

Effectiveness of International Framework Agreements: an assessment by competence and global value chains

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WORK IN PROGRESS

Abstract

Under the heading of corporate social responsibility TNCs ensure the respect of fundamental social rights by different governance mechanisms, among which international framework agreements (IFAs). As agreements between management of the TNC and workers' organisations, they are considered to be the best alternative to public regulation in order to overcome the regulatory gap that exists in this field. Nonetheless, because of their voluntaristic nature and the lack of a legal framework to give them legal effect, they too are regarded with scepticism and raise many major questions concerning their effectiveness. In this paper we aim to clarify some of the questions by addressing two main issues: competence and governance types within global value chains. Despite the fact that IFAs are concluded in a transnational legal vacuum, it will be shown that the respective actors can still draw on a number of legal and political competences. To what extent they are able to do this depends largely on the governance structure within the global value chain (GVC) of the TNC that signed the IFA. It will be outlined that the governance type of the GVC creates several challenges for the management of the TNC and the workers' organisations. Thirdly, taking these two issues into account we will scrutinize the findings of some theoretical and empirical case-studies, in order to illustrate of the effectiveness of IFAs could be strengthened by competence building and facing the challenges of GVCs.

1. Introduction

In recent years, increased attention has been paid to the role of major corporations in ensuring respect for human rights standards in general and labour standards in particular. On the one hand this growing interest results from the ever-increasing weight of Transnational Companies (TNCs) and their supply chains in the global economy and their respective (potential) influence on human rights and labour standards. According to UNCTAD (2011) the foreign sales, employment and assets of multinationals all continue to increase and their production worldwide generated value added of about a quarter of global GDP. On the other hand, it follows from the rising prominence of human rights and labour standards in the discourse of TNCs, often under the heading of Corporate Social Responsibility (CSR) (Crouch and McLean 2011; Crane et al. 2008). The rise of CSR is exemplified by the emergence of numerous CSR instruments like codes of conduct, certification schemes, international framework agreements and others, outlining and sometimes formalising a firm's social responsibility.

CSR-type initiatives are often portrayed as attempts to redefine and strengthen the social and ethical dimensions of corporate policy and as new, socially just ways to govern both the external relationships and responsibilities of firms and the internal relations with the workers of the firm and its supply chain. They can also be seen as forms of private self-regulation that responds to the gap between the growing role of TNCs and the lack of transnational legislation concerning labour and social issues; or between the existence of national legislation and the capacity of governments, especially in developing countries, to enforce such legislation (Vogel 2008). At the same time, CSR policies are subject to a series of criticisms, ranging from draining resources from 'proper' business activities (e.g. Sternberg 2011), to being 'ethical' marketing devices and expressions of narrow business interests (e.g. Banerjee 2008), to representing ways of engineering new sources of legitimacy, identity and social value of TNCs and to shift the nature of social regulation away from collective to more individual solutions (e.g. Hanlon and Fleming 2009). Also, CSR instruments are regarded with scepticism because of their alleged voluntaristic nature and the absence of a transnational legal framework that could give such instruments a more formal nature and could increase their enforceability (e.g. Ales et al 2006).

The present paper focuses on one of the types of CSR instruments that have attracted much attention in recent years: international framework agreements (IFAs). An IFA is a global instrument governing aspects of labour standards and labour relations within all establishments of a TNC and possibly also (part of) its global value chain. It is not, or not meant to be, a purely business-driven form of CSR but rather a multi-stakeholder form of CSR (cf Brammer et al. 2012) since it concerns agreements between the management of a TNC and one or more bodies representing the respective workers. IFAs are increasingly popular: 23 IFAs were concluded between 1988 and 2002 (a period of 15 years), whereas in the following seven years (2003 to mid-2010) 59 IFAs have been signed (Papadakis 2011, 5). However, major questions remain concerning, for example, the legal and political status of IFAs, the actors that should be involved in their signing, their enforceability or their applicability to suppliers.

In this paper we aim to contribute to clarifying some of these questions by addressing two main issues. One is to get a better understanding of the question of the effectiveness of IFAs by discussing this issue from the perspective of the legal and political competence of the actors involved in the IFA. Whereas IFAs are largely concluded in a transnational legal vacuum, it will be shown that the respective actors can still draw on a number of legal and political competences. It will be argued that the extent to which they do so significantly determines the legitimacy and

effectiveness of IFAs. The other is to unpack the relationship between IFAs and global value chains. Whereas IFAs in most cases emerge from negotiations involving one singular TNC, often they aim to also affect the other companies belonging to its value chain. In total five governance types of global value chains are distinguished, based on, among other characteristics, the degree of asymmetry of power of the lead-company over its subsidiaries, suppliers and subcontractors. From low to high degree of power asymmetry these types are: market-driven, modular, relational, captive and hierarchical. We will argue that the higher the degree of asymmetry of power, the more likely it is that the IFA can be expected to affect the other companies too. More specifically we will address some challenges and opportunities these five governance types offer with respect to competence building by the TNC as well as the GUF. To illustrate this relationship we will scrutinise the findings of some theoretical studies including competence building and some empirical case-studies on the effectiveness of IFAs on the local level.

The structure of this paper is as follows. In the next section we will discuss the relevance of competence building for the effectiveness of IFAs. In section 3 we will describe the legal (section 3.1) and political (section 3.2) means workers and employers can use to enhance their legitimacy and create commitment with the IFA by their affiliates. Section 4 first describes more elaborately the five governance types by which the global value chains of TNCs are regulated. The section continues with a description of the challenges TNCs (section 4.2) and GUFs (section 4.3) are confronted with when building competence in certain types of value chains and finishes with a description of the opportunities they can offer (section 4.4.). This is followed by an assessment of the findings of some empirical and theoretical studies on the effectiveness of IFAs (section 5).

2. Relevance of competence building for the effectiveness of IFAs

IFAs, because of their inherent transnational nature, differ from collective agreements between workers and employers within a national context in that they are not embedded in a legal framework that determines, to some extent, the form or scope of such agreements, their possible content, the actors that can or should be involved in negotiating and signing IFAs, the way the agreements can be enforced, etc. Indeed, IFAs are largely set in a legal vacuum and are in first instance legally non-binding instruments that represent a voluntarist form of self-regulation aimed at strengthening labour standards. Or, in the words of Hepple (2005, 73), CSR-initiatives, including IFAs, are '*voluntary* written commitments to observe certain standards in the conduct of business.' In this way, they have the potential to fill the regulatory and/or enforcement gap left by existing national, European and international labour legislation and labour standards (Szobczak 2009). Their growing importance therefore poses a serious challenge for labour law and industrial relations, which are largely national.

Previous research on IFAs has focused on a number of important dimensions of IFAs. One is charting the IFAs numerical development, content and actors involved (e.g. Hammer 2005; Telljohann et al. 2009; Dimitris 2010). Another is the question of (how to increase) the effectiveness of their compliance structures (Sobczak 2011; Papedakis 2011) and of the possibilities for a European or transnational legal framework to give IFAs legal effect and enforceability (Ales 2006, 2012). Thirdly, a series of company or sector case studies have been made to study the practice and effect of IFAs (e.g. Niforou 2011; Fichter et al. 2012). Finally, IFAs have been studied as to their potential impact on global industrial relations and the motives of both sides of IFAs to engage in signing IFAs (Rijsgaard 2007; Egels-Zandén 2009; refs).

In this section we want to further develop the discussion concerning the (potential) effectiveness of IFAs by linking effectiveness to the legal and political competences of the actors involved. Although IFAs are in essence voluntaristic agreements, they do contain commitments, implying that they are (voluntarily) binding upon those affected by the IFA. Who is affected is determined by the personal scope defined in the IFA. This includes in the most basic form the management (obligations) and workers (rights) of the Transnational Company (TNC) itself, but can also be extended to the management and workers of suppliers, subsidiaries, licensees and subcontractors of the TNC. Of in total 68 IFAs studied by Welz, 69 percent of the IFAs hold a clause that somehow extends the scope of the IFA to the supply chain of the TNC, whereas 31 percent remains silent on the issue (Welz 2011, 55). To what extent management and workers are really bound by the IFA, depends largely on the competence of the parties that negotiated the IFA. That is, it depends on the power the parties involved have to negotiate an IFA on behalf of those affected by the IFA.

The traditional way of providing formal power to negotiate a legally binding agreement is by establishing a legal framework for the conclusion of such an agreement that would give certain actors the power to conclude IFAs with 'legal value and a direct impact on employment relationships' (Ales 2009, 152). However, such a legal framework is unlikely to emerge in the near future. At the global level there is simply no modality to establish such a framework. Attempts to develop a legal framework for transnational collective agreements have been made within the context of the EU but for the moment they have failed and in any case its scope would be strictly European (Zimmer 2012; Keune and Warneck 2006).

Still, the power or competences to negotiate IFAs that are binding upon their affiliates do not derive solely from such a legal framework. We can take as a starting point the fundamental right to collective bargaining as it is established in the core ILO labour standards. This right is not confined to any specific level (company, sectoral, national or transnational) and therefore provides representatives of workers and employers with a basis to develop new forms of collective bargaining (Ales 2009, 152). Consequently, within the framework of the principles of freedom of association, they are inherently competent to bargain on labour rights in IFAs. Secondly, underlying these fundamental rights is the general recognition that representatives of workers and employers are the best actors to represent the interest of workers and employers. In opposite to formal power, one could therefore argue that there exist a power that is based on these fundamental rights and the general recognition that they are the best actors to deal with certain labour conditions. This power has also been indicated as the material power to regulate labour conditions (García-Muñoz Alhambra et al. 2012). This does not however mean that IFAs are automatically producing a binding commitment. Two factors are decisive in the extent to which such a binding effect is created: the actors involved in the negotiation of the IFA and the issues regulated by an IFA.

With respect to the issues regulated by an IFA, the limitation is set by the subjects that are in general accepted as issues to be dealt with by social partners. From the practice it is clear that on the international level, beside the core ILO international labour standards of eliminating child and forced labour, the principle of equality and non-discrimination, and rights to freedom of association and collective bargaining, also the following issues are accepted: the promotion of employment; decent wages; health and safety; training; and restructuring (Hepple 2005, 77; Papedakis 2011, Table 2, p. 247-256). These are also the rights and principles named in the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the OECD Guidelines for Multinational Enterprises (which for labour issues refers to the ILO Declaration), two public

documents that encourage TNCs to observe these rights and principles within their company by making them part of their corporate strategies. Within the European Union, transnational agreements seem to go one step further and not only deal with the core labour standards of the ILO, as they

‘tend to have as their core aim the establishment of partnerships to deal with restructuring, reorganisation and anticipative measures. In addition to the organisation of social dialogue itself, the agreements address specific subjects such as health and safety at work, equality in employment, training and mobility, planning of employment and skills needs, measures to avoid dismissals and accompanying measures in case of restructuring’ (Commission 2012, 4; See also: Rodriguez et al 2011, 75)

Indeed, the scope of IFAs differs substantially, ranging from only the core ILO standards to elaborate agreements on restructuring, investment and development of the workforce. For the moment, the most elaborate agreements are found mainly in the EU and are not only referred to as IFA but also as Transnational Company Agreements (TCAs). The scope of an agreement has implications for the material power of the actors involved. Although for all IFAs building power through legal and political competence is important for their effectiveness, the broader the scope of the agreement, the more important such competences are, since the more elaborate agreements do not only affect the basic rights and conditions of employees, but also the company’s organisation and strategy.

The scope of agreements and the material power of actors are also affected by the issue of the hierarchy of regulations. IFAs are concluded in a context where transnational legislation is largely absent. However, this does not mean that they can agree what they want and that there are no regulations they have to take into consideration or can come in conflict with. Some transnational legislation affecting IFAs does exist, for example the social Directives of the EU that set certain standards for all member states. More importantly, IFAs take their effect within a large variety of national contexts. Here they will have to respect national legislation, which may affect their general competences or their competences on specific issues. Also, they have to take account of existing national, sectoral or company collective agreements. If the stipulations of an IFA are in conflict with such collective agreements it may very well be that the latter trump the IFAs.

All IFAs are in principle susceptible to some sort of hierarchy conflict with existing collective agreements or (national or transnational) legislation (Rodriguez et al 2011, 76-83 and 106-111). However, the risk of such conflicts will be higher the broader the scope of an IFA and the more it creates specific and unconditional rights and obligations. Also, they are likely to be lower the higher the representativeness of the actors involved in negotiating and signing the IFA. This increases the likelihood that these actors can and will coordinate the content of the IFA with other forms of regulation in general and with other collective agreements they are themselves involved in particular.

With respect to the actors involved with the negotiation of IFAs, the basic competence to do so is essentially limited to social partners, i.e. management of the company on the one side and workers’ representatives on the other side. Practice shows that on the workers’ side IFAs are mostly negotiated by European Industry Federations (EIFs) and/or Global Union Federations (GUFs) (*cf.* Rodriguez et al 2011, 61). However, the freedom of association and the right to collective bargaining applies to different levels of management and workers’ representatives. Consequently, all levels are equally entitled to negotiate on work relations. It is important to stress this, because the consequence thereof is that dilemmas of competence are inherent to collective bargaining in a

globalized economic world. Sometimes there are national rules determining which representatives or level is the most appropriate one to deal with which issues in which situation. This is for instance the case in Germany where there are clear rules dividing competences of representation between trade unions and works councils. Also, in a number of countries there exists legislation by which a sectoral collective agreement can render a company agreement null and void when it is extended by the minister of labour to the entire sector, including companies and workers not party to the agreement. This may affect TNCs or companies belonging to their supply chain and hence the capacity to set standards in an IFA. Where there are no national rules in this respect, it is up to national judges to decide what the most appropriate level is to deal with the subject and, consequently, which agreement prevails. Such conflicts become less likely when the actors involved ensure that they have the power to conclude agreements that effectively commit all those covered by the personal scope of that agreement. This may require the involvement on the union side of national unions representing subsidiaries of the TNC or companies in its supply chain. Likewise on the management side it may require the involvement of management of subsidiaries and suppliers.

The effectiveness of IFAs then depends to an important extent on the capacity of actors to cooperate and coordinate their actions vertically and horizontally in a multi-level governance setting (Marks and Hooghe 2004; Keune and Margison 2012; Messner 2002). Vertically, unions at different levels (global, national, local, supply chain) have to cooperate in representing workers in the negotiation and implementation of an IFA. This may raise tensions since they may not always have the same interests and ideas concerning the goals and content of the IFA and there are no hierarchical relationships between them in which higher level actors can impose their view. The same counts for management: within a TNC it may be problematic for headquarters to simply impose an IFA on its subsidiaries, while this is even more complicated in the case of the supply chain. Horizontally, workers' representatives and management need to cooperate with each other but also, depending on the specific IFA, possibly also with public authorities and NGOs. The involvement of public authorities in, e.g. the monitoring of the implementation and effects of an IFA may give the agreement as such more legitimacy. The same counts for NGOs, who can play an important role in exposing the social and environmental impact of TNCs and the relationship with labour standards within the company (and hence the need for an IFA), as well as in monitoring the implementation and effects of IFAs. Indeed, the inclusion of a NGO as a party to the negotiation table can be considered as positive in terms of enhancing the credibility and legitimacy of an IFA, even though, from the perspective of labour law and collective bargaining, this is explicitly only the case when the NGO is not the sole negotiator with the management, but a third-party next to a traditional workers' representative that has the material power to negotiate agreements on behalf of workers (Riisgaard 2005; Hepple 2005, 76).

3. Means to build legal and political competence

Based on the above, the (obvious) conclusion is that at least management and workers' representatives have a legitimised power to negotiate on a broad range of labour issues, whereby they are to respect the laws and traditions of the countries the TNC is active. The involvement of NGOs could enhance the legitimacy of the agreement when they are involved as an additional third party. However, as often stressed in the literature and this section started with, the lack of formal power provided by a legal framework leaves the agreements without direct legal binding effect (e.g. Ewing 2004; Hepple 2005; Ales 2006). This means that despite the fact that social partners, either or

not complemented by NGOs, have a recognised power to negotiate on labour standards, as being a fundamental social right, they need additional means to extend their commitment to those covered by the personal scope of the agreement. Besides the legal framework, and even when there would be one, additional to it, one way of extending that commitment is by building competence within the respective complex multi-level networks of both sides of the industry (*cf.* European Commission 2012, 9-10). This competence can be built either by legal means (legal competence) or by building widespread support within the networks (political competence). Although it is not always possible to make a clear distinction between legal and political competence it could be said that legal competence in this respect refers to means by which either power is attributed to the negotiating actors before or while they are bargaining an agreement (*ex ante* power attribution) or, consent to be bound by the agreement is expressed after the agreement is concluded (*ex post* power attribution). Political competence in this context involves issues of representativeness of the negotiating actors and internal procedural rules concerning the negotiation process.¹ Many of these issues have been addressed before, however, not in relation with each other despite the fact that to a certain extent they are inextricably related. Addressing them in relation to each other is important, because when only one or two of these are considered and taken into account this may hardly make any difference, whereas all or several are taken into account it may differ substantially. This is in particular the case when building competence, legal as well as political, is considered in the wider context of IFAs from adoption to implementation, as will be reflected upon in the conclusions of this paper.

3.1 Legal Competence

Means to enhance legal competence *ex ante* the conclusion of an IFA are the same for TNCs as for GUFs, although some might be more relevant for the one than for the other. The two most important ones are membership and delegation by mandate. Membership in this context is to be understood broadly, comprising all forms linking the involved parties to each other in a manner that it is clear that the affiliates are represented by the party at the negotiation table. A mandate is in this context is to be understood as any written document by which the affiliate of the TNC or GUF delegates its right on collective bargaining to the management of the TNC or the GUF. Whereas membership implies full submission of the affiliate to the power of the TNC or GUF, in case of the mandate it is well imaginable that the transfer of power is limited on several aspects. For instance, since the management of a TNC and the GUF are negotiating on the transnational level, their mandate might only reach to that transnational level, meaning that the rights and obligations in the IFA either leave enough room for further negotiation on the lower level (subsidiarity argument) and/or that they respect the laws and practices of the countries where the company operates. The latter would not only be necessary to avoid conflicts of law (although sometimes it could be considered as desired when the aim is 'a race to the top' offering more rights or a higher level of

¹ It should be noticed here that there are many more things that can be thought of, however, most of them actually deal with techniques of implementation and not with the attribution of power. Although in practice they are to a large extent related, as noted already, in the end it are the represented that are involved with, if not responsible for, the implementation of the IFA. Therefore, the means named here are strictly limited to means that aim to transfer power.

protection than the national standards), but also to leave room for the affiliates to incorporate the rights and obligations of the IFA into agreements they may negotiate on another level.

In the case of TNCs membership is determined by the internal governance structure since this determines the sort of power within the global value chain of the TNC. This is discussed in more detail in section 4 below, for here it suffices to note that the level of hierarchy within the chain determinates the degree of power the lead-company has over its affiliates, *i.e.* the subsidiaries, suppliers, subcontractors and licensees. The higher the degree of asymmetry of power from the lead-company over its affiliates, the stronger the relationship between the TNC and its affiliates and with that the membership of the affiliates to the TNC. The lower the degree of asymmetry of power from the lead-company over its affiliates, the weaker the relationship in terms of membership, indicating that the lead-company has to look for other, additional means to strengthen its power over its affiliates with respect to the IFA. An additional means from legal perspective is the use of mandates, in which for instance a subsidiary expresses that the lead-company is competent to negotiate an IFA on its behalf and that it will ensure compliance with the labour matters dealt with in the IFA. There are different ways a lead-company could organise such a mandate. The most simple form is by a letter, another option is via a clause in the business-contract with the affiliates stipulating that the management of the lead-company is competent to negotiate on labour measures on its behalf and that the outcome of those negotiations, the IFA, will be considered as equally binding upon them as on the lead-company itself.

In the situation of GUFs membership refers to the affiliation of national workers' organisation to the GUF. Here GUFs are clearly in a transformative position as described by Fairbrother and Hammer (2005), historically GUFs have been small and remote international union secretariats with limited capacity to mobilize and speak on behalf of its members. With the upsurge of IFAs, GUFs started to renew themselves by reconstitution of internal and external relations and their power in terms of, among other things, 'development and implementation of union agenda, internal solidarity, exemplified by forms of democracy within union organisations' (Fairbrother and Hammer 2005, 407). Empirical case-studies show that in this respect, GUFs more and more take a multi-faceted approach to negotiation, representation and action, in internal relationships with its members (national trade unions mainly) as well as external workers' organisations, like world works councils, and NGOs. Part of the multi-faceted approach with respect to the internal relationships this is done by forms of democracy, like internal rules on consultation and participation with respect to the negotiation process. In this way, GUFs stimulate ensure more active involvement of its members and with that gains legal competence. Secondly, because the members are more involved with the negotiation process, they get institutionalised and consequently more committed to the result of the negotiation process, the IFA.

With respect to the external relations of GUFs with workers' organisations and NGOs empirical case-studies show that alliances with this kind of partners increases the pressure on a TNC to move from unilateral codes of conduct (if present) to multi-stakeholder agreements, among which IFAs (Fairbrother and Hammer 2005, 420; Russo 1998 (case Ahold); and Riisgaard 2005 (case Chiquita)). Besides pressure, it also creates a broader support for the IFA ... (to be further worked out)

Membership of GUFs here is limited to the membership of national trade unions and the creation of networks with other workers' organisations and NGOs. It does not include membership of individual workers to a national trade union. Which in the context of collective bargaining and the effectiveness of IFAs is also of importance, however, not in the sense of legal competence building

by the GUF, rather it is by political competence building based on representation. Nonetheless, for completeness sake it needs to be mentioned that membership of individual workers to a national trade union that is fully represented by a GUF, either by *ex ante* or *ex post* power attribution, does matter, since this may have implications for the effect the IFA may have in the labour relation between the individual worker and his actual employer. In some countries, the IFA could become part of the individual labour contract, giving it legally binding force by national labour law.

Ad 2 *ex post* power attribution

- co-signing of the IFA

- business contract between TNC management and management subsidiary/supplier/subcontractor/licensee etc.

- employment contract between employer and individual worker

- *adherence* (Rodriguez report)

3.2 Political Competence (*under construction*)

- issues of representation → this is in particular of importance, because there are no basic, transnational rules determining who is entitled to participate in the negotiations, which is a result of the recognition of the right to choose the negotiation partners as part of the freedom of association and right to collective bargaining. Consequently, 'the choice made risks being perceived as arbitrary, leaving nonchosen parties dissatisfied or entailing compensatory measures for the company or the actual negotiator on the employee side' (Comm 2012, 8).

- internal procedures for consultation and participation of the represented. For instance those developed by the European Metal Federation (EMF).

Criteria to enhance the representativity of the actors could include:

For both sides:

- Involvement of affiliates with the negotiation procedure, either at the table or by possibilities to provide feedback of the affiliates during the negotiation process (this could imply the requirement of internal procedures on the negotiation process, for instance including how often and on which moments the affiliates are to be consulted during the negotiation process, but possibly also rules of acceptance/voting like by unanimity or qualified majority (the latter could also enhance the internal mandate, since this contributes to the affiliates' expression on its consent to be bound);
- Geographical spread of representation;
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For the workers side in particular:

- Selection of active and sector relevant organisations
- Percentage of workers covered (to exclude yellow trade unions, but also to cover as much workers as possible via membership)

4. Governance structures of GVCs: Challenges and opportunities for building competence

The above described means are intended for TNCs and GUFs to enhance their competence for the conclusion of IFAs. By using these legal and political techniques, lead-companies and GUFs are able to create a stronger commitment of their affiliates with the IFA. Although in theory this sounds promising, in practice there are some obstacles to overcome. While building competence, the selection of affiliates is of the utmost importance. However, the determination of who the affiliates are is less simple as it seems. There are several factors complicating this process. One of these factors is the fact that it is often not possible to determine in advance who the affiliates will be, because this depends on the personal scope of the IFA. What the personal scope of the IFA is, is part of the negotiations. For instance, whether the IFA will apply to the workers of the lead-company of the TNC only, to the workers of the subsidiaries of the TNC, or that the IFA also will cover the workers of the suppliers and subcontractors of the TNC. On the other hand, the management of the TNC as well as the GUF will have an idea about what the personal scope will be, since this is part of the negotiation strategy. Based on that idea they could select their partners in advance in order to strengthen their power to negotiate on behalf of them.


Another factor complicating the determination of the affiliates, in particular for TNCs, is the governance structure and culture of the global value chain of the TNC. Since this is possibly the biggest obstacle, this section aims to improve the understanding of the relationship between IFAs and the different types of governance structures. Therefore the section starts with a description of the five different types that have been distinguished (section 4.1). The section continues with a description of the challenges these types of governance structures offer to TNCs and GUFs when they intend to build their competence (sections 4.2 and 4.3). However, when the type of governance structure is taken into account with the strategy of in particular the GUF, this can also offer some opportunities to strengthen their competence and with that the effectiveness of an IFA in a certain sector. This will be discussed in the last part of this section, section 4.4.

4.1 Types of governance structures of global value chains

As stressed before, TNCs are not homogeneous groups. To what extent the management of the lead-company is capable to enforce compliant behaviour with the IFA by its subsidiaries and by its suppliers, subcontractors, and licensees, depends on the actual culture of managerial control within the organisation. Gereffi et al (2005), have used the culture of managerial control to express the degree of asymmetry of power between the lead-company and its affiliates. The lower the degree of asymmetry of power, the lower the managerial control of the lead-company over its affiliates. The higher the degree of asymmetry of power, the stronger the managerial control of the lead company over its affiliates. This means that in governance structures that are characterised by a low degree of asymmetry of power, the lead-company has relatively weak managerial control over its affiliates. Moreover, the lead-company and its affiliates are more likely to be on equal footing with each other in terms of power from one over the other. On the other hand, in governance structures where there is a high degree of asymmetry of power, the lead-company has strong managerial control over its affiliates. This means that there already exists a culture and structure of hierarchy in which the lead-company controls its affiliates. In total Gereffi et al (2005, 89) have distinguished five different

types of governance characterising the global value chain of TNCs. These have been summarised in table 1 and ordered by the degree of asymmetry of power characterising the governance structure.

Table 1 Five global value chain governance types

Market	Modular	Rational	Captive	Hierarchy
characterised by market linkages that do not have to be completely transitory, as is typical of spot markets; they can persist over time, with repeat transactions. The essential point is that the costs of switching to new partners are low for both partners.	Characterised by the practice that suppliers make products to a customer's specifications, which may be more or less detailed. However, when providing 'turn-key services' suppliers take full responsibility for competencies surrounding process technology, use generic machinery that limits transaction-specific investments, and make capital outlays for components and materials on behalf of customers.	characterised by complex interactions between buyers and sellers, which often creates mutual dependence and high level of asset specification. This may be managed through reputation, or family and ethnic ties. The role of spatial proximity in supporting relational value chain linkages is often highlighted, but trust and reputation might well function in spatially dispersed networks where relationships are built-up over time or are based on dispersed family and social groups.	characterised by the fact that small suppliers are transactionally dependent on much larger buyers. Suppliers face significant switching costs and are therefore 'captive'. Such networks are frequently characterised by a high degree of monitoring and control by lead firms.	characterised by vertical integration. The dominant form of governance is managerial control, flowing from managers to subordinates, or from headquarters to subsidiaries and affiliates.
Low asymmetry of power				High asymmetry of power

4.2 GVC challenges for TNCs

With respect to competence, a high degree of asymmetry of power implies that the lead-company already possesses the competence to negotiate on behalf of its affiliates. Whereas a low degree of asymmetry of power implies that the lead-company has weak to no competence to negotiate on behalf of its affiliates. This means that in the situation of a high degree of asymmetry of power, the need for the lead-company to build competence is less pressing than in case of a low degree of asymmetry of power. A high degree of asymmetry of power is found in TNCs where the governance structure is hierarchical or where the affiliates are captives of the TNC. An affiliate is a captive, when it is for its existence dependant on the lead-company, for instance because it makes non-standard products using machinery dedicated to the needs of the lead-company (Gereffi et al 2005, 83). A low degree of asymmetry of power is found in the other three types of global value chains: market, modular and relational. This increases the need of the lead-company to build competence in order to negotiate on behalf of its affiliates and to commit them to the result thereof, the IFA.

In case of a low degree of asymmetry of power, competence building by the lead company is further complicated for several reasons. Firstly, suppliers and subcontractors that are part of one of the latter three types of global value chains – relational, modular and market – are almost always

part of multiple value chains serving multiple lead-companies. An example of complex and multiple global chains is found in the banana industry, where several chains exist next to each other but also mix with each other (see Robinson 2011, 169 where she provides a figure that illustrates one of the banana supply chains, in this case between Costa Rica and the United Kingdom). Foxconn is another typical example. Foxconn manufactures hardware for lead-companies such as Apple, Hewlett-Packard, Dell, and Sony. At the same time, Foxconn itself is developing from a typical turn-key supplier being part of modular global value chains, to a lead-company manufacturing end-to-end products. Consequently, Foxconn operates also in its own global value chain, which seems to be characterised as either a captive or hierarchical governance structure. (it is one of the advantages offered by Foxconn: shortest and most direct supply chain within China – from end to end). This complicates competence building, since it makes it harder for the specific lead company to convince its affiliates to embrace their IFA. In particular when the affiliates have a CSR Strategy, including an IFA themselves, since this would leave them little incentive to commit to another CSR strategy. Which is for instance the case with Foxconn.

A second complicating factor with respect to building competence that needs to be addressed here concerns the size of the global commodity and production chains (*cf.* Fichter and Sydow 2002, 364). As stressed by Fichter and Sydow (2002, 364) a limited number of affiliates ‘reduces the complexity of managing the network’, whereas a large size network requires ‘equally strong intra- and inter-organisational capabilities’ on the part of the lead-company. The size of global chains easily run from about 100 to 200 main suppliers (*e.g.* Dell and Apple respectively) to 1,000 to 5,000 in the apparel industry and to more than 10,000 in the retail business (Fichter and Sydow 2002, 368). These numbers illustrate the organisational complexity and challenges a lead-company has to face when selecting its partners in order to build competence. One way of facing this obstacle is by being critical about the definition of the network. Fichter and Sydow (2002, 369) underline that maybe not all affiliates are actually part of the network/chain. They give the example of suppliers of subcontractors, which are often tiny workshops and homeworkers, and are ‘not likely to constitute cooperative inter-organisational relationships based upon mutual trust and commitment.’

These types of governance structures are designed to line out organisational power structures between a lead-company and its affiliates in a global commodity of production chain. However, the internal organisation of a TNC, in particular the relation between the lead-company and its subsidiaries, is also characterised by different degrees of asymmetry of power. Some TNCs, like within the car-industry, are characterised by a high degree of power asymmetry. Other TNCs, in particularly within the service business, like the Spanish multinational Telefonica, are characterised by a low degree of power asymmetry. With regard on the latter, Niforou comes in her case-study on the implementation of two IFAs, among which that of Telefonica, to the conclusion that

‘issues of corporate governance are central to the effectiveness of the IFAs. The degree of participation of the mother company appears to determine the degree of applicability of the agreement while headquarters of both MNCs [Endesa and Telefonica; added *BtH*] emphasize that the can neither impose nor oblige, but rather recommend’ (Niforou 2012, 370).

Therefore, these five types of governance structures can also be used to determine the managerial capacity of the lead-company over its subsidiaries. Here the same principles apply as within the global value chain: the higher the degree of power asymmetry, the less pressing the need to build

competence; and vice versa, the lower the degree of power asymmetry, the more pressing the need to organise competence.

4.3 GVC challenges for GUFs

Global value chains also create challenges for GUFs in building competence to commit their affiliates to the IFA they negotiate on their behalf with a TNC. On the one hand the challenges for GUFs can be less complex than for TNCs, since GUFs are organised by branch or sector. This means that one GUF can cover all the workers of the affiliates of the TNC for as long as the TNC's activities are within one branch or sector. When the scope of activities of the TNC exceeds a branch or sector, it makes the challenge bigger, since different sectoral GUFs and TUs have to cooperate. From a traditional, national setting, this is not common for TUs and may therefore offer an extra challenge since there exists no tradition that can be transposed to the transnational level. Secondly, within the different branches and sectors exist a different organisational and political history. A trade union with a long history and a well-developed organisational structure can for instance be found in the metal industry. In the garment industry on the other hand the organisational structure is less well-developed. According to Hammer these differences are reflected in the outcome of the negotiations (2011, 524-525). To substantiate his argument, Hammer refers to several IFAs that have negotiated by GUF the UNI. The agreements that are concluded with H&M and Carrefour only contain basic reference to the core labour conventions of the ILO, whereas the agreements with Telefonica, OTE and ISS contain extensive substantive and procedural aspects and integrate local trade unions. Hammer continues that this difference is the result of the organisational and political history of UNI, which is a merger between different federations representing different sectors.²

Another hurdle to be taken by GUFs is the different cultures and traditions, if any, concerning industrial relations within the countries the TNC operates. Whereas in some countries have a strong tradition and culture on industrial relations, for instance countries in Europe like Sweden, Norway, the Netherlands and Germany, this may not be the case in other countries, like Pakistan, Bangladesh and China. Countries with a strong and long existing tradition and culture on industrial relations are also likely to have specific rules determining which workers' organisation is competent to deal with which subject in which situation. Such rules complicate the selection of partners, since it requires thorough knowledge of the national systems of industrial relations (Litvak and Maule 1972; Dufresne 2012; Cotton and Gumbrell-McCormick 2012). On the other hand, countries that have no or a weak tradition and culture on industrial relations may have no workers' organisations at all. Hence, it is highly likely that in these countries there is also a lack of legal regulations supporting industrial relations. Such rules would include the protection of workers' representatives against repressive measures of the employer. Therefore, it is more difficult for GUFs to organise workers' representation at plant level that support their efforts to negotiate an IFA on their behalf. In those countries GUFs may have to look for coalitions with labour friendly NGOs or consumer campaign organisations that are active at the location of the TNC (*cf.* Lund-Thomsen et al 2012; Riisgaard and Hammer 2011).

² These are: Communications International, the International Federation of Commercial, Clerical Professional and Technical Employees, the International Graphical Federation and the Federation Media and Entertainment International.

The organisation of workers in countries with no or weak tradition or culture of industrial relations becomes in particular challenging in countries that TNCs have out-sourced their production in order to save on labour costs. It becomes particularly challenging for at least two reasons. Firstly it is very likely that the TNC is not willing to negotiate an IFA, since this would mean a change in labour standards that is most likely to result in a raise of labour costs. This could clash with the strategy of outsourcing, which is sometimes not only because of labour costs, but also to seek for non-union areas. Examples of such strategies are known in the banana industry (Riisgaard and Hammer 2011, 178) and the apparel industry (Miller 2004; and Thomas 2011, 281). Secondly, when the governance structure of the TNC is characterised by a low degree of asymmetry of power – market, modular or relational – the lead-company as well as the supplier or subcontractor can, in theory, relatively easily ‘walk away’ from the pressure of the GUF to negotiate an IFA. Characteristic of these types of governance within the GVC is that lead-company and suppliers or subcontractors are not strongly reliant on each other. Consequently, it is rather easy to switch partners. The lead-company can easily terminate a contract with a supplier or subcontractor that has been brought in discredit regarding labour issues, and as such take away the ground for the GUF to negotiate an IFA. On the other hand, a supplier or subcontractor that does not want to be committed to an IFA can also choose to terminate the contract, since it economically is not dependant on the lead-company. That too, would undermine the pressure of the GUF and in the end the effectiveness of the IFA.

4.4 Opportunities offered by GVCs (under construction)

- turn-key suppliers (modular global value chain)

Option of branch or sector IFA → GUFs are already organised by branch or sector. In particular when a turn-key company becomes a major or dominant player in the field, it might become more interesting to conclude an IFA with that supplier instead of the different lead-companies. Moreover, some suppliers are so dominant, that lead-companies are dependant on them. This is for instance the situation with Foxconn and DSM.

DSM for instance, has already its own CSR policy, including a corporate Code of Business, which includes labour issues. In 2012 DSM won the Corporate Steward Award of the US Chamber of Commerce Business Civic Leadership Center (BCLC) for its integrated Triple P approach, including people and working conditions of workers). So why would the Corporate code of Business of DSM be less important or good than the IFA of a company they are supplier to (could be an example of exception, giving the fact that DSM is a chemical industry and in general chemical industries are more vulnerable for this kind of issues and therefore pay much more attention to it.

→ also, in theory, when a supplier pays much attention to its CSR, because it is a lead-company itself as well, it may select its business partners also carefully on its CSR in order to live-up to its own CSR. This might in particular be the case in a situation in which the lead- or brand-company is dependant on the specialised knowledge of the supplier, which it cannot easily obtain from another company (which could be the case in relational and modular value chains). Foxconn for example, seems to have certain knowledge that forces all big IT-companies to have parts of their products produced by Foxconn. Instead of lowering the working conditions to save labour costs, Foxconn could force those IT-companies to invest in human capital.

5. Scrutinising some empirical case-studies and theoretical studies on the effectiveness of IFAs

The aim of this section is to re-evaluate the results of some empirical case-studies and some theoretical analyses on the effectiveness of IFAs. The reason for scrutinising these studies and analyses is twofold. Firstly, scrutinising some results within the context of competence building and the challenges types of governance offer enables us to put some of the results in another perspective and illustrate why IFAs are found or presumed to be not so effective. Secondly, it offers us the possibility to indicate how the effectiveness of the IFA can be improved by competence building and what the limits are taking into account the type of governance of the global value chain of the TNC. The studies selected are:

1. Niforou 2012, on Telefonica and Endesa (specific companies); focus on one example Telefonica that offers option of re-evaluation and to show how the effectiveness could be improved by selection of partners by GUFs and by taking into account the organisational governance structure of the TNC. (*worked out*)
2. Riisgaard and Hammer 2011; and Robinson 2011 → Focus on banana industry with positive example on how GUFs and NGOs can strengthen each other to force a TNC to conclude an IFA, in these cases Chiquita (Riisgaard and Hammer). At the same time Robinson scrutinises the optimism of Riisgaard and Hammer by illustrating the limitations of the IFA in practice, not only by the attitude and involvement of Chiquita, but also stemming from the full GVC. Based on the information gathered in this article considerations are made on one of the main obstacles the IFA (pressure on labour standards stemming from the full GVC) and how in particular the involved GUF might be able to cope with this. (*worked out, but needs further editing*)
3. Fichter, Helfen and Sydow → Who focus their analysis on challenges to implementation of IFAs emanating from the negotiation phase (where part of the competence building also takes place) (*Needs to be worked out*)
4. Rodriguez (coord.) 2012 → an elaborate report that also addresses issues as competence, but treats MNCs/TNCs as single homogenous entities leaving GVCs out of consideration. (*Needs to be worked out*)

5.1 Case study on Telefonica (Niforou 2012)

The first study we scrutinise is an empirical case-study on the local impact of two IFAs conducted by Niforou (2012). The study involves two Spanish multinationals, Telefonica and Endesa, with subsidiaries in Latin America, among which Mexico, Puerto Rico, Colombia, Peru and Argentina. The study addresses the following questions: how IFAs emerge, how they operate and what explains compliance and non-compliance locally. The empirical findings are analysed by a global governance approach that draws largely from political science. A theory that recognises the increasing significance of private actors, like MNCs and GUFs, in emerging governance arrangements. Secondly, it leaves room for analysis on the ability of the lead-company to 'command and control' the subsidiaries and consequently the ability to generate compliance with the IFA.

What makes this study in particularly interesting for our analysis is that both IFAs have been triggered in a bottom up process, because local trade unions in Latin America that raised their issues with trade unions in Spain. The Spanish trade unions supported them in becoming affiliated to the global federations (Niforou 2012, 359). The GUFs initiated on their behalves negotiations with the management of Endesa and Telefonica. With respect to competence building on the side of the GUFs everything seems perfectly fine and ideally, since the local trade unions initiated the process and no doubts are raised about the competence of the GUF, in this case UNI, to negotiate an IFA on their behalf. As for the TNCs, they went along to improve their corporate image and reputation. The

IFA of Telefonica is one of the first and can therefore be considered as a pioneering IFA, that not 'merely' refers to the ILO core standards, but instead holds extensive substantive and procedural aspects of labour issues (Hammer 2005).

Although Niforou finds many interesting things in her case-study concerning the effectiveness of IFA in practice, there is one finding that is particularly interesting to scrutinise in the context of our paper. This finding concerns the enforcement of compliance with the Telefonica IFA by the subsidiary in Mexico, Atento. In Mexico there are two trade unions active in telecommunication. One is sectoral 'Sindicato Progresista de Trabajadores de Comunicaciones y Transportes de la República Mexicana' (telecommunications and transport) and the other represents a specific profession 'Sindicato de Telefonsistas de República Mexicana' (telephony workers). 'The latter is affiliated to UNI, but is not recognised by the company for collective bargaining purposes. The company has a collective agreement only with the former trade union organisation, in full compliance with Mexican labour law' (Niforou 2012, 364). The union for telephony workers accuses Atento of violating Article 2 of the IFA, however, according to corporate management Telefonica, 'the IFA is not above national laws, and since the actions of Atento Mexico are 'lawful', they cannot intervene' (idem).

There are two things in this finding that are interesting to re-evaluate. First the selection of national partners by UNI and secondly the internal organisational governance structure of Telefonica. Regarding the selection of partners by UNI, although the union for telephony workers is a legitimate representation of the workers of Atento, according to national legislation, they cannot enforce a position at the negotiation table because they do not fulfil the legal requirements. Although UNI was in the comfortable position that national trade unions triggered the transnational negotiations, this does not mean that those national trade unions are also the most relevant actors when it comes to the implementation of the IFA on national level. As such, the GUFs in general, have an obligation to ensure themselves from the fact that the national workers' organisations involved, are indeed the relevant organisations regarding the specific TNC and its subsidiaries, suppliers and subcontractors. On the other hand, it also illustrates that a national trade union, no matter how noble their intentions are, cannot (ab)use their affiliation to a GUF in order to get a position at the negotiation table at national level.

Regarding the second aspect, the internal organisational governance structure, illustrates the unwillingness of headquarters to get involved with the policies of a subsidiary when the internal governance structure in general is not already characterised by that. Although, for an outsider as we are, the organisational structure of Telefonica is not easy to access, from all its actions as described by Niforou, in combination with the information that can be found on the internet (http://www.telefonica.com/en/about_telefonica/html/estrucorganiz/estrucgrupo.shtml), Telefonica seems to be organised by a market-driven governance structure. (sentence on why ...) This means that there is a low asymmetry of power, and consequently that the lead-company has weak managerial capacity over its subsidiaries. In this context the response of Telefonica corporate regarding the practice of Atento Mexico is not surprising. Hence, it illustrates the need of competence building by corporate management over its subsidiaries in order for an IFA to be (more) effective in practice. In this case it is clear that Atento Mexico experience no commitment to the IFA at all, which is confirmed by the response of headquarters Telefonica.

5.2 Case studies in the Banana Industry (Riisgaard and Hammer 2011; Robinson 2011)

The second empirical case-study we scrutinise are actually two studies. The first is conducted by Riisgaard and Hammer and deals with the cut-flower and banana industries. We focus on the banana industry, where they illustrate how trade unions were able to agree an IFA with Chiquita because they allied with NGOs. The second is conducted by Robinson who illustrates that although the conclusion of the IFA was a nice achievement, however, in practice it is not as effective as it maybe could have been. Her study focuses on Costa Rica only, where she found several reasons for the limited effectiveness of the IFA. These include: the political nature of local trade unions, the dominant presence of an NGO claiming to do more or less the same as the local trade unions could do; and the continuing pressure not from the lead-company (Chiquita) but from the retailers and supermarkets selling the banana's in a highly competitive market that is saturated, in particular after (re)locating banana plantations in West-Africa, in combination with most-favoured policies by Member States of the European Union. In the end complex chains are developed in which Chiquita is a big player regarding direct links to banana plantations, but, at the same time, is only in the middle of the whole chain that influences the effectiveness of the IFA. This illustrates that, despite the fact that Chiquita could improve the effectiveness of its IFA, the options are also limited because of pressures from the saturated market in general and retailers and supermarkets that demand high quality, but cheap, bananas.

This kind of insight and understanding is in particular of importance for workers' organisations, especially for GUFs when contemplating strategies on improving the labour standards for the workers in the industry. In the case of bananas a more fruitful strategy could for instance be the conclusion of a sector or branch IFA that covers all workers on banana plantations no matter which TNC (Chiquita, Del Monte, Dole, etc.) they work for. The advantage of such a sector IFA would be that it would, in theory, take labour standards out of the competition on the prices that are put on the industry by retailer and supermarkets. More precisely, by creating a common ground of (minimal) labour standards that are to be guaranteed on all banana plantations, the price of bananas is at least fixed on a minimum that includes the costs of these labour standards. Secondly, instead of continuing fighting with NGOs, like SA8000 Standard (which also deals with the ILO core labour standards), alliances ought to be sought in raising awareness among consumers about the true costs for growing high quality bananas: How tasteful is a high quality banana, that has been grown at the cost of the health of a worker who harvested the banana while nearby agro-chemicals were sprayed and who got dismissed for filing a complaint about this unhealthy working condition (*c.f.* Robinson 2011, 175).

First sketch; needs editing

6. Reflections / Conclusions

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