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Business Models and Labour Standards: Making the Connection

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Acknowledgements

This report has been commissioned by the Ethical Trading Initiative (ETI). We would like to thank Martin Buttle and Nick Kightley from the ETI for their support as well as inspiring conversations. We would also like to thank all participants who helped in our research. Many thanks also to Peter Stedman and Malachy O'Connor, who have contributed as consultants to our research.

Please cite this report as Reinecke, J., Donaghey, J., Bocken, N. and Lauriano, L. (2019) "Business Model and Labour Standards: Making the Connection" Ethical Trading Initiative, London.

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Executive summary

Despite retailers spending significant sums on Corporate Social Responsibility (CSR) and other related initiatives little progress is being made in terms of developing substantive improvements in working conditions for production workers. Two key weaknesses can be identified which operate on different levels:

- First, at the level of production, CSR initiatives have been criticised for being little more than a 'sticking plaster' and for being more about protection of corporate reputations than really improving the conditions of workers.
- Secondly, and the main focus of this report, is that while such initiatives may be well meaning, they are aimed at treating the symptoms of the problem rather than tackling the underlying causes: the very nature of the business model.

This report is aimed at opening up a new front of discussion that looks at how business models create these downward pressures on labour standards and argues that until such models are changed the problems with the CSR approach will persist. As will be discussed, the ways in which the business models might change can differ greatly, but until the models change the problems will persist. The report, focusing on the apparel and food sectors, thus has two objectives:

1. To understand how flaws in prevailing business models create systemic downward pressures on workers' rights;
2. To identify opportunities for Business Model Innovation and draw lessons from these.

What are business models?

'Business models' is a term used to describe in a holistic manner how corporations create, deliver and capture value through their production approach, convince customers to pay for value, and convert those payments into profits.[1] 'Sustainable business models' are viewed as ways of integrating societal and environmental concerns systemically into the way business is done. However, at present, typical business models are far from sustainable, which is apparent from the issues arising from current business practices. This report focuses on identifying the main flaws and patterns in the dominant existing business models with respect to labour standards, as well as drawing on positive business cases to overcome such flaws. We focused on the food and clothing sectors as key sectors which affect our everyday lives, but which are also systemically affected by labour issues throughout value chains. The key point in terms of focussing on business models is that until the pressures emerging from business models are tackled it is likely that all initiatives aimed at improving labour standards will bring only peripheral improvements.

Four main components are identified in the business model, all of which can contribute to the downward pressures on labour standards:

- **Consumption regime** generally refers to the 'consumer value proposition'. This regime encompasses consumers and those stakeholders who may be viewed as affecting the probability of consumers to purchase a product such as NGOs, journalists or consumer groups.
- The **production regime** and refers to the 'worker value proposition'. This describes how the company seeks to extract value from the labour of the workers and how workers are compensated for their labour.
- The **investor regime** refers to the 'investor value proposition'. Within the private sector myriad ownership models may exists which affect the other regimes.
- The **competition regime** describes the interaction of firms competing for consumers, workers and investors in a sector.

The key point of this section is that most interventions in the supply chain take place only in the production regime and thus fail to deal with the systemic problems created by the overall business model.

Business models in the apparel and food industries

The apparel and food sectors are to the forefront of downward pressures on labour standards. Both sectors have a common feature in that price competitiveness is a key driver with increasing pressures on competition in recent years. Both sectors

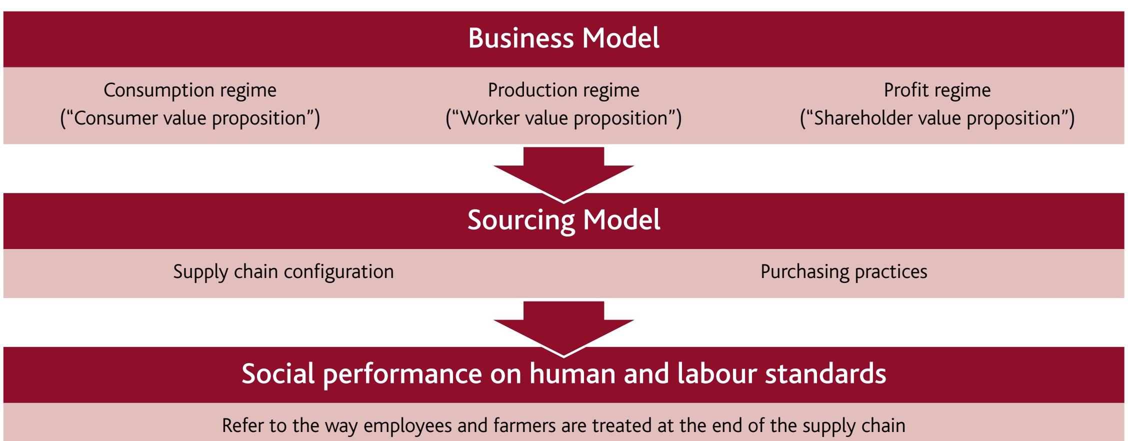


Figure 1 Connecting the business model to labour standards and social performance

1 David, J. Teece, "Business models and dynamic capabilities," Long Range Planning, 51(1) (2018), 40-49.

have seen the development of retailers who are almost entirely dependent on the supply chain approach with little to no directly owned produce being sold.

The apparel sector has long been associated with the worst end of labour standards. However, these conditions have deteriorated further with the emergence of the fast fashion and super-fast fashion models. These changes have prompted an increased 'disposability' approach to clothing where the business model is based upon cheap goods with ever-shorter product life cycles and profits generated through volumes of goods sold. The food sector is one which has also changed considerably in recent times. Gone are the days of fresh food being available on a seasonal basis with retailers seeking to source foodstuffs on a year round basis. In addition, the emergence of 'no-frills discounters' has added further downward pressures on food producers to respond to retailers engaged in aggressive price competition.

Are there alternative business models which can be used in these sectors?

While generally not part of the mainstream, a range of alternative approaches to the different components of the business models adopted were identified in both sectors. These are outlined in Figure 2 and include different corporate forms (e.g. social enterprise, hybrid organisations) which have also started to emerge as subsidiaries in established multinationals and alternative ownership models for the *shareholder regime*. For the *consumption regime,* slowing fashion and food, transparency and labelling, and certifications were identified. For the *competition regime,* examples of traceability and supplier partnership agreements were identified. For the *production regime,* social dialogue and issue-based partnerships were identified amongst others.

The argument is not that all businesses will or can change their corporate form, but that changes to improve standards can be introduced in various parts of the business model. Finally, we make suggestions for business model adaptation, business model redesign and experimentation in existing business:

- **Business model adaptation**: incrementally changed business models, generating adjustments in existing practice or adoption of new practices and products without fundamentally changing the model of value creation and profit generation. This includes changing purchasing practices or agreeing on collaborative approaches to address jointly labour issues.
- **Business model redesign**: developing sustainable businesses that rethink the way value is created (rethinking both the consumption and the production regime); why value is created (rethinking the shareholder regime); and how it is created (rethinking the competition regime). Examples include changing the ownership model (e.g. to employee-owned); transforming shareholder roles (e.g. B-corporations); or moving away from the dominant business paradigm (e.g. slowing consumption).
- **Business model experimentation**: challenging what is mainstream is regarded as a driver to remain competitive and achieve greater levels of sustainability. This may involve deliberately trialling radically different new business models on a smaller scale, e.g. in a specific market or with a specific customer group, to see the impacts on social practices as well as customers.

Level of business model intervention	Key strategies	Clothing industry examples	Food industry examples
Shareholder regime	Purpose of value creation	Social enterprise, hybrid organisations	Certified B Corp, Benefit Corporation (US), Community Interest Corporation (UK)
	Ownership model	Alternative shareholding, co-ownership	Producer-based coop
Consumption regime	Slow consumption	Slow fashion	Slow food
	Consumer transparency	Transparency about human rights impacts, suppliers and pricing	Product labelling/certifications
Competition regime	Supply chain and purchasing practices	Traceability	Joint planning & development, long-term contracts, supplier partnerships
	Collective action	Worker rights advocacy	Collective, multi-party agreements
Production regime	Corporate social responsibility	Issue-based partnerships, voluntary producer programmes	Codes of conduct
	Industrial relations	Workplace social dialogue, strengthening worker voice	Collective bargaining & freedom of association, Global Framework Agreements

Figure 2 Sustainable business model interventions

Recommendations for retailers

Business model review

- Review the business model to identify links between business model, purchasing practices and effects on labour conditions in the supply chain.

Integration of commercial and ethical strategies

- Retailers need to better embed ethical trading standards as a basic requirement in purchasing criteria.
- KPIs must reflect incentives to make purchasing decisions that benefit the workers in the supply chain, rather than simply benefitting sales and profit in the home market.

Supply chain partnerships

- Buyers must seek to work with suppliers as supply chain partners, seeking opportunities for joint value creation, rather than competitive distribution of profits.
- Retailers should also be financially responsible for the costs of a significantly up-weighted improvement, monitoring and transparency program to ensure visibility of workers' rights abuses.
- Support and prioritise suppliers who adopt alternative and ethical business models.
- Support mechanisms for feedback on supplier-buyer relationships, e.g. Better Buying.

Collective action

- Identify pre-competitive areas of collaboration to address social issues which go above and beyond 'corporate boundaries' such as the level of labour standards within a specific country that are below typical 'Western' standards.
- In a highly competitive environment, introducing pre-competitive collaboration can help to level the playing field, avoid free riding and stop the downwards spiral.
- Enact beneficial constrains to create real constraints on the mainstream model and as a mechanism to compete on quality rather than price.

Industrial Relations in supply chains

- Involve trade unions and NGOs to ensure commitments are credible and address worker interests.
- Recognise proper Industrial Relations as the most important factor in increasing real wages for workers.
- Involve worker representatives in code enforcement to create meaningful implementation.
- Actively support the creation of democratic worker representation, such as through Global Framework Agreements.
- Build capacity for both workers and managers to develop a more mature approach to industrial relations (e.g. workplace social dialogue).

2

Introduction

Businesses have spent millions on CSR programmes. Despite this significant investment, labour conditions for workers and farmers at the end of global supply chains have not improved significantly. On the contrary, the drive for lower costs at faster speeds has been intensifying, with negative consequences for workers and farmers. Simultaneously, food and fashion retailers are feeling squeezed to produce cheaper, disposable goods, which are increasingly wasted. Breaking the vicious cycle requires a rebalancing of the entire business model in ways that rethink how value is created and for what and whose purpose.

Contemporary consumer society and the lowest cost supply chain model has come to be the dominant model of how goods move from producers through to consumers. At its heart is a drive to reduce production costs, particularly labour costs. This model can extract a high price: examples such as the Morecombe Bay and Rana Plaza tragedies hit the headlines, but smaller scale incidents are happening daily, often unbeknownst to the retailers and consumers at the other end of the supply chains. Ignorance of the facts is no longer acceptable: business models must put labour rights, alongside other previously uncosted externalities, such as waste and climate change, at the centre of their agenda. Many firms have adopted a 'compliance' approach which is based upon the development of codes of conduct and associated audits. By their very nature, these approaches are defensive, seeking to eliminate problems rather than to develop a positive business model which puts human and labour rights at the centre of overall business strategy. The aim of this report is to stimulate a debate about and evaluate opportunities for new business model approaches.

Research Objectives and Methodology

This report seeks first, to identify the 'core drivers' of downward pressures on workers' rights within business models, and second, to identify positive business opportunities to change business models in ways that take out downward pressures on workers' rights. The aim is to provide the evidence necessary to shift the debate away from addressing the symptoms of an inherently flawed system towards looking at how underlying business models themselves need to change to improve genuine labour rights in global supply chains. Hence, this report is guided by the two following interrelated objectives:

Objective 1: Understand how flaws in prevailing business models create systemic downward pressures on workers' rights

Objective 2: Identify Opportunities for Business Model Innovation and draw lessons from these

The methodology was based on a literature review of existing research and practitioner reports, as well as expert interviews. Between May and October 2018 semi-structured expert interviews were conducted with respondents from both CSR and commercial teams in the food and garment sectors, as well as academics and policy experts. Interviewees were selected in consultation with the ETI in order to obtain insightful and diverse perspectives. The names of the interviewees, as well as their organisations, are anonymised.

3

Part 1: Linking business models and human and labour standards

The big picture: the capitalist conundrum

Global supply chains have become the dominant mode of value creation in the global economy accounting for 80% of global trade and for 60% of global production according to UNCTAD (2016).[2]

Global supply chains are a direct consequence of free trade and global capitalism, and are often driven by the outsourcing of labour-intensive production to economically advantageous locations. Does free trade naturally result in an exploitative cost for labour? On the one hand, the mechanisms driving competitiveness have brought jobs, unprecedented economic growth, and opportunities to places like Bangladesh, China, Myanmar and South Africa. On the other hand, the same mechanisms also make work exploitative and precarious. A senior CSR manager we interviewed explained the capitalist conundrum: "Let's be honest. It's called capitalism!"

In the search for cheaper prices, lower production costs, risk spreading and/or fresh produce all year round, corporations have created highly complex global chains of purchasing relationships spread across the globe. These involve a web of agents, sub-contractors and multiple suppliers all of whom are competing for business. Many host country governments act as what Philip Cerny labels "competition states", competing to attract inward investments and maintain competitiveness in global markets to the detriment of social standards.[3] This is often achieved through taking action to suppress real wage growth. As a result, many developing countries have seen rapid economic growth and workers have seen job opportunities. Foreign companies contribute to the industrial development of the country by transferring new management skills and technology.[4]

Box 1: The Bangladesh apparel sector and globalisation

The expansion of apparel supply chains to Bangladesh is a case *per excellence* that illustrates these dynamics. Benefitting from one of the lowest labour costs (about $95 per month since September 2018; previously $68) and a young, highly agile yet obedient workforce, Bangladesh has rapidly grown to become the world's second largest garment producing country contributing to over 80% of total exports. Over 4 million mostly female workers have found employment in the sector. In spite of low pay, a manufacturing job with a stable income may be preferable to working in primary industries. But the series of deadly disasters that have bedevilled the industry including the emblematic 2013 Rana Plaza collapse killing over 1,100 workers also point to the dark side of economic growth. Many factors have been identified as contributing to the collapse but a significant one was the failure of the government to implement labour standards to maintain international competitiveness.

The search for lower costs and higher margins has created immense downward pressures on labour standards. The ILO concludes that outsourcing is connected to informal work, low wages and long working hours.[5]

Rather than protecting their citizens, competition states are incentivised to drive down labour standards to remain competitive and attract inward investment. Global value distribution is skewed towards capital: rising share of capital/declining wage share is a trend that repeats itself around the globe, spreading inequality.[6]

At the same time, ever-lower consumer prices threaten traditional business models in the garment and food sectors: price has become the predominant measure of value, and thus the basis of competition for retailers. There is increasing consensus that the current supply chain model cannot be sustained in the long term: cut-throat competition and ever cheaper consumer prices erode margins and opportunities for value creation for businesses. From this, questions arise: can labour and human rights be made compatible with a global capitalist model of production? What are the new business models that can unlock opportunities for value creation for businesses, consumers *and* workers? In this report, we seek a better understanding of how different business models, their associated sourcing models and purchasing practices affect labour rights, and explore what changes are needed to make business models deliver on, or at least not worsen, human and labour rights in their global supply chains.

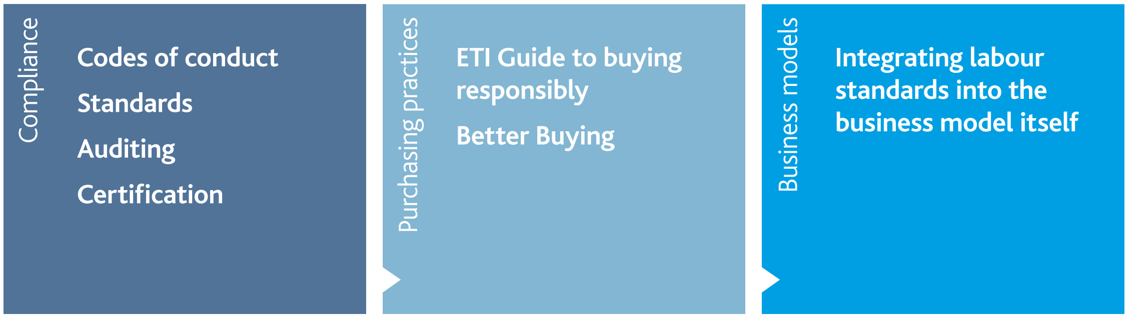
Why does CSR fail to improve significantly labour standards?

There is a growing debate amongst academics and practitioners about the need to go beyond the compliance-focus of CSR. In recent years, the debate has shifted from a focus on compliance to a focus on purchasing practices (see Figure 1). While the debate on purchasing practices has somewhat intensified,[7] there have been comparatively few interventions that have focused on rethinking the entire business model. Whereas CSR often focuses on certain issues and geographical areas to address human rights 'hot spots' that have emerged due to aggressive civil society campaigning, it can leave 'blind spots'. A core problem in developing a systematic and universal approach is that CSR interventions are often limited to the level of the factory and/or production site through compliance mechanisms such as audits, codes of conduct, and sustainability standards. Hence, most CSR interventions are addressed at the production site with the assumption this would allow the remainder of the business to carry on as is.

Factory level and/or production site interventions such as audits,

2 UNCTAD *World Investment* Report (2016), accessed 5 June 2016, available at: http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1555.
3 Philip, G. Cerny, "Paradoxes of the competition state: The Dynamics of Political Globalization", *Government and opposition* 32, no. 2 (1997): 251-274.
4 Andrew Morgan, *The True Cost*, (Netflix: 2015), available at: https://www.netflix.com/gb/title/80045667
5 ILO, "Purchasing practices and working conditions in global supply chains: Global Survey results," ILO INWORK Issue Brief (10) (2016): 1–24.
6 Loukas Karabarbounis and Brent Neiman, "The global decline of the labor share," *The Quarterly Journal of Economics* 129, no. 1 (2013): 61-103.
7 Marsha A. Dickson, "Better Buying: Purchasing Practices Performance in Apparel, Footwear, and Household Textile Supply Chains," *Index Report* (Better Buying: Spring 2018), available at: www.betterbuying.org.

Figure 1 – Linking Compliance, Purchasing Practices and Business Models



codes of conduct and training can take off the worst edges by alleviating symptoms of an exploitative system, but often do not address the fundamental problems that underpin the root causes. CSR is now often referred to as a 'sticking plaster' approach: CSR leaves unaddressed the root causes for violations of workers' rights in supply chains, which are often systemic to the business model. Tackling root causes requires interventions in the business model as well as the associated sourcing model and purchasing practices. Here we outline a number of the key weaknesses of pursuing a CSR-alone strategy.

1. Codes of conduct fail to address systemic problems

As many actors have highlighted, the prevailing social auditing approach is struggling to improve substantively labour conditions despite companies devoting up to 80% of their ethical sourcing budget to social auditing.[8]

Its implementation is bedevilled by low quality inspections, poor value for money, unnecessary duplication of audits, inconsistent corrective action plans and 'audit fraud'. Voluntary monitoring has been argued to divert attention from underlying systemic problems, to substitute government and union interventions, and to be designed to limit the legal liability of global brands by providing a veneer of moral legitimacy to prevent damage to their reputation.[9]

The practice has increasingly been criticised as clinging to a compliance-driven 'box-ticking exercise', with firms being more interested in 'covering their backs' than in improving workers' welfare. Garment workers have suffered deaths and injuries due to the failure of social audits to improve factory safety:

- On 11th Sept 2012, a fire in the Ali Enterprises garment factory in Karachi, Pakistan, killed nearly 300 workers and injured dozens more. It had been inspected and awarded a SA8000 certificate 3 weeks before the fire by auditing company RINA Services S.p.A.
- On 24th November 2012, a factory fire at Tazreen Fashions Limited in Dhaka killed 117 workers and injured over 200. An inspection report found onsite for a Walmart supplier revealed that the factory had "inaccessible/insufficient firefighting equipment," an "inadequate evacuation plan," and "partially blocked exit, routes, stairwells."[10]
- On 24th April 2013, the Rana Plaza building complex collapsed, killing 1,134 and injuring 2,500 more. Factories inside the complex had previously passed audits: certification company Bureau Veritas conducted an SA8000 audit at one Rana Plaza factory on behalf of groceries distribution company Loblaw and its clothing brand Joe Fresh. TÜV Rheinland audited the production facilities at textile producer Phantom Apparel Ltd on behalf of a member of the Business Social Compliance Initiative (BSCI).[11]
- In 2011 Unilever's Kericho plantations were the subject of a study by the Centre for Research on Multinational Corporations (SOMO) which found widespread cases of sexual harassment on Rainforest Alliance Certified plantations.
- A 2018 study by Sheffield University assessed 22 tea plantations in Assam and Kerala, including sites certified by major players Fairtrade, Rainforest Alliance, Ethical Tea Partnership (ETP) and Trustea. All 600 workers that participated lived below the poverty line and workers on certified farms were often treated worse, facing beatings and sexual violence and having wages and benefits withheld, the study said.
- In 2017 Fyffes, the tropical fruit company was suspended from the ETI as it upheld the GMB complaint of systematic union busting in its melon operations in Honduras. In 2018 it was granted Fairtrade certification for the same operations, and was recognised by the Latin American and Caribbean Network of Fairtrade Small Producers and Workers (CLAC) for its commitment to buying bananas from many of the region's small producers and its role as the largest Fairtrade banana buyer.

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8 Richard, M. Locke, *The Promise and Limits of Private Power: Promoting Labor Standards in a Global Economy*, (Cambridge University Press: 2013).

9 Donn Wells, "Too Weak for the Job: Corporate Codes of Conduct, Non-Governmental Organizations and the Regulation of International Labour Standards," Global Social Policy 7, no. 1 (2007): 51-74. Genevieve LeBaron, and Jane Lister, "Ethical audits and the Supply Chains of Global Corporations," Global Political Economy Briefs (1) (Sheffield Political Economy Research Institute (SPERI), University of Sheffield: 2016).

10 Steve Henn, "Factory Audits And Safety Don't Always Go Hand In Hand," National Public Radio Inc. (NPR), May 1 (2013), accessed September 25, 2018, available at: https://www.npr.org/2013/05/01/180103898/foreign-factory-audits-profitable-but-flawed-business?t=1537735344420

11 European Centre for Constitutional and Human Rights (ECCHR) (n.d.) MORE FOR SHOW THAN SAFETY: CERTIFICATES IN THE TEXTILE INDUSTRY, accessed October 30, 2018, available at: https://www.ecchr.eu/en/case/more-for-show-than-safety-certificates-in-the-textile-industry/#case_case

2. Failure of individual action to tackle systemic problems

CSR initiatives often remain focused on unilateral corporate activity such as supply chain certification[12] or auditing against corporate code of conducts.[13]

Yet, human and labour rights violations in global supply chains are often due to systemic pressures that involve collective action dilemmas. A collective action dilemma describes a situation where the action of individuals leads to lack of investment or resources being over exploited.[14]

In such situations, individual action will continually fail to address underlying problems as each actor in the chain has an incentive to focus on lower costs and drive down labour standards and wages:[15]

- Brands compete against each other in a low cost model and face individual disadvantage when pursuing costly sustainable actions. As such, costs may not be borne by competitors.
- Competition among sourcing destinations for low cost production results in inaction from host governments and reluctance to intervene through regulation.
- Competition between suppliers is cutthroat, often due to low entry barriers. Suppliers compete with each other on a cost-basis and are reluctant to raise standards.
- Workers compete with each other for jobs and lack market power to demand better conditions, while collective action through unionisation is systematically curtailed.

The limits of individual action in the face of collective action dilemmas are manifest in the failure of social auditing, despite being an estimated US$80 billion global industry from apparel to electronics and agriculture.[16] Without doubt, codes of conduct have played a role in raising standards and also protecting corporate reputations, but the extent to which these can deliver substantial improvements are limited. Buyers monitor and enforce codes of conduct individually rather than collectively across the industry. At first, this individual approach appears to give buyers more power to enforce labour rights in the buyer-supplier relationship, but the reality is that this leads to low buyer enforcement incentives and supplier audit-fatigue. Small variations in multiple codes can produce confusion for suppliers, who typically take orders from multiple buyers. In addition, not only has an industry in auditing emerged, but also a separate industry in 'managing audits', where suppliers pay consultancies to 'manage' the auditing process.

Moreover, individual brands lack commercial leverage to enforce codes of conduct through auditing. Even large retailers often comprise only a small percentage of total factory production. If a single supplier ceases production due to non-compliance, it does not significantly lower factory profits. This dis-incentivises both parties to commit to and enforce codes of conduct. Similarly, when a single buyer has recognised that there is a problem, there is little incentive for them to enforce it individually. Finally, individual action is often a voluntary initiative. As such, when difficulties are faced, such as increased competition, corporations have few incentives not to alter or even walk away from commitments. The result is underinvestment in labour standards even if they would bring collective benefits.

3. Hyper-flexibility and shifting of commercial risk to suppliers

Global supply chains are often characterised by hyper-flexibility. They are fluid and highly adaptable, enabled by a network of sourcing agents and sub-contractors who can source products at short notice in flexible amounts. This not only increases complexity, but also blurs accountability. At the end of hyper-flexible supply chains, workers are in more vulnerable positions with little protection or access to remedy. Hyper-flexibility does not just result from the purchasing process but, as discussed below, is inherent in the business model in relation to super-fast fashion and the year-long availability of fresh fruit in the food retail sector.

A recent report by Better Buying[17] measuring purchasing practices of 65 buyers in the apparel, footwear and household textile supply chains shows high levels of fluctuations in orders from month to month. Better Buying calculated an Order Risk-to-Reward (ORR) which averaged at 102% but reached as high as 346%. To illustrate, 137% ORR means that monthly orders can fluctuate from a low of 20,000 to a high of 800,000 units per month, which is likely to require flexible working and overtime for workers. In the Bangladesh RMG supply chain suppliers told us that they have to compete against other producers in auction-style bidding for orders, even if they are considered gold-standard suppliers. We came across several cases where orders were cancelled after production had started due to lack of consumer demand. With little or no commitment to long-term sourcing, risk is shifted onto suppliers. Thus, even if sourcing relationships last several years, the future is always precarious, making long-term investment in safety upgrades or maintaining a stable workforce difficult. The Better Buying survey revealed a range of impacts of volatile orders on workers, including overtime within and in excess of that proscribed by the law or code, temporary workers, unauthorised subcontracting and reduced hours as well as layoffs or retrenchment of workers.

Hyper-flexibility is intensified in fresh food due to the perishable nature of the produce, the weather and seasonable changes that are unpredictable. Buyers require their suppliers to be responsive at short notice so that fresh produce can be transported overnight and is available in UK supermarkets the

12 Juliane Reinecke, Stephan Manning and Oliver Von Hagen, "The Emergence of a Standards Market: Multiplicity of Sustainability Standards in the Global Coffee Industry," *Organization Studies* 33, no. 5-6 (2012): 791-814.

13 Juliane Reinecke, Jimmy Donaghey and Davinia Hoggarth, *From social auditing to social dialogue: implementing workplace social dialogue in the Bangladesh Garment Industry*, (IRRU, Warwick Business School: 2017), available at: https://www.wbs.ac.uk/wbs2012/assets/PDF/downloads/research/SDReport_June2017.pdf

14 Garrett Hardin, "The Tragedy of the Commons," *Science* 162 (3859), (1968):1243–1248. Elinor Ostrom et al., (eds) *The Drama of the Commons* (National Academy Press: 2012).

15 Juliane Reinecke and Jimmy Donaghey, "Collective Action and Social Partnership in Global Supply Chains: Lessons from the Bangladesh Accord," *The Annual Review of Social Partnerships* (12) (2017):98–103.

16 International Labour Rights Forum, "Our Voices, Our Safety: Bangladeshi Garment Workers Speak Out," available at: http://laborrights.org/ourvoicesreport

17 Marsha, A. Dickson "Better Buying: Purchasing Practices Performance in Apparel, Footwear, and Household Textile Supply Chains", *Index Report* (Better Buying: Spring 2018), available at www.betterbuying.org.

next day. Such hyper-flexible demand can often only be met through an informal labour force that is available at any time of the day, week, or year to make just-in-time supply chains work smoothly. This drives demand for more flexible, casualised forms of employment: seasonal labour and use of informal workers or those on short-term contracts whose freedom of association is curtailed. Piece rate systems are used that often necessitate excessive working hours. Migrant labour suffers human rights violations, such as squalid living conditions and illegally low wages as reported by The Guardian[18] in the Spanish salad sector in 2011. This is typical of abuses across Mediterranean countries for those that survive the journey from African countries to the region.[19]

4. Lack of transparency

The hyper-flexibility of global supply chains described above is interrelated with the next challenge: lack of transparency. The dispersed nature of supply chains with multiple layers and tiers across multiple countries, legal jurisdictions and different types of business practices, as well as unauthorised sub-contracting, has made it challenging for businesses to trace their supply chains. Lack of transparency makes it challenging to monitor and improve social performance on labour rights in a company's extended supplier network beyond Tier 1. However, many companies focus only on first tier suppliers, which exclude most sub-contractors and suppliers where workers are often most open to rights violations.

High-profile global events, such as the 2013 Rana Plaza collapse or the 2013 horsemeat scandal, have exposed blind spots in supply chains, with substantial legal, financial, and reputational exposure. These scandals have also revealed the complex challenges of tracing products back to source through a network of suppliers and sub-suppliers: several brands whose tags and labels were found in the debris of Rana Plaza claimed they did not know or approve sourcing from these factories. Similarly, in the 2013 horsemeat scandal, retailers, chasing the cheapest prices were largely unaware of how their rapidly fluctuating orders went through various networks of brokers, operators and subcontractors to the Romanian slaughterhouses which supplied the horsemeat that was sold as beef.

Unapproved sub-contracting clearly complicates companies' efforts to map their supply chain. However, ignorance of sub-contracting is no longer accepted as an excuse for shirking responsibility. In the case of the Tazreen factory fire, a range of buyers including Walmart, Sears, Karl Reiker and Teddy Smith claimed that garments were produced at Tazreen without their knowledge or approval. Yet documents suggest that Walmart was one of their largest customers with at least six orders placed in the 12 months leading up to the fire and two orders at the time of the fire. Even though they had cut direct ties with Tazreen as the factory did not meet their required standards, a complex web of subcontracting led to Walmart's order being manufactured in the Tazreen factory. Another Walmart supplier, Canadian company NTD Apparel Inc., ceased production at Tazreen following a factory inspection conducted in December 2011, which found that the factory had "inaccessible/insufficient firefighting equipment", an "inadequate evacuation plan", and "partially blocked exit, routes, stairwells."[20]

This suggests that proper due diligence could have clearly have prevented Walmart from ending up having its order executed by Tazreen. In addition, our research in Bangladesh shows that corporate sourcing managers and sourcing agents are often well aware of the production capacity of their suppliers. If they place orders that exceed their suppliers production capacity, they invite sub-contracting with 'eyes wide shut'.

Long supply chains do not necessarily mean far away basements hidden in different regions of the globe: persistent human rights violations in Leicester's factories were shown where workers earn as little as £3.50 an hour.[21] This situation reinforces the difficulties of tracing production processes and guaranteeing at least minimum labour rights. Hence, a key measure for systematically identifying human rights risk starts with mapping the supply chain. This is reflected in most human rights frameworks that are built on supply chain transparency to minimise human rights risks. This challenges companies to know their supply chain beyond their tier-1 suppliers and cover large parts of the supply chain up to the excavation of raw materials. The most rigorous and challenging of those, which affects U.S. listed food manufacturers (e.g. tin in food packaging), is the US conflict minerals rule, which requires companies sourcing conflict minerals from the Democratic Republic of the Congo and adjoining countries to exercise due diligence on the source and chain of custody of their conflict minerals and file a Conflict Minerals Report with the SEC.

However, transparency needs to be coupled with collaboration rather than sanction non-compliances. Zero tolerance policies are likely to drive malpractices further into the dark. Some suppliers might be afraid of being completely transparent. Often those in intermediary positions feel vulnerable to being cut out of the supply chain, especially as retailers gain increasing sourcing capabilities. An example of this is the banana industry where traditional UK brands like Pratts have been reduced to providers of ripening services as retailers have gone directly to source and managed shipping and logistics separately using their global sourcing capabilities.

18 Felicity Lawrence, "Spain's salad growers are modern-day slaves, say charities," *Guardian Newspaper* (February 7, 2011), available at: https://www.theguardian.com/business/2011/feb/07/spain-salad-growers-slaves-charities

19 Charlotte Heikendorf and Norma Martinez, "The Dark Side of Canned Tomatoes," Danwatch, 2014, accessed on October 31, 2018, available at: https://old.danwatch.dk/en/undersogelse/bagsiden-af-daasetomater/

20 Human Rights Watch, *Bangladesh: Companies Fail to Compensate Fire Victims - Retailers Should Fulfil Responsibility to Ensure Worker Protections*, Human Rights Watch Asia [online] December 15, 2013, accessed on July 19, 2018, available at: https://www.hrw.org/news/2013/12/15/bangladesh-companies-fail-compensate-fire-victims

21 Sarah O'Connor, "Dark factories: labour exploitation in Britain's garment industry," *Financial Times*, 2018, accessed on July 19, 2018, available at: https://www.ft.com/content/e427327e-5892-11e8-b8b2-d6ceb45fa9d0 Nikolaus Hammer et al., *New Industry on a Skewed Playing Field: Supply Chain Relations and Working Conditions in UK Garment Manufacturing* (2015), available at: http://www2.le.ac.uk/offices/press/for-journalists/media-resources/Leicester%20Report%20-%20Final%20-to%20publish.pdf/

5. Lack of integration of CSR in commercial purchasing decisions and strategy

Companies typically separate their CSR functions from their sourcing and purchasing functions. Internally, CSR teams are mostly deployed to solve a particular problem about a particular product category in a particular location. As such, CSR departments become detached from the mainstream with:

- Lack of internal communication amongst departments meaning that due diligence is not carried out before orders are placed, removing the leverage to effect change.
- As a 'cost centre' CSR functions have a discreet budget and are under-funded for the costs involved in making changes. Any additional costs that impact Cost of Goods through initiatives to create more sustainable supply chains are evaluated as any other cost and left to the commercial directors to decide upon.[22]
- CSR departments are staffed by CSR professionals. Most have never held a commercial role and are more interested in the 'mission' than the company. This limits their ability to engage and influence.
- Buyers in commercial teams are almost exclusively focused on cost and quality. Their training is focused on aggressive price negotiations, and CSR training, if included, is a side conversation. In some cases, the internal lack of communication is so strong that different subunits (e.g. compliance, procurement, sustainability) act independently from one another.[23] In this context, it is very difficult to engage different subunits of the organisation in cross-functional activities in the supply chain. Despite the engagement in parallel activities that may or may not be correlated to one another, functional silos may lead to symbolic implementation of activities.[24]

6. CSR doesn't affect purchasing practices

Purchasing practices have recently come under intense scrutiny as one of the main causes of problems related to human and labour rights in the supply chain. Buyers demand minimum wages and increasingly pledge to ensure a living wage for their workers but are reportedly unwilling to increase their prices to account for fair wages. Similarly, the price war among supermarkets that involves aggressive pricing strategies such as loss leaders and penetration pricing is mainly fought on the backs of vulnerable workers and farmers. As a result, squeezed suppliers and small-scale farmers pass down pressures onto vulnerable workers, demand overtime or resort to child and migrant labour.

The International Labour Organization (ILO) and the joint Ethical Trading Initiatives (ETIs) carried out a Global Survey on purchasing practices and working conditions in 2016.[25] Based on responses from 1,454 suppliers in 87 countries responded and across a range of sectors from apparel to food manufacturing

and animal production, the global survey estimates to cover nearly 1.5 million workers. The survey identified 5 major business practices between the buyers and the suppliers that influence wages and working conditions:

1. Contracts clauses: only 45% of the contracts specified who was responsible for the costs incurred by changes in orders and only 41% specify minimum standards of working conditions
2. Technical specifications: one-third of the companies suggest that there is room to improve technical specifications
3. Order placement (and lead times): only 17% of suppliers considered they had enough lead time; the majority reported that more than 30 to 50% of their orders had insufficient lead times
4. Prices and market power: 39% of suppliers (and 52% in textile and clothing) accepted orders below the production cost in 2015, 29% struggled to pay workers as a result
5. Requests for social standards: Over 90% of the surveyed suppliers were expected by their buyers to follow a code of conduct, but 49% received no help from their buyers in achieving the demanded social standards

Fairtrade certification of agricultural commodities and cotton is one of a few, mainstream CSR interventions aimed at addressing the power imbalance and guaranteeing fair prices that meet the cost of sustainable production as a basis for sustainable supply chains. However, this is not powerful enough to counter the rising inequality in the value distribution of global supply chains. Moreover, the high costs of running this niche system means there is increasing competition from supermarkets and food manufacturers developing internal competing labels which appear like Fairtrade, aiming to maintain the reputational benefits without the high administration costs, external scrutiny and price commitment.[26]

7. Lack of meaningful worker representation

CSR typically shows little concern with the democratic representation of those affected: workers and their representatives.[27] It is well recognised that union-based collective bargaining provides the most comprehensive approach to worker representation. Despite international efforts to support union organising, union coverage remains low with little change in sight as industry and government actors resist unions. Host countries vying for a share of global production are reluctant to 'risk' their competitiveness due to labour unrest or rising wages. A majority of workers lack any meaningful mechanism of voice.

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22 The Chartered Institute of Purchasing & Supply (CIPS) and Traidcraft, *Taking the Lead – A guide to responsible procurement* (CIPS, 2007).

23 David A. Aaker, *Spanning Silos: The New CMO Imperative* (Harvard Business School Press: 2008).

24 Patricia Bromley, and Walter W. Powell, "From Smoke and Mirrors to Walking the Talk: Decoupling in the Contemporary World," *Academy of Management Annals*, 6(1) (2012): 483–530.

25 ILO, "Purchasing practices and working conditions in global supply chains: Global Survey results," ILO INWORK Issue Brief (10) (2016): 1–24, available at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_556336.pdf; *The Joint Ethical Trading Initiatives' Guide to Buying Responsibly* (2017), available at: https://www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf

26 Juliane Reinecke, Stephen Manning, and Oliver Von Hagen, "The Emergence of a Standards Market: Multiplicity of Sustainability Standards in the Global Coffee Industry," *Organization Studies*, 33(5–6) (2012): 791–814.//www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf

27 Jimmy Donaghey, and Juliane Reinecke, "When industrial democracy meets corporate social responsibility—A comparison of the Bangladesh Accord and Alliance as responses to the Rana Plaza Disaster," *British Journal of Industrial Relations* 56, no. 1 (2018): 14-42.

- 81% of countries have violations of the right to collective bargaining. The number of countries with arbitrary arrests and detention of workers increased from 44 in 2017 to 59 in 2018.[28]
- Less than 10% of Bangladesh's more than 4,500 garment factories have registered unions, with the Dhaka-based Solidarity Center estimating that far fewer unions are functioning. In addition, in 2015, over 70% of union applications were rejected by the government on dubious grounds.
- In December 2016, labour conflict escalated and a week-long strike over poverty wages ensued. Tens of thousands of garment workers in the Ashulia suburb of Dhaka, Bangladesh, walked out. The strike was violently repressed, workers and union leaders persecuted, with their offices vandalised. Over 1,500 workers were dismissed, with unions reporting numbers as high as 3,500. Nine members of the Bangladesh Independent Garment Workers Union Federation were briefly detained by the authorities, and many went into hiding.[29]

Fundamental democratic rights are being undermined by corporate interests – those of supplier organisations directly and international buyers indirectly. Much of current business practice focuses on external auditing and workers and their representatives are not involved in either CSR or social auditing in a meaningful way.

8. The implementation gap of Freedom of Association clauses in Codes of Conduct

Within CSR Codes of Conduct, clauses either referring to freedom of association and/or the right to collective bargaining often feature either directly or through reference to the relevant ILO conventions. Even if corporate codes of conduct have clauses based on the ILO's Core Labour Standards, they are rarely enforced. But inserting such clauses into a Code of Conduct is still some way short of working actively to develop meaningful institutions of representation and bargaining. A key weakness of the CSR approach to employment issues is that while it can certainly alleviate outcomes for workers in the short term, it is limited in its ability to build comprehensive institutions where processes are designed to enable workers in the long term to raise issues on their own behalf.[30]

In many ways, freedom of association clauses can sit in a code of conduct and, until a group of workers actively seeks to organise and establish a union presence, the true commitment to the code of conduct is highly limited. It is, therefore, not surprising that some large retailers with reputations for being anti-union commit to Freedom of Association through their own codes of conduct and initiatives like Amfori. Studies of code enforcement have shown consistently that outcome rights that may lead to reputational risks, such as health & safety violations, are more rigorously enforced than process rights that may conflict with managerial control. In practice, the CSR model has consistently shown it is unable to fill the gap left by effective worker voice. Indeed, Health & Safety is an area in particular where research has shown repeatedly that governance is indeed more effective when workers are involved. Hence, meaningful change has to come from within the workplace and involve meaningful worker voice.

To summarise, even if businesses pledge to respect human and labour rights, these very rights are often inherently undermined by prevailing business practice. Thus, current CSR practices struggle to prevent human rights violations. More radical change must come from the underlying business model itself, its associated sourcing model and purchasing practices to effect more fundamental change and recognise the complexities of the problems. Thus, there is a need to reconsider the problem in a holistic perspective, analysing the whole way companies do business, and how different aspects of their business models impact human and labour rights in the supply chains.

The global supply chain model

While much emphasis has been placed on workplace interventions, this report highlights that bad practice is often driven by systemic pressures. To understand the root causes of labour and human rights violations in supply chains, as well as the levers for positive interventions, the underlying supply chain model must be considered. In a virtuous circle of production and consumption, real wage increases lead to increases in purchasing power, increasing the demand for goods and, in turn, increases in employment and real wages. Such a virtuous circle (see Figure 2) was the dominant model in the 1950s and 1960s in advanced capitalist economies. In the ideal scenario, wages, determined through collective bargaining, would rise less than productivity, but more than inflation.

Virtuous circle of production and consumption

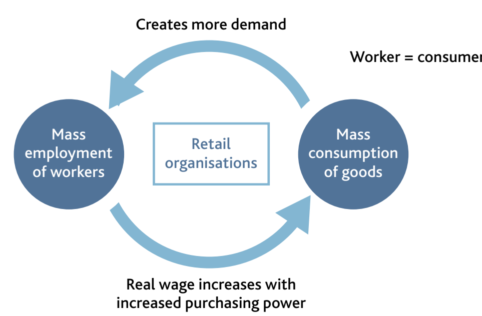


Figure 2

Global Supply Chains have broken this model (see Figure 3). They have separated spatially those who produce the goods and those who consume the goods. To deliver lower priced goods, separation of consumers from producers is necessary. Buyers threaten to relocate or actually relocate should wage costs rise. As such, the model is the opposite of the virtuous circle as it seeks out workers who do not have a reasonable prospect of being able to consume the type of goods which they produce.

28 International Trade Union Confederation (ITUC), Global Rights Index (2018), available at: https://www.ituc-csi.org/ituc-global-rights-index-2018

29 Michael Safi, "Bangladesh garment factories sack hundreds after pay protests," *The Guardian World News* (December 2016), accessed on September 26, 2018, avaiable at: https://www.theguardian.com/world/2016/dec/27/bangladesh-garment-factories-sack-hundreds-after-pay-protests

30 Niklas Egels-Zandén, and Jeroen Merk, "Private regulation and trade union rights: Why codes of conduct have limited impact on trade union rights," *Journal of Business Ethics* 123, no. 3 (2014): 461-473; Jimmy Donaghey and Juliane Reinecke, "When industrial democracy meets corporate social responsibility—A comparison of the Bangladesh Accord and Alliance as responses to the Rana Plaza Disaster," British Journal of Industrial Relations 56, no. 1 (2018): 14-42.

Box 2: Why the shift to the supply chain model is significant

- Macro-level: the supply chain model separates production economies from consumption economies.
- Outsourcing is used as a mechanism to reduce costs, particularly labour, so that retailers can sell goods whose prices are decreasing over time in real terms
- Contracts will generally be short term, with defined orders and prices being negotiated with each contract
- States in developing economies seek rapid route to economic development through attracting buyers with stable demand from developed economies
- Retail Firm level: Firms engage in aggressive competition for market share
- Supplier Firm level: Firms engage in aggressive competition for supply contracts
- Consumer level: goods become more affordable despite real wage stagnation by decreasing real price
- Worker level: workers employed on low wages with wage growth suppression in order to maintain competitive

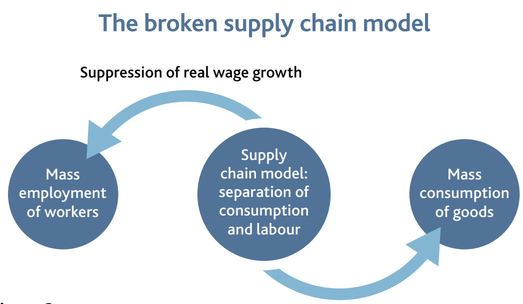


Figure 3

How business models affect labour standards

While there has been academic debate about what is meant by 'Business Models', it is often just referred to as 'the way business is done'.[31] The business model essentially brings together parties with different underlying interests. We identify four different regimes which combine to form business models (see Figure 4).

- **Consumption regime** generally refers to the 'consumer value proposition'. This regime encompasses consumers and those stakeholders who may be viewed as affecting the probability that consumers will purchase a product, such as NGOs, journalists or consumer groups.
- The **production regime** refers to the 'worker value proposition'. This describes how the company seeks to extract value from the labour of workers and how workers are compensated for their labour.
- The **investor regime** refers to the 'investor value proposition'. Within the private sector myriad ownership models may exists which affects the other regimes.
- The **competition regime** describes the interaction of firms competing for consumers, workers and investors in a sector.

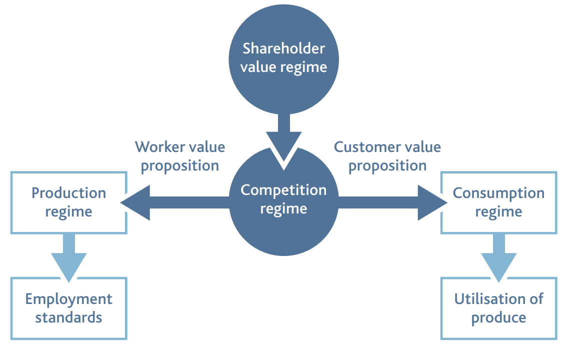


Figure 4 – Connecting regimes to business models

Social performance on human and labour standards

To date much attention has been paid to individual elements of the business model and various associated practices which are viewed as reducing or ameliorating labour standards. The key point being made in this report is that to understand fully the ways in which labour standards are affected in business, it is necessary to understand the entire business model. As such, how companies place themselves with consumers or the model of ownership they utilise will have significant implications for how the organisation is placed to respond to labour rights. Suppliers, in turn, will also come under pressure to lower their costs as much as possible, which might impact the social performance on human and labour standards. Therefore, the way companies decide to do business ends up impacting vulnerable employees at the end of the supply chain (see Figure 5).

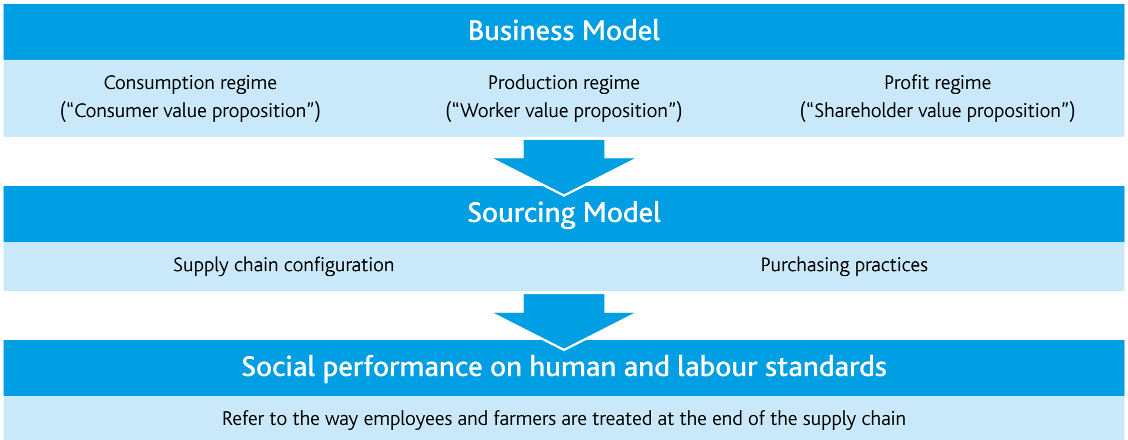
A sustainable business model considers not only the way organisations generate profit, but also their impacts on the environment and society. The emerging and changing practices in a business drive business model change and are therefore a good way to start to understand emerging innovations. The next two sections of the report will examine how this dynamic has played out in the Apparel and Food sectors.

Business models in apparel retail

The UK's fashion industry was worth about £32.3bn in 2017 and responsible for 890,000 jobs according to estimates by the British Fashion Council. The apparel supply chain is associated with negative effects on labour conditions. First, labour standards in the sector, including pay, safety and freedom of association, are often associated with the worst end of labour standards. It is no coincidence that major garment supply countries such as Bangladesh, Cambodia and Turkey feature in the ITUC's 2018 ten worst regimes for workers. Second, such regimes carry risks in terms of political instability and poor law enforcement. Hence, apparel buyers, rather than placing orders in more stable economies with higher labour costs, spread risk by sourcing from multiple countries. Three sub-models of the RMG sector are outlined.

31 James Richardson, "The business model: an integrative framework for strategy execution," *Strategic Change*, 17(5–6), (2008): 133–144, available at: https://doi.org/10.1002/jsc.821

Figure 5 – Connecting the business model to labour standards and social performance



The **'standard' model** is based upon standardised, mass produced staple ware. Take the archetypal white T-shirt. A plain, white T-shirt costs £2 from a value retailer. This is a product which is driven by a fairly stable level of demand, rather than being driven by fast changing trends. In 2016, the Guardian focussed on Lidl introducing to the UK a pair of jeans which cost £5.99 and posed the question how can jeans be produced so cheaply? The answer was stark: workers in Bangladesh were producing the goods at a pay rate of 23p per hour and a total labour cost per pair of jeans of 2p.[32]

The **'fast fashion'** model as illustrated in Figure 6 has been a response to demand uncertainty resulting from high variation in styles and tastes and the associated difficulty to forecast demand. Garments have become a product that has a short shelf life, sold quickly at relatively low cost, bought frequently and consumed rapidly. Low cost is necessary so that consumers move onto the next product quickly without viewing it as an economic loss. Fast fashion retailers release up to 52 collections a year.

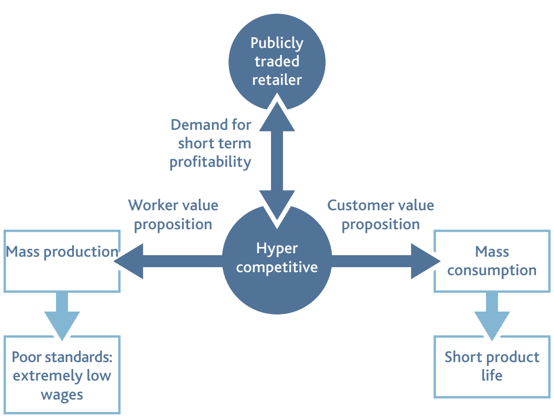


Figure 6 – The Fast Fashion business model

The **'super-fast fashion'** model is heavily based on the role of the internet, without a 'bricks and mortar' arm, as a sales mechanism with the emergence of players in the UK such as Boohoo, ASOS and MissGuided. Online fashion accounts for 24% of total fashion spend (2017 Mintel report). This model is based around disposable clothing, personalised, digital marketing and celebrity endorsement. Recently, £5 Boohoo dresses were cited as examples of this throwaway culture in a Parliamentary Hearing by the UK's environmental audit select committee.[33] The fast-growing Manchester-based retailer launches up to 300 products a day using a 'test and repeat' model: small quantity batches are released and market tested online, and re-ordered only if successful.

The super-fast fashion model exacerbates pressures around low costs and short lead times but also brings about unexpected changes. First, because of the super-fast nature of consumption, the scale of the production is, in relative terms, small. Secondly, the super-fast fashion model has led to a reinvigoration of the fashion industry in more advanced economic areas due to their close proximity to the market. For example, Turkey, which has a customs union with the EU and is generally more prosperous than other apparel manufacturing economies, is an important player in serving this model, as are factories in some areas of the UK, e.g. Manchester and Leicester, due to easy logistical access. However, the downward pressure on labour costs is not alleviated. Labour and human rights violations of Syrian refugees in Turkey and effectively bonded labour in the UK have been discovered.[34]

Business Models in Food Retail

The food retail market in the UK has changed significantly in recent decades. In terms of the effect on labour standards, three main pressures can be identified. First, couched in the language of competition and fairness to consumers, in substantial areas where food markets were regulated, these have now been deregulated. For example from 1922-1994, the Milk Marketing Board regulated the production and distribution of milk in the UK, while providing

32 Gethin Chamberlain, "How can Lidl sell jeans for £5.99? Easy ... pay people 23p an hour to make them," *The Observer Newspaper* (March 2016), accessed on October 30, 2018, available at: https://www.theguardian.com/business/2016/mar/13/lidl-jeans-bangladesh-worker-pay-23p-

33 Kate Ferguson, "Online retailer Boohoo named and shamed in Parliament as expert says £5 dress is too rubbish for charities to want," *Daily Mail Online* (30 October 2018), available at: https://www.dailymail.co.uk/news/article-6333001/Boohoo-named-shamed-Parliament-expert-says-5-dress-rubbish-charities-want.html

34 Nikalous Hammer et al., *A New Industry on a Skewed Playing Field: Supply Chain Relations and Working Conditions in the UK Garment Manufacturing Industry* (2015), available at: http://www2.le.ac.uk/offices/press/for-journalists/media-resources/Leicester%20Report%20-%20Final%20-to%20publish.pdf/

guaranteed price floors for producers.[35] Its abolition can be seen as a key turning point in the downwards spiral in milk prices.[36] Similarly, in Ireland, the various Groceries Orders (e.g. 1956 and 1987) banned underselling the cost price of various groceries. Its abolition in 2006, opened the door to increases in downward pressures on food producers. Second has been the consolidation of the market into a limited number of food retailers with the virtual disappearance of medium/large independent food retailers. The 'Big 4' of Tesco, Sainsbury's, Morrisons and Asda now control just over 70% of the UK grocery market leveraging their purchasing power over brands to receive significant discounts. In addition, through their scale, they have been able to develop significant "private label" (PL) or 'own brand' ranges, giving them greater control over their supply chains. Oxfam have highlighted how the oligopolistic status of the Big 4 and a highly fragmented producer base has given them considerable leverage over prices, despite there being a limited number of sourcing locations. The effect is that producers are unable to negotiate higher prices. Thirdly, the demand for year round sourcing of fresh produce has brought about a series of short food seasons in a number of countries and developed highly precarious, seasonal work.

The traditional retail model is based on delivering a deep and broad assortment at an affordable price, in vast and complex businesses, selling a broad range of products, with big stores and role-specific employees. On the consumption side, there has been deflationary pressure due to fierce competition and 'supermarket wars' on the UK high street. This deflationary pressure has intensified since the rise of the discounter business model championed by the likes of German discounters Aldi and Lidl (see Figure 7 where Jacobsen and colleagues plot the rise of the discounters[37]). A discounter can be defined as a business model that is focused on offering low priced products in order to undercut rivals, rather than focused on service, store experience or wide choice. To take on rivals Aldi and Lidl, Tesco created a new discount chain, Jack's, with its first store opening in Chatteris, Cambridgeshire, in September 2018.

The discounter model is based on a low-cost value proposition. With a much smaller range of products typically around 2000 for a standardised 1500m² store and mainly focused on their private labels, value creation activities are focused on minimising cost. Labour costs are kept down in the supply chain through simple but efficient logistics, a highly efficient and profitable operating model, and aggressive price negotiations with suppliers. Despite low costs and lower gross margins, discounters enjoy higher margins for earnings before interest and taxes - about 5%, beating the average supermarket chain by about 2%.[38]

The key effect of the rise of the discounter model has been even more pressure being pushed down on suppliers and then onto workers. With the 2009 economic crisis, consumers became even more price conscious and given that discounters offered a better price with their private labels, they rapidly gained market share. The differences in price are considerable, sometimes more than 50%, when comparing a branded product with a private label product. In response, the full-service retailers started paying more attention to offering lower priced ranges. This movement of all players in the sector trying constantly to lower their prices, however, generates a vicious cycle, in which the prices disconnect from the costs of production.

Table 1 summarises the main characteristics of both business models.

Figure 7 – Growth of the discounters

35 S.A.E. Bates and Naomi Pattisson, "UK milk prices and farmers' attitudes towards them since market de-regulation," 99, no. 2 (1997): 50-56; Katherine Bailey, *An investigation into risk and vulnerability in the UK food supply network*, PhD diss. (Cardiff University, 2016).

36 Megan Perry, "Explaining Britain's dairy crisis," (Sustainable Food Trust, October 2015), available at: https://sustainablefoodtrust.org/articles/explaining-britains-dairy-crisis/

37 Jacobsen, R., Parker, G., Jensen, T., Magnus, J., Gottstein, H., Hepp, M., & Urda, B. (2017). How Discounters Are Remaking the Grocery Industry. Retrieved October 30, 2018, fromhttps://www.bcg.com/publications/2017/retail-consumer-products-how-discounters-are-remaking-the-grocery-industry.aspx

38 Jacobsen and colleagues, Jacobsen, R., Parker, G., Jensen, T., Magnus, J., Gottstein, H., Hepp, M., & Urda, B. (2017). How Discounters Are Remaking the Grocery Industry. Retrieved October 30, 2018, from https://www.bcg.com/publications/2017/retail-consumer-products-how-discounters-are-remaking-the-grocery-industry.aspx

Table 1 Business models in the food retail: full-service retailers and discounters

	Full-service retailers	Discounters
Examples	Tesco; Sainsbury's; Asda	Lidl; Aldi; Jacks
Variety of products	Extensive assortment of products and brands. Some full service retailers have been working to simplify their ranges to improve on-shelf availability, reduce food waste, improve shopper navigation and consolidate purchasing e.g. Tesco's 'Project Reset' initiative, removing up to 30% of stock keeping units (SKUs). (Removing 30% of SKUS in a hypermarket stocking 40,000 SKUs still leaves 28,000 and a significant range advantage versus discounters.)	Limited range of products (~2,000 SKUs), and very few branded products. Their Private Label products are 30-40% cheaper than brands. Discounters have more recently sought to grow their ranges, especially in fresh foods, Premium Private Label and big brands to improve credibility as a 'one stop shop'.
Stores	Bigger stores on average, with need for space due to the product range size and in-store services e.g. food counters, in-store cafes.	Smaller stores (~1,500m^2), with less need for space thanks to limited range ethos.
Channels	Multi-channel operations including hypermarkets (+5,000m^2), supermarkets (+2,000m^2), high-street shops (+1,000m^2) and c-stores (<1,000m^2) combined with on-line ordering and home-delivery services.	Single channel operations working from highly standardised store designs and merchandising lay-outs. Minimal on-line capacity.
Management	Per category (e.g.: fish; poultry). More complex management structures based on store size, product categories and specific skill requirements in-store.	Simple management structures aided by culture of empowerment, clear hierarchies and lines of responsibility. Management focuses on driving simplicity at both store and head-office level.
Staff	Greater numbers of more role-specific staff.	Reduced staff numbers and multi-skilled with ultra-strong work ethic.
Suppliers	Strategies differ according to category and supply dynamics. If long-term availability needs to be managed or if the retailer brand equity is at risk, then it will likely opt for more long-term, strategic relationships, with up to 5-year-contracts in place.	Discounters enjoy lengthy trading histories with many suppliers, but tend to have shorter future commitments, as 1-year-contracts are the norm. Supply dynamics are key: if a product is highly commoditised, retailers have multiple purchasing options and the supplier's overhead recovery depends on large volume contracts, then the retailer will have significant leverage to create downward cost pressure.
Price	Different price labels on PL (budget; standard and premium) combined with huge array of branded options give shoppers significant opportunity to spend.	Different price labels on PL (budget; standard and premium) with lower (but increasing) branded SKU count. Due to limited range, discounters claim it is harder for consumers to over-spend on 'impulse' purchases.

Business models: their impact on value redistribution in the supply chain

While differences do exist, a clear commonality between both sectors has been the decline in real prices paid to suppliers across the piece. In efforts to gain or even just maintain market share, price competition to attract consumers has intensified in both sectors. With very cheap products in both, fast fashion, and the discounters in the food sector, the rise in the price of products by one company leads to a fear of immediate loss of competitiveness and market share. Recent studies show that inequality has grown. Deflationary pressure on prices paid to suppliers increases the risk of human and labour rights violations in food and farming supply chains. A recent report by Oxfam (2018) argues that inequality of power is the root cause of labour exploitation in food and farming supply chains. While the power of supermarkets and retailers increases, the power of workers and small-scale farmers declines. Sourcing strategies are typically driven by price and quantity criteria, with competitive pressures among multiple suppliers used to drive down prices.

A good example, highlighted by Mark Anner, is the price of cotton trousers exported to the US from Bangladesh, that has been decreasing over recent years (see Figure 8). Despite the decrease in the price of trousers (from $62.26 in 2013 to $54.29 in 2017), the price of the cotton fluctuated much more in the same period. This means the cost to the consumer does not reflect the cost of the raw material, and thus, also does not reflect the total cost of the final product. If the price of cotton increases, it does not necessarily affect the price the final consumer pays.

Sources: OTEXA, Statista. Taken from Anner, 2018

Figure 8

Another example in the food sector is the price of bananas. Figure 9 produced by BASIC[39] shows there is a decrease of import prices in EU in the six main countries exporting bananas.

However, in the same period there were significant increases in the costs of production. Shipping costs increased by 233%,

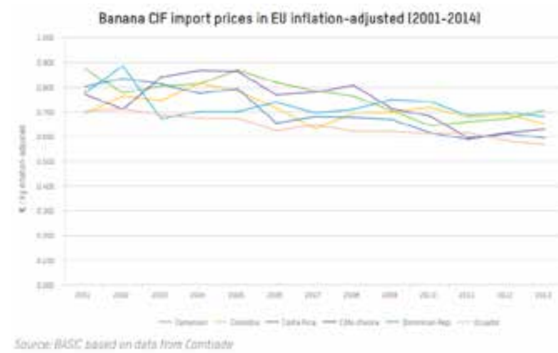


Figure 9

fertilisers and pesticides by 195%, and packaging materials by 150%, on average. The combination of decrease in prices paid by companies in the EU, together with the increase of costs in the producing countries means a decrease of prices paid to producers and farmers. To make the situation even worse, in this example the living costs in those countries also increased significantly.

This downward pressure on retail prices has recently been converted into direct pressure on cost price by retailers.[40] Aldi reportedly wrote to suppliers indicating a Euro 0.60 cent decrease in the price paid for bananas. Banana associations across Latin America have joined together to take collective action against what is seen as a step too far, fundamentally undermining their ability to maintain safe and sustainable production.

The price war in both sectors is imbedded and affects suppliers directly. Unwilling to accept an increase in prices, companies create a price squeeze within which suppliers have to deal.[41] Retail buyers do not simply negotiate the price of packaged goods delivered to their distribution centres. Rather, they have become adept at dissecting the supply chain and looking for pockets of 'value' that can be ring-fenced and negotiated downwards. Aiming at the lowest production cost, suppliers end up outsourcing their production, making the whole supply chain longer and more difficult to control. Consequently, the increasing complexity of the supply chain limits the visibility of workers' rights across the chain. At the same time, there is constant pressure for price decreases and the supply chains are increasingly dispersed. Also, the longer the supply chain, the harder it is to guarantee traceability of processes and products. Therefore, this combination of factors influences the adoption of unethical practices by suppliers.[42]

Another important aspect to consider is the dividends shareholders receive, which have, in fact, increased over the

39 BASIC, *Banana value chains in Europe and the consequences of Unfair Trading Practices* (Bureau For Appraisal of Social Impacts for Citizen Information (BASIC), October 2015), available at: http://www.makefruitfair.org/wp-content/uploads/2015/11/banana_value_chain_research_FINAL_WEB.pdf.

40 Maura Maxwell, "LatAm producers rally against banana price cuts," *Fresh Produce Journal* (October, 2018), available at: http://www.fruitnet.com/fpj/article/176996/latam-producers-rally-against-banana-price-cuts

41 Robin Willoughby and Tim Gore, *Ripe For Change - Ending human suffering in supermarket supply chains*, (Oxfam, 2018), available at: https://policy-practice.oxfam.org.uk/publications/ripe-for-change-ending-human-suffering-in-supermarket-supply-chains-620418

42 Mark Anner, *Binding Power: The Sourcing Squeeze, Workers' Rights, and Building Safety in Bangladesh Since Rana Plaza*, Penn State Center for Global Workers' Rights (CGWR) (March 2018), available at: https://wsr-network.org/resource/binding-power-the-sourcing-squeeze-workers-rights-and-building-safety-in-bangladesh-since-rana-plaza/

years. In 1970 in the UK, from every £100 of profit £10 went to shareholders, while in 2016 companies paid them nearly £70.[43] By sending increased profits to shareholders, limited resources are dedicated to finding value-adding opportunities such as re-engineering, innovation practices and sustainability.[44] Therefore, on the one hand, companies are squeezing prices, pressurising suppliers in a vicious cycle for the lowest price. On the other hand, the same companies are trying to maximise profitability for shareholders. At the end of the line, the workers are the ones suffering from all these pressures, with less and less value going to them. For example:

- Garment workers in Vietnam and China earn 4% and in Bangladesh 2% of the final retail price that consumers pay in Australia, while the retailers gross margin is estimated to be 45%.[45]
- In agri-food supply chains, the share of the end consumer price reaching farmers – at an aggregate global level – declined by 13.1% from just 16% in 1995 to 13.9% in 2011. Farmers in some countries receive as little as 7% on average. Meanwhile, the share for supermarkets has increased by 11.5% to 30.1%.[46]
- For products that are commonly sourced from developing countries the small-scale farmers' and workers' share of the end consumer price decreased by 26% in 1996/8 from 8.8% to 6.5% in 2015. The supermarket share of the end consumer price – on average across the basket of products and a range of consumer countries–increased by 11% from 43.5% in 1996/8 to 48.3% in 2015.[47]
- Minimum wages, if they exist, are set far below the living wage level that the ITUC is calling for, leaving many workers living in poverty and unable to support their families.[48]
- Due to poverty wages, poor farmers suffer food insecurity: a 2017 Oxfam survey of hundreds of small-scale farmers and workers in supermarket supply chains across five countries that a majority of respondents or their family member had gone without enough food in the previous month. For instance, over 90% of surveyed women workers on grape farms in South Africa reported not having enough to eat in the previous month.[49]

Competition on price means that downward pressure is placed on production cost, with labour being the area where the most significant changes in cost can take place.

Business models and the labour standards trilemma

As outlined above, a key feature of the supply chain model is that jobs are located in developing countries not to bring economic development but to take advantage of low labour costs. Without doubt, price is not the only variable which needs to be understood in labour standards. An issue emerging more as time goes on is the threat of automation. Figure 10 below outlines a trilemma which comes with the regulation of work in the modern economy. In our research, a number of respondents highlighted that if labour costs rise, they would see suppliers turning to automated responses in order to keep price down. This brings forth a conundrum: if labour costs are to rise, will it inevitably lead to loss of jobs due to mechanisation or job relocation to lower cost sourcing destinations?

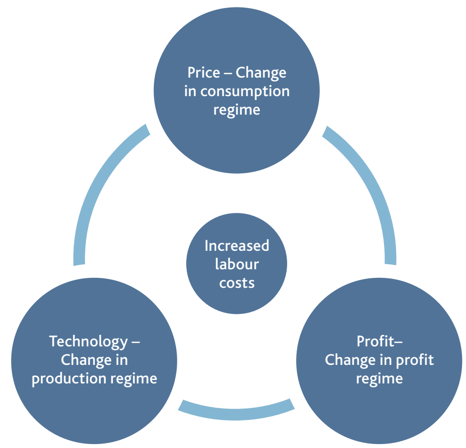


Figure 10 The labour standards trilemma

43 The Purpose of the Corporation Project, "Behind the Purpose of the Corporation infographic," accessed on July 19, 2018, available at: http://www.purposeofcorporation.org/en/news/5009-behind-the-purpose-of-the-corporation-infographic

44 Erinch Sahan et al., "Does business structure influence social impact? Early insights and practical implications for donor agencies," Joint DECD-Oxfam Briefing Note (November 2016), available at: https://www.enterprise-development.org/wp-content/uploads/Does-business-structure-influence-social-impact-OxfamDCED-Briefing-Note.pdf.

45 Deloitte Access Economics for Oxfam Australia, *A Living Wage in Australia's Clothing Supply Chain Estimating factory wages as a share of Australia's retail price* (Deloitte, October 2017),available at: http://whatshemakes.oxfam.org.au/wp-content/uploads/2017/10/A-Living-Wage-in-Australias-Clothing-Supply-Chain_Deloitte.pdf

46 Ajmal Abdulsamad and Gary Gereffi, (Durham, NC.: Duke Center on Globalization, Governance and Competitiveness, forthcoming).

47 C. Alliot et al., *Distribution of Value and Power in Food Value Chains* (Oxfam, forthcoming).

48 International Trade Union Confederation (ITUC), *Freedom Report: Peace, Democratic Rights*, (ITUC, December 2017), available at: https://www.ituc-csi.org/freedom-report-peace-democratic-19547

49 Robin Willoughby and Tim Gore, *Ripe for Change*, (Oxfam Campaign Report, June 2018), available at: https://policy-practice.oxfam.org.uk/publications/ripe-for-change-ending-human-suffering-in-supermarket-supply-chains-620418

4

Part 2: Developing sustainable business models

There is an increasing consensus that the current supply chain model cannot be sustained in the long term: cut-throat competition and ever cheaper consumer prices erode margins and fail to provide decent working conditions for workers. As efficiency gains have been realised through just-in-time supply chains, intensified pressure on prices and speed also creates ever greater risk of mishaps, as the Morecombe Bay tragedy and Rana Plaza collapse demonstrate. In theory, the solution seems simple: if business models could encourage consumers to pay fair prices for less, but better quality produce, there would be enough value in the supply chain to pay decent wages and working conditions.

But this cuts across the grain of the downwards spiral currently being witnessed. Most of what companies have been doing to date is related to incremental changes at the production site. Audits, training, generating awareness of the problems, or even creating partnerships with their suppliers do not radically change the way companies do business. Many of our respondents highlighted that current practices to improve labour conditions need to become stronger, require more collaboration and need to go beyond audits in the supply chain.

Sustainable business models create significant positive benefits or significantly reduce negative impacts for the environment and society; through changes in the ways in which the organisation and its value-network create, deliver and capture value.[50] In contrast to 'conventional' business models, models of value creation are designed so that sustainability becomes a core part of business decisions. One key conclusion from our research is that creating more value for workers requires a rebalancing of the entire business model in ways that rethink not only changes to the production regime but also changes to the investment value, competition and the consumption regime. Figure 11 illustrates sustainable business model interventions.

Interventions at the level of the investment regime

One of the most profound interventions challenges the assumption of business creating value for shareholders. Alternative corporate and business models, alternative forms of ownership and sustainable investing are all forms of seeking to redefine who the primary beneficiary of value creation should be and, in so doing, seeks to rebalance economic, societal and environmental value. Is the ultimate **purpose of value creation** to maximise shareholder value? Or is the purpose to deliver 'shared value' for the business and its stakeholders?[51] If the latter, then the mainstream model of incorporation in its current form is likely to be unsuitable. Businesses need to rethink their company model if they are to break free from investors' focus on financial performance. Benefit corporations and Certified B Corporations[52] are both new models that rethink a company's purpose as one of balancing private profits and public benefit, redirecting investors to judge performance based on the company's social, environmental, and financial performance.

- *Benefit corporation* status is a new type of legal structure for businesses available in 30 U.S. states, Washington D.C., Italy and Colombia. Benefit corporation status provides legal protection to balance financial and non-financial interests when making decision;
- *Certified B Corporations*[53] are a new kind of business that balances purpose and profit, in principle available to any business regardless of corporate structure or country of incorporation. They are legally required to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment.

Level of business model intervention	Key strategies	Clothing industry examples	Food industry examples
Shareholder regime	Purpose of value creation	Social enterprise, hybrid organisations	Certified B Corp, Benefit Corporation (US), Community Interest Corporation (UK)
	Ownership model	Alternative shareholding, co-ownership	Producer-based coop
Consumption regime	Slow consumption	Slow fashion	Slow food
	Consumer transparency	Transparency about human rights impacts, suppliers and pricing	Product labelling/certifications
Competition regime	Supply chain and purchasing practices	Traceability	Joint planning & development, long-term contracts, supplier partnerships
	Collective action	Worker rights advocacy	Collective, multi-party agreements
Production regime	Corporate social responsibility	Issue-based partnerships, voluntary producer programmes	Codes of conduct
	Industrial relations	Workplace social dialogue, strengthening worker voice	Collective bargaining & freedom of association, Global Framework Agreements

Figure 11 Sustainable business model interventions

50 Nancy Bocken et al., "A literature and practice review to develop Sustainable Business Model Archetypes," *Journal of Cleaner Production*, 65, (2014):42–56.
51 Micheal Porter, and Mark Kramer "The big idea: Creating shared value," *Harvard Business Review* (89) (2011): 2-17.
52 "Benefit Corporations & Certified B Corps," B Lab, accessed November 2, 2018, available at: http://benefitcorp.net/businesses/benefit-corporations-and-certified-b-corps
53 "Certified B Corporations," accessed on November 2, 2018, available at: https://bcorporation.net

Box 3: Example shareholder regime: Divine Chocolate

An example of a co-ownership model is Divine Chocolate Ltd. Divine is not just a Fairtrade pioneer but also a certified B Corp whose shares are also co-owned by the Kuapa Kokoo cocoa farmers' co-operative in Ghana. Its costumer value proposition "Owned by cocoa farmers. Made for chocolate lovers" immediately turns this distinctive ownership model into the key consumption message. This innovative corporate structure supports its social goals. In 1998, Divine was the first Fairtrade chocolate bar marketed for the mass market in the UK. When established in 1998, its 99 ordinary shares were owned by three parties: 52% by the Fairtrade NGO Twin Trading, 33% by Kuapa Kokoo farmers' co-operative, and 14% by the international retailer Body Shop International.[1] Supporting social entrepreneurship, Body Shop donated its shares in 2006, leaving Kuapa Kokoo with 45% of the shares, while international development finance institute Oikocredit bought 12% of the shares. International NGO Christian Aid owns shares and the UK charity Comic Relief supports the company, and are partners in the Dubble Fairtrade bar, created for young people.

The Divine Chocolate business model is thus characterised by a format whereby the main supplier, Kuapa Kokoo, a cooperative of cocoa farmers in Ghana, has a major ownership stake in the company - a first in the Fairtrade sector. The brand aspires to do justice to its name: Kuapa Kokoo's motto is "pa pa paa" - which means "the best of the best" in the local Twi language. Its premium quality cocoa is now sold to chocolate companies around the world. It is estimated that in 2013 around 11% of all chocolate sold in the UK now carried the Fairtrade mark, showing shifts in the market.

The farmers who own Divine have been proactive about developing their organisation of over 85,000 members: they have invested the Fairtrade premium in developing farming communities and skills – focusing on water, health, education and sanitation to improve standards of living. Kuapa Kokoo has also taken a lead on tackling child labour, and is piloting a number of environmental initiatives to improve productivity and adapt to climate change. It is estimated that Kuapa Kokoo produces up to 5% of Ghana's cocoa. Divine reported over 40% profit growth in 2016.[2] Divine's innovative supplier ownership model demonstrates the mutual success of joint responsibility, which leads to a positive economic outcome, while creating social and environmental benefits. (For more detail, see appendix 1)

1 "Inside Divine," Divine Chocolate Ltd., accessed on November 6, 2018, available at: http://www.divinechocolate.com/uk/about-us/inside-divine

2 Oliver Nieburg, "Divine Chocolate Reports 40% Growth in 2016," *Confectionary News*, William Reed Business Media Ltd, (July 2017), available at: https://www.confectionerynews.com/Article/2017/07/06/Divine-Chocolate-reports-40-profit-growth-in-2016

- Over 2,300 companies have chosen to become certified B-Corps, including subsidiaries of large companies such as Unilever's Ben & Jerry's, Seventh Generation and Danone's Happy Family.
- In Fashion and Apparel, outdoor gear label Patagonia and sustainable fashion brand Eileen Fisher are certified B-Corps. Gap Inc.'s subsidiary, the fitness clothier Athleta,[54] joined the clothing B-corp list in 2018.
- French food manufacturer Danone proves that B-Corps are not necessarily a 'niche' solution. Danone has a market of around $47 billion. Since 2018, its North American subsidiary is already the world's largest B-Corp and the company is planning to become the world's largest international 'B-Corp' by 2030.
- Furthermore, research by Ben & Jerry's suggests that consumers are 2.5 times more loyal to companies with a social purpose, which incorporate value-driven action throughout their business.[55]

The key difference between the two types seems to be that in the case of the benefit corporation, impact is self-reported, whereas in the case of certified B corporations, impact is *verified* (B Impact Assessment as well as recertification required every two years).[56]

Rethinking the purpose of value creation may also involve **alternative ownership models** such as the cooperative model. Producer-owned cooperatives are the most direct way of linking the interests of business owners with that of producers and workers. Producer-owned cooperatives are membership-based, mutual benefit associations of producers or workers that differ in kind from for-profit corporations.[57] Unlike corporations, cooperative forms unite the roles of owners with producers. They eliminate the independent, profit-seeking stockholder by assigning property rights in the firm to producers. Producers themselves become the residual claimants and ultimate decision-making authorities in the firm. They return profits to members via dividends, improved compensation, and expanded or lower-cost service.

- *Cooperatives* such as the Co-op group, are owned by its *members* who each have a say in the company. When members buy selected Co-op branded products and services 1% of the money is also spent on a local cause in their community.[58]
- *Employee cooperatives* eliminate distinctions between labour and capital. An example is employee-owned *John Lewis* Partnership (JLP).

54 "Meet the 2018 Best For The World Honorees," B the Change, accessed on November 2, 2018, available at: https://bthechange.com/best-for-the-world-2018-all-honorees-f30a880f8ac0

55 Dennis Lomonaco, "Be Nice Or Leave: The Pragmatic Case For B-Corps," , 22 January 2018, accessed on November 2, 2018, available at: https://www.forbes.com/sites/forbesagencycouncil/2018/01/22/be-nice-or-leave-the-pragmatic-case-for-b-corps/#4dd5cc864621

56 "Benefit Corporations & Certified B Corps," B Lab, accessed on November 2, 2018, available at: http://benefitcorp.net/businesses/benefit-corporations-and-certified-b-corps

57 Marc Schneiberg, Marissa King and Thomas Smith, "Social movements and organizational form: Cooperative alternatives to corporations in the American insurance, dairy, and grain industries," *American Sociological Review*, (4) (2008): 635-667.

58 "We're helping local causes," Co-operative Group Ltd, available at: https://www.co-operative.coop/about-us

- *Farmer cooperatives*, such as dairy cooperatives, eliminate middlemen via strategies of forward collective-vertical integration in which producers seek outlets and better prices by bargaining collectively with buyers or by jointly marketing or processing their produce. Collaborative action at the grower end of the supply chain can help rebalance supply chain power.

An adaptation to the existing competition regime comes in the form of **sustainable investing**, or 'ESG' investing, which takes into account Environmental, Social, and corporate Governance (ESG) performance of companies in making investment decisions.

- 'ESG' investing now accounts for some US$ 26 trillion or more than one-quarter of all assets under professional management (AUM) globally.[59]
- Between 2006 and 2010, the top 100 sustainable global companies experienced significantly higher mean sales growth, return on assets, profit before taxation, and cash flows from operations in some sectors compared to control companies. During the 2008 recession, companies committed to sustainability practices achieved 'above average' performance in the financial markets, translating into an average of $650 million in incremental market capitalisation per company. Additionally, companies with superior environmental performance experienced lower cost of debt by 40-45 basis points. Studies also suggest that companies with strong corporate responsibility reputations "experience no meaningful declines in share price compared to their industry peers during crises" versus firms with poor CSR reputations whose reputations declined by "2.4-3%; a market capitalisation loss of $378M per firm."[60]
- Sustainable investing is also innovating by becoming more 'democratised' through crowd investing and peer-to-peer lending. Product sharing platform Peerby almost got 7 times the funding it needed from the public through funding platform One Planet Crowd.[61] Peer-to-peer lending platforms such as Lendico (South Africa) and Zopa (UK) can create a 'feel-good' factor for investors and give individuals access to capital they would not have had otherwise.[62]

However, a potential challenge for ESG investing going forward is the lack of standardisation and the mixed quality of information in the three ESG domains, environmental, social, and corporate governance, especially the social domain, which is by far the weakest.[63] The social domain is heavily populated with labour and human rights-related elements, but these are seriously under-conceptualised and fail to draw on substantive standards. [64]

Interventions at the level of the competition regime

As outlined earlier, a central feature of the downwards spiral on labour standards is the nature of competition in a sector. Below we identify three key areas where business model innovations can contribute to a more sustainable competition regime: a partnership approach to sourcing, purchasing practices, and collective action.

The **supply chain structure** is a key part of the competition model. Rather than arms-length relationships, power asymmetries between large buyers and a fragmented producer base, and short-lived or non-committal relationships, a sustainable intervention focuses on a **partnership approach to sourcing.** In its most advanced form, such a partnership creates *supply chain interdependency*.[65] Supply chain interdependency overcomes the problem of being non-

Box 4: Union Coffee: Partnership approach to reduce risks and & Quality over quantity

Jeremy Torz and Steven Macatonia started Union Coffee in 2001, after having witnessed the impact of volatile markets on the lives of coffee farmers, forced to accept low prices that did not even cover the cost of producing their coffee.[1] Union was founded with the aim of encouraging farmers to produce high-quality coffee by paying sustainable prices. The extra income from this model improves the livelihoods of farmers and helps raise the quality of their coffee. It also increases certainty about financial income for the coffee communities, knowing they would receive a fair price for the coffee they produce. Union Coffee thinks it owes its success to direct and close relationships with its coffee farmer partners and creating a positive impact on farmers and particularly their workers by sourcing coffee produced under conditions that provide decent labour standards. It also provides supplier training supporting its model: to improve the quality and to address environmental issues such as waste water management and reducing agrochemicals, and social issues such as health and safety, to ensure their own safety and that of other farm workers.

Through its approach Union Coffee can reduce risks for all parties involved (economic, social, environmental). It combines the 'quality over quantity' principle, while supporting farmers financially, as well as socially and environmentally through its training. (For more detail, see appendix 2)

1 "Our story," Union Hand-Roasted Coffee, accessed on November 2, 2018, available at: https://www.unionroasted.com/our_story.html

59 John G. Ruggie, and Emily, K. Middleton, "Money, Millennials and Human Rights: Sustaining 'Sustainable Investing'," *Mossavar-Rahmani Center for Business & Government Faculty Working Paper 2018-01* (2018), available at: https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/FWP_2018-01.pdf

60 Tensie Whelan, and Carly Fink, "The Comprehensive Business Case for Sustainability," *Harvard Business Review*, October 2016, available at: https://hbr.org/2016/10/the-comprehensive-business-case-for-sustainability

61 OnePlanetCrowd, "Become a SHAREholder in sharing," Peerby Ltd., accessed on November 2, 2018, available at: https://www.oneplanetcrowd.com/en/project/138624/description

62 Florain Lüdeke-Freund et al., *Business Models for Shared Value: How Sustainability-Oriented Business Models Contribute to Business Success and Societal Progress* (Cape Town: Network for Business Sustainability, 2016).

63 John G. Ruggie and Emily, K. Middleton, "Money, Millennials and Human Rights: Sustaining 'Sustainable Investing,'" *Mossavar-Rahmani Center for Business & Government Faculty Working Paper 2018-01* (2018), available at: https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/FWP_2018-01.pdf

64 John G. Ruggie and Emily, K. Middleton, "Money, Millennials and Human Rights: Sustaining 'Sustainable Investing,'" *Mossavar-Rahmani Center for Business & Government Faculty Working Paper 2018-01* (2018), available at: https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/FWP_2018-01.pdf.

65 Duncan Green, "What I've learned about how the structures of businesses determine their social mission," accessed on November 13, 2018, available at: https://oxfamblogs.org/fp2p/what-ive-learned-about-how-the-structures-of-businesses-determine-their-social-mission/

committal to suppliers, shifting of commercial risk to supplier, a 'hit & run' approach and flexibility of changing suppliers "like your shirt." They focus on creating a shared fate with suppliers, where buyers cannot just leave when they find a cheaper supplier. Different mechanisms can create a dependency on suppliers, such as:

- Long-term contracts, an example being Union coffee roasters. Long term should be viewed as anything 3 years long or greater and with Union Coffee some supplier contracts are over 15 years old. In the case of Divine Chocolate, the suppliers (cocoa bean farmers) even own a significant part of the shares of Divine showing the long-term commitment and intertwinedness between the companies.
- Risk-sharing, as practised by Union Coffee, such as extending commodity price or currency risk management services to suppliers and farmers.

Changes to **purchasing practices** are central elements of creating a more sustainable sourcing model. The Ethical Trading Initiatives of Denmark, Norway and the UK published a Guide to Buying Responsibly[66] which highlights the business case for improving purchasing practices to avoid poor quality products, delayed delivery, additional costs or industrial action, thereby risking disruption and undermining long-term security of supply: "By adopting more responsible purchasing practices, businesses stand to optimise costs, increase productivity and quality, build supply chain resilience and reduce operational and financial risk. Importantly, enabling suppliers to pay workers fairly and invest in improving labour conditions will help to both improve workers' lives and stabilise your suppliers' workforce. This reduces the risk of strikes and industrial unrest, contributing to more mature industrial relations, which helps to maintain availability at shop floor level." Some steps have been taken to improve purchasing practices in the food and garment retail sector:

- ASOS' Global Framework Agreement (GFA) with IndustriALL includes provisions on annual impact assessments of purchasing practices on labour rights.
- As part of the UK's Groceries/Supply Chain Practice Market Investigation Order 2009, the Groceries Code Adjudicator was established to oversee the relationship between supermarkets and their suppliers and to ensure that large supermarkets treat their direct suppliers lawfully and fairly. It also investigates complaints and arbitrates in disputes.
- Better Buying[67] seeks to establish a two-way evaluation process by allowing suppliers to rate anonymously the purchasing practices of retailers in the garment industry. The aim is to encourage better purchasing practices, and hence have a positive effect on labour standards.

Many brands now accept the need for **collective action**, or **pre-competitive collaboration**, as a way of removing from competition issues of collective concern, such as health & safety, wages and other labour standards. In other words, when acting collectively to address systemic problems in an industry's global supply chain, global buyers can avoid competing on safety and achieve greater leverage. Collective action offers a range of other benefits:

- Tragedies such as Rana Plaza in 2013 have demonstrated that an industry's reputation is a shared resource, subject to reputational spillovers. One incident can damage the reputation of an entire industry beyond the firms directly involved.
- Industry-wide change requires collaboration across multiple organisations, and ideally across stakeholder groups, to deliver collective benefits. Through collaboration and the pooling of resources, parties can solve a problem that none could solve individually.
- Collective action spreads the cost of economic adjustment, increases sanctioning capability and reduces the incentives

Table 2: Opportunities for improving purchasing practices during the six stages of the procurement cycle (adapted from ETI Guide to Buying Responsibly)

Stage of the procurement cycle	Potential negative impact	Improvement
1. Sourcing strategy and criteria for partnering with suppliers	Power imbalance leaves workers vulnerable, particularly women.	Building long-term partnerships with suppliers with commitment to improving labour conditions.
2. Forecasting and product development	Excessive over time, irregular hours, harsh treatment.	Develop accurate information about the supply chain.
3. Price negotiations	Pressure on workers' wages, poor health and safety.	Have open discussion about labour costs to pay workers sufficiently.
4. Contractual terms	Improving labour conditions may be overlooked, exposing workers to poor conditions.	Include terms in contract explicitly to improve labour standards with clauses to determine how suppliers are paid and how suppliers pay workers.
5. Order placement, production and lead times	Excessive over time, irregular hours, harsh treatment.	Take direct delivery of goods, not through intermediaries. Avoid short lead times.
6. Assessing impact	Opportunity to improve conditions for workers.	Two-way evaluation process: supplier to evaluate buyer practices. Gather views from worker representatives.

66 Katherine Early, *The Joint Ethical Trading Initiatives' Guide to Buying Responsibly* (2017), available at: https: //www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf

67 Marsha A. Dickson, "Better Buying: Purchasing Practices Performance in Apparel, Footwear, and Household Textile Supply Chains," *Index Report* (Better Buying: Spring 2018), available at: www.betterbuying.org.

for free riding. Encompassing interest groups thus need to collaborate to achieve collective action and sanction free-riding.

Examples of collaborative initiatives include:

- The Sustainable Apparel Coalition, for example, came about after the Rana Plaza clothing factory disaster, "through an unlikely partnership between Walmart and Patagonia" who jointly created a letter inviting CEOs of leading global companies to come together to develop an index that would measure the impact of their products.[68]
- The Better Cotton Initiative (BCI) operates as a not-for-profit organisation through cooperation with a multi-stakeholder group of organisations, to pursue a better, more sustainable way of growing cotton would look like (called 'Better Cotton').[69] One output is 'The Better Cotton Tracer', which allows for end-to-end traceability for Better Cotton in a closed-loop online environment. BCI was born out of a roundtable initiative by WWF; initially supported by a collective of major organisations including adidas, Gap Inc., H&M, ICCO, IFAP, IFC, IKEA, Organic Exchange, Oxfam, PAN UK and WWF.
- Similarly, in the food sector, initiatives like the Round Table on Sustainable Palm Oil[70] and Sustainable Soy (RSPO) (developed initially by Grupo Maggi, Cordaid, COOP, WWF, Fetrauf-Sul and Unilever).[71]

Although collaborative partnerships have the potential to produce collective action, not all partnerships have been successful.[72] The RSPO is an example of a multi-stakeholder collaborative approach that has been criticised as failing to halt deforestation, protect indigenous communities or improve the lives of plantation workers.[73] According to collective action theory, this may not be surprising as collaboration also provides incentives for free riding, where participants enjoy benefits but shirk collective responsibilities. Thus, institutional design that ensures balancing of stakeholder interests, that prevents free riding and creates accountability is critical to the success of collaborative initiatives.

Interventions at the level of the consumption regime

A further element of sustainable business model innovation is that it creates changes in the consumption regime based on a new customer value proposition. A number of highly successful brands have defeated the argument that radical change is too 'niche' to be viable for the mainstream. They have entered mainstream markets and distribution channels despite a radically alternative business model (Tony's Chocolonely, Divine Chocolate, CaféDirect, Dr. Bronner, Nudie Jeans, Patagonia, etc.). These models have proven sceptics wrong that a radically alternative model is necessarily confined to the niche. Here, we highlight two elements: consumer transparency and slow consumption.

Box 5: Bangladesh Accord as collective action

The Bangladesh Accord is an innovative response to the Rana Plaza disaster which brought together 200+ brands, two global union federations and four NGOs to develop better structural, fire and electrical safety in the sector. It has been highly successful, transforming worker safety and health in 1500+ apparel factories.

The Accord is built upon five key features:

Pooling of resources: This overcomes the deficiencies of single brand approaches such as lack of expertise, under-funding of specialised inspections and protocols for follow-up action and remediation. Cost sharing makes governance more accessible especially for smaller buyers with limited resources and reduces incentives for free-riding.

Leverage through collective action: Collective action by a large proportion of buyers provides far greater leverage for effective sanctioning than any buyer would have individually. Effective sanctioning led to the most unsafe factories being temporarily or permanently shut, with remediation efforts monitored in almost all other factories, potentially saving the lives of thousands.

Transnational co-determination: Recognition that worker representatives, and not just representatives of capital, must be included in the design and oversight of transnational labour governance regimes. Inclusion of recognised labour representatives means representation of interests of the agreement's intended beneficiaries: garment workers.

Developing worker voice: The Accord oversees the development of a more comprehensive structure of worker voice in the area of workplace safety, including a goal of joint worker-management safety committees in all factories, and a robust complaints mechanism.

Highly focused approach: The Accord has a narrow focus on building, electrical and fire safety providing much-needed protection of the fundamental human "right to life, liberty and security of person" (UN Universal Declaration of Human Rights, 1948, Art. 3) in an industry that had previously seen a high number of deadly incidents. Focussing on a clear and tangible problem can concentrate actions and resources on delivering more effective problem solving. (For more detail, see appendix 3)

Supply chain transparency is increasingly considered a powerful tool to assert workers' human rights, advance ethical business practices, and build stakeholder trust.[74] A transparent and traceable value chain drives better practices because it

68 "The Sustainable Apparel Coalition," accessed on November 13, 2018, available at: https://apparelcoalition.org/the-sac/
69 "Who We Are," Better Cotton Initiative (BCI), accessed on November 13, 2018, available at: https://bettercotton.org/about-bci/who-we-are/
70 "About Us," Round Table on Sustainable Palm Oil (RSPO), accessed on November 13, 2018, available at: https://www.rspo.org/abou
71 "History," Round Table on Responsible Soy (RTRS), accessed on November 13, 2014, available at: http://www.responsiblesoy.org/about-rtrs/history/?lang=en
72 Frank Wijen, "Means versus Ends in Opaque Institutional Fields: Trading off Compliance and Achievement in Sustainability Standard Adoption," *Academy of Management Review*, 39(3), (2014): 302–323.
73 Helen E. S. Nesadurai, "Food security, the palm oil–land conflict nexus, and sustainability: a governance role for a private multi-stakeholder regime like the RSPO?" *The Pacific Review*, 26(5), (2013): 505-529.
74 Clean Clothes Campaign et al., *Follow The Thread: The Need For Supply Chain Transparency In The Garment And Footwear Industry* (2017), accessed on November 13, 2018, available at: https://www.hrw.org/sites/default/files/report_pdf/wrdtransparency0417_brochure_web_spreads_3.pdf

Box 6: Tony's Chocolonely – Towards slave-free chocolate through transparency

The case of the popular Dutch chocolate brand Tony's Chocolonely illustrates how transparency can be an integral part of a business model. Transparency is at the core of Tony's business model and serves a triple purpose: (1) a core tool for marketing and brand value, (2) a driver for a truly fair value chain, and (3) an inspiration to make 100% slave free the norm in the wider chocolate industry. The business model is characterised by direct sourcing from cocoa cooperatives in Ghana and the Ivory Coast, long-term contracts, fair 'premium' payments to farmers, and a sustainable product positioning.[1] Transparency is innate to the product. The brand seeks to be fully transparent about its price structure, so that consumers can themselves trace the premium payments made to cocoa farmers. To increase transparency not only for consumers but also for producers, Tony's launched 'Beantracker' in November 2016. 'Beantracker' uses ChainPoint platform software that determines the location and quantity of the purchased cocoa beans in real time. The 'Beantracker' collects traceability data alongside other sustainability indicators that help to initiate a continuous improvement process.[2] Producers can use 'Beantracker' to track the journey of their bean stocks until arrival at the port of Antwerp. The extra premium is paid to the cooperative as soon as a sea container arrives in Antwerp: "The cooperative can see this in the 'Beantracker' platform and can tell us, 'Hey you need to pay us our premium!'" [3] (For more detail, see appendix 4)

1 Meike Brehmer, Ksenia Podoynitsyna and Fred Langerak, "Sustainable business models as boundary-spanning systems of value transfers," *Journal of Cleaner Production*, 172 (2018): 4514-4531.

2 Chainpoint, "Tony's Chocolonely introduces 'Beantracker' with ChainPoint technology for more transparency in the cocoa industry," (2017) accessed on October 31, 2018, available at: https://www.chainpoint.com/press-release/tonys-chocolonely-traceability-cocoa/

3 "Tony's Chocolonely Annual Report 2016/ 2017," accessed on September 12, 2018, available at: https://tonyschocolonely.com/storage/configurations/tonyschocolonelycom.app/files/jaarfairslag/2017-2017/tc_jaarfairslag_2016_en_totaal_01.pdf

challenges companies to own the practices that are made visible in real-time. Many of the new forms of human rights legislation and agreements discussed utilise transparency as a mechanism to minimise human rights risks in supply chains, including the California Transparency in Supply Chains Act 2010 or the UK's Modern Day Slavery Act 2015. This move to greater transparency legally challenges companies to know their supply chain beyond their tier-1 suppliers and covers large parts of the supply chain, up to the excavation of raw materials. Beyond managing risks, supply chain transparency can be leveraged as an opportunity to establish consumer trust and strengthen brand integrity, as well as building more direct relationships with suppliers.

Transparency trends in the garment and food supply chains

- Chiquita and Shazam. Chiquita utilised shazam stickers on their banana labels in 2018 throughout North America and Europe to give customers a virtual reality tour of their farms and operations. [75]
- While initially considered sensitive business information, a growing number of global apparel companies have begun publishing supplier factory information. The first was Nike in 2005 followed by Levi Strauss, Patagonia, H&M, C&A, G-Star Raw and a range of others. Some new companies like MUD Jeans (a circular leasing model) go for simplicity, flexibility and transparency, working with just one manufacturer and one recycler to ensure close contacts and quality control.
- Nike's global manufacturing map digitally maps out Nike's independent factories and material suppliers, including information on the number and type of workers involved in manufactured Nike products.[76]
- Nudie Jeans' interactive production guide digitally maps out the Swedish firm's global suppliers, subcontractors and transportation information. It also provides an audit summary on the website and shared full audit reports on request.[77]
- Patagonia's Footprint Chronicles® web page provides a map of the textile mills and factories that make its products, with details about each available on drilldown pages.
- The Belgium-based fashion company HonestBy provides a complete description of every material used in the construction of an item of clothing: clothing choices can be filtered according to criteria like recycled or origin, including high levels of detail on supplier such as the number of employees and how long it took to cut and to iron the garment. It provides a cost breakdown specifying the cost of each product, including fabrics, zippers, and cotton thread to wholesale and retail markups. Founder and designer Bruno Pieters has called HonestBy "the world's first 100 percent transparent company".[78]

Unsustainable consumption

There is also overconsumption of garments and food. A survey in Great Britain found that 82% of adults have regretted a purchase in the past.[79] As a result, workers work overtime on poverty wages to produce clothes that are hardly worn or produce that gets wasted.

The narrative of fast fashion's contribution to 'democratising fashion' for the ordinary consumer has recently come under attack.

- While total global clothing production has doubled in the past 15 years, clothing use (number of wears per item) has dropped by 36%.[80] It is estimated that on average British people are

75 Robert Williams, "Chiquita, Shazam partner on AR/VR banana experience," (Mobile Marketer, July 2018), available at: https://www.mobilemarketer.com/news/chiquita-shazam-partner-on-arvr-banana-experience/527740/

76 "Nike Manufacturing Map," available at: http://manufacturingmap.nikeinc.com/

77 "Nudie Jeans Production Guide," available at: https://www.nudiejeans.com/productionguide/

78 Oliver Horton, "Breaking Down the Bill," *The New York Times* (February 2012), accessed on November 2, 2018, available at: https://www.nytimes.com/2012/02/28/fashion/bruno-pieters-creates-a-financially-transparent-fashion-label.html

79 Alexandra C. Skelton, and Julian M. Allwood, "Questioning demand: a study of regretted purchases in Great Britain," *Ecological Economics*, 131, (2017): 499-509.

80 "A New Textiles Economy: Redesigning Fashion's Future," Ellen Macarthur Foundation (November 2017), accessed on November 5, 2018, available at: https://www.ellenmacarthurfoundation.org/assets/downloads/publications/A-New-Textiles-Economy_Full-Report.pdf

buying twice as many items of clothing as they did a decade ago and three in five garments end up in landfill or incinerators within a year,[81] sometimes without ever having been worn.[82]

- A 2016 survey by M&S and Oxfam[83] revealed that 3.6 billion clothes are left unworn in UK consumer's wardrobes – an average of 57 items per person, or over one-third of the average wardrobe.
- An estimated £140 million worth of clothing are dumped in landfills each year.[84] Many items made from cheap fabric are not designed to last much longer either, having inspired the term 'disposable fashion'.
- Even luxury items are deliberately destroyed without ever being worn. Designer fashion label Burberry was reported to have burnt £28million worth of clothes in 2017 and over £90million over five years.[85]

Similarly, food waste has become a growing problem.[86]

- Roughly one third of the food produced in the world for human consumption every year gets lost or wasted.[87]
- In developing countries 40% of losses occur at post-harvest and processing levels, e.g. due to constraints in harvesting techniques and storage and cooling facilities, while in more developed countries over 40% of losses happen at retail e.g., due to quality standards that over-emphasise appearance, and consumer behaviour.[88]
- The retail model focused on discounting and bulk buys does not only lead to food waste, it also leads to overconsumption.[89]

Box 7: Slow fashion: Nudie Jeans

Nudie Jeans (founded in 2001) combines fair, transparent and sustainable sourcing[1] with an alternative approach to consumption. Rather than fast fashion, the consumption model is based on slow fashion: The Swedish denim brand seeks to change the way people consume jeans. The core product is a raw denim pair of jeans, which customers need to 'break in', that is, wear for at least six months without washing. Nudie's Palle Stenberg explains the slow fashion model of making your own pair of jeans by breaking them in:

> *Buy a pair of organic jeans, never wash them and you wear them and wear them and wear them and they become like a second skin. You save water because you're not washing them too… It's about how long you can make a single pair of jeans last. (Palle Stenberg, Nudie Jeans)*[2]

Even though a pair of a 100% sustainably sourced, organic cotton Nudie Jeans typically costs £100 upwards, a consumer only needs a single pair of jeans and the garment becomes more fashionable the longer it is worn. The jeans become personalised as they develop distinct patterns, holes and unique lines moulded to one's body and reflecting one's daily activities. Nudie Jeans celebrates worn-out, personalised pairs by proudly exhibiting them in their stores and featuring user stories on its website ("worn for 13 months washed 1 time"). The idea of prolonging the life of jeans is reflected in Nudie's brand philosophy, which is based on the Eco Cycle: *Repair, Reuse, Recycle*. Its stores are not called stores, but 'Nudie Jeans Repair Shop'. Nudie offers free repairs done in-house in its 21 stores worldwide, ships repair kits for at-home repair and resells second-hand Nudie Jeans.

To produce jeans, Nudie deliberately uses few, carefully selected and mainly European suppliers, with whom it builds long-term relationships. In 2012 it started a Living Wages initiative with a key supplier Armstrong knitting mill in Tirupur, India, to whom it pays higher prices to support living wages. Nudie has since convinced two other brands sourcing from the same factory to do the same, and expanded the initiative to the spinning mill and another Indian supplier, Suvastra, located in Bangalore. Nudie's example illustrates a business model which is both socially and environmentally sustainable and allows consumers to be 'cool' and fashionable while slowing down consumption.

1 Egels-Zandén, N., & Hansson, N. 2016. Supply Chain Transparency as a Consumer or Corporate Tool: The Case of Nudie Jeans Co. Journal of Consumer Policy, 39(4): 377–395.

2 The Guardian, "A Swedish denim label wants to change the way we wear our jeans," accessed on September 12, 2018, available at: https://www.theguardian.com/sustainable-business/nudie-swedish-denim-label-jeans

81 Roger Harrabin, "Fast Fashion is harming the planet, MPs say," BBC News, 5 October 2018, accessed on November 2, 2018, available at: https://www.bbc.com/news/science-environment-45745242

82 Research by TRAID reveals that 23% of Londoner's wardrobes are unworn. Andrea Speranza, "123 million clothes in London unworn," accessed on November 2, 2018, available at: https://www.traid.org.uk/123-million-clothes-in-london-unworn/

83 "3.6 billion clothes left unworn in the nation's wardrobes, survey finds," Oxfam Press Release, accessed on September 26, 2018, available at: https://www.oxfam.org.uk/media-centre/press-releases/2016/06/over-three-billion-clothes-left-unworn-in-the-nations-wardrobes-survey-finds?cid=aff_affwd_oos_id78888&dclid=CJfIjMOYzN0CFczjGwodyNIAvw

84 "Valuing Our Clothes: the cost of UK fashion," The Waste and Resources Action Programme (WRAP), July 2017, accessed on November 2, 2018, available at: http://www.wrap.org.uk/sites/files/wrap/valuing-our-clothes-the-cost-of-uk-fashion_WRAP.pdf

85 "Burberry burns bags, clothes and perfume worth millions," BBC News, July 2018, accessed on September 26, 2018, available at: https://www.bbc.com/news/business-44885983

86 "Food and Drink: The Issues," Waste and Resources Action Programme (WRAP), accessed on October 30, 2018, available at: http://www.wrap.org.uk/food-waste-reduction

87 "Key facts on food loss and waste you should know!" SAVE FOOD: Global Initiative on Food Loss and Waste Reduction, Food and Agricultural Organization of the United Nations (FAO), accessed on November 2, 2018, available at: http://www.fao.org/save-food/resources/keyfindings/en/

88 "Key facts on food loss and waste you should know!" SAVE FOOD: Global Initiative on Food Loss and Waste Reduction, Food and Agricultural Organization of the United Nations (FAO), accessed on November 2, 2018, available at: http://www.fao.org/save-food/resources/keyfindings/en/

89 Alexandra C. Skelton, and Julian M. Allwood, "Questioning demand: a study of regretted purchases in Great Britain," *Ecological Economics*, 131 (2017): 499-509.

Radically slowing consumption: some pursuits

- Outdoor (clothing) company Patagonia has experimented with a zero-growth model.[90] Its 2011 'don't buy this jacket' advert in the New York Times aimed to raise awareness of overconsumption on Black Friday.
- People Tree (using organic cotton, sustainable materials and traditional skills that support rural communities) promotes slow fashion through quality ethical garments. For People Tree, slow fashion "means standing up against exploitation, family separation, slum cities and pollution – all the things that make fast fashion so successful."[91]
- Ninety Percent, which is sharing 90% of its profits between charitable causes and those who make their collection happen, aims to inspire a consumer movement that empowers makers and wearers.[92] The distributed profit model seeks to combat fast fashion and sell products that are responsibly made, empowering consumers by letting them decide which charity receives their profits.
- The food equivalent of slow fashion is 'Slow Food', which was "founded in 1989 to prevent the disappearance of local food cultures and traditions, counteract the rise of fast life and combat people's dwindling interest in the food they eat, where it comes from and how our food choices affect the world around us." [93]
- Building on the trends of home delivery, organic food boxes have emerged that encourage more sustainable and less wasteful, food consumption behaviour. For example, organic vegetable box company Abel and Cole (founded in 1988, but since 2012 owned by family business William Jackson Food Group) aims to be ethical, sustainable and local in its produce. Its recipes also help consumers reduce food waste. Its business model focused on relatively small-scale, organic, seasonal food, to avoid use of chemicals and support local communities and promote workers' rights.[94]
- Organic food delivery company Riverford Organic Farmers, pursues an employee ownership model, where employees have shares in the company, in combination with its local organic produce model.[95]
- Building on trends of 'peer-to-peer' and transparency, companies such as 'CrowdFarming', have emerged, making direct links between farmers and consumers. Consumers receive food directly from its source, to understand who cultivates what they eat, where it comes from and how it is produced. CrowdFarming seeks to provide a "new democratic, honest and transparent food supply chain which creates a direct link between consumers and the producers".[96] Examples of produce offered include olive oil from Spain and cheese from France, producers can be supported by adopting an olive tree or a cow respectively and in return, the consumer receives produce. This creates a highly transparent connection between producer, the product and the consumer, and promotes quality over quantity.

Interventions at the level of the production regime

Interventions at the level of the production regime concern those that make changes to the way production is organised. This is where most 'traditional' CSR practices, such as codes of conduct as well as voluntary programmes, have been focused. But as outlined, the CSR approach has generally not been successful in achieving significant change in labour standards, mainly because it fails to challenge the existing relationship between the various regimes in the business model. Strengthening industrial relations at the production level brings greater promise in empowering workers.

Generally the development of industrial relations is based upon governments acting as regulators and legislating for rights such as freedom of association and collective bargaining. But as outlined above, this is often lacking in many developing economies due to their pursuit of inward investment from multinationals. As such, while far from ideal, retail companies have the potential, alongside Global Union Federations and the International Labour Organization (ILO), to play a central role in developing worker representation. In addition to the Bangladesh Accord and Global Framework Agreements, initiatives such as ACT (Action,

Box 8: Developing an Industrial Relations approach

The Industrial relations approach can be thought of as being based upon four key principles:

- Recognition that the interests of workers and managers may at times diverge and each side recognising the legitimacy of each other's interests;
- Acknowledging that workers need independent democratically elected agents through which they can seek to deliver on their own interests;
- Where possible parties should seek to reconcile differences of interest through information, consultation and negotiation;
- As a last resort, workers have the right to withdraw their labour to pursue their interests.

As discussed in the appendix, GFAs are central tools in developing supply chain industrial relations. The fruit company Chiquita has had a GFA with the IUF and COLSIBA since 2002, and one with IndustriALL since 2018. It has an average trade union density rate of 71%.[1] In 2016 it recognised 34 different worker representative bodies across the four countries where it owns farms and reports that it held over 1306 separate meetings with these bodies. Its complaint resolution rate for over 2000 lodged complaints was 90%. Chiquita's farms are all SA8000 certified, as part of which wages are assessed against a living wage benchmark. In 2017 Chiquita reported that it pays on average 56% greater wages (incl. benefits) than the living wage benchmark. The example shows that the presence of long-term industrial relations enhances not undermines the ability to be commercially viable. (For more detail, see appendix 5)

1 Chiquita "Sustainability Report 2016-2017," accessed on November 13, 2018, available at: https://www.chiquita.com/sites/default/files/2017-10/Chiquita_Sustainability_Report_2016_2017.pdf

90 Yvon Chouinard, *Let My People Go Surfing: The Education of a Reluctant Businessman* (New York: Penguin Books, 2006).
91 "People Tree, Sustainable and Fair Trade Fashion," accessed on November 2, 2018, available at: https://www.peopletree.co.uk/about-us/
92 "About us," Ninety Percent, accessed on November 2, 2018, available at: https://www.ninetypercent.com/about
93 "About Us," Slow Food, accessed on November 2, 2018, available at: https://www.slowfood.com/about-us/
94 "About Us," Abel&Cole, accessed on November 2, 2018, available at: https://www.abelandcole.co.uk/about-us
95 Sarah Butler, "Staff ownership ensures organic veg firm Riverford doesn't forget its roots", *The Observer*, April 2018, accessed on November 5, 2018, available at: https://www.theguardian.com/business/2018/apr/07/riverford-organic-veg-employee-ownership-plan
96 "CrowdFarming," accessed on November 2, 2018, available at https://www.crowdfarming.com/en

Collaboration and Transformation) and programmes to develop social dialogue in factories are key areas where retailers can take initiatives to develop a better approach to industrial relations. Central to this is the need for independent worker representatives and where freedom of association rights are threatened, often most power can be derived when brands threaten to terminate relationships unless this right is secured. Our previous research highlights that in these situations, brands were the key leverage over recalcitrant suppliers.[97]

Wider trends: Regulatory intervention

There has been a growing "business and human rights movement" demanding that companies respect human rights in their activities and throughout their global value chains. Voluntary 'soft' law standards have thereby increasingly turned into universally applicable principles and been gradually incorporated into national legislation. A key moment was the endorsement of the United Nations Guiding Principles on Business and Human Rights (UNGPs), also known as 'Ruggie Principles', by the UN Human Rights Council in 2011. The UNGPs are voluntary 'soft' law standards because they do not create legal obligations. Non-compliance cannot be penalised per se by national or international courts. But the UNGPs have presented both a source of inspiration and frame of reference for national law makers as well as a created a new normative standard in business conduct. These new legal and normative expectations create a heightened risk for companies that do not respect human rights in their activities and global value chains, a risk which is not only reputational but increasingly also legal, operational and financial.[98]

In the UK context, even though there are no legally binding requirements to conduct due diligence on supply chains or criminal or financial penalties for non-compliance associated with the Modern Slavery Act, it is clear that business and human rights requirements are increasing and that companies have to rethink seriously their CSR approach to strengthen their approach to human rights. Governments can thus help by regulating to provide a level playing field that prevents a wider spiral of negative impacts and helps to advance business beyond incremental innovations.

- First adopted in 1976 and last updated in 2011, the **OECD Guidelines for Multinational Enterprises** are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.
- Created in 2000, the **United Nations Global Compact** (UNGC) compels its members to comply with 10 principles.
- In 2008, UN-appointed Professor John Ruggie proposed the **'Protect, Respect and Remedy' framework**, consisting of
  1. a state duty to protect human rights,
  2. corporate responsibility to respect human rights by not infringing these rights and remedying any adverse impacts which they may have caused or to which they may have contributed,
  3. access by victims to effective remedy, judicial and non-judicial.
- In 2010, the U.S. Congress passed the **'conflict minerals' provision** (Section 1502 of the Dodd Frank Act), which requires U.S. publicly-listed companies to file reports with the SEC disclosing their use of conflict minerals (tantalum, tin, gold or tungsten) from the DRC and neighbouring countries.
- Endorsed in 2011**, United Nations Guiding Principles on Business and Human Rights** (UNGPs, also known as 'Ruggie Principles') consist of 31 guidelines aiming to implement the UN 'Protect, Respect and Remedy' framework.
- Becoming effective in 2012, the **California Transparency in Supply Chains Act (2012)** requires retailers and manufacturers to provide consumers with information regarding their efforts to eradicate slavery and human trafficking from their direct supply chains.
- Adopted in 2015, the **UK Modern Slavery Act** requires companies to produce annual statements on the steps taken to ensure that modern slavery and human trafficking do not take place in their own operations or supply chains.
- In 2016, **ETI's Due Diligence Framework** was created to help companies to meet their corporate responsibilities to respect the human rights of those who are employed within global supply chains, and report against these obligations.
- Created in 2016, the **Dutch Agreement on Sustainable Garments and Textile** commits the Dutch signatory companies (about 65) to work with trade unions, NGOs and the government to improve working conditions and/or wages in textile-producing businesses as well as animal welfare and environmental protection.
- Adopted in 2017, the **OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector** establishes a common understanding of due diligence in the sector to help companies meet the due diligence expectations laid out in the OECD Guidelines for Multinational Enterprises.
- In 2017, the French National Assembly adopted the '**duty of vigilance**' or 'duty of care' law ('loi de vigilance') which requires companies to establish and implement a diligence plan as stated in the UNGPs to prevent serious harm resulting from the activities of the company, the activities of companies they control and the activities of sub-contractors and suppliers on whom they have a significant influence.

97 Juliane Reinecke, Jimmy Donaghey, and Davinia Hoggarth, *From social auditing to social dialogue: implementing workplace social dialogue in the Bangladesh Garment Industry*, Warwick Business School, University of Warwick, Coventry, UK, (2017), available at: https://www.wbs.ac.uk/wbs2012/assets/PDF/downloads/research/SDReport_June2017.pdf; Jimmy Donaghey and Juliane Reinecke, "When industrial democracy meets corporate social responsibility—A comparison of the Bangladesh Accord and Alliance as responses to the Rana Plaza Disaster," , 56, no. 1 (2018): 14-42.

98 Stéphane Brabant, and Elsa Savourey, "French law on the corporate duty of vigilance: A Practical and Multidimensional Perspective," *Revue Internationale De La Compliance Et De L'éthique Des Affaires – Supplément À La Semaine Juridique Entreprise Et Affaires N° 50* (14 December 2017), available at: https://www.business-humanrights.org/it/node/170630,

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Implications

This report has focussed on the core drivers of downward pressures on workers' rights within business models and has identified positive opportunities to change business models in ways that relieve that downward pressure. It is clear that current business models are not socially, environmentally or even economically sustainable. Workers' rights across food and clothing supply chains are in peril. The food and apparel industries seem to be stuck in a conundrum–all stakeholders feel squeezed and making changes at one end of the chain has implications in an interconnected supply network. In particular, this seems the case for large established businesses in fast-paced and competitive environments suffering from downward price spirals.[99] Sustainable business model innovations in large business and start-ups are needed, bringing about changes to both modes of consumption and production. Table 3 outlines the elements of sustainable business model innovation according to whether they involve radical business model redesign or incremental business model innovation.[100]

Business model adaptation

Business model adaptation describes incrementally changed business models, generating adjustments in existing practice or adoption of new practices and products without fundamentally changing the model of value creation and profit generation.[101] Due to corporate structures and dominant existing business models, large businesses may find it challenging to transform business models radically. **Business model adaptation** thus describes incrementally changed business models, generating adjustments in existing practice or adoption of new practices and products without fundamentally changing the model of value creation and profit generation. They include changes to supply chain practices such as sourcing sustainably certified products or collaborating with other stakeholders on collectively improved practices.

In established business, most of the innovation appears to happen within the competition and production regimes. Rather than radically changing the proposition to the consumer or profoundly transforming the business model, such changes create a level and more transparent playing field for those involved. Mainstream business models may be adapted through the creation of what economic sociologist Wolfgang Streeck labels 'beneficial constraints'. Beneficial constraints explain how businesses can win a 'race to the top'. By placing constraints on the pursuit of a strategy to 'race to the bottom,' Streeck argues that companies are forced to innovate through developing in terms of quality rather than quantity of production. Thus a key feature of beneficial constraints is that they remove factors from intra-firm competition. Our research indicates that incremental change to business models can only bring sustainable change to workers if 'beneficial constraints' are placed upon them. Examples include a high minimum wage, employment protection, trade unions, legal institutions of workplace participation. However, while these social arrangements are initially perceived as constraints on profit-making businesses and resisted by economic actors, Streeck[102] argues that, counter-intuitively, they can become pillars of competitive advantage: Capitalist entrepreneurs creatively turn social constraints into economic opportunities, become more innovative and increase labour productivity. Within the apparel sector, the Bangladesh Accord, which is quasi autonomous from its members and has the capacity to seek legal enforcement acts in this way.

Business model redesign

Creating a fully sustainable business model involves radical changes to the way business is conventionally done, or **business model redesign**. It is about developing sustainable businesses that rethink the way value is created (rethinking both the consumption and the production regime), why value is created (rethinking the shareholder regime) and how it is created (rethinking the competition regime). For instance, a sustainable ownership model could mean a producer owned cooperative, perhaps a Certified B Corporation that balances purpose and profit, such as Patagonia or members of the World Fair Trade Organization who commit to putting fair trade at the heart of the business model. A radically new customer value proposition includes, for instance, the move from ownership to functionality (e.g., borrowing rather than buying clothes), or from fast to slow consumption.

Start-ups have the opportunity to suggest and proceed with a completely radical new starting point. The number of successful

Table 3 The elements of sustainable business

	Examples
Business model redesign (typically at level of consumption and shareholder regimes)	**Creation of radically different models**, for example, supported by different ownership models (e.g. employee owned) and transforming shareholder roles (e.g. B-corporations) or moving away from the dominant business paradigm (e.g. slowing consumption)
Business model adaptation (typically at level of competition and production regimes)	**Small changes in the business model**, like changing purchasing practices, and collaborative initiatives to resolve common industry issues

99 Karen Miller, "Visionary leadership: learning from exemplary organizations," in Allesandra Vecchi and Chitra Buckley (eds.), *Handbook of research on global fashion management and merchandising*, IGI Global (2016), 1-32.

100 Lorenzo Massa, Christopher L. Tucci, and Allan Afuah, "A critical assessment of business model research," *Academy of Management Annals*, 11(1) (2017): 73-104.

101 Florian Lüdeke-Freund et al., Business Models for Shared Value: How Sustainability-Oriented Business Models Contribute To Business Success and Societal Progress, (Cape Town, South Africa: Network for Business Sustainability, 2016).

102 Wolfgang Streeck, "Beneficial constraints: on the economic limits of rational voluntarism," *Contemporary capitalism: The embeddedness of institutions*, (Cambridge: Cambridge University Press, 1997), 197-219.

start-ups is on the rise, e.g., the number of 'unicorns' (start-ups valued at over $1bn) has reached over 50 in 2017 (and was only 5 in 2009).[103] While not exactly unicorns, emerging businesses such as Tony's Chocolonely and Union Coffee illustrate that sustainable business models can grow successfully. 'Scale up' of new ideas can also happen through mergers and acquisitions or simply imitation or replication of business models by incumbents.[104] Union Coffee's premium coffee model taps into a business opportunity for speciality coffee, while addressing social issues in value chains. Tony's Chocolonely was initiated by a journalist, who, through investigating the chocolate industry found that even Fairtrade could not abolish all slavery and child labour. While the company still experienced issues in its own supply chains, its brand stands for eradicating slavery and inequality in the chocolate industry worldwide by creating a movement which combines a social mission with a quality product. Similarly, Divine Chocolate pursues a social mission by changing the ownership model. It has a certified B Corporation whose shares are also co-owned by the Kuapa Kokoo cocoa farmers' co-operative in Ghana who supplies its cocoa beans.

Business model experimentation: The role of corporate entrepreneurs

There is an important interplay between large established business, responsible for turnover of most consumer products, and new and emerging start-ups bringing in new innovative business model ideas challenging dominant business models.[105] Large businesses have started embarking on experiments to challenge their own business models to better integrate societal and environmental concerns.[106] Business model experimentation focused on trialling several possible new business models and challenging what is mainstream, is regarded not only as a driver to remain competitive but also as a way to achieve greater levels of sustainability.[107] While initially such business models may co-exist with the dominant business model (e.g. online sales along with sales in a physical shop), the new business model might eventually become dominant (e.g., the physical shop becoming less prevalent and acting more as a showroom). Moreover, it is known that start-ups may nudge large business in new directions.[108] Business models initially perceived as niches may eventually become mainstream. New start-ups may be replicated or bought by large established business.

Ben & Jerry's was initially started by friends Ben and Jerry in the 1970s and became a subsidiary of Unilever in 2000.[109] In the 2010s, it became a B-corporation, signing a 'declaration of interdependence'–using the power of business to solve environmental and social problems. This move is also aligned with Unilever's overall sustainability mission. Indeed, Unilever also challenges shareholder perceptions by stopping quarterly reporting. However, more experimentation is needed to develop the right pathways involving several stakeholders in the right way. The following examples illustrate how mainstream retail models can support alternative business models. For instance, Kate Spade assisted in the formation of employee-owned company Abahizi Dushyigikirane Corporation (ADC) in Rwanda in 2013, with the aim of empowering female employees and their communities. ADC produces a line of handbags for Kate Spade & Company, which are marketed under the 'on purpose' label. Similarly, Monoprix in France partnered with Creative Handicrafts, and Danone with Grameen to support alternative business models.

What is central here is that there are clearly a range of both adaptations and innovations which can take place within business models which relieve the pressure on labour standards. Obviously, the more radical approaches may be in themselves more positive and viable businesses have been established on the very basis of their approach to sustainability. This approach will not necessarily be viable for all firms. However, there are some incremental changes which can also have effect. But these changes need to go beyond simply responding to a bad situation to make it less bad, they need to address meaningfully the underlying and systemic problems within the business model.

103 Jeff Desjardins, "The 57 Startups That Became Unicorns in 2017," Visual Capitalist (December 2017) accessed on November 5, 2018, available at: http://www.visualcapitalist.com/57-startups-unicorns-in-2017/

104 Stefan Schaltegger, Florain Lüdeke-Freund, and Erik Hansen "Business models for sustainability: A co-evolutionary analysis of sustainable entrepreneurship, innovation, and transformation," *Organization & Environment*, 29(3) (2016): 264-289.

105 Kai Hockerts and Rolf Wüstenhagen, "Greening Goliaths versus emerging Davids—Theorizing about the role of incumbents and new entrants in sustainable entrepreneurship," , 25 (5) (2010): 481-492; Stefan Schaltegger, Florain Lüdeke-Freund, and Erik Hansen "Business models for sustainability: A co-evolutionary analysis of sustainable entrepreneurship, innovation, and transformation," *Journal of Business Venturing*, 29(3) (2016): 264-289.

106 Nancy Bocken, Cheyenne Schuit and Christiaan Kraaijenhagen, "Experimenting with a circular business model: Lessons from eight cases," *Environmental innovation and societal transitions*, (28) (2018): 79-95, available at: https://doi.org/10.1016/j.eist.2018.02.001

107 Ilka Weissbrod and Nancy Bocken, "Developing sustainable business experimentation capability – a case study," *Journal of Cleaner Production*, 142, Part 4 (2017): 2663-2676.

108 Kai Hockerts and Rolf Wüstenhagen, "Greening Goliaths versus emerging Davids—Theorizing about the role of incumbents and new entrants in sustainable entrepreneurship," *Journal of Business Venturing*, 25 (5) (2010): 481-492.

109 "Our History," Ben & Jerry's, accessed on November 13, 2018, available at https://www.benjerry.com/about-us

6

Recommendations

In this section, we outline recommendations for retailers and other supply chain actors to improve labour standards through a focus on business models.

Retailers

Without doubt, retailers are key actors that need to change their approach to managing supply chain relationships. Retailers need to view CSR type activities not as being something voluntary to enhance their reputation, but as part of the basic price of doing business.

First, retailers should develop a practice of ***business model review*** to examine holistically the effect of their business model on labour conditions. This means they should:

- Review the business model to identify links between business model, purchasing practices and effects on labour conditions in the supply chain;
- Make workers' rights a basic requirement in the business model, not an add-on.

To make workers' rights central, there needs to be an ***integration of commercial and ethical strategies***. In effect, this would mean:

- Retailers need to embed ethical trading standards as a basic requirement in purchasing criteria;
- Commercial leadership needs to consider its personal responsibility and liability when category buyers place contracts for products at the lowest price;
- KPIs must reflect incentives to make purchasing decisions that benefit the workers in the supply chain, rather than simply the benefits to sales and profit in the home market.

Key issues arise from the short term, contractual approach supply chains. Instead, we argue that retailers need to develop ***supply chain partnerships*** so that:

- Buyers seek to work with suppliers as supply chain partners, seeking opportunities for joint value creation, rather than competitive distribution of profits;
- Retailers should be financially responsible for the costs of a significantly up-weighted improvement, monitoring and transparency programme to ensure visibility of workers' rights abuses;
- Retailers support and prioritise suppliers who adopt alternative and ethical business models in long term sourcing relationships;
- Such partnerships support mechanisms for feedback on supplier-buyer relationships, e.g. Better Buying.

A key problem is that the current approach means that CSR and related activities are viewed as areas within the competitive realm. Instead, we argue that rather than an area of competition, it should be viewed as an area of potential pre-competitive collaboration. As such, ***acting collectively to counteract hyper-competitiveness****:*

- In a highly competitive environment, introducing pre-competitive collaboration can help to level the playing field, avoid free riding and stop the downwards spiral;
- Pool resources to realise joint benefits and reduce individual costs;
- Enact beneficial constraints to create real constraints on the mainstream model and as a mechanism to compete on quality rather than price;
- Involve trade unions and NGOs to ensure commitments are credible and address worker interests.

While most retailers' codes of conduct express sentiments about freedom of association, most take a passive approach to this commitment. Instead we argue that retailers should *actively support the* ***development of industrial relations in supply chains*****:**

- Recognise proper Industrial Relations as the most important factor in increasing real wages for workers;
- Involve worker representatives in code enforcement to create meaningful implementation;
- Actively support the creation of democratic worker representation, such as through GFAs;
- Build capacity for both workers and managers to develop a more mature approach to industrial relations (e.g. workplace social dialogue).

Suppliers and producer associations

Collective approaches can be an important approach to lessen downwards market pressures both for suppliers and producer associations. In particular, acting collectively it is possible for producers to create counter-veiling powers to retailers. Collective action by producer groups can raise the bar in their sectors so that compromises in ethical trading and the impingement of workers' rights can no longer play a role in creating a competitive advantage. Such collective action can take the form of

- Developing mechanisms for collective and anonymous feedback on supplier-buyer relationships, e.g. Better Buying;
- Actively engaging in workers' rights.

Investor groups

Current trends in investment are such that short term results can play a significant role in shaping knee-jerk reactions by retailers to send signals to investors. Taking a long-term value creation perspective on investment returns would meant that corporations:

- Recognise that workers' rights violations can create business risks;
- Recognise the amorphous benefits of reputation and PR that may translate into profit gains later.

In addition, a more holistic and engaged approach to investment could use investor voice to support ethical trade and working conditions.

Trade unions

Trade unions are a key body in developing both more socially sustainable and democratic participation in labour standards. As such, they have moved beyond the national model and are of increased importance in global labour governance. International union strategies can move beyond tokenistic solidarities to more materially impactful approaches that have actual effect at the workplace. Such activities include:

- Taking a leadership position in developing global labour governance (e.g. Accord, ACT);
- Embrace new mechanisms that harness brand influence over employers;
- Leverage consumer influence by developing complementary relationships with campaign groups.

An important element of this will be the need for unions to recognise their role to represent labour across the supply chain. Though there are transnational structures in place, to be a meaningful actor in supply chains entails new types of activities for unions and a more prominent role for Global Union Federations:

- Create cross-sector (retail-manufacturing) representation through instruments such as GFAs;
- Collaboration between global union federations;
- Greater linkage between local unions through global union federations.

Civil society groups

Civil society organisations have a vital role in stimulating debates about sustainable business models. In particular, they can:

- Raise consumer awareness about the link between business model, purchasing practices and effects on labour conditions;
- Shift focus onto consumer responsibility for supporting sustainable business models rather than just 'fixing' problems through the CSR approach;
- Campaign for 'slow' consumption–and emphasise 'positive' knock-on effects in other areas, e.g. for health (for food) and well-being (e.g. decluttering for clothing).

Acting collectively:

- Build collaborative relationships with global and local trade unions to support worker representation.

Multi-Stakeholder Initiatives (MSIs)

MSIs have an important role to play in catalysing a shift towards developing sustainable business models amongst their membership:

- Survey existing purchasing practices of members companies, and encourage responsible purchasing practices;
- Identify different business models amongst MSI membership;
- Initiate a working group on sustainable business model innovation amongst MSI members.

To signal the importance of sustainable business models and identify and encourage good practice, it would also be important to integrate a business model perspective into reporting requirements:

- Shift reporting from supply chain human rights disclosure to include commercial practices in annual reporting, including purchasing practices;
- Integrate price transparency into reporting requirements. For instance, a cost break down or percentage of labour costs of select number of products could be included.

Finally, a business model perspective should be integrated into training:
- Develop and offer training courses that focus on sustainable business models.

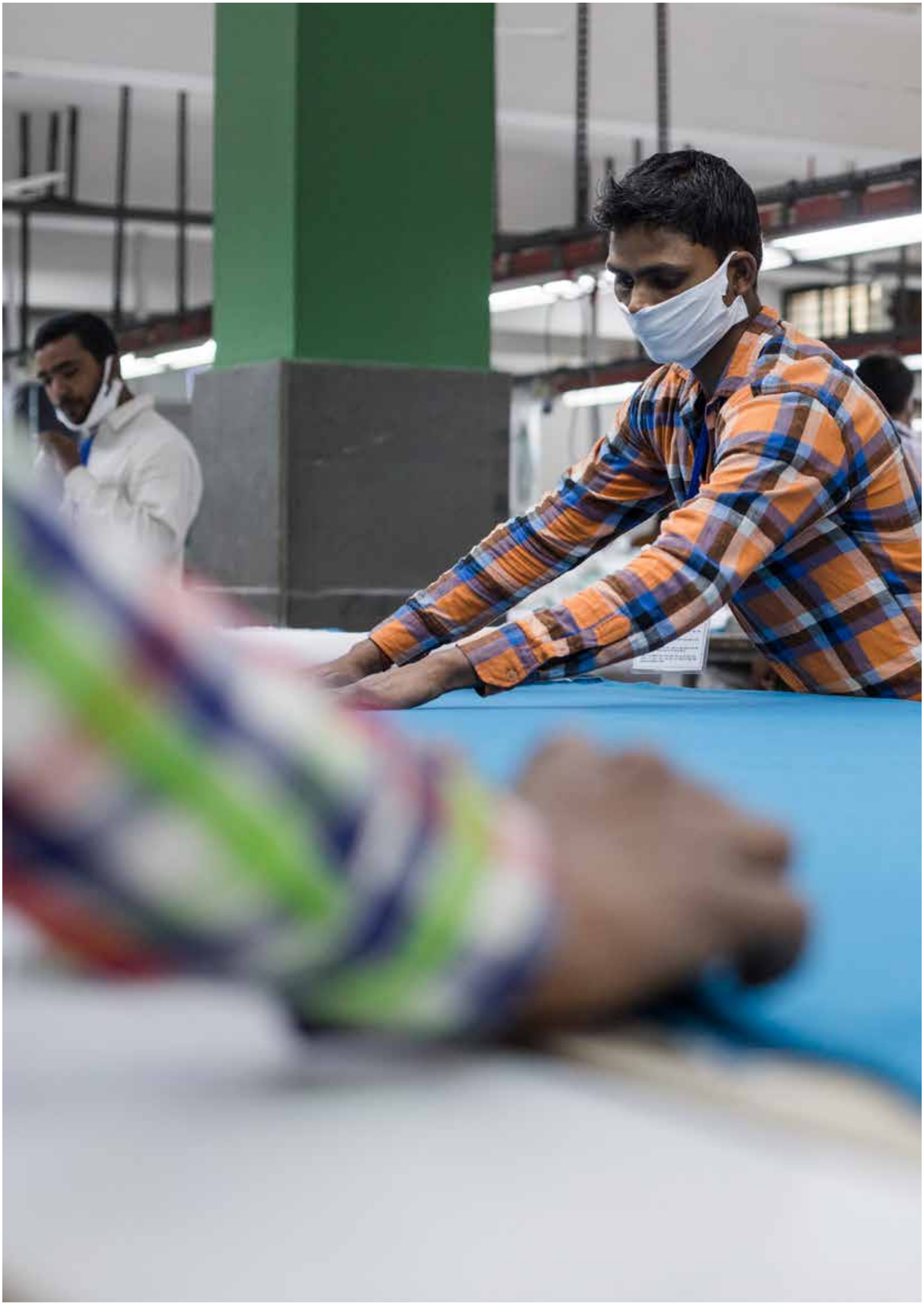
Policy makers

Policy makers have an important role in setting the parameters of corporate decision making. They must seek to create mechanisms to defend against systemic downward cost pressures that impact workers' rights. Without their actions to level the playing field responsible business will always be at a cost disadvantage:

- Create mechanisms to defend against systemic downward cost pressures. For example, ban below cost selling, which has led to an undervaluation of goods, in particular food, by consumers;
- Strengthen provisions around ESG criteria in investment decisions to allow investors to reward sustainable business models;
- Advertising rules should seek to sanction retailers to seek consumer loyalty based on statements of its values, integrity or narrow examples of fair supplier relationships if these do not represent the norm in that business.

As part of the 2019 review of the Modern Slavery Act the UK government should:

- Consider asking business to report on how well retailers enable their supply base to act against modern slavery through its procurement practices;
- Examine financial penalties for not filing returns or obligations to contribute to remediation for victims.



7

Appendices

APPENDIX 1 – Investment regime: Divine Chocolate and co-ownership[110]

Divine Chocolate is an example of a company pursuing an innovative corporate structure that supports its social goals. In 1998, Divine was the first Fairtrade chocolate bar marketed for the mass market in the UK. When the company was first established in 1998, its 99 ordinary shares were owned by three parties: 52% by the Fairtrade NGO Twin Trading, 33% by Kuapa Kokoo farmers' co-operative, and 14% by the international retailer Body Shop International. Supporting social entrepreneurship, Body Shop donated its shares in 2006, leaving Kuapa Kokoo with 45% of the shares, while international development finance institute Oikocredit bought 12% of the shares. International NGO Christian Aid own preference shares and the UK charity Comic Relief supports the company and is also a partner in the Dubble Fairtrade bar, created especially for young people.

Divine Chocolate's unique and innovative business model is thus characterised by a format whereby the main supplier, Kuapa Kokoo, a cooperative of cocoa farmers in Ghana, has a major ownership stake in the company – a first in the Fairtrade sector. "As shareholders, the cooperative's farmers receive a share of the profits from the sale of Divine, as well as significant pride in the co-ownership of a high profile chocolate brand." "Kuapa Kokoo's mission is to empower farmers to gain a dignified livelihood, to increase women's participation and to promote environmentally friendly cocoa cultivation. It offers farmers a fair deal and it operates efficiently, passing savings on to its members. More and more farmers are keen to join the cooperative which has more than 80,000 members who are organised into village groups." [111]

The brand aspires to do justice to its name. Cocoa from Ghana is said to be of a high quality and trades at a premium on the world market. Moreover, Kuapa Kokoo's motto is "pa pa paa" - which means "the best of the best" in the local Twi language.[112] Its premium quality cocoa is now sold to chocolate companies around the world. Major chocolate manufacturers have started purchasing Fairtrade and it is estimated that in 2013 around 11% of all chocolate sold in the UK now carried the Fairtrade mark, showing shifts in the market.

The farmers who own Divine have been driven and proactive about developing their organisation of over 85,000 members: they have invested the Fairtrade premium in developing farming communities and farming skills – focusing on water, health, education and sanitation to improve standards of living.[113] Kuapa Kokoo has also taken a lead on tackling child labour, and is piloting a number of environmental initiatives to improve productivity and adapting to climate change. It is estimated that Kuapa Kokoo produces up to 5% of Ghana's cocoa. Divine chocolate itself is also doing very well, having reported over 40% profit growths in 2016[114] and its sales reached a record 14m GBP.[115]

APPENDIX 2 – Competition regime: Union Coffee shared risk approach

The case of Union Coffee shows how a partnership and direct trade approach can lead to quality of relations as well as quality of products, while sharing risks. Union Coffee is a privately owned British coffee roasting business based in East London, which had revenues of £12.5million in 2017 and is looking to double this in 2018 thanks to its sales to cafes, restaurants and retailers.[116]

Jeremy Torz and Steven Macatonia started Union Coffee in 2001, after having witnessed the impact of volatile markets on the lives of coffee farmers, forced to accept low prices that did not even cover the cost of producing their coffee.[117] Union was founded with the aim of encouraging farmers to produce high-quality coffee (about 25% of our coffee is certified organic) by paying sustainable prices. The name 'Union' originates from the aspired quality of the relationships with suppliers, coupled with the quality of the product. The business model is focused on high quality products, moving away from coffee as a commodity. Through offering quality speciality coffee, a premium can be charged, which trickles down directly to farmers. While the timing was also right for speciality coffee, Union Coffee also thinks it owes its success to direct and close relationships with its coffee farmer partners and creating a positive impact by sourcing coffee produced under conditions that provide correct labour standards.

Union Coffee sources from 14 countries, which cover more than 40 different producer groups, of which about 80% are from smallholder farmers (cooperatives or un-organised). The 'plantation' farms (which they call 'estate coffee') were selected on the basis of their sustainability credentials. They undertake Social Audits at these farms, including worker interviews to verify labour standards.

The extra income from this model helps improve the livelihoods of farmers while raising the quality of their coffee. Its direct trade model has 5 principles:

1. It is clear where, how and by whom your coffee is produced;
2. The farmer receives a fair, sustainable price, always above minimum Fairtrade price (in 2017 on average over 50% above);
3. Coffee comes from farmers committed to sustainable agricultural practices and labour rights;

110 "Inside Divine," Divine Chocolate Ltd., accessed on November 6, 2018, available at: http://www.divinechocolate.com/uk/about-us/inside-divine

111 "Divine Chocolate Ltd: The only Fairtrade chocolate company owned by its cocoa farmer suppliers," Oikoi Credit, accessed on November 6, 2018, available at: https://www.oikocredit.coop/what-we-do/partners/partner-detail/11349/divine-chocolate-ltd

112 "The Divine Story," accessed on November 6, 2018, available at: http://www.divinechocolate.com/uk/about-us/research-resources/divine-story

113 "The Divine Story," Divine Chocolate Ltd., accessed on November 6, 2018, available at: http://www.divinechocolate.com/uk/about-us/research-resources/divine-story

114 Oliver Nieburg, "Divine Chocolate Reports 40% Growth in 2016," *Confectionary News* (July 2017), available at: https://www.confectionerynews.com/Article/2017/07/06/Divine-Chocolate-reports-40-profit-growth-in-2016

115 "Divine Chocolate Announces Highest Ever Revenue, And A Dividend For Its Farmer-Owners In 2016-17 Annual Report," Specialty Food Association Inc., accessed on November 6, 2018, available at: https://www.specialtyfood.com/news/article/divine-chocolate-announces-highest-ever-revenue-and-a-dividend-for-its-farmer-owners-in-2016-17-annual-report-124940/

116 Kalyeena Makortoff, "Union Hand-Roasted Coffee aims to double revenue by cashing in on UK's coffee craze", *Express Newspaper*, accessed on November 14, 2018, available at: https://www.express.co.uk/finance/city/904881/Union-Hand-Roasted-Coffee-roaster-double-revenue-UK-coffee-craze

117 "Our story," Union Coffee, accessed on November 2, 2018, available at: https://www.unionroasted.com/our_story.html

4. Access to unique coffees, through direct sourcing and long-term relationships;
5. Quality: 100% Arabica, specialty coffee.

Its code of conduct addresses workers' rights, as promoted by the Ethical Trading Initiative (ETI) plus coffee relevant certifications and key certification standards. They use 'triangulation' to ensure that labour rights and conditions are respected : checking contracts of employment and whether living or minimum wages are provided; social audits, mostly done by the company directly; interviews with farmers and farm workers, and direct interventions. Even though farmers often only work for 3 months at a time as seasonal workers, the working conditions need to be solid. Where work standards are below the level required, direction discussions are made in interventions with the farmer. For example, sustainability manager Pascale Schuit, set up a programme to develop adequate dormitories, kitchens and places for children to stay when parents are working on the coffee plantations. Children are offered basic education and a safe place to stay away from the plantations. Workers when returning from the plantation sometimes even attend the basic schools themselves. Moreover, workers typically work for longer periods at a time at farms creating a positive virtuous circle.[118]

Risk sharing

The coffee market is highly volatile, and coffee is a commodity that is traded on international markets and exposes small farmers to the volatility of international markets. The coffee market is characterised by concentrated market power of large multinational roasters, while 25 million smallholders depend on coffee for their livelihoods and produce 80% of the world's coffee. These smallholders have little market power and are often forced to sell their green coffee beans below production cost, leading to dire consequences.

Union Coffee breaks through this cycle with high quality produce at a higher price, and offering long-term contracts. They start with a 2-year 'getting to know you' period and typically continue to work with them – sometimes up to 16 years. This gives Union Coffee a huge advantage: a high degree of trust translating into high quality produce, and no contract failures; communication is easy and the supply chain becomes easy to manage; cooperatives also help each other which leads to further benefits. For the farmers it gives more security, especially because part of the harvest is pre-financed and Union Coffee commits to pay for a significant part of the harvest and supports farmers to sell the rest. To manage risks from both sides, Union Coffee only buy up to half the farmers' outputs, not more. To reduce risk for farmers, pre-financing is done for up to 60%, sometimes directly by Union Coffee, but most often through pre-financing firms, like 'Shared Interest'.

The future

This business model does not come without any barriers or threats. The current market is very tough with low commodity prices. Roasters are buying very cheap; they pay less than half of what Union Coffee do. Also, farmers may abandon coffee as it is not profitable to them. However, their quality over quantity approach seems robust and on the plus side Coffee is a vibrant market, with volume increases every year. Union Coffee is optimistic about the future and that the commodity market will eventually transform. The quality of their relationships with farmers and the quality of the coffee itself remain essential for its success. Finally, quality of relations with suppliers and of the product are essential too. Through its approach Union Coffee can reduce risks for all parties involved (economic, social, environmental), while increasing quality. It embodies the 'quality over quantity' principle, focusing on quality of relationships, and quality of products, whilst supporting farmers financially, socially and environmentally through its training programmes.

APPENDIX 3 – Competition regime: Towards collective action & the Bangladesh Accord

In recognition of the need for a collective approach, a number of recent initiatives have evolved which emphasise a collective approach to managing labour standards. Most significantly, the *Accord for Fire and Building Safety in the Bangladesh Ready Made Garment Sector* ('the Accord') emerged from the Rana Plaza disaster. The Accord demonstrates how collective action within the supply chain can remove cost factors such as health & safety from competitive dynamics and pool resources and commercial leverage to create transformational change. The AcPcord has mobilised the collective leverage of over 200 apparel companies and retailers sourcing from Bangladesh to generate unprecedented private collective action for worker safety – with over 89% remediation rate as of September 2018, the Accord has substantially improved worker safety in over 1,600 covered factories involving over 2 million workers.

The Bangladesh Accord: Industry-wide, pre-competitive collaboration

The agreement came into existence on 15th May 2013, just over three weeks after the Rana Plaza disaster, which killed 1129 people and injured a further 2500. The *Accord*'s "purpose is to enable a working environment in which no worker needs to fear fires, building collapses, or other accidents."[119] The agreement consists of six key components:

- A five year legally binding agreement between over 200 brands and trade unions;
- An independent inspection program supported by brands in which workers and trade unions are involved;
- Public disclosure of all factories, inspection reports and corrective action plans;
- A commitment by signatory brands to ensure sufficient funds are available for remediation and to maintain sourcing relationships;
- Democratically elected health and safety committees in all factories to identify and act on health and safety risks;
- Worker empowerment through an extensive training program, complaints mechanism and right to refuse unsafe work.

Below we outline how these features translate into a unique approach to collective action:

118 Rhymer Rigby, "Caffeine for connoisseurs with a conscience," accessed on November 15, 2018, available at: https://www.ft.com/content/ffb446d6-1ac6-11e7-a266-12672483791a

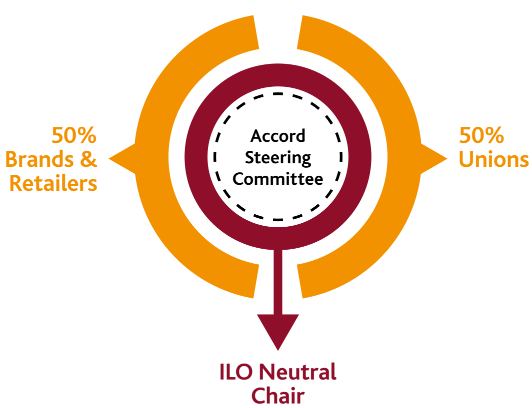
119 The Bangladesh Accord on Fire and Building Safety In Bangladesh, available at: http://bangladeshaccord.org

Pooling of resources: With industry-wide contributions, a collective safety mechanism can fund high-quality inspections with engineering teams specialising in fire, electrical and structural safety. To date, over 3,000 in-depth electrical, fire and structural inspections and over 25,000 follow-ups to discuss and ensure the implementation of corrective action plans (CAPs) and in-depth training of worker safety committees have taken place. Pooling of resources overcomes the deficiencies of single brand approaches such as lack of expertise, under-funding of specialised inspections and protocols for follow-up action and remediation. Cost sharing makes governance more accessible especially for smaller buyers with limited resources and further reduces incentives for free-riding.

Leverage through collective action: Collective action by a large proportion of buyers provides far greater leverage for effective sanctioning than any buyer would have individually. Under Accord rules, when a factory is found unsafe, no signatory brand may source from this factory. Facing the loss of orders from not just one, but a large group of buyers commits the factory to invest in remediation. Effective sanctioning led to the most unsafe factories being temporarily or permanently shut, with remediation efforts monitored in almost all other factories, potentially saving the lives of thousands.

Transnational co-determination: Central to the Accord is recognition that worker representatives must be included in the design and oversight of transnational labour governance regimes (see Figure 13). The Accord Steering Committee consists of equal representation of trade union and company representatives. Rather than promoting common business interests in protecting reputation, inclusion of recognised labour representatives means representation of interests of the agreement's intended beneficiaries: garment workers.

Figure 13: Accord governance system[120]



Developing worker voice: Worker voice is central as it recognises the potentially competing interests of management and workers over core organisational issues. As such, the Accord oversees the development of a more comprehensive structure of worker voice in the area of workplace safety, including joint worker-management safety committees in all factories, and a robust complaints mechanism.

Highly focused approach: The Accord has a narrow focus on building, electrical and fire safety. However, the Accord has done little to increase poverty wages or extend workers' rights beyond safety. In contrast, wide-ranging approaches such as the UN Global Compact on the other end of the spectrum have been criticised for achieving few of their objectives. Focussing on a clear and tangible problem can concentrate actions and resources on delivering more effective problem solving.

Independent agency: While shared standards are not uncommon, what has been a key feature of the collective approach in the Accord has also been its collective enforcement. The Accord foundation, which employees its own staff independent of the sponsoring brands, has the capacity to inspect factories and declare them non-compliant with the agreed standards. By giving the Accord autonomy to pursue legal action against brands which don't live up to their commitments, brands are prevented from walking away from the collective commitment. As such, the autonomy of the Accord from the brands can be viewed as a beneficial constraint on how brands operate within the Bangladesh RMG sector.

The Accord has aggressively enforced its commitments by leveraging the commercial power of its signatory companies, and achieved 89% remediation rate as of September 2018 as shown in Figure 14:

- As of April 2018, it had carried out a total of 25,656 follow-up inspections in a total of 2,055 factories. Inspections up to April 2018 yielded 134,489 findings, with safety hazards present in each and every factory.
- Respondents believe that another large-scale disaster would have been imminent without immediate intervention. The safety concerns of 17 factories were so severe that the Accord recommended a temporary evacuation of the building and referred the case to the government's Review Panel. Another 110 inspections led to immediate actions.
- Most factories lacked fire escapes (97%), had no or a poorly implemented structural load plan (70%), or showed inconsistencies with the structural design drawings (70%).
- As of April 2018, 109 factories were 'terminated', or no longer eligible to supply Accord signatory companies, with a further 656 factories facing escalation measures due to inadequate participation in Accord activities.
- If the initial inspection indicates potential structural weakness, the Accord requires the factory to hire a qualified structural engineer to undertake a structural Detailed Engineering Assessment (DEA), to conduct tests such as concrete strength. As of April 2018, 1,416 factories had to submit DEAs, with 836 being approved by the Accord.
- Aiming at empowering workers to protect workplace safety and refuse unsafe work, the Accord has held 1,137 'All Employee Sessions' to present the Safety Committee and Safety Training Program and has conducted 2,838 Safety Committee Training Sessions for 1,062 participating safety committees.
- The Accord Safety and Health Complaints Mechanism has resolved 197 complaints raised by workers, with a further 124 under investigation. As of April 2018, 1,416 factories had to submit DEAs, with 836 being approved by the Accord.

120 Bangladesh Accord "Infographic," accessed on November 15, 2018, available at: http://bangladeshaccord.org/wp-content/uploads/Accord-Infographic-English.png

Figure 14: Remediation progress[121]

Overall, the presence of the Accord (alongside the Alliance and National Initiative) has radically reduced the number of fatal accidents in the RMG industry, while total export volumes have increased by over 40% since Rana Plaza. As such, this collective approach is about taking a common approach in a pre-competitive stage. There is an obvious danger that similar collective approaches could be used to drive down standards and prices but the inclusion of IndustriAll and UniGlobal is central to ensuring that the collective approach is used for social good as was explained in the previous case.

APPENDIX 4 – Consumption regime: Tony's Chocolonely and Supply Chain Transparency

Case Study of Tony's Chocolonely – Towards 100% slave-free chocolate through transparency

Tony's Chocolonely, the second-largest chocolate brand in the Netherlands, is an example of a business pursuing social sustainability through transparency. Aiming to make chocolate 100% slave-free, the company seeks to tackle a 'market failure' in the chocolate value chain: prevailing forced and child labour. Transparency is at the core of Tony's business model and serves a triple purpose: (1) a core tool for marketing and brand value, (2) a driver for a truly fair value chain, and (3) an inspiration to make 100% slave free the norm in the wider chocolate industry.

In 2003, journalist and co-founder Teun van de Keuken investigated the chocolate industry for an investigative Dutch television programme. During his year-long investigation, Teun discovered that an estimated 20% of all cocoa famers engage in forced or unpaid labour on cocoa plantations. Despite many CSR efforts to address child labour and modern slavery, including Fairtrade premiums, current estimates suggest that in Ghana and Ivory Coast, 2.1 million children are victims of child labour and 90,000 children and adults are subject to forms of forced labour or exploitation.[122] Frustrated with the industry's response and ongoing complicity, Teun and his colleague Maurice Dekkers created the brand Tony's Chocolonely in 2005 – referring to Tuen's (=Tony's) 'lonely' battle against slavery in the chocolate industry. Initially a one-off media stunt, they agreed that only a commercially viable company would provide the most effective platform for raising sustained awareness, leading by example and inspiring others to act.

Tony's Chocolonely's business model is characterised by direct sourcing from cocoa cooperatives in Ghana and Ivory Coast, long-term contracts, fair 'premium' payments to farmers, and a sustainable product positioning.

Transparency at the core of the customer value proposition

The Tony's Chocolonely business has seen revenue growths of 81% between 2012 and 2013, 53% between 2016 and 2017 and a current market share of 16.7% in the Netherlands. The brand has also been launched outside the Netherlands. Its success is driven by a clear costumer value proposition, based on three guiding principles, which combine a social purpose driven by transparency:

- Crazy about chocolate – creating the most delicious chocolate without a 'bitter aftertaste';
- Serious about people – what matters most is people: Tony's company team, farmers, consumers, customers and suppliers;
- Raise the bar – continuously improving its business to stay at the forefront of responsible chocolate making.

The shape of the chocolate bar shows 'unequal pieces', which is visualizing the apparent inequality in (chocolate) value chains. The wrapper informs consumers about the company's mission to engage with farmers as well as other chocolate producers to change the industry.

121 The Bangladesh Accord, "Progress," accessed on October 29, 2018, available at: http://bangladeshaccord.org/progress/
122 Tony's Chocolonely "Annual Report 2016/ 2017," accessed on November 6, 2018, available at: https://tonyschocolonely.com/storage/configurations/tonyschocolonelycom.app/files/jaarfairslag/2017-2017/tc_jaarfairslag_2016_en_totaal_01.pdf (accessed 12 September 2018).

Moreover, Tony's seeks to be fully transparent about its price structure, so that consumers can themselves trace the premium payments made to cocoa farmers.

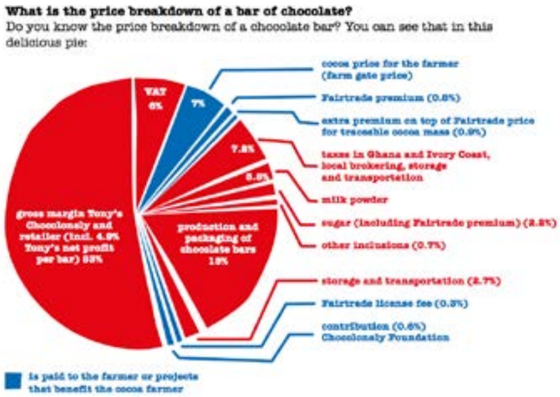


Figure 12: Price breakdown of a Tony's Chocolonely bar[123]

Transparency at the core of the worker value proposition

Not convinced that existing certifications could guarantee 100% traceable, slave-free cocoa beans, Tony's Chocolonely realised that they had to work even more closely with the farmers. Tony's launched the 'bean-to-bar' project in 2012. The aim was to understand the root causes of slavery, as well as prove to bigger chocolate manufacturers that a truly fair and profitable cocoa chain is possible. To build up a network of reliable partners, who would help them realise their vision in the long term, Tony's signed five-year agreements with Fairtrade certified cooperatives Ecookim and ABOCFA in Ghana and Ivory Coast, to give them longer-term income security and make investments and planning possible.[124]

Their sourcing approach includes 5 guiding principles:

1. Source traceable beans - by trading directly with the cooperatives;
2. Offer a higher price – more than just the certification premium to allow for a good living wage (Fairtrade premium plus 'Tony's additional premium');
3. Strong farmers – professionalise cooperative organisations, create economies of scale and create trust and commitment;
4. Long term perspective – offer farmers at least 5 years of sales for a higher price;
5. Better quality and productivity - invest in agricultural knowledge and training to increase yields.

While traceability remains a challenge in commodity supply chains, Tony's cocoa beans are 100% traceable in their cocoa mass, and since November 2016, in their cocoa butter.

To increase transparency not only for consumers but also for producers, Tony's Chocolonely launched 'Beantracker' in November 2016. 'Beantracker' uses ChainPoint platform software that determines the location and quantity of the purchased cocoa beans in real time. The 'Beantracker' collects traceability data alongside other sustainability indicators that help to initiate a continuous improvement process. Producers can use 'Beantracker' to track the journey of their bean stocks until arrival at the port of Antwerp. The extra premium is paid to the cooperative as soon as a sea container arrives in Antwerp: "The cooperative can see this in the Beantracker platform and can tell us 'hey, you need to pay us our premium!'" Tony's Chocolonely estimates that is has positively impacted the lives of 4,318 farmers in West Africa.

In complex contexts, transparency is likely to expose malpractices despite good intentions. For this reason, Tony's admits that they cannot guarantee 100% slave-free, and changed its branding to "*towards* slave free chocolate" (rather than: slave free chocolate). Responsibility then also requires a transparent and open approach in addressing problems that are likely to occur despite good intentions. When Tony's discovered some issues with slave labour on one of their farms, they worked in collaboration with farmers to address them: "We try to be much more present locally and address issues when they come up," as U.S. sales manager Peter Zandee explained.[125]

APPENDIX 5 – Production regime: Creating functional industrial relations

As outlined above, the garments sector has been dominated by a low-cost, highly competitive business model which drives down labour standards. In addition, the relatively low skilled, highly Tayloristic approach to production makes for a workforce which is often short term in nature with high turnover of staff. As such, building stable models of industrial relations is difficult. In addition, many interventions in the sector are based upon a model of international buyers determining what they believe needs to be done for workers, rather than those workers having a voice themselves about what needs to be done. The industrial relations approach can be thought of as being comprised of four key principles:

- Recognition that the interests of workers and managers may at times diverge and each side recognising the legitimacy of each other's interests;
- Acknowledging that workers need independent democratically elected agents through which they can seek to deliver on their own interests;
- Where possible parties should seek to reconcile differences of interest through information, consultation and negotiation;
- As a last resort, workers have the right to withdraw their labour to pursue their interests.

Academic research has consistently demonstrated that no factor is more important to labour standards than proper collective representation and bargaining. Without doubt, it is not simply a coincidence that many retailers source much production from economies where there is a lack of a mature system of industrial relations. Without doubt, the labour economics research

123 Tony's Chocolonely "Annual Report 2016/ 2017," accessed on November 6, 2018, available at: https://tonyschocolonely.com/storage/configurations/tonyschocolonelycom.app/files/jaarfairslag/2017-2017/tc_jaarfairslag_2016_en_totaal_01.pdf (accessed 12 September 2018).

124 Blom, E. M., Burg, E., Verhagen, P., & Hillen, M. (2014). "Tony's Chocolonely. Stichting Social Enterprise NL," accessed 12 September 2018, available at: https://www.social-enterprise.nl/files/1814/4198/0581/Tonys_Chocolonely_Teaching_Case_Version_Beta.pdf.

125 Morgan Rider, "Scaling With Authenticity: An Interview with Peter Zandee of Tony's Chocolonely. March 10, 2016," accessed on November 14, 2018, available at: https://gradybritton.com/food-beverage/tonys-chocolonely-profile-part-1/

highlights that trade unions are associated with higher wages, less inequality, better working conditions, and clear avenues through which they can voice their concerns.

Initiatives established

Global Framework Agreements

Global Framework Agreements are agreements established between individual MNCs and a global union federation that sets out the framework for the conduct of employment relations within that MNC or within their supply chain. Generally, these agreements are built around the MNC headquarters committing to enable the exercise of freedom of association and collective bargaining with the details of the individual sites to be negotiated locally.[126]

According to the ILO,[127] the Global Union Federation, UNiGlobal has GFAs with seven retailers in the food retail sector, including Carrefour SA (France), Takashima (Japan), Shoprite International (South Africa), Metro Group (Germany), Aeon Co (Japan), Auchan Retail (France). The Global Union Federation, IndustriAll which organises workers in the manufacturing sector, has Global Framework Agreements with five retailers in the garment retail sector, including Inditex (Spain), H&M (Sweden), Mizuno (Japan), Tchibo (Germany) and ASOS (UK), three of which are ETI members (H&M, Inditex, ASOS). We will briefly focus on some interesting features in three of these GFAs:

- The Inditex GFA emerged directly out of the Spectrum fire in Bangladesh in 2005 and was signed in 2007. Interestingly, for Inditex, their GFA with IndustriAll which covers non-directly employed workers in their supply chain, pre-dates the 2009 GFA with UniGlobal which covers their own direct employees. The GFA with IndustriAll covers 1.5million workers worldwide working across 50 countries and 7000 factories. Within this framework, IndustriAll and Inditex have run a number of pilot programmes in over 80 factories aimed at strengthening the GFA and moving it beyond a 'rights on paper' approach to include projects aimed at training workers to organise and in areas such as workplace safety.128
- Since 2004, H&M has had a GFA with UniGlobal in place to cover directly employed workers in its retail outlets. This is unsurprising, given the national context of Sweden, where 70+% of workers across the economy are union members. In 2016, H&M took the step of signing a second GFA, this time with IndustriAll to cover workers within the wider supply chain. As part of this agreement, joint monitoring committees composed of H&M and IndustriAll have been established in Bangladesh, Cambodia, Indonesia, Myanmar and Turkey to oversee the implementation of the agreement in factories. These national level committees are seen as providing an important complement to the social dialogue committees being set up in all H&M supplier factories.
- Finally, the ASOS GFA was signed in October 2016 to oversee its supply chain. Two key features of this agreement were a commitment to develop factory level capacity for workers to develop local representation and that annual impact assessments are to be made in terms of the effects of purchasing practices on workers' rights.

What is noteworthy about these three GFAs is that rather than just making vague commitments to respecting freedom of association, all contain key features set up to enable worker representation and to pro-actively support union organising at the factory level. Such a commitment to working with trade unions can have a number of other effects: our earlier research highlighted that the existing links played a central role in the establishment of the Bangladesh Accord.[129]

ACT- Action, Collaboration, Transformation

In many ways, ACT has grown out of the positive features of both GFAs and the Bangladesh Accord, with again both H&M and Inditex playing significant roles in its development. A second example of such a collective approach is emerging through the Action on Living Wages (Action, Collaboration and Transformation) initiative in the area of living wages which grew out of lessons from the Accord. This initiative which currently has twenty member brands is aimed at developing a 'Living Wage' for workers in six countries (Cambodia, Vietnam, Myanmar, Bangladesh, and Turkey). Under this initiative, employers and unions affiliated to IndustriAll are expected to engage in negotiations at a national/sectoral level to determine wage levels in the garment sector in each country. In response, buyer firms agree to maintain purchasing levels from these countries. While the enforceability of ACT is voluntary in nature, by having a significant number of buyer firms involved, it presents to supplier economies a strong bloc who are effectively saying that they require higher wages as a pre-condition to supply. A feature of ACT is that while the focus is on the payment of living wages, it is through sectoral level negotiation in each country that the level of living wages will be determined. As such, the initiative is driven by a desire to move away from top-down corporate determined initiatives to those that are driven through the involvement of national and local actors.

Social dialogue

A second example of the development of an industrial relations approach has been the various programmes developed to create social dialogue in garment factories in Bangladesh. The ETI has been to the forefront of the development of projects in the area of social dialogue alongside other initiatives launched by H&M, Li and Fung, as well as programmes run through the ILO the focus of which has been training workers and managers about principles and practices of social dialogue to create workplace level representation. In addition, by taking a proactive role in the development of such committees, brands create both an expectation that their suppliers engage with these committees seriously but also that there is nothing to fear by engaging with collective worker representation. It should be noted that such committees where workers are drawn from non-union

126 Nikolaus Hammer, "International Framework Agreements: global industrial relations between rights and bargaining," *Transfer: European Review of Labour and Research* 11, no. 4 (2005): 511-530.

127 International Labour Organization, "International Framework Agreements in the food retail, garment and chemicals sectors" (2018).

128 "IndustriALL and Inditex celebrate 10th Anniversary of GFA," IndustriALL, available at: http://www.industriall-union.org/industriall-and-inditex-celebrate-10th-anniversary-of-gfa

129 Juliane Reinecke and Jimmy Donaghey, "After Rana Plaza: Building coalitional power for labour rights between unions and (consumption-based) social movement organisations," *Organization* 22, no. 5 (2015): 720-740.

workforces have been treated with suspicion by some trade unionists. The evidence on whether such committees are substitutes for or embryonic trade unions is mixed. Nevertheless, either situation is preferable to no representation.

Three key lessons emerge from the experience of industrial relations. First, a key change of mindset comes with a recognition of the value of an industrial relations approach. The industrial relations mindset views employment not just as a series of potential 'win-win' scenarios, but where workers and their employers have a set of interests than can be common and a set of interests that may be divergent. As such, inherent to an industrial relations approach is that parties recognise where their interests diverge and the legitimacy of each other's position. A second feature of the industrial relations approach is that power relations are such that workers interests should be represented collectively as a means to even out their power differences. The danger with only viewing the world through seeking 'win-wins' is that where the buyer or supplier does not see direct returns on all expenditure an industrial relations approach may not be pursued, particularly where the approach is worker driven. Recognising that workers have independent interests that may cost business is a fundamental reality of business, without which standards will inevitably be driven downward. Recognition that improvements to rights will not be costless or won't necessarily be accompanied by increases in profitability needs to be central to the development of any alternative approach to business that values labour rights. Thirdly, the industrial relations approach specifically is based around an in-built 'beneficial constraint' in the form of the inclusion of representatives to pursue a worker interest agenda. This means that in the formulation of initiatives and their implementation the parties are not just being motivated by delivering on corporate goals. In addition, by recognising the power of other interests, better quality outcomes on labour can be achieved.

This report was funded by

UKaid
from the British people

The Ethical Trading Initiative (ETI) is a leading alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe. Our vision is a world where all workers are free from exploitation and discrimination, and enjoy conditions of freedom, security and equity.

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