounded Theory is never final, or ‘right’ in an absolute sense, it simply has more or less fit, relevance, workability and modifiability.

Writing memos is an essential part of the GT process. In the early stages, memos are essentially field notes and contain the researcher’s comments on a specific piece of

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<sup>35</sup> The term ‘case’ is used here in the GT sense of the particular situation or incident being studied. Later, the term will be used to denote business enterprises that have been subject to empirical research. The two usages are not incompatible. Data from the case profiles consist, in the main, of a set of incidents and observations of particular situations.

material. He or she is encouraged not only to record accurately but also to imagine what the data mean at a deeper level and to draw out their implications, which may point to avenues for further investigation. The researcher must remain open at all times to alternative explanations and to the need to find more data to support or refine current understanding. A second type of memo, code notes, are written as codes, concepts and categories are developed. These memos draw on the accumulating data and define the nature, characteristics and properties of a substantive code. They are essentially hypotheses about possible relationships with other codes and their main purpose is to deepen understanding of a particular issue. Later on a third type, theoretical memos, explore categories and relationships more fully.

In drafting memos researchers are encouraged to make free use of their imaginations, without being constrained by established lines of thinking or 'correct' interpretations. As long as what is expressed is grounded, in the sense that it can be traced back to reliable data, it is valid, until supplanted by expressions that have greater fit and relevance. As research progresses, the bank of memos provides a useful historical record of the way in which thinking has progressed. Before writing, memos are sorted into like groups.

In the relatively open and flexible research environment created by GT, direction and focus are provided by means of theoretical sampling, which can be seen as 'where to go next' in data collection, or the 'for what' in codes or the 'why' in memos (Glaser 1998). The aim is to identify what is missing, in the empirical evidence or in the understanding of it, and to direct attention to the sorts of cases, respondents or lines of questioning that will fill in the gaps. In practice, this means that the researcher is always looking for diversity, for situations that lie outside the boundaries of what has already been understood, rather than continuing to add data to topics that are saturated.

The differences between GT and other methodological approaches are mainly ones of ordering and emphasis. For example, issues are kept open for longer than is usual and hypothesis formulation occurs later. This has important practical implications, leading to a more flexible, iterative process whereby ideas are constantly being tested, challenged, refined and reformulated. The research programme cannot therefore be planned in detail ahead of time but must always be responding dynamically to the

findings as they evolve. Focus is not achieved by determining clear boundaries at an early stage but is a gradual process, occurring relatively late, in which individual components of the total picture are crystallised, piece by piece, through their links to the core category.

Traditionally, research rigour is understood as taking a systematic approach (Sumner and Tribe 2008), which involves defining the central research problem and associated questions clearly, developing testable hypotheses, aligning data gathering closely to hypotheses and avoiding bias. In other words, it is about the proper application of techniques (White 2002). GT does have techniques but they are more free-form than other approaches. Its core category and sub-categories are somewhat equivalent to traditional research problems and questions but, as explained earlier, hypotheses are left until later and do not drive data gathering. In GT rigour derives from the relationship of the emerging theory to the data (Glaser 1998). The use of the constant comparative method ensures that interpretations and hypotheses are constantly being checked for their fit with the data and for their relevance.

## 4.2 Research process

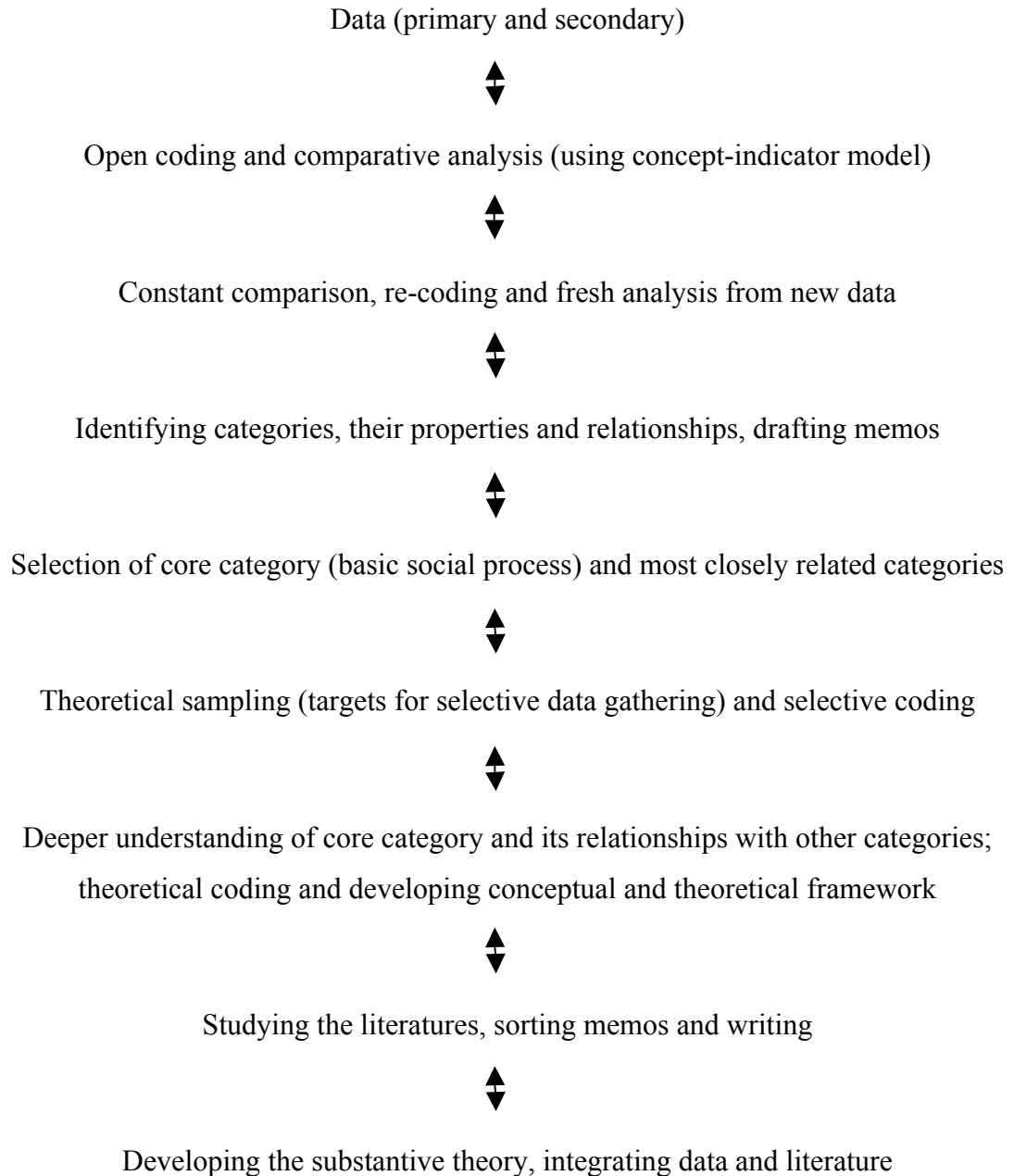
Grounded Theory, in its purest Glaserian form<sup>36</sup>, eschews planning and conceptualisation of the research process on the grounds that this risks constraining thinking. But doing research in such an unstructured way assumes that the researcher has constant and ready access to subjects so that data collection, analysis and the development of ideas and conclusions can take place concurrently, without the need for prior organisation. These conditions did not apply in the case of my research. I could only spend a limited amount of time in India, the main source of primary data, and I would, in most cases, only have one opportunity to visit companies and to interview people. I therefore realised that I had to impose some structure on the process.

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<sup>36</sup> Strauss and his main collaborator, Juliet Corbin, have developed a more structured approach to GT (Strauss and Corbin 1997), with checklists containing families of codes and validation criteria, but this did not provide answers to the practical problems I faced. I therefore based my approach on the ideas developed by Barney Glaser.

I took the key elements in the GT approach, as outlined in the last section, and, as a first step, put them in a basic sequence:

*Diagram 1: Grounded Theory flowchart*



Note: This flowchart is based on the process developed by Bob Dick (Dick 2005).

Later, this evolved into a 4-stage programme of research, which is described later in this section. But I found the above chart helpful in constantly reminding me that I could always double back to an earlier step.

An important structural element is the analytical framework (see chapter 6), which is essentially a set of hypotheses about the relationships among the key variables. I started developing this earlier than advised by Glaser in order to provide checklists of questions for investigation. My approach to interviews, which will be described in chapter 7, was semi-structured, using elements drawn from the research questions and from the framework. In practice the framework and the interview checklists evolved greatly during the course of the research as my understanding developed and new issues emerged.

In line with GT I made extensive use of the literature, both as a source of secondary empirical data and in considering the conclusions reached by other researchers (i.e. ‘interpreted data’). I also regularly checked my findings with knowledgeable practitioners in order to test their relevance and accuracy and to spot gaps in my understanding. I carried out as much analysis as I could as I went along but, for practical reasons, the more detailed analytical work (e.g. comparing corporate behaviour in different types of firm, by size, location etc.) was done after the end of field work. I was therefore able to gain some, but not all, of the benefits of iteration between empirical exploration and theory development.

I found the concepts of saturation and theoretical sampling powerful, enabling me to cover much more ground than I would otherwise have been able. I abandoned a topic once the responses I was getting repeated those of earlier respondents, shedding no further light on the issues. The question then became – where next? In many cases, this meant looking for possible exceptions to the general pattern –e.g. situations where different conditions applied. For example, I found after about six interviews with garment manufacturers that they were all making the same comments about wages and overtime, clearly conditioned by the codes of conduct they had signed up to. I therefore set out to find companies that were not subject to codes in order to see whether their responses differed. I also changed my line of questioning of companies subject to codes to find out what happened in ‘special situations’, such as rush orders at peak times.

The research fell into four distinct stages:

1. A preparatory stage, mostly of desk work but including an exploratory trip to India; this stage ended when the Outline Research Proposal was approved.
2. A period of open enquiry, including two rounds of interviews, in the UK and Europe, further reading and analysis, ending with the choice of core category.
3. Targeted data gathering and analysis, when the main field work in India was carried out, followed by data analysis and the Work in Progress Seminar.
4. Finally, a stage of integration, during which I completed the analysis, developed theoretical thinking, related the material together and wrote the thesis.

#### **4.2.1 Preparatory stage**

After a period of orientation and general reading I considered which substantive field to choose for empirical research. I chose the textiles and garment industries because they are major employers, include agricultural and industrial operations, have global value chains and are significant both for FT and mainstream business. A number of studies had been published on various aspects of working conditions in the industries, from which I could learn, and there was a lively public debate going about the social issues. I chose India largely because of the variety of research opportunities available there. The country is a major player in all stages of production, from cotton growing to final product manufacture, has a substantial domestic market as well as a thriving export business. It also contains a number of well-established FT organisations and craft groups specialising in textiles.

Before finalising my Outline Research Proposal I made a 4-week exploratory trip to India in order to assess the research options and to gain some first-hand knowledge of the sector. I visited about 25 operations, including farming, ginning, spinning, dyeing and garment manufacture, in five different regions of the country, and I consulted academics, consultants and journalists. I was able to identify some suitable cases and gain their agreement to my research. On my return I visited a leading international business school<sup>37</sup> and spent a week exploring the business literature and getting feedback to my presentation of preliminary ideas. Whereas at IDS the main emphasis was on the social challenges and worker livelihoods, there I received a more commercially-oriented perspective.

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<sup>37</sup> INSEAD, at Fontainebleau, at which I had been an MBA student 34 years previously.

#### 4.2.2 Open enquiry

Immediately after presenting my Outline Research Proposal I was offered the opportunity to carry out a value chain analysis of the textile industry for the International Fair Trade Federation (previously IFAT, now WFTO), working as a consultant, together with an experienced FT textiles specialist. The issues we were asked to address were relevant to my study<sup>38</sup> and I concluded that this was a good opportunity to explore the FT perspective in detail. The full report we submitted (Gent and Braithwaite 2005) and the abbreviated version subsequently published in a handbook (Gent and Braithwaite 2006) both focused on FT's activities and contribution but also contained a comparison between FT and mainstream business. The main recommendations centred around the ways in which FT organisations could 'become more commercial' by adopting mainstream business methods.

Following this, I carried out interviews with a range of mainstream UK brands and retailers to find out how they approached ethical trading and I reviewed my findings with the Director of the ETI<sup>39</sup>. As data accumulated, the choice of core category was becoming pressing. I began to notice how often the word 'commitment' was used, positively or negatively, to explain why social priorities were, or were not, pursued. I also realised that the term could equally be applied to commercial priorities. The balance between social and commercial priorities could be viewed as a struggle between competing commitments, to corporate success on the one hand and to fair treatment of workers on the other. My next step was to reassess the data through the lens of commitment and to explore its links with other key variables.

Glaser establishes a number of specific criteria for the selection of a core category (Glaser 1978). I reviewed these and concluded that 'social commitment' met the criteria in that it:

- Was central to a basic concern, as expressed in the central research question, and recurred frequently in the data,

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<sup>38</sup> The terms of reference of the study stated its purpose as 'to improve understanding of Fair Trade's social and economic context and to make recommendations on how the economic and social situations of low income producers may be improved'.

<sup>39</sup> See footnote in section 2.1.

- Related meaningfully to other categories that I had already established as significant, such as codes of conduct, purchasing practices, buyer-supplier relationships and stakeholder pressures,
- Was completely variable and readily modifiable through its relations with other categories, and
- Could be applied as well to FT activities as to mainstream business.

Having found a way of focusing my research more narrowly I started preparing for the main stage of empirical investigation. I carried out a thorough review of all the data I had collected, analysed some of the properties of social commitment, identified gaps in my knowledge and defined issues for empirical investigation.

#### **4.2.3 Targeted data gathering and analysis**

My next task was to explore the issues in depth at enterprise level. I decided to concentrate on two main types of enterprise – social enterprises (including FT organisations, agricultural projects and craft groups) and mainstream garment manufacturers. From my exploratory visit I knew that I would face significant practical problems of access and data availability in the mainstream. Before leaving the UK I enlisted the help of a leading firm of social auditors, which had teams of inspectors on the ground in India, visiting garment factories and other manufacturers and reporting back to international brands. They agreed to provide introductions to their local offices and, through them, to some of their clients on the basis of complete confidentiality and my freedom to carry out research independently and alone. In India, I asked trade associations to introduce me to specific types of company and I got help from the Textiles Commission, a government agency set up to promote better standards in the industry.

An Indian business consultancy specialising in social issues gave me some leads and I made further contacts through people I'd already interviewed. A side benefit of all these introductory arrangements was the opportunity, after having carried out interviews, to present, informally, my general empirical findings (without attributing any information to individual companies) and to get useful feedback from experienced practitioners.



On returning to the UK I prepared a paper called ‘The yawning gap between good intentions and socially-responsible behaviour: the failure of commitment in the Indian garment industry’ and presented this to the CSR study group of the Development Studies Association so as to obtain feedback from other researchers. Following further study of the literature and extensive analysis of the empirical data I presented my findings to a Work in Progress seminar at IDS.

#### **4.2.4 Integration**

The goal of GT is an ‘integrated set of hypotheses [that] account for much of the behavior seen in a substantive area’ (Glaser 1998 p.3). Explanations have to be linked not only to the data but also to the literature. Since the literature did not provide the initial hypotheses, I had to make the theoretical connections once the empirical analysis was underway. This enabled me gradually to develop my explanations, both in substantive terms, using ‘in vivo codes’, but also in theoretical terms, using concepts drawn from the literature (Glaser 1978). According to Glaser in vivo codes are terms that have meaning for practitioners, such as purchasing procedures, code monitoring and stakeholder pressure. Equivalent theoretical codes, such as rules, scrutiny and expectations, have broader scope and greater analytical ability. It should be possible to explain the theory using either set of terms.

Having completed a first round of data analysis I was able to identify which branches of the literature required further study, which, in turn, triggered further analysis of the data. For example, re-reading the CT literature highlighted the idea that conventions have a dual meaning. Not only are they informal rules but they are also methods of evaluation, or cognitive representations. While carrying out research I had given most attention to ‘conventional rules’ but, after studying the CT literature, I realised that I needed to analyse the data for evidence of cognitive evaluation and relate these to rule-following behaviours. This insight, gleaned from the literature, led directly to a new set of analyses, resulting in the 4-level understanding of commitment outlined in section 5.6. The evidence of tensions pointed me to a series of seminars in Oxford on conventions and rules, which led me to start reading the social realist literature.

The bank of memos I had accumulated gave me a starting point for writing but I was unclear how to structure my thesis. Writing it according to the way in which I had

actually carried out the research, essentially as a voyage of discovery, would have risked confusing the reader and staking all on a successful final denouement. I decided to present my ideas in a conventional manner, starting with research questions and using these to drive the account of the steps I took. As a result, the conceptual and analytical framework, which, in its final form, is an important outcome of the research, appears before the empirical findings.

## Chapter 5: Concepts and theories

The lack of an existing theoretical structure capable of bridging the social/commercial divide led me to develop my own framework, based on a unique combination of approaches drawn from various literatures. Each literature provides a different set of ideas and perspectives, which are brought together by the unifying concept of social commitment. Methodologically, the links between the most important sub-categories – conventions, rules, agential discretion, value chains and ideas of justice – and the core variable, social commitment, provide the connecting tissue that binds the multi-disciplinary grounded theory together.

This chapter summarises the main theoretical contribution made by the thesis. After reviewing concepts and perspectives contained in five separate literatures the final section defines and develops the concept of social commitment as a way of relating them into a single conceptual framework, which can be applied to the study of the way business enterprises balance commercial and social priorities:

1. Convention Theory provides a way of examining customary practices and of tracing these to their normative foundations.
2. Regulation and rules describes how rules are transmitted and applied in order to alter priorities and traditional ways of doing things.
3. Agential choice explores the scope for actors, such as companies, to exercise discretion in determining actions and outcomes.

4. Global value chain analysis looks at the power relationships embedded in business systems and at the resulting constraints on individual firms.
5. Social justice examines the principles and ideas that underlie the way society looks at questions of fairness, justice and balance.
6. Commitment focuses on the intentions of key actors and brings the various theoretical strands together.

## 5.1 Convention theory

Convention Theory (CT) developed in France in the 1980s as a project aimed at creating a new understanding of coordination in economic life, in the broad tradition of alternative economics and drawing concepts from sociology, anthropology and other disciplines. Early empirical studies examined interactions among actors with radically different perspectives, in industrial relations, recruitment, organisations, financial systems, health and other fields. CT has been applied to various fields, such as business, in which commercial and social perspectives are in opposition. Some scholars have used it to supply a normative dimension to research that also uses other approaches, such as Global Value Chain analysis (e.g. Wilkinson 1997; Ponte 2008).

Many published surveys highlight the importance of traditional customs and practices in determining what happens in the work place. For example, which jobs are carried out by which ethnic or social groups (Krishnamoorthy 2006); deference to authority and the subordination of women (Hale and Wills 2005); and the casualisation of labour (Vijayabaskar 2002). At the same time new approaches to the organisation of work, such as the use of production targets, critical path planning and productivity measures, represent a different set of practices, driven by competition (Acona 2004). The priorities that are transmitted vertically from brands to suppliers, such as low prices, quick response and flexibility (see section 1.4), can be regarded as ‘value chain conventions’, which permeate the whole business system and are difficult for individual companies to challenge. They drive customs such as making one deal at a time and using a crisis management approach to situations (Acona 2004). These practices, both traditional and competitively-driven, appear to follow long-established patterns of behaviour or to

result from pragmatic responses to problems. In looking for answers to the research questions posed in Part A – i.e. what determines the social/commercial balance and why – we therefore need to explore the role of conventions.

Conventions, understood as informal or implicit agreements among actors about how to behave in particular situations, have long been recognised as important in a variety of disciplines, including philosophy (Lewis 1969), sociology (Weber 1978; Biggart and Beamish 2003), organisation theory (Reed 2009) and economics (Keynes 1936). They exist because, in coordinating their actions with those of others, people do not always find it practical or appropriate to review the whole array of possibilities and make a considered, rational choice. Instead, they rely on precedents, on unwritten rules, customs and routines, which provide a guide to ‘what is expected’. A convention is ‘a generalised regularity in behaviour to solve problems of interaction’ (Lewis 1969), which saves time and cognitive effort (Goldstein et al 2007) though it does not necessarily lead to the optimal result for any particular party.

CT holds that many conventions contain moral assumptions<sup>40</sup>, though these are not usually made explicit. No explanation is normally needed for acting in accordance with an established convention so people are not required to consider their ‘rightness’. Actors face no formal penalties for transgressing a convention, as they may do when breaking a rule that has been established by a formal agency (Favereau 2008). Instead, they face the possibility of social disapproval, thereby introducing a normative element. According to Weber conventions often determine actions more than rules backed by legal or coercive means because people are always dependent on the good will of those that surround them (Weber 1978).

CT identifies vagueness as a significant feature of conventions, leading to uncertainty (e.g. about precisely when they should be followed and how) and to the necessity of exercising judgement (Batifoulrier and de Larquier 2001). Hence the dual nature of conventions. They are, at the same time, both guides to action (i.e. they take shape as

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<sup>40</sup> Moral considerations do not apply when coordination is required solely for practical purposes, such as in rowing a boat or greeting another person. These are simple ‘strategic’ conventions that emerge from a common interest and do not demand normative evaluation. In this thesis, we are concerned mainly with ‘interpretative’ conventions, where there may be differences among the actors in how they judge situations and alternative courses of action (Batifoulrier 2001).

‘conventional rules’) and they are also ways of judging situations (i.e. they are representational ‘models of evaluation’). These two aspects of conventions interact. Conventional rules are not applied automatically, they have to be interpreted, requiring normative judgement by the actor, using the evaluation model. In turn, the interpretation completes the application of the rule, according to the particular circumstances that apply.

Conventions are constantly being reinforced through repetition and tend to be persistent. However, they can change, in one of two ways. First, the search for more effective coordination may trigger consensual change and, consequently, lead to organisational learning (Argyris and Schön 1978, Mantzavinos et al 2004). Second, where there is unequal distribution of power, ‘strategic actors’ (those able to exercise discretion) can impose their own interests on others, resulting in conflictual change. A strategic actor may therefore introduce, or reshape, conventions as a means of exercising power over others. The processes of consensual and conflictual change are inter-linked (Rebérioux et al 2001).

Recognition of the importance of the normative foundations of conventions has led CT scholars to trace them back to their roots in moral philosophy. In ‘On Justification’ (Boltanski and Thévenot 2006) six different ‘worlds’<sup>41</sup> are identified, each of which can provide a morally defensible rationale for action and a basis for coordination, based on an ordering of worth. In the ‘market world’, based on Adam Smith’s ‘invisible hand’, the common good is assured by competition, with money providing an agreed measure of worth. The ‘industrial world’, founded on the writings of Saint-Simon, is driven by efficiency where statistical judgements are made about functional performance. In the ‘domestic world’ of hierarchy and tradition, described by Bousset, loyalty and trust are important indicators of a harmonious order. The opinion of others is the driver in the ‘world of fame’, as constructed by Hobbes, while the ‘world of inspiration’, deriving from St Augustine, is based on personal insight, creativity and originality. Finally, the ‘civic world’, argued by Rousseau, is based on a recognition of the importance of the

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<sup>41</sup> The authors do not claim that only these six ‘worlds’ exist, nor do they imply any hierarchy or order of importance. However, the civic world, whose concept of worth is social justice itself, occupies a special position in CT (Eymard-Duvernay 2001). This approach is broadly consistent with Sen’s idea of plurality of principles of justice and his recognition that basic human rights and liberties are of primary importance (see section 5.5).

common welfare and is concerned with social justice, human rights and an active civil society.

Convention Theory holds that actors may use any, or all, of these ‘worlds’ in justifying the actions they take. For example, a factory owner may resist having a permanent work force because of uncertain demand (market justification), while retaining a few key staff to assure productivity (industrial). He may also support worker education (civic), strive to maintain good personal relations with key customers (domestic) and play an active role in a trade association (reputation). He may even use part of his profits to support religious causes (inspiration). Conventions may be established within a single world but many, particularly in business, are the result of compromises between two or more worlds. For example, demand forecasting brings together market and industrial considerations and the setting of wages and working conditions may be influenced by civic and domestic as well as market and industrial factors. The ‘rightness’ of conventions, as seen by the actors involved, derives from the perceived legitimacy of the underlying principles. CT accepts the importance of markets in economic coordination but recognises their inefficiency (Eymard-Duvernay 2001).

The process described by Boltanski and Thévenot (2006) postulates a continuing, unresolved state of tension between the different worlds, each of which represents a base camp in a never-ending battle about what should be done in particular situations. Starting with a specific issue, such as providing safety equipment in a factory, for example, groups of actors may critique other actors and make counter accusations and claims. Unions may claim that working conditions are unsafe and call for greater investment while management may point to the impossibility of doing this and remaining competitive. As the argument proceeds, recourse may be made to higher principles, which are found in the worlds of justification. In the end, a compromise may be reached since, despite their differences, it is in the interest of all parties to continue to work together. The outcome may involve a formal agreement – i.e. a formal set of rules – but, since rules can never cover all eventualities, the agreement will always involve conventions, for example on when new safety measures are introduced and how equipment is operated.

The relevance of CT for this study derives from the understanding that social priorities are rooted in the civic world, while commercial ones derive from the market and industrial worlds. Ethical trading can be viewed as an attempt to introduce civic elements into a commercial environment, whereas Fair Trade represents a radical challenge by the civic world to hegemonic market and industrial structures. The central questions faced by this study will be addressed by exploring the conventional behaviour of mainstream brands, manufacturers and social enterprises and by tracing their foundations.

## 5.2 Regulation and rules

A major part of the ethical trading and Fair Trade literatures is concerned with social standards, their benefits and how they should be applied. In other words it is about rules and the regulatory frameworks surrounding them. These include minimum wages to be paid, regulations on the maximum permitted overtime, anti-discrimination measures, freedom of association and so on. Much of the business literature (leaving CSR aside) deals with commercial rules, such as those applying to sales, purchase contracts and negotiations. In general, rules tend to apply either to social or to commercial priorities but not to both, although, in their creation, various factors may have been considered. The central research question can therefore be viewed in terms of the compatibility of different sorts of rules and their inherent tensions.

For the purposes of this study, regulation is understood as attempts by actors to define discrete parameters within which other actors should carry out certain activities. These parameters can be expressed as formal rules<sup>42</sup> (i.e. they are capable of being written down). This definition excludes ‘automatic regulation’, as carried out, for example, by the regulator of a steam engine or as might result from the workings of a free market. It also excludes the type of ‘dictatorial regulation’ that results from direct exercise of coercive authority. Regulation by means of rules, in this thesis, originates in the desire of people to influence the actions of others, who lie beyond their immediate sphere of

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<sup>42</sup> In their broadest sense, rules can be defined as generalised procedures of action in the form ‘if x do y under conditions z’ (Lawson 1997). In this general formulation, conventions are a special case of rules. In this thesis ‘rules’ will refer to formal rules, established externally to the place of coordination.

personal control, and it contrasts with the process of conventional coordination described in the last section, which involves actors who are directly involved in responding to actual situations.

As with conventions, rules appear in many branches of the social sciences. Their importance is acknowledged in sociology (e.g. Bourdieu 1977; Giddens 1984; Archer 1995), in economics (e.g. Salais and Thévenot 1986; Lawson 1997), in philosophy (e.g. Wittgenstein 1973; Searle 1996) and in legal studies (e.g. Marmor 2007) although ideas about them are contested. Whereas CT seeks to explain ‘balance’ by considering how actors find solutions to problems through interactive coordination, regulation by rules reflects attempts by distant actors in positions of power to impose solutions, backed up, if necessary, by coercive measures. There are two main types of regulation relevant to social priorities in global value chains: (a) governmental (i.e. laws or procedures imposed by a legally-constituted authority); and (b) self-regulation (i.e. voluntary agreements among actors on rules and procedures to be followed).

The case for governmental regulation of business is based on three planks (Beardsley and Farrell 2005). First, market economies cannot function properly without some basic rules, such as those assuring property rights and anti-trust measures. Second, regulation is necessary to mitigate market failures, such as neglect of safety and exploitation of vulnerable workers. Third, it is vital in supporting competition and assuring a level playing field. But governments have found it difficult to strike the right balance between essential protections and excessively prescriptive measures that stifle enterprise. The perceived negative consequences of ‘over-regulation’ have led to governments, under the influence of neo-liberal economic orthodoxy, to leave many issues, including worker welfare, to the private sector. In doing so, they have, in the eyes of some critics, abandoned their essential function of establishing regulatory regimes that lead to fair treatment for all members of society. Governmental abdication of responsibility has directly led to self-regulation, which is not always appropriate. For example, dominant firms may establish regimes of control that oblige Southern suppliers to engage with procedures that reflect Northern values (De Neve 2009).



Self-regulation faces issues of efficacy as well as legitimacy. Standards, against which performance can be assessed, are typically developed to determine whether rules have been followed. They can apply to products (e.g. quality standards), to their production (e.g. process standards), to the external impact of a manufacturing system (e.g. environmental standards), to organisations (e.g. standards of corporate governance) as well as to employment (e.g. labour standards). Each of these has spawned a large technical literature.

Nadvi and Wältring (2003) have charted the evolution of social and environmental standards and have identified five types, on a scale of increasing apparent legitimacy: (1) individual company codes of conduct, with self-monitoring; (2) sector codes, developed and monitored collectively (e.g. ICC); (3) international business standards with third party monitoring and independent certification bodies (e.g. ISO 14000); (4) sector codes and labels developed and operated with help of NGOs and third party involvement (e.g. Clean Clothes Campaign); and (5) tripartite or multi-stakeholder generic standards, with third party monitoring (e.g. ETI and SA8000). Ethical trading's codes of conduct fall mainly into the last type, although independent third party monitoring is not always present.

Governmental and self-regulation differ in a number of significant ways, such as the forms in which rules appear, their underlying authority and the sanctions for non-compliance but they have some common features. In both cases, an idea of 'what ought to be', implying a social priority, is first established in one place and then communicated elsewhere through the constitution of prescriptive rules, which may take the form of injunctions to do certain things or to refrain from doing certain things. The actors who are expected to follow these rules have generally played no part in their formulation.

Rules and conventions are similar in that they are both guides to action. But the differences in their origins and constitution have a profound effect on the process of coordination and on behaviour. Rules start with the intention of actors who are distant from the situation in which the rule is meant to apply and do not generally take local circumstances into account. Conventions, on the other hand, are rooted in the local

context and are not deliberately pre-determined<sup>43</sup>. Formal rules use tools derived from the industrial world<sup>44</sup>, where the emphasis is on functional performance, whereas conventions achieve coordination via debate and personal relationships, based on the civic and domestic worlds.

Rules rely on acceptance of the authority of the rule-setter or enforcer and may not be considered by all actors as legitimate, whereas conventions are generally perceived as legitimate, although ultimately they may have to be justified in the face of critique. As a result, conventions are usually followed, though not always consciously or consistently, as they have to be interpreted. Rules may not be followed, particularly if the risks of being found out and/or the penalties for failure are low, and this is normally a conscious decision.

Rules and conventions are often in opposition – indeed the main purpose of formal social rules is to alter traditional customs and practices that are considered wrong (e.g. measures against discrimination and harassment). However, the relationship between the two is more intimate. Rules can never cover all possible situations and, as with conventions, judgement is needed to complete them. The process of implementing and applying rules may be subject to a host of conventions, some of which may subvert the original intentions of the rule-maker. For example, freedom of association and collective bargaining are interpreted quite differently in India than in the countries, such as the UK, where codes of conduct are drawn up – see section 9.3.3. Rules and conventions therefore coexist and explanations of what is going on and how balances between competing priorities are struck need to recognise the way in which they relate to one another.

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<sup>43</sup> According to the CT literature, the origins of conventions are obscure. When asked, people will simply say ‘that’s the way things are’ (Biencourt et al 2001).

<sup>44</sup> There is a theoretical anomaly here, which will turn out to have important implications. Social priorities arise from the civic world, in which the ‘natural’ process of coordination involves arguments between people representing different interests. The technocratic means used in regulatory regimes, such as standards, inspection, statistical analysis, pass/fail reports, which are appropriate for industrial processes, are ill suited to handling complex social issues.

### 5.3 Agential choice

Conventions and rules cannot provide a complete explanation of how social and commercial priorities are determined – there is the additional possibility that individual actors may have the ability to control outcomes. Indeed, it is implicit in the CSR and FT literatures that business enterprises can make choices about how workers are treated. At the very least, employers are assumed to be capable of making decisions on whether or not to adopt and apply labour standards. But, given the intensity of commercial pressures, how much scope do mainstream companies actually have to exercise their theoretical freedom of choice in setting social priorities? Under what circumstances can they develop labour policies that differ from those of their peers? These questions will be examined empirically but a brief review of the literature on agency may help illuminate the issues.

Two broad theoretical approaches to agency and choice are prominent in the literature. The first is based on the rational pursuit of self-interest. People calculate the costs and benefits to themselves of alternative courses and act accordingly. Their behaviour may alter as circumstances change but always with reference to their personal preferences (Arrow 1987). The second broad type of explanation is based on the idea that human beings are the product of the society in which they live. Their actions can be understood as deriving from social and cultural traditions, which are, however, in a constant state of change (Harré 1983). There is an abundance of empirical evidence to support both these explanations. Self-interested behaviour is indisputably prevalent, especially in mainstream business, and societal influences are embodied in all conventions.

Change can be understood as a heuristic learning process under either approach and the language of rules and conventions may be used to explain what happens (Holland et al 1986; Mantzavinos 2001). As situations arise actors attempt to interpret them in order to see if they fit into an established pattern, for which existing solutions or routines (rules or conventions) apply. If they do not, they employ inferential strategies to find suitable ‘old’ rules for ‘new’ problems. If this fails they imagine different approaches (‘new rules’) and test them by trial and error until they find a solution that works –i.e. one that meets their personal goals, or society’s expectations. As they do this, they learn.

Collective, or corporate, learning results from carrying out this process in groups and finds expression in shared mental models and experiences. CSR can be viewed as an attempt to reconcile self-interest with societal demands by means of group learning.

This understanding of heuristic learning is consistent with Herbert Simon's concept of 'bounded rationality', which implies that actors, faced with the extreme complexity of real-life situations, reduce them to 'simplified models', which filter information about the environment, direct attention to a few selected aspects and categorise interpretations (Simon 1947 and 1986; Simon and Newell 1971). These models are conventional, in the sense that, in groups or organisations, they represent shared understandings and expectations, and they are persistent, providing key ingredients for the organisational culture.

Margaret Archer labels the actors typed by the two approaches outlined above as 'modernity's man' and 'society's being' and asserts that neither allows scope for individuals to make ethical choices arising from their own personal convictions<sup>45</sup> (Archer 2000). She considers that both are based on deterministic assumptions, leaving no room for personal agency. 'Being human', for her, means having a distinct personal and social identity, which can lead to agency, which is either 'passive' (able only to make reactive choices) or 'active' (capable of determining what happens).

Essential ingredients in Archer's concept of active agency are: (a) the recognition of concerns (the notion that there are things that a person cares about beyond themselves); (b) reflexivity (the ability to carry out an 'inner conversation' about the 'rightness' of actions); and (c) the acquisition of corporate agency (i.e. joining with others in a group in order to pursue common interests). This concept introduces a third possibility of change – the exercise of agential discretion, which enables a person or corporate entity to make ethical choices outside the bounds of their self-interest or of society's expectations. Fair Trade provides plentiful examples of this process in action and there is no reason to think that instances of ethical choices may not also be found in the mainstream.

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<sup>45</sup> The human capacity to make ethical choices is also recognised in Convention Theory (e.g. Batifoulrier and Thévenon 2001).

Archer's general approach to agency is shared by other 'social realists', following a critical realist understanding of the world. It is ontologically compatible with Convention Theory, which acknowledges the importance of reflexivity and of the ability of actors to reformulate rules and conventions (Lazega and Favereau 2002). Bessis has introduced into CT the idea of 'limited reflexivity', whereby an actor simultaneously follows and changes the conventional rules and, in so doing, provides a dynamic force for change (Bessis 2007). These approaches are also consistent with bounded rationality. For example, Simon asserts that organisational roles do not fully condition actions, since not all the premises that enter into an individual's choice are socially prescribed (Simon 1986).

The balance between commercial and social priorities may therefore result from agential choice, as well as from the presence of rules and conventions. But what about influences coming from the broader environment within which enterprises operate?

## **5.4 Global value chain analysis**

The evidence from business studies firmly indicates that the actions of individual enterprises are heavily affected by those of other companies they deal with. In particular, export manufacturers in countries like India have to operate within tight constraints set by their customers. The Global Value Chain (GVC) analysis literature incorporates the results of empirical work carried out over the past 20 years into integrated networks of business activity, from product inception to purchasing and use (Kaplinsky 2000). The approach grew out of the need to understand the changing relationships between global corporations, mainly based in the North, and their suppliers in the South (Gereffi 2001). It is based on the idea that the scope for companies to act is largely dependent on their position in the value chain.

A key concept in GVC analysis is that of the lead firm – a company, often a multinational corporation, which has the power to determine the conditions for other firms involved in the production process and thereby to extract the greatest proportion of the economic value generated. There are two main types of chain: (a) supplier-driven,

where the lead firm is a manufacturer with unique technology; and (b) buyer-driven, where it is the brand or retailer that pulls the strings. Studies into the textile and garment industry, using GVC approaches, have concluded that this sector is dominated by powerful buyers – retailers, marketers and branded manufacturers – who shape the industry and set the parameters for other actors (Gereffi and Memedovic 2003).

Another key GVC concept is that of governance, defined as ‘non-market coordination of economic activity’ (Gereffi et al 2001) and described as the way in which lead firms set and enforce the parameters under which others operate (Humphrey and Schmitz 2001). Studies of buyer-driven chains have mostly focused on the ways in which lead firms ensure that product and process specifications are met and supplier failures are avoided. Parameters may be established and enforced internally or by external agents (e.g. in the case of standards).

Governance takes a variety of forms, from ‘market-based’, characterised by arm’s length relations and frequent switching, at the one extreme, to ‘hierarchical’, where a lead firm directly controls all aspects of operations, at the other. Intermediate forms of governance, such as modular, relational and captive, have been identified on the basis of factors such as complexity of transactions, codifiability of information and capability of suppliers (Gereffi et al 2003). It is recognised that forms of governance are constantly evolving in response to competitive pressures, technological change, evolution of regulation and the strategies of leading corporations.

The mainstream textile and garment industry is characterised by relatively low complexity, high codifiability and high capability of suppliers. It therefore falls mainly into the ‘market’ category, with low barriers to entry, multiple connections and a pattern of short-term relationships between buyer and supplier. However, instances of longer-term relationships do exist, which imply some presence of the ‘relational’ category. Among Fair Trade and craft organisations the relational pattern appears to be the norm, although some networks may move towards a ‘captive’ or ‘modular’ pattern (Raynolds and Wilkinson 2007).

The industry analysis presented in section 1.2 showed that the main commercial priorities for clothing brands and retailers are driven by the fashion cycle, by price

competition, and by the need for consistent product quality and availability. These priorities are communicated to garment manufacturers, requiring them to deliver low cost products of consistent quality, while maintaining as much flexibility as possible to respond quickly to changing demand (i.e. by means of value chain conventions – see section 5.1). Because the main unit of analysis in GVC analysis is the chain, rather than the individual enterprise (Gereffi et al 2001), the approach can shed light on the way in which commercial priorities are transmitted throughout the chain by lead firms. But what about social priorities?

Some researchers have used GVC approaches to measure inequalities in the way gains are distributed in value chains and to forge links with poverty and other social issues (for example: Kanji and Barrientos 2002; Humphrey 2004; Nadvi 2004; Nadvi and Barrientos 2004) but the results have been limited. Other researchers have made links to the standards literature, by considering labour standards as a part of the parameter-setting and governance processes. According to this approach, employment standards, such as codes of conduct, are imposed by lead firms on their suppliers in the same way as standards relating to product specification and quality. Although some multinational companies present their social responsibility credentials in this manner, there is scant evidence that the approach works as effectively for social standards as for commercial ones (Giovannucci and Ponte 2005).

GVC analysis has been subject to criticism from some scholars, particularly from those who believe that it gives insufficient attention to the ‘horizontal’ relationships in which companies relate to local actors and to the broader structural and institutional context (Tallontire 2007; Gibbon and Ponte 2008). Global Production Networks (GPNs) have been proposed as a better framework for analysis (Dicken et al 2001; Henderson et al 2002; Barrientos 2007) and research is currently being undertaken to ‘map’ whole arrays of enterprises, value chains, sectors, geographical territories and their inter-relationships in various parts of the world. There seems little doubt that a comprehensive approach, such as this, can provide a rich context for the analysis of complex social issues. However, at the time of my investigation, GPN’s ambitious new approach had not yet yielded concepts with explanatory power of direct relevance to this study.

It seems clear that GVC analysis has a part to play in the generation of explanations about the social/commercial balance but that it needs to be linked to other approaches. It tends to assume a rational model of human behaviour, reflecting its roots in the business literature, which limits its application to social issues, but it can be part of an multi-disciplinary approach<sup>46</sup>. It can provide a framework for understanding how rules and conventions are transmitted within a business system and for identifying the constraints that may limit the scope of an enterprise to exercise agential discretion. It puts ethical trading and Fair Trade initiatives, both of which rely on transmission of information and priorities through value chains, into a broader context and prompts the idea that the balance among competing priorities has to be considered for the value chain as a whole, not just at enterprise level.

## 5.5 Social justice

The final strand in the array of theoretical approaches included in my analytical framework is concerned with the foundations of the normative assumptions people make. Although CT recognises principles of justice, social rules attempt to embody and apply them, agential choice allows scope for action and GVC analysis describes how power is exercised, none of these approaches directly addresses the question of social justice.

What constitutes a just balance between social and commercial priorities? How do views about this question vary among stakeholders? Large companies appear to believe that they are bringing prosperity and jobs to economically backward areas whereas critics claim that many workers remain in poverty while consumers, brands and business owners have gained the lion's share of the benefits. In view of these very different perceptions a clear view of what social justice means is needed.

In recent years, the main theoretical foundations for considering broad questions of justice in society have been based on the principles enunciated by John Rawls (Rawls

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<sup>46</sup> Kaplinsky suggests that effective GVC analysis requires the incorporation of different disciplines, including management studies, engineering, political science, sociology and sectoral knowledge (Kaplinsky 2000).



1971). His approach follows the idea of the social contract, as expounded by Locke, Rousseau and Kant. In order to arrive at what is ‘fair’, people in a given society have to put aside their special interests (behind a ‘veil of ignorance’) and agree together the principles that assign basic rights and duties to individuals and determine social benefits. Two important principles would, in Rawls’ view, emerge from this theoretical exercise: first, that each person should have an equal right to basic liberties; and, second, that inequalities would be accepted as long as no-one is seriously disadvantaged (the least advantaged should have the greatest benefit) and that opportunities are equally open to all.

These principles have had a great influence on politics and on current thinking behind the social responsibilities of business<sup>47</sup>. But they have been criticised for being too theoretical<sup>48</sup> and for their reliance on the contractarian approach, which is just one of several traditions in moral philosophy. For example, Michael Sandel points out that the Aristotelian emphasis on virtue still resonates in moral debates today and that utilitarianism cannot be disregarded (Sandel 2009). And Martha Nussbaum considers that Rawls’ approach relies too heavily on mutual advantage and ignores the reality of a globalised world, in which ‘society’ cannot be neatly partitioned and where poverty is widespread (Nussbaum 2004).

In ‘Development as Freedom’ Amartya Sen argues that the primary end of development is to expand the substantive freedoms people have to choose a life they have reason to value (Sen 1999). He defines poverty as deprivation of capabilities, which are seen as sets of opportunities to achieve ‘functionings’. Capabilities can refer to basic needs, such as food and clothing, but they also include self-esteem, the ability to make choices and to take part in the life of the community. They enable a kind of freedom – that which enables a person to function as he or she wishes<sup>49</sup>.

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<sup>47</sup> See section 2.5 for an account of the impact of Rawls’ ideas on CSR.

<sup>48</sup> There is no proof that the hypothetical exercise envisaged by Rawls would, in fact, come up with the principles he proposes. Sen considers that such approaches ‘involve a formulaic and drastic simplification of a huge and multi-faceted task – that of combining the operation of the principles of justice with the actual behaviour of people – which is central to practical reasoning about social justice’ (Sen 2009).

<sup>49</sup> This does not mean that people will necessarily use their freedom but that their ‘capability freedom’ has an intrinsic value, which is part of not being poor.

Sen sees freedoms as important ends, and claims that virtually everything of developmental value can be expressed in these terms. He goes on to suggest that freedoms are also among the principal means through which development is accomplished, in that they enhance people's ability to help themselves. The instrumental freedoms are political freedom, economic facilities, social opportunities, transparency and protective security. These freedoms, which can also be represented as capabilities, are closely interrelated and tend to reinforce one other.

According to the capability approach income is important instrumentally (as the means to acquire capabilities) but it does not possess any intrinsic value. Thus the level of pay workers receive gives, at best, only a partial picture of the impact of employment on poverty. To broaden the picture, other elements must be included, such as job security, vulnerability, health, opportunities to acquire skills and level of participation in decisions related to working conditions. The approach also takes full account of the importance of the local context and priorities as seen by people themselves, rather than relying on externally-imposed criteria.

These ideas suggest a new approach to questions of social justice. They get round a problem inherent in Rawls that parties are assumed to be of roughly equal power and resources, whereas, in reality, there are gross inequalities in starting positions, among nations as well as among individuals. The approach starts from a 'realist' position and is more oriented to outcomes and processes. Nussbaum claims that everyone is responsible for ensuring the capabilities of others. Within countries, the framework of laws and institutions should ensure approaches that are appropriate to the culture and, internationally, the institutional structure should be thin and decentralised. Multinational corporations should have certain responsibilities for promoting human capabilities in the nations in which they do business.

In his recent book Amartya Sen challenges Rawls' hegemony in the realm of ideas on justice (Sen 2009). He pays tribute to many features of Rawls' approach, agreeing, for example, with the focus on basic liberties (which are compatible with the concepts of capabilities and effective freedoms) and human rights (similar to entitlements in the capability approach). But he criticises it on several grounds, notably for its insistence on the idea of 'transcendental' principles and its over-reliance on institutional approaches.

Sen argues for a plurality of principles of justice and emphasises the importance of open scrutiny, including from people not directly involved, in order to reduce the power of vested interests. The concept of the ‘impartial spectator’ he invokes has important procedural as well as substantive implications. The focus should not be on finding perfectly just solutions (which may be unattainable) but on seeking improvement in cases of unmistakeable injustice. His approach recognises that complete information may not always be available and that it may not be possible to resolve all differences of opinion. Yet, even in such cases, he claims that progress in reducing injustice can be made.

He refers back to the tradition of Jeremy Bentham, Mary Wollstonecraft, Karl Marx, John Stuart Mill and others, who were more concerned with social realisations than with idealised structures and who adopted comparative approaches. He also draws extensively on Adam Smith’s Theory of Moral Sentiments in establishing that human behaviour is *not* exclusively driven by self-interest, contrary to the views of those who base their arguments on selective quotation from Smith’s Wealth of Nations. Sen also draws on classic Indian approaches to justice to support alternative lines of moral reasoning.

The approach of Sen and Nussbaum strongly supports the notion that all actors, including those in business, have moral responsibilities when it comes to making choices. This implies that it is not good enough for companies to justify their actions purely on the basis of self-interest (i.e. relying on the workings of the ‘invisible hand’) nor by slavishly following society’s rules (i.e. adopting a narrow contractarian approach). Sen’s acceptance of a plurality of principles of justice is compatible with Convention Theory (see section 5.1) as is his recognition of the importance of the process by which solutions are reached and of the need for public scrutiny and debate. The social challenges described in section 1.3 give clear signs of ‘unmistakeable injustice’, which can be tackled incrementally, without waiting for perfect solutions. And the ways in which value chains operate (see section 5.4) give strong clues to where problems may lie in the areas of imbalanced power relationships and failures of scrutiny. Sen’s approach to justice can therefore be applied, together with the other concepts and theories already outlined in this chapter, to address the issues of ‘balance’.

## 5.6 Commitment

Each of the five approaches outlined in the previous sections of this chapter sheds valuable light on the research questions and raises important questions for empirical investigation. However, two essential elements are lacking: first, an approach that focuses directly on the intentions of strategic actors, especially business enterprises; and, second, a unifying concept. Both of these elements are provided by the concept of social commitment, which was selected as the core variable after the preparatory and open research phases (see section 4.2.2). Social commitment is a property of all actors and represents their attitudes and intentions towards the variables that have been identified. It can take a number of different forms: an inclination to follow social conventions; a tendency to conform to rules; or a penchant to follow one's innate convictions in exercising choice. It reflects a realist view of the constraints and opportunities that face actors in complex value chains and it may be expressed in terms of attachment to principles of justice and to process, such as participation and scrutiny. It can also be thought of as a propensity to favour social priorities when considering the balance with commercial and other priorities. A major task will be to develop this concept, theoretically (in this section) and empirically (in Part C).

The concept of commitment<sup>50</sup> can be found in the literatures on psychology, sociology, economics and philosophy. Generally, commitment is not itself the main object of study; the concept is used to support other main ideas. It has been defined in sociology as existing when 'people engage in consistent lines of activity' (Becker 1960); as 'any constraints that operate against changing behaviour' (Deutsch and Gerard 1955); and as 'sequences of action with penalties and costs arranged so as to guarantee their selection' (Abrahamson and Anderson 1984). In social realism, commitment seen as the ultimate expression of being human – 'the capacity to use our resources towards ends that we care about'<sup>51</sup> – and it 'guides the roles that we adopt' (Archer 2000).

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<sup>50</sup> I was unable to find any references dealing specifically with the concept of 'social commitment', as understood in this thesis.

<sup>51</sup> What we care about is of fundamental importance to philosophy (e.g. Frankfurt 1982).

In psychology, it has been defined as ‘the pledging of the individual to behavioural acts’ (Kiesler 1971) and it is considered to act as a deterrent to changing to a new course of action (Janis and Mann 1977). For Sen (2009) commitment breaks the link between individual welfare and the choice of action and is a departure from self-interested behaviour<sup>52</sup>. He says that commitment can take the form of following rules of passable, even generous, behaviour that restrain our inclination to be guided exclusively by the promotion of our own goals. For followers of the conventionalist school, commitments are outcomes of a process of coordination and are anchored in intention (Thévenot 2002).

It is clear from these references that social commitment may be expressed in a number of different ways, from the abstract (such as to the idea of a ‘fairer society’), to the concrete (e.g. to buy FT products in preference to others). We need a definition for this thesis that reflects the breadth of the concept yet is specific enough to allow empirical research and analysis. My starting point is the proposition that, to be meaningful for a study that is essentially about explaining actions, commitments must always, however distantly, be related to some end – i.e. they must have an object. This rules out the airiest notions but allows commitment to a general state of affairs, such as a fairer society, even if this has not been fully specified. Considering commitments in this way allows us to compare one object with another, in the way that actors are assumed to do in social realism as they attempt to strike the ‘right’ balance among competing priorities.

Grouping the various commitment-objects that have emerged during the course of research into categories results in four ‘levels<sup>53</sup>’ of commitment:

1. Commitment to undertake specific tasks, *practices* or courses of action,
2. Commitment to social structures or institutions, especially to *rules* and *conventions*,
3. Commitment to *ideas* (i.e. conceptualisations of how the world works, or should work); for example, to views on corporate social responsibility; and

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<sup>52</sup> Sen’s concept of commitment is clearly rooted in the civic world and it comes close to what is meant here as ‘social commitment’.

<sup>53</sup> Use of the term ‘level’ accepts a hierarchical ordering. This is implied by CT, which states that disputes about practical issues may escalate to a higher level before they can be resolved.

4. Commitment to *principles* (i.e. what people care about most); an example would be commitment to the principles of human rights.

Practical commitments, at the first level, have the greatest behavioural significance, since they can lead directly to substantive outcomes. Although they may have their roots in personal intentions or in custom they are frequently crystallised, in a business context, during the process of coordination with other actors. Thus, for example, a factory owner receiving a new order commits to hiring additional workers, at certain rates of pay, and to sub-contracting part of the work, in consultation with his plant manager and business contacts. Many factors may come into play in this sequence of decisions, including, perhaps, the knowledge that the sub-contracted embroidery work will be cheaper if done by homeworkers, who can use children without falling foul of factory regulations.

The second level of commitment is essentially about meeting societal expectations, whether these are expressed in terms of formal rules or as informal conventions. These are formed externally but actors have to take account of them in making their practical commitments. In the case described above, the factory owner is able both to follow the rule (no children working in the factory) and the social convention (it's OK for children to help their mothers at home). But in other cases rules and conventions may conflict. For example, Delhi garment workshops traditionally use Muslim men to operate the sewing machines although supplier codes decree 'no discrimination'. Managers have to make choices and their decisions will reflect how committed they are to following rules vs. conforming to conventions.

Commitment to ideas may seem an abstract notion for those engaged in the practical world of commerce but research has shown how powerfully our behaviour is conditioned by the basic assumptions we make, often unconsciously, about the world. Cognitive conventions provide 'action heuristics' for people, bringing both meaning and direction to their activities (Salais 2009). We rely on 'mental models' to organise our perceptions and keep track of our memories (Mantzavinos 2004). Both CSR and Fair Trade contain a variety of ideas, representations of the world and ways of thinking about what ought to be done, which shape the thinking of those who are committed to them. And the commercial world, with its notions of the market, competition and profit,

imposes its own ideational structures. In considering practical commitments, and the rules and conventions that surround them, we cannot ignore the ideas that lie at one stage removed.

Ideas come and go as the world changes. The fourth level of commitment consists of the foundational principles on which our ideas and practices rest – inviolate, irreducible precepts whose roots can be traced back to enduring tenets of moral philosophy. These include the principles of human rights, of freedom and of justice that provide the bedrock of ethics. The principles, and the balance between them, can be disputed but they represent basic facets of the human condition that do not change over time. Sen recognises the plurality of these principles (Sen 2009) and Convention Theory categorises them into six ‘worlds’, without denying the possibility of others (Boltanski and Thévenot 1991). Actors may or may not recognise their commitment to principles. For some, such as FT activists, commitment to social justice is a *sine qua non*; their personal convictions about this drive their behaviour. Others, including many in the mainstream, might deny such attachments, preferring to justify their actions on actual performance, such as generation of employment and profit. But Convention Theory holds that all conventions (and, by implication, all actions) have moral roots, which can be traced back to an ‘economy of worth’. Principles grounded in the market world can therefore be seen as providing, for some, ultimate moral justification.

Within the panoply of all commitments, social commitments are those that can be traced back to principles of social justice whereas commercial ones relate back to market principles. The relationships between the two and among the four levels of commitment<sup>54</sup> are complex. For example, ethical trading and FT refer to the same principles (i.e. UN Declarations and ILO Conventions) but they involve very different ideas and rules. Before moving on to explore these complexities we first need to distinguish between personal and corporate commitment.

Although the literature mainly draws on studies of the attitudes and behaviour of individuals it is often assumed that corporate entities, such as business enterprises, act in a similar way. There is a rich source of empirical material about corporate commitment

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<sup>54</sup> A similar structure can be discerned in the CT literature, which also recognises four levels – worlds of justification, cognitive conventions, conventional rules and actual practices.

in the business literature. Whereas individuals do not necessarily articulate their commitments, businesses often do. Every corporate policy statement, objective and plan contains commitments, however vague, and managements are often required by stakeholders to spell out their intentions in detail. For example, investors require companies to set goals for growth in revenues and profit and unions demand personnel policies. Managers in turn insist that their subordinates commit to corporate targets.

Corporate commitments can therefore be viewed separately from the personal commitments of the individuals who form part of the organisation<sup>55</sup>. All employees are, in theory, expected to commit themselves to the company's goals because of the vital importance of effective coordination of effort in the corporate interest (Barnard 1938). However, Barnard goes on to state that the decisions that an individual makes as a member of an organisation are quite distinct from his personal decisions. Once having joined a company, a person is required to see situations, not in relation to his or her personal needs and outcomes but for their organisational purpose and effect.

Personal and corporate commitments are interrelated. When an individual joins a group or organisation, he or she 'identifies' with it by adopting particular behavioural patterns that are considered correct in that institutional context (Simon 1986). An organisation can be seen as a network of mutual obligations and expectations, shaped into a hierarchy of conventional rules, which include not just customs and operational rules but also the organisational roles carried out by each member.

However, the identification of individuals with the organisations they work for is rarely complete, giving rise to important differences within organisations (O'Reilly 1989). For example, the guiding beliefs of senior management, which tend to be based on 'what ought to be', often differ from the daily norms of those at lower levels, who are closer to 'the way things actually are'. O'Reilly describes the common occurrence of finding noble sounding statements of corporate values framed on office walls and very different and cynical interpretations of this creed held by people who have been around long enough to realise what is really important in the organisation. He postulates three stages

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<sup>55</sup> Commitments made by authorised executives, acting as representatives of a company, are clearly to be regarded as corporate commitments. The fact that, in some circumstances, the personal stance of an executive may differ from the one they are required to convey on behalf of their company is evidence of the clear difference that may exist between corporate and personal commitments.



in personal identification with organisations – compliance, identification and internalisation – which may be understood as representing different degrees of alignment of the individual to corporate commitments.

Although publicly-stated corporate commitments are usually dominated by commercial matters, leading companies in the North are increasingly putting some social commitments into the public arena, e.g. about their charitable activities and approach to corporate governance. Internally, social commitments form an important part of their policies and procedures, such as those on hiring staff and retirement benefits, and some of these are visible to outside observers.

Although more corporate social commitments are coming into the public domain, reservations have been expressed about the ‘quality’<sup>56</sup> of some of these commitments, especially those made in response to outside pressure. Critics suspect that fine declarations of intent do not always form part of the actual strategy of companies and that firms are often unwilling to pay for the costs of implementing them. However, there appear to be differences in practice among business enterprises. If companies have moral responsibilities, as implied by social realism and Convention Theory and as assumed by CSR and FT, it is not surprising to find that differences in ‘social conscience’ among businesses can be observed empirically (Goodpaster and Matthews 1982). Finding and explaining these differences is one of the main empirical aims of this thesis.

The central research questions can now be re-phrased in terms of commitment, which incorporates the effects of conventions, rules, convictions, business relationships and ideas of justice:

1. What are business enterprises actually committed to? Where commitments clash, which take priority? What overall balance do they strike between their commercial and social commitments?
2. What basic ideas and principles lie behind their commitments, especially when it comes to making choices between social and commercial priorities? To what

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<sup>56</sup> The complex issue of the ‘quality’ of a social commitment is explored empirically in section 8.3. Conceptually it can be seen as the likelihood that practical measures, with positive outcomes for workers, will result.

extent do these rest on their personal convictions and how much do they depend on pressures exerted on them from the outside?

3. What commitments are implied by ethical trading and FT and what difference do these initiatives make, in practice, to the way enterprises make decisions?

These questions will be explored empirically in Part C. Before doing this the various theoretical elements that form part of the approach are related in an analytical framework that will allow the relationships among them to be considered.

## **Chapter 6: Analytical framework**

Applying the concept of social commitment, and its associated range of theoretical concepts, to the empirical data requires a new set of analytical tools. My starting point is Grounded Theory, which insists on a focus on real events, in which actual commitments are made. The literature reviewed in the previous chapter has shown three situations in which this process may occur. First, strategic actors may attempt to determine the course of events by imposing their will on others. Second, commitments may emerge from a process of interactive coordination among actors facing problems or opportunities. And, third, distant actors may deliberately seek to shape actions by establishing rules or they may exert influence indirectly through conventions.

Thus the balancing of priorities and the formation of social commitments may take place in any of three ‘arenas’ – that of the individual subject, that of the group of people who are directly involved in tackling practical problems of coordination and that of external actors and of the wider society. These three arenas, which I have termed ‘subjective’, ‘interactive’ and ‘inter-subjective’, form the skeleton of the analytical framework that I have constructed. Analysis of the data will therefore involve studying what is going on within each arena and between them. The theoretical concepts identified in the previous chapter will be regarded as variables that are positioned within this basic structure.

The nature of the social commitments arising from each arena differs. Emanating directly from the subjective arena, following a conscious setting of priorities, a commitment can be regarded as ‘first order’ –i.e. the holder connects it with his/her principles or convictions and cares about its realisation. Commitments emerging from the interactive arena, on the other hand, may well have been ‘forced’ on an actor by circumstances or by pressure from other, more powerful, actors and may be purely practical, lacking personal investment on the part of the actor concerned. And the inter-subjective arena tends to generate commitments that are connected to rule-following and conformity to conventions.

All the elements in the framework that is laid out over the next six sections can be traced back to the literature but the precise way in which they have been put together, using social commitment as the unifying concept, is original. Although it represents the main theoretical finding of the thesis the framework is explained here, rather than after the empirical findings, in order to assist in an orderly and logical exposition of the flow of ideas. At this stage, the relationships among the variables may be regarded as hypotheses to be validated, refuted or refined by the empirical data to be presented later.

## **6.1 Responses to situations**

The first part of the framework focuses on the interactive arena, where actors coordinate their responses to situations<sup>57</sup> as they occur, within the particular context of the social environment in which they are located. The model (see Diagram 2) is a heuristic one (Simon 1986) in which those people who are capable of influencing outcomes (i.e. strategic actors) adapt their behaviour as they learn from experience and as the societal context alters in response to the flow of events and outcomes. This dynamic cycle, in which social commitments are shaped, may have consequences for passive actors<sup>58</sup>,

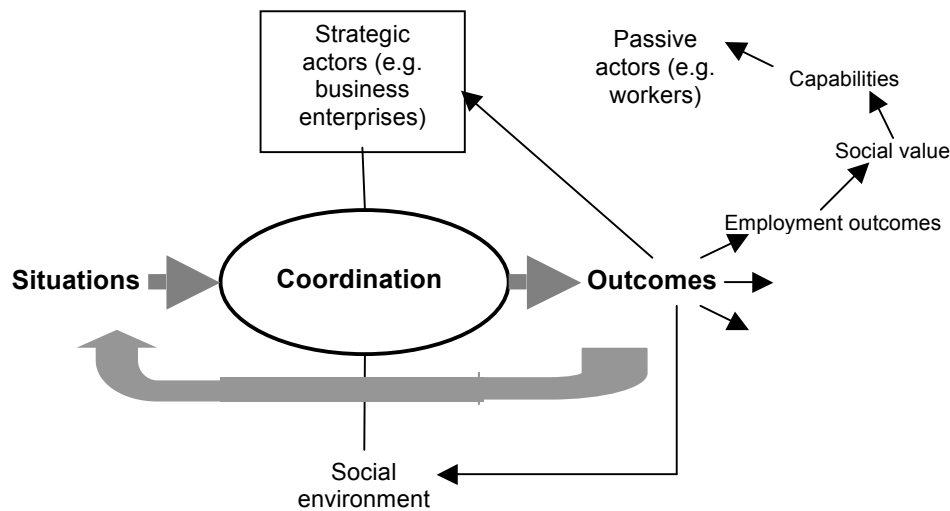
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<sup>57</sup> Situations may present themselves as problems (requiring action to resolve them), as opportunities (needing action to grasp them) or simply as events that occur and cannot be ignored. This study is most concerned with situations that lead to employment outcomes, such as the need to recruit or deploy people. Often clusters of related situations must be considered together, e.g. when a factory receives a large order and a raft of commercial as well as social situations are triggered.

<sup>58</sup> This is a particular problem in India, where much of the population is confined to passive agency, because of structural and cultural rigidities (Archer 2000).

such as workers who do not themselves actively participate in coordination, only being able to respond to outcomes as presented to them.

*Diagram 2: The cycle of events*



According to critical realism there is nothing pre-ordained about the outcomes that may emerge from interactive coordination. They are always subject to the discretion of strategic actors, to constraints coming from the social environment and to the interplay between the two<sup>59</sup>. They also depend on the particular nature of the situation and the way in which it is perceived, both of which may be altered by the outcome of a previous, related, situation. Change may be consensual or conflictual, depending on the balance in agency among the actors involved.

Empirical studies reveal two significant features of the interactive arena in textile and garment manufacturing: first, the profusion of situations that require coordination; and, second, regularities in outcomes<sup>60</sup>. The first is caused by the plethora of contracts and the complexity of their individual requirements and the latter by the existence of routines and habitual patterns of behaviour in dealing with them. The implication of these features is that the balance between commercial and social priorities is not something that is consciously aimed at – rather it is the result of a large number of

<sup>59</sup> Leading to ‘double morphogenesis’ (Archer 1995).

<sup>60</sup> The surveys listed in Appendix C give plentiful examples, both of the variety of situations and of regularities; further evidence will be presented in chapter 8.

incremental decisions, resulting from processes of coordination that rely heavily on conventions. A major empirical task will be the collection of a wide range of instances of such situations, processes of coordination and conventions.

Regularities may be consistent with deterministic theories, such as those viewing behaviour as gain-seeking or as socially constrained, in which change may occur by alterations in the preferences of individual actors or by shifts in the social environment. Repetitive patterns may also result from the complex iterations between actors, environment, situations and outcomes, as might be expected under critical realism. The framework keeps these alternative explanations open for empirical exploration. Whatever the drivers may be, social and other commitments are shown in this model as flowing to and from actors. When situations requiring a response crop up, strategic actors, in seeking to influence outcomes, bring their own commitments to the process of coordination. At the same time, the social context surrounding the events calls on the commitment of all actors to tackle the situation in a way that complies with social norms. Furthermore, the outcome of coordination commits certain actors to undertake specific tasks, with knock-on consequences for other actors, and adds to the accumulated ledger of societal norms.

## **6.2 Arenas of coordination**

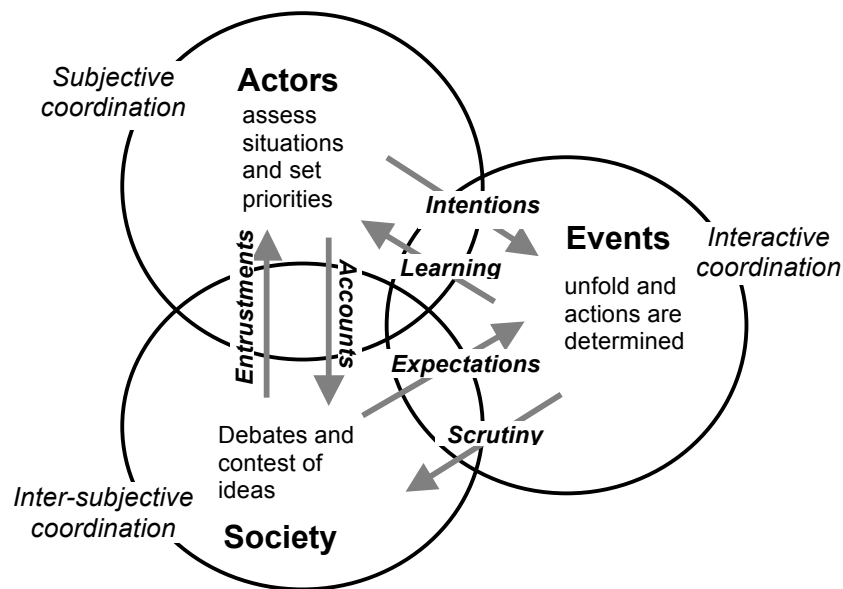
This section looks at the relationships between the interactive arena, the heart of the study, and the two other arenas. Whereas substantive outcomes are determined by interactive coordination, the subjective arena is where actors (individual or corporate) assess situations, reflect on their interests and options and establish their priorities. And outcomes are also heavily influenced by inter-subjective coordination, where societal norms are established and issues are debated. Social commitment is present in all three arenas and the concepts that explain it cross many disciplinary boundaries<sup>61</sup>.

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<sup>61</sup> There is an obvious correspondence between the three arenas and the disciplines of psychology, sociology and economics. However, it is not suggested here that these disciplines are, or should be, confined in this way. The arenas have the more limited analytical purpose of enabling the different forms of coordination (that lead to the establishment of priorities and commitments) to be distinguished.

Diagram 3 shows the two main processes that link the subjective and interactive arenas – intentions and learning. Actors bring their personal commitments, held subjectively, to actual events in the form of intentions, which they realise may have to be negotiated. For example, the ‘good intentions’ of some actors towards workers may be negated by the opposing interests of other, more influential, actors or by contradictory societal expectations. The emphasis in the interactive arena is on workability, achieving a result of some sort, even if compromises are needed (Batifoulrier and Thévenon 2001). Thus commitments to action that result from interactive coordination may diverge from an actor’s ingoing convictions or intentions. Feedback from the experience of coordination helps actors learn how to adapt their behaviour and commitments to particular circumstances.

*Diagram 3: Arenas of coordination*



The inter-subjective and interactive arenas are linked by the transfer of expectations and by the scrutiny of events (see Diagram 3). It has already been established that distant actors may exert important influence<sup>62</sup>. These may include members of the same social or business group, the local community, peers and society as a whole – any party whose

<sup>62</sup> This thesis regards everyone in a business enterprise who is part of the group that determines policies and plans and partakes in decision-making processes as ‘internal’ –i.e. they form part of the corporate entity. Their interactions, in which they play the roles assigned to them by the organisation, take place within the ‘subjective’ arena. The owner or manager of a company, therefore, is present in the process of interactive coordination as an important part of the active agency of the corporate actor, not as an actor exerting influence from a distance.

influence may be regarded by the actors as legitimate. Expectations may take the form of formal rules or informal conventions and, to be effective, need to be known to the actors –i.e. to have been transmitted. However, even if they are legitimate and have been transmitted, expectations may be ineffectual in the absence of scrutiny, since external parties will be unable to determine whether or not their expectations have been met.

The focus in the subjective arena is on the formation and re-formation of commitments<sup>63</sup>. This is therefore where first-order social commitments are held, alongside other commitments. Subjects (individual or corporate actors) reflect on their concerns and interests and prioritise them. They continuously receive feedback from the unceasing flow of events and, to the extent that they are affected by outcomes, they may learn from them. This feedback may lead to a change in their state of commitment, not necessarily in what they would ideally like to see happen but in what they can or should do when particular situations crop up (i.e. in their second-order commitments). In the case of corporate actors, such as companies, the process of reflection may involve discussions among executives and managers and may result in formalised statements, such as policies and procedures.

An important influence in the subjective arena, of particular relevance to strategic actors, is the role with which they have been entrusted by society and the associated responsibilities. Business enterprises, the main strategic actors in this study, have, under law and in the eyes of society, been assigned certain roles and responsibilities, such as safeguarding the financial assets under their care. These shape their first-order commitments –i.e. their most basic concerns and what they should do about them. In return companies may give accounts to society about how they have performed, e.g. in annual reports and financial statements. Where accounts are not formally required companies may themselves volunteer information in the form of ‘claims’ in order to encourage favourable opinions and to influence the societal debate in line with their

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<sup>63</sup> Matters of a psychological nature other than commitment formation take place within subjects but this thesis, which is about actions leading to tangible outcomes, is only concerned with the hopes, attitudes, opinions, feelings and inclinations of a subject towards a state of affairs or a course of action. The thesis understands this intentional state of mind as ‘commitment’.

interests. Claims form a major part of the accounts that businesses offer society about their social priorities, commitments and performance<sup>64</sup>.

Inter-subjective coordination in the societal arena is dominated by debate, with the supposed purpose of gaining agreement on the division of roles and responsibilities and the conveying of expectations. However, debates about the social responsibilities of business are characterised by a chronic state of unresolved differences<sup>65</sup>, with the result that any agreements reached are always open to critique. The expectations expressed towards the interactive arena are frequently mixed and the signals given regarding actors' 'entrustments' may also be confused. Furthermore, the actors involved in interactive coordination, who themselves form part of society and have their own personal views, may be inclined to interpret the messages coming from society according to their own particular circumstances.

The interplays among the three arenas are complex and are further complicated by the fact that processes of coordination may take place concurrently. During an interactive negotiation between a buyer and a supplier on the terms of an order, for example, the two parties may attempt to determine a practical outcome to which both can be committed, with knock-on consequences for employment outcomes (though these may not form part of the negotiation). At the same time, they may debate, in the inter-subjective arena, supply policies and perhaps critique the way orders are handled in general. While this is going on the actors will all be subjectively assessing their own commitments and adjusting their priorities.

The framework suggests that 'fair' outcomes depend on a healthy balance both within and between all three arenas of coordination. This raises empirical questions about how, in practice, social expectations are expressed and understood, about participation in interactive coordination and about the processes by which business enterprises learn to resolve tensions between social and commercial priorities.

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<sup>64</sup> Formal social reports, which move beyond claims, are evolving but they are still in their infancy.

<sup>65</sup> See section 2.4.



### 6.3 Social commitments in the business enterprise

The third part of the framework focuses on the subjective arena, where the commitments of the business enterprise, the lead actor<sup>66</sup> in determining outcomes for workers, are formed. It is concerned with the place of social commitments within the context of the business as a whole, with how the commitments of the enterprise are coordinated with those of other strategic actors and with the way in which expectations signalled by distant actors are interpreted and evaluated.

*Diagram 4: Coordination of commitments in the business enterprise*

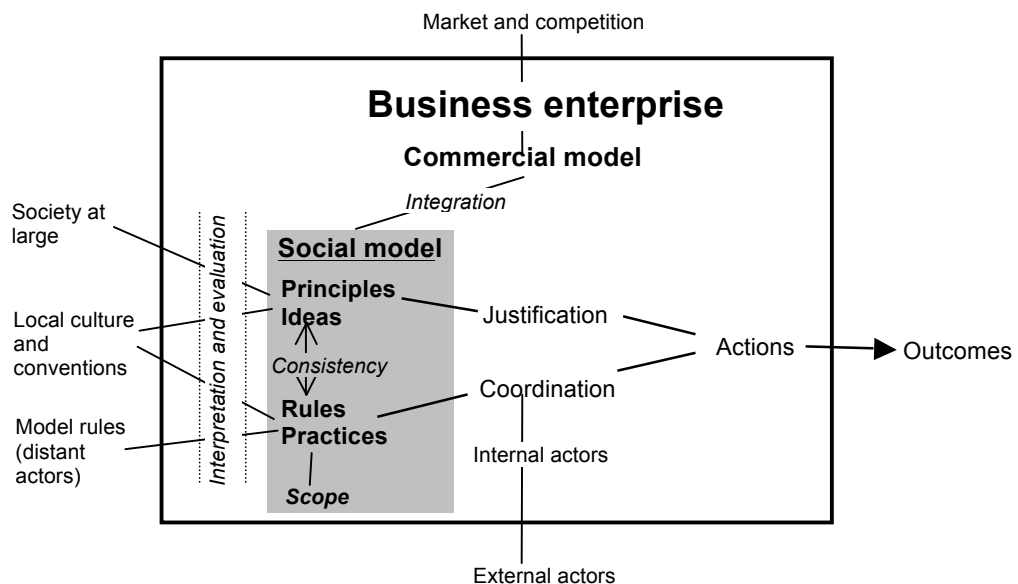


Diagram 4 positions the four levels of social commitment (outlined in section 5.6) as part of the social model of the enterprise (see section 2.5), which in turn forms part of a larger business model, including the commercial model. Alongside the social commitments are resources and constraints, which are summed up in the notion of scope (see sections 5.3 and 5.4), the real or perceived freedom of manoeuvre the enterprise has in determining its social priorities.

<sup>66</sup> The concept of the 'lead actor' is a development of the notion of the strategic actor and applies, in situations that directly determine employment outcomes, to the main contractor, who employs the most workers involved in manufacturing or sets the conditions for other manufacturing organisations. It is a parallel concept to that of the 'lead firm' in GVC analysis and indicates the corporate actor that has the greatest agency in determining worker outcomes.

Situations requiring coordination with other actors, such as buyers, suppliers and unions, may be framed as commercial issues or as social issues, though generally both types of consideration will be present. Agreed actions may be justified (internally) by reference to one or more of the ‘worlds’ (see section 5.1), such as the prospect of profit (market justification) or maintenance of a relationship with a key business partner (domestic justification). This internal feedback loop refines the state of commitment, adding to or influencing the list of practical actions. As events ceaselessly play out a gap may appear between the principles and ideas that constitute the approved narrative of the enterprise’s social commitments and the more concrete commitments to the rules and routines that guide its day-to-day actions, which may be heavily influenced by commercial factors. This may create tensions between social and commercial priorities, as noted earlier (e.g. section 2.4).

Empirical exploration of these tensions will include looking at the consistency, within the enterprise, of the different levels of social commitment, the links between the social and commercial models and the basis on which actions are justified. I will also examine the ways in which enterprises interpret and evaluate the various sources of expectations coming from the outside.

## **6.4 Channels and mechanisms**

The process of inter-subjective coordination in society is too broad a topic for this thesis to tackle. This section will therefore focus on the relationship between the inter-subjective and interactive arenas – the main channels and mechanisms for the transmission of expectations to actors and the return of information through the process of scrutiny. Business enterprises, the lead actors, do not operate in isolation but are embedded in value chains. They are therefore subject to ‘vertical’ pressures, on commercial and social matters, from their business partners, especially those exercising governance as lead firms, as well as to ‘horizontal’ pressures from other actors that may affect their social commitments.

Diagram 5: Channels for transfer of expectations and scrutiny

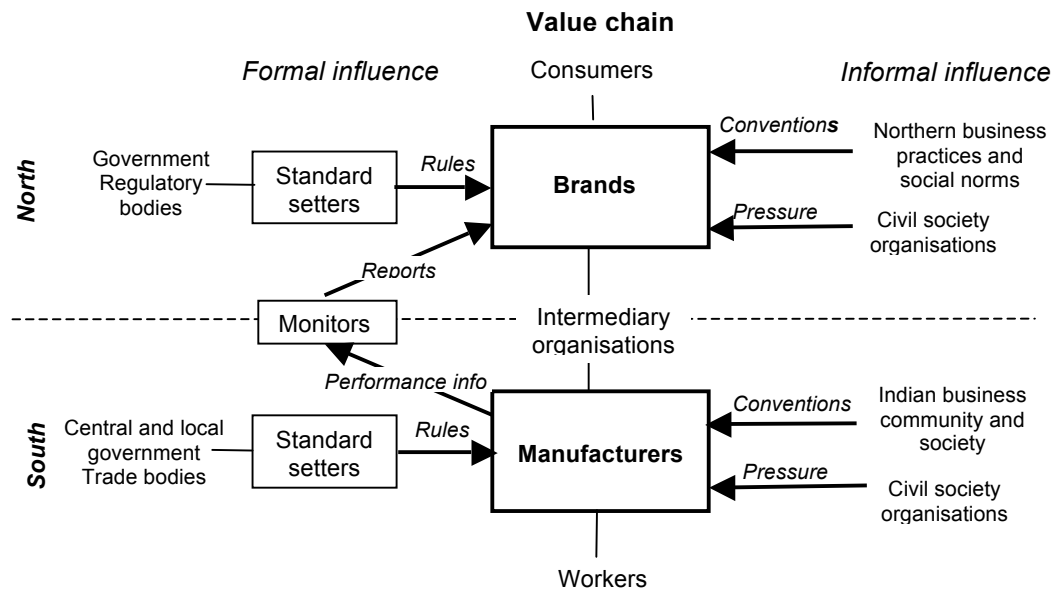


Diagram 5 presents a highly simplified picture<sup>67</sup> of a global value chain, with two principal levels of strategic actor, northern brands and southern manufacturers; two other types of actor exerting formal influence, standard-setters and monitors; two sources of legitimacy, governments and trade/regulatory bodies; and three generic groups in the social environment, civil society organisations, business communities and social/cultural communities, which may exert informal pressure. The connecting lines show possible channels for the transmission of expectations in the form of social commitment and for the feeding back of information.

Three main transmission channels may be found in vertical relationships: first, demand from customers, through which the social commitment of the public may be conveyed via market mechanisms; second, governance related to social requirements that is exercised by brands on their suppliers, which may sometimes be channelled through intermediaries; and, third, relationships with workers, which may work in either direction – by their participation in priority-setting or through the imposition of priorities on them by coercive means. The horizontal links illustrate four types of channel: first, those conveying formal rules, originating, for example, from legal

<sup>67</sup> The model is illustrative only. Other sources of commitment and influence may exist, the routes may be more complicated (e.g. intermediate organisations between brand and supplier), multiple mechanisms may exist for each relationship and there may be more feedback loops.

requirements or from self-regulation initiatives; second, conventions emanating from society generally; third, pressure from campaigning organisations; and, fourth, compliance information and performance data passing back to monitors and to other actors, such as consultants.

In this conceptualisation, social commitment may originate in any part of the system, for example stemming from the manufacturer, such as a social enterprise, or from a brand with social values. Alternatively, it may come from ethical consumers, from regulatory bodies or as a result of pressure from society. The question for empirical investigation is not just where it starts but how the expectations arising from the various sources of commitment are conveyed from their inception to delivery in the form of social value to workers and how information is conveyed back through the process of scrutiny. At each stage in the transmission process, expectations are subject to interpretation and potential alteration. The number of stages of commitment transfer is therefore an issue, as well as the factors that may work to dilute or distort the intentions of the originator, thereby tipping the balance of priorities.

## **6.5 Ethical trading**

The general framework outlined in the previous four sections can be applied to particular contexts, such as business systems that adopt ethical trading. It is not clear from the literature what actual impact these rules-based initiatives, instituted in strongly commercially-driven environments, have on the real social commitment of the main actors, on business models and on processes of coordination and balancing of priorities. Before examining the empirical data about these questions, we can use the framework to analyse the 3-step process of how ethical trading is supposed to work.

First, social standards are established in the inter-subjective arena, mainly in MSIs, to which participant brands<sup>68</sup> commit. Second, brands communicate standards and procedures to their suppliers as a condition of doing business. And, third, suppliers are

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<sup>68</sup> The term brands incorporates retailers who have their own brands and buy from manufacturers.

subject to monitoring to see that they are complying with the standards – i.e. that they meet the commitments they have entered into.

*Diagram 6: Ethical trading*

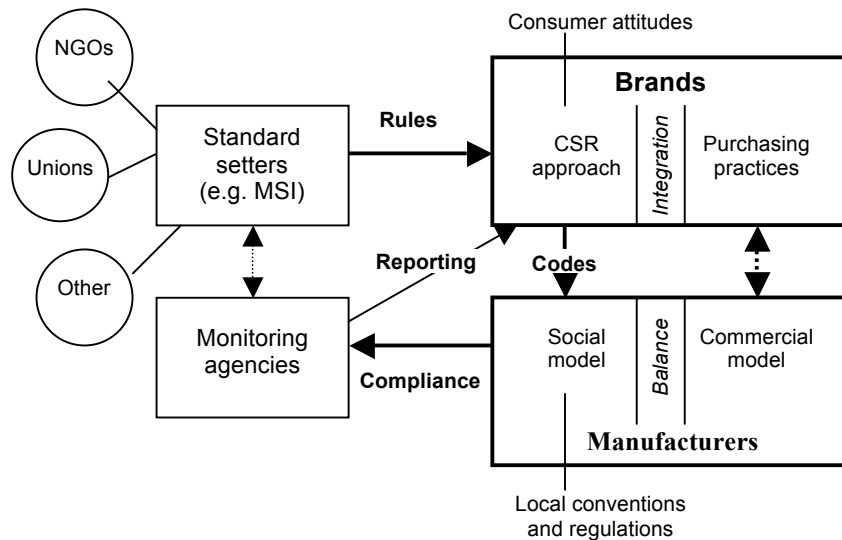


Diagram 6 does not include all activities carried out under the banner of ethical trading but it does show the essential elements, from a commitment standpoint. Stakeholders debate and agree, in a semi-public forum, a set of rules, which represent the expectations of society regarding the terms and conditions under which workers should be employed in value chains. These rules are adopted by business enterprises that are assumed to have the power to ensure that they are implemented by their suppliers. A compliance system, including visits by inspectors, is put in place to scrutinise actual practice and feed back information about performance.

This part of the framework focuses attention on a number of issues: the articulation and transmission of the rules, the ability of the actors involved to implement them and the effectiveness of the compliance system. However, it raises more fundamental questions, such as the extent to which enterprises integrate the social requirements with their day-to-day operational and commercial practices and thereby establish value chain conventions that balance social and commercial priorities.

## 6.6 Fair Trade

Some of the same processes – standards, transmission and compliance – are to be found in Fair Trade but these have a subordinate place, in the literature, to more fundamental structural features. The first of these is the formation of principles in the public arena, the second is the foundation of social enterprises, i.e. local FT organisations (Hayes 2006), and the third is the creation of value chains that link producers with consumers. Each of these elements relies on the others, although there are tensions among them resulting from the different circumstances within which each operates.

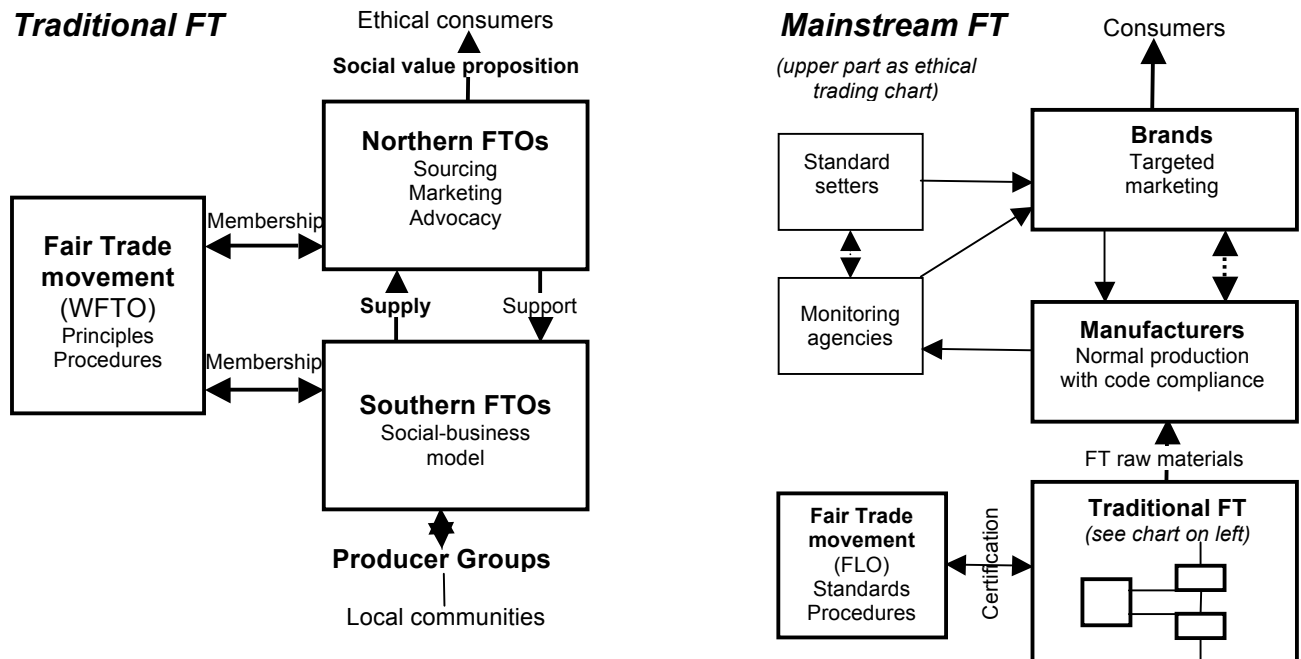
The principles that provide the first structural feature are expressed by FT advocacy in the inter-subjective arena. They are concerned with arguments drawn from the civic world, such as the rights of workers and producers to enjoy decent livelihoods, and are directed against commercial interests, which derive their legitimacy from the market and industrial worlds. The incompatibility of these worlds<sup>69</sup> means that the struggle for public approval is carried out in the world of fame. Fair Trade campaigners seek to injure the reputation of companies and brands by publishing damaging information about the results of their commercial activities and mainstream companies respond by making claims about their ethical credentials.

The second and third structural elements, social enterprises and value chains, both operate in the subjective and interactive arenas and take the concrete form of trading operations, of which there are two main types – traditional and mainstream (see section 3.1). In traditional trading Southern FTOs play a central role, supporting producer groups and providing them with access to the market. These are classic social enterprises, with a mixture of social and commercial priorities embedded in their business models. As Diagram 7 shows, their links to Northern FTOs, which market to consumers, are crucial and are cemented by common subscription to the FT movement. The process works from the bottom up, with social value being created in the local communities in which producers work and then transmitted upwards through the value chain to the consumer.

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<sup>69</sup> Incompatibility arises because the worlds employ different objects and tests, which, although potentially subject to compromise, can never be entirely reconciled (Boltanski and Thévenot 2006).

Diagram 7: Fair Trade



The process for mainstream FT is a combination, with variations, of traditional FT and ethical trading. The FLO provides overall governance, using standards and compliance procedures, for the production of the FT raw materials (agricultural crops) and these are supplied to mainstream companies, working under ethical trading conditions, for conversion into finished products and distribution by brands and retailers, typically in supermarkets. Goods carry the Fairtrade mark on their packaging. In the case of clothing made with FT cotton, the mark is limited to the cotton and does not apply to the whole garment.

Social commitment in Fair Trade is founded on the principles adopted by the FT movement as a whole<sup>70</sup>, which are shared by the two main central bodies, WFTO and FLO, and in the three types of operation<sup>71</sup>. It relies on the shared personal commitment of those engaged in Fair Trade (Watson 2001). Commitment is transferred, as in ethical trading, but in the reverse direction, from the producer to the consumer, and using

<sup>70</sup> 'Fair Trade ... aims to be consistent at the level of principles and values but flexible at the level of implementation' (WFTO 2010).

<sup>71</sup> There are many points of difference within the movement –see section 3.3 – but these are mainly about approaches to implementation, rather than about the principles themselves.

different methods<sup>72</sup>. This is the theory of how FT is meant to work. Empirical investigation will attempt to detect whether these distinctive features exist and to assess their implications for the balancing of priorities.

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### **Summary of Part B**

The three chapters of Part B describe the theoretical contribution this thesis makes to the literature. Chapter 4 outlines the use of Grounded Theory, applied for the first time to development studies, which has allowed the novel concept of social commitment, as a way of understanding how actors tackle real situations and events, to emerge. Chapter 5 forges links between social commitment and five separate bodies of literature – on conventions, regulation and rules, agency, global value chains and social justice. Each of these literatures provides some, but not all, of the perspectives needed to tackle the central research question. Together they have much greater explanatory power, since the different facets of the complex behaviours each deals with have their place in a more complete and powerful synthesis. Chapter 6 relates the key concepts from these disparate literatures into a coherent analytical framework, which provides the tools for empirical investigation of the key issues that were identified in Part A. In sum the approach provides an original, broadly-based and multi-disciplinary approach to understanding the tensions between commercial and social priorities, reflecting their very different underlying values and conceptions.

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<sup>72</sup> ‘Effective compliance requires genuine commitment ... not just through what an organisations does, but also why and how they do it’ (WFTO 2010).



## **PART C – FINDINGS**

In reviewing the commercial and social context we saw, in Part A, that the Indian textile and garment industry is rapidly developing while, at the same time, conditions for many workers remain poor, despite efforts to introduce basic labour standards and improve practices. Part B laid out the approach I am taking to discover what lies behind this unbalanced state of affairs and to explore the complex issues that arise when social and commercial priorities pull in different directions. The remainder of this thesis examines the empirical evidence and draws conclusions, which, under Grounded Theory, emerge from careful analysis of the data rather than from testing pre-determined hypotheses.

Chapter 7 lays out the empirical data, mostly at enterprise level, on which the following chapters are based. Taking the overall methodological approach described in chapter 4 as a starting point, it describes the research methods in more detail. The following three chapters present the findings of the empirical research, together with a summary, section by section, of their implications. Each chapter focuses on one of the three lines of enquiry that were posed in the Introduction. The sections and sub-sections further divide the analytical issues, which are closely inter-connected. The explanation of how social and commercial priorities are balanced therefore develops progressively over the course of the three chapters. Selected references from the literature are given when they are helpful to progress the argument or add empirical support. The final chapter summarises the main conclusions.

### **Chapter 7: Research methods and data**

Selected empirical surveys carried out by other researchers have already been quoted (in all three chapters of Part A) and these have influenced the framing of the research issues. These will continue to be used as a secondary source of data, where appropriate, but the main body of evidence in this part of the thesis is provided by the interviews I conducted, mainly in India, with business enterprises and with other respondents.

Before starting to analyse the data and develop conclusions I describe, in this chapter, the companies and organisations I visited and how I went about acquiring information from them.

Grounded Theory (GT) was introduced in chapter 4. It lays great stress on data and emphasises that the validity of conclusions greatly depends on their quality. This chapter explains, in detail, the research methods and their implications for the data. It reviews the main sources, how the sample of respondent enterprises was selected and how I analysed the data in order to generate conclusions.

## **7.1 Sources of data**

The thesis relies on two main sources of primary data – enterprise case profiles and interviews with respondents unconnected with individual enterprises – and one main source of secondary data – surveys. Each of these sources has made an important contribution to my understanding, and thus to the conclusions, but all suffer from some inherent limitations. Wherever possible, I have used the three sources in combination. In other words I have attempted to support specific findings with evidence drawn not only from cases but also from other interviews and from surveys. Where I have found inconsistencies among these sources I have tried to understand the reasons. On the whole, I did not find major variations in the actual situations being described; differences arose either from divergent perspectives or interpretations or from variations in the populations to which observations applied. Disentangling these differences often shed valuable light on the issues.

### **Case profiles**

I visited a total of 56 separate enterprises that yielded grounded data:

- 18 were mainstream Indian garment manufacturers, including suppliers both to domestic and export markets, in a variety of sectors;
- 16 were mainstream brands/retailers, of which 6 were Indian, 4 British, 4 American and 2 European; and

- 22 were social enterprises, of which 12 were FT organisations (of which 4 UK-based), 8 craft groups and two farming projects supplying FT cotton.

The full list of cases, with a brief description of each, is in Appendix A. The Indian cases were spread throughout the country and ranged from large-scale, modern factories geared to volume production for exports to small firms, operating in the informal sector and supplying the domestic market. The amount and depth of data varied from case to case. In 21 cases it was fairly limited, because of restricted interviewing time and/or the reluctance of respondents to provide information that went beyond the official company line. Nevertheless I obtained enough basic information about these cases (which comprised 11 brands, 4 mainstream manufacturers and 6 social enterprises) to allow them to be incorporated in some analyses.

The remaining 35 cases yielded ‘rich’ data, enabling me to make connections between some of the key variables (e.g. normative codes and actual labour practices). Five of the 35 cases were selected for in-depth study of the processes by which enterprises make their social commitments, each case representing a different stance towards social commitment and the balancing of social with commercial priorities:

Case A: a dynamic new entrant to mainstream garment export manufacturing, part of an industrial group, strongly commercially-driven but now tackling problems of social compliance. Senior management is committed to introducing better employment practices but faces the need to make cultural changes throughout the organisation (case ref MP09).

Case B: a large privately-owned mainstream garment manufacturer, which has already made a considerable commitment to complying with codes of conduct and now has SA8000 certification<sup>73</sup>. It is generally regarded as a leader in good social practices in the export garment sector as well as being very successful commercially (ref MP13).

Case C: A hybrid social-commercial enterprise that markets hand-made textile products and clothing through its own retail outlets. It plans to expand rapidly (adding 150 new

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<sup>73</sup> SA8000 is the present ‘gold standard’ of social certification, requiring considerable investment in procedures and disclosure. It only applies to part of this company’s operations.

stores to the 58 it has currently) while radically restructuring its supply chain, allowing more freedom and opportunities for its craft producers (ref SB01).

Case D: A traditional FT umbrella organisation, with around 70 producer groups involving over 3,000 artisans, making a wide range of craft products; now entering the mainstream market in India, principally through its own shops (ref SI02).

Case E: A Fair Trade and organic cotton farming project, selling to niche and mainstream markets, now expanding rapidly following introduction of the FT cotton label. It has long experience of resolving social and commercial priorities in an agricultural context. Its own brand links farmers to consumers (ref SP14).

All five companies have undergone significant changes during the past few years and are facing challenges both in the market place and in terms of social responsibility. In each case I was able to piece together a picture of recent events and the various ways in which social and commercial factors came into play. I examined documentary evidence, which was extensive in cases C, D and E. I made repeated visits to D and E, interviewing a range of people and visiting different locations. In A and B time was more limited but I was able to read some internal papers relating to their social compliance systems.

Notable among other cases that provided rich data about social as well as commercial priorities are: a major supplier to a northern ethical brand that has established and funded community projects (MP07); a domestic supplier, part of an industrial group, that has encouraged worker participation and provided extensive health facilities (MP10); a rapidly expanding exporter that has given serious attention to the care, induction and training of new employees (MP18); a manufacturer set up to replicate European standards, with an all-permanent workforce and enhanced benefits (MP08); a highly-integrated FT producer group with extensive social provision (SP05); and an organic farming project set up to be run by the farmers themselves (SP15). These six enterprises, together with the five in-depth cases, provide most of the material that illustrates the various dilemmas of social commitment.

Taken together, the cases provide data that show the various ways in which the contest between social and commercial priorities plays out in different circumstances and point to some of the dynamics and constraints at enterprise level. Their main limitation, in the absence of corroborating evidence from other sources, arises from the amount of embedded ‘spin’ in the comments of respondents, which is an inherent problem in all corporate data<sup>74</sup>.

### **Interviews**

In addition to carrying out interviews at the 56 enterprises I visited, I also obtained data by interviewing 44 other respondents in India, listed in Appendix B. They included trade associations, representing thousands of mainstream textile and garment companies, governmental agencies, local representatives of international organisations, NGOs and activists, consultants and academics, as well as related businesses, and reflect a great diversity of views and perspectives on the priorities facing the industry. My interviews were nearly all at a senior level and I was able to ask broad, open-ended questions about labour practices and their underlying causes and about the social and commercial pressures facing the industry. In some cases I was able to test my conclusions and identify areas for further investigation.

As part of the project commissioned by IFAT (see section 4.2.2) my co-researcher and I also carried out 23 interviews in the UK and in mainland Europe, which contributed additional insights into the research issues<sup>75</sup>. I personally interviewed mainstream and ‘ethical’ brands and retailers, both in the UK and on the continent, as well as a range of Northern-based FT organisations, including those marketing FT cotton clothing (FTF in the UK, Magasins du Monde in Belgium and Max Havelaar in France) and labelling/certification bodies (FLO and IFOAM, both in Germany). We were also able to tap into the resources of independent research and campaigning organisations, such as the Pesticide Action Network, for expert information on environmental and social conditions in the industry.

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<sup>74</sup> Spin, or the preponderance of properline data, was found to be endemic in the mainstream, especially among firms subject to codes of conduct, but less prevalent among social enterprises.

<sup>75</sup> We obtained agreement from all respondents that the information would, on a confidential basis, be included in my doctoral research.

These interviews provided valuable context and enabled me to cross-check evidence I received from brands and manufacturers. Many respondents had lengthy experience of the social and commercial issues and were less driven by the need to convey the ‘correct’ story. The data I obtained from them countered the properline nature of that coming from cases but it did suffer, to varying extents, from problems of interpretation. I was receiving information second hand, with the attendant risks of distortion, conscious or unconscious, and I had to be fully aware of the perspectives and interests of each respondent. The data were also, especially in the North, less specific than the case data.

### **Surveys**

As a source of secondary data I drew on fifteen large-scale empirical studies carried out by other researchers into various aspects of worker and producer livelihoods (see list in Appendix C). In line with GT I took care, as I analysed the evidence, to distinguish the grounded data from the interpretations put on the evidence by the researchers.

Although the surveys were carried out, or supported by, a wide range of organisations, including the World Bank, campaigning NGOs, private sector companies, consultants and academics, the raw evidence they provide is remarkably consistent. The diagnoses, conclusions and recommendations for action vary according to the terms of reference and orientation of the research but I found few significant discrepancies in the actual evidence. And most of the differences can be explained by variations in sampling or in research methods. Some surveys include detailed accounts of the condition of workers and producers in textile and garment factories and workshops, carried out by teams of researchers much more thoroughly than I could possibly have done on my own (e.g. Ascoly and Finney 2006; Hale and Wills 2005; and Kizhisseri and John 2006). Other surveys concentrate on the behaviour of companies (e.g. Hurst et al 2005; Jorgensen et al 2003; and Mamic 2003) and I have been able to compare their data with my own findings.

The value of the survey data is twofold. First, to extend the boundaries of investigation and analysis (e.g. into actual working conditions); and, second, to provide a further check on the data obtained from my own interviews. None of the selected surveys was commissioned to present a corporate viewpoint and the data do not therefore suffer from

problems of spin. However, they are potentially subject to interpretative bias and, to counter this, I have borne in mind the terms of reference and particular perspectives of each survey.

### **Database**

The key points from the entire range of sources are held on a database I designed for the purpose in Access (see Appendix D). The substantive points are summarised as ‘statements’, ranging from a couple of sentences to 500 words or more, to which up to 6 codes are attached. In this way I have been able to carry out line-by-line analysis, in line with Grounded Theory, and compare evidence from primary and secondary sources on the same issues. By the end of the study I had accumulated a total of 766 statements, classified under 297 different codes. In addition to this, I had prepared 56 case notes, some fairly extensive, in which the evidence about each case is interpreted and related to the theoretical categories, and over 180 memos, which contain more discursive analyses and development of ideas for further investigation.

## **7.2 Nature and quality of data**

The sensitivity of the research questions and the wide range of informants made me constantly aware of data quality issues. Enterprises might have reasons to try and mislead me about their labour practices, some respondents clearly had their own agendas<sup>76</sup> and the surveys were tailored to a variety of different research interests. I had to face the reality that some of the data were ‘properline’ or ‘interpreted’, rather than ‘baseline’ (see section 4.1), making it important to be aware of their context. I therefore made comments about the circumstances, and their implications for data quality, alongside the statements I recorded on the database and in the case notes.

My approach to interviewing was conditioned by the need to obtain grounded data uncontaminated by subjective evaluation, or, where this was impossible, to discover the basis on which evaluative judgements were being made. Although often arranged

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<sup>76</sup> For example, social compliance officers, the main respondents in larger mainstream companies, were anxious to present social practices in the best light. The owners and general managers in medium-sized and smaller companies were generally more open but wary of revealing too much.

through an intermediary I insisted on carrying out all interviews alone. I often adopted an indirect approach, especially in the mainstream. Having explained the nature of my research and given assurances about confidentiality<sup>77</sup> my first objective was to get respondents to start talking easily about a subject with which they felt comfortable, such as current business challenges. I would then ask a manufacturer, for example, to tell me about the most important workforce-related issues they had faced recently or, alternatively, the main current challenges. Typical examples were expansion or contraction of production facilities, relocation of premises, recruitment and retention problems, wage and employment policies and the introduction of codes of conduct<sup>78</sup>. I questioned them about how they went about tackling specific situations or problems and what effects their actions had on workers. I quizzed them about the choices they made, about the main factors that led them to their decisions and what they considered to be the most important aspects of the situation for workers. In this way I was able to construct a picture of what their priorities were and how they balanced conflicting factors (e.g. remaining competitive vs. providing better working conditions).

In line with GT, I did not allow note-taking to interrupt interviews, just jotting down sufficient notes at the time to enable me to recall the substance of the points later. Without fail I expanded on these notes immediately after the end of each interview, while my memory was fresh, in hand-written additions in my notebook. At this stage I also added notes to myself about data quality and comparisons with other sources, e.g. confirming previous findings or indicating differences that required further investigation. As soon as was practicable, usually a few days later, when I had time to process a batch, I transcribed the main points from each interview onto the computer database and coded the statements.

Data from interviews were supplemented by personal observation. The way in which questions were answered, or evaded, provided hints about the confidence I could place

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<sup>77</sup> I showed every respondent a statement of the research objectives and asked them to sign a confidentiality document – see Appendix E.

<sup>78</sup> The choice of issues was not pre-determined but made by the respondents themselves. What they considered important was as interesting as the reasons they gave for their decisions. I explored my analytic categories, such as code compliance, scrutiny and social priorities, by asking supplementary questions. I kept the questions open ended (e.g. was there anything else that influenced you when you decided to move the factory?) for as long as possible, rather than suggesting specific considerations (e.g. redundancies), too early.



in what I was being told. I was able to tour the facilities of virtually all the Indian enterprises I visited and, in a few cases, was allowed to question people as I went round. These limited opportunities were valuable in confirming, or raising doubts about, the accounts I had been given in the office. Some companies had their own web sites, which gave an idea of their commercial priorities and the image they wished to project to the outside world. In a few cases I had access to reports or independent research carried out by others.

Wherever possible, I sought to acquire baseline data, which supplied a sound basis for drawing conclusions without the need to adjust for bias or distortion. But, in the murky world of mainstream labour practices, this was not always possible and I sometimes had to rely on an accumulation of properline and interpreted data, from various sources, which I pieced together to build a picture of ‘what was going on’. The greater openness of social enterprises to outside scrutiny made the task much easier than in the mainstream and I was able to obtain a richer proportion of baseline data from FT and craft organisations.

### 7.3 Sampling

I visited virtually all the Indian FTOs that have a significant amount of activity in textiles and garments<sup>79</sup>, yielding a fairly complete sample of enterprises in this sector, together with a sprinkling of craft groups. The main problems of sampling, and the related issues of access, were found in the mainstream. There are many tens of thousands of garment manufacturers in India and a still larger number of suppliers and sub-contractors. I faced the challenge of choosing where to concentrate my search, of selecting individual enterprises to visit and of gaining entry.

In GT the goal is not a statistically representative sample, which would result in explanations that are valid only for the weightiest mass in the population. Nor is it based on quotas, based on pre-determined criteria. The sampling objective is to maximise diversity, in order to discover explanations that work across a variety of situations and

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<sup>79</sup> In some cases these were umbrella FT organisations (see section 3.2) from which I obtained information about producer groups for which they provided market access.

to identify the conditions that give rise to variations. Using the principle of theoretical sampling (see section 4.1) the selection of cases evolves during the course of empirical investigation, according to the researcher's developing understanding of the issues. Thus, having got sufficient data to make sense of what is happening in one type of company (e.g. small suppliers to the domestic market) GT encourages moving on to other types (e.g. larger companies serving export markets) in order to identify similarities and differences in the data.

From my first trip to India (see section 4.2.1) I knew that the differentiating factors for social commitment would include size of operation, market, value chain governance and geographical location and I made sure that my sample reflected these variables. I also realised that I needed help in gaining access to particular types of company. I therefore enlisted the help of intermediaries to help make the arrangements (see section 4.2.2). As I travelled round the country I asked them to provide introductions to companies based on specific criteria, such as those listed above and others that emerged during the course of research (such as ownership and nature of the main trading relationships). I made my visits unaccompanied<sup>80</sup> and was not constrained in any way because I had used intermediaries to make the appointments.

The range of enterprises (see Appendix A) that resulted from this process of theoretical sampling is extremely diverse, yet there are enough companies of each main type to provide sufficient data to support conclusions. It does not claim to be statistically representative of the industry as a whole. For example I visited less than 0.1% of all firms in the informal sector but a much higher percentage of export manufacturers with a good reputation for social responsibility. However, the sample is representative of the diversity of the industry, in all its different forms. In order to safeguard against personal bias in selection I regularly reviewed the categories of company and the criteria I was using with experienced practitioners.

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<sup>80</sup> To all except two very small mainstream enterprises, in which I was accompanied by a local official of the Textiles Commission, who acted as translator, and one producer group, where a FTO staff member was present.

## 7.4 Analysis

GT employs mainly inductive reasoning to develop conclusions from data, in a two-step process. First, patterns (embodied as codes and categories – see section 4.1) are discerned in the raw data (captured, in this study, as ‘statements’ – see section 7.1 above). Then, explanations are derived by considering the relationships among codes and categories. Both these steps were complicated, in this study, by the extensive use of indirect methods of questioning and by the variety of sources. Where baseline data were unavailable I had to make inferences based on a selection of properline and interpreted statements. However, I had access to the work of other researchers (through the surveys) and could check my conclusions with other interviewees (see 7.1 above), which included suppliers, trade associations, advisory bodies, government agencies, private sector consultants, activists and critics.

The basic principles I used when analysing the data were: first, to consider whether there were sufficient indicators among the statements<sup>81</sup> to support a particular conclusion; second, to assess whether the case data were consistent with those from surveys and other interviews; and, third, to look for contra-indications. In some cases, variations in the data and contra-indicators could be explained by differences in circumstances, which, when explored further, could allow the original conclusion to stand, but within certain limits. All the conclusions reached in the following chapters meet these criteria of data sufficiency and consistency. However, because the research constantly evolved, driven by theoretical sampling, it is sometimes difficult to provide precise statistical support to conclusions (e.g. the numbers of cases in which certain features were found). Statements in tables typically summarise individual items of data that are drawn from a variety of sources. In illustrating my findings I generally use case studies, because they contain the richest detail, but they are invariably supported by other sources, i.e. respondents outside enterprises and/or the literature.

The validity of conclusions under GT is measured by four criteria: fit, relevance, workability and modifiability. They cannot be considered in isolation but need to be seen as an integrated whole. The test is whether the explanation as a whole (i.e. the

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<sup>81</sup> In general, when I found, after five interviews with different companies, I was getting essentially the same response to a question, I would regard the data as ‘saturated’ and move on to explore other topics.

assembly of codes, categories and relationships among them) is convincing and adequately supported by the empirical evidence. In the following pages the analysis is therefore presented progressively, with the argument resting not just on its individual parts but also on the way in which the whole forms a coherent and integrated narrative.

## **Chapter 8: Balances**

The first line of enquiry (see Introduction) focuses on the actual balances that exist in business enterprises between commercial and social priorities and how these vary. It asks questions about the dominant rules and conventions that apply in different types of enterprise and about the nature of their social and commercial commitments. In pursuing these questions, this chapter analyses the available data about the core commitments, most closely tied to their business models, that shape the decisions that companies make when they have choices to consider and it seeks to understand which rules, conventions and commitments take precedence. It focuses mainly on what is happening, rather than on why, and it uses evidence from a wide range of cases and situations to gauge the variety of forms of social commitment.

The chapter is divided into four sections. The first highlights the central role played by commitments in guiding the actions of organisations and thus in determining outcomes. Stated social commitments cannot always be taken at face value since they may be outranked by commercial commitments that lie closer to the heart of the business model. The second section lays out the great variety of objects of commitment found empirically and the third section tackles the question of how strong and stable they really are. Together these two sections demonstrate the enormous array of possible ‘states of commitment’, states that are constantly evolving as businesses respond to opportunities and threats in their environment. In the final part regularities are identified, general patterns of behaviour that are found in groups of companies, and also variations in these patterns.

## 8.1 The central role of commitment

Commitment has been defined in the literature as occupying a grey central position between intentions and action (Bratman 1999). Intentional, or deliberative, actions are therefore always preceded by a commitment of some sort, particularly where more than one actor is involved. In groups, commitments serve to bind people's interests together as they coordinate with one another. But commitments are often hidden from view, vaguely, if at all, expressed and not easily subject to direct observation. The first question to be explored empirically is therefore: is it possible to identify commitments at enterprise level? The first sub-section sets out to illustrate the wide range of commitments that were found in the cases. The second sub-section focuses on social commitments and the third and fourth explore ways in which commitments can be inferred, either from statements of intention; or from observed behaviour. Finally, as will be the pattern in all sections, the main conclusions are summarised.

### 8.1.1 The range of commitments

The data in this sub-section are mainly drawn from the cases to which I had readiest access<sup>82</sup> and I only include information that I have been able to test. Each case I investigated had a distinctive set of commitments. Table 2 shows the most significant ones in SP14 (a social enterprise engaged in Fair Trade farming – see section 7.1):

*Table 2: The range of commitments*

Commitment	Type of c/t	Evidence obtained
To create prosperous, sustainable farming, using socially- and environmentally-responsible methods To increase rural employment in exiting and new areas	Strategic	Personal statements re. vision, mixed cropping, projects etc. Past growth and plans to start in 5 new states
To improve farmer livelihoods, esp. small-scale, by providing market access To the principles and methods of Fair Trade, including paying premium prices and supporting social projects in the local communities	Social	Purchase guarantees (max 15% for larger farmers) Prices, transition support, projects such as tree planting, life insurance, herb gardens

<sup>82</sup> Of the 35 cases yielding 'rich data' (see section 7.1) I had the time and opportunity to explore the full range of commitments in 16, of which this sub-section gives a selection. I have no reason to think that, given more research time, all the other cases would not have revealed a similarly extensive array.

To reduce risks to farmers in drought prone areas and provide a test-bed for robust practices To provide technical support through service centres, field officers, demonstration fields and agroclinics	Operational	Rainwater harvesting; experience of little hardship when rains fail Direct observation
To sustainable farming practices, including organic and integrated crop management To protect and enhance soil fertility, using low inputs	Environmental	Range of documented approaches being used Input policies and practices
To supply specified quantities of cotton to customers, up to 3-4 years ahead, avoiding dependence on a few customers To link farmer and customer through the establishment of a cotton brand	Commercial	Example figures given Policy limits sales to max 20% of output to any customer History and use of brand
To make a profit To invest in downstream facilities for value addition and training	Financial	Payment of dividends Investment in ginning plant and related facilities
To operate in a business-like way, using best practices from the private sector To recruit and retain high calibre, loyal staff, who are committed to the company's goals	Management	Planning and operational documents Interviews with staff
To allow farmers to choose, within limits, the range of crops, methods of production and suppliers To maintain good relationships with NGO network and partners	Relationships	Interviews with farmers  Many examples, of which three cross-checked

*Source: interviews at several sites, observation and company documents*

I established that all those shown in Table 2 are core commitments, i.e. of central importance to the enterprise, and I satisfied myself through close questioning that they are stable. Some seemed to be closely related (livelihoods and risk reduction; technical support and better practices), others potentially conflicting (e.g. growth vs. profit; purchase guarantees vs. sales goals). But the overall picture was that of an integrated set of commitments, linked to a broadly-based business model that included strong social, commercial and environmental elements.

Case MP13 (a mainstream garment manufacturer - see section 7.1 for more detail), provides a contrasting picture. I was presented with a raft of statements about the company's social commitments, including employing a permanent workforce, paying above the minimum wage and keeping within agreed overtime limits, but I was unable

to verify any of them, despite pressing for concrete evidence. I did not find these statements as reliable as those from SP14. On the other hand, the commercially-driven commitment to keep their production line running at a high level of capacity utilisation did seem believable and I decided to explore how they achieved this in the face of fluctuating customer demand. They told me that their practice was to overbook ‘but not more than 5-10%, which we can handle’. I inferred from this that, in practice, they were prepared to breach overtime limits when faced with intense production pressures<sup>83</sup>. A related piece of evidence was the figure they gave me for labour turnover, which averaged 30% of the entire workforce per year. If their working conditions were as good as they claimed (much better than the norm in the area) it is difficult to understand why so many workers would want to leave.

The conclusion I drew from this case, and from the evidence gleaned from other mainstream manufacturers, is that many of their social commitments are notional and do not form part of their core business model. Their behaviour towards workers is erratic, in that commitments are sometimes met (e.g. when not too busy, when inspectors call) but cannot be relied on when there are more important (commercial) priorities. A similar conclusion may be drawn from another mainstream manufacturer, MP20, which proudly states in its publicity ‘we are a SA8000 certified organisation’. It turned out, under close questioning, that this certification applies to just one of its more than 30 factories. On its web site this company says: ‘Our people make the difference. We believe in ... freedom to work (which) is transferred to every individual with a collective teamwork’. I found no evidence during a factory tour to support these claims. The impression of social commitment they were attempting to convey was not securely grounded in reality.

Mainstream brands are not directly responsible for employing production workers but, nevertheless, many of them issue extensive lists of social as well as commercial commitments. MB02, for example, is required, as a public company, to report regularly on its financial performance and its future plans. Its latest Annual Report states a number of goals related to sales growth, margins, cost, cash flow and other business

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<sup>83</sup> I formed similar conclusions at other sites I visited. The practice of requiring workers to work excessive overtime (i.e. above stated policy limits) at peak periods was confirmed to me by outside observers as commonplace.

objectives. In addition, it publishes a long list of social and environmental objectives, including support for sustainable farming, clear product labelling, reduction in waste and efforts to ensure ethical compliance through monitoring, ensuring value chain labour standards and procedures for handling complaints from workers. All these myriad aims are translated internally into objectives and targets that executives and departments are expected to commit to and achieve. At the same time the company places thousands of orders daily with suppliers, each containing a commitment to buy certain goods at a certain specification, price and delivery date, accompanied by requirements to abide by purchasing conditions and procedures.

The steady stream of labour abuses uncovered by investigators, published in the media and admitted by brands, provides compelling evidence that the social commitments made by brands, such as those quoted above, are not always met. It is clear that the whole array of commitments entered into by lead firms of value chains, such as MB02, are intrinsically unmanageable. The sum total of the commercial commitments they impose in all their purchase contracts makes it very difficult or impossible for their suppliers to meet all the social standards too. MB02 has invested heavily in CSR and the brand values it is promoting imply that social responsibility has a place in its business model. Its social commitments are more than purely notional but they fall short of being fully reliable. Differences between social and commercial priorities have not been fully resolved and the balance is not entirely stable.

This brief survey illustrates the wide range of commitments that are found in business enterprises, which vary greatly in purpose, scope and effect. They arise from a variety of sources, internally from owners and managers and externally from business partners and from society generally and they are in a constant state of flux. Some commitments exist in a chronic state of tension with others and their significance, in terms of guiding actions, depends on their connection with the core business model and on whether differences of priority have been resolved.

### **8.1.2 Social commitments**

Social commitments have the distinctive attribute of being concerned with the well-being of others, rather than being simply about the self-interest of the organisation, as commercial commitments are. The data from the cases shows that, for social



enterprises, either type can be ‘first-order’ (see chapter 6). For example, SP14 recognises that its core commitment to improve farmers’ livelihoods (see last section) has to be tempered by the need to generate sufficient income from product sales to pay for the costs of farmer support. Similarly it realises that its commercial commitments, such as sales contracts with customers, have social consequences, such as the total volumes and mix of crops that can be bought from farmers and the prices that can be paid. From this it follows that a social enterprise that is engaged in business has constantly to evaluate the social and commercial consequences of all the decisions it makes. But, since both sorts of commitment are built into its business model, they can be considered on the same level of importance and a balance can be struck between roughly equally-weighted and interdependent priorities.

No such equivalence exists in many mainstream enterprises, which are concerned first and foremost with their business priorities and only secondarily with the social consequences. The core commitments I identified in 14 out of the 18 mainstream manufacturing cases did not contain any social priorities, apart from a desire, in some cases, to conform with codes of conduct. In these companies, where first-order commercial commitments are weighed against second-order social commitments, the contest is not evenly matched. Outcomes tend to follow the basic business drivers, as with the example of overtime breaches given in the last section. One Indian garment supplier put it like this: ‘if buyers would pay me an additional three cents per piece I’ll be in compliance [with social standards] tomorrow’ (in Jorgensen et al 2003).

I identified first-order social commitments in only four mainstream cases (those mentioned in section 7.1 – i.e. MP07, MP08, MP10 and MP18). Based on the evidence they gave me, including the longevity of their social initiatives, I judged their social goals to be sufficiently important that they would strive to sustain them, even in the face of strong commercial pressures. However, in a highly competitive environment, no social commitments can be regarded as absolute. In at least two of the four above cases, economic forces had, in the past, led to plant closures with job losses.

Even where first-order social commitments were absent, I found that companies did have certain obligations towards workers. Typically these were expressed as ‘paying the market rate’, ‘providing a canteen, like other companies do’ and enrolling longer-

standing workers (i.e. the ones they wished to keep) in the governmental health insurance scheme. It is clear that these undertakings are largely determined either by the response to events (e.g. what they need to do to get the job done) or by convention.

A difficulty with social, as opposed to commercial, commitments is confusion about their boundaries and respondents differed greatly in their perceptions (confirming the literature – see section 2.3). MB16 and MP22, among others, feel that social responsibility simply means complying with the law and any other legitimate regulations. For some Northern brands and Southern manufacturers, such as MB03 and MP09, it means being in the forefront of best labour practice. A third group, including MB02 and MP07, sees the task more in terms of anticipating what societal demands might be, or even should be, in the future and is interested in differentiating its approach to employment from that of others. This evidence, taken together with their subordinate status, emphasises the radical uncertainty of all social commitments in mainstream business.

### **8.1.3 Claims and intentions**

It was not always clear whether the statements made by respondents about their social policies or practices conformed to reality. Given the prevalence of properline data in the mainstream (see section 7.1), I made a decision early on to regard all such statements as claims, which might or might not correspond to true intentions. I would need corroborating evidence to convince me of their genuineness. I found that, in many cases, the data were not totally false but were subject to problems of selectivity, vagueness, exaggeration and partiality. Meaning had to be extracted by piecing together specific items of information from a variety of sources, including other interviews and surveys.

Wage levels provide a good example of the selectivity of claims and of exaggeration. Since paying under the prescribed minimum wage<sup>84</sup> is against Indian law, as well as contravening labour codes, it is not surprising that all the manufacturers I asked about this claimed that they were paying at least the minimum wage. But it became clear from the evasive answers to my supplementary questions, from the evidence of other

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<sup>84</sup> Minimum wage regulations in India are extremely complex, with regional and local variations as well as by job type.

researchers (e.g. Kizhisseri and John 2006; Krishnamoorthy 2006) and from the ‘off the record’ comments of social auditors that failure to meet minimum wages is extremely widespread. It is linked to the use of temporary and casual staff and the use of labour contractors.

An example of partial interpretation is provided by the issue of freedom of association, which is a basic requirement of most codes of conduct. Most mainstream respondents I questioned about this expressed agreement with the principles while, at the same time, being vociferously opposed to the formation of unions, citing the damage that businesses had suffered from them in the past. When asked about the consistency of these apparently contradictory views, they cited the presence in their factories of a Workers Committee, as required by Indian law. Some respondents claimed that the workers’ representatives serving on this and other committees, such as Health and Safety, were volunteers; others admitted that they were selected by management. In two cases I examined the minute books of some of the meetings. I was unable to find traces of any complaints having been made about any aspect of the terms and conditions of work, apart from occasional comments about canteen food. The picture of worker involvement (or lack of involvement) became even clearer when I explored the situation with NGOs and business consultancies. A senior social auditor confirmed to me that, in India, the mere existence of a Workers Committee enabled inspectors to ‘pass’ a factory as compliant with the freedom of association code provision.

It became clear that claims alone, especially those that concern requirements imposed from the outside, do not qualify as reliable intentions. On the other hand, some specific statements, which I was able to verify personally, do imply definite intentions. For example, the regular presence on site of a doctor to treat women’s physical and mental health problems (MP10), the employment of deaf and dumb workers in pattern making (MP18) and the provision of a social premium for investment in social projects (many FT cases).

Some claims, such as those on overtime limits quoted in section 8.1.1, denote social intentions that are ‘reliable’, but only up to a point, when certain conditions apply. For example, excessive overtime will not, in general, be required, except where commercial exigencies (e.g. rush orders, considered to be outside the firm’s power to control)

demand it. To test the effect of these conditions on commitment I asked manufacturers about how they dealt with fluctuations in their order books. I judged the social commitment of those who said that they sometimes turned down orders because of capacity constraints, or found ways to reschedule deliveries, to be greater than that of those who stated that they always found a way to meet customer demands, however unreasonable.

Making unsubstantiated social claims, based more on a well-crafted mission statement than on reality, can also occur in social enterprises. I asked an umbrella FT organisation (SP04) to select a 'typical' producer group for me to visit. This small group turned out to be a private business. The owner expressed his gratitude for the business he received from the FT organisation but was totally unable to tell me what Fair Trade was. He could not state any special benefits of being part of FT and he appeared to run his business in just the same way as non-FT craft producers. On my return to the office of the FTO I was told that the producer group originally set up in that village had gone out of business and that this man had offered to take the work on.

The difficulty I experienced in distinguishing between claims and 'true' commitments led me to the conclusion that *all* stated intentions are provisional. Until put to the test in a real life situation there is always the possibility that they may be outranked by other, more important or more urgent, priorities. It is only when the appropriate action is taken that the intentions behind it can be properly judged. Even then, the action may not be repeated. Evidence of consistent behaviour over a period of time, in line with clearly expressed intentions, provides the strongest evidence of commitment. The next best indicator is the presence of specific plans (i.e. the most concrete manifestation of intentions), accompanied by an implementation schedule and performance measures.

#### **8.1.4 Inferences from actions**

For this study the concept of social commitment is useful only inasmuch as it serves as a guide to future behaviour. Inferences drawn from past actions are therefore relevant. This approach is consistent with the definition of commitment as 'engaging in consistent lines of activity' (Becker 1960). However, there is the problem of attribution. For example, wages have generally risen in garment factories over the past 2-3 years, especially for experienced tailors. Has this got anything to do with increased

commitment to paying fair wages, or is it principally due to labour shortages? From discussions with manufacturers and outside observers, the latter explanation seems more plausible. Several companies told me of the increased difficulties they had in finding skilled staff and of their concern about high labour turnover. One (MP11) even complained of the lack of commitment on the part of workers who were prepared to move to another factory paying ‘a few extra rupees’. I inferred from this that the ‘true’ commitment of this particular company is to pay as little as it can get away with.

The second, related, problem was that of interpretation. The accounts of past actions and events given me by corporate respondents may have been coloured by their particular perspectives. In some cases I was able to check facts with independent outsiders. I also found that personal observations during factory tours, visits to producer groups and meetings in offices were a useful supplement to the accounts I was given. For example, in only four out of 18 mainstream cases was the factory manager willing to allow me to talk directly to supervisors and workers. The atmosphere in these four plants was noticeably more relaxed than in the other companies. Spacious, luxurious offices next to cramped, spartan production facilities (e.g. MP19) told their own story. Questions ignored by managers, answered evasively or without conviction provided a qualitative patina to studied verbal responses. Sometimes I received illuminating responses to comments I made when touring factories, such as: ‘I prefer male workers so that I don’t have to provide crèche facilities and lose them when they get married’ (MP14).

Despite attribution difficulties and problems of interpretation, I was able to record a fair number of ‘consistent lines of activity’, indicating the presence of solidly based social commitment. For example, a large clothing brand (MB04) has invested heavily over the past decade in a compliance system and commissioned and published independent research into its effectiveness. It has been active in MSIs and has built partnerships with civil society organisations in India. Field visits by its CEO and other senior executives have backed up their prominent public statements of support for responsible labour practices. Taken together, these demonstrate a certain level of social commitment. However, despite the evidence of both genuine intentions and concrete actions on their part, reports still appear regularly of widespread non-compliance with their codes of conduct and occasional serious abuses. Other aspects of commitment must be explored before conclusions can be reached on how this company is balancing its priorities.

### **8.1.5 Summary**

The sheer number and variety of commitments, of all types, is a significant finding, together with the unequal standing, in mainstream enterprises, of social vis-à-vis commercial ones. Whereas commercial commitments generally have a clearly understood purpose and effect, the status of many social commitments, especially in the mainstream, is uncertain. It seems that many of the latter may come about in a haphazard way, in response to outside pressure or events, without being strongly connected to the core business model. At the time when the social intention is articulated, it may often not be clear precisely how it can be accomplished in practice. And many commitments arising from day-to-day operational decisions have social ramifications, although these are not labelled as such or even recognised. There are many clashes among the myriad commitments and, in the absence of a properly-considered social model, there is no framework for an enterprise to judge the social priorities against one other and weigh them against commercial priorities.

All this cautions against the idea of taking a single, isolated social commitment and using it to predict future behaviour. It is only by considering the totality of commitments, commercial as well as social, that the status of a particular commitment can be assessed. Even then, its precise status may not be clear; it has to be regarded as provisional, dependent on commercial priorities, on the unknown course of future events and on the actions of others.

## **8.2 Objects of commitment**

This section and the next one address two closely related questions: first, what precisely are the social ends that business enterprises are committed to? And, second, how strong is their commitment to these ends? The social ends are conceived as ‘objects’ of commitment (see section 5.6). In the analytical framework four types of object were defined: commitments to principles; to ideas; to rules and conventions; and to practices. This section will concentrate mainly on the last two types, the more concrete forms,

which can more readily be observed empirically. Later sections, especially 9.1, will tackle the more abstract commitments to principles and ideas.

Concrete objects are extremely diverse. Distinguishing a ‘practical’ commitment, aimed at a substantive social outcome, from one that is merely concerned with rule-following is not straightforward but is central to this study. Both may be present, for example, in health and safety undertakings. Only evidence of actual practice in conditions where a rule is not present, or not enforced, would provide conclusive evidence of a substantive commitment. Of equal importance to the study are the intimate and complex connections between social and commercial objects. This section aims to shed light on their relationship by studying specific examples of how they are connected and where they conflict.

### 8.2.1 The diversity of objects

Although social objects extend well beyond them, much of my discussions with mainstream manufacturers, especially exporters, centred around codes of conduct. Table 3 summarises the main objects found in most codes, the fundamental nature, or purpose, of the object, how it is defined or understood by those involved and evidence about actual application:

*Table 3: Objects of commitment by code element*

<b>Code element*</b>	<b>Nature of object(s)</b>	<b>How clearly defined</b>	<b>Application in practice</b>
Pay living wage (at least mandated minimum wage)	Reward for work; enables decent livelihoods outside	Min wage clear, living wage disputed	Large nos. of workers not paid min. wage (esp. casual, temporary and contracted out)
Provide regular employment (avoid sub-contracting etc.)	Security of livelihoods and greater certainty	Principle clear but not pinned down precisely	Limited to key workers in most factories; sub-contracting is endemic
Avoid regular, excessive working hours (max. 60 hrs. p.w. incl. overtime)	Avert health risks; allow time for activities outside work	Uncertainty about what’s ‘excessive’ and ‘regular’	Limits regarded as ‘unrealistic’; routinely breached at busy periods
Safe and hygienic working conditions (incl. clean water, toilets)	Physical well-being in work environment	Not clear what standards should be used	Customer requirements said to be inconsistent; largely ignored in sub-contracting

Freedom of association and right to collective bargaining (incl. right to join unions)	Instrumental; intended to allow workers to have a say and bring influence to bear	Wide difference in understanding of what it means in practice	Open opposition to presence of unions and to negotiation of wages and conditions at plant level
No child labour	Exploitation of children	Clear and specific	Largely stamped out in large factories; persists in small ones
No discrimination by race, caste, gender, age etc.	Opportunities for employment and promotion	Understanding depends greatly on culture	Largely ignored; most workforces are tightly stratified along multiple parameters
No harsh and inhumane treatment (e.g. harassment, intimidation)	Well-being at work; human dignity	Difficult to define; widely different perspectives	Practices may be judged harsh by Northern standards or as 'enlightened' by local standards

*Sources: Code elements are taken from the ETI Base Code (ETI 2003) – other codes have similar provisions. Comments about definition and application are based on statements made to me during interviews with manufacturers and other respondents and also on surveys carried out by other researchers.*

Table 3 illustrates the wide diversity of objects to be found in codes, ranging from protection from harm at work to providing income, opportunities for participation and personal development. Some objects are clear but many are imprecise and subject to interpretation, which depends on the societal and cultural context. Compliance with individual elements varies widely, from partial observance to widespread disregard and disputation. Codes express aspirations but, in general, do not set specific, measurable standards. Even more than most rules, their lack of detail means that they have to be interpreted and applied to the local situation (Kompier 2006). Seen from the ground, the benefits to workers from literal adherence to some code provisions is not always obvious<sup>85</sup>. For example, according to case MP15, large amounts of overtime are happily worked during the busy season because workers want to catch up on the earnings they lose during the two months of the year when there is very little work. And altering some overtly discriminatory practices, such as the traditional use of male Muslim tailors in Delhi garment factories, may be difficult and have undesirable effects.

Many social objects are found in policies and practices that fall outside the scope of codes. For example, some mainstream manufacturers (e.g. MP08) recruit staff from the

<sup>85</sup> Universal labour standards fail to meet the specific requirements of Tirupur's diverse workforce, e.g. shift patterns (De Neve 2009).



local area and form strong relationships with grass-roots organisations in order to build a local reputation as a good employer. This may bring some commercial benefits but it also reflects the company's sense of responsibility towards its local community. In contrast, other firms (such as MP18) deliberately recruit staff from far afield, on the basis that this enables them to organise their operations, and look after their workers, in the 'right' way, without being constrained by local customs. The same contrasts can be found in approaches to training. Some companies prefer to take raw recruits and train them from scratch (e.g. MP10) whereas others prefer to hire workers who are already trained (e.g. MP15). There are wide variations in the nature, definition and understanding of these objects and priorities vary greatly from case to case, according to company size, location and culture.

Among social enterprises social objects are even more abundant, varied and explicit. For example a FT producer group (SP05) not only supplies weavers and other textile producers with regular work at good rates but provides modern premises, training, medical insurance for the whole family, some retirement benefits and a cooperative structure in which everyone is able to have their say. Although craft groups (such as SB01) tend to concentrate mainly on providing employment and promoting craft skills, some have important additional goals. SB03 deliberately sets out to create working opportunities for women, who otherwise have few employment options, and provides health, child care and educational support. All social enterprises aim, in one way or another, to reduce the vulnerabilities that workers face e.g. by providing regular work and decent prices. But whereas some projects aim to build on an existing reservoir of craft knowledge (e.g. SP03) others set themselves the tougher challenge of creating them from scratch. Such a case is SP01, which offers female slum dwellers the opportunity to learn embroidery and make-up skills, in order to equip them eventually to support themselves and their families through their craft. These objects can be traced to the personal convictions of the founders and managers of the enterprises.

### **8.2.2 Substantive vs. procedural objects**

One way of analysing objects is to separate them into two categories: (a) those that are directly aimed at substantive outcomes (practical commitments); and (b) those emphasising procedure (i.e. associated with commitment to rules). Although both elements may sometimes be inherent in a single object (e.g. training), it is clear from the

evidence, taken as a whole, that the emphasis in the mainstream is procedural while, among social enterprises, it is mainly substantive. The procedural character of mainstream social commitments derives from the pledge brands make when they join a MSI, such as the ETI, which requires members ‘to implement the Base Code’ (ETI 2005). The code itself has substantive components, such as on wage levels, but many of its components are essentially instructions (e.g. no children, no forced labour). The code, and the system established to enforce it, is, and is perceived to be, by brands and manufacturers alike, a set of rules. Compliance with codes essentially means passing the audit, rather than delivering substantive benefits to workers.

A UK-based consultant who has worked for many years with major companies on social responsibility, told me that ‘a large proportion of brands are simply committed to compliance –i.e. to be able to say that “everything is OK”’. This strongly points to the real, underlying, object being brand protection, not worker welfare, with codes of conduct serving as a testimonial. The root object of most manufacturers, as explained to me by an Indian business advisor, is ‘to qualify as an approved supplier to major brands. Codes are the entry ticket.’ Even if they would like to, many brands feel powerless to tackle many substantive issues, such as forced labour, because they consider them to be deeply embedded in the national culture. If they engage in these issues, they prefer to collaborate with local organisations. Some northern brands (such as MB09) have expressed their frustration at the slow progress of projects they have entered into with others in a spirit of good will, admitting their lack of knowledge of, or ability to influence, local customs. Their preferred approach is to encourage their suppliers to adopt good practice (e.g. by committing to SA8000).

The data on social enterprises, on the other hand, reveal the importance they attach to substantive objects. For example, SP14 has a host of projects, including measures to increase soil fertility, rainwater harvesting, micro-irrigation, educational support and even life insurance. SP12’s core aim to increase artisanal skills, thereby improving livelihoods in poor rural areas. As well as marketing printed and embroidered textiles it encourages responsibility and entrepreneurship by organising self-help groups and training leaders. These objects are all in line with the founder’s vision of her work as being at the intersection of conservation, education, enterprise and empowerment,

revealing a combination of substantive and instrumental commitments relying little on formal procedures.

This emphasis among Indian social enterprises is consistent with the declared goal of FT and craft organisations to strengthen producer capabilities with the aim of reducing their risk and vulnerability and thus ‘to expand the substantive freedoms people have to choose a life they have reason to value’ (Sen 1999). The variety of different ways in which social enterprises go about this recognises the different circumstances in which people live and respects their choices, another element in Sen’s approach (Sen 2009). This is in marked contrast to the uniformity of purely procedural approaches in the mainstream, which generally leave little room for local discretion. However, FT organisations entering mainstream markets now face pressure to introduce more formal procedures, which can lead to tensions. For example, SP08 complains about the amount of unproductive administrative work and expense required by producers to meet FT standards, some of which it considers of doubtful relevance.

### **8.2.3 Social vs. commercial objects**

Space does not permit a detailed analysis of the wide range of commercial objects that mainstream manufacturers are committed to. They are embedded in every contract and individual order, in which suppliers agree to meet their buyers’ requirements on specification, price, quality and delivery. Each manufacturer has a unique set of commercial objects, depending on their type of operation, product range and mix of customers, and many of these have implications for workers, i.e. on their social objects. For the purposes of understanding the relationship between the two, I will restrict the analysis to two ‘meta-objects’, which arise from the overall commercial priorities identified earlier (see section 1.2) and find form in many value chain conventions (see section 5.1).

The first meta-object is to lower, as far as possible, the manufacturing cost base (Acona 2004). This enables suppliers to quote the most competitive prices to customers and helps to reduce losses when orders are slack. Wages account for a large proportion of discretionary production costs. So keeping a tight control over wage levels and over the size of the permanent work force is vitally important from a commercial standpoint. This object is directly opposed to the social objects identified in the previous section.

Manufacturers' negative attitudes to codes are driven by fear of losing price competitiveness.

The second meta-object is to maintain sufficient flexibility to respond quickly to unpredictable and changing customer demands (Acona 2004). Flexibility is the 'key to success in manufacturing', according to the CEO of MP20, who represents the industry in discussions with the Indian government. He believes that overseas customers are placing ever-greater demands on supplier flexibility, such as shorter lead times and last-minute changes to specifications and quantities. Many social objects that are designed to give greater security to workers, such as regular employment based on contracts, clash with the flexibility imperative.

I found a few cases where social and commercial objects appear to coincide, such as safety equipment that reduces both accidents and unproductive down time. This is an example of the so-called 'business case', which I will be exploring in more detail in chapter 9. But, judging by the comments I received, win-win examples are relatively rare. In most cases improvements in labour standards, or even conforming to those theoretically in place, are perceived by most manufacturers as risking damage to competitiveness and flexibility. The same subordination of social objects is found at brand level. Surveys of business attitudes (see section 2.3) reveal that human rights occupy a low ranking in the list of brands' concerns. For some companies (e.g. MB06) environmental issues are now seen as more important than labour issues, as well as being easier to tackle. Given the difficulty of intervention and of assessing social outcomes (see section 2.4), many brands are adopting a reactive approach to social issues.

Social enterprises are in a completely different situation since their business models require delivery of social benefits. For craft groups, the skills and creativity of producers are essential for their business success and there is no inherent conflict between social and commercial objects. But where commercial priorities become more important a divergence is possible. For example an urgent priority for SI02, a FT umbrella organisation, is to increase the volume of orders for its producer groups. This has both a commercial and a social rationale but the steps now being put in place to implement the object, including opening a shop and securing sales in mainstream

markets, has involved making commercial commitments whose social consequences are not yet fully understood<sup>86</sup>.

I conclude that social and commercial objects cannot be neatly separated, any more than substantive and procedural ones, but that identification of the main drivers is important. Objects, whether social, commercial or mixed, that are firmly attached to the business model are more likely to take shape in substantive form. A mainstream enterprise without any social strands in its business model is unlikely to generate substantive social objects. Understanding the model, and the order of priorities within it, is the key to discerning the significance of individual objects and the balance between social and commercial, as well as between substantive and procedural, objects. As we will see later, these balances have important implications for behaviour and outcomes.

#### **8.2.4 Summary**

This analysis makes clear that rules and conventions are themselves important objects of commitment. For many mainstream enterprises conforming with codes of conduct is the main, perhaps the only, explicit social aim. Many social enterprises have an element of compliance with standards and regulations (e.g. FT procedures) alongside their substantive goals. All types of enterprise are surrounded by a myriad of informal local practices and conventions and face the problem of trying to reconcile these with the formal rules and business conventions that are transmitted along the value chain.

Large factories serving commercial markets, where large volumes of repetitive activity create the need for consistency of policy and practice, adopt mainly procedural approaches. Smaller social enterprises, on the other hand, are more likely to consider issues individually and substantively, respecting the particularity of circumstances and the wishes of people involved. However, across the whole range of cases, some degree of integration of substantive with procedural objects and of social with commercial objects was detected, though this varied considerably from case to case.

So, in considering the links between the two ‘lower’ levels of commitment – to rules and to practices – the evidence indicates that they are closely connected but that their

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<sup>86</sup> This interesting case of FT ‘mainstreaming’ will be explored in more detail in section 10.3.1.

relative emphasis and the ‘direction of movement’ varies according to the type of enterprise and the business model. The data on objects also hints at connections with the level of ideas –i.e. with cognitive conventions (to be discussed in section 9.1.2). Social discourse in the mainstream is anchored to the idea that standardised social rules can be drawn up and implemented in distant factories –i.e. that ‘good rules’ can lead to ‘good behaviour’. Social enterprises, on the other hand, tend to view imposed rules with scepticism and are more inclined to allow local actors to play a role in determining the substantive commitments that lead to fairer outcomes.

### **8.3 Strength of commitment**

The strength of social vs. commercial commitment is central to the research question but poses a considerable challenge to the researcher, since they are difficult to separate and measure. Some critics make sweeping statements –e.g. ‘where code compliance adds costs, it’s a no go ... and where there’s a negative impact on purchasing practices, there’s no real commitment’ (a senior MSI executive). But it is clear from the previous section that the picture is more complex and that enterprises are more strongly committed to some objects than to others –e.g. ‘Indian garment companies are keener to avoid child labour than they are to paying fair rates for overtime working’ (an experienced social auditor). It also seems that there are significant variations in degree of commitment from company to company and even within the same enterprise over time. An object may attract weak or negligible commitment at one point, due to its perceived impracticality or subordinate status vis-à-vis other commitments, but, if circumstances change (such as a change in the attitude of a key customer), it may be viewed differently.

Unpacking the issue of strength requires not only looking at the issue of commitment object by object but also exploring all the strands that form part of the notion of ‘strength’ of commitment. This section does not put forward a single objective measure. Instead it analyses differences among the cases to identify variations in strength and the underlying reasons.

### 8.3.1 Dimensions and qualities

Analysis of the social commitments of the 56 cases reveals differences along several dimensions, falling into three categories. First, differences in the scope of objects – their breadth, depth and reach. These set outer limits to possible outcomes and are a rough indication of the potential size of commitment. The second category is concerned with the stage of crystallisation, i.e. whether they just exist as airy notions or have taken a more concrete and specific form, which provides an indication of the likelihood of realisation. Thirdly the context is considered, whether certain conditions must be fulfilled or actions by others required.

Table 4 describes the overall pattern of commitment to social objects, distinguishing between the two main enterprise types. On the whole, the commitments of social enterprises are broader and deeper but reach less far than those of mainstream companies. Judged by whether they have been made specific, publicised and worked through to the point of implementation there are serious doubts about the concreteness of many commitments, especially in the mainstream. And fulfilment of some social obligations seems to be conditional and to depend on reciprocal action by others.

*Table 4: Qualities of social commitment*

Aspects of commitment	Findings in mainstream	Findings in social enterprises
Breadth of object definition	Typically narrow, e.g. installation of first aid boxes and fire extinguishers in response to health and safety demands	Generally broader, e.g. will try to help workers struck by illness or accident
Depth of approach, where objects are unbounded	Tend to be shallow, e.g. where concerns about harassment are met just by curbing shouting	Can be quite deep, e.g. when efforts are made to recruit people from disadvantaged backgrounds
Reach, in terms of numbers of people affected	Large-scale operations can affect many people but reach may be limited by exclusions, e.g. sub-contracting	Small numbers limit the direct impact of social objects
Public announcement, esp. of detailed undertakings	Very few companies make specific objects public, preferring to make vague statements of intent	Public commitments, e.g. of FT standards, are integral to approach but these aren't always detailed
Specificity of objects	Difficult to assess this, as details are closely guarded and considered confidential	Many specific objects emerged from interviews with all social enterprises

Implementation-readiness	Few implementation plans, accompanied by timetables and responsibilities, were found	Respondents were eager to talk about and show their implementation activities
Conditionality and reciprocity	Many objects were found to be conditional (e.g. overtime limits – see section 8.1.1) and depended on reciprocal action by brands/manufacts.	Objects were more likely to be considered absolute (i.e. to be met whatever the circumstances)

*Sources: findings are based on interviews with mainstream garment manufacturers and social enterprises in India, together with some corroborating evidence from surveys.*

Within this general picture, significant variations were found between individual companies. For example, MP08, a mainstream manufacturer, provides buses to take people and from work, a crèche, an extensive training programme for newcomers and some leisure facilities. MP22, a small supplier, takes great care in looking after 50 highly skilled core staff, whom it wishes to retain, and accepts that the remaining workers, who are not offered the same benefits, will come and go. Commitments can sound impressive but, if implementation has not been worked through, they may be useless. A report by CCC cites a factory in northern India, a supplier to many leading brands, where all workers have health insurance and are issued with cards that entitle them to free treatment at specified hospitals. But workers state that they are unable to take advantage of this because going for an appointment normally takes 3 to 4 hours while they are only allowed a maximum of one hour off work.

Specific commitments that are made public carry risks since they raise expectations. MB03, a mainstream brand, has gone on record, not only with its labour standards but also with detailed statistics on social performance in its value chain. It has also published the results of independent research into its approach. This commitment to openness contrasts with the paucity of public releases by most brands. MB05's policy, as conveyed to me by its Compliance Officer, is to reveal as little information as possible. This means that it is impossible to determine from the outside whether any commitments have actually been met.

Many commitments are part of a complex web of mutual obligations. Companies 'feel committed' to certain courses of action *if* certain conditions pertain; if not, they feel released from their commitment (e.g. they don't keep to overtime limits when faced



with rush orders). Some employers regard their workers as uncommitted: ‘workers leave for Rs20 more and don’t see the benefits of staying with one company – it’s their nature’ (MP09) and reciprocate by failing to commit to measures that might earn more loyalty from their staff. A leading brand (MB02) states that it ‘cannot afford to get too far ahead of its customers in the ethical area’. Lack of commitment by the lead firm in a value chain, or by a dominant actor, has a major influence, through conditionality and reciprocity, on other actors. At factory level high rates of labour turnover and absenteeism are clearly associated with lack of job security, the weak commitment on the one side reinforcing that on the other. Social enterprises, such as SI02, on the other hand, work hard to ‘educate’ their producers, as well as customers, in the mutual benefits to be gained from shared commitment to common principles and practices.

### 8.3.2 Factors affecting strength

The previous sub-section showed how the general weakness of social commitment in the mainstream has a number of different dimensions: restricted objects, reluctance to announce specific undertakings and conditionality. What factors lie behind these failures? And what can we learn from the cases which were found to have stronger commitment?

The five factors that were found to be most closely associated with strength of social commitment are shown, in order of importance, in Table 5:

*Table 5: Factors affecting strength of social commitment*

<b>Factor</b>	<b>Impact on commitment</b>	<b>Evidence</b>
Business model of the enterprise	The relative importance of social vs. commercial priorities	Case by case comparison of embedded social values with indicators of social commitment
Stability of circumstances, esp. long-term business relationships between brands and suppliers	Opportunities to learn how to realise social objects and put them into practice	The 8 most socially committed mainstream cases all had longstanding relationships
Scope for action limited by business circumstances	Constraints on size of objects and space for implementation	Specific examples of commercial pressures making social commitment difficult or impossible
Legitimacy of social objects, as seen by the enterprise	Attitudes and inclinations towards objects	Negative comments expressed by firms with weak commitment

Pressure from stakeholders	Leads to introduction of rules and procedures designed to satisfy expectations	Codes generally introduced after outside pressure; little evidence that codes lead to substantive changes
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*Source: this table is based on evidence from case profiles.*

The importance of the business model in determining commitments has already been stressed. All the social enterprises were found to have significantly stronger social commitment than the best mainstream enterprises and, within each of these broad groupings, those individual organisations with social policies ‘embedded’ in their corporate culture demonstrated a wider range of social projects and activities. The personal commitment of top management (an important driver of the business model) is cited by other researchers as critical (e.g. Mamic 2003, ETI 2004) and many of my respondents confirmed this (e.g. MT01, SP14, MP18, MB04, MB05).

Stability of circumstances, the second factor, was a common feature among the most committed mainstream manufacturers (MP07, MP08, MP10 and MP18), all of whom have longstanding relationships with customers that take a high proportion of their output. The most socially committed brands (MB02, MB03, MB04, MB14) all have policies of treating their key suppliers as ‘business partners’. Given the reciprocal nature of commitment, noted earlier, long-term relationships appear to facilitate mutual understanding, allowing time and space to tackle difficult problems that may require action on both sides and to develop new approaches. Respondents from the cases listed above gave me examples of how they were working with their business partners on substantive welfare issues. For example, mainstream manufacturer MP07 and its key customer have jointly established a charitable trust to provide free health and education services to workers and their families<sup>87</sup>. However, length of relationship, on its own, is no guarantee of commitment. The social compliance officer of one brand (MB06) told me that labour practices in the garment factory they themselves directly control are no better than elsewhere.

Long-term relationships are a universal feature among social enterprise at all levels of the value chain. For example, two cotton growing projects (SP14 and SP15) set out to

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<sup>87</sup> The trust’s activities now extend to 7 schools, 4 dispensaries, a day care centre for children and distribution of substantial quantities of clean drinking water to remote communities.

provide farmers with support during the 3-year transition period to organic and/or FT production, guaranteeing purchases and spelling out the commitments required by the farmers themselves. The founder of SB03, a craft group, told me: ‘there has to be commitment from the start ... you have to build the relationship with the craftspeople ... give them the confidence that you will bring them regular work’. But lack of resources affects social as well as commercial enterprises. For example, SI01, a FT organisation, has just 4 welfare officers in the field, each responsible for a wide variety of functions, to support over 50 producer groups.

A strong feeling that certain social objects are not legitimate pervaded the comments of some respondents and clearly made them feel justified in ignoring them. When asked about worker representation MP13 challenged me to ‘show (him) one union that is actually working for the welfare of the workers’. Questioned about why they breached limits on overtime and failed to sign up to social insurance schemes, MP15 asserted that workers ‘are keen on getting as much overtime as they can’ and that they ‘aren’t happy about ESI and PF<sup>88</sup> [because] they want as much income as possible’. The absence of enforcement by the inspectors (governmental and private) adds to their feeling that ignoring ‘unreasonable’ demands is legitimate and undermines their commitment. Such views, while not universal, are widespread, judging by the responses I received.

Finally, stakeholder pressure plays an important role in generating objects of commitment, although these may be framed in procedural, rather than substantive, terms. Notably, civil society organisations have been instrumental in forcing brands to adopt codes of conduct and pressure from brands has been passed on to their suppliers. Brands that have been specially targeted by activists (e.g. MB03 and MB04) have been conspicuously active in promoting code compliance and the largest and most visible manufacturers (such as MP13) have been at the forefront of code implementation. Informal pressure exerted by local stakeholders, such as labour contractors (De Neve 2010), may run counter to value chain influences.

All these factors – the business model, stability of relationships, scope, legitimacy and stakeholder pressure – will be analysed in more detail in the next chapter. This summary

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<sup>88</sup> Government-run schemes: ‘Employee State Insurance’ and ‘Provident Fund’.

serves simply to show that a variety of forces are at work in every enterprise to strengthen or weaken social commitment. The variations in strength found empirically from case to case are attributable to a combination of these factors. Before moving on, I would like to note two factors, ubiquitous in the commercial world, that I looked for but failed to find – incentives and penalties. I found no evidence of attempts on the part of brands to offer rewards for social compliance nor any indications that failure to conform led to sanctions, such as loss of business.

### 8.3.3 Summary

A common feature of the five factors listed above is the combination of internal and external elements –i.e. rationales arising from both the subjective and inter-subjective arenas. The business model represents the stance of the enterprise towards its environment; stability of circumstances internally is highly dependent on external relationships; scope for action is often circumscribed by others; legitimacy of objects requires mutual agreement; and stakeholder pressures are directed at corporate change.

External bodies may propose objects of commitment but unless there is agreement, or at least acceptance, within the enterprise it appears that their realisation may be blocked. Conversely, it seems difficult for a company to sustain its own commitments in the absence of external support, especially from its key business partners. These observations apply mainly to ‘second-order’ social commitments (see section 6.2) –i.e. those arising from societal demands or from the commitments of other actors<sup>89</sup>.

The importance of mutual reinforcement and of stable conditions for learning when organisations are presented with social objects is consistent with the experiential model presented in the analytical framework (see section 6.1). Strong social commitments do not tend to appear suddenly, freshly minted, but are usually forged over time by means of repeated interactions between parties working together to resolve problems of mutual interest. The process of introducing new rules and practices risks upsetting a host of informal conventions to which people are (often unconsciously) committed.

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<sup>89</sup> These comments apply mainly to mainstream enterprises. First-order social commitments are more common among social enterprises but, even there, it appears that some degree of external support, e.g. by the FT network, is needed for them to be sustained.

The issue of change is tackled in later sections but here we can recognise the importance of ‘internalisation’ of commitments (O’Reilly 1989), which protects objects from competition from other commitments and from habitual ways of doing things. Applying O’Reilly’s 3-stage description (see section 5.6) of the process by which organisations secure commitment from their members, the second-order social commitments of many enterprises appear to be stuck at the first stage, ‘compliance’, in which actors attempt to meet the expectations of others simply in order to obtain something else of value for themselves. Social objects at this stage do not have an intrinsic value in the individual’s own set of priorities and are therefore not taken into account in the reflexive ordering of priorities. Nor are they strong enough to challenge conventional practices. In O’Reilly’s second stage, ‘identification’, which is transitional between compliance and internalisation, the subject starts to identify with the object at an emotional level. I found that the people I met in social enterprises did identify with their social mission in this way but I did not detect similar emotional connections in the mainstream.

## **8.4 Patterns of behaviour**

Commitment has been defined as relating to ‘a consistent line of action’ (Adams and Jones 1960). This section explores the question of the consistency of behaviour, as an indicator of social commitment. Despite the great diversity of objects and qualities of commitment, I found some common behavioural patterns among the cases. These were discerned by seeking the meaning behind the comments of respondents, whether baseline or properline, and by comparing the attitudes they expressed with the available evidence of their actions. The section reviews, in turn, the patterns found in three categories of enterprise – mainstream factories, brands and social enterprises – and goes on to illustrate what these mean in terms of the different balances they strike between social and commercial priorities.

### **8.4.1 Mainstream manufacturers**

Most factories I visited were reluctant to provide specific information about their labour practices and, when they did, it was not always reliable (see section 8.1.3). Lack of openness has been noted by other researchers (e.g. Oxfam 2006) and is, in itself, a

behavioural indicator. An even stronger sign of lack of genuine commitment is provided by deliberate attempts to mislead (e.g. CCC 2005). On the other hand, some respondents were willing to discuss the issues and admitted that problems existed. At the end of fieldwork I was able to put the cases on a rough scale, not against an absolute standard of openness but with respect to each other. Similarly, I ranked the cases on other criteria, based on my personal observations during factory tours, by considering what the comments of my respondents revealed about the underlying corporate attitudes and inclinations and by the evidence available on concrete activities and practices. The rankings, using different criteria, did not always match precisely. Inconsistencies, especially between claims and hard evidence, were considered a negative indicator.

Table 6 uses this evidence to place the 18 manufacturing cases into five broad behavioural categories:

*Table 6: General patterns of behaviour in mainstream*

<b>General patterns of behaviour</b>	<b>Implied social commitment</b>	<b>Illustrative qualities</b>	<b>No. cases</b>
Opposition to social aims and standards; erratic and covert behaviour, denial of 'problems'	Absence (social objects are seen as irrelevant or are rejected)	Lack of any identifiable aims or objectives regarding social welfare; double bookkeeping	4
Resistance to outside pressure; tendency to downplay issues, avoid responsibility, blame others	Minimal steps to respond to a few issues that have been singled out by others	Small number of objects, highly conditional, lack of plans for implementation, inconsistencies	3
Reluctant compliance with stds, reactive approach; tendency to exploit differences & prevaricate	Pragmatic acquiescence; grudging application of imposed standards/codes	Narrow, shallow aims, framed from the outside, action plans not fully embedded or sustained	3
Limited identification; wish to be compliant but some deceptions & smokescreens continue	Restricted application of codes and standards, without full conviction or participation	Variable breadth, depth etc.; weak specificity and implementation-readiness	3
Partial internalisation; greater openness and professionalism in HR management, mixed with benevolent paternalism	(Relatively) good practice, including some objects and initiatives of own; recognition of the business case	Acceptance of labour standards; some organisational integration; some substantive objects and desire to improve practice	5

*Sources: the findings in this table were drawn from interviews with the 18 mainstream manufacturers visited (see section 7.1) and from personal observations, including responses to questioning. Stated aims were compared, case by case, with current actions and past events to reveal level of consistency.*

Personal observations during factory tours often revealed a picture of a subservient and cowed work force. When I asked a floor manager at one factory (MP09) why those waiting for work were sitting silently contemplating their work benches I was told 'they are not allowed to talk to each other'. Many companies insisted that no workers were ever dismissed, a claim that is contradicted by documented evidence (e.g. that provided to me by a leading civil rights NGO) as well as being inherently infeasible, given the high labour turnover in most factories. Companies apparently take this line for fear of admitting liability for compensation. Generally the use of sub-contractors is denied or greatly understated in order to give a better impression of code compliance. MP14 admitted to me that they regularly 'square the inspectors' in order to cover up excessive overtime.

Production pressures, which can be traced back to the value chain conventions identified earlier encourage managers and supervisors to treat their workers simply as units of resource, rather than as fellow human beings with needs, aspirations and rights. Asked for my impressions I put this point to the General Manager (Operations) of one manufacturer (MP09) in exactly those words and, rather to my surprise, he agreed. I approached the issue indirectly in several other factory visits, asking senior managers for their view of their workers' most important priorities. Even in MP13, which prides itself on its social approach, I got nothing more than 'having a good job'. Only occasionally did respondents show any insights that displayed sensitivity to social issues. For example, the factory manager of MP10 clearly understood the issues young women face in migrating from traditional male-dominated households to organised factory work and had taken action to ease their transition.

The pattern of regarding workers simply as instruments for achieving output was also shown in the strong resistance articulated by many respondents to any form of worker organisation not controlled by management. It seems to be reinforced by an organisational culture in which 'there is a lack of leadership skills among supervisors, especially if they're promoted from within ... the focus is on getting the job done, not so much on how ... many heads of HR are ex-Army people' (industry consultant). 'Landless migrants from the countryside are easiest to deal with', according to my

respondent at MP15, because they are ‘innocent and ignorant’. Typically 3-4 workers at this plant live together in one room and many have debts to repay.

Civil society organisations gave me an even bleaker picture of behaviour. I was told by the respected head of an NGO specialising in labour issues that: ‘the use of force to manage labour is widespread, although the intensity may vary’. He claimed that companies learning about a complaint generally respond by bringing pressure to get the complaint withdrawn, maybe offering compensation. If this doesn't work, they issue threats and, if meetings are held to protest, they are broken up by force. Companies hire private detectives to follow ‘troublemakers’ around and carry out surveillance of offices, threatening, in one instance, to ‘finish off’ a union official. These accounts may seem extreme but they are supported by the experience of many researchers who have found it difficult to get workers to talk about their experiences. For example, one report recorded a ‘climate of fear’ that made workers reluctant to talk because they are scared of the repercussions (CCC 2005).

#### **8.4.2 Mainstream brands**

The same basic behavioural patterns are mirrored at brand level. Cases were found of opposition, resistance, reluctant compliance, limited identification and partial internalisation<sup>90</sup>. Although brands are generally required to provide more public information than manufacturers, the majority of it is ‘properline’ rather than ‘baseline’, always subject to selectivity and distortion. For example, MB09, a brand with a relatively good reputation, publishes the total number of social audits carried out each year, but gives no information on its supply base, on how many suppliers have passed or failed or on what the main problems are.

The behaviour of brands does not impact directly on worker welfare but has important indirect effects, mainly through purchasing practices (see section 2.1). Fear of negative publicity has made companies very reluctant to allow outsiders access to their buying departments or to question performance in the social area. They have set up social

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<sup>90</sup> Other researchers have come up with different classifications –e.g. among ETI members: ‘highly active all-rounders’; ‘highly active with little integration’; etc. (Barrientos and Smith 2004). A study by CCC describes the steps brands go through – first, denial of responsibility, then a paper commitment to standards, followed by tentative implementation of practical steps. Rarely is the final stage of meaningful worker participation achieved (CCC 2005).



compliance departments, not only to carry out code monitoring but also to deal with external enquiries. They are usually kept in a separate part of the organisation, away from the core business. In MB05 the compliance function of three people comes under the Technical Manager and is not represented at Board level. Brands are criticised by civil society organisations for covering up problems and by suppliers for operating 'double standards' (Barrientos and Smith 2006).

Genuine lack of knowledge, exacerbated by distance from the site of operations, may contribute to brands' reluctance to reveal information. SP14 reported to me that when the chief cotton buyer of one of the UK's largest clothing retailers visited their project, he admitted that it was the first time that he had actually seen a cotton field. I had the impression in several interviews with brands that respondents had difficulties answering my questions about labour practices because they themselves did not really know what was going on. My respondent at MB02 admitted that HQ staff had very little knowledge about what happened in the more distant parts of the value chain. All they knew for certain was the price of cotton and what they paid for the final article. Piecing together the various pieces of evidence, including a few revealing 'off the record' comments, a picture emerges of brands behaving in similar ways to manufacturers with, in most cases, a strong procedural, rather than substantive, emphasis. Vigorous attempts are made to control the release of information and, when problems come to light, blame is attributed to others.

Brands and their suppliers seem to be locked into relationships that are simultaneously inter-dependent and adversarial. The cardinal rule of the 'compliance game' seems to be to ensure that you are not the one that is caught out. Outside pressures are generating mainly limited, defensive measures (Krishnamoorthy 2006) in which the true situation is often obscured, e.g. when sub-contractors are not allowed to reveal the names of the brands for whom they are producing. '[A leading brand] carries out aggressive monitoring without contributing anything towards the costs of improvement' (NGO respondent). Matching manufacturers' insistence on labour flexibility is brands' conviction that, for competitive reasons, they need the freedom to manage their supply lines without constraint. Most brands are continually searching for new suppliers and evaluating existing ones. They change product specifications, prices and volumes with little consideration of the consequences for suppliers, implying that, if one manufacturer

is unable to meet their demands, they can easily find another who will. The generally soft approach to social issues is exemplified by MB09, which admits that social criteria do not form part of the selection process for suppliers. Once selected they ‘hope that a new supplier will agree to initiating a process towards certification’.

Tempering this general pattern of dynamic, market-driven uncertainty are the commitments that some leading brands have made towards their key suppliers and to cooperative projects. Two very large brands (MB03 and MB04) have commissioned independent research into the position of workers in supplier factories. Other leading brands are involved in joint initiatives –e.g. on homeworkers in India. Many progressive brands feel frustrated, caught between strident societal demands for better labour practices on the one hand and their inability to control what actually happens in their value chains on the other. Whereas manufacturers can control the tensions inherent in their situation, coercively if necessary, brands can only resort to ‘reputation management’. Meanwhile, their basic business models, which lie behind the problems, go largely unquestioned, except by a few critics, who point to the inconsistencies of simultaneously cost-cutting, insisting on flexible sourcing and production and espousing good labour practices (WWW 2004). The ambivalence of brands is matched by the attitudes of their customers, such as the female shopper who admitted: ‘if you want to be fashionable it’s very hard to be ethical’ (from Shaw et al 2004).

### **8.4.3 Social enterprises**

The behaviour of social enterprises was in marked contrast to that of mainstream companies. I found it much easier to get access and respondents were willing to discuss both practices and outcomes. Although some information was designed to present a rosy picture (e.g. I found that SP06 had exaggerated the numbers of handicapped people it employs), most was reliable. Discussions centred around substantive, rather than procedural, issues and much greater consistency was found between aims and practices, indicating a more advanced level of ‘internalisation’.

Since all cases bar one had moved beyond compliance and were generating their own social objects, I based categorisation on the intensity of their approach to substantive social change and their attitude to compromise with the commercial world:

*Table 7: General patterns of behaviour among social enterprises*

<b>General patterns of behaviour</b>	<b>Implied social commitment</b>	<b>Illustrative qualities</b>	<b>No cases</b>
Commercially-driven; emphasis on the value of maintaining craft skills; no problems working with mainstream actors	Mainly to provide work for small-scale producers; improved social outcomes are assumed to come from this	Instrumental: e.g. long-term purchasing commitments, training and quality assurance	3
Some substantive social goals added to a mainly commercial business model (as above)	Provide additional support to producers, including ‘capacity building’	Selection of well-thought-through social objects, as well as instrumental ones	5
Main focus on social mission but prepared to engage, on own terms, with mainstream business	Strong determination to pursue specific goals identified as vital to livelihoods	Broad and deep set of clearly-articulated objects directly related to core social mission	4
Transformative; culture infused by social agenda; prefer to work outside mainstream business	To pursue alternative approaches, designed to create radically different outcomes	As above but deeper and less conditional	9

*Sources: analysis of empirical evidence, including interviews, at 21 social enterprises visited (see section 7.1) and comparison of stated aims with evidence of actual practice.*

Degree of intervention is one way of characterising the differences in behaviour shown in Table 7. The main aim of enterprises in the first two categories is to provide market access, leaving the producers themselves to deal with the social issues. In the last two categories social enterprises are more heavily involved in active measures to change the ‘order of things’. On the whole, the former are able to operate across wide geographical areas whereas the latter are more narrowly focused on particular communities with which they establish close relationships.

Social enterprises that have had some commercial success, such as SB01 and SI02, were found to behave, in some ways, similarly to mainstream companies, e.g. giving close attention to profit margins and being hard-headed about poorly-performing producers. But this was tempered by sensitivity to the impact of their actions. SB01, for example, told me that they ‘make a noise’ if hand-woven cloth is delivered late or if the colour varies from that specified, but they accept the delivery and find alternative uses for the fabric.

#### 8.4.4 Summary

The evidence appears to show that social commitment and behaviour are closely linked. Social enterprises tend to behave consistently towards their producers, in line with their first-order principles and intentions, whereas the actions of mainstream enterprises towards workers tend to be more inconstant, indicative of weaker, more ambiguous second-order social commitments, in which companies are endlessly juggling their priorities in order to meet commercial goals and satisfy the expectations of others. A distinguishing characteristic of the commitments and behaviour of social enterprises is a focus on worker (or producer) capabilities but these are generally regarded by mainstream companies as lying beyond the boundaries of their responsibility.

Although clear patterns of behaviour and associated ‘states of commitment’ can be discerned in each major group, there are big variations among individual enterprises<sup>91</sup>. In the mainstream these mainly represent different attitudes to compliance with labour standards. Among social enterprises they appear to be matters of choice, implying that they have a greater amount of discretion. The existence of patterns suggests that peer pressure is an important determinant of behaviour and commitment, especially in the mainstream, mainly operating indirectly through established conventions. But horizontal conventions (local customs and practices in relation to work) have to be reconciled with rules and conventions (such as low prices, flexible production and code compliance) that are transmitted vertically along the value chain and each company has to find its own solution to the inevitable dilemmas that arise when the two are incompatible.

Persistent tensions and unresolved differences among rules and conventions (to be explored later, in section 9.3) can give rise to unreliable and inconsistent behaviour. The gap between the way things ‘ought to be’ and actual practice may be considerable and attempts to cover this up, on both sides, can lead to an atmosphere of suspicion and mistrust<sup>92</sup>. Mainstream brands and suppliers are, in many cases, not being open with each other (or with the outside world) about social outcomes and about the impact of

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<sup>91</sup> There is some recognition of the existence of variations in social commitment among businesses in the literature (e.g. Reynolds and Murray 2007; Eymard-Duvernay 2002; Levy 2002). In the global food system corporate philosophies range from profit-maximising to a broader range of goals (Barrientos and Dolan 2006).

<sup>92</sup> According to CT suspicion and doubts are symptomatic of a state of ‘critical uncertainty’, caused by the existence of different evaluative frameworks, or worlds (Thévenot 2002).

their business policies and practices on employment. This lack of transparency is not only symptomatic of weak social commitment but also contributes to it, through undermining the mutual trust that is essential for effective joint action.

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This chapter has illustrated the wide variety of solutions that companies have found to the problems posed by the existence of abundant, sometimes conflicting, social and commercial priorities. ‘Balances’ have not, in general, been deliberately determined but have resulted from a myriad of individual decisions and actions, each driven by the interplay of specific rules, conventions and commitments. In the mainstream social commitments tend to be notional and procedural, resulting in inconsistent behaviour, whereas among social enterprises they are driven by the business model and are thus more reliable. However, within each group of enterprises, with their characteristic patterns of behaviour, there are significant variations, reflecting the particular circumstances –e.g. local customs and practices, value chain conventions and the convictions of the main actors involved.

## Chapter 9: Explanations

In the last chapter we examined *what* balances of priority are found in different types of enterprise. We now move on to the second line of enquiry (see Introduction) which is concerned with *why* they take the particular form they do. Which factors explain the rules, conventions and commitments that have been found empirically and what scope do individual enterprises have to depart from established norms?

Evidence already presented illustrates the struggle that is often going on between social and commercial considerations and among actors representing different interests. This can be seen theoretically as symptomatic of a contest between the civic and market worlds (see section 5.1) that has not always ended in compromises satisfactory to the various parties concerned. This chapter examines four aspects of this contest, each of

which provides part of the explanation for the wide range of balances. It explores, firstly, the evaluative frameworks that strategic actors use to judge situations and justify their actions; secondly, the influence of key stakeholders; thirdly, the ways in which enterprises go about trying to resolve differences through processes of coordination; and, fourthly, constraints imposed by the business environment. All four elements are needed to provide a full explanation of the outcomes that have been observed.

## **9.1 Reasons and justifications**

This section seeks to explain the concrete manifestations of social commitment, detailed in the last chapter, in terms of the mental constructs that lie behind people's choices and actions. It is therefore concerned with the two abstract levels of commitment, those concerned with ideas and principles (see section 5.6). This is based on a recognition that the commitments actors make and their patterns of behaviour are held together by an envelope of beliefs and assumptions about the world, and about their place within it, that set boundaries to what they see as possible and what may be 'negotiable' (Blowfield 2005). Such sets of beliefs and assumptions may be called 'cognitive conventions' (Salais 2009), which can be traced back to moral principles (Boltanski and Thévenot 2006).

Governing ideas and principles, and their associated beliefs and assumptions, are rarely made explicit. They only come to light when people have to explain and justify their actions. Even then, caution has to be used in interpreting the stated rationale, as statements are almost invariably properline, designed primarily to create an impression rather than to convey the unvarnished truth<sup>93</sup> (see section 4.1). The approach I adopted towards gathering and analysing data on reasons and justifications was to look for repetitive, underlying patterns in the empirical evidence, across cases and triangulated with other information (see chapter 8).

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<sup>93</sup> A gap often exists between the rationales that individuals give for their actions and the conventions they actually use in reaching their decisions (Argyris and Schön 1978).

### 9.1.1 Reasons

Whenever I had the opportunity to probe social commitments related to workplace practices I asked my respondents the question ‘why?’. The reasons I was given were often illuminating<sup>94</sup>, although they quickly became, for the most part, predictable. To this inventory of reasons from my own interviews I added the survey evidence (see Appendix C). The results, for mainstream enterprises, are summarised in Table 8.

*Table 8: Reasons for social commitments*

Reason given	Main effect*	Ranking Brands	Ranking Suppliers
Fear of damage to reputation	+	1	
Civil society pressure	+	2	
Desire to strengthen corporate/brand values	+	3	
Structure of chains and relationships	-	4	4
Uncertainty and cost of implementation	-	5	7
Commercial pressures	-	6	2
Lack of agreed standards	-	7	10
Lack of accountability, incentives and penalties	-	8	6
Investor pressure	+	9	
Peer pressure	o	10	
Customer pressure	+		1
Business case	o		3
Embedded social/cultural/organisational conditions	-		5
Worker and union participation	o		8
Government pressure	+		9

\*Key: + Generally works to strengthen social commitments  
 - Generally works to weaken social commitments  
 o Can work either way, or to reshape commitments

*Sources: The rankings are based on over 400 individual statements made by or about mainstream enterprises and take into account both the number of mentions and their perceived importance. They reflect judgements about actual reasons, not what the respondent thought they ought to be. Some are closely related (e.g. fear of reputational damage and civil society pressure) but they are distinguished by source and type of motivation.*

<sup>94</sup> As a senior executive of a MSI said to me: ‘different motivations have different outcomes’.

The three main reasons (see Table 8) given by brands for social commitments (mostly connected with codes) are closely linked. Some respondents cited their positive impact on corporate or brand values, others expressed a similar sentiment in negative terms, as fear of reputational damage. Practically all recognised the key role of civil society organisations in bringing pressure to bear, helping to establish standards and keeping companies up to the mark through their investigative reporting. On the other hand brands considered that the complexity of their value chains, the uncertainty and cost of implementation and commercial pressures were weakening commitments, or putting obstacles in the way of implementing codes. Some respondents expressed frustration that suppliers could not see the benefits of improving labour practices and others regretted the necessity of having to put pressure on suppliers ‘simply to meet their legal obligations’. However, brands were united in believing that they needed to apply pressure, ideally in concert with other brands, for improvements to occur in supplier factories.

Mainstream manufacturers acknowledged customer pressure to comply with codes but this was countered, often outweighed, by commercial pressures from the same source, leading to the dilemmas mentioned in section 8.1.2. ‘Meeting social standards is now a prerequisite for doing business’, explained my respondent at MP09. The owner of MP20 put it more colourfully: ‘SA8000 ... is a prestigious and well-known certificate – like the moon between the stars. It also gives an idea on how to run a factory to meet ethical standards’. But both these companies, with others, complained that the price and other contractual conditions needed to secure business made it very difficult for them to meet social standards. They accused brands of ‘double standards’ and this, in their view, excused their compliance lapses.

The business case (see section 2.5) was given as a reason by some respondents in mainstream factories, especially for health and safety measures, but generally denied for the more intractable problems of wage levels, security of employment and overtime, where social commitments were seen as adding cost and reducing flexibility. The difficulty of establishing a business case for changing core business practices is illustrated by the 3-year long project designed to reduce overtime in Chinese garment factories (Hurst et al 2005). Results, in terms of productivity improvements that maintained output levels while using fewer working hours, were achieved but only after



intensive efforts were made by a dedicated team over a prolonged period, involving significant alterations in procedures and changes in attitude at all levels.

Two reasons were notable by their absence in the mainstream. First, the idea of the ‘rightness’ of treating workers well was rarely expressed, except in the personal testimonies of some social auditors. This suggests that decisions on labour issues are determined largely by pragmatic considerations. And, second, the link between workplace practices and social outcomes for workers did not seem to be recognised. The comments taken as a whole make it clear that, in the mainstream, social standards are generally seen as a ‘technical’ issue. In contrast, the reasons given by social enterprises for their approach centred around human and moral issues. The main driver of commitment was universally explained as concern for the welfare of producers (e.g. SP01, which sets out to provide hope and work for slum dwellers; and SP14, where the bottom line is farmer livelihoods). Conformity with standards (e.g. FT principles and organic standards, as expressed by SP08) and reputational concerns (e.g. SB04) were also sometimes part of the stated rationale but these were not as prominent as arguments based on fairness and justice.

### **9.1.2 Cognitive conventions**

The above reasons reflect ‘ways of thinking’, or sets of assumptions, that may not be made explicit but which, nevertheless, provide sufficient reason for action. By considering the types of rationale offered by corporate respondents for both social and commercial commitments four main cognitive strands were discerned, which were found to exist in different proportions in each case. The first strand involves acceptance of the overriding importance of maintaining low prices and maximum flexibility (see section 8.2.3). The second is closely related – the need to adopt efficient, modern methods of production, including specialisation of tasks and organisation into work lines. The third strand relates to respecting and conforming to traditional or customary ways of doing things and the fourth involves responding to calls to meet societal expectations of fairness.

In the setting of wages, the first way of thinking leads to setting the lowest possible pay rates, whereas the second way recognises the need to attract and retain workers capable of high levels of efficiency. The third uses local market rates as the main reference point

while the fourth looks to minimum wage regulations or even the concept of a living wage. These different ways of looking at the same issue are not necessarily always in conflict but they may pull in different directions. To take another issue, hiring policy focuses on the most pliable workers under the first rationale, on the most productive in the second, on the type of workers traditionally employed for that type of work in the third and on ensuring fair opportunities for all applicants, without discrimination, in the fourth.

In some cases, one cognitive convention appears to be dominant. For example, the statements made by MP14 and MP22 reveal a strong emphasis on labour price and flexibility; many of MP13's comments refer to efficiency considerations; MP17 and SP04 cite traditional practices as their main rationale; and SP09 and SP12's approaches seem to be mainly driven by a concern to be fair and just. In other cases, comments are mixed, indicating that respondents take more than one factor into account. MP19, for example, is in a state of flux as traditional workplace practices, with work organised under master craftsmen, are being replaced by new methods introduced by 'experts', based on efficient work flow. SP15, a FT organisation with strong social concerns, is also under pressure to demonstrate efficiency in order to meet the requirements of funders.

Common factors among the cases that succeed in sustaining social alongside commercial commitments are: (a) the presence of cognitive conventions that include the fourth strand (fairness) in combination with other strands; and (b) organisational stability that enables the conventions to become embedded in the corporate culture. Thus, successful social enterprises (SB01, SI02, SP05 and SP14) all have leaders who take an active role in deciding which specific projects, orders etc. should be pursued and long-serving support staff who understand the subtleties of implementation (i.e. how to ensure profitable orders as well as social benefits to producers). Mainstream enterprises operate on a larger scale, making such close operational involvement by top managers infeasible but those cases that achieve the 'best balance' (MP07, MP10, MP18, MT01) are all family owned, with the family's values and social commitments being clearly understood at lower levels of the organisation, judging by the comments of my respondents.

Cognitive conventions, whether single strand or mixed, were found to vary significantly across the cases, offering a partial explanation of the differences in commitment and behaviour noted in the previous chapter<sup>95</sup>. Where social commitments were most strongly established, cognitive conventions were found that reflected a broad range of different perspectives.

### 9.1.3 Justifications

Tensions between commercial and social priorities have been noted throughout this thesis and may be framed simply as a struggle between the market and civic worlds<sup>96</sup>. Actions in the former world are justified by recourse to the ultimate yardstick of money and in the latter world on the basis of human dignity and rights. While these two worlds lie at the heart of the contest, the analysis of reasons and cognitive conventions shows that other worlds are also involved. Price and flexibility are characteristic of the market world but the concept of efficiency as a measure of worth comes from the industrial world. Social issues are civic concerns but traditional practices arise from the domestic world. The frequently-expressed fears of reputational damage demonstrate the importance of the world of fame and it is clear that some actors, especially in social enterprises, act towards workers out of a sense of personal conviction (inspired world). The presence of worlds of justification can be detected by the use of language, which reveals the criteria that people apply to situations in order to judge them. I therefore carefully analysed the actual words used by respondents when they expressed evaluative judgements in order to discern their basis of justification.

Three case examples illustrate the mixture of justifications that may be employed. Some years ago a leading brand (MB06) was considering adopting labour standards and commissioned an internal study. The report presented to the Board gave three main reasons for going ahead: (a) ‘it was not right to exploit people in the value chain’ (civic justification); (b) it was what their customers expected, even though they weren’t articulating their concerns at present (market); and (c) pressures from NGOs, the media and investors (fame). In a second case the mainstream supplier (MP07) to a Swiss brand became interested in FT and organic products because of: (a) consumer demand in

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<sup>95</sup> Other research confirms this –e.g., in Tirupur, a ‘trader mindset’ is dominant, particularly among the smaller companies, leading to hire and fire approaches to employment (Kizhisseri and John 2006).

<sup>96</sup> See section 5.1 for the six ‘worlds of justification’ defined by Convention Theory.

Switzerland (market); (b) the ethical expectations of shareholders (fame); (c) traceability and transparency in value chain management (industrial); and (d) the strong and long-standing personal relationship between the leaders of the Swiss and Indian operations (domestic). The third case, an Indian brand (MP06) that has recently entered the clothing market, told me that they had consciously decided to position themselves at the top end of the quality and social responsibility spectrum, in order to create a springboard for international expansion, in which they deemed both factors to be important. Their social responsibility credentials are being established and conveyed through a series of well-publicised social projects.

These three companies may not have resolved all the problems of reconciling demands coming from different worlds but, in their strategic thinking, they have recognised the validity of more than one ‘value system’. This may be a necessary first step towards the development of corporate conventions, at a cognitive and operational level, that reflect a balance between social and commercial priorities. From the available evidence, the three enterprises appear to have stronger than average social commitment. More typical are companies that did not show much sign of having recognised or accepted the validity of ‘opposing’ worlds of justification. Over half the mainstream manufacturers I interviewed did not appear to accept the principles embodied in codes of labour conduct while a substantial proportion of social enterprises I studied were suspicious both of the workings of markets and of the value of efficiency. The polarisation and imbalances noted in chapter 8 reflect incomprehension of worlds that are thought to be ‘foreign’.

Because the civic and market worlds use such incompatible<sup>97</sup> concepts and measures of value other worlds are often pressed into service in order to bridge the gap. Mainstream business has developed tools drawn from the industrial world to define what social responsibility is. Concepts of standards and codes of conduct, of inspection and pass/fail compliance measures are all industrial in nature<sup>98</sup>. Coming from a different direction, social activists have adopted the world of fame in pursuing social justice. Civil society campaigners attempt to damage corporate reputations by making accusations and

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<sup>97</sup> The civic and market worlds can only be made compatible when all actors, including customers, fully recognise the market worth of the social value embedded in ‘ethical’ products.

<sup>98</sup> This is revealed by the comments of a social auditor, who told me: ‘the guiding rule of our operation is that, if you know about a deviation, you can correct it’.

companies respond by making claims, which are either defensive (measures to limit the reputational damage) or offensive (attempts to build social values into their brands).

These two mediating worlds introduce complications. The fractious debate about the code compliance system (see section 2.4) shows how difficult it is to turn issues of human dignity into measurable objects. And the procedural emphasis noted in section 8.2.2 is a direct result of using industrial tools as a surrogate for civic concerns. Debates carried out in the world of fame are infused with spin, as noted in the last chapter, and tend to result in defensive and covert behaviour, which does not help formation of stable, balanced commitments. The data indicate that the domestic world is also extensively used to mediate between competing demands coming from the market and civic worlds. Organisational stability, long-term relationships between brands and suppliers and senior management involvement all attest to the role of personal contact.

According to CT any single world can provide a moral justification for action but that judgements are always open to critique from other worlds (Boltanski and Thévenot 2006). Justification within a single world requires acceptance by all actors involved of a common basis of evaluation (ordering of worth). Where no such agreement exists actors must reach compromises based on accepting the validity of objects, orderings and methods of evaluation drawn from other worlds. The evidence shows that there is, in large part, no such acceptance in the empirical field of study and that, in practice, many actors tend to call on whichever world suits them best at the time to justify their actions. This gives rise to a major problem of coordination, which will be explored later (section 9.3). But from the examples of mixed cognitive conventions that have been found (see last sub-section) we can also conclude that, in a few cases, actors have been able to forge compromises among different worlds.

#### **9.1.4 Summary**

This section illustrates the importance of the two ‘higher’ levels of commitment – to principles and to ideas – and their close relationship to one another and to the more concrete manifestations of commitment. An enterprise’s overall view of the world shapes its interpretation of situations and guides its actions. The GT approach, which insists on probing the ‘why’ questions, has been helpful in revealing the beliefs and assumptions that lie behind the behaviours described in the previous chapter.

The civic world is poorly recognised in most mainstream enterprises. Its introduction usually has to be indirect, since its principles are not understood or accepted, and another world is used to convey society's demands for social justice. Campaigners use the world of fame to convince businesses to take their social responsibilities seriously and concepts from the industrial world are employed to convert social principles into performance metrics. Personal relationships, rooted in the domestic world, can help translate civic aims into social commitments. But these mediating worlds may distort reality and distract attention from the need to integrate social factors directly into corporate decision-making.

Companies with stable, balanced commitments have internalised cognitive conventions that take the different 'world views' into account, without allowing a single one to dominate completely. Those lacking balance – mainstream companies with weak social commitment and social enterprises with weak commercial commitment – fail to accept principles and ideas from opposing worlds and/or to integrate them into their business models and operations. This makes it difficult for them to deal effectively with pressures coming from unfamiliar directions. They may respond by declaring certain areas 'non-negotiable' (Blowfield 2005), essentially denying the validity of claims based on equitable principles they disagree with or don't understand.

## **9.2 Stakeholder influence**

Section 2.5 explained that CSR approaches are based on stakeholder theory, which holds that a socially-responsible enterprise should engage with outside groups, such as customers, suppliers, civil society organisations, unions and workers, and respond to their legitimate demands (Hopkins 2005). The empirical questions that arise are: (a) which are the most important stakeholders surrounding brands, manufacturers and social enterprises; and (b) what is the extent of their influence in matters of worker welfare?

The questions of perceived legitimacy and open scrutiny are central. An appropriate response by a firm to stakeholder expectations confers legitimacy (Werther and Chandler 2005) and, conversely, the firm must accept that stakeholders have a legitimate interest in what it does. Like commitment, legitimacy is mutual, with trust playing an important role in its maintenance, facilitated by an open flow of information, through which stakeholders can see if their expectations have been met.

The empirical data for this section come from two main sources: first, from case interviews<sup>99</sup>; and, second, from surveys carried out by other researchers. I found it relatively easy to identify the main stakeholders in each case but more difficult to assess the extent and nature of their influence, especially where differences existed between corporate and stakeholder interests. When facing pressure from civil society organisations, for example, there is an obvious temptation for a company to dissemble e.g. by understating the pressure or overstating the corporate response. I considered such data, coming from both sides, as properline and I took differences in perspective into account when assessing influence.

### **9.2.1 Brands**

In the survey quoted in section 2.3 the three most influential groups, across all issues, were deemed to be employees, consumers and government (Oppenheim et al 2007). However, I found scant evidence, among the cases I studied, of any of these engaging with worker welfare issues. NGOs, the group that has been exerting pressure, is only seventh in importance in the survey. This evidence illustrates both the relatively low importance accorded by brands to social issues<sup>100</sup> and also the special nature of labour issues, from their perspective. Brands are not receiving signals about these issues from the stakeholders they are used to dealing with and they are relatively unused to dealing with the group that is trying to exert influence.

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<sup>99</sup> I explored stakeholder issues with about half of the 56 enterprises I visited. On the whole, Indian manufacturers and social enterprises were more open to questioning than brands.

<sup>100</sup> This is reinforced by the low position human rights occupy in the list of value chain risk factors (McKinsey & Co 2008).

*Table 9: Stakeholder influence on the social commitments of brands*

<b>Stakeholder</b>	<b>Influence on social commitments of brand</b>
Civil society organisations	Some impact through campaigning activities, based on investigations of injustices and abuses in value chains; instrumental in setting up voluntary initiatives; continuing role in monitoring social performance; uneasy but generally cooperative relationships
International organisations	UN Declarations, ILO Conventions and other global agreements provide the framework for principles embodied in codes
Industry associations	Facilitating role; develop policies and establish standards through voluntary initiatives (MSIs); provide forum for sharing experience
National governments	National laws provide framework for operations in home country but have negligible effect outside; minor role in encouraging voluntary initiatives
Suppliers	No apparent influence in shaping commitments; seen as constraint in implementation of brand-led approaches
Unions (Northern)	Minor role, mainly through participation in voluntary initiatives
Investors	Encourage companies to publish CSR reports so as to reduce risks of reputational damage but information very general
Consumers	Negligible for mainstream brands

*Sources: interviews with corporate respondents and business surveys (e.g. Oppenheim et al 2007) .*

Table 9 shows that brands, in general, have accepted that civil society organisations play a legitimate role in defining social standards and in participating in compliance systems (through their involvement in MSIs). Most have set up social compliance departments to respond to issues raised by NGOs, journalists and campaigners. Northern brands recognise that the public trusts NGOs more than them (see section 2.3) and they build links in order to strengthen their own social responsibility credentials. However, the relationships are not open and many problems do not come to light. An NGO that prepared a report for MB09, a CSR leader, noted the difficulties civil society organisations face in playing their role as watchdogs if companies are not open about their CSR efforts. MB10 admitted to me that, when it joined a MSI, it did not realise the full extent of its obligations. The visionary CEO of MB05 is proud of his progressive social policies but his compliance officer told me that little is actually being done, although this is hidden from outside observers.



The perceived indifference of consumers, the most important stakeholders for commercial matters, presents brands with a major problem. My respondent at MB06 told me that, according to regular internal statistics, only 0.05% of their customer enquiries relate to ethical or environmental sourcing issues. Critics argue that brands should create more consumer awareness. Yet many brands are wary, fearing that more information will raise expectations that they are not in a position to meet. Following consumer research, the chief executive of MB02 is reported as saying: ‘the punters just don’t get it (ethical sourcing)’ and concluded that ‘we can’t afford to get too far ahead of our customers’. The other two normally important stakeholder groups, employees and national governments, are not actively engaged as they see the issues as falling outside their scope of responsibility.

### 9.2.2 Mainstream manufacturers

Stakeholder analysis reveals an entirely different profile of influence at manufacturing level. Table 10 shows that social demands are being led by export customers, mainly through imposition of codes of conduct. In this sector, the main source of influence is therefore aligned with the strongest stakeholder group. However, as discussed earlier, manufacturers regard the social and the commercial demands of their customers as inconsistent, the former being contingent, to some extent, on the latter, potentially weakening their actual commitment to social objects.

*Table 10: Stakeholder influence on the social commitments of manufacturers*

Stakeholder	Influence on social commitment of manufacturer
Customers	Strong pressures to conform with codes of conduct, though this is undermined by commercial pressures that make compliance difficult; lack of openness and weak levels of trust in many companies, stronger relationships in a few cases (e.g. MP08)
Owners	In family-owned companies owners exert strong influence in social matters as in other aspects of operations. Some social commitments are traceable to family values (e.g. MT01, MP08, MP18)
Indian government	The extensive raft of labour laws and regulations are weakly enforced and the prevailing view among manufacturers is that many can be ignored
Industry associations	Provide forum for discussion of social standards, but many other issues are thought more urgent; actively lobby government to relax ‘restrictive’ labour laws, as part of liberalisation agenda

Advisors and consultants	Important source of technical assistance; code compliance may be part of projects to modernise production and improve efficiency
Civil society	Negligible influence, except in a few cases on specific issues; NGOs held at arm's length by most companies and views of activists rejected by companies
Labour contractors and local community	Informal and unacknowledged but likely to be significant; labour contractors play a major role in providing production flexibility
Unions and worker organisations	In only 2 cases out of 18 were unions recognised at plant level. Generally workers had no involvement or influence

*Sources: interviews with Indian mainstream manufacturers and other respondents, including governmental bodies, consultants and NGOs (see Appendix B).*

The practical impact of codes, the main way customers exert influence, is judged by most respondents, companies and observers alike, to be extremely limited. Four reasons emerge from analysing respondents' comments. First, code requirements are seen as reflecting 'western concerns', not Indian priorities, thus having questionable legitimacy. Second, the process of scrutiny is deeply flawed, due to provision of partial, often misleading, information. Third, trust is lacking between brands and suppliers, each side being suspicious of the motives of the other, and communication is largely one-way<sup>101</sup>. And fourth, brands are not using incentives and penalties to enforce their social demands, as they do with commercial requirements.

Most garment manufacturers in India are family owned and the distinction between ownership and management, usually clear in the North, is less obvious. Owners clearly have enormous influence, of unquestioned legitimacy within their companies, on all areas of policy and operations, both directly, where the owner is also CEO (11 cases out of 18) and indirectly, through the appointment of family members or trusted associates to key executive positions (6 cases<sup>102</sup>). Boards are tightly controlled, generally without independent outside directors. The interests of owners are largely commercial but may extend beyond short-term profit e.g. to philanthropic projects. The most dynamic Indian manufacturing companies, typically members of industrial groups, tend to take a long-

<sup>101</sup> For example, brand MB06 holds international supplier conferences but their main aim, according to an Indian respondent is to 'get across' what the brand expects, rather than provide a forum for open discussion of problems.

<sup>102</sup> The remaining case is of a public company with widely held shareholdings, not family controlled. Some of the larger 'family controlled' cases have some shares listed on Indian stock exchanges.

term, strategic view of their businesses. In five cases, all of which had global aspirations, the owners seemed to understand and accept the arguments for social responsibility<sup>103</sup>. However, there is no firm evidence that this ranks any higher in their overall order of priorities than it does with Northern brands. In all other cases, social commitment, if understood at all by owners, was regarded simply as a customer requirement.

Since the Indian government liberalised the economy in the early 1990s, effectively releasing garment manufacturing, along with some other industries, from the shackles of tight regulatory control, companies have felt free largely to ignore the many laws, still standing on the statute book, that govern employment. According to an ILO labour specialist: 'the Indian government has been inactive in enforcing core labour standards, such as freedom of association'. Many of my corporate respondents were dismissive of Indian labour law, which was seen by them as outdated<sup>104</sup>. I put these points, and the supporting evidence of other researchers (e.g. Jorgensen et al 2003) to a senior director of the Textiles Committee (TC), the governmental organisation set up to supervise the industry. He explained that their current focus was on helping the Indian industry become internationally competitive. At present, the priority is to 'get the bread'. 'Labour law'<sup>105</sup> is too complex for most people to understand ... and there is a big problem of lack of enforcement'. When I asked why he said: 'government wants to enforce the law but not very strictly'. This comment goes a long way towards explaining why one of the TC's regional directors told me: 'government inspectors are ineffective ... companies either conform to the law or bribe them'. Supporting the latter point, my respondent at the ILO told me: 'labour inspectors are rotten to the core'. The Indian government has recently issued CSR guidelines (Indian Ministry of Corporate Affairs 2009) but these are very weak and most companies publish little, if any, information about their social policies and performance. A social auditor told me that one of the main reasons for poor labour practices was 'lack of effective control by government inspectors, who live on bribes'.

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<sup>103</sup> I had limited access to the owners of the larger groups, so this judgement is based largely on the comments of middle management respondents, who gave me their understanding of owners' policies.

<sup>104</sup> For example: 'there are major problems with labour laws and more flexibility is needed' (Secretary of major industry trade association)

<sup>105</sup> I was told that there are labour provisions in 38 separate Acts plus many regulations at State level.

There is some anecdotal evidence that the work of industry associations, consultants and advisors is having an impact on labour practices, through promotion of efficient production procedures, quality standards or code compliance. But the impact of these activities on labour outcomes is indirect and depends on establishing a business case. No respondent I asked thought that Indian consumers had any influence. According to an Indian store manager: ‘customers don’t ask about the social conditions in which clothes are made ... and social issues don’t affect their purchasing behaviour’. I did not find a single case where there was meaningful participation of workers or unions in the process of negotiating terms and conditions at factory level<sup>106</sup>. This may, in part, be because unions are internally fragmented, politically coloured and uninterested in (or incapable of) representing marginal workers, such as women and migrants (De Neve 2008). There is also deep-seated antagonism towards NGOs, whose activities are mainly restricted to non-controversial areas, such as help with recruitment. According to an experienced NGO director who has worked on these issues for many years: ‘NGOs are ineffective because they are not united. Also, they get threatened.’ He went on to say that, because workers’ expectations are not met at work, ‘their heart remains in the village’. It seems clear that neither workers, nor unions, nor NGOs are seen by companies as having a legitimate role in determining wages and conditions.

Stakeholder influence varied significantly from case to case. In one of the larger companies (MP06) conformity with the law was stressed, another (MP20) was actively involved in discussions with the government on industry regulations. I found a company (MT01) which claimed to have constructive relationships with NGOs and two that recognised unions (MT01 and MP07). But these were exceptions. The general picture I found was one of very limited involvement by Indian companies with outside stakeholders.

### **9.2.3 Social enterprises**

Social and commercial commitments are more closely linked in social enterprises and Table 11 considers them together:

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<sup>106</sup> In two cases unions were recognised and played a consultative role. In Tirupur negotiations are regularly conducted between members of the industry trade association (Tirupur Exporters Association) and unions in order to regularise wage levels and prevent undercutting.

*Table 11: Stakeholder influence on the commitments of social enterprises*

<b>Stakeholder</b>	<b>Influence on commitment of enterprise</b>
Customers	Most enterprises are dependent on a small number of customers, to whom they are closely linked via a network (e.g. FT); these key customers have a strong say in social and commercial priorities through the orders they give and the support they provide
Directors	The personal convictions of the leader of the enterprise determine the balance between social and commercial priorities, shape its policies and practices and are reflected in its customer relationships
Staff	Senior and long-standing members of social enterprises can be influential in the operationalisation of commitments
Networks (e.g. FT organisations)	Membership of a network, such as FT or a craft group, brings a set of values and approaches that affect both social and commercial commitments
Producer groups	Although there is a great deal of informal contact between social enterprises and their producers there is little evidence of producer groups directly influencing the commitment of the enterprises
Indian government	Negligible, apart from setting up institutional structures, such as cooperatives and self-help groups

*Sources: interviews with social enterprises in India and in the North, together with the FT literature.*

Customers are the dominant external stakeholder group and their influence affects social and commercial priorities in much more integrated way than in the mainstream. For the most part they recognise the ‘mixed’ nature of the business models and, through common network membership, share the same values. Whereas in the mainstream social requirements are seen as an add-on to a fundamentally commercial agenda, social enterprises look to their key customers to provide orders that are both commercially viable and in keeping with their social aims. Twelve of the eighteen Indian social enterprises I studied were dependent on a small number of key customers who were part of the same network, either FT or a craft organisation. Most of them also relied on their customers, or other members of the network, to support their social programmes.

The directors, or chief executives, of social enterprises are the equivalent of owners in the mainstream but they tend to be more closely involved in the day-to-day workings of their organisations. In all except two cases (those with the weakest social commitment), I found strong, often charismatic, leaders, who were the focal points of their

organisations and got personally involved in all important decisions. They seem to embody the social mission and adjudicate on the tricky issues that arise when commercial priorities conflict with social ones. In the larger organisations the leaders are generally supported by able and experienced lieutenants, capable of translating the mission into practical measures.

Customer-supplier relationships are based more securely on trust than in the mainstream but are similarly unbalanced. Many of the Indian enterprises are essentially reactive, responding to the commercial and other requirements set by their customers. They find it difficult to break out of the existing pattern of activities and grasp new opportunities.

Among FTOs, the various institutions of the FT movement are acknowledged as exerting some influence, both through promoting FT principles and procedures and also through informal contacts, but the government seems to have very little impact. A surprising finding was the lack of active involvement by producers themselves. Many producer groups are set up as cooperatives, societies or self-help groups, with nominal self-determination, but, in practice, it turns out that most are heavily dependent on the local NGO (e.g. umbrella organisation). And few respondents mentioned any outside pressure or felt under any obligation to provide a wider account of their activities. SP03 told me that they do not experience any pressure from the FT system but, in passing, contrasted this hands-off approach with that of a mainstream customer, IKEA, which does a regular and thorough social audit, taking nothing at face value.

The two farming projects showed the widest stakeholder involvement. SP14 has investors from the private sector, an active Board, including independent directors, extensive links with other NGOs and has brought in the state government as a partner in a new project. SP15, a newer initiative, was set up from the start to see if participative approaches, modelled on the Latin American model, would work in India. Separate societies are being set up for each cluster of farmers, linked to a central cooperative society, which will own 70% of the marketing company, giving farmers, in theory, a controlling say in contracts and trading. It is too early to say whether the farmers will be able to play the active role envisaged for them. At the time of my visit the enterprise was still being run by a large team of project staff.

The general picture is one of a closed system, with tight cooperative relationships among stakeholders who are directly involved but without any great influence from the outside. Social enterprises think of themselves as part of the civil society movement and are sensitive to social demands coming from that quarter but, in general, they are not exposed to influences from the mainstream commercial world.

#### **9.2.4 Summary**

The analysis shows that the influence of outside stakeholders on social commitment is limited in all three types of enterprise. This may partly explain why companies have such varied and, in some cases, unbalanced priorities and it lends support the view of some observers that business itself is determining the shape of its relationship with society (e.g. Zadek 2001; Utting 2005; and Blowfield 2005). The lack of outside influence, together with the observed problems of legitimacy, trust and scrutiny, mean that the basic conditions underpinning stakeholder theory (e.g. Donaldson and Preston 1995) are not generally present. The most active group, Northern civil society organisations, which plays an important role in both mainstream and social enterprise (through FT and other networks), is distant both geographically and culturally from the places of employment, raising questions about whether the demands they place are fully appropriate for the Indian context.

The most serious deficiency is the lack of influence by workers themselves. In the mainstream they are almost entirely excluded from engagement on issues that affect their livelihoods. The very idea of worker representation is not accepted by most companies as legitimate. Furthermore, most manufacturers are not engaging with Indian civil society organisations, the stakeholder group that might otherwise be expected to represent workers' interests. As a result little outside pressure is being exerted by Indian stakeholders on companies to redress the imbalance in priorities.

### **9.3 Resolution of differences**

This section turns to the ways in which companies go about trying to resolve differences among their myriad commitments. Chapter 8 established that objects of commitment

exist in a state of tension and that many contain both social and commercial ingredients. The balance between social and commercial priorities therefore reflects the decisions that companies make when they pursue an object or make choices between objects. The methods of coordination they employ are distinct from the modes of governance that apply to value chains as a whole (Ponte and Gibbon 2005), though there are links between the two (see next section).

During interviews with manufacturing companies and FTOs I looked for examples of differences. I asked respondents for situations in which they faced clashes of priority. I questioned them on the choices they made, on the factors they took into account, and on the eventual outcomes. I soon became aware of the complexities of the production environment. Workers at MP09, for example, come from nearby urban locations and from more distant rural areas, are of diverse ethnicity and speak in over 20 native tongues. Managers and supervisors sometimes have to use more than one intermediary for translation. A host of cultural differences have to be overcome before the company can tackle the sort of social and commercial differences that I am particularly interested in. Management sees the most urgent task as establishing a common ‘way of doing things’ for the whole workforce, one that the supervisors can handle. Although this may be an extreme case, it seems that many companies face major challenges in resolving basic cultural and experiential differences among their people, many of whom are first generation workers, unused to factory employment. This, at the very least, complicates the task of resolving other types of difference.

### **9.3.1 Forms of difference**

The many inconsistencies in behaviour found empirically (see chapter 8) reveal differences at all levels of commitment – in labour practices, among rules and conventions, between alternative ideas of what is, or should be, happening and among principles of justice. They may appear as divergent viewpoints between the enterprise and the outside world, as alternative ways of judging situations, as disparities in the weight given to one consideration over another or as discrepancies between normative and actual practices. Table 12 shows some examples of actual differences that I found:



*Table 12: Differences among various aspects of social commitment*

<b>Difference</b>	<b>Examples from case profiles</b>	<b>Comments</b>
Definition of object	Understanding of (a) what constitutes a 'fair wage'; and (b) what 'harsh or inhumane treatment' means	Differences in perception and understanding arise where social and cultural norms vary
Priority of object	Varied views on enrolling workers in ESI and PF (governmental social benefits and insurance schemes)	People evaluate objects differently, partly on grounds of principle and partly on actual experience
Relative importance of object	Keeping to limits on working hours vs. meeting delivery deadlines	How conflicting priorities are resolved depends on circumstances
Incompatible demands of different groups of people	Dilemma between supporting existing producer groups and taking on new groups (FT organisations)	These may arise from differences among stakeholder groups or from internal priority-setting
Between alternative conventions (or rules)	Pricing according to what the market can bear may differ from what is needed to pay 'fair wages' to workers	Conventions (and rules) imply different values and 'ways of thinking'
Between rules and conventions	'No discrimination' rule is seen by many as incompatible with traditional patterns of employment (by ethnicity, caste, gender etc.)	Rules and conventions differ in their origins and in the normative assumptions they contain
Among business goals	Maximising sales or profit and maintaining a reputation for social responsibility	Enterprises have multiple objectives, which may lead to dilemmas

*Sources: examples are drawn from typical statements made by corporate respondents when asked about the differences they experienced or when comparing one case with another. Many other similar examples were found. The comments are my interpretation of the nature of the difference.*

The differences shown above are illustrative and represent only a fraction of all those that may exist. All commitment levels, from principles to practices, are present, directly or indirectly, in each example, and there are commercial as well as social aspects to every instance. An important source of difference arises from conflicts between vertical and horizontal pressures. Customer demands on price, volume, delivery and labour standards are often at odds with local factors influencing labour conditions. This can be seen either as a clash of worlds (e.g. market vs. civic or domestic), of stakeholders, of conventions or of cultures.

Disagreements about specific issues may lead to a range of arguments being deployed. For example, the question of enrolling workers in the ESI and PF social protection schemes, which is closely connected to the issue of permanent employment, is a matter of principle for social justice campaigners but often resisted on the grounds of cost and efficacy. The views of workers (for which I have only secondary evidence) are varied: some welcome the basic security; some resent deductions from their pay; and others doubt the practical benefits (see section 8.3.1). To take another example, a study commissioned by MB09 found that ‘excessive overtime’ was perceived by many workers as necessary for their survival. They reported that, if hours were limited to conform to codes, they would have to look elsewhere for extra work to supplement their incomes.

Many differences are difficult to resolve, even between people in the same situation and cultural context. I came across neighbouring farmers and friends (SP14) who differed radically over the benefits of Fair Trade and a husband and wife (SP15) who could not agree on whether to go organic. In this latter instance, the woman’s concern for a secure and regular income for her family was at odds with the man’s ideals and hopes for better prices in 2-3 years’ time. Social enterprises are constantly faced with dilemmas. A craft group (SB03) described the ‘fashion trap’ in which their recent success in creative designs has led to increasing demands from their customers for more new products. This is posing big problems for their producers, who are unused to and ill-equipped for rapid product changes. SB02, a social enterprise with private investors, talked about the difficulties that they experience in delivering a profit while building up their network of craft groups. The director of a craft association told me that ‘there’s a real problem reconciling artisanal production with commercial pressures’.

Mainstream brands face their own challenges, such as the difficulty of maintaining low prices and flexibility, on the one hand, and insisting on labour standards, on the other. A major study (Acona 2004) concluded that many companies are pursuing a buying strategy that creates tensions, or directly conflicts, with their commitment to ethical trading. A progressive brand (MB02) told me that they delayed the introduction of FT products in their stores because they were worried about the possible conflict between FT’s ethical claims and those inherent in their own brand.

### 9.3.2 Modes of coordination

The data show that many differences remain unresolved, resulting in an unstable and unsatisfactory balance of priorities. But, in 9 cases out of 40 (excluding brands), I found signs of a better balance, implying that some form of coordination had taken place: five mainstream manufacturers with relatively strong social commitment (see section 8.4.1) and four social enterprises that had achieved greater commercial success than the others. I examined how these nine companies went about resolving social and commercial differences and found two main methods: (a) regulatory –i.e. using a set of rules and procedures to ensure that social as well as commercial priorities were met; and (b) personal –i.e. relying on the judgement of individuals to ensure a balance.

I found no evidence among the ‘better’ mainstream manufacturers that they differed markedly from the other companies in their use of regulation. Three of the five cases were garment exporters, subject to the same labour codes and procedures as other exporters. On the whole, they seemed more relaxed than other companies about code compliance and stressed the importance of the other things that fell outside the codes. MP07, for example, was an early adopter of the SA8000 standard but is also fully unionised, issues workers with contracts, invests in training and has a host of social projects, all with the strong personal support of its only customer. MP08, also heavily reliant on a single brand, has a team of Italian technicians constantly on site, whose job is not only to assure product quality but also to see that the factory meets the highest European standards in all aspects of production, including working conditions and welfare (see Box 1).

#### **Box 1: The value of the personal touch**

The Personnel Director of MP08 is, unusually, female and uses mainly female staff to deal, informally, with problems raised by their predominantly female work force. MP18 is owned and run by a woman, who told me that their personnel policies were ‘based on the idea that each human being needs the basics of money but also requires understanding and the opportunity to learn’. Many of the new workers arrive scared and timid, she said. The company’s approach was to get to know them and their families and to help them feel positively about their work. The company organises discussion groups and workers are encouraged to make suggestions.

The other two mainstream manufacturers with a better balance serve the domestic market and are not subject to codes. Yet they take social priorities into account. The factory manager of MP10 told me that he sees himself as ‘the representative of the workers’, whose duty it is to take care of them. Going round the factory together, it was clear that he knew everyone and took a personal interest in their welfare as well as in

their productivity. He employed an on-site doctor to look after the workers' mental, as well as physical, health. The doctor told me that many new recruits, mostly female, had no previous experience of working in a factory. In their male-dominated homes, often blighted by alcoholism, they faced great stress, the results of which she has to deal with. It is clear that, in this cases, as in the others quoted above, the personal commitment of the management is more important than recourse to rules in achieving a set of priorities that responds, at least to some extent, to social concerns.

The same pattern is found among social enterprises. It is not attention to rules that distinguishes the better balanced cases from the others but personal relationships (see Box 2). Social enterprises may be subject to regulation (e.g. FT labelling requirements), but this is not a major factor in how they make

**Box 2: Dealing fairly with craft groups**

SB01, a retailer of hand-made textile products, prides itself on the mutual trust in its relationship with craft groups, nurtured over many years of working together. It takes the weaver's word for the length of fabric supplied (to avoid having to check every roll) and never returns materials if demand changes. After being issued to tailors, excess fabric is often returned by them. A few years ago it had to introduce a 15-day delay in payment to producers, for financial reasons. Some senior and long-standing members of staff were very upset and had to be painstakingly convinced of the reasons behind the decision.

their decisions. Indeed they may be fiercely critical of rules if they see them conflicting with their social objectives. For example, SP14 does not agree with all aspects of either FT or organic standards for cotton growers (because they don't help farmer livelihoods), but they accept them as necessary for market access. Personal judgement is more important than rules and this is reflected in WFTO accreditation procedures, which are based on self-assessment and peer review.

The common factor among the nine cases is the presence of strong personal leadership, convinced that both sets of priorities are important. Of these, the three cases that I investigated in depth had an organisational culture in which social and commercial priorities were routinely considered. Section 9.2.3 established that successful social enterprises typically have hands-on directors, who get personally involved in decisions requiring judgements among priorities. In some cases they also create an environment in which this becomes a natural part of decision-making throughout the company. The same seems to be true of mainstream companies.

Some brands attempt to influence priorities through personal relationships with their key suppliers, or 'partners', and by encouraging social projects (e.g. MB02 and MP07).

A study supported by a major clothing brand contrasted work practices at two Mexican garment factories, both major suppliers (Locke and Romis 2006). One used standard assembly line methods and strongly emphasised the need to meet the brand's stated requirements. It was rated as technically excellent, but with little worker participation or interaction with the brand. At the other factory workers coordinated their own work in groups and were more closely involved in organising production. The study concluded that the first factory was locked into a compliance trap whereas the second was further ahead in terms of social performance, thanks partly to encouragement and support from the brand.

Further supporting evidence is provided by a study of Chinese factories, which found that global firms develop one of two types of relationship with their suppliers on labour practice: a compliance pattern, in which the formal requirements of the customer dominate; and a collaborative pattern, implying partnership (though not equality). Low-trust, specific and short-term contacts of the former type are contrasted with higher-trust, selective and enduring relationships of the latter (Frenkel and Scott 2002).

Regulation alone, as a means of coordinating social and commercial priorities, is severely limited. Rather than bringing disparate considerations together, it encourages them to be separated, as shown in the way that mainstream companies are organised. Social compliance is normally set up as a separate function, outside the normal commercial operation. When I asked one brand who was responsible for making decisions when social and commercial priorities differed I was told that this was 'a matter for the Board'. As a way of dealing with the multiplicity of balancing issues that arise from day to day, this is clearly impractical.

### **9.3.3 Outcomes**

Full resolution is only one of many possible outcomes of coordination. Indeed incomplete resolution, in which not all differences are sorted out to everyone's satisfaction, may be the most common outcome. Table 13 illustrates a range of possibilities:

*Table 13: Various outcomes of coordination*

<b>Outcomes</b>	<b>Examples</b>	<b>Comments</b>
Extensive adaptation	Factory adopts new procedures to improve productivity and eliminate excessive overtime (Hurst et al 2005) FT organisation introduces new products for mainstream markets, with changes in design and price to encourage more sales (SI02)	Agreements are reached in which differences become less pronounced; new commitments reflect compromises between interest groups and/or worlds
Partial adjustment	Implementation of action plans after social audits, tackling a few issues, such as health and safety procedures, while leaving more difficult issues unchanged (MB06) Garments billed as 'hand-made' are hand-printed on mill-woven cloth and sewn with polyester thread (SB01) Payment of social insurance (ESI and PF) is limited to a small number of core staff (NGO)	Agreements are restricted to specific issues or, in some cases, may be superficial; not all differences are resolved leaving core commitments in an ambiguous state
Conflict	Lengthy dispute between NGOs representing workers and the management of Fibres and Fabrics International of Bangalore (CCC 2007)	Differences escalate to open discord disrupting regular activities; commitments take adversarial form
Exclusion	Social rules (e.g. on sub-contracting) ignored by mainstream manufacturers when not convenient 'Unsuitable' orders (i.e. outside normal parameters) turned down (SP01)	Differences are ignored or unrecognised; commitments are partial or conditional
Stalemate	Freedom of association and collective bargaining in many factories Conflicting demands of developmental activities (meeting producers' needs) and commercial requirements (SB02)	Differences are recognised but considered intractable; competing commitments coexist uneasily

*Sources: examples of typical outcomes are taken from case studies and from surveys. The comments give my interpretation of the process of resolution in these and other similar cases.*

Among the enterprises I studied I came across only a handful of examples of extensive adaptation and no instances of open conflict<sup>107</sup>. Typically I found an array of endemic, unresolved differences, of varying severity. Paradoxically, I was able to identify more examples in the 'better' companies (i.e. the nine cases identified in section 9.3.2). This

<sup>107</sup> I was given some examples of conflict from NGO respondents (see section 8.4.1).

is probably attributable to a greater willingness on their part to acknowledge and tackle differences. For example, a traditional FT enterprise prominent in mainstreaming is now facing a range of challenges – see Box 3. Other FT organisations manage to side-

**Box 3: Balancing dilemmas**

SI02, an umbrella FT organisation that provides market access and support to over 40 producer groups, has recently entered mainstream markets, through sales to non-FT customers, by opening a shop and via corporate and mail order sales. It has developed new product designs aimed at western tastes and employed staff with commercial backgrounds. It now faces the problem of how to provide stability to producers while asking them to make a more varied range of products, often in smaller quantities. It has had to find money for marketing while continuing to invest in social support. Differences include clashing views among staff, design quandaries and uncertainties about how to brand and promote. In the words of the Director: ‘commercial demands are intensifying: price, something new and immediate delivery. It's difficult to reconcile these pressures with the interests of the producer groups’.

step these tricky issues by avoiding entry into new markets and by sticking to traditional designs and ways of working. Similarly, the acceptance by mainstream manufacturers of some form of worker participation opens the door to a host of issues, which other companies are able to disregard.

Partial adjustment is therefore symptomatic of enterprises that have made some attempt to balance conflicting priorities whereas, in those that have made

little or no attempt, a pattern of exclusion or stalemate is more common, indicative of a situation where differences are simply ignored. In cases of partial resolution the arguments tend to come out into the open, at least to some extent, while with the other three types of outcome they are driven underground. The existence of unacknowledged differences raises the possibility of coercive force, in which strategic actors exercise power without regard for considerations beyond their own interests. Kizhisseri and John (2006) state that historically ‘Indian labour relations (were) organised through coercive government actions and judicial process, rather than a ... human resource promotion approach ... (and) often ended with violent consequences on both management and labour sides’.

### 9.3.4 Summary

The existence of tensions and normative differences is not surprising. What is striking is the absence, in the main, of effective methods of resolving these differences. Conflict is at the heart of Convention Theory (Eymard-Duvernay 2001) and Sen writes that there ‘is a need for openly addressing ethical issues involving conflict, when it does arise, through balancing the interests of groups with contrary interests, rather than giving total priority to the interests of one group against another’ (Sen 2000). The evidence suggests

that, in many cases, strategic actors are imposing solutions, leaving the underlying tensions and differences unchanged. Not only is this perpetuating unbalanced situations but the lack of a shared view of the social order makes the task of collective learning, thus change, more difficult (Rebérioux et al 2001). Personal coordination is potentially more effective than regulatory approaches but it depends on wider participation in coordination than that observed in all but a few mainstream cases. Social enterprises are generally more adept at resolving differences but they often struggle to reconcile commercial demands coming from the mainstream with their core social commitments.

## 9.4 Domains

It is generally assumed that the surrounding environment plays a major part in determining business behaviour and, more specifically, the value chain(s) in which companies operate. My first thought was therefore to see if GVC analysis could provide an analytic structure for exploring the balance between social and commercial priorities. The distinction between lead firms and suppliers has already been reflected in the analysis. Beyond that, forms of governance are obviously relevant and will be considered below. But, as explained in section 5.4, GVC concepts of governance have mainly been applied to the coordination of commercial priorities, not social ones.

Not being able to find a suitable basis for classification in the literature I derived my own typology by reflecting on how enterprises relate to their surroundings. I have distinguished four ‘domains’, or business systems, each with its own distinctive rules and conventions, with which all firms are expected to comply:

- The jungle in which competition is ruthless and the overriding priority is to produce commodity products at the lowest price. Neither production methods nor social standards are specified by customers or monitored by government and workers are subject to the unregulated workings of the labour market.
- The great plain where companies, mostly larger-scale, are subject to tighter product specifications and to the scrutiny of roving inspectors with clipboards. Competition is based on price, production efficiency and meeting standards, including labour codes.



- On the higher ground lead firms and their suppliers strive to create added value through distinctive brand values and to protect themselves from reputational damage by claiming better labour standards.
- In enclaves niche manufacturers and marketers develop unique products, with much higher margins, through stressing special product attributes, such as style (fashion, novelty), production method (eg, tailoring), provenance (authenticity) and social responsibility.

The boundaries between these domains are not rigid and my research reveals that many companies operate in more than one. But I have found that the scope firms have for exercising discretion in matters of social policy and practice is severely constrained by the particular domain in which their basic employment conventions are set. The findings in this section have been developed by comparing the salient factors influencing employment practice across all 56 case studies.

#### **9.4.1 The jungle**

Six of the cases are small garment manufacturers working in the unregulated informal sector. Not large enough to attract attention either from government inspectors or from major brands, these enterprises operate ‘below the radar’. Most are geared to producing standard products for the domestic market but, in four cases, companies are also doing some export business, either sub-contracted from larger companies or small run work arranged through agents.

MP17 is a typical case at the lower end of this domain. Located in run-down inner city premises on a back street, there were about 12 people working when I visited, including a boy who looked about 10, although he could have been a year or two older. A friend of the owner brings in the business. The friend lives in some style in the outskirts of the city but was not at home when I called. I was told that he works on a commission of 3% and divides the orders he gets among his friends and contacts. The founder of MP19, a short, upright figure with a heavily lined face, said he started work at the age of 10. He and his team make simple white underclothing for the local market in a single room. He is proud of being able to do every job himself. His son, freshly out of college, handles

the export side (ladies fashion wear) and was surrounded by managers, who did all the talking. The only room on which any money had been spent was the export showroom.

Enterprises in the jungle are scarcely differentiated from one another and are usually located in clusters, each having strong kinship (family and caste) ties to other firms<sup>108</sup>. They are generally owner-managed, do not keep records and take on work opportunistically, the key factor being quick delivery at the right price. Their relationships with neighbouring firms are at once complementary (often sharing work to meet deadlines) and intensely competitive. Everyone is aware of what others are doing and labour moves easily from one company to another, in response to demand. Dealers and agents with access to the market play one firm off against another.

Untouched by rules or pressure from outside stakeholders, commercial and social priorities in the jungle are determined by traditional customs and practices, based on conventions derived from the market and domestic worlds. With low barriers to entry and intense competition no company is able to challenge these conventions without putting its survival in jeopardy. Stepping out of line on wages and conditions would risk financial ruin or loss of key social and business relationships. In these conditions the scope for social commitment, as defined in this paper, is minimal. There are no strategic actors in the jungle, except perhaps the more powerful intermediaries (agents and traders).

The jungle is the largest domain, by far, in India. All but a tiny proportion of garment production<sup>109</sup> for the domestic market, which represents 70% of the industry by volume, is carried out there, as well as a fair proportion of export work, mainly sub-contracted from companies in other domains. For larger manufacturers, the jungle is an extremely valuable resource, providing instant capacity, great flexibility, specialist services (e.g. embroidery, processing) and low prices – no questions asked.

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<sup>108</sup> A Tirupur-based NGO told me that many small companies are run by people who come from poor backgrounds, within a feudal system, and are illiterate and disorganised. They resist governmental regulation and paying taxes and manage by means of personal relationships.

<sup>109</sup> A higher proportion of spinning is carried out in larger, more visible, plants but farming, processing and weaving as well as garmenting are largely hidden in the jungle.

It is difficult for an enterprise to emerge from the jungle but MP11 has that ambition. It has acquired a brand from a customer and has set up a local distribution network, in the process growing rapidly and setting up two specialised plants. The company has started the process of ISO9000 certification. However, its social commitment appears indistinguishable at present from other companies in this domain, with no on-site facilities or benefits for workers and a policy of poaching the experienced staff it needs from other firms by offering a few rupees more.

#### **9.4.2 The great plain**

Manufacturing companies that wish to develop beyond extreme dependence on agents for jobbing work have to become visible, so that they can present themselves directly to customers as competent suppliers for larger orders (though they may still be heavily reliant of intermediaries). They need to organise work more carefully, employ specialist managers, introduce systems and convey the impression of a modern, well-run operation – in short, to behave in a predictable way, in line with that expected of regular suppliers.

I visited MP13's impressive showpiece factory, which employs 5,000. Endless lines of work stations are laid out in vast halls, and teams of managers measure every aspect of the operation. The same company has at least 30 other factories, to many of which visitors are not taken. They make, in total, 3 million garments a month and individual runs can be as high as 200,000. The bulk of their output goes to ten overseas brands. As far as I could judge from my carefully shepherded tour, facilities for workers are good. I found an atmosphere of intense concentration, workers barely seeming to have the time to look up from their benches.

MP15 has a single factory, with a workforce of around 300, doing school uniforms for the local market as well as substantial exports, 60% of which go to one customer. A new factory solely for exports was due to come on stream in a month's time. The factory layout and operation is similar to MP13, but on a smaller scale, and facilities are more basic. The embroidery work required by their key customer is done by Muslim women at home. Of the six great plain manufacturers I visited four were recent start-ups on green field sites. Two of these were established by large, diversified industrial groups and the other two by families with long experience of the market.

Great plain conventions reflect a set of compromises between the market and industrial worlds. Responsiveness to market demands (price, quality, delivery and so on) have to be combined with running an efficient operation. The domestic world is still important, in the close relationships among top executives, in contacts with key customers and in arranging sub-contracting, but it is less prominent than in the jungle, particularly in dealings with workers.

Their greater visibility attracts the attention of social inspectors but, for reasons already cited, this has little actual impact on the conventions governing labour. The civic world is present second-hand (in codes of conduct) but these are acted on only if a business case can be made. A 'trader mentality' is still strong in this domain, sustained by chronic anxiety about future orders, and it is the norm to maintain a flexible labour force and to use sub-contractors extensively. As a result, companies tend to behave reactively to social pressures, resisting them or conforming reluctantly.

Wages and working conditions are undoubtedly better than in the jungle and the scope for social commitment is greater. But, in practice, little difference was found among great plain manufacturers in their social practices, except their skill in playing the compliance game. Though not physically connected with each other as closely as their jungle cousins, they are aware of what their competitors are doing and tend to behave, herd-like, in a similar fashion. The great bulk of export manufacturing is handled by factories on the great plain (though a lot of work is sub-contracted into the jungle – see above) and a very small, but growing, proportion of domestic production (principally for branded clothing).

The majority of brands inhabit their own great plain, doing just enough to meet societal expectations, keeping in line with their competitors and syndicating their risks through participation in MSIs.

### **9.4.3 Higher ground**

I did not find any manufacturer that had established strong social commitments independently. The seven cases where I judged social practices to be progressive were all heavily supported in their efforts by their main, or sole, higher ground customer. In

three cases this was a foreign brand and, in the other four (two under the same ownership), an Indian company. The main motivation for brands to reach higher ground is the desire to establish a reputation for social responsibility and this may be associated with other aims, e.g. superior designs, better quality or environmental awareness. Often such companies charge slightly higher prices, creating an extra margin to support the higher investment needed. Strategically, they set out to create a competitive advantage through differentiation, rather than just trying to match their competitors.

The business literature on corporate strategy addresses these questions. Kim and Mauborgne describe how leading companies attempt to 'create uncontested market space' in the blue ocean, thereby avoiding the perils of the bloody 'red ocean' in which undifferentiated rivals compete for the same business, using near-identical offerings and strategies (Kim and Mauborgne 2005). Porter and Kramer suggest that companies can use social responsibility strategically as a means of promoting corporate success (Porter and Kramer 2006). Brands seeking the higher ground are, in effect, pursuing blue ocean strategies, seeking the rewards of superior brand loyalty by creating distinctive social values. They are more sensitive than other companies to possible damage to the integrity of their brands. A social compliance officer who had worked for several brands said that this sensitivity varied from brand to brand, depending on the CEO's interpretation.

MB02 has long had a reputation for treating its customers, staff and suppliers well. Faced with intensifying High Street competition, this UK brand is now trying to re-establish its ethical credentials through CSR leadership. MB03 has been attacked in the past by activists for poor labour practices and is now trying to regain the initiative. The strategy of the Indian brand MB14 is to achieve a high reputation for CSR, prior to exploiting its up-market brands internationally. The consumer's trust in the brand and the product, and the social claims surrounding them, are vital on the higher ground. Before global outsourcing, many leading Northern brands had their own manufacturing facilities. Now they are establishing partnerships with Southern suppliers, based on longer-term relationships.

I found the manufacturers supplying 'ethical brands' to be more open about their social performance, to have thought harder about their employment policies and to have a

wider range of social projects. I could detect traces of the civic world within their operations, implying that social commitments have been partly internalised. The range of conventions governing labour appear more complex, with all the worlds of justification being present to some degree.

MP18, for example, still has the same main export customer as when it started up 7 years ago. It now makes 7 million garments a year and claims a ‘perfect understanding’. It recruits through church contacts, takes great care in the training of new recruits and offers contracts to workers from the start. MP10 is part of an Indian group and manufactures clothes for the domestic market, mostly sold in company-owned stores. The factory manager is encouraged to use ‘enlightened policies’ towards workers and the local community. He told me that his personal performance is partly evaluated on staff retention.

The boundary between the higher ground and the great plain is by no means fixed or certain. Partly this is because the domain relies on claims about social performance, which are difficult to verify, and partly because of the difficulty in maintaining the cooperative relationships between brand and supplier that are so essential. Socially-responsive manufacturers are few in number and many ethical brands buy extensively from manufacturers on the great plain.

#### **9.4.4 Enclaves**

The fourth domain is home to niche manufacturers and social enterprises. Small in size, fragmented, yet with strong social commitment, social enterprises are supported and protected from the full force of competition by a patron, either a charity, a network organisation or another business enterprise, because they are not strong enough to be commercially viable on their own. I investigated two types of social enterprise, FT organisations and craft groups. The first are protected by the FT network, which provides them with market access, brand recognition and systems, as well as practical help. The latter rely on craft marketing organisations to sell their products and, sometimes, for other services.

SP05 is a collection of 800 weavers organised into societies within a single village and the area surrounding it. They are entirely dependent for sales on a single FT customer,

which set up the project and markets everything they make via five retail outlets, wholesale and mail order. SP07 was started as a private company, with producers as shareholders, to sell to the domestic Indian market. Their main customer (SB01) has helped them grow by providing funds at special terms.

A common feature of enterprises in enclaves is a rejection of the industrial world. In place of mass production and efficiency come creative design and craft skills, elements from the world of inspiration. Prices are generally much higher than in the mainstream and intangible product attributes provide the main basis of competition. Since the customer is interested in the provenance of the product the link between producer and consumer is more direct and relationships between marketing organisations and producer groups are closer.

Social enterprises vary greatly, reflecting their circumstances and different balances among the worlds of justification, all of which are present to some degree. However, significant barriers to entry may exist and enterprises have to conform to a great variety of conventions determined by the patron. In practice, similar patterns of social commitment and behaviour were found among enterprises within a single organisational umbrella, implying that the individual producer groups rarely have strategic agency.

Although the craft sector of the Indian textile industry is still large, the vast bulk of it is unprotected and therefore not in enclaves. And many FT producer groups are forced to sell into the jungle, as demand from their FT customers is insufficient to sustain the business<sup>110</sup>, and they source materials from jungle enterprises, including traders.

#### **9.4.5 Comparison and summary.**

Table 14 classifies the 56 cases by domain<sup>111</sup>, revealing significant variations in patterns of behaviour, in value chain governance, in source and nature of commitments, in methods of coordination and in employment conventions:

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<sup>110</sup> According to the Director of SI01, an umbrella FTO, ‘all our producer groups have other outlets. The proportion they sell to us varies from 20% to 80%. The rest goes through agents and exporters and some to domestic sources, such as emporia and exhibitions, mostly controlled by the government’.

<sup>111</sup> Where enterprises do business in more than one domain the dominant one (by weight of business) has been chosen. Individual enterprises show some variations in behaviour, due to other factors such as size of company, ownership, location and customer mix.

Table 14: Domain comparison

	<b>Jungle</b>	<b>Great Plain</b>	<b>Higher Ground</b>	<b>Enclaves</b>
<b>No of cases</b>	6	14	14	22
<b>Overall drivers</b>	Short-term survival	Growth and economic viability, medium term	Longer-term brand values, differentiation	Alternative qualities, lasting values
<b>Customer expectations</b>	Product functionality and low price	Style, quality and price	Brand values embodied in product	Unique product attributes
<b>Value chain governance</b>	Classic market	Buyer-driven (market)	Buyer-driven (relational)	Partly producer-driven
<b>Employment conventions</b>	Min. wage bill, max. labour flexibility	Treat core staff well, others as jungle	Better wages and conditions, training	Retain craft skills, treat fairly
<b>Prime source of social commitments.</b>	Market and local society	Peer influence, some customer pressure	Corporate desire to establish edge	Intentions of patron
<b>Objects and strength of social commitment</b>	Dependent on immediate interests; not articulated	Weak instrumental objects (codes); partial, conditional commitment.	Stronger instrumental + substantive objects, variable strength	Stronger, broader substantive objects; specific, published
<b>Response to social pressures</b>	Covert, opposed to outside interference	Defensive, reactive, or reluctantly compliant	Selectively proactive, seeking competitive advantage	Open, confident, explicit
<b>Main worlds of justification</b>	Market, domestic	Market, industrial, fame (some brands only)	Fame, market, industrial, some civic	Inspired, civic, domestic, market
<b>Main outside stakeholders</b>	None	Customers	Customers; MSIs/trade bodies; selected NGOs	Customers; staff; networks
<b>Coordination (of social priorities)</b>	Conventional	Largely conventional, nominal regulation	Regulatory and some personal	Mainly personal, loose regulatory, some civic
<b>Resolution of diffs. &amp; outcomes</b>	Imposed, coercively if necessary	Diff. not recognised, persistent tensions	Some recognition and attempts to resolve	Partial resolution, fewer tensions
<b>Scope to exercise discretion</b>	Practically none	Perceived as limited to marginal issues	Some, depending on brand strategy	Considerable, a matter of choice

*Sources: analysis of 56 cases, using a variety of indicators, together with comments of other respondents*

The above table shows that the scope for individual enterprises to exercise discretion in employment matters varies by domain. In the jungle, social priorities are essentially driven by commercial exigencies and companies have very little, or no, scope to depart from the norms that have been established by local labour market conventions. On the great plain employment practices still reflect their jungle origins but are moderated by



efficiency imperatives. Social pressures, as expressed in codes of conduct, struggle with commercially-driven business models, and managements feel they have little scope to depart from traditional approaches to employment. At most, they may use some discretion in the way they interpret and apply rules and conventions.

Brands on the higher ground that wish to differentiate themselves on social criteria may encourage their key suppliers to improve employment practices, along with their production methods, and the brand price premium potentially allows a margin for this. A more integrated approach to tackling production issues enables some social priorities to become internalised in business models. This opens up the possibility of creating new objects of commitment and it raises questions of priority balancing that do not exist on the great plain.

With their much higher margins, niche manufacturers and marketers in enclaves rely less on cost control and efficiency and are able to offer improved employment conditions, with greater participation and, sometimes, creative roles for workers. However, social priorities are at the discretion of enterprise management, under the guiding eye of their patrons. The social scope is greatest in this domain but outcomes depend on the personal commitment of the strategic actors.

Few examples were found of successful migration from the ‘lower’ (more constrained) domains to ‘higher’ ones, suggesting that the lure of greater discretion and potentially greater profit margins is offset by difficulties of adjustment. The evidence indicates that enterprises are, on the whole, tied to their domains and that this has a powerful influence on their social commitment and on the balance between social and commercial priorities. This finding is consistent with conclusions reached by other researchers<sup>112</sup>. The analysis also shows that the other three factors considered earlier in this chapter – the type of reasoning and justification for actions, stakeholder influence and how differences are coordinated and resolved – are closely correlated with domain.

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<sup>112</sup> For example, Salais and Storper identify four ‘worlds of production’, with different organising and operating principles, dominant conventions and forms of commitment (Salais and Storper 1992). In a later work they refine the definitions and highlight differences among the worlds in employment conventions (Storper and Salais 1997).

The explanations provided in this chapter to the question of balance have involved a variety of analytic approaches, including Convention Theory (in exploring justifications in section 9.1 and conflict in 9.3), CSR and stakeholder theory (in section 9.2) and GVC analysis (sections 9.3 and 9.4). A synthesis of the main conclusions can be made using the arenas of coordination (see section 6.2) as a framework. Reasons and justifications control the reflexive process that is at the heart of the subjective arena; stakeholder influence defines the expectations that come from the inter-subjective arena; and resolution of differences describes the process of coordination within the interactive arena. Domains, and the position of the enterprise within them, set structural limits to outcomes. This analysis implies that the particular balance found in a given firm is the product of the unique mix of these four factors that applies in its particular circumstances. It also suggests a further conclusion, that the stability of social commitments depends on the degree of consistency between demands coming from the three arenas.

## Chapter 10: Openings for change

The last two chapters have explored the *what* and the *why* of the balance between social and commercial priorities but these explanations could be regarded as static, even deterministic. If strongly rooted commercial conventions, powerful stakeholders and tightly guarded control over coordination condition what enterprises do and if domains constrain their freedom to make choices, what possibilities are there for the situation for workers to improve?

We now come to the question of change, as posed in the third line of enquiry (see Introduction). Are any changes (in the balance of priorities) taking place and, if so, what are they? This chapter looks at the evidence for change in employment outcomes and at the effects of interventions, such those promoted by FT and ethical trading. It assesses the difficulties faced by both initiatives in their efforts to strengthen social priorities and

practices and it derives some basic criteria, based on the literature on social justice, to establish whether outcomes are meeting the test of fairness.

## **10.1 Experiences of change**

It is generally agreed that some improvements in social outcomes for Indian textile and garment workers are taking place. Wages for certain categories of worker are rising (Schmitz 2006), some of the worst abuses, such as child labour, are being tackled (e.g. Kizhisseri and John 2006) and health and safety standards are improving (e.g. Barrientos and Smith 2006). What is bringing these changes about?

This section first looks at changes in social commitment among the cases in order to identify the factors that may be at work at enterprise level. Evidence for change was sought in all cases but found only in a handful. It then examines resistance to change and, drawing on interviews and on the literature, it explores the circumstances that occasionally occur to break down this resistance. Finally, it takes a broader industry-wide perspective, using data from a variety of sources, and considers the effects of forces acting on companies from the outside.

### **10.1.1 Cases of change**

The overwhelming weight of evidence from the case profiles points to the absence of significant changes in social commitment. In my discussions with mainstream manufacturers respondents repeatedly drew my attention to the commercial challenges and to the difficulties they found in meeting even the minimal requirements imposed by codes. My interviews with knowledgeable outsiders failed to produce any concrete evidence that significant changes in corporate attitudes and behaviour are taking place. Some business advisors and consultants claimed that a few companies, such as the ones they worked with, were adopting more socially-responsible practices but, on the whole, NGOs were dismissive of such claims, even alleging that things were getting worse.

My sampling methodology (see section 4.1) was designed to seek out cases of strong social commitment, where change might be expected to be taking place. But, of the 18

manufacturers I visited, I was able to detect signs of change in only four and in none of those was there compelling evidence of substantive change. In two cases the main trigger for change appeared to be response to outside pressure. MP09 started up only three years ago and has now recognised that, in its drive for commercial success, it has neglected its social practices – see Box 4. The combination of customer pressure and recruitment problems has made it realise that it needs to catch up with its peers. MP13 has been manufacturing garments for 35 years and is now a leading exporter, with numerous plants in Delhi and Bangalore. The company started being audited about nine years ago and is now acknowledged as being among the best in the industry at compliance. It cites its crèche facilities, fire drills, charitable support and SA8000 certification as evidence of its social commitment. However, I found very little to convince me that the firm’s basic employment practices, while up to a relatively good standard, have fundamentally changed over the past few years. Its main concern seems to be to maintain a good reputation for social responsibility, alongside its track record for quality, reliability and productivity.

**Box 4: Becoming compliant**

MP09 was started by a team of managers from a composite mill, backed by a \$400 million diversified industrial group, including textiles. Hectic growth is causing problems. Staff turnover and absenteeism are high and the working environment poor. The management are open about the problems, have already appointed an experienced social compliance manager and say they intend to apply for SA8000 certification, for the following reasons:

- Certification is becoming a prerequisite for attracting large volume export business they need for the planned 8-10 fold increase in production
- The need to attract good quality staff in a tighter labour market is forcing them to offer better terms and conditions

They reckon it will take five years or more to make the necessary changes and meet the social requirements

In the other two cases, the move to tackle social priorities seemed more strategic – a deliberate decision to alter the company’s position. MP11 has already been cited as an enterprise seeking to move out of the jungle and onto the great plain (see section 9.4.1). It has started the process of certification (initially ISO9000) and has received its first visit from auditors. It expects that this will lead to further demands for certification and auditing so that it can meet the requirements of the larger-scale customers whose business it hopes to attract. Change in social commitment is, at this stage, purely notional but it may evolve into a more concrete form. MP12 is already well established on the great plain and is seeking to gain higher ground. It is part of an Indian group with explicit social policies and is beginning to enter the niche market of producing garments using organic cotton, mainly for export. Its employment policies are good (e.g. after 90

days' training all new workers get contracts and are paid 20% above the minimum wage) and it is making efforts to improve working conditions.

The distinction between externally-induced and 'strategic' change is not clear cut. Clearly both were involved in all four cases – in two, outside pressures led to strategic intentions being formed and, in the other two, strategic decisions took external factors into account. The difference lies in the original source. Sources of change arising from the subjective and inter-subjective arenas will be explored in next two sections. But is there any evidence that the participation of workers or involvement by other groups in the interactive arena is leading to change?

I have already cited the best examples I have of mainstream worker participation: MP07 (union recognition); MP08 (unions and informal contacts); and MP10 (quality circles). But in none of these cases, as far as I am aware, have there actually been factory-level negotiations with workers or their representatives. The approach of these relatively progressive companies is marked by 'close collaboration', attention to training and having procedures for listening to workers' concerns. I found that all three companies were also more closely connected than others with local NGOs. There seems to be a correlation between interactive involvement with workers and NGOs and strength of social commitment and but no evidence that the former causes the latter. It seems more likely that the willingness of the three companies to engage with these groups is driven by their corporate intentions, not the other way round.

Change initiated by outside pressures and by strategic intent can be seen at brand level. The experience of two brands, MB03 and MB04, both severely criticised by campaigners for labour abuses, will be examined in the next sub-section. Other brands, such as MB02, have announced plans for improving social practices as a matter of corporate policy. But, judging by the comments of manufacturers, little has actually changed over the past few years in terms of brands' social commitment. Their greater attention to social auditing has been offset by increased commercial pressures and more shopping around.

In social enterprises social commitments are deeply rooted and not susceptible to radical change. Most of the cases I visited have been established for many years and expressed

their pride in their enduring social missions. There has been much more change in the way they have tackled commercial priorities and these will be explored in section 10.3. Section 9.4 concluded that the main drivers of commitments in enclaves are the convictions of controlling social enterprises, or patrons, and these appear to be relatively constant. There is little evidence that either external pressures (outside the social network) or participation by producers has done much to alter the array of commitments that, to a large extent, defines their identity.

Two cases went further in this direction than the other social enterprises. SP07 is constituted as a private limited company with producers as shareholders and SP15 is committed to farmer participation (see section 9.2.3). In both these cases there is potential for producers to drive future change but, at present, both projects are still being actively led by social entrepreneurs whose visionary ideas have yet to be fully realised. On the whole, it seems that the leaders of social enterprises see themselves as representing the interests of their producers and are not creating space for the latter to become involved in priority-setting. Change is being guided by priorities established in the subjective arena of the social enterprise and does not arise from the interactive or inter-subjective arenas.

### **10.1.2 Resistance to change and tipping points**

In 14 of the 18 cases of mainstream manufacturing I was unable to detect any change in social commitment. The industry observers I talked to were unanimous in agreeing that substantive changes were happening very slowly, if at all, and this picture is confirmed by other researchers (e.g. Mahmud and Kabeer 2003; CCC 2005a; Barrientos and Smith 2006). The reasons cited for lack of progress include:

- The weakness of the business case (Jorgensen et al 2003).
- Lack of pressure from consumers and governments and absence of institutional accountability (Jorgensen et al 2003).
- The complexity of value chains and the ease of concealment of abuses (WWW 2004).
- Brands' purchasing practices and poor systems at supplier level (Hurst et al 2005).
- The lack of incentives and penalties for code compliance (Mamic 2003).

- Absence of management commitment, at all levels of the value chain (Mamic 2003).
- Lack of trust and mutual suspicion between brands and their suppliers (Jorgensen et al 2003).

My own research confirms that all of the above factors play some part in fostering resistance to change. It also highlights the importance of conventions in maintaining the status quo. Frenzied business activity since economic liberalisation has established strong value chain conventions, which have been grafted onto the tradition of unscrutinised management and labour practices in the informal sector. New social rules have struggled to compete with these now strongly ingrained habits. According to an NGO respondent, in Tirupur ‘there is a culture of “fixing” problems, e.g. through bribes or using outside consultants, rather than getting down to the task of improving practices’. A Deputy Director of the Textiles Committee told me that ‘changing the mindsets of middle managers and supervisors will take years’. The hierarchical and authoritarian style of many business owners, who see no value in involving workers, unions or NGOs in social issues and expect their subordinates to be deferential, is an obstacle to change in the view of other observers. In MP09 I found that Welfare Officers were responsible for disciplinary matters, as well as for training and counselling.

Section 8.4 described the standard response to outside pressure for change, starting with denial and moving through opposition to foot-dragging. But, occasionally, pressure builds up to a ‘tipping point’ at which an organisation recognises that things have to change. MP09 (see Box 4) is an example of a manufacturer reaching a tipping point. Among brands, MB03 and MB04 have been targeted within the past ten years by social justice campaigners and sustained negative media publicity. They have both responded by giving much more serious attention to code compliance. The difficulties they have met in implementing substantive changes at factory level does not detract from the change in the level of their social commitment, as measured by their public statements of intent, the detailed reports they have issued, the investments they have made in compliance systems and their active involvement in cooperative projects. But, in a complex system, substantive change cannot be expected simply from the altered commitments of an individual actor, especially one that is remote from the theatre of

operations. A UK-based consultancy specialising in social issues in value chains told me that ‘problems have to be considered at all levels and change can be thwarted by just one element’.

The data suggest that there is an ingrained reluctance, resulting from many factors, to alter labour practices, especially in the mainstream, and that tipping points are reached only under special conditions. There has to be prolonged and sustained critique from the outside that poses a real threat to an organisation’s reputation and the leadership of the company has to be aware of the danger and be in a position to undertake measures without risking its core business model. Without such special conditions, external pressure typically leads to inconsistencies and ambiguities (see section 8.3), which are symptomatic of incomplete change.

### **10.1.3 Industry-wide changes**

Four broader trends are affecting the social practices of all companies in the industry<sup>113</sup>: changes in the labour market; reduction in child labour; improved health and safety practices and the growth of domestic branded sales. First, wages for the more highly skilled workers are rising in many parts of the country and my respondents claim that they are sometimes paying well above the minimum wage for certain jobs. They complain about problems of retaining their best workers and their being poached by other firms. One respondent’s comment ‘now the workers are exploiting managers’ clearly indicates that higher wages are being driven, in that case, by the labour market, not by any change in underlying (first-order) social commitment. However, companies seem to realise that they cannot continue to take a ready supply of cheap skilled labour for granted and this may encourage them to provide better terms and conditions. But, at the same time, massive migration from the poorer regions of the country to the dynamic manufacturing hubs is keeping wages down for the lower skilled jobs, although the ‘knock-on’ social effects are complicated (Carswell 2010).

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<sup>113</sup> These trends have emerged from my empirical research. They may not be the only significant ones but they serve to illustrate the effects of industry developments on enterprises.



A second universally acknowledged change is the reduction in child labour in garment factories<sup>114</sup>. This has followed concerted efforts by social activists, by government and by business (through codes of conduct) over an extended period. A convention which accepted, until relatively recently, that it was natural for children to work has been replaced by one that deems this practice unacceptable. Every mainstream respondent confirmed to me their company's firm commitment not to employ children, signalling a clear change to the position some years ago. Judging by comments, various factors combined to bring about this change: the most powerful stakeholders were united; the aim was clear and compliance could be verified relatively easily. This example shows that it is possible for corporate conventions to change and it provides clues to the necessary conditions.

Thirdly, it is widely recognised that health and safety practices have improved, especially in export garment factories<sup>115</sup> (Barrientos and Smith 2006). Remedial action following visits by inspectors often includes recommendations in this area, which can be monitored and confirmed on the next audit. The most salient factors behind this change, judging by the comments, were: the existence of a business case (i.e. potential improvements in productivity and/or loss of down time); the comparative ease of implementation (compared with other social requirements, such as worker representation, harassment and discrimination); and the mutual interest of brands, suppliers and auditors in showing some tangible outcome from codes.

A fourth development, still in its infancy, is the small but rapidly growing domestic market for high quality branded clothing. I came across three examples of new value chains that have been set up by diversified industrial groups to serve this sector (MP10, MP06 and MT01). All have invested in modern manufacturing facilities, with greater vertical integration than is common in the export sector. The companies told me that they are taking a long-term, strategic view of the business opportunities and are driven by the need to establish strong brand values. These include not just a commitment to

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<sup>114</sup> Child labour is far from being eliminated in India – see section 1.3. Critics point out that its virtual elimination in the most visible sectors, such as final stage export garmenting, is simply driving the problem underground (e.g. into unregulated sub-contracting).

<sup>115</sup> Again, critics argue that health and safety problems have simply been displaced by the sub-contracting of dangerous operations or those requiring large investments in safety equipment. I found some evidence of this in the wet processing done by a contractor to MP20, which I found being carried out in a dilapidated plant without any discernible standards or safety procedures.

high product quality but also to good labour practice. Their proximity to the market clearly helps. The Production Manager of MP10 told me that he receives product defect reports directly from company-owned showrooms, which make him feel accountable for meeting standards. The evidence from these three cases confirms that social commitment is higher than in most mainstream manufacturers, despite the absence of any sort of social compliance system. It seems to be ‘strategic’, not led by stakeholder expectations.

These four industry-wide developments illustrate the way in which change may be induced in enterprises as a result of general trends in society, in the market or as a result of concerted action by stakeholders. Such changes take effect slowly and may leave large parts of the industry untouched. For example, in large parts of the jungle child labour is still present, health and safety remain unaddressed and market changes are perceived only dimly.

#### **10.1.4 Summary**

Social change is happening, but only very slowly. Whereas companies have responded rapidly and with great flexibility to the commercial opportunities opened up by liberalisation, they have, in the main, resisted making major changes to their basic labour practices. The analysis suggests several, closely connected, reasons for this. Core labour conventions reflect a delicate set of compromises (e.g. between the market and domestic worlds) that are strongly influenced by the surrounding culture. They are validated by the practices of other companies and are reinforced over the years through repetition. Changing them risks damage to important business priorities such as low production costs and flexibility (Ascoly et al 2004). Elite groups (owners and managers) have been able to use unequal power relationships, without challenge from the civic world, to shape labour conventions to their advantage<sup>116</sup>. They have a personal interest in keeping them as they are, since any change might entail a rearrangement of people’s standing, including possibly their own, in the orders of worth (Eymard-Duvernay 2002). They may also fear that making specific commitments will reduce their future freedom of action<sup>117</sup>.

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<sup>116</sup> Power is embedded in rules and conventions (Rebérioux et al 2001) and elite groups have a structurally vested interest in maintaining the status quo (Reed 2009).

<sup>117</sup> According to Archer, ‘there is no commitment without cost’ (Archer 2000).

Some cases of both ‘consensual’ and ‘conflictual’ change (see section 5.1) have been identified, attributable to combinations of factors, including internal and external influences, indicating that more than one arena is involved in the process. The following two sections will explore, in turn, change initiated from the inter-subjective and from the subjective arenas.

## **10.2 The pressure of expectations**

Section 9.2.2 concluded that the main pressure on mainstream manufacturers to change their social practices is coming from buyers, through the code compliance system. However, it is clear that companies are not responding as readily to this pressure as they are to their customers’ commercial demands. Chapter 8 identified a number of differences between the two categories. Commercial objects, such as price, specification and delivery, are generally clear, specific and unambiguous, allowing customers to determine whether their expectations have been met. Scrutiny is not generally an issue and, where it is, objective tests are available (e.g. product quality tests in a laboratory). In contrast, the social expectations contained in codes are often vague and ambiguous, of contested legitimacy and not readily subject to testing.

Chapter 9 brought out the complexity of the social environment into which customer expectations are injected and the previous section explained the resistance to change. The government and Indian civil society are providing weak and sometimes contradictory signals and regulatory approaches to social issues have proved problematical (Blowfield and Dolan 2008). This section examines the failures of the code compliance system and traces these back to systemic problems inherent in the processes that are being employed. It draws largely on previous findings and relates them to the CSR literature.

### **10.2.1 Failures of compliance**

It is universally agreed that non-compliance with codes is widespread. An extensive empirical study of performance against each code element in the Tirupur garment

cluster put the average rate of compliance at 30% (Kizhisseri and John 2006) but assessments varied greatly by stakeholder<sup>118</sup>. A separate study carried out on audit reports from over 800 factories in 51 countries supplying a leading brand found an average compliance score of 66%, despite substantial investment by the brand in ethical trading over many years (Locke et al 2006). Worryingly, no improving trend was found, with auditors detecting, in some cases, a worsening, from which they inferred that suppliers were getting better at passing the audit but were not fooling local staff. My research paints an even bleaker picture. MB05 told me that just 5% of their suppliers had met minimum standards whereas MB02 stated baldly that none of their 1,500 suppliers was totally compliant.

The lack of effectiveness of audits in securing compliance has been ascribed by researchers to a number of factors:

- Poor selection, quality and training of inspectors (Jorgensen et al 2002; O'Rourke 2006; Kompier 2006);
- Short duration of audit visits and the fact that most are announced in advance, allowing time for companies to prepare the ground and control information provided (CCC 2005b; O'Rourke 2006; Kompier 2006);
- Conflicts of interest, such as auditors being paid by brands or suppliers, and lack of independent, third party, verification (Giovannucci and Ponte 2005);
- Lack of participation by workers, unions and local NGOs (Kompier 2006; O'Rourke 2006; Sood and Arora 2006) and, in some case, intimidation of those expressing criticism (O'Rourke 2006);
- Failure to follow up and resolve problems (CCC 2005b; O'Rourke 2006) and reluctance of brands to contribute financially (Kompier 2006);
- Difficulties of reconciling codes with low prices and with unpredictable and fluctuating labour requirements (Barrientos and Smith 2006); and
- Skill on the part of suppliers in finding loopholes and ways of evading inspectors and in presenting a smokescreen (Mahmud and Kabeer 2003; Sood and Arora 2006)

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<sup>118</sup> Companies, government agencies, NGOs, unions and workers all gave researchers their views separately.

Many commentators have emphasised the negative consequences of the compliance system. First, it breeds a ‘compliance mentality’, geared to ticking boxes, not making substantive changes (Mahmud and Kabeer 2003; O’Rourke 2006). Second, it encourages falsification of records, even double bookkeeping (CCC 2005b; Kompier 2006; Barrientos and Smith 2006; Sood and Arora 2006), which can lead to a souring of business relationships (Kompier 2006). Thirdly, emphasis on compliance with standards that are not accepted as legitimate can result in the ‘sub-contracting of abuses’ as main line suppliers abandon hazardous operations to the informal sector and use home-workers for intricate work, suited to children or to women whose employment would otherwise entail installing crèche facilities (Sood and Arora 2006). In some cases, the main contractor may do little more than produce samples, outsourcing the bulk of production into an entirely unregulated environment.

The compliance system has been described as a game of evasion (Jorgensen et al 2002) in which garment manufacturers are trapped in a situation where they are unable to comply with regulations (De Neve 2009). It has encouraged double standards, obfuscation and a breakdown of trust, which are injurious to social commitment and achievement of fair outcomes. These unintended effects are hardly assisting the effective scrutiny that ethical trading, in theory, requires. My interviews confirm that an ‘evasion convention’ has now become firmly established, in which it is socially acceptable for an enterprise to fail to comply with rules, even those that it has publicly endorsed. Brands are complicit in this web of pretence. By giving preference to their purchasing practices over their social policies, making it effectively impossible for suppliers to meet both commercial and social expectations, they are turning a blind eye to code violations. According to the person at MB07 responsible for social compliance: ‘suppliers are in a difficult position ... retailers have virtually forced them to lie by the way they are putting pressures on and demanding compliance’.

### **10.2.2 Systemic problems**

In section 6.5 the compliance system was described as a 3-step process: standard-setting, communicating the rules; and scrutiny/enforcement. The evidence reveals flaws in each of these steps. First, the main parties to whom the standards apply, the manufacturers who employ or hire labour and the workers themselves, are not represented in the standard-setting process (Blowfield 1999; Sood and Arora 2006).

And many marginalised groups are ignored or excluded, either because they are not acknowledged as stakeholders or because they are too difficult to manage (Blowfield and Frynas 2005). The fact that commitments to labour standards are ‘imposed’ on suppliers, rather than being freely chosen by them, causes negative attitudes (Jorgensen et al 2002; Barrientos and Smith 2006), exacerbated by the failure of standards to take account of local conditions.

Second, the process of transmitting codes of conduct, which contain the standards and rules, from brand to supplier is complex, involving several stages, both internal (between company departments) and external. Buying agents, whose activities are largely hidden from view, may be involved (Barrientos and Smith 2007) and much of the actual production work may be sub-contracted (Hale and Wills 2005). Brands may know little about what happens beyond the first tier of production (i.e. the main contractor) and, for practical reasons, are not able to implement the code across their whole supply base (Barrientos and Smith 2004). At each stage in which expectations are transferred from one party to another they may be re-interpreted and re-cast according to the participants’ particular understandings and interests. This can result in a dilution and/or distortion of the original expectations. For example, the concept of a living wage is included in the ETI Base Code, but adopted only weakly (e.g. as ‘aspirational’), if at all, in most company codes and regarded by manufacturers as irrelevant.

Third, the process of scrutiny is flawed and only weakly connected to remedial action. MP12, a mainstream manufacturer on the higher ground, told me that their main customer sent inspectors only every couple of years and commented: ‘it’s always the same questions – we spend most of the time having to explain things’. A compliance officer at leading brand MB05 said that most audits are carried out in a single day, which is clearly insufficient to assess performance against the wide range of code requirements. The head of a social auditing agency told me: ‘audits aren’t published because the facts are inconvenient for both buyers and suppliers’. He went on to say that, on one occasion, he took pains to provide a client with extensive factual evidence of major problems in one of their suppliers. His report was ‘not believed’ and, as a result, he lost the contract. Although action plans may be drawn up after inspections, companies are given generous time to respond and there may be no follow up until the next audit. Very rarely are there any penalties for non-compliance, partly because it is

so common. Furthermore, workers are often not interviewed and there is a growing problem of ‘audit fatigue’ (industry consultant).

Looking at the compliance system as a whole, a senior executive of a MSI admitted to me that brands feel powerless to enforce codes and lack the practical tools that would be required for effective implementation. This picture is confirmed by other researchers (e.g. Doane 2004). Looking outside the industry, a 3-year study of CSR carried out for the EU found a cognitive misalignment between management and stakeholders, which was related to poor social performance (Response 2008). On the whole, managers had a narrow view of their companies’ social responsibilities and aimed to prevent negative impacts while their stakeholders had broader notions. Different perceptions and evaluations between North and South can also create difficulties (Werther and Chandler 2005), as can variations in the expectations held by local and headquarters staff within the same multinational organisation (Jorgensen et al 2002; Blowfield and Frynas 2005), resulting in conflicting messages reaching suppliers (Barrientos and Smith 2006).

### **10.2.3 Summary**

There is some evidence that external pressure can help promote change where there is a degree of acceptance within an organisation of the legitimacy and relevance of the social objects (see section 10.1). But, in the absence of such commitment, the empirical data show that attempts to influence behaviour by transmitting expectations from a distant source in the form of rules face great difficulties. The vagueness of many code provisions allows considerable freedom to those who have the task of putting them into practice. Rules may be modified at each stage of their transfer and are fully completed only at the place of employment, according to local conventions that have been established by precedent. Factory managers and supervisors learn the conventional ‘completion rules’ that apply in that organisation, i.e. how and in what circumstances rules and conventions apply. All this context-related complexity becomes embedded in the culture of the organisation, which is difficult for any individual to challenge. Time is therefore needed for the completion conventions to adjust to the demands posed by new rules. As an experienced industry consultant told me: ‘strengthening internal procedures is a more promising avenue than code compliance’.

Two other factors contribute to the lack of impact of codes. First, the poor alignment of these pressures with the expectations of other stakeholders<sup>119</sup> (see 8.2.2). And, second, the limited penetration of ethical trading in value chains as a whole. Few consumers are engaging with social issues and smaller suppliers and sub-contractors, especially in the informal sector, are not involved (Kompier 2006).

Social enterprises face fewer external expectations but they are starting to have to grapple with them as they strive to enter mainstream markets. For example, Fairtrade standards for seed cotton have been developed and FT is facing greater scrutiny from outsiders unwilling to take its social performance ‘on trust’. This is causing some strains. According to SP08 some FT certification requirements are excessive, absorbing a great deal of time and energy to no useful purpose. Formal procedures can undermine trust and create a barrier to entry for small producers (Raynolds and Murray 2007).

### **10.3 The power of intentions**

For some organisations, especially social enterprises, it is convictions, not outside pressures, that are the driving force behind their social commitments. Their actions are guided by a firmly-held set of beliefs and result in employment practices that are far more consistent than those of other companies (see section 8.4). In some cases, however, their commercial intentions are not as clear or reliable. This section explores the ways in which social enterprises, such as FTOs, attempt to reconcile the two types of intention. It also looks at the issues faced by the mainstream manufacturers on the higher ground that have adopted some social priorities as part of their business models.

The role of the strategic actors<sup>120</sup> (i.e. those with the strongest influence over employment outcomes) is crucial. How do they form their social intentions and reconcile these with commercial pressures? The findings in this section rely mainly on detailed review of a few selected cases, in which actor intentions were found to be a significant driving force.

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<sup>119</sup> With the exception of a few issues, such as child labour – see section 10.1.3

<sup>120</sup> There are strategic actors beyond the enterprise itself –e.g. labour contractors (De Neve 2010).



### 10.3.1 Intentions of social enterprises

The intentions of social enterprises are always mixed (see section 8.1) since their business models inevitably contain commercial as well as social elements. But, whereas all the 22 social enterprises I investigated, except one<sup>121</sup>, were able to articulate and demonstrate their social intentions, all admitted to difficulties in securing a steady flow of suitable work. Three (SP01, SP05 and SP09), are totally dependent on the FT network. In one case this is a single outlet; the two others have a small number of regular customers. The approach of these enterprises is essentially reactive. They hope for more business but rely on their existing contacts to provide it. They feel that going outside the FT network would be too difficult or entail unacceptable commercial demands. Their reluctance to compromise with the commercial world is analogous to the resistance shown by many commercially-driven companies towards making accommodations with the civic world.

I found that the remaining 18 social enterprise cases were prepared, with varying degrees of enthusiasm, to look outside their networks to find more work for their producers, on the basis that greater volume, even in a diluted form, would result in a greater social good. Shallower social commitment would be outweighed by its greater reach (see section 8.3). But all have experienced difficulties in pursuing outside commercial opportunities. SI02, which has been in existence for over 35 years (15 of these as a FT organisation) has not yet found a solution that meets both commercial and social demands – see Box 5. SP03 was set up 11 years ago as a company<sup>122</sup> to market decorative products of innovative design and make a profit as well as to promote indigenous skills. In its much shorter history it has already tried retail sales, exports and craft fairs, all of which

#### **Box 5: The trials of mainstreaming**

SI02, an umbrella FTO, is determined to boost sales, currently increasing at 10-15% pa, in order to help its producer groups grow. Over the past years it has tried various approaches, including: exports to mainstream customers (which its producers find difficult to handle and have been largely discontinued); selling through local craft outlets (which are only marginally profitable); and corporate and web sales (which have been very slow to develop).

Most recently, it has opened a retail store. This has required considerable financial investment, development of special product lines and recruitment of retail specialists. The original budget did not include anything for advertising and promotion. To date, the sales generated by the store have been disappointing and the orders placed with producers smaller than normal.

One of the problems is the lack of capacity and inflexibility of many of the producer groups, which are heavily dependent on the umbrella FTO.

<sup>121</sup> SP04 – see section 8.1.3

<sup>122</sup> Most social enterprises in India are established as societies, trusts, NGOs or self-help groups. These structures have their advantages but may present difficulties when pursuing commercial initiatives.

have presented problems, notably the inability of producers to adapt to different requirements. Faced with stubbornly low sales, its latest idea is to set up its own production facility, which will enable it to control technology and production better, but at the cost of less producer empowerment.

The original intentions of SB02's founder and prime mover centred around her commitment to the craft movement and to 'responsible dealing'. After she failed to get the financial backing that would have enabled her to do this she has had to focus on meeting the dividend expectations of her investors, as well as on meeting the disparate commercial demands of her retail, corporate, web and overseas customers for a range of craft products. She now feels that her own social intentions are being squeezed out. Her mainstream customers demand big volumes, consistent quality and prompt delivery but, for producers, 'delays are customary ... they don't appreciate the importance of getting things absolutely right'.

The evidence from these three cases, and from other, generally less successful, attempts by social enterprises to enter mainstream markets shows that their commercial commitments are just as erratic and unreliable as the social commitments of most mainstream enterprises. In only two cases, SB01 and SP14, have socially-driven companies managed to achieve a sustained increase in business from customers outside their enclave. These two cases will be explored in more detail in sub-section 10.3.3. They are distinguished from the other social enterprises not so much by the nature of their commercial intentions as by having an innovative business model, representing a new balance between social and commercial priorities. A learning process, leading up to this and taking place over a period of years, is clearly discernible in each case.

### **10.3.2 Mainstream strategies**

Only five of the 18 mainstream manufacturers were judged to have 'partly internalised' social commitments (see section 8.4.1) indicating that social intentions and commitments, at least to some degree, are firmly attached to their business models. All of these companies have strong relationships with customers, who support their efforts and tackle problems with them. With them I found, to a greater degree than with the other cases, evidence of active contact with workers, NGOs and local organisations. These findings suggest that intentions alone are not enough, they must be accompanied

by constructive engagement with other actors, including key business partners and local stakeholders.

**Box 6: Relationships and engagement**

MP07 is recognised as a pioneer in social responsibility. All workers belong to one of two recognised unions and have written contracts. Management and unions work together on problems. Social accountability standards (SA8000) have been turned into policies and procedures, translated into the local language, explained to all workers as part of their ongoing training and distributed to local NGOs and stakeholders.

Attention is given in this company to air quality and ventilation, as well as to the normal health and safety measures. Food in the canteen is free and is based on nutritional value and on feedback. Community projects are undertaken and a charitable trust has been established (see section 7.3.2).

‘We encourage workers to take initiatives, make suggestions, which many are not used to doing’ a manager told me. All this has been made possible by an exclusive business contract, lasting over 20 years, with a Northern brand, which actively supports these initiatives.

Box 6 describes some of the elements that play a part in MP07’s social commitment. Other cases have a different combination of elements. The director of MP18 attributed her company’s success to consistency and a willingness to take risks but added that a ‘happy, contented work force ... where everyone has the opportunity to learn and develop ...’ is part of the formula. MP10 stops production ten minutes before lunch every day so that workers can gather in small groups and discuss any problems, which they are

encouraged to solve themselves. The factory manager told me that he was convinced that the investment they were making in these ‘quality circles’ would pay off in terms of employee morale and productivity improvements. I witnessed the quality circles and also sampled the excellent food in the canteen, which was supplied at a low cost and was the same for everyone. These companies viewed their social intentions not as separate from their main business agenda, but as an integral part of it.

The importance of relationships, especially with customers, illustrates the reciprocity of social commitment (see section 8.3). It seems that ‘good intentions’ at one level of the value chain are insufficient – they must be supported by compatible intentions at another. The above cases, which are comparatively rare, illustrate the presence of social value chain conventions that have become embedded alongside the commercial conventions that permeate all value chains. Typically an ethical brand, supported by its ethically-minded customers, establishes a long-term business relationship with a socially-responsible supplier, which, in turn, forges links with local stakeholders. In these cases a learning process appears to be in place whereby social intentions are constantly evolving in response to feedback received from a variety of actors, including the workers themselves, enabling social commitments to be adjusted and refined as

circumstances change. Both these factors, reciprocity and feedback, appear to be essential for social objects to be securely internalised and made part of business practice.

In the mainstream social commitments are not justified solely on civic principles, as they are in social enterprises. Social priorities always have to compete with commercial ones and the business case is the arbiter. In most companies the business case is evaluated on narrow criteria, such as short-term costs and benefits, but, in a few cases, such as those illustrated above, there is a broader view that treating workers well is good for business. The calculation is strategic and longer term and acknowledges that it is in the interests of the company to accept moral responsibilities (see section 5.5). The social objects do not come only from the civic world but also reflect the market, industrial and reputational worlds. Internalisation of social commitment is achieved by means of a prolonged process involving reconciliation among these disparate worlds.

### 10.3.3 Partnerships

Two social enterprises I investigated have been more successful than the others in achieving a balance between social and commercial priorities, so much so that it would be possible to regard them as commercial enterprises with strong social commitment. Marked by ‘mixed’ business models and a vigorous learning process they also have in common a commitment to social-mainstream partnership. Boxes 7 and 8 give brief descriptions of the partnerships they have formed. Quite independently they have both decided to separate the socially-oriented part of the organisation, which looks towards the producer groups, from the commercially-oriented part that faces the market, recognising the inherent difficulties of trying to combine, in a single place, a blend of social and commercial activities. Both

#### **Box 7: Linking producers with consumers**

SP14 was set up over 20 years ago to support farmers in a deprived area of the country and has, over the years, developed an impressive array of social and other commitments (see section 8.1.1). Visiting farmers with the managing director left me in no doubt about his deep understanding of livelihoods in farming and of the strength of his social commitment. But, supported by the owner, a diversified industrial group with interests in agrochemicals, he has also been pursuing new sales outlets.

In 2001 SP14 established a brand for organic cotton so as to gain market recognition and establish a direct link between farmers and consumers. In a reversal of normal practice the Indian social enterprise took a stake in the UK enterprise that promotes its sales there. Farmers have no direct stake in the brand or marketing company but they are benefiting greatly from the growth in sales, under fair prices and conditions, as well as from the support they receive in sustainable farming methods and in conversion from conventional to organic and FT production.

### Box 8: Hybrid organisation

SB01 is privately owned company, with a strong social mission but run on commercial lines. Years of strong growth have led to around 60 retail stores and an extensive network of craft suppliers, with informal relationships based on trust (see section 9.3.2). It has come to realise that, to pursue its ambitions of further growth, it needs to formalise its supply network. At the time of my visit it was in the process of establishing community-owned companies, run by groups of artisans but with support from the centre, and decentralised logistics.

The company is taking a substantial minority stake in the artisanal companies and will guarantee bank loans. The artisans will be free to sell to outside companies but will have a special relationship with the founding enterprise. Committees are being set up to manage the interface between producers and the retail stores, in which prices, for example, will be negotiated.

have also taken steps to establish an interface between the two parts of the organisation where the tricky balancing issues can be negotiated<sup>123</sup>.

In both cases it has taken many years for the business formula to emerge, despite continuity of leadership from people who combine strong social concerns with a good understanding of how markets work. The solution has

involved some ceding of power on the part of the social enterprise, which is justified by the argument that the producers (farmers and artisans) will benefit greatly from the increase in business that is likely to arise from the commercial links. This is an extension of the approach outlined in the previous sub-section, whereby social conventions have become embedded in value chains. The strategic business and social intentions are solidified, in these two cases, into contractual partnerships.

I searched hard for more examples of partnerships between social and commercial enterprises, without much success. SB02 recognises that social and commercial priorities coexist uneasily within its organisation (see section 10.3.1) and plans to separate them but, at the time of my visit, had not yet done this. Umbrella FTOs play a valuable role in mediating between market expectations and production realities. Some mainstream companies, responding to their lack of skills in dealing with social issues, are cooperating with other organisations but the relationships, although helping to bridge the civic-market divide, fall far short of partnership. For example, MB04 is working actively with northern NGOs and a group of regional compliance officers of leading brands regularly meets in Delhi to discuss issues such as excessive overtime and use of homeworkers. In Tirupur the Exporters' Association holds periodic discussions with unions and other parties to set minimum wages and conditions for workers and a Steering Group of trade unions and NGOs has been set up there to promote better labour

<sup>123</sup> Other organisations have gone part way towards separation. For example, SI02 splits the sales group, which deals with commercial matters and exports, from the producer support team.

practices. Some commercial deals have been made – e.g. High Street stores selling clothes carrying the FT cotton label – but these have, so far, been limited in scope.

#### 10.3.4 Summary

The data indicate that the intentions of a single enterprise, whether socially- or commercially-driven, are insufficient, by themselves, to secure a stable set of commitments that balance social and commercial priorities. There need to be cooperative relationships with business partners with different, but compatible, interests. Prolonged contact between two such parties allows a mixture of social and commercial objects to be integrated as first-order commitments in new business models<sup>124</sup>.

Social enterprises in which all first-order commitments are social ones rule out many possibilities of compromise (Watson 2001). Concessions to the commercial world may be seen as diluting ‘pure’ social intentions (Moore et al 2006; Barrientos et al 2007) even if they open up possibilities of more work for producers. Similarly, mainstream enterprises often struggle to understand and accept the business case for acting in a socially-responsible manner (Jorgensen et al 2003). Engagement with actors from the civic world can help them develop a more socially-sustainable approach.

The dominance of intentions, however noble, can lead to diminished agency for producers (Hayes and Moore 2005) and problems of dependency<sup>125</sup> (Tallontire 2002; Redfern and Snedker 2002). This does not encourage the qualities of initiative and flexibility needed to be able to respond to commercial opportunities. The informal methods of coordination, based on trust, that are used by social enterprises (Wills 2006) jar with the more formal mechanisms needed in the mainstream, making scaling up problematical (Doane 2004).

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<sup>124</sup> Learning appears to play a key part in the process of internalisation, in which objects move from extrinsic to intrinsic (Brickman 1987).

<sup>125</sup> In explaining his policy, the head of an Indian umbrella FTO told me: ‘we don’t want to drop any of our producer groups ... long-term sustainability for artisans depends on continuity of orders’. He recognised the problem of producer dependency but also acknowledged that the FTO benefited commercially from having a stable supplier base.

## 10.4 Conditions for change

So far in this chapter we have sought to identify factors that play a role in altering the balance between social and commercial priorities. We have looked for evidence of increased social commitment in the mainstream and for instances of social enterprises scaling up their operations through mainstreaming. The implicit assumption has been that such changes are ‘good’. We have further assumed that it is desirable to have some sort of considered balance, rather than leaving it to chance. But what is the moral basis for such assumptions? On what basis can the ‘rightness’ of particular balances be determined?

This section returns to questions of social justice and first reviews the literature in order to establish criteria against which the empirical data can be judged. These criteria are then applied to the findings in order to see how well the cases stand up to the demands of social justice.

### 10.4.1 Concepts and criteria

There are significant differences, especially of emphasis, in the literature on social justice (see section 5.5). However, five basic ideas command wide support: the concept of justice as fairness; recognition that every person has basic human rights; the need for open scrutiny; the vital role of public reasoning and debate; and the importance of engagement, especially by those directly affected. Fairness, put forward by John Rawls as a central tenet of his approach (Rawls 1971) and endorsed by Amartya Sen (Sen 2009), has both substantive and procedural aspects. Since peoples’ perspectives differ<sup>126</sup>, the processes by which choices are made and the way solutions are arrived at are both important. Rawls insists that everyone has an equal right to basic liberties and opportunities and Sen conceptualises similar ideas as capabilities. Both agree that, in practice, this means that justice requires measures that support basic human rights and reduce poverty and inequalities.

The need for scrutiny is emphasised by Sen, and implicit, in a more limited way, in Rawls. Sen stresses that scrutiny should be open, so as to allow the ‘impartial spectator’

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<sup>126</sup> Archer notes that ‘no developed society has only one homogeneous normative register’ (Archer 2000 p.218).

invoked by Adam Smith in his Theory of Moral Sentiments (Smith 1976) to assess situations. This is closely linked to the need for vigorous public debate, including by distant actors, in order to provide a robust challenge to vested interests and entrenched traditions and customs. Finally, engagement, visualised by Rawls as being conducted by ‘members of a given society’ behind a ‘veil of ignorance’, is broadened by Sen into a requirement that dialogue should be global and recognise cultural differences.

Convention Theory, while not suggesting any absolute criteria for justice, puts forward an approach that is compatible with Sen’s and helps create a bridge between the societal and enterprise levels. It focuses on the interactive processes of coordination and makes the connection between agreed courses of action, or conventions, and the moral assumptions that lie behind them. This recognises that questions of justice are not just restricted to a few grand issues but are involved in many day-to-day decisions. Echoing Sen’s insistence on a plurality of principles of justice, CT identifies six mutually incompatible worlds of justification (see section 5.1). They cannot be reconciled by recourse to reason alone but require the exercise of human judgement in weighing the relative merits of different principles in particular circumstances. A process of critique and challenge, employing arguments derived from different worlds, results in compromises leading to workable solutions that can be regarded as fair by the parties concerned.

CT adds three further criteria, which apply at the level of the enterprise: the reflexive capacity to make moral judgements and order priorities (which I have summed up in the concept of internalisation); competence in learning from experience and adjusting appropriately to the demands of others; and mechanisms for the resolution of differences. These can be seen as basic competencies that actors must have in order to enter fully and effectively into the processes of scrutiny, engagement and public reasoning that are essential components of a society that delivers fairness and respects human rights.



### **10.4.2 Overall evaluation**

An assessment of the findings against the eight criteria underlined above shows major weaknesses in the delivery of justice to workers in the mainstream industry.

#### Fairness

Persistent criticism about labour conditions and the strong public response to reports of abuses indicate that the position of workers is not perceived as fair by many people outside the industry. There is some evidence of good practice and of improvements in areas like health and safety but the weight of evidence shows that large numbers of workers are enduring poor conditions in mainstream factories. Research has pointed out that economic advances by individual firms does not necessarily lead to improvements for workers (Barrientos et al 2010).

At a time when the industry has enjoyed substantial growth in sales and profits, the benefits seem to have been captured almost entirely by brands, retailers, factory owners, managers and intermediaries. The abundant supply of labour, together with its lack of organisation and ‘voice’, have left workers at the bottom of the pecking order, unable to stake a claim to a fair division of the economic value that has been generated. It is estimated that, of the price a customer pays on a Northern High Street for a typical garment, only 3-4% goes to the workers, at all stages of the value chain, who produce it<sup>127</sup>. The share may even be as low as 1% in some cases (Ascoly et al 2004).

#### Rights and capabilities

The codes of conduct adopted by many mainstream brands and passed on to their suppliers are based on the UN Universal Declaration of Human Rights and on ILO Conventions. These insist on the right of everyone not to be forced into work, to be paid a decent wage, to be allowed to organise, to avoid discrimination and harassment and so on. The findings of this thesis conclusively show that many employers ignore these rights. Indeed many workers do not know what their rights are (Jorgensen et al 2003). Against the more demanding yardstick of capabilities, it is difficult to detect any

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<sup>127</sup> Rough calculations of my own resulted in similar figures, with variations by product line. Several industry observers I consulted concurred with these assessments.

recognition, except in some social enterprises, of the need to strengthen ‘the substantive freedoms people have to choose a life they have reason to value’ (Sen 1999 p.18).

### Scrutiny

Although the code compliance system provides a rudimentary process for scrutinising labour practices, it is deeply flawed. A culture of secrecy and evasion means that very little reliable information emerges about the actual conditions under which workers are employed. The principle of openness is not widely accepted by manufacturers and local stakeholders are actively discouraged from asking questions. Brands share information in MSIs but claim that the public is not interested and that the financial community is not asking for more detailed information. The ‘impartial spectator’ therefore has little hard data to go on and, as a result, the dialogue between many mainstream companies and the outside world has become polemical.

### Public reasoning

The vigorous debate taking place in Northern countries about labour issues in GVCs is not matched in India. Apart from on a few issues, such as child labour, there is little coverage in the media. According to Sen: ‘the relative weakness of Indian social policies on school education, basic healthcare [*sic*], child nutrition, essential land reform and gender equity reflects deficiencies of politically engaged public reasoning and social pressure ..., not just inadequacies in the official thinking of government’ (Sen 2009 p.349). As shown in section 9.2 the large numbers of NGOs in India are unable to mobilise public opinion or exert any real influence on companies.

### Engagement

The survey evidence about the lack of worker engagement is strong and consistent. Many workers are ignorant of their entitlements (Kompier 2006) and are unable to participate in matters that affect them (Kizhisseri and John 2006). Their views on outcomes are not sought, nor are they encouraged to help find solutions to problems (WWW 2004; O’Rourke 2006). When workers do express views, they are often ignored or branded as ‘trouble-makers’ and hounded out of employment (Roopa 2003). Many are kept in ignorance about their rights (Barrientos and Smith 2006) and may be actively discouraged from taking steps to seek redress for abuses (Sood and Arora 2006; Kompier 2006).

As stated earlier (section 9.2.2) unions play little or no part in representing the interests of workers at factory level and there is widespread scepticism about their role. A senior social compliance manager told me: ‘although I’m personally in favour of unions in principle, I’m very sceptical about their ability to be effective in practice. They don’t represent workers properly and don’t encourage participation and empowerment’. The Director of a campaigning NGO, who is strongly in favour of unions, said: ‘Indian trade unions have not appreciated the changes in global value chains and are generally out of touch with the garment industry’. Attempts to form unions are often quelled by coercive means (Roopa 2003) and activists are black-listed (WWW 2004). Not only are workers unable to engage in issues of social justice that directly affect them but other groups, such as NGOs, that might otherwise be able to play a role in representing their interests, are also effectively excluded.

#### Internalisation and learning

These two processes are closely linked and interdependent. Learning can only take place when actors are open to the possibility of changing their attitudes and intentions and an alteration in the internal ordering of their priorities can only occur as a result of experience (according to the heuristic behavioural model – see section 6.1). Section 10.3 provided evidence of the failure of many mainstream enterprises to internalise social commitments or to establish relationships that would enable them to learn how to adjust their priorities and intentions. Social enterprises have similar difficulties internalising commercial commitments and learning from mainstream stakeholders. As a result, few enterprises, of either type, were making progress towards a more satisfactory balancing of priorities.

#### Resolution of differences

Section 9.3 examined the many forms of difference about social issues and the ways in which they were tackled. It concluded that most differences are not fully resolved but remain in a state of tension. Consequently the actors most closely involved are, in varying degrees, not content with either the outcomes or the process.

### 10.4.3 Exceptions and pointers

Although the industry as a whole falls a long way short of meeting the above criteria I did find five mainstream enterprises that are making some efforts in the direction of greater social justice. Table 15 does not imply the existence of socially just conditions in any of these companies, it simply records the evidence that I was able to obtain about their attitudes and behaviour in relation to the criteria, which have been reformulated to reflect this emphasis.

*Table 15: Social justice considerations in mainstream manufacturing*

	MP06	MP07	MP08	MP10	MP18
<b>Acceptance of fairness as relevant</b>	+	++	+	+	+
<b>Respect for human rights</b>	+	++	+	++	+
<b>Willingness to allow outside scrutiny</b>	+	+		+	
<b>Openness to public debate</b>	+	+			
<b>Engagement of workers/NGOs</b>		++	(+)	++	+
<b>Internalisation of social objects</b>	+	+	+	+	+
<b>Evidence of learning process</b>		+	(+)	+	
<b>Procedures for resolution of differences</b>		+			+

Key

- ++ Solid evidence found that enterprise recognised and was responding to justice criteria
- +
- Patchy evidence of acceptance of criteria
- A blank indicates that no evidence was found

*Sources: interviews with mainstream manufacturers.*

It may be significant that, in every case, evidence was found in at least five areas. This strongly suggests that the different aspects of justice do not work independently but are linked in some way. A connection has already been made between learning and internalisation and it seems plausible that there are links, for example, between engagement and scrutiny. The various criteria represent ingredients, which, when mixed together, serve to lead to change in the direction of greater social justice.

Social enterprises tend to score much better against all the above criteria, although they typically have limited contacts outside their networks. All respect human rights and internalise social objects and some engage producers. For example, in SP12 women are encouraged to organise themselves and ‘entrepreneurs’ are encouraged, as are new

creative designs. SI02 has found it impractical to involve producers in the design process but they are consulted about the best way of making new products. But social enterprises generally fail to meet a similar set of commercial criteria (e.g. acceptance of market values, internalisation of commercial objects), which helps to explain why, in the main, they have been unable to scale up. Their individual balances are socially just but, in a wider perspective, have not made a significant impact on justice in the industry as a whole.

#### **10.4.4 Summary**

When the Indian economy was liberalised in the early 1990s the basic conditions (e.g. freeing markets and encouraging investment) were put in place to allow commercial development to take place. However, there have been no equivalent measures to encourage social change. The basic conditions that would have been needed to encourage socially just outcomes have not been established or, at least, according the evidence, they are not present in the textile and garment industries. These conditions include processes, both in society (e.g. in public discourse and scrutiny) and within enterprises (e.g. in engagement, coordination and learning) but they rest on attitudes and behaviours, which can be broadly described as commitment to the principles of social justice, including the concepts of fairness and human rights. The lack of such commitment, not only within companies but also in the surrounding society, from which firms take their cue, is a major obstacle to social progress.

Social enterprises have succeeded in creating the required conditions, but only on a small scale and by separating themselves from the mainstream. In the few cases where firms have met some of the justice criteria a combination of measures was found, suggesting that the basic ingredients for more just solutions, or ‘better’ balances, are synergistic.

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Compared with the dramatic commercial developments taking place in the industry the pace of social change has been extremely slow. Strongly established conventions and vested interests are not being challenged because the basic conditions for greater social justice are not present. In cases where some change is occurring a variety of factors,

both internal and external, are involved. Attempts to induce change through exerting pressure from the outside (e.g. by codes of conduct) succeed only if the enterprises themselves are committed. And corporate attempts to change the balance between social and commercial priorities only work when supported by cooperative relationships with key business partners. Mutual reinforcement of various elements is needed in order to induce a sustained process of change, which is characterised by adaptation through learning.

## **Chapter 11: Conclusions**

Applying the analytical framework described in Part B to real data that relate to situations in which social and commercial priorities conflict has yielded an abundance of fresh insights. Social commitment and its associated notions, such as conventions, rules, expectations, claims, domains, and scope, have been shown to provide relevant and reliable descriptions of how business enterprises deal with the problems of reconciling competing priorities. They help to explain both the typical patterns of behaviour found in the Indian textile and garment industries and the variations from company to company.

This empirical knowledge has been gained by applying an entirely new approach to the study of social/commercial issues, comprising three components. First, an open-ended methodology, based on Grounded Theory, which focuses on developing explanations from observations about actual behaviour, rather than from predetermined hypotheses. Second, a multi-disciplinary approach, using concepts and theories from five separate literatures, bound together by common relation to the central variable of social commitment. Each separate branch of knowledge tells part of the story. Together, they provide a more complete and powerful explanation. Third, the tools provided by the analytical framework, which shows how all the concepts and variables are linked in a single structure.

This chapter summarises the main findings, under the six headings of the analytical framework (see chapter 6), each of which reflects a different aspect of the balancing process and of commitment formation, and draws out their implications:

- How business enterprises respond to events and what drives outcomes of interactive coordination.
- The three arenas in which coordination, resulting in the formation of commitments, takes place and the connections between them.
- The nature of social commitment in the enterprise and its relationship with the business model and with the surrounding environment.
- Channels and mechanisms that transmit expectations from outside the enterprise and feed back information about performance.
- The difficulties experienced by ethical trading in securing compliance with minimum social standards.
- The challenges Fair Trade faces in expanding commercially through mainstreaming.

The main focus in each section is on the original contribution that the thesis makes, either to the development of a theoretical understanding of the issues or to policy and practical application.

## **11.1 Responses to situations**

The evidence overwhelmingly supports the notion that, at the level of the Indian garment manufacturing enterprise, most commitments and priorities are determined heuristically, not deliberatively. Day-to-day business operations in a dynamic industry with high transaction volumes create large numbers of situations requiring coordination. Conventions and routines are developed to deal with these, based on precedent, and these, in most companies in the industry, are driven by commercial pressures and shaped by local customs and practices. Once established these conventions are resistant to change by the imposition of social rules, such as codes of conduct, particularly if the rules are disassociated with core business priorities.

Many commercially-driven conventions have social implications, affecting workers' lives, but these are often not recognised as such or taken into account. Clashes among conventions and between conventions and rules, such as codes, give rise to differences, many of which are not satisfactorily resolved but remain in a persistent state of tension and uncertainty. In the contest with clear, urgent commercial priorities prescriptive codes are frequently ignored, revealing weak, second-order and contingent social commitment.

The data show that some companies, such as social enterprises and a few mainstream firms, develop a corporate culture in which social priorities are strategically set. In these cases genuine, or first-order, social commitments may evolve, secured by a business model that embraces social as well as commercial goals. These commitments may then compete on level terms with first-order commercial commitments. In many social enterprises, however, commercial priorities are subordinate to social ones, resulting in patterns of behaviour that fail to respond to business opportunities.

Theoretically, commitments serve as indicators of what is most important to an enterprise (or any actor) when faced with decisions requiring conflicting priorities to be weighed against one another. They bring agency into the analysis and highlight the role of strategic actors. The data from the case studies clearly show that workers, unions and NGOs play a passive role in many mainstream enterprises, allowing business owners and managers to impose their preferred solutions without considering whether the outcomes are acceptable to other parties. But, in cases where first-order social commitments are present, strategic actors tend to involve workers and civil society organisations, at least to some extent, when considering their actions.

The concept of social commitment, as developed in this thesis, helps to provide a bridge between theories that make very different assumptions about the basic drivers of behaviour. Pursuit of self-interest (as exemplified by 'modernity's man') is implicit in most of the economic and business literature; conformity with social norms is assumed by many social scientists and by CT; and exercise of moral choice is emphasised by social realism and theories of justice. This study shows that all three drivers are present in the empirical data and therefore have to be taken into account in coming up with full explanations. The analytic approach developed here provides a basis for integrating



these three drivers since commitments can be towards objects of self-interest (e.g. in the market world), to instrumental goals, such as rules and conventions (reflecting the industrial, domestic or other ‘mediating’ worlds), or towards the interests of others or of society as a whole (civic world).

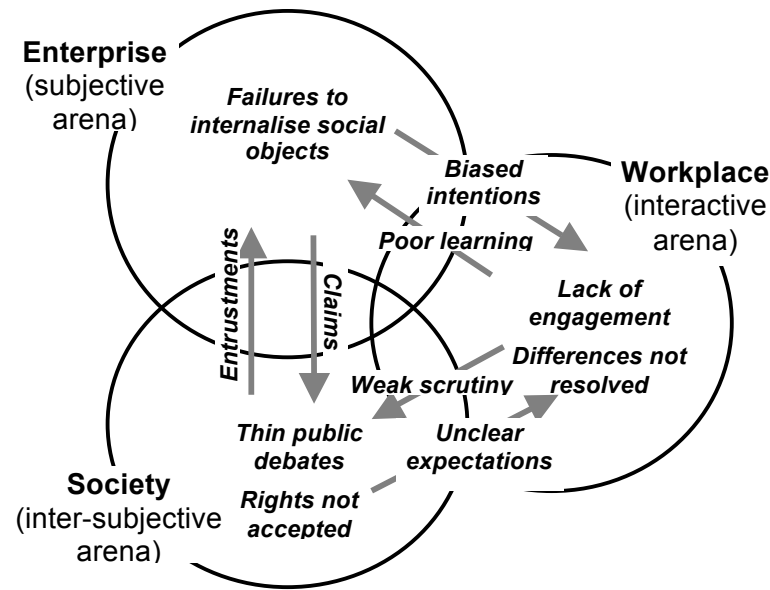
Most studies tend to focus mainly on one set of drivers, because they draw on a single body of knowledge, and the resulting explanations are partial. The major contribution of this thesis is to show, through the concept of social commitment, how additional theoretical insights can be gained by considering all three. The practical benefits of adopting this broadly-based approach, for ethical trading and FT, are explored later in this chapter.

## **11.2 Arenas of coordination**

In the cases of ‘better’ balance (i.e. socially-committed mainstream enterprises and commercially-successful social enterprises) I noted the existence of long-term relationships with business partners and active engagement with other stakeholders, allowing value chain conventions to be aligned with a balanced corporate culture. I also found evidence that a broad range of factors were considered in coordination and that experiential learning was taking place. Conversely, in cases where balance was lacking, I found not only that priorities and commitments were polarised (either commercially- or socially-driven) but also that the processes of engagement, consideration and learning were more limited. These findings strongly suggest that the achievement of a good balance depends on the way that coordination is carried out in all three arenas – subjective, inter-subjective and interactive – and on the way they connect with each other.

Diagram 8 shows problems of coordination in and around a typical mainstream manufacturer, using the model put forward in the analytical framework (see section 6.2):

Diagram 8: Failures of coordination in mainstream manufacturing



The diagram shows a lack of acceptance and/or integration of social priorities within the enterprise, limited participation in interactive coordination and poor links to the wider society. The hegemony of the dominant (market) world is not being challenged by the civic world in any part of the system and the lack of stakeholder influence means that social expectations are not being conveyed nor are processes of scrutiny being put in place. Instead, the enterprise is making claims based on partial accounts that emanate from the corporate office, not from the workplace. Lack of exposure to contrary views means that the enterprise is not learning how it might improve its employment practices.

The evidence suggests that the various aspects of coordination are inter-dependent. Individual commitments typically form part of a complex web of mutual obligations. Their reciprocal nature means that strong social commitments, especially when they run counter to established norms, are difficult to sustain without reinforcement. Mutual agreement with key business partners appears to be essential for sustained socially-responsive behaviour but even this may be threatened by inconsistencies in the signals, or demands, coming from other sources. The circumstances of each company are unique and so there are multiple solutions to the balancing problem but the particular mix of rules, conventions and commitments applying in each case have to be reconciled in all three arenas for balanced priorities to be sustained. These findings highlight the futility

of seeking change in one part of a business system without considering changes elsewhere.

This theoretical model serves to integrate the disparate theories mentioned in the previous section and, when applied to a particular case, provides a framework for analysing the conflicts among priorities. It provides a toolkit, which can be applied to research into the nature of social commitment in other substantive areas. It can also be applied to other forms of commitment (e.g. environmental), adapted to focus on other core variables (e.g. rules and conventions) or used for research into related topics, such as worker livelihoods.

### **11.3 Social commitment in the business enterprise**

The conclusions are based on a limited amount of case material, relating to a single industrial sector, and extrapolating them to other sectors and countries must be treated with caution. However, the empirical evidence clearly shows that, in the Indian textile and garment industries at any rate, only a handful of mainstream companies have a coherent social model that is integrated with their core business goals. In most companies social objects do not occupy a secure place in the corporate culture but float disconnectedly, to be called on only when circumstances dictate. Failure to internalise social commitments means that many firms find it difficult to translate the signals coming from their stakeholders and from society generally into terms that they can understand and act on. They use a restricted range of evaluative models and lack the means to judge the relative importance of social versus commercial objects. These features are symptomatic of entrenched cognitive conventions that are based on the primacy of the market world and reject the civic world and the idea that businesses have social responsibilities.

Variations in observed patterns of behaviour demonstrate the importance of domains in modifying this general picture. Small enterprises in the 'jungle' are forced to be largely gain-seeking in their daily battle for survival, whereas larger companies on the 'great plain' must respond, to some degree, to pressures to conform to social rules. Firms on

the ‘higher ground’ have more scope to exercise their own discretion and niche firms in ‘enclaves’ can follow their own social convictions, if they wish. Domain constraints arise from vertically-transmitted value chain conventions and from the horizontal influences coming from other firms (i.e. peer pressure) and from local customs.

The resistance to change (in social matters) that features so prominently in the empirical data is closely connected with these conventions. Many mainstream Indian firms value highly the commercial freedom they have acquired since economic liberalisation and are reluctant to make social commitments that might tie their hands. At the same time, the purchasing practices of their customers discourage them from making firm undertakings to their workers. Only long-term partnerships, as found in many social enterprises, provide the necessary conditions for strong social commitment. The imposition of social rules, in the form of codes, that run counter to established conventions results in erratic and covert behaviour and creates unresolved differences and tensions.

The four-level commitment model put forward in section 5.6 – principles; ideas; rules and conventions; and practices – provides a framework for understanding the complex interplay of factors that apply in different contexts. For example, some mainstream brands may seek to demonstrate their social commitment by adopting a set of rules (codes of conduct) while neglecting both the practical issues of implementation and the underlying principles that drive their purchasing practices. In responding to reports of labour abuses they may rely on the cognitive convention of the effective compliance system (demonstrating a ‘proper’ commitment to the principle of social justice) while knowing that it is deeply flawed in practice. Inconsistencies among the different levels betray the weakness of their social commitment. In contrast, many social enterprises have a consistent approach to social issues, in principle and in practice, but are inconsistent when it comes to commercial matters.

This thesis has elaborated the various properties of social commitment – first- vs. second-order; the breadth/depth/reach and specificity of objects; and their conditionality/reciprocity – and it has illustrated the consequences of different qualities of commitment in terms of behaviour and social outcomes. It seems clear that, for a

stable and equitable balance of priorities to be achieved within an enterprise, both commercial and social commitments need to be internalised at all four levels.

## **11.4 Channels and mechanisms**

The relationship between business and society has been debated vigorously in the literature (see sections 2.4 and 3.4) and its implications, at enterprise level, were an important issue for empirical research. I found few examples of sound connections, of societal expectations being clearly conveyed and understood by enterprises and of outcomes being effectively scrutinised. Instead, the companies I studied have been largely left to get on with their business without their claims about social performance being seriously challenged. The relationship has relied on entrustments and corporate accounts (see diagram 8) and what is actually happening in the workplace has been neglected. The Indian government has not enforced labour laws and the voice of Indian civil society has been muted.

Nevertheless, some efforts have been made to formulate specific rules, in the form of codes of conduct, and to develop compliance systems. To cope with the distance between the place where the expectations embodied in these rules are formulated (in the North) and their application (in India), channels and mechanisms have been developed. Analysis of the empirical data explains why these processes are largely failing:

- Formulation of rules involves a limited number of stakeholders and does not directly engage either consumers or workers.
- Expectations become diluted and distorted in the process of transmission along complex value chains, where relationships are often short-term and lack trust.
- Implementation issues are largely ignored; brands feel powerless to enforce standards and Indian stakeholders, including the manufacturers, feel alienated.
- The approach becomes procedural, losing its substantive purpose; the core commitment too often turns out to be brand protection or meeting a customer's rule book, not a true social object.

The underlying problem in this approach is that social objects have been separated from commercial ones yet are subjected to business case justification. Industrial tools have been inappropriately applied to issues of human dignity and the critical importance that conventions play in rule implementation has not been recognised.

It is generally agreed that the process of drawing up standardised social rules and applying them universally is not working. This thesis clearly reveals deep flaws in the rule-setting and enforcement process and shows that they are structural, not readily overcome by tinkering. It suggests that a radically different approach is needed, one that is more firmly anchored in the local context. Specific rules, procedures and compliance systems need to be developed closer to the site of their application, involving a broader range of local stakeholders, within global guidelines that reflect universally-accepted principles of human rights.

### **11.5 Ethical trading**

The deficiencies in the code compliance system point to the need for a major rethink of ethical trading and, by extension, of the whole CSR project, whose foundations appear to be shaky, for three main reasons. First, the basic conditions assumed by stakeholder theory, on which ethical trading and CSR depend, are not in place. Some key stakeholders, especially the workers themselves, are not involved, others are too distant from their place of employment and company-stakeholder dialogue is insufficiently open or constructive. Second, many enterprises either do not accept that companies have moral responsibilities for the welfare of workers or are unclear about the boundaries. As a result, they feel the need to make a business case for doing no more than meeting their workers' basic human rights. Third, ethical trading is clearly not succeeding in securing the genuine commitment of the key actors involved. This is demonstrated in this study not only by the widespread evasion of rules but also by the lack of a clear correlation, among the cases, between the presence of a code compliance system and strong social commitment.

The data show that there are many trade-offs between social and commercial priorities that are not reducible to business case justification. For social responsibility to take root in a commercially-driven environment the civic world, in the form of stakeholders representing worker interests, needs to be able to challenge the market and industrial worlds, in all three arenas of coordination. Adoption of John Ruggie's framework (see section 2.5), which proposes that all companies should commit to respecting human rights and should establish procedures for redressing grievances, would help set the boundaries. But social commitment needs to be strengthened in many mainstream companies and made more explicit. One way to achieve this would be to re-conceptualise Corporate Social Responsibility as Corporate Social Commitment, shifting the focus from contractual relationships to substantive, practical undertakings. Companies should be required to publish evidence that actual measures are being taken to improve worker outcomes, not just procedural steps. This would encourage more companies to move from the great plain onto higher ground, where they would seek competitive advantage through showing tangible results, and it would result in more active engagement with civil society.

This approach inverts the process, geographically and in the way value chains operate. Rather than trying to hold brands responsible for human rights abuses in their supply chains (an unattainable objective) it requires them to commit to concrete measures that will assist their suppliers to do this. The debates about social issues and priorities and the development of standards and procedures need to take place in India and in other countries that supply global value chains. It is there that multi-stakeholder initiatives need to be established, with the aim of developing approaches to improve worker livelihoods in a way that reflects actual circumstances and concerns.

Regional MSIs, involving a wide range of local stakeholders, once established, would be able to forge master agreements with established northern MSIs, setting out the requirements for 'approved supplier status', so as to ensure that suppliers have an incentive to take part. The role of brands would change from monitoring and control to collaborative problem-solving and support. The overall emphasis would move from an adversarial to a consensual approach to change.

## 11.6 Fair Trade

A big talking point<sup>128</sup> among FT organisations in India is how to go about mainstreaming. This thesis reveals the underlying problem – how to enable the market and industrial worlds to enter into processes of coordination that are, at present, overwhelmingly tied to the civic world. The data show that many FTOs are poorly equipped to tackle the issues that arise from this. The cognitive conventions that underpin FT are resistant to compromise with commercial demands, and the conviction-led approach characteristic of most social enterprises sits uneasily with the market-responsive approaches required in the mainstream. In the few cases of FTOs that have achieved sustained growth in sales I found that lengthy periods of learning and adaptation, mainly by trial and error, were needed before business models were discovered that met the various social and commercial objectives of the parties involved.

Increasing the impact of FT requires making a very clear distinction between the two main strands of the movement. The campaigning and advocacy role of FT requires it to mount serious critiques of the prevailing market and industrial worlds from the perspective of the civic world. The need for this is apparent in the data, which show that this world is largely absent in the mainstream textile and garment industries. At the same time FT trading activities have to come to terms with the market and industrial worlds in order to achieve commercially-viable social enterprises that benefit large numbers of disadvantaged producers. The implication of this is the need to separate the two sets of activities, based on a clear theoretical and conceptual foundation. FT already has multiple goals (see section 3.3). Its emphasis on social justice rests on perceived inequities in social outcomes, rather than on a blanket rejection of all other considerations. It should be free to argue strongly for social justice, with one arm, while delivering practical results for the poor and disadvantaged, with the other. Consistency, for FT as a whole, consists of striving for a better balance between social and commercial commitment in two main ways: (a) by confronting mainstream business

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<sup>128</sup> The head of an umbrella FTO told me: ‘the critical issue for FT in India is delivering more volume, but it’s not clear how this is to be achieved’.



with arguments from the civic world in debates about principles, ideas and rules; and (b) by creating new business models that demonstrate how a balanced set of principles, ideas and rules can be applied in practice.

FT also needs to gain greater consensus around social value creation – e.g. how to balance diluted benefits for producers against greater sales volume, which involves trade-offs between breadth, depth and reach of social objects (see section 8.3.1). Applying the concepts and tools in this thesis to a mainstreaming project would help a stable balance to be struck between the whole array of commitments, social and commercial, and facilitate the formation of new rules and conventions aimed at achieving better outcomes for producers. This process requires active FTO engagement with stakeholders representing commercial interests and the establishment of long-term contractual relationships or partnerships between FTOs and mainstream businesses.

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Social justice demands change. Conditions for many workers in the Indian textile and garment industries indisputably meet Sen's test of manifest injustice, requiring us to take notice and act, rather than stand by and let events take their course. This thesis has explored the vital role that business enterprises, and the institutions surrounding them, can play in the process of change. It shows that several, closely connected, ingredients are required to ensure greater social justice in factories and places of work, yet many initiatives concentrate narrowly on just a few elements and rely too much on prescriptive rules. Ethical trading and FT both need to broaden their approaches, focusing on greater participation by local actors, notably the workers and producers themselves. Without this there can be no shared understanding, which is essential for consensual change and learning to take place. Ideally, the actors most directly involved should be allowed to find their own answers, within a clear human rights framework, rather than having solutions imposed on them from the outside.

Rules, conventions and commitments are all guides to action, coexisting and competing in complex and dynamic manufacturing and trading systems, but they have contrasting origins and properties. The question of the balance between commercial and social priorities can only be answered by addressing all three – i.e. considering the combined

effects of the transfer of societal expectations in the form of rules, of the conventions operating in the place of employment and of the commitments exercised by strategic actors. The key concepts – social justice criteria, rules and conventions, value chains and agency – are normally treated in separate literatures. This thesis demonstrates that they can be linked using the central integrating concept of social commitment.

This thesis makes an innovative contribution to the understanding of the tensions between social and commercial priorities in business enterprises. It shows the value that can be gained by applying the Grounded Theory approach to development studies and it defines and develops social commitment as a concept with powerful analytical connections to a range of different branches of knowledge. It makes an original contribution to theory and practice that advances the state of knowledge about the role of business in society. The study opens up possible avenues for theoretical development in the spaces between conventions, rules, agency, value chains and social justice and it points the way towards future multi-disciplinary research in this area.

The significance of the findings suggests that further empirical research should be carried out in other sectors and countries in order to explore the extent to which the conclusions reached in this thesis are generalisable. The fresh thoughts it provides on the theoretical foundations of ethical trading and Fair Trade set an agenda for the steps that can be taken to resolve issues that have been hampering both movements for some years.

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## Appendix A

### List of cases, ordered by reference number

Ref	Type	Owner-ship	Size	Trading	Location	Trading relationships	Integration	Market	Soc e/t rank*	Comments
MB02	Brand and retailer	Public	L	Importer	UK	Many	No	Mass-mid	5	A leading UK brand publicly committed to high ethical standards
MB03	Brand and retailer	Public	L	Importer	US	Many	No	Mass	5	A leading American brand at the cutting edge of code compliance
MB04	Brand and retailer	Public	L	Importer	US	Many	No	Mass	5	A leading American brand subject to sustained pressure from civil society
MB05	Brand and retailer	Private	M	Importer	UK	Many	No	Niche	3	A specialised UK brand active in social responsibility
MB06	Brand and retailer	Public	L	Importer	UK	Many	No	Mass-mid	3	A large UK chain with interest in CSR and active in MSIs
MB07	Brand and retailer	Public	L	Importer	UK	Many	No	Mass	2	A commercial UK chain not participating in MSIs
MB08	Brand	Public	L	Importer	US	Many	No	Mass	3	Major international brand with strong values, not participating actively in MSIs
MB09	Retailer	Private	M	Importer	NL	Many	No	Mid	4	Long established European company, family owned, closely involved in promoting SA8000 certification
MB10	Brand	Private	M	Importer	NL	Many	No		2	Small Dutch garment brand, young and rapidly growing
MB13	Brand and retailer	Private	M	Domestic	Various India	Many	No	Upper	1	Leading Indian brand expanding rapidly in domestic market
MB14	Brand and retailer	Public	L	Domestic	Various India	Own productn. and third party	Some backwards	Upper	5	An up-market Indian brand, backed by a major industrial group with its own factories
MB15	Brand	Public	M	Domestic	Various India	Own productn. and third party	Substantial backwards	Mid-upper	5	A mainstream Indian brand with a strong brand recognition
MB16	Brand	Private		Domestic	Various India	Own productn. and third party	Some backwards	Mid-upper	1	Specialist Indian kids clothing brand
MB17	Brand and retailer	Private	M	Domestic	Various India	Many	No	Mid-upper	1	Leading Indian domestic brand, retail driven



MB18	Brand	Public, family contr	M	Domestic	Various India	Own productn. and third party	Substantial backwards	Mid-upper	2	Up-and-coming Indian mall chain, linked to large industrial group
MB19	Brand	Public	L	Importer	US	Many	No	Mass	4	International brand, footwear and garments, thoroughly researched by others and well documented
MP06	M/stream manufacturer	Public, div. of ind group	L	Mainly dom., some exports	Spread in India	Mainly 1 customer	Forwards: brand-shops-manufacturer	Upper and mid range	4	Garment factories wholly owned by an Indian brand
MP07	M/stream manufacturer	Private specialist	M	Exports	Tirupur	All to 1 customer for many years	Some backwards	Quality mid range, ethical	5	A supplier exclusively working for an 'ethical' brand showing the benefits of a close, cooperative working relationship.
MP08	M/stream manufacturer	Public, family contr group	L	Exclusively exports	Hyderabad	All to 1 customer + own brand	No	Upper end	5	A supplier set up to replicate European standards but now starting to develop its own brand
MP09 Case A	M/stream manufacturer	Public, family controlled	L	Exclusively exports	Bangalore	Many	No	Mid	2	A strongly commercially-oriented manufacturer starting to introduce social standards. Selected for in-depth study
MP10	M/stream manufacturer	Public, family controlled	L	Mainly dom., some exports	Bangalore	Nearly all to own group	Forwards: brand-shops-manufacturer	Mid and upper	5	A supplier to the domestic market with innovative approach to social standards
MP11	M/stream manufacturer	Private	S	Domestic	Bangalore	Own brand + other customer	Forwards: brand-manuf.	Mid	1	A small-medium sized supplier to the domestic market
MP12	M/stream manufacturer	Public, family controlled	L	Mostly exports, come dom.	Coimbatore	Many	Owned by spinning mill	Mid-upper	4	A medium-sized manufacturer supplying domestic and export markets, part of a socially conscious group
MP13 Case B	M/stream manufacturer	Private	M	Exports	Various in India	Many	No	Mid	4	A large export manufacturer that has become very 'good at compliance'. Selected for in-depth study
MP14	M/stream manufacturer	Private	S/M	Exports	Delhi	Many	No	Mid designer	3	A fairly typical Delhi exporter dominated by the owner
MP15	M/stream manufacturer	Private	S/M	Exports and domestic	Delhi	Many	No	Mid	2	A fairly typical Delhi garment company serving domestic and export markets
MP16	M/stream manufacturer	Public, family controlled	M	Exports	Hyderabad	Many	Back to spinning (main bus)	Mid	3	A publicly quoted spinning mill that has starting garmenting
MP17	M/stream manufacturer	Private	S	Domestic	Tirupur	Many	No	Low	1	A very small domestic manufacturer

MP18	M/stream manufacturer	Private	M	Exports	Tirupur	Many, one special relationship	Moving back (knitting, dyeing and spinning)	Mid	5	A commercially successful exporter with social values
MP19	M/stream manufacturer	Private	S	Both	Tirupur	Many	No	Low	0	A small domestic supplier now struggling to get into exports
MP20	M/stream manufacturer	Private	M	Exports (sep dom)	Tirupur	Many	No	Mid	3	An established exporter using certification for marketing
MP21	M/stream manufacturer	Private	S	Exports	Tirupur	One dominant	No	Low	0	A small export supplier
MP22	M/stream manufacturer	Private	S	Dom and exports	Tirupur	Many	No	Low	2	A small-medium sized manufacturer selling into the domestic market and also exporting
MT01	Spinning	Private ind group	L	Domestic and export	Coimbatore	Many	Forwards and backwards	Mid-upper	5	Spinning mill with a tradition of social responsibility, now getting into integrated organic and FT value chains
SB01 Case C	Craft retailer and brand	Private	M	Mainly domestic	Scattered thr India	Retailer with own prod network	Strengthening backwards	Upper	8	A hybrid social and business organisation, poised for growth and restructuring. Selected for in-depth study
SB02	Crafts marketing and brand	Private	S	Domestic	India several	Retailer with own prod network	None	Mid-upper	6	Marketing business committed to crafts but facing commercial challenges
SB03	Crafts prod group and brand	Private	S	Dom. and exports equally	Rajasthan	Many	Back to prodn and forward to shops	Upper	7	Craft marketer with own brand
SB04	FT brand and retailer	Private	S	Importer	UK	Closely linked to small no suppliers	Backwards by partnerships	Niche	8	Brand/retailer with strong links to FT and organic production
SB05	FT brand and retailer	Private	S	Importer	UK	Exclusively source from one supplier	Strong backwards by partnership	Niche	9	Niche FT retailer with strong commitment to Indian village
SB06	FT organisation and brand	Public limited co and charity	M	Importer	UK	Many	Back through support services	Niche-mid	9	Group of disparate FT activities, including trading
SB07	Brand	Private	S	Importer	UK	Many	No	Niche	8	Niche fashion marketer
SI01	FTO umbrella	Society	S	Mostly export	Chennai	Many	No, intermediary	All	9	A 'typical' FT umbrella organisation

SI02 <b>Case D</b>	FTO umbrella	Society	S	Mostly exp. domestic growing	Mumbai	Many	Forwards by shops	All	9	A traditional FTO (umbrella organisation) moving towards mainstreaming, both in export markets and domestically. Selected for in-depth study
SP01	FT prod group	Self-help group	S	Mostly exp	Mumbai	Many	No	All	9	A social project providing work for the most deprived
SP03	Crafts marketing	Private	S	Equal dom. and exports	Bangalore	Many	Back into production and shop	All	7	A social organisation promoting crafts and struggling with the competing demands
SP04	FT producer	Private	S	Exports and some home	W Bengal	Many	No	Mid-lower	2	An 'independent' FT supplier also serving the mainstream market
SP05	FT prod group	Society	S	Exports	Tamil Nadu	One customer	Some backwards	Mid-upper	9	An integrated FT value chain with exclusive customer relationship
SP06	FT producer	Society	S	Exports	Tirupur	One main customer	No	Mid-upper	8	A traditional FT supplier
SP07	FT prod group	Private	S	Domestic, (exports)	Delhi and elsewhere	One main customer	Some backwards	Mid-upper	7	A growing craft producer group supplying larger group, now restructuring
SP08	FT advisory	Private	S	Exports	Hyderabad	Many	Service provider, now building prod	Mid	7	A service organisation serving FT; a N-S partnership, now establishing its own production unit
SP09	FT prod group	Reg charity	S	Exports	Tamil Nadu	Mainly SIPA	No	Mid	9	A producer group established to assist the handicapped and deprived
SP10	Crafts retailing	Coop	M	Mainly dom., some exp	Chennai	Many	Strongly linked to local coops	All	6	A cooperative organisation (governmental initiative) in crafts and FT
SP11	Crafts retailing	Private	S	Equal dom. and exports	Kolkata	Many	No, except showroom	Upper	6	A spin-off from FT selling to the mainstream market
SP12	Crafts prod group	Trust	S	Domestic	Kutch	Many	Forwards and backwards	Upper	9	A craft-based NGO linked to a larger organisation
SP14 <b>Case E</b>	FT farming	Private, subsid. of industr. grp.	M	Domestic and export	Kutch	Many	Forwards and backwards	Mid-upper	9	An organic and Fair Trade farming operation now reaching mainstream markets. Selected for in-depth study
SP15	FT and organic farming	Cooperative	S	Domestic and export	Hyderabad and elsewhere	Many	No	Mid-upper	7	An agricultural support organisation (NGO), similar to SP14 but at earlier stage

\* The ranking of social commitment is based on the criteria established in sections 8.4.1 and 8.4.3: 9 indicates transformative social agenda; 8 focus on social mission; 7 substantive social goals; 6 commercially-driven social enterprise; 5 partially internalised social values; 4 limited identification; 3 reluctant compliance; 2 resistance to outside pressure; 1 opposition and denial.

## Appendix B

### List of interviews\* in India

Organisation type	Main respondent**	Location	Main areas explored
Business studies institute	Professor	Ahmedabad	Value chain and technology
Spinning Mill	Managing Director	Ahmedabad	Operations of spinning mills
Textile Mills Federation	Director	Ahmedabad	Structure of industry and trends
Management consultancy	Principal	Bangalore	Standards and compliance
Research and project consult	Partner	Bangalore	Fair Trade research
Rights NGO	Director	Bangalore	Worker livelihood issues
Major UK brand	Social compliance off	Bangalore	Code violation problems
Agrochemicals company	Board member	Bhuj	Farmer livelihoods
Fair Trade organisation	Director	Chennai	Role of FTOs in India
Spinning mill	Executive Director	Coimbatore	Fair Trade and organic cotton
Management institute	Professor	Delhi	CSR (management/strategy)
University	Professor	Delhi	CSR (political/economic)
Auditing and consulting org	Managing Director	Delhi	Brand attitudes and behaviour
Fair Trade federation	Manager	Delhi	Overview of Fair Trade activities
Fair Trade organisation	Director	Delhi	Projects in FT garments
UK Govt. Development agency	Economist	Delhi	Research into industry
ILO	Labour stds. specialist	Delhi	Research into labour conditions
UNCTAD	Officer	Delhi	International trading issues
UNIDO	Divisional Director	Delhi	Research on industrial clusters
Support NGO	Manager	Delhi	Capacity building in NGOs
Advocacy NGO	Assistant	Delhi	Rights issues and local research
Project NGO	Director	Delhi	Production of handlooms
Multi-stakeholder initiative	Regional Coordinator	Delhi	Code compliance alternatives
International NGO	Economist	Delhi	Research
Apparel Export Council	Deputy Dir General	Delhi	Exporting issues and CSR
Textile Industry Confed	Sec General	Delhi	Government relations and policy
Garment Exporters Assoc	President	Delhi	Personal experience, exports and labour
Research and consultancy	Programme Director	Delhi, Bangal.	Research and practice in CSR
Small enterprise institute	Director	Kochi	Contribution of small businesses
Social sciences institute	Professor	Mumbai	Industrial relations
Business consultancy	Senior partner	Mumbai	CSR implementation and sustainability
Testing and auditing	Operations Manager	Mumbai	Codes of conduct and auditing
Fair Trade consultancy	Director	Mumbai	Growth of FT in India and issues
Clothing manuf. association	Chairman	Mumbai	Trends in garment industry
Powerloom Develt. Council	Director	Mumbai	Powerloom industry
Textiles Committee	Quality Director	Mumbai	Government policy re CSR issues
Consumer NGO	Past President	Mumbai	Consumer attitudes
Textile Promotion Council	Director	Mumbai	Exporting issues
Development research	PhD student	Tirupur	Exchanged experiences
Trader (intermediary)	Private dealer	Tirupur	Small business practice
Value chain consultancy	Consultant	Tirupur	Practical issues of CSR and codes
Campaigning NGO	Director	Tirupur	Specific issues in worker rights
Exporters Association	Consultant	Tirupur	Commercial issues
Ginnery	Owner	Wankaner	Operations of ginnery

\* Interviews were carried out in Jan-Feb 2005 and March-May 2007 and exclude the case profiles listed in Appendix A.

\*\* Only those providing reliable, relevant data are shown. In some cases, more than one respondent was interviewed.

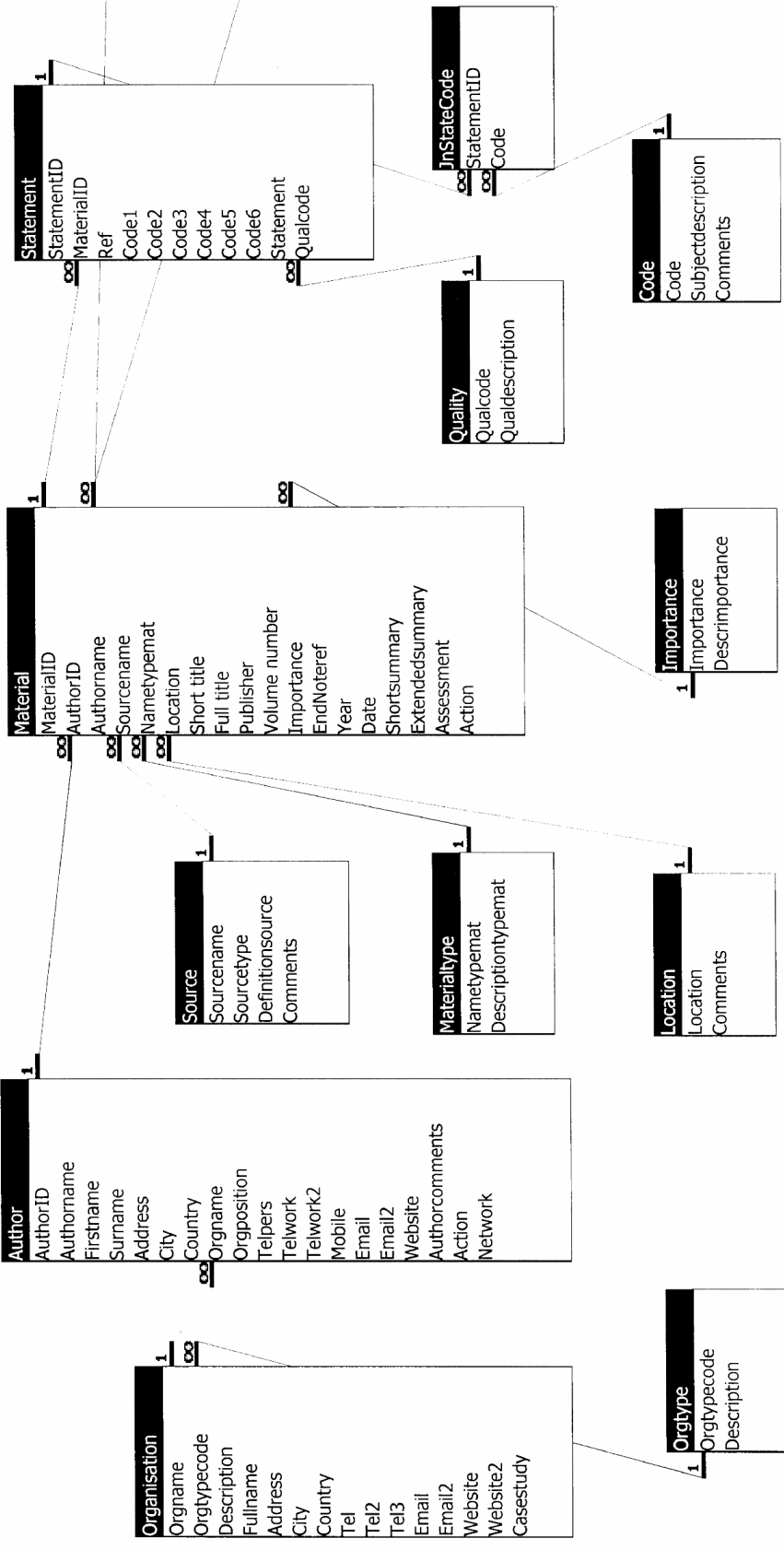
## Appendix C

### List of surveys

The following titles, which also appear in the References at the end of the main thesis, contain valid empirical data that have been incorporated in the data base and analysis:

- Acona 2004 Buying your way into trouble? The challenge of responsible supply chain management Acona, London
- Ascoly, N. & Finney, C. (eds) 2006 Made by women: gender, the global garment industry and the movement for women workers' rights CCC, Amsterdam
- Barrientos, S. and Smith, S. 2006 Report on the ETI impact assessment 2006: Part 1: main findings IDS, Brighton
- CCC 2005b Looking for a quick fix: how weak social auditing is keeping workers in sweatshops CCC, Amsterdam
- Global Alliance for Workers and Communities 2002a and b Country Reports on Gap and Nike suppliers in India Global Alliance, London
- Hale, A. and Wills, J (eds) 2005 Threads of labour: garment industry supply chains from the workers' perspective Blackwell, Oxford
- Hurst, R., Murdoch, H. and Gould, D. 2005 Changing over time: tackling supply chain labour issues through business practice Impactt, London
- Jorgensen, H., Pruzan-Jorgensen, P., Jungk, M. and Cramer, A 2003 Strengthening implementation of corporate social responsibility in global supply chains World Bank, Washington
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- Krishnamoorthy, S. 2006 Garment industry and labour rights in India: the post-MFA context CEC, Delhi
- Locke, R., Qin, F. and Brause, A. 2006 Does monitoring improve labor standards? Lessons from Nike Working Paper 4612-06 MIT Sloan, Cambridge Mass.
- Mamic, I. 2003 Business and code of conduct implementation: how firms use management systems for social performance ILO, Geneva
- Oxfam 2006 Offside: labour rights and sportswear production in Asia Oxfam, Oxford
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- WWW 2004 Garment industry subcontracting and workers rights: a report of WWW action research in Asia and Europe WWW, Manchester

# Data Base Structure



## Appendix E

### Confidentiality Statement



### **A 3-year Research Project into Social Responsibility in the Indian Textile and Clothing Industries**

In recent years retailers, brand owners and manufacturers in many industries have adopted codes of conduct for workers employed in their global supply chains, as part of their commitment to corporate social responsibility. In the textile industry some companies have developed their own codes while others have embraced industry-wide, universal or local standards. A variety of codes and standards now exists, resulting in some confusion, not least among consumers, at a time when interest in fair trade is growing.

This doctoral study explores the varied responses to the introduction of social standards and fair trade practices and how they have been implemented at different levels of the supply chain. Drawing on the business literature as well as that of development studies, the project is strongly founded on factual evidence, focusing on the commitment of the key actors involved. At the heart of the research are interviews with major players in the industry, both in the UK and in India, which explore the actions of each organisation, the thinking behind them and their actual and anticipated consequences, especially for workers and producers.

The results of the research will be published in the form of a doctoral dissertation and will also be summarised in papers published in academic and business journals. In all published documents no statements, other than those in the public domain, will be attributed to any individual person or organisation without their specific approval.

The research is being carried out by Peter Braithwaite, who holds an MA in Natural Sciences and Economics from Cambridge University. Peter worked in engineering and then obtained an MBA from INSEAD, France. He subsequently acted as a consultant to major companies and non-profit organisations, including lengthy spells in Tanzania and Nepal. He also started, and for 20 years managed, The Good Book Guide, which was twice honoured with the Queen's Award for Export Achievement.

#### Declaration of confidentiality

I agree that \_\_\_\_\_ will provide information to Peter Braithwaite in connection with this research. I understand that all the information that I or my colleagues give him will be treated by him as strictly confidential and will not be revealed to any third party, other than to fellow researchers at IDS, who are equally bound by these confidentiality provisions. Any information that is eventually published will not be attributed to individuals or organisations without their specific approval:

Name:

Position:

Company:

Date:

Sig: \_\_\_\_\_

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