Social Upgrading in Global Garment Supply Chains: Institutional and Principal-Agent Perspectives

Soziale Aufwertung in globalen Bekleidungsversorgungsketten: institutionelle und Principal-Agent-Perspektiven

Nizar Shbikat

Abstract:

The academic discourse on labor rights has flourished since the early 1990s, especially after many anti-sweatshop movements criticized the sub-standard labor conditions and extreme forms of exploitation in the supply chains of global athletic brands. Since then, many endeavors have been made to address labor rights violations and enforce social upgrading in global supply chains. Better Work Jordan (BWJ) is a multi-stakeholder initiative that aims to achieve decent work in the Jordanian garment sector. The objective of this chapter is to examine the effectiveness of the BWJ program in bringing about real changes in labor rights in the sector by using two theoretical lenses: institutional and principal-agent theories. In doing so, semi-structured interviews were conducted with the BWJ team and garment factories along with analyzing documents from several sources. The findings reveal that BWJ has successfully created an institution that can support workers’ rights and improve the economic competitiveness of garment factories. The program has also played a crucial role in reducing information asymmetry between global buyers and the garment factories by introducing BWJ team as a facilitator in the buyer-seller-relationship.

Zusammenfassung:

Der akademische Diskurs über Arbeitsrechte floriert seit den frühen 1990er Jahren, insbesondere nachdem viele Anti-Sweatshop-Bewegungen die mangelhaften Arbeitsbedingungen und extremen Formen der Ausbeutung in den Lieferketten globaler Sportmarken kritisierten. Seitdem wurden viele Anstrengungen unternommen, um die Verletzung von Arbeitsrechten zu bekämpfen und soziale Verbesserungen in globalen Lieferket-

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1. Introduction

The garment industry is a principal component of the economy of many countries. Unlike other industries, the garment industry requires low employment skills and a low degree of automation, which makes it an attractive place for many low-skilled workers in developing economies. However, low skill jobs hold workers captive by performing repetitive tasks and withholding them from occupational training and career development, which consequently undermine their market and workplace powers. Since 1990 the global garment industry has witnessed a proliferation of anti-sweatshop campaigns targeting global brands and their supply bases (Jenkins, 2005).

Global garment value chains are characterized as buyer-driven (Jenkins 2005) in which the global buyer is the intermediary between production and consumption. The rise of some economic development models in developing countries such as Export Processing Zones (EPZs), Special Economic Zones (SEZs) and maquiladoras have attracted foreign investments because of the incentives provided by governments and the relaxed labor regulations in these zones (Miller 2004; Wells 2007).

Several endeavors have been made to tackle labor rights violation in global business ranging from unilateral to multilateral initiatives. This chapter will shed light on how Better Work Jordan (hereinafter: BWJ), a multi-stakeholder initiative (MSI), has led to social upgrading (improvements in labor rights) in the Jordanian garment sector. For this purpose, the author conducted semi-structured interviews with different actors to explain the effectiveness of such initiative resting on institutional and agency theories.

2. Literature Review

2.1 Principal-agent theory

The relationship between buyers and sellers in supply chains is influenced by business imperatives and the self-interest of both parties. Agency theory describes the situation where one party (the principal) delegates another party (the agent) to perform specific tasks (Mitnick, 1973). The agency problem stems primarily from information asymmetry (Akerlof, 1970) when one party is better informed than the other. This information imperfection leads to two fundamental dilemmas, which both are attributed to the agent: adverse selection and moral hazard.
Adverse selection refers to the misrepresentation of abilities by the agent (Fayezi et al., 2012) to increase the probability of selection by the principal such as greenwashing or paying lip service to respect workers’ rights. In global supply chains, multinational companies (MNCs) can ask suppliers to meet specific standards before engaging in a business relationship through, for instance, obtaining certifications such as SA8000 (Ciliberti et al., 2011) which can help reduce information asymmetry about the qualifications of the suppliers regarding their social performance.

Even if the agent is qualified to perform the tasks assigned by the principal, there is a risk of moral hazard that refers to the failure or unwillingness of the agent to make the best efforts for meeting the requirements of the principal (Zsidisin et al., 2004). The supplier can be opportunistic by exerting minimum efforts to achieve higher efficiency, especially if meeting the full expectations of the buyers is a premium service that does not return mutual benefits.

Although there are several studies discussing the sustainable supplier-customer relationships in supply chains from an agency perspective (Appolloni et al., 2013), few highlighted the roles of other non-economic actors such as unions and governments within the context of labor governance. Fayezi et al. (2012) argue that one weakness of agency theory is the overemphasis on transactional and economic relations and turning a blind eye to other social interactions. Furthermore, most of the principal-agent studies in supply chains focus on a single principal position (Delbufalo and Bastl 2018) and define efficiency from the principal’s point of view (Delbufalo 2018). This chapter will use institutional theory to address these gaps and make contributions to the literature on labor governance in global supply chains by examining the role of the non-economic institutional entrepreneur as a facilitator between multiple principals and agents to solve agency problems.

2.2 Institutional theory

A primary concern in global labor governance is the effectiveness of labor institutions in protecting labor rights, especially in emerging economies. An institution refers to “formal and informal rules, monitoring and enforcement mechanisms, and systems of meaning that define the context within which individuals, corporations, labor unions, nation-states, and other organizations operate and interact with each other” (Campbell 2004, p.1). MNCs usually operate their business operations in different institutional settings due to the dispersion of their supply bases in different and
distant geographic regions. MNCs can adopt one or several labor governance mechanisms to bridge the so-called institutional void\textsuperscript{1} by engaging other actors such as unions, nongovernmental organizations (NGOs), governments, and third-party auditing firms in labor governance.

Lawrence and Suddaby (2006) suggest that actors in an institutional field\textsuperscript{2} can adopt strategies to maintain, change, or interrupt institutions, which they termed ‘institutional work’. Although institutions are constructed to foster the stability of regulations, norms, and cognitions over time (Scott 2014), an actor or a collective of actors (also termed 'institutional entrepreneur') can mobilize resources and lobby other actors to challenge this assumption (Maguire et al., 2004).

When a new institution is established, some practices become taken-for-granted and thus hard to change (Thornton and Ocasio 2005). For example, the Bangladeshi Accord is a multi-stakeholder initiative that aims to engage different actors to improve health and safety in Bangladeshi garment factories (Rahman 2015). The rise of the Accord led to institutionalizing new health and safety practices and guidelines in such a way that these practices are deployed across the garment production sector and paved the way to institutional isomorphism\textsuperscript{3} (DiMaggio and Powell, 1983) or collective adoption of practices by factories. In the next section, a similar collaborative initiative, BWJ, will be discussed to show how institutions and institutional entrepreneurs can mediate information flow and reduce agency cost between multiple principals and agents in the garment sector.

3. Better Work Jordan

Better Work is a cooperative program between the International Labour Organization (ILO) and the International Finance Corporation (IFC), a

\textsuperscript{1} Institutional void explains the difference in institutional settings across different countries. For example, E-commerce is hard to be implemented in countries where secured online payment is not offered by banking institutions.

\textsuperscript{2} The terms institutional field and organizational field are used interchangeably in the literature. Organizational field refers to the “organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio and Powell 1983, p.148). In this chapter, organizational field refers to the exporting garment industry in Jordan.

\textsuperscript{3} Institutional isomorphism states that when organizations are affected by similar institutional pressures, they tend to adopt similar practices to survive (DiMaggio and Powell 1983).
member of the World Bank Group that aims at boosting the competitiveness of garment factories by complying with national and international labor regulations and standards. So far, Better Work has been implemented in Cambodia, Jordan, Vietnam, Haiti, Lesotho, Indonesia, Nicaragua, and Bangladesh (Rossi 2015).

BWJ was launched in 2008 at the request of the Jordanian government. It is a multi-stakeholder initiative that brings together governmental institutions (Ministry of Labour [MOL], Social Security Corporation, Ministry of Industry, Trade and Supply), employers’ organizations (Jordan Garment and Textiles Exporters Association [JGATE], and Jordan Chamber of Industry), labor unions (General Trade Union of Workers in Textile Garment and Clothing Industries [hereinafter: GTUWTGCI], and General Federation of Jordanian Trade Unions), and 23 global brands and retailers to participate in labor governance of the Jordanian garment sector.

4. Methodology

In 1997, Jordan and the United States signed the Qualified Industrial Zones (QIZs) agreement which gives Jordanian manufactured products some economic privileges such as exemption from customs tariffs and income and security taxes (Royal Scientific Society and Friedrich Ebert Stiftung, 2013). BWJ covers mainly the garment factories, which are located in eight QIZs. The three largest QIZs are shown in Table 1.

<table>
<thead>
<tr>
<th>QIZ</th>
<th>Location</th>
<th>Number of Workers (as of June 2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Hasan Industrial Zone</td>
<td>Irbid (85 km north of Amman)</td>
<td>31347</td>
</tr>
<tr>
<td>Ad-Dulayl Industrial Park</td>
<td>Ad-dulayl, (50 km northeast of Amman)</td>
<td>22177</td>
</tr>
<tr>
<td>Al-Tajamout Industrial City</td>
<td>Sahab (20 km east of Amman)</td>
<td>13128</td>
</tr>
</tbody>
</table>

In order to draw an overall picture of the impact of BWJ on the Jordanian garment sector and the relationship between the factories and their global buyers, semi-structured interviews were conducted with Jordanian garment
factories and the BWJ team. A sample of four factories from the Altajamout Industrial City was selected. The selection was random and based on the availability of the interviewees. Since the unit of analysis is BWJ, the manager of the program in Jordan participated in this study as well. The profiles of the firms that participated in the study are shown in Table 2.

Table 2: An overview of the participating factories

<table>
<thead>
<tr>
<th>Factory</th>
<th>Date of joining BWJ</th>
<th>Number of workers</th>
<th>Percentage of migrant workers</th>
<th>Percentage of female workers</th>
<th>Number of US buyers</th>
<th>Number of EU buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2009</td>
<td>4000</td>
<td>75%</td>
<td>60%</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>2013</td>
<td>1000</td>
<td>70%-75%</td>
<td>75%-80%</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>3</td>
<td>2017</td>
<td>500</td>
<td>70%</td>
<td>80%</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>2009</td>
<td>655</td>
<td>80%</td>
<td>70%</td>
<td>1</td>
<td>0</td>
</tr>
</tbody>
</table>

In 2006, the National Labor Committee (NLC) issued its report about the working conditions of workers in the QIZs. The report documented several labor abuse cases and disclosed the names of the violating factories and their global buyers. As a response to these allegations, the US and Jordanian governments agreed to invite the Better Work program to be implemented in the Jordanian garment sector to achieve decent work.

5. ILO as an Institutional Entrepreneur

Although institutions are established to ensure long-lasting practices, actors in an institutional field can create, maintain, or disrupt institutions through institutional work. The seminal work of Lawrence and Suddaby (2006) explains the actions or strategies actors can take or adopt to allow institutional work which they define it as “the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions” (Ibid, p. 2015). Table 3 demonstrates the different forms of institutional work BWJ adopted to achieve its objectives.
Table 3: Forms of institutional work by BWJ

<table>
<thead>
<tr>
<th>Institutional condition</th>
<th>Forms of institutional work</th>
<th>Actions taken by BWJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cognition: labor rights is not a major concern for factories</td>
<td>Theorizing</td>
<td>Naming the program “better work” to signal its objectives</td>
</tr>
<tr>
<td>Normative: lack of coordination among national stakeholders</td>
<td>Constructing normative</td>
<td>Establishing Project Advisory Committee (PAC) to align objectives</td>
</tr>
<tr>
<td>Regulative: MNCs adopt disengagement strategy with non-compliant factories</td>
<td>Constructing identities</td>
<td>Inviting MNCs to take part in the program and convincing them to accept BWJ audits</td>
</tr>
<tr>
<td>Regulative: BWJ was voluntary</td>
<td>Advocacy</td>
<td>Allying with MOL and MNCs to make BWJ mandatory</td>
</tr>
<tr>
<td>Normative: union had difficulties accessing workers</td>
<td>Constructing identities</td>
<td>Allowing GTUWTGCI to join BWJ’s advisory visits and meet workers.</td>
</tr>
<tr>
<td>Cognition: the power imbalance between workers and management</td>
<td>Defining</td>
<td>Defining workers as social agents by allowing them to raise their voice through the union or regular meeting with BWJ inspectors.</td>
</tr>
<tr>
<td>Cognition: inferior power position of Human Resources HR Department in the organization</td>
<td>Defining</td>
<td>Redefining HR position as a link between BWJ and top management</td>
</tr>
<tr>
<td>Cognition: lack of awareness in factories about economic advantages of the social upgrading</td>
<td>Educating</td>
<td>Organizing training seminars for management and line supervisors about improving working conditions and explaining its impact on economic performance</td>
</tr>
<tr>
<td>Cognition: lack of shared logics of actions among factories regarding improving labor rights</td>
<td>Mimicry</td>
<td>Deployment of best practices (isomorphism) among garment factories through advisory visits and seminars.</td>
</tr>
</tbody>
</table>
The creation of sustainable improvements required BWJ to establish a new institution by redefining some regulative, normative, and cognitive elements in the sector. Initially, the ILO chose to name its unique initiative “Better Work” to signal its objectives. Naming the program “Better Work Jordan” sends a clear message about its goals. During the visits to the garment factories in Al-Tajamout Industrial City, the interviewees had some perceptions about the nature of the questions to be asked in the interview just after mentioning BWJ.

Labor rights violations are a wicked problem that requires collaboration between different stakeholders to solve (Shbikat 2019). BWJ recognized the need to bring influential local actors to sit together and negotiate plans to create sustainable industry-wide improvements in labor rights. The ILO acted as an institutional entrepreneur by inviting different actors to support its initiative. BWJ has successfully made several changes in the regulations, norms, and cognitions in the garment sector by creating a platform to allow the actors to discuss issues and suggest remedies in a friendly environment.

BWJ established a tripartite committee, also called “Project Advisory Committee-PAC”, which consists of government representatives (Ministry of Labour and Ministry of Industry & Trade), employers’ representatives (Irbid Chamber of Industry, Foreign Investment Association [FIA], JGATE), and workers’ representatives (GTUWTGCI, and the General Federation of Jordanian Trade Unions). The main objective of the committee is promoting social dialogue and engaging stakeholders in the decision-making process. A BWJ Program and Communications Officer stated that BWJ is acting as a “facilitator” rather than enactor of regulations. The legitimacy of BWJ stems from its relation to ILO. The Jordanian government recognizes that ILO is an affiliated organization of the United Nations (UN), and since Jordan is a member of the UN, it has some obligations to embrace the UN recommendations and plans. An example here is the UN Sustainable Development Goals (SDGs), especially SDG no. 8 about decent work and economic growth. BWJ aims to achieve decent work and economic growth in the Jordanian garment sector. For the Jordanian government, the program can help Jordan achieve that specific goal.

Constructing identities implies specifying the relationship of an actor with the institutional field (Lawrence & Suddaby, 2006). BWJ induced MNCs to play a crucial role in enforcing compliance of the garment factories through exercising their purchasing power.

One form of institutional creation is advocacy through mobilizing political and regulatory supports (Lawrence & Suddaby, 2006). When BWJ started its operations in 2008, joining the program was voluntary for facto-
ries. Three years of collaboration between BWJ and the Jordanian government resulted in making BWJ mandatory in 2011. Jordan is the only country that makes joining its Better Work program mandatory to all garment factories and their sub-contractors exporting to foreign markets.

Before the inception of the program, GTUWTGCI had difficulties accessing workers in the garment factories because it had no authority to enter the premises of the factories without prior approval from the management. BWJ redefined the identity of the union in the sector by allowing union representatives to accompany BWJ teams in their advisory visits to factories and meet workers.

BWJ indirectly redefined the relationship between the organizational units that are concerned with labor rights and the top management. The frequent visits of BWJ staff to factories and the services they provide to them made BWJ a pivotal stakeholder to factories. The Human Resource (HR) department has become the main point of contact and because of its close relation with BWJ, the department could improve its expert power in the factory. Expert power refers to the power a person develops through obtaining skills and knowledge (French et al. 1959). The HR department in Factory one has developed expertise about how to fulfill BWJ requirements and suggestions. The HR manager at the factory stated that the department had gained considerable importance in the factory since the factory has joined the program.

One of the main obstacles to improve working conditions is convincing the factory management about the benefits associated with social upgrading. The approach adopted by BWJ is based on explaining the positive correlation between improved working conditions and the economic performance of the company. There is a widespread conception among factory managements that improving working conditions incurs unnecessary costs. Although in most cases improvement costs are inevitable, BWJ focused on explaining the benefits associated with these improvements. An impact assessment study by Tufts University investigated the impact of a Better Work program called Supervisory Skills Training (SST) on line supervisors’ attitudes (Babbitt 2016). The study concluded that SST has a positive effect on supervisors’ self-efficacy, attitudes toward workers, and productivity. This conclusion is supported by most interviewees’ argument that the relationship between supervisors and workers has improved after the SST. The interviewees also asserted that when workers are happy, their productivity increases and quality issues are reduced.

Institutional isomorphism was observed during the visits to the factories. As BWJ is an industry-wide initiative, the advisory visits are crucial to share best practices among the garment factories. Deployment of best
practices helps factories learn from each other to achieve an overall improvement in the sector, which is an example of mimicry institutional work.

6. **ILO as a Facilitator for Solving Principal-Agent Problems**

One objective of BWJ is achieving economic growth in the garment sector by attracting more global buyers. Also BWJ has played a vital role in building trust between garment factories and global buyers through its close link with both parties. Both buyers and sellers have benefited from the services of BWJ as will be discussed in the next subsections.

**Buyers’ perspective**

In the supplier selection process, MNCs usually assess and rank potential suppliers by using some criteria, among which are those about respecting labor rights. Unsurprisingly, global buyers decided to adopt a strategy of disengagement with Jordanian garment factories after the 2006 labor rights crisis in the garment sector to protect their corporate image. BWJ came to solve the issue of adverse selection and reduce the risk of reputational damage for global buyers by providing them with services such as a buyers’ forum and transparency reports for the garment factories.

The buyers’ forum is an annual meeting organized by BWJ which brings together global brands, Jordanian governmental ministries, unions, garment factories, and other actors. The main objective of the forum is linking global buyers with garment factories and informing them about the latest updates regarding the improvements in labor rights in the garment sector. As a sequence, BWJ allows buyers to guarantee decent work at both sectoral and company levels. Buyers can build confidence that the sector is under the scrutiny of BWJ and significant human rights violations are not likely to occur in the sector. Although respecting labor rights might be an essential supplier selection criterion, global buyers are also concerned with other essential criteria like cost, quality, and time.

Disclosure of the assessment results has encouraged garment factories to focus on social improvements as a marketing strategy to attract more buyers. BWJ publishes the assessment results for factories in its online “transparency portal”. The portal provides a rich database about the compliance of factories in different countries. It also gives detailed information about
the violations and the corresponding legal references. Besides, it shows the responses of the factories regarding the violations in their facilities. Global buyers can access the transparency portal to decide which factories are qualified to win their orders and helps them save much time to assess the social performance of potential and current suppliers.

BWJ helped global buyers reduce information asymmetry, and consequently avoid potential moral hazard by their garment suppliers. The primary mechanism in reducing information asymmetry between suppliers and customers is compliance monitoring (Delbufalo 2018). BWJ acts as an agent for global buyers by taking the responsibility of ensuring the compliance of their suppliers with international and local labor standards. Given the fact that BWJ also provides services for suppliers (will be discussed later), therefore, it can be argued that BWJ acts as a dual agent for both suppliers and buyers. The fundamental concept of the agency states that the principal usually pays the agent to perform specific tasks. In the case of BWJ, both suppliers and buyers pay fees for the services of BWJ as stated by the manager of Factory three.

Global buyers can reduce monitoring cost by delegating BWJ to perform audits on their behalf and receive detailed reports about the results. Furthermore, BWJ informs the buyers about any detected issues, the suggested remedies, and the improvement process. Therefore, global buyers can reduce costs in areas of human resources, traveling, data collection and analysis, follow-up visits, and consultation. Besides the reports of BWJ, global buyers receive access to the database of BWJ to facilitate information sharing and track improvements progress at their suppliers’ factories.

Suppliers perspective

The buyers’ forum creates an opportunity for factories to advertise their products and attract new buyers. All interviewees in the garment factories stressed the importance of this event to expand their buyers base. In 2016, the European Union (EU)-Jordanian committee signed an agreement to simplify the rules of origins, which gives the products manufactured in the Jordanian QIZs and other industrial zones some benefits to facilitate entering the European markets. Among other industries, the garment industry is included in the agreement, however, factories must employ Syrian refugees in at least 15% of its workforce to benefit from the agreement. Table two shows that one of the participating factories in this study has started supplying two global brands from the EU after satisfying the requirements of the agreement.
One major issue in global labor governance from a principal-agent perspective is the increase in bonding costs due to the compliance of factories with multiple buyers’ codes. BWJ came to reduce such costs by replacing many audits with its assessment. The manager of Factory three said that the visits by global buyers were reduced by 90% after joining BWJ. In addition, in its 2017 global sustainability report, Gap Inc. mentions that three of their suppliers in Jordan were assessed by BWJ and seven factories were assessed by Gap. But the case in Cambodia was different, where Better Work assessed 80% of Gap’s suppliers.

Most of the interviewees in the garment factories praised the advisory and training services by BWJ. Most garment factories in Jordan are medium-to-small companies with insufficient expertise in social upgrading. Since factories pay fees for BWJ, they receive professional advice in return on how to meet local regulations and international standards which eventually leads to meeting buyers’ requirements. BWJ’s efforts to achieve both social upgrading and economic improvement on both factory and sectoral levels made the managements of factories convinced about the economic return of labor rights improvement in their factories. For example, the HR manager of Factory one said that the associated economic improvement (in form of attracting more buyers) could offset the additional cost paid for social upgrading.

Besides its extraordinary efforts to set a roadmap for sectoral social upgrading, BWJ sought to build an atmosphere of trust and comfort with factories. This was observed during the visits to the factories. In Factory four, the operations manager was acting amiably with the head inspector of BWJ. The administrative manager at Factory two also stated clearly that he has a good personal relation with the BWJ team. Also, all the interviewees expressed their satisfaction and confidence in the BWJ team in achieving social improvements in their factories.

7. Conclusion

The labor abuse allegations in 2006 in the Jordanian garment sector urged the Jordanian government to seek external help from a globally recognized institution to rebuild trust with US and global buyers. The Better Work program came to investigate the allegations and make substantial improvements in the garment sector at the request of the Jordanian government. BWJ acted as an institutional entrepreneur by bringing different national and international stakeholders to the table. It adopted a collaborative problem-solving approach by involving the national actors to cooperatively
work on planning and implementing corrective actions to achieve decent work in the sector.

The Project Advisory Committee (PAC) is a remarkable achievement of BWJ since it allows the government, the union, and the factories to meet regularly and facilitates social dialogue among them. Different forms of institutional work by BWJ have paved the way to make dramatic changes in the sector in favor of workers.

The alliance of BWJ with different stakeholders has resulted in changing the regulations in the sector, such as making joining BWJ mandatory for all exporting factories. It has also led to changes in norms like facilitating the regular meeting between local actors. Finally, cognitive changes took the form of changing the beliefs and conceptions in the sector about labor rights such as persuading factories about the economic advantages of social upgrading.

The role of BWJ as a facilitator between principals (global buyers) and agents (suppliers) helped solve the agency problems, in particular, adverse selection and moral hazard by reducing information asymmetry, continuous assessment and monitoring, and providing advisory services for the garment factories in the sector.

Although this chapter provides helpful insights to understand how institutions can emerge to achieve social upgrading, there is still a need to investigate the direct and indirect impacts of BWJ on employment diversity and female workers’ empowerment in the sector. It would also be interesting to further study the influence of the program on organizational psychology in terms of absenteeism, loyalty of workers, line of command, corporate culture, and values.
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