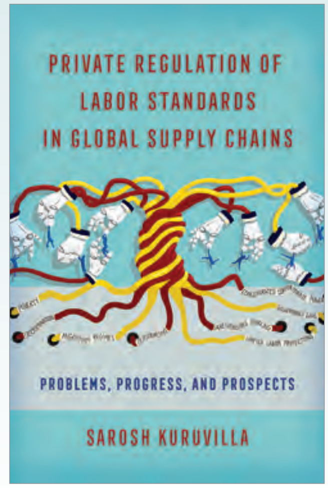
BOOK REVIEW

by Anil Verma



Regulating global supply chains for worker equity

Not since Richard Locke's 2013 book, *The Promise and Limits of Private Power*, have we seen a book that advances our understanding of corporate codes so significantly. Sarosh Kuruvilla's *Private Regulation of Labor Standards in Global Supply Chains* is a meticulously researched book, chock full of recent evidence from empirical studies that provide new insights into one of the most intractable problems of our era.

This book is a breath of fresh air on a topic that generates endless uninformed discussions and conferences but no real progress because few people have good data and rigorous analysis to inform their choices. The principal reason I liked the book is its honest and direct tone: to answer the question "Do corporate codes work in practice?" it minces no words by concluding that "there are no examples of sustained improvements in all labour standards in the global apparel supply chain" and that "the general picture that emerges of the private regulation model is one of failure rather than success."

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The book is well laid out in three parts, making its logic easy to follow. Part I, with three chapters, lays out the problems: *behavioral invisibility* (difficulty in observing noncompliance with standards, chapter 1, with Ning Li); *practice multiplicity* (difficulty in setting uniform standards, chapter 2); and *causal complexity* (difficulty in relating policies to compliance as outcomes, chapter 3, with Chunyun Li).

Each chapter uses original and hitherto unpublished data. Chapter 1 lays bare the truth behind the audit process by concluding that "unreliable audits constitute a high percentage of all audits." According to the authors, "suppliers play the game, seeming to comply with the policies of the global buyers, but this compliance is largely ceremonial," designed to make others believe that the audited factory meets labor standards.

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Part II, containing three chapters, documents improvements that have occurred under private regulation. Chapter 4, with co-author Jinsun Bae, analyzes data from a large auditing firm, assessment data from the International Labour Organization's (ILO) Better Work program in garment factories, and a case study of a large retailer that sources its products largely from China.

The first study's findings do not provide any basis "to conclude that private regulation is working well." The latter two studies do show improved compliance over time, but it is not clear if these findings can be generalized to other codes of conduct. In the case of Better Work, the guarantor of legitimacy is the ILO. Might it be that private regulation needs validation of its mission through an independent and trusted authority figure? In the absence of such third-party legitimation, it may be that corporations need to build long-term *relational* understandings with their suppliers to replace the *transactional* relationships that are all too common in supply chains.

Chapter 5, with Jinsun Bae, examines questions about wages. For me, this was less interesting compared to issues such as worker voice and safety. Minimum wages are mandated, and if there is compliance, it is hard to attribute it to corporate codes alone. The chapter also

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examines aspirational goals of paying a "living or adequate wage," another issue fraught with problems of defining wage standards, let alone their compliance. The authors find that there is "limited impact of private regulation in enabling a living wage."

Chapter 6, with Matt Fischer-Daly and Christopher Raymond, goes to the very heart of the problem by examining the role of freedom of association (FoA) and collective bargaining (CB) in standards compliance. The ILO defines FoA/CB as enabling rights, suggesting that if workers have access to these rights, others would be more likely to follow. The evidence presented here supports this assumption.

Perhaps the future lies in a strengthened private regulation system that is nested within the public regulatory regime.

Part III, with three chapters, considers prospects for the future of private regulation. A B-corporation is examined (chapter 7, with Matt Fischer-Daly) and found to have no beneficial impact on standards compliance despite the requirement that directors and officers of a B-corporation be bound by its charter to consider the interests of all stakeholders, including employees. This reminded me of earlier research findings that cooperatives treated their workers no better than did the more mercantilist corporations despite the co-ops' reputation for serving the common good.

The last chapter provides some key lessons for creating transparency around the three stages of regulation: setting standards, monitoring/reporting, and establishing incentives and disincentives for compliance/noncompliance. It also points out that collection of reliable and accurate data and their analysis are ultimately key to ensuring the effectiveness of any form of regulation, private or public.

Finally, we must ask of private regulation: *quo vadis?* (Where are you going?). Given all its attendant problems, is effective supply chain regulation even worth pursuing? The short answer from the book appears to be that it is not easy to make private regulation work and that it fails more often in its current form than what most corporations realize.

But before we throw out the proverbial baby with the bathwater, it is important to learn the science behind its successes and failures. The Pangia case (chapter 8) tells us that a persistent and diligent corporation can make it work but that it takes time (seven years in this case), patience, resolve, and considerable resources.

A longer answer lies in examining the larger context for private regulation. First, workers toiling in the supply-chain factories are a very small share of the workforce in these countries. So, even if the codes were very effective, they by themselves cannot create a fair globalization for all workers.

Second, private regulation could gain much greater legitimacy and efficacy if it were embedded within a framework of public regulation. To wit, ILO's Better Work has greater success than many other private programs because it is seen as being truly neutral and arm's-length from all sides. The ILO wields no formal authority over these workers or factories, but its impartiality and sincerity are unquestioned by all sides. So, perhaps the future lies in a strengthened private regulation system that is nested within the public regulatory regime.

This book is not only a home run for its author and his team but also for the workers who toil in the world's factories. I hope that its easy availability as an e-book will encourage all stakeholders to read it carefully and use its lessons to make a difference. ■

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