



# **Focusing Events and the Regulation of Labour Standards in Australian and German Garment Supply Chains: Towards Convergence?**

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# Rana Plaza (RP) as a focusing event?

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Source: Wikipedia

- A focusing event is a major, harmful occurrence that may unpredictably reoccur thereby encouraging stakeholders to organise institutional reform aimed at preventing repetition (Birkland, 1998)
- „Accord“ as innovative regulatory tool indicating institutional reforms

- *But what is the impact on garment lead firms' supply chain governance (SCG) structures, including the regulation of labour standards (LSs)?*
- *Is the impact mediated by national „Varieties of Capitalism“ (VoC)?*

# Factors influencing SCG structures and the regulation of LSs

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- Global convergence or national divergence of lead firms' LSs?
  - Tendencies towards 'relational' supply chain practices in CMEs and 'market' arrangements in LMEs (Hall & Soskice, 2001; Lane, 2008; Lane & Probert, 2009)
  - Recent moves towards relational contracting should encourage improved LSs (Gereffi et al., 2005; Dicken, 2011)
- Firm-level factors such as pressure from labour activists, shareholders, consumers, media (Bartley & Child, 2014; Fransen & Burgoon, 2012; Marx, 2008) influence adoption of stronger, multilateral regulation
- *Aim to compare responses of Australian (LME) and German (CME) garment retailers and brands to RP to understand sources of convergence or divergence*

# Propositions

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- Leads firms in Germany will be more structurally powerful and culturally vulnerable than in Australia and hence will be more likely to adopt multilateral regulation in response to a focusing event
- Australian firms will respond more substantively (cf symbolically) than German firms to a focusing event ('late mover' hypothesis)



# How are we undertaking this research?

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- Appropriate case selection
  - Australia as LME; Germany CME with variation in the structural features of garment lead firms
  - Bangladesh is an emerging, low cost production centre with weak labour rights
  - Selecting firms in each country according to 3 main firm types: retailers (giant/specialized), brand marketers, brand manufacturers
- Data collection
  - 20 lead firms: 10 in Australia, 10 in Germany
  - Manager interviews: 14 in Australia, 10 in Germany
  - Expert interviews (NGOs, unions, industry associations, financial institutions, consultants): 15 in Australia, 12 in Germany
  - Secondary: lead firms' websites, annual reports, CSR reports, NGO/media analyses, labour standards' rankings, industry data, industry events
- Analysis of within and across-country similarities and differences pre and post RP

# Findings I: Prior to RP – Supplier relations

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- Cross-national comparison



- Australian firms split equally between market and relational ties



- All German firms had relational ties, sometimes complemented by market-based arrangements

- Comparison between firm types

- Market ties more common among general retailers in both countries

- Relational ties favoured by brand marketers and manufacturers

- Reasons cited for relational arrangements



- German firms: quality, supplier flexibility and innovative capacity, process improvements



- Australian firms: supply continuity, greater oversight of supplier practices

- Both countries: reputational risk especially regarding social compliance

➤ *Lead firm-supplier relationships converging towards a mix of market-based and relational sourcing in both countries, albeit from different directions*

# Findings II: Prior to RP – Lead firm LSs

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- Limited understanding of LSs; unilateral
  - Restricted pressure on lead firms' LSs from shareholders, politicians, NGOs
  - CSR units in 6/10 garment lead firms; strategic influence typically weak
  - Membership in multilateral initiatives 2/10 lead firms
- *Moderate level of LSs but substantial between firm variance*



- LSs on business agenda for some time due to offshoring legacy; BSCI as a collective, but unilateral norm
  - Selective pressure on lead firms in the past
  - CSR specialist units in 9/10 garment lead firms; variable strategic influence
  - Membership of multilateral initiatives 4/10 lead firms
- *Average moderate level of LSs with little variance between firms*





# Findings III: Impact of Rana Plaza

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- Large share price decline of 6/7 public firms within 1 month of RP
- 3/10 firms signed the Accord (though very few sourced from Bangladesh)
- 7/10 firms made changes to supplier relationships and/or LSs
- NGO pressure a significant influence on firms' responses



- Share price increase of 2/3 public firms within 1 month of RP
- 5/10 firms signed the Accord
- 3/10 firms made changes to supplier relationships and/or LSs
- Variety of factors influenced firm responses to RP; NGO pressure selective

- *Australian firms responded more substantively to Rana Plaza*
- *Firm responses in both countries varied depending on firms' existing LSs, main sourcing locations, and structural power/cultural vulnerability*



# Issues for discussion

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- Signs of convergence towards a mix of market/relational ties in both countries: what does this mean for VoC and for LSs regulation?
  - LSs more strongly institutionalised in Germany but firms in both countries unilaterally uphold baseline standards, reflecting common economic pressures
  - But firms go about standards in different ways: coordinated responses in Germany, individual responses in Australia, reflecting VoC
- Australian firms responded more substantively to RP
  - ‘Latermover’ hypothesis: Australian firms came late to offshoring and received little public scrutiny prior to RP but ‘shocked’ into action thereafter
  - However, features of Germany’s political economy esp role of the State and EU may eventually produce a more substantive response by its lead firms
- *National-historical differences influence supplier relations and LSs regulation, but do not lead to higher vs. lower standards but rather to convergence on baseline level reinforced by focusing events*

# Open questions

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- What explains cross-national variation and change over time in NGO and other groups (e.g. investment analysts) influence on lead firms' LSs?
- How much do lead firm LSs policies and practices matter? Role of suppliers and local institutional influences (Lakhani et al. 2013).
- Need to examine process of convergence/divergence on LSs more closely. E.g. German firms targeted heavily 15 years ago now active in promoting the Accord and other forms of multilateral regulation – unresolved struggle around form and level of LSs regulation to date.
- Next steps
  - Study broader sample of firms
  - Include more countries



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