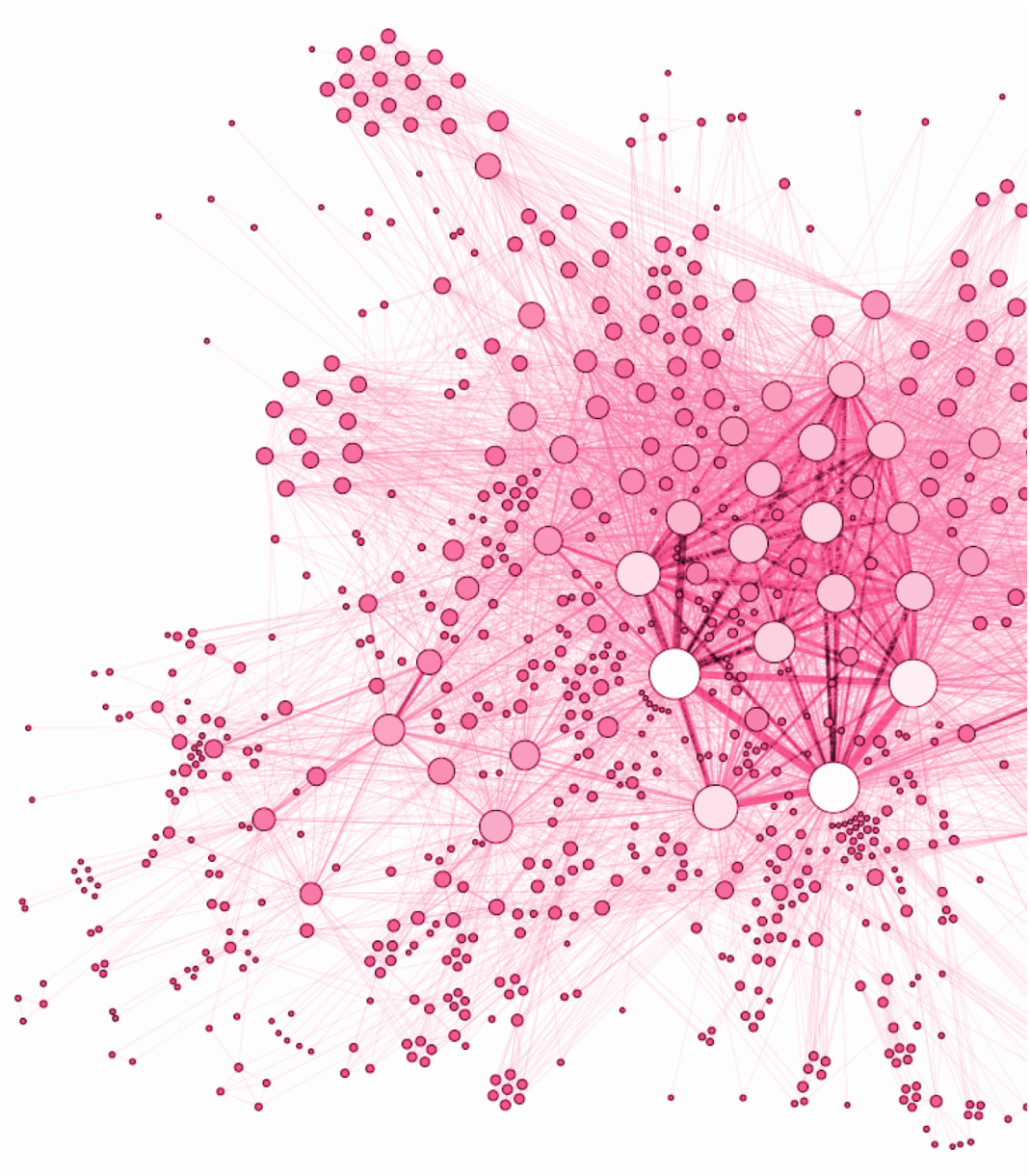


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Global Production Networks

Introduction
to the framework

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How and why is the analysis of the garment industry's structure relevant for us?

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Acknowledge the complex reality with many different players and their backgrounds and relations.

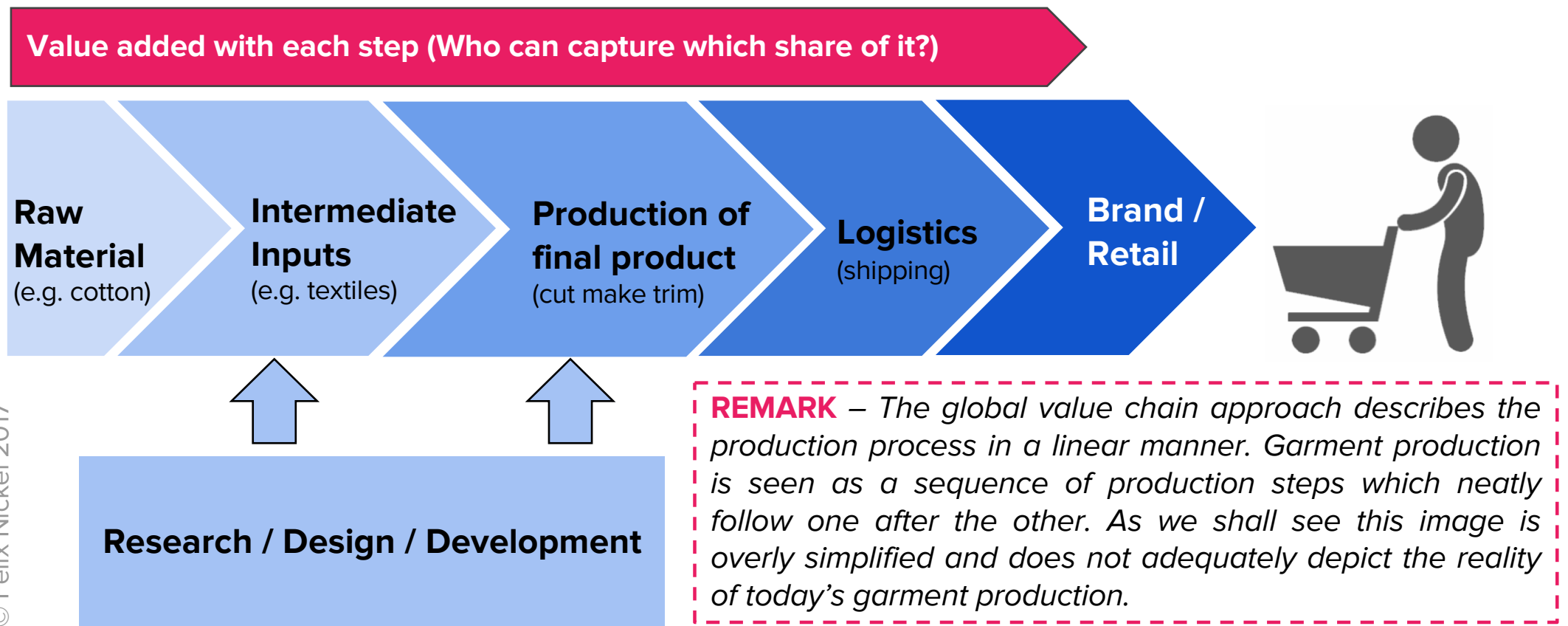
Trying to understand the economic, social and political context the production of garments is embedded in.

- ⇒ Being able to question “simple” solutions.
- ⇒ Identify pressure points and entry points for action and being able to envision transformations of the existing order.

1. Conceptual origins

Conceptual Origins: Global Value Chain approach (GVC)

Stylized example of a value chain



Conceptual Origins: Global Value Chain approach (GVC)

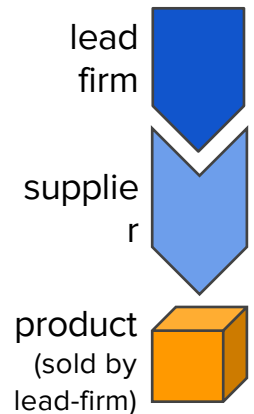
Two main assumptions and its drawbacks I

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Two main assumptions of the GVC approach:

sees the production process as a **linear process**: every production step needs to be completed to move to the next one.

assigns power mainly to the lead firms (brands/ retailers) and conceptualizes garment production as a **vertical structure**.



BUT the production and distribution process as depicted by the GVC approach (as a vertical and linear) is more the exception than the rule in reality. The GVC approach **has problems in accommodating the dynamic nature of the garment production process and only focus on economic actors**.

Conceptual Origins: Global Value Chain approach (GVC)

Two main assumptions and its drawbacks II

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Drawbacks and misconceptions of the GVC approach

1. Garment production is **not a linear process** but consists of multiple interlinked production processes.
2. Changes in the relations between firms are quite common (e.g. rise of key suppliers; brands might cut their relations with a supplier leading to a restructuring of the whole value chain) but can hardly be captured with the chain approach.
3. The GVC approach almost exclusively focusses on the economic actors and their contribution to production. This **leaves out other important actors and contexts which also have an impact on production but also on the working conditions** (e.g. state regulation, trade treaties, private regulation etc)

2. Global Production Networks

— — — Basic features of the framework

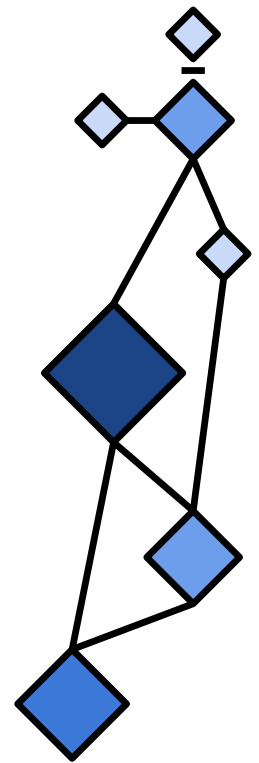
From verticality to horizontality and diagonality

— — —

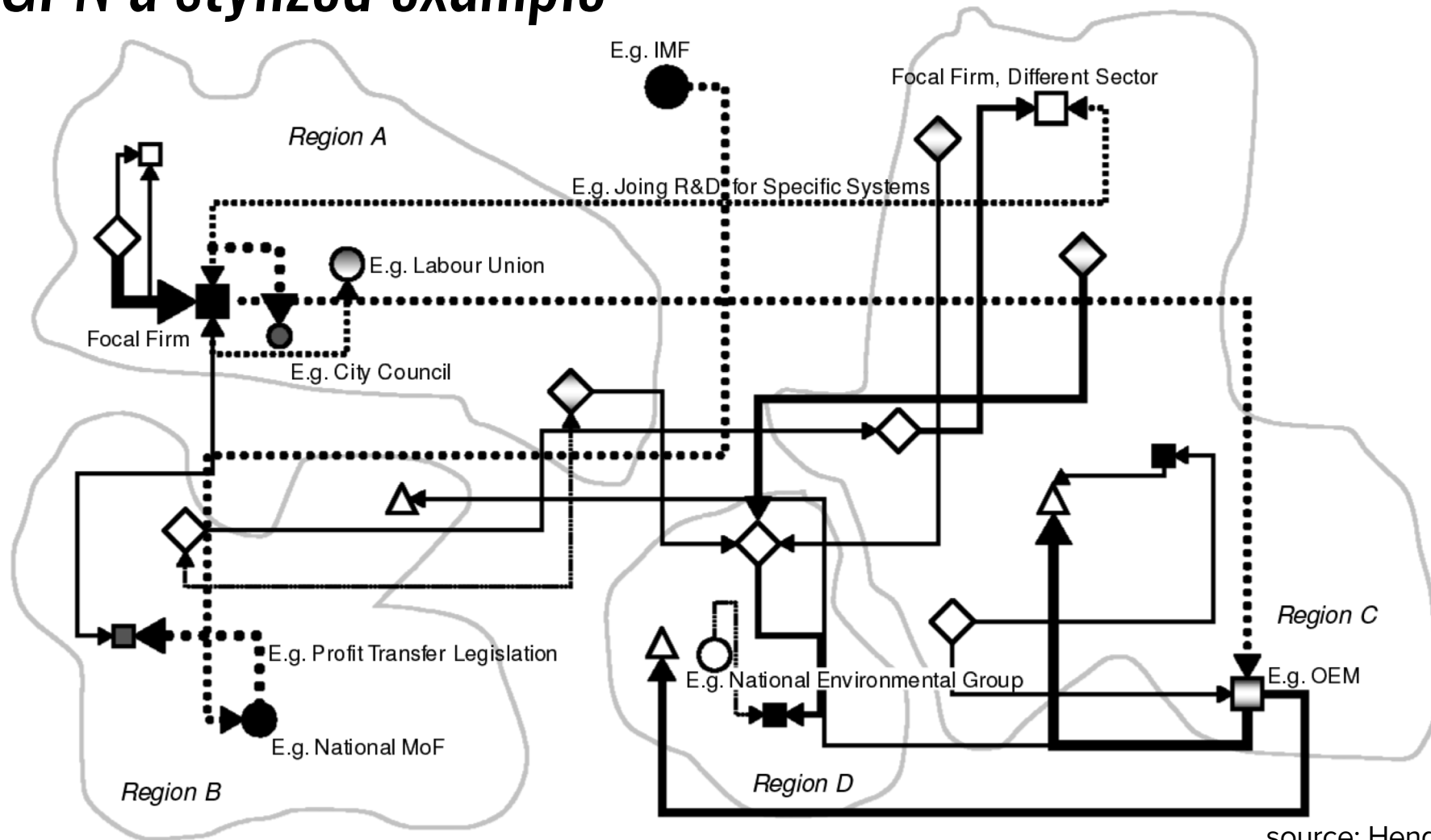
The **Global Production Networks** aims at grasping the dynamic and more horizontal and network-like structure (garment) production has taken today. Instead of taking the image of a tightly connected chain the image of a flexible network is used. These networks contain two basic forms of linkages:

Horizontal – brands, producers and others (state institutions, NGOs, international institutions...) are interlinked in multiple ways on the same hierarchical level. BUT this horizontality should not be misread as the possibility of every actor to have equal influence as power (as in the case of the garment industry) is unequally distributed within production networks.

Diagonal – actors (e.g. suppliers) might play different roles in different production networks.



GPN a stylized example



source: Henderson et al. 2002

GPN a stylized example

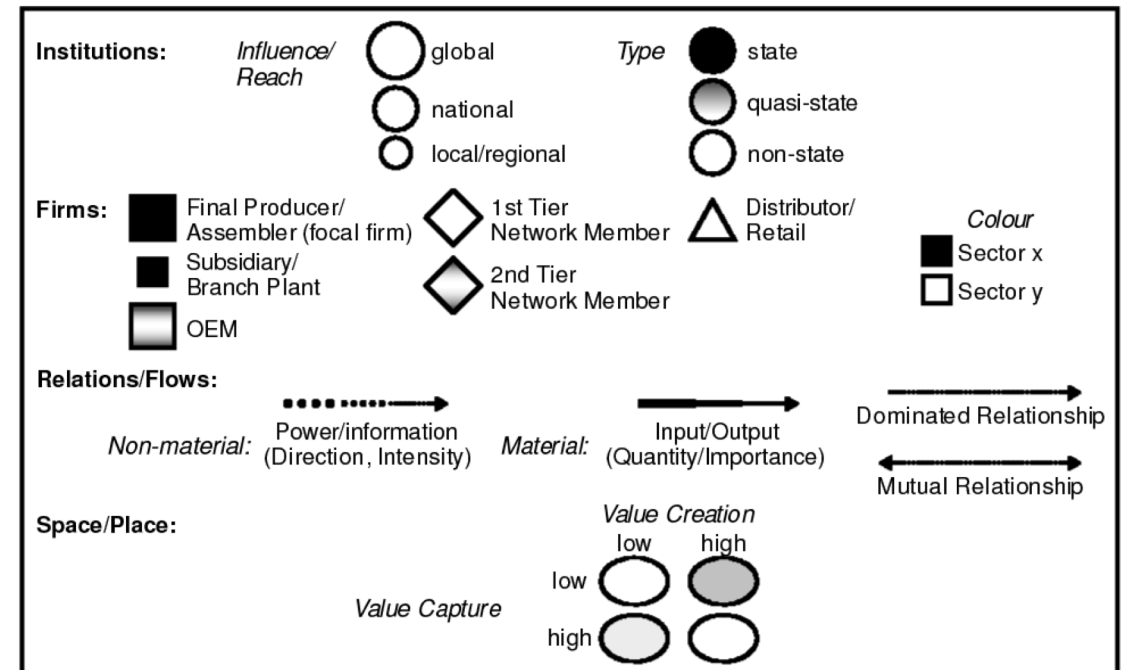
Explanations I

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The framework **includes different types of actors** which directly take part in the production (economic actors such as lead firms, suppliers, intermediaries) or are important for the wider context of production (state actors like government institutions or non-state actors like e.g. trade unions or environmental groups)

There are **different flows** (with varying strength) between the actors: **knowledge, labour and capital**. These flows can be unidirectional or work both ways.

Production is **geographically dispersed**.



Key for the diagram on the previous slide.

source: Henderson et al. 2002

GPN a stylized example

Explanations II

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Actors have **different degree of influence**: their reach can be confined to their own region or go beyond it, which gives us a first idea about the different distribution of power in the production networks.

Due to the geographical dispersion of global production networks the **actors are embedded in many different backgrounds/ contexts** which influence their behaviour but determine which action can be taken and how the power is distributed both between actors from one region but also between actors from different regions. These differences stem from e.g. different nation states with varying legal systems, the membership of states in varying trade agreements, or different models of labour representation.

Production cuts through these different geographical contexts, a fact that is hard to be grasped by a linear vertical approach like the global production chain approach.

Key components of the GPN approach

Our focus in this module:

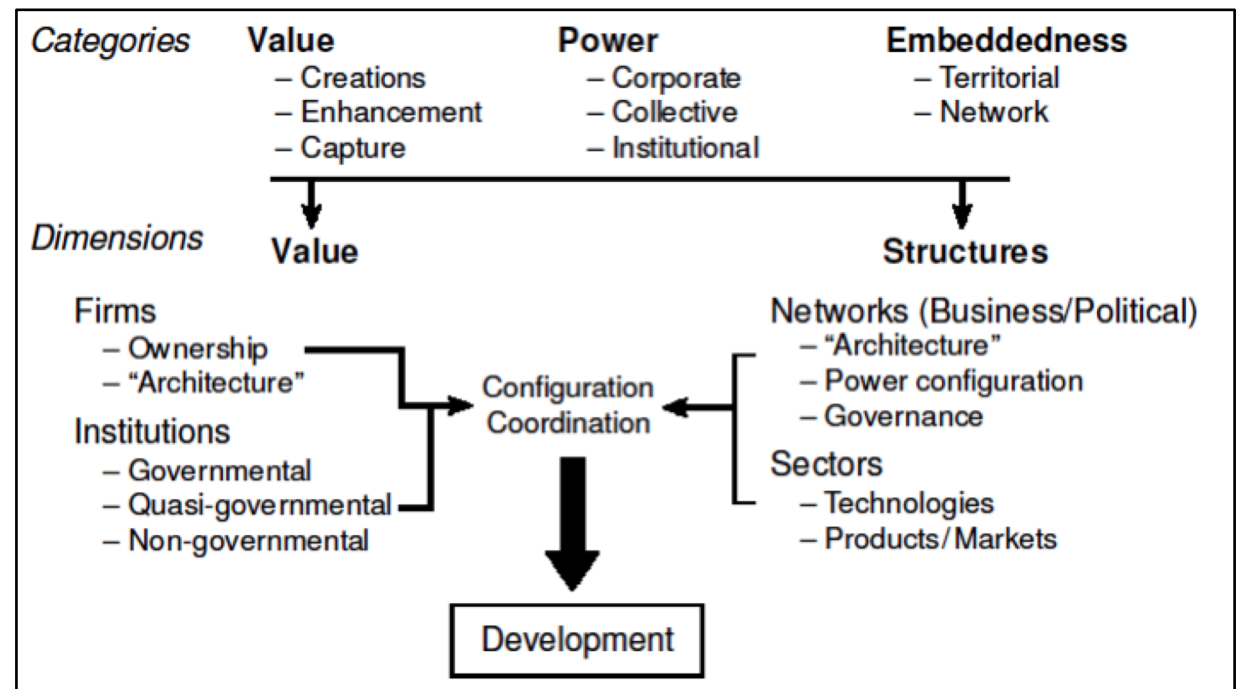
Embeddedness/“Einbettung”

How are different actors (e.g. suppliers) integrated in wider production networks? What are the contexts (e.g. national legislation but also trade agreements) they are embedded in?

(part of the following session on trade regimes)

Power relations

How is power distributed between lead-firms and suppliers and where are the workers situated?



Source: Henderson et al. 2002

Actors in a global production network

Firm actors

Lead firms (brands, retailers)

Tier 1 : strategic partners
("full package service")

Tier 2: Specialised suppliers

Tier 3: Generic suppliers

Intermediaries
(finance, logistics, standard setting)

Non-firm actors

A supplier can take up different roles in different production networks. Whereas it can be a specialised supplier or even strategic partner for a certain lead-firm it can also be a generic supplier for another lead firm.

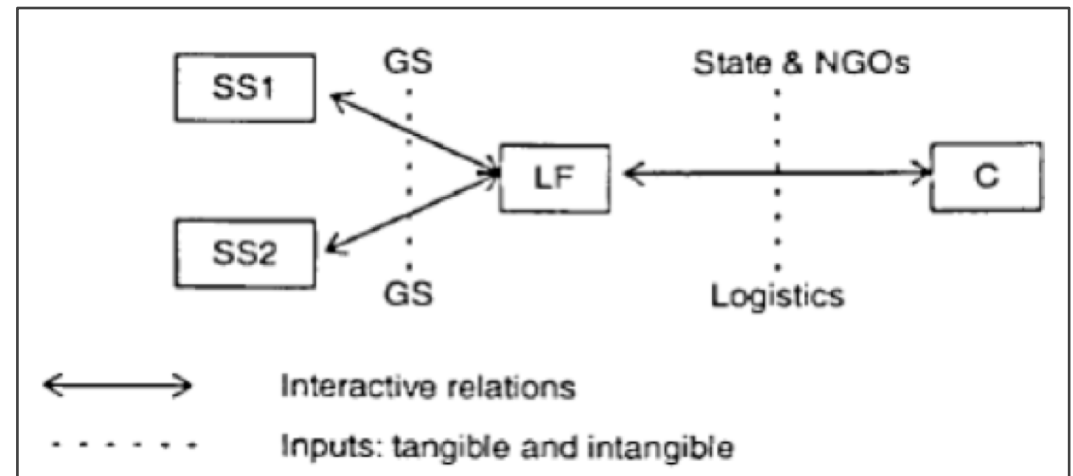
*Furthermore as a general rule we can say that **suppliers are able to capture more value the more specialised and in a way indispensable they get for the lead firm** (tier 1 suppliers are most probably capturing more value of the production process than tier 3 suppliers). As a consequence industrial upgrading is one strategy for suppliers to improve their position with regards to power towards the lead firm. The stronger the ties and the dependency of a lead firm on one supplier the better the bargaining position of a supplier towards the lead firm.*

Configurations of a global production network

Lead firm-centric model

The lead firm-centric model shows a global production network configuration with a **lead firm dominating and driving the entire production network**. The garment industry is however only very seldomly organised in a manner that comes close to this model, lead firm-centric models can be seen especially in the automobile sector or IT sector. The model describing the organization of garment production networks the best within the GPN framework is the strategic partner model (shown on the next slide).

However it is worth noting that **these models are always only abstractions from reality. Actual production networks can take various forms.** These models aim at identifying recurring patterns.



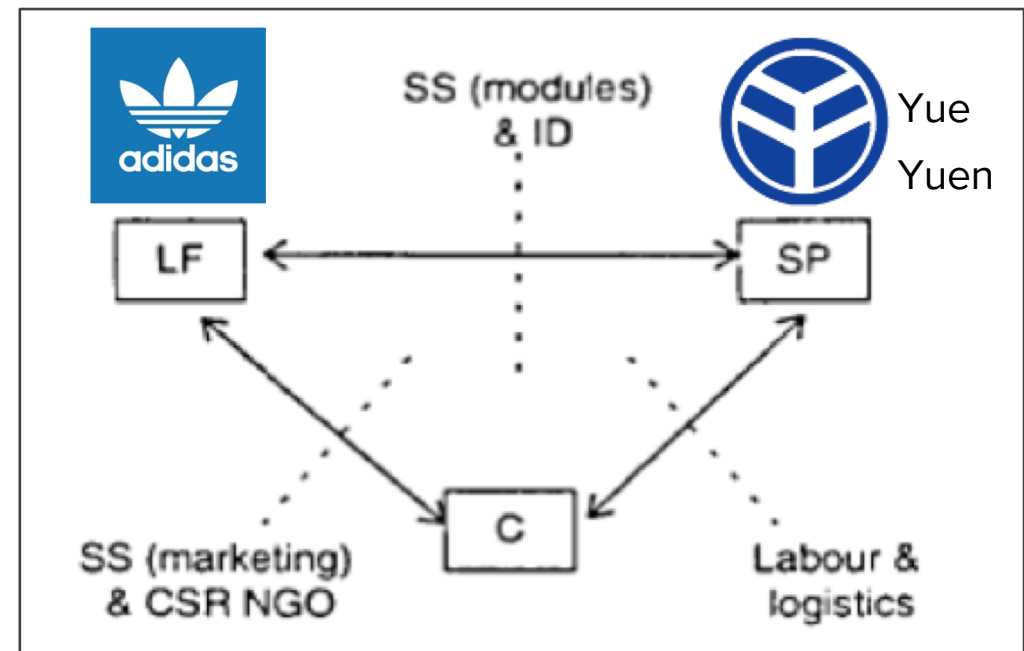
KEY: LF = lead firm; SP = strategic partner; C = customer; SS = specialised supplier; GS = generic supplier; NGO = non-governmental organisation.

Source: Coe and Yeung 2015, p. 60.

Configurations of a global production network

Strategic partner model

The strategic partner (SP) model is the most common model in the garment and footwear industry. Whereas a lead-firm (like ADIDAS) might still take care of design (although even this part is sometimes outsourced to SP) and the retail process, the **entire organisation of production** (sourcing of raw-materials and intermediate products, organisation of the actual sewing and logistics) **is taken care of by a strategic partner** (like the Hong Kong based Yue Yuen) which delivers the finished product (a reason why this model is also called “full package service”). Depending on the complexity of the product (which determines the ability to find another strategic partner) a lead firm can get rather dependent on a SP. The SP however has its own production network and the tier 2 and tier 3 firms in this network have significantly lower bargaining power.



KEY: LF = lead firm; SP = strategic partner; C = customer; SS = specialised supplier; GS = generic supplier; NGO = non-governmental organisation; ID = industry association.

Source: Coe and Yeung 2015, p. 60.

3. GPN category: Power

“[T]he source of power within the GPNs and the ways in which it is exercised is decisive for value enhancement and capture and thus for the prospects for development and prosperity” (Henderson et al. 2002, p. 450).

3 forms of power in the GPN framework

- **Corporate Power**
- **Institutional Power**
- **Collective Power**

Excursus: Value, Branding and the Power of Trademarks

– Value is created and captured unequally by different actors in different regions. The garment sector is one of the best examples for the (geographical) split between the material side of value creation (the actual material production) and the overall value generation and capture. Whereas a lead-firms – brands like ADIDAS or retailers like H&M – degree of material contribution is rather minor they capture the biggest share of value. The actual garment producers in the production countries are creating the material component of value but can only capture a marginal share of the final value of the sold product. Value capture (and also production) in the garment and footwear industry is heavily reliant on the process of branding. Branding creates a monopoly based on an immaterial brand image and sometimes protection of market access to the consumer countries (H&M clothes can only be bought in the companies respective shops). The immaterial branding and thus value production and capture is restricted to the lead companies who protect their brand with intellectual property rights. One source of power in this case is thus a legal title, namely a patent or trademark.

further reading

Arvidsson, Adam (2006). Brands: Meaning and value in media culture. London: Routledge.

Corporate Power

Corporate power describes the ability of a firm to influence decisions and resource flows of other firms in the same network

Corporate power is distributed unequally amongst the firm actors in the network

Power relations depend on the specific network characteristics. Factors which can influence the power of the firm actors are (amongst others): product specifications, degree of specialisation of the suppliers and the ability of lead firms to replace them.

However there are some **trends that apply for the garment and footwear industry.** Strategic partners (tier 1) can have a relatively big degree of autonomy especially if they are hard to replace. Companies like the footwear producer Yue Yuen (see slide 15) for example control big production networks themselves. Yue Yuen is the biggest producer of athletic footwear with own production facilities and an independent supplier network. For lead firms like ADIDAS such strategic partners can be seen as crucial gatekeepers to a reliable production network with high quality products. From a labour perspectives it is thus key to also put pressure on these strategic partners. As they are barely visible in the consumer markets this support is however relying a lot on local union work.

Institutional Power

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State and International Institutions

National and local state authorities

International interstate agencies (EU, NAFTA)

International Finance Institutions (IMF, World Bank)

United Nations Agencies (also International Labour Organization)

Private sector institutions

Standard setting bodies (ISO)

*The power of these different institutions to influence the investment and other decisions of lead companies and other firms in a GPNs is asymmetric and varies both within and between the different institutional actors. Some **national states** pursued a highly interventionist policy to influence economic decisions of companies (like in South Korea, Taiwan or China), whereas others were both less willing and capable to influence economic decisions. The power of the **interstate agencies** can be considerable, the EU is a good example when it comes to setting product standards for example. However such influence (as well as the one exercised by International Financial Institutions) can also stay rather indirect. The requirements of the World Bank or IMF influence social and economic policies which then affect the room of manoeuvre for companies, trade unions and ultimately workers. The problem with the influence of UN agencies is a lack of **enforcement mechanisms**. However **discursive power** of such institutions might also have an effect on the local authorities.*

***For the garment and footwear industry** rules for public procurement or legal transparency regulations with regards to business are examples for a source of institutional power in order to influence lead-firms and improve the working conditions.*

Collective Power

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= **Collective agents seeking to influence “companies**
at particular locations in GPNs, their respective
governments and sometimes international agencies”
(Henderson et al. 2002).

Non-firm and non-state actors:

Employers associations

Trade unions, NGOs

Actors have a different reach (local, national, international) and can link up to like-minded actors in other places. Clean Clothes Campaign is the best example for such a transnational network aiming at generating collective power.



Collective power can have a significant impact on the behaviour of firm-actors. The work of Clean Clothes Campaign is a good example. The power of collective power could be observed after the collapse of the Rana Plaza complex which killed over 1,100 people most of them workers of the garment factories housed in the building. A joint effort of labour rights groups, trade unions and consumers led to the Bangladesh Accord on Fire and Building Safety, a legally binding agreement in which big brands and retailers pledged to improve the structural and fire safety in Bangladesh's garment factories.

further reading

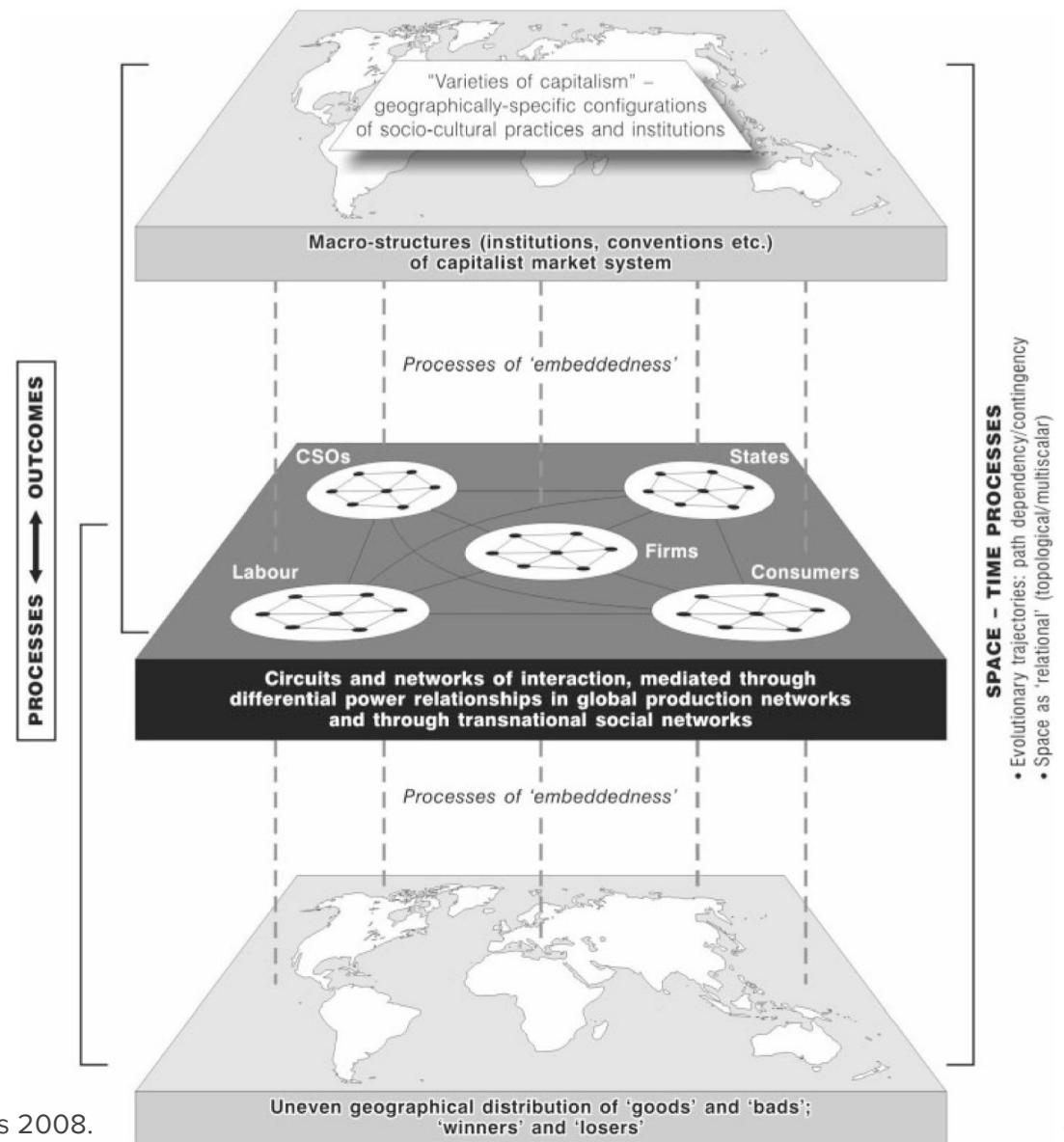
Posthuma, Anne and Dev Nathan (eds.) (2010). Labour in Global Production Networks in India. Oxford (UK): Oxford University Press.
Cumbers, Andy/ Corinne Nativel and Paul Routledge (2008). Labour agency and union positionalities in global production networks. In: *Journal of Economic Geography*, 8(3), pp. 369-387.

4. GPN category: Embeddedness

“GPNs do not only connect firms functionally and territorially but also they connect aspects of the social and spatial arrangements in which those firms are embedded and which influence their strategies and the values, priorities and expectations of managers, workers and communities alike” (Henderson et al. 2002, p. 451).

Actors shape and are shaped by the contexts they are embedded in.

Source: Coe, Dicken and Hess 2008.



Embeddedness: Territorial and Network

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Territorial

embeddedness

Geographical features and connections of a certain place (including its social relations and existing links to actors in other places can also enable or constrain actors.

“the location of lead firms [in our case we can also talk about the tier 1 suppliers; FN] in particular places might generate a new local or regional network of economic and social relations, involving existing firms as well as attracting new ones” (Henderson et al. 2002).

Non-firm actors like trade unions or labour groups are also territorially embedded in social relations and shaped by the specific availability of e.g. resources and possible links to partners in their specific place.

Network

embeddedness

“It is most notably the ‘architecture’, durability and stability of these relations, both formal and informal, which determines the agents’ individual network embeddedness (actor-network embeddedness) as well as the structure and evolution of the GPN as a whole.” (Henderson et al. 2002).

5. Conclusion

The garment industry is organized in a dynamic production network rather than in a production chain.

These networks cut through different territories and connect different places with each other.

Brands and retailers often work with strategic partners who organise big parts of the actual production process.

Power is distributed unevenly among the actors in the network. Tier 1 suppliers (strategic partners) can hold a much more power than simple suppliers of relatively unspecialised products.

Territorial embeddedness shapes the network and room for manoeuvre of firm and non-firm actors.

6. Literature

Coe, Neil M. and Henry Wai-Chung Yeung (2015). *Global Production Networks: Theorizing Economic Development in an Interconnected World*. Oxford (UK): Oxford University Press.

Coe, Neil M./ Peter Dicken and Martin Hess (2008). Global production networks: realizing the potential. In: *Journal of Economic Geography*, 8(3), pp. 271–295.

Henderson, Jeffrey/ Peter Dicken/ Martin Hess/ Neil M. Coe and Henry Wai-Chung Yeung (2002). Global production networks and the analysis of economic development. In: *Review of International Political Economy*, 9(3), pp. 436-464.

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