

The Role of SMEs in Global Production Networks:

A Swedish SME's Payment of Living Wages at its Indian Supplier

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Abstract

Anti-sweatshop activists have turned global production networks (GPNs) into contested organizational fields. While this has triggered the growth of an extensive literature on contested GPNs, the scholarly conversation is still limited in two important ways: first, it ignores or dismisses the role of small and medium-sized enterprises (SMEs) in GPNs and, second, it assumes that firms are driven solely by rational profit-maximizing motives. Based on a study of a Swedish SME's payment of living wages at its Indian supplier, this paper addresses these limitations by demonstrating how SMEs' peculiarities allow them to assume a distinct role in contested GPNs. Furthermore, this paper contributes to the scholarly conversation about living wages by providing a much-needed move beyond conceptual discussions into empirical studies of the underlying tradeoffs of paying living wages.

Keywords: codes of conduct, global production networks, India, living wage, private regulation, SME

Introduction

Since the 1980s, the outsourcing of labor-intensive production, increased trade liberalization, and deregulation of national economies have facilitated the rise of global production networks (GPNs) (Lund-Thomsen, 2013). Most well-known lead firms in GPNs (including brands such as Nike and Adidas and specialty or mass retailers such as H&M and Marks & Spencer) have now outsourced most of their production to suppliers in developing countries. The relevance of GPNs is not restricted to multinational enterprises (MNEs), as small and medium-sized enterprises (SMEs) are increasingly becoming integrated in GPNs (Knudsen, 2013). To counter a “race to the bottom” among suppliers in GPNs (Chan & Ross, 2003), labor organizations, i.e., labor unions and labor NGOs, have used anti-sweatshop campaigns to hold lead firms responsible for working conditions at their suppliers (Merk, 2011; Seidman, 2007).

These campaigns have turned GPNs into fields of political contestation (Levy, 2008), challenging the logic of global sourcing in which firms seek to coordinate their activities without extending their direct ownership or responsibilities for worker rights. Campaigns have been largely successful in terms of *symbolic* compliance (George, Chattopadhyay, Sitkin, & Barden, 2006; Meyer & Rowan, 1977), with firms responding by acknowledging responsibility for suppliers’ operations and adopting codes of conduct or other forms of private worker rights regulation (Kolk & van Tulder, 2005; Raj-Reichert, 2013). In terms of *substantive* compliance (George et al., 2006; Meyer and Rowan, 1977), some observers have been optimistic about this private regulation (Zadek, 2004) while others have pointed out its limits (Barrientos & Smith, 2007; Locke, Qin, & Brause, 2007).

The scholarly conversation about private regulation and contested GPNs is limited in two important ways: first, it has focused almost exclusively on the role of MNEs, ignoring SMEs, and, second, it has assumed that buyers and suppliers are driven solely by rational profit motives, i.e., are unwilling to voluntarily improve worker rights. Based on a study of a Swedish SME’s

(Nudie Jeans Co) attempt to pay a “living wage”¹ at its Indian supplier (Armstrong Knitting Mills), this paper addresses these limitations by demonstrating how SME peculiarities (e.g., ethical motives, low visibility, informal control, trusting relationships, limited resources, limited bargaining power, and emergent strategy formation) allow them to assume a distinct role in contested GPNs.

In addition to contributing to the literature on contested GPNs and private regulation, this paper also contributes to the scholarly conversation about living wages. It does so by providing a much-needed shift in focus from conceptual discussions of *whether* living wages should be paid (Arnold & Bowie, 2003; Powell & Zwolinski, 2012) and how they *should* be paid (Miller & Williams, 2009) to empirical studies of actual attempts to pay living wages. Corporate attempts to pay living wages in practice are interesting, as living wage payments represent “one of the most controversial issues concerning sweatshops” (Arnold & Bowie, 2003, p. 233) and “one of the main stumbling blocks between them [i.e., MNEs] and labour rights advocates” (Merk, 2009, p. 42). Most MNEs have refused to include living wages in their corporate policies and the few that have symbolically complied have displayed limited substantive compliance (Merk, 2009; Miller & Williams, 2009), i.e. they have “decoupled”² symbolic and substantive actions (Meyer and Rowan, 1977). This makes living wages one of the few issues where labor organizations’ challenge to GPNs has been unsuccessful in terms of either symbolic or substantive compliance. As will be demonstrated here, SMEs are, due to their peculiarities, particularly likely to break this deadlock between MNEs and labor organizations, shaping future GPN governance. In other words, SMEs are particularly likely to “couple” or “recouple”³ (Espeland, 1998) symbolic and substantive actions in relation to living wages.

¹ Though how exactly to define a “living wage” is heatedly debated (see Anker, 2011, for an overview), most agree that a worker earning a living wage should be able to cover a family’s basic needs, i.e., costs of nutritious food, housing, clothing, education, and social security.

² Decoupling is a way for organizations to respond to pressures by adopting symbolic actions (such as policies, guidelines, plans, strategies and programs) that have no, or limited, influence on the organizations’ substantive actions (such as sourcing decisions, supplier incentives and factory auditing) (Meyer and Rowan, 1977).

³ Coupling means that organizations’ substantive actions mirror their symbolic actions (Meyer and Rowan, 1977). Recoupling is the process through which symbolic and substantive actions that once were decoupled become coupled (Espeland, 1998).

In the next sections, I introduce the notion of contested GPNs, discuss the MNE and rational motive biases in previous research, identify SME peculiarities likely to shape the SME role in contested GPNs, and discuss the living wage challenge to GPNs. I then present the research method used and the case of Nudie Jeans' attempt to pay a living wage. Based on the case findings, I conclude by outlining a distinct role for SMEs in contested GPNs and discussing implications for research into contested GPNs, private regulation, and living wages.

Contested GPNs

Manufacturing is largely now done in emerging and developing economies, creating a changing, complex, and fragmented landscape of global production (Levy, 2008). The GPN lens provides a promising way to analyze this landscape and its intersection with social issues. A “production network” is the nexus of interconnected functions, operations, and transactions through which a specific product or service is produced, distributed, and consumed (Coe, Dicken, & Hess, 2008, p. 274). A “global production network” (GPN) is a network in which nodes and links extend spatially across national boundaries (Coe et al., 2008).

Recent GPN scholarship has distinguished itself by including non-firm actors, such as labor unions, government agencies, and NGOs, in its analyses of these networks (Barrientos, 2013; Levy, 2008; Lund-Thomsen, 2013), arguing that GPN governance cannot be reduced to inter-firm transactions between lead firms and their suppliers (Hess, 2008). GPNs thus comprise not only firms but diverse other actors (Coe et al., 2008). GPNs create linkages between consumers, firms, suppliers, NGOs, labor, and other actors (each with its own agenda) in disparate regions with vastly different incomes, giving rise to contentious social concerns such as worker rights at the point of production (Levy, 2008). A GPN lens helps provide insight into the intersection of geographically dispersed economic networks with controversial social issues (Levy, 2008), and the inter-linkages and tensions between different networks of commercial and social actors with different agendas (Barrientos, 2013).

Of particular interest here is the diversity of actors and agendas related to worker rights governance in GPNs. Since the late 1980s, labor organizations' anti-sweatshop campaigns have

challenged corporate attempts to coordinate production without assuming responsibility for worker rights at the point of production. These campaigns have turned GPNs into “contested organizational fields”⁴ in which actors struggle over institutional rules and governance structures (Levy, 2008; Maguire, Hardy, & Lawrence, 2004). Anti-sweatshop campaigns have turned most GPNs into contested organizational fields. However, to avoid confusion, I specify “contested GPNs” rather than simply using “GPNs” to refer to GPNs as contested organizational fields, as many GPN scholars have neglected the contestation of GPNs (Coe et al., 2008; Levy, 2008) and some aspects of GPNs are not as contested as is worker rights governance.

Treating GPNs as contested organizational fields implies that GPNs are resilient to change (Levy, 2008) and that change can be expected to be “rife with conflict, contradictions, and ambiguity” (DiMaggio & Powell, 1991, p. 28). The ability of certain actors, called “institutional entrepreneurs”⁵ (DiMaggio, 1988), to achieve change in contested GPNs is constrained by others “likely to resist reopening previously negotiated agreements” (Barley & Tolbert, 1997, p. 102). In particular, incumbents and dominant actors around whose actions and interests GPNs tend to revolve are likely to resist change (Levy, 2008). In other words, an actor’s attempt to, for example, challenge the dominant minimum wage logic of GPNs by paying living wages is likely to evoke resistance from dominant GPN actors.

The MNE and Rationality Biases in Previous Research

The emergence of contested GPNs has started to lead to a convergence of the literatures on GPNs and on the private regulation of worker rights (Barrientos, 2013; Lund-Thomsen, 2013; Raj-Reichert, 2013). There is still, however, ample private regulation literature that provides important insights into the governance of worker rights in GPNs but that does not directly

⁴ Organizational fields are composed of sets of institutions and networks of actors that together constitute a recognizable area of life (DiMaggio & Powell, 1983; Maguire et al., 2004). Contested organizational fields are fields that have turned into battlefields and in which actors struggle over the construction of economic relationships, governance structures, institutional rules and norms, and discursive frames (Levy, 2008, p. 944).

⁵ Institutional entrepreneurs are “actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones” (Maguire et al., 2004, p. 657). For an overview of research into institutional entrepreneurship see, for example, the special issue in *Organization Studies* 2007, 28(7).

leverage a GPN framework (Bartley, 2007; Egels-Zandén, 2007; Locke et al., 2007). Two key assumptions shape this scholarly conversation about both contested GPNs and, more broadly, the private regulation of worker rights (cf. Locke, Amengual, & Mangla, 2009). The first assumption is that of “buyer-driven” value chains in which MNEs can exert force, as power over production in industries with low-skilled employees and low investment thresholds (e.g., the toy, garment, and footwear industries) is possessed almost entirely by the buyer (Gereffi, 1994; Traub-Werner & Cravey, 2002). Hence, powerful MNEs are assumed to be capable of forcing suppliers to comply with codes of conduct and labor standards (Locke et al., 2009). The flipside of this is that the structure of GPNs creates strategic openings for labor organizations (Schurman & Munro, 2009) because their powerful position in GPNs makes MNEs susceptible to claims that they are responsible for worker rights at suppliers (Locke et al., 2009). In particular, brand reputation—the Achilles’ heel of most powerful MNEs—makes MNEs with heavy investments in these reputations attractive targets for labor organizations seeking to maximize their impact (Barrientos, 2013; Bartley & Child, 2011). Publicized “name and shame” campaigns have therefore become the main vehicle for labor organizations to force MNEs to privately regulate worker rights in GPNs (Locke et al., 2009).

The centrality of “name and shame” campaigns as the driving force of private regulation in GPNs reveals the second key assumption, i.e., that MNEs are unwilling to voluntarily assume responsibility for worker rights. This assumption is supported by the facts that private regulation emerged as a reactive corporate response to anti-sweatshop campaigns (Bartley, 2007), that MNEs attempt to lower labor standards when private regulatory systems are established (Bartley, 2007; Egels-Zandén & Hyllman, 2006), and that MNEs emphasize implementing standards that improve legitimacy (e.g., eliminating child labor) rather than those that shape long-term conditions for improvement (e.g., freedom of association) (Anner, 2012; Barrientos & Smith, 2007). The assumption that MNEs are unwilling to improve worker rights and rationally calculate which rights to improve is well-captured by Blowfield and Frynas’ (2005, p. 512) argument that codes of conduct “are far more likely to outlaw slavery and child labor (practices where there is little direct financial motivation to continue, especially compared to the potential consequences of a consumer backlash) than to recognize the right to a living wage or freedom of association (both of which many companies fear might work to their commercial disadvantage).”

Like MNE managers, supplier factory managers are assumed to resist the improvement of worker rights. This assumption is supported by suppliers' attempts to deceive auditors in numerous ways, such as double bookkeeping, falsifying time cards, and instructing workers what to say when audited (Egels-Zandén, 2007; Jiang, 2009). The assumption about supplier managers' motives is captured by Pollin, Burns, and Heintz's (2004, p. 166) statement that factory managers "would *of course* prefer that they, rather than production workers, receive the extra revenues generated by higher retail prices" (emphasis added). Suppliers are thus, like MNEs, assumed to comply only when rational cost–benefit calculations favor compliance. As Locke et al. (2009, p. 325) argue, it is assumed that "whether or not a supplier chooses to actually comply with voluntary codes of conduct will depend on the values of the above three variables (the probability of getting caught, size of the penalty, and cost of compliance)."

The assumptions of MNE centrality and MNE/supplier rational motives have shaped the scholarly conversation about contested GPNs and private regulation. For example, empirical research into code of conduct implementation at the point of production has focused almost exclusively on MNE buyers, for example, Nike (Locke et al., 2007), Adidas (Frenkel, 2001), Wal-Mart (Chan & Siu, 2010), Reebok (Yu, 2008), and Hewlett Packard (Raj-Reichert, 2013). SME buyers, on the other hand, have largely been ignored in research into contested GPNs. This is problematic, because SMEs account for 99.8% of European enterprises, 66% of total employment, and half of the total value added in Europe (Baden, Harwood, & Woodward, 2009). It is also problematic because, as will be demonstrated here, SMEs apparently assume a different role from that of MNEs in contested GPNs. The assumption of rational buyer/supplier motives is also problematic when the focus shifts from MNEs to SMEs, because SMEs, as will be demonstrated in the next section, are less driven by rational motives than are MNEs.

SME Peculiarities

The literature on contested GPNs and private regulation has largely ignored the role of SMEs in GPNs. The little existing research that has considered the role of SMEs has also focused almost exclusively on how SME suppliers experience buying MNEs' corporate social responsibility (CSR) requirements (e.g., Baden et al., 2009; Spence & Bourlakis, 2009). The rare exceptions

that consider the role of SMEs as buyers dismiss SMEs as lacking both “the resources required to implement sustainability standards among their own suppliers” and “the bargaining power required to sanction suppliers who fail to comply with these standards” (Jorgensen & Knudsen, 2006, p. 452; see also Ciliberti, Pontrandolfo, & Scozzi, 2008; Fitjar, 2011). SMEs are presented as “less likely than larger companies to act as change agents for sustainable production in global value chains” (Jorgensen & Knudsen, 2006, p. 460). In other words, SMEs are presented as lacking the power and resources to act as institutional entrepreneurs in contested GPNs. This conclusion recalls the argument that it is mainly organizations occupying traditionally dominant positions in organizational fields that can transform fields (Levy, 2008; Maguire et al., 2004).

Scholars’ limited attention to, or dismissal of, SMEs’ ability to use their role as buyers to act as institutional entrepreneurs is problematic. This is so because more general research into SMEs and CSR has demonstrated that, while certain SME peculiarities (e.g., limited resources) might restrict SMEs’ ability to act as compared with MNEs, other SME peculiarities (e.g., ethical motives, trusting relationships, and emergent strategy formation—see below) might enable SMEs to act. Scholars’ emphasis on SMEs’ limiting peculiarities, and disregard of enabling peculiarities, risks underestimating the role SMEs can play as buyers in GPNs. As will be demonstrated here, if both limiting and enabling SME peculiarities are considered, one can demonstrate that SMEs can not only play a role in contested GPNs but they can play a role different from that of MNEs.

When exploring how the role of SMEs in contested GPNs can differ from that of MNEs, previous research into SMEs and CSR provides several useful suggestions. First, because ownership and control often coincide in SMEs, SME owner–managers are central to understanding the role of SMEs (Jenkins, 2009). Numerous scholars have demonstrated that SME owner–managers engage in CSR activities due to ethical, rather than profit, motives (Ciliberti et al., 2008; Dincer & Dincer, 2013; Jamali, Zanhour, & Keshishian, 2009; Preuss & Perschke, 2010; Spence, 2007; von Weltzien Hoivik & Melé, 2009). This internal drive often leads SME managers to become external champions of CSR (Jenkins, 2006). The SME emphasis on ethical motives contradicts the above-discussed assumption that firms are driven solely by

rational profit motives. This suggests that SMEs' potentially different role in contested GPNs will be linked to SMEs' ethical motives for engaging in CSR activities.

Second, SMEs are less visible to the public eye (Jenkins, 2004), rarely attract media attention (Jenkins, 2006), and are rarely the victims of boycotts or activist campaigns (Fitjar, 2011). This makes SMEs less responsive to institutional pressures (Jenkins, 2004). In other words, the central "name-and-shame" mechanism that is assumed to force MNEs to assume responsibility for worker rights is less influential among SMEs. Again, this suggests a more internally driven role for SMEs, as compared with MNEs, in contested GPNs.

Third, in their CSR activities, SMEs use more informal control mechanisms, and less formal systems, standard setting, and performance measurement than do MNEs (Jenkins, 2004, 2009; Spence, 1999). As Fassin (2008, p. 365) puts it, SMEs are "characterised by less formal structures and looser control systems, less documentation on transactions and fewer procedural hurdles." This focus on informal control runs counter to the CSR movement's general emphasis of formal standards and certifications, which is more in line with MNEs' than SMEs' way of organizing (Jenkins, 2004). However, formalizing CSR can be counter-productive (Fassin, 2008) and it is SMEs' "lack of inclination to embrace bureaucratic controls that can give the small firm the flexibility and responsiveness to demand" (Spence, 1999, p. 166). Compared with MNEs, SMEs' role in GPNs can be expected to build on more informal control and flexibility.

Fourth, with formal control and trust being the main mechanisms for coordinating GPN activities (Ciliberti et al., 2008), SMEs are more likely than are MNEs to form trusting relationships with their suppliers (Jenkins, 2004; Russo & Perrini, 2010). As Jenkins et al. (2004, p. 44) put it, SMEs form stakeholder relationships "based on a more informal, trusting basis and characterised by intuitive and personal engagement with less of a gap between the relative power and influence of company and stakeholder" as compared with MNEs, which are "far more likely to engage in carefully planned, formal, strategic stakeholder management with the majority of power to dictate outcomes lying with them." Trusting buyer-supplier relationships have been highlighted as central to improvements of worker rights in GPNs (Frenkel, 2001; Locke et al., 2009), and SMEs can be expected to leverage this peculiarity to their advantage.

Fifth, because ownership and control often lie with the same people in SMEs, SME managers have autonomy and legitimacy to exercise discretion in how to use company resources (Jenkins, 2006), perform the key functions of the company (Spence & Lozano, 2000), and are less pressured by quarterly results (Fassin, 2008). In addition, this ownership/control structure, through SME managers' involvement in day-to-day operations, leads to limited time and energy spent reflecting on strategic issues (Spence, 1999), less strategic planning (Fitjar, 2011), and more intuitive and ad hoc strategy formation (Jenkins, 2004; Preuss & Perschke, 2010). This is reinforced by most SME managers' being "inherently doers, doing the social activities is what is important, not writing or talking about them" (Fassin, 2008, p. 370). SMEs' strategies are thus likely to form in a patchy way through emergent, rather than deliberate, processes (Jamali et al., 2009; Mintzberg & Waters, 1985). While problematic in some instances, this SME peculiarity supports SMEs' well-documented advantages of being more flexible, adaptable, creative, and innovative than MNEs (Jenkins, 2006; von Weltzien Hoivik and Melé, 2009). More than MNEs, SMEs can be expected to base their role in contested GPNs on emergent strategies, flexibility, and innovation.

In sum, some SME peculiarities (e.g., resources and bargaining power) are, as noted in previous research, likely to restrict SMEs' role in contested GPNs. Other peculiarities (e.g., ethical motives, informal control, trusting relationships, and emergent strategy formation), however, mean that SMEs can assume a distinctly different, and previously overlooked, role in contested GPNs.

The Living Wage Challenge to GPNs

With the discussion of SME peculiarities, contested GPNs, and MNE and rationality biases in mind, it is useful to discuss how living wages have helped turn GPNs into contested organizational fields. Payment of a living wage has, for the last two decades, been a key demand of labor organizations (Gielissen, Dutilh, & Graafland, 2008; Klein, 1999; Starmanns, 2010). This is because workers in GPNs have difficulties surviving on current wages (Miller & Williams, 2009), current wages are far below a living wage level (McMullen & Maher, 2011), and wage increases are a central worker demand (Arnold & Bowie, 2003; Pollin et al., 2004).

Payment of a living wage would substantially improve workers' quality of life, as it generally implies 100–200% wage increases in countries such as China, India, and Bangladesh (Miller & Williams, 2009). It would also—all else being equal—increase production costs, forcing suppliers to charge more for their products.

Such price increases, however, would be in sharp conflict with buyers' downward pressure on prices (Blowfield & Frynas, 2005). As Jiang (2009, p. 88) puts it, “excessive overtime, low pay, and other poor working conditions are partly driven by unfair buying practice trends toward tough lead times and squeezing prices.” Barrientos (2013, p. 44) similarly argues that MNEs “subject suppliers to commercial pressures—through downward price pressures and flexible ordering systems—which underpin many poor working conditions, such as low wages, long overtime and casualised contracts.”

This clash between the great importance of wage increases to labor organizations (and workers) and buyers' downward pressure on prices has made living wages one of the most contested issues in the private regulation of worker rights in GPNs (Arnold & Bowie, 2003; Merk, 2009). This is illustrated by the fact that most companies reject a living wage standard and insist that private wage regulation be based on legal minimum, or prevailing industry, wages rather than on living wages (Blowfield & Frynas, 2005; Merk, 2009), while labor organizations constantly criticize MNEs and corporate-driven multi-stakeholder initiatives (e.g., FLA and BSCI) that do not include living wages in their policies (Anner, 2012; Starmanns, 2010; Yu, 2008).

A small group of companies has symbolically accepted payment of a living wage—most notably those that are members of multi-stakeholder initiatives such as the Ethical Trading Initiative (ETI) and the Fair Wear Foundation (FWF). However, within this small group, the implementation of “a living wage in supplier factories lags well behind the rhetoric” (Merk, 2009, p. 44) and living wages are regarded by suppliers “as irrelevant” (Braithwaite, 2011), implying that “acceptance [of a living wage] is more in principle than in practice” (Anker, 2011, p. 1; Miller & Williams, 2009). As Barrientos and Smith (2006, p. 16) concluded in their evaluation of eleven ETI companies, “codes had had almost no impact in terms of ensuring workers receive a living wage.” In other words, two decades of living wage challenges to GPNs have led to limited

symbolic compliance and close to no *substantive* compliance (George et al., 2006; Meyer & Rowan, 1977). This deadlock over payment of a living wage is a central reason why GPNs remain fields of political contestation. The deadlock also indicates that attempts to pay living wages will be resisted by dominant actors that benefit from the current status quo (Barley & Tolbert, 1997).

Corporate and labor organizations' focus on *whether*, rather than *how*, a living wage should be implemented is mirrored in research into living wages. Researchers have, for example, discussed the moral desirability (Arnold & Bowie, 2003) and employment consequences of MNEs in GPNs introducing living wages (Pollin et al., 2004; Powell & Zwolinski, 2012). Scholars have also considered how a living wage should be defined (Anker, 2011), and estimated the cost of paying a living wage (Pollin et al., 2004).

The few scholars who have moved beyond conceptual discussions of living wages and considered their implementation have analyzed how living wages *should* be (versus *are*) implemented. Miller and Williams (2009), for example, propose that buyers wanting to pay living wages need to: i) establish a living wage working party (comprising other brands, labor unions, NGOs, academics, and supplier representatives) to negotiate a living wage standard; ii) have their CSR departments help suppliers calculate a living wage for a specific factory; iii) ensure that local worker representatives participate in negotiations; iv) develop sophisticated monitoring to ensure that living wages are paid in practice; v) commit to stable long-term sourcing from the factory; and vi) collaborate about living wages with all other buyers sourcing from the factory. These suggestions clearly rest on the above-discussed MNE and rationality assumptions, with payment of living wages being framed as a carefully planned large-scale project.

Despite this extensive scholarly and practitioner conversation about living wages, few, if any, empirical studies examine how companies and other stakeholders in practice attempt to implement living wages. In other words, we do not understand why companies want to implement living wages in practice or the challenges they face in attempting to do so. This is problematic because it is in practice, rather than in theory, that living wages are supposed to

make a difference, so empirically grounded studies are necessary if we are to understand the challenges and underlying tradeoffs companies face when attempting to pay living wages. As will be demonstrated here, empirically grounded studies of living wage payments can also help challenge the MNE and rationality biases in previous research, since SME peculiarities make SMEs particularly likely to drive the payment of living wages.

Method

To examine the challenges and underlying tensions of implementing a living wage and the role of SMEs in contested GPNs, I make use of materials from a qualitative study of a Swedish SME's attempt to pay a living wage at its Indian supplier. Given the dearth of studies of both the role of SMEs in contested GPNs and of how living wages are implemented in practice, the reliance on a qualitative single-case study is in line with previously proposed methods (Lee, 1999; Marshall & Rossman, 1995). The focus on the Swedish SME (Nudie Jeans Co—"Nudie") is merited because it is one of the few companies that have attempted to pay a living wage in practice, while the focus on its Indian supplier (Armstrong Knitting Mills—"Armstrong") is merited because it is the site where Nudie is paying a living wage.

The Nudie case could be considered a "critical case" as it challenges the prevailing assumption that SMEs cannot act as institutional entrepreneurs in contested GPNs, and aims to extend the scholarly conversation by showing that SMEs are likely to play a different role than MNEs in contested GPNs (Yin, 2003, p. 40). In line with other critical cases, the study, thus, by challenging existing assumptions, aims to refocus future research into companies' roles in contested GPNs (Yin, 2003). The Nudie case could potentially also be considered a "unique case" (Yin, 2003, p. 40-41), i.e. Nudie could be a rare exception to the rule of a limited role for SMEs in contested GPNs. Future studies will have to explore this possibility by more systematically studying the role of SMEs in contested GPNs. Still, the findings of this study (see last paragraph sub-section "The Living Wage Project and its Expansion") indicate that the Nudie case is rather a critical than unique case.

The study of Nudie's payment of living wages is part of a larger study of Nudie's sustainability practices, including its use of organic cotton, free repair service for its products, and work on

supply chain transparency. Material for the study was gathered from interviews and written documentation. Between 2012 and 2013, over 20 Nudie representatives were interviewed using semi-structured interviews (several representatives on multiple occasions, with some interviews not being relevant to the living wage study). This included interviews with all owners, all members of the top management teams, CSR managers, representatives of all corporate departments, and all representatives involved in the living wage project. This selection meant that all owners and top managers, representatives of all departments, and all representatives involved in the living wage project were interviewed. All interviews were conducted at Nudie's Swedish headquarters, mostly in Swedish, and 80% of the interviewees were male. The interviews focused on Nudie's supply chain, sourcing strategies, sustainability activities, corporate strategy, motives for paying living wages, and, most importantly, the concrete details, challenges, and opportunities of the living wage project (e.g., calculations, tradeoffs, and key decisions).

At Armstrong (the Indian supplier), 12 managers (several on numerous occasions) and over 40 workers were interviewed. The interviews with managers were semi-structured and included interviews with the owners, members of the top management team, and all managers directly involved in the living wage project. This selection meant that all relevant Armstrong managers directly or indirectly involved in the living wage project were interviewed. All interviews were conducted at Armstrong's units in Tiruppur, India, and all interviewees were male. The interviews focused on Armstrong's relationships with buyers, corporate strategy, sustainability activities, motives for paying living wages, and, most importantly, the concrete details, challenges, and opportunities of the living wage project.

Worker interviews were structured and conducted on-site and off-site in Tiruppur, India. The selection of worker interviewees was guided by the intention to interview as heterogeneous a sample of employees as possible in terms of differences in factory department, sex, age, and place of origin. In addition, the selection was guided by the intention to interview those workers who were likely to know about the living wage project, for example, those participating in worker representation committees. Hence, the focus in selecting employees was on breadth of experience and knowledge of the studied project (cf. Kvale, 1996). The workers represented both

sexes (fairly equally) and various places of origin and factory departments (e.g., CMT, spinning, and knitting). The interviews focused on workers' backgrounds, work tasks, salary, knowledge of the living wage bonus, involvement in the living wage project, and use of the living wage bonus. Workers not receiving the living wage bonus were also asked about why they had not received the bonus.

In addition to interviews with Nudie and Armstrong representatives, 15 semi-structured interviews were held with Swedish, international, and Indian stakeholders involved in the studied living wage project and/or the international living wage debate. These included representatives of NGOs (e.g., Amnesty, Fair Wear Foundation,⁶ Clean Clothes Campaign, and SAVE⁷) as well as labor union representatives, social auditors, and workers from other garment factories in India. These interviews focused on the rise and development of the living wage movement and/or details of Nudie's living wage project in which the stakeholders had been involved.

The interviews with Nudie, Armstrong, and stakeholder representatives lasted on average two hours each and were recorded and transcribed; worker interviews lasted on average fifteen minutes each and were recorded and transcribed. In approximately a third of the interviews with Armstrong managers and in nearly all worker interviews, an interpreter was used due to language barriers. To minimize interviewer and interpreter biases (although these were likely still present), detailed and factual followup questions were asked to complement initial open-ended questions (cf. Boyd & Westfall, 1965; Davis & Silver, 2003). Written documentation (i.e., emails, PowerPoint presentations, Excel spreadsheets, weekly production reports, remuneration lists, and internal documents) were used both to complement and validate the information provided in interviews.

⁶ FWF is a Dutch-based European nongovernmental multi-stakeholder organization that independently verifies European companies' performance and efforts to improve working conditions at their suppliers.

⁷ Social Awareness and Voluntary Education (SAVE) is a Trippur-based NGO whose mission is the empowerment of women and development of workers in the garment industry. It collaborates with FWF and has been actively involved in living wage discussions in the garment industry.

The transcribed interviews and written documentation were coded to create a chronological account of the living wage project and to identify key challenges facing it. There were few inconsistencies between the information obtained from the verbal and written sources. When inconsistencies were identified, either between interviews or between written and verbal sources, they were discussed with the relevant involved actors and, if still unresolved afterwards, were included in the case description to transparently present divergences of opinion. An earlier version of the empirical section of this paper was then sent to key representatives of Nudie, Armstrong, and the stakeholders, so they could validate the project description. The interviewees' suggested changes were incorporated into the final description of the project. Finally, based on the chronological account, description of key challenges, and coded material, analytical themes were developed regarding tradeoffs in paying living wages, North/South tendencies in the project, the link between policies and practice, and the role of SMEs in GPNs. This was done partially inductively, but with guidance from the above-discussed GPN, private regulation, and CSR and SME literatures, and formed the backbone of the analysis.

Nudie's Payment of a Living Wage at Armstrong

Nudie's Road to Sustainability before the Living Wage Project

Nudie is a garment retail company, founded in 2001, with its head office in Gothenburg, Sweden. In 2011, its annual turnover was EUR 40 million with profits of EUR 5 million. Eighty percent of Nudie's turnover comes from jeans with the remaining 20% coming from t-shirts, shirts, jackets, and various accessories. The company is fully owned by its three founders, who still hold key positions in the company (including CEO and chairman of the board), and has 35 employees at the head office and a total of 50 employees, including at its stores.

Sustainability has been part of Nudie's operations from the beginning, exemplified by its 2002 collaboration with Amnesty Sweden, which resulted in specially designed human rights t-shirts. With market surveys indicating that sustainability concerns score at the bottom of customers' reasons for buying Nudie products, the motive for engaging in sustainability activities stems from the owners' personal values of wanting to do the right thing and a belief that sustainability can be a source of future competitive advantage. As the CEO put it, "it has always been central for us [i.e., the owners] to be able to go to sleep at night knowing that those that work and

produce for us are doing well.” Interviewed stakeholders confirm the strong ethical drive of Nudie’s owners with, for example, an Amnesty representative stating that “it is like talking to someone at Amnesty when talking to her [i.e., one of the owners].”

A consequence of Nudie’s striving to produce high-quality products in a responsible manner was that it initially sourced only from Europe (mainly Italy and Portugal). This changed in 2011 when Nudie shifted production of its backbone collection (simple everyday t-shirts) and its newest Amnesty collection (the “Empowerment” t-shirts) from Portugal to India to lower costs and allow the use of Fairtrade cotton (not available to Nudie in Portugal). Still, as of 2013, Nudie sources over 95% of its production from Europe and has only two suppliers outside Europe, one in Tunisia and one in India. Nudie sources approximately 2% of its production from each of these suppliers and Nudie’s production similarly constitutes approximately 2% of these suppliers’ production. Like most SMEs, Nudie has limited leverage over its non-European suppliers, but, compared with most SMEs, Nudie sources a higher percentage of its production from Europe.

Initiating the Living Wage Project

The move to India was “a big deal” for several Nudie representatives who “were very proud of only having produced in Europe” (interview, Nudie customer relations manager and store manager), sparking discussion of living wages at Nudie. Nudie had, since 2009, been a member of the Fair Wear Foundation (FWF), which included payment of living wages in its code of conduct, but with production in Europe, living wages had not been high on Nudie managers’ agenda. However, it became clear during the initial supplier visits to Armstrong Knitting Mills, in 2010 that current wages fell well below a living wage level. This was seen as problematic by Nudie managers and Amnesty Sweden representatives. As an Amnesty representative put it in relation to the Empowerment t-shirt, “we can of course never participate in violations of human rights, so paying a living wage is simply a must when we put our brand on a product.”

To move forward, Nudie decided, together with Armstrong, to participate in an FWF and Fairtrade International (FLO) pilot project aimed at, among other things, calculating the cost of paying living wages. The pilot project built on prior work conducted by the international and

Indian living wage movement by, for example, basing its calculations on Asia Floor Wage's definition of a living wage.⁸ In 2011, the pilot project estimated that paying living wages at Armstrong would require 140% wage increases and cost Nudie EUR 0.26 per t-shirt.⁹ The estimate was important because it indicated that it was feasible to pay a living wage. As the CSR manager put it,

When you talk to other companies at seminars and meetings, you get the impression that if you double or triple the wages the retail price will also double or triple. So having a calculation that showed that it was actually not that expensive, provided arguments for discussing it with our owners.

At the end of 2011, Nudie came to an agreement with Armstrong to attempt to pay living wages for the Empowerment t-shirts to be produced in fall 2012 (approximately 16,000 pieces, retail price EUR 39 with EUR 10 per piece being donated to Amnesty). Paying a living wage for only the Empowerment t-shirts, rather than Nudie's entire production at Armstrong, made sense "because it was easier to start with a specific product as a test ... and Amnesty's demands made it reasonable to start with the Empowerment t-shirt" (interview, Nudie CSR manager). The willingness to do something in practice was related to Nudie managers' view that the living wage debate at CSR conferences they had attended "was all talk and no action" (interview, Nudie product development manager). Nudie managers, focusing more on doing than discussing, consequently saw the opportunity to move beyond fancy words to actions. As one of the owners put it, "the biggest lie is that it is the thought that counts—it is only actions that count ... We said let's simply do it—it does not have to be perfect from the start." No strategic or long-term discussions preceded the decision to pay living wages for the Empowerment t-shirts. It was simply a small-scale trial-and-error attempt. As the CSR manager said when asked about expanding the project to the entire production at Armstrong and other countries, "we have not really got that to discussion yet."

⁸ Asia Floor Wage (AFW), a coalition of labor organizations, has calculated a living wage that can be standardized and compared between various countries, mainly in Asia; for more information, see Merk (2009) and Miller and Williams (2009).

⁹ End report FLO pilot option 1: independent verification (accessed at www.fairwear.org, 2013-03-02).

Nudie's main motive for paying living wages was that it was the right thing to do. In addition, it was seen as a way to improve the quality of the products through increased productivity, reduced turnover, and increased worker involvement. Finally, it was "of course also nice to be first with living wages" even though "that was not the reason for the project" (interview, Nudie CSR manager).

Armstrong's Road to the Living Wage Project

Before describing the actual living wage project, it is useful to have a background understanding of Armstrong's operations. Armstrong Knitting Mills was founded in 1969, produces for export markets, and is located in the Tiruppur garment manufacturing cluster in Tamil Nadu in South India.¹⁰ The company is a vertically integrated garment factory comprising spinning, knitting, dyeing, and CMT (cut, make, trim) units. It is profitable, family owned, and has around 1200 employees. Armstrong pays wages similar to those of other garment factories in the region, somewhat more than the legal minimum wage, but cannot afford to pay a living wage unless brands accept increased purchasing costs.

In the early 2000s, Armstrong decided, after a customer request, to shift its focus to organic fabrics both to differentiate itself from other garment factories and to do the right thing. Armstrong is also SA8000 certified, uses Fairtrade-certified cotton, and engages in numerous sustainability activities such as providing eye care for workers and reducing CO₂ emissions. According to the CEO, the company wants "to be a frontrunner in sustainable textiles." Several of Armstrong's customers also publicly praise the company's work; for example, Pants to Poverty praises it as "the greatest garment factory in India" in terms of sustainability.¹¹

The living wage discussions at Armstrong started in 2011 when Armstrong participated in an FLO worker empowerment project. During this project, it became clear to Armstrong managers that one of their workers' main concerns was wage levels. Parallel to the FLO project, the

¹⁰ See Geert De Neve (2008, 2009) for descriptions and analyses of the Tiruppur garment manufacturing cluster and of labor politics in Tamil Nadu.

¹¹ <http://www.pantstopoverty.com/pages/the-factory>

FWF/FLO living wage project with Nudie took shape and became the natural way for Armstrong to advance the wage discussion. Armstrong discussed the notion of living wages with several buyers (mostly MNEs), but Nudie was the only one willing to move beyond discussions. In the words of Armstrong's CEO,

Our customers are asking questions rather than, like Nudie, supporting action. Is this calculation and definition correct? Are you doing it in the right way? Even if it is not perfect, we at least want to give workers more money. I cannot see how this can be wrong. If we make mistakes, we will change but at least we are trying to do good.

Armstrong managers had several motives for wanting to pay a living wage. First, they stressed that it was the right thing to do and something that they wanted to do for the workers. As Armstrong's customer relations manager put it,

Fairtrade only speaks to the farmers, and they are the only ones who get better wages. The living wage projects will give additional income to workers in the whole supply chain and this is only fair.

Second, several managers made a connection between increased payments, more satisfied workers, and quality and productivity improvements. Managers, for example, believed that when workers received extra payment they would become more disciplined, work oriented, and motivated. This in turn was believed to improve product quality, reduce scrap rates, and lead to more efficient production. As the chief financial manager put it, "if workers receive higher wages they will be enthusiastic and empowered, making them want to work in such a way that the output will improve." These quality and productivity improvements could potentially reduce production costs and create savings that could be used for further wage increases.

Third, Armstrong managers saw the potential to use the increased wages to help recruit workers and improve retention rates. Armstrong faced worker turnover rates of 15–20% per year and wage levels were a key reason for leaving the factory. Increasing wages through living wage projects could help recruitment and improve retention rates.

The Living Wage Project and its Expansion

The practical details and specific challenges associated with the living wage project are discussed in the following section “Key challenges in the living wage project.” Fully understanding these challenges calls for an overview of the project. In fall 2012, production of the Empowerment t-shirts commenced. At the end of 2012, both the production and the living wage calculations were completed, and in January 2013, Nudie paid its first living wage bonus for the Empowerment t-shirts. Shortly after this, Nudie’s top management team met to discuss how to proceed. As input for this meeting, the financial manager had estimated a cost of approximately EUR 25,000 per year to pay living wages for all Nudie products produced at Armstrong. As Nudie had not developed a strategic plan before the first Empowerment trial-and-error project, Nudie’s CSR manager stated before the top management meeting that “the living wage project could be all over after the meeting on Thursday.”

Nudie’s top management team not only decided to expand living wage payments for all Nudie products produced at Armstrong, but also to pay a retroactive living wage bonus for all the products that had been produced in parallel with the Empowerment t-shirts at Armstrong in fall 2012. This decision was made despite such payments lowering the profit margins for some products below Nudie’s minimum, and was related to the total cost being relatively low. As one of the owners put it, “it is too little money to merit doubts, so let’s just move ahead.” To cover the costs of future living wage payments, however, Nudie managers considered price increases to retain their normal margins.

A few days after the top management meeting, public debate arose in Sweden about H&M’s refusal to pay living wages despite high profit margins. This led the CEO of Nudie to launch a press release about the project with Armstrong to demonstrate that the payment of living wages is possible. As one of the owners put it, “it was important for us to show that companies can pay a living wage in practice.”

To the surprise of several Nudie managers, this press release was met with more concern than praise. For example, FWF representatives contacted Nudie expressing concerns that the project had not been evaluated and verified before the press release. H&M representatives contacted

Nudie questioning some of the choices of the living wage project, arguing that the distribution of a living wage to some, but not all, workers was unfair (see section “Key challenges in the living wage project” for more details). Nudie managers responded that, though this might be a practical concern, it was still more fair to pay some workers extra than not to pay anyone extra at all. As the product development manager recalled,

She [i.e., the H&M manager] talked about uneven distribution causing chaos in the factory and that it was important to be fair when paying living wages. She really stressed the fairness argument ... I eventually said that the fair thing then must be for H&M to pay a living wage to all workers at all their suppliers. I never really got any response to this.

In addition, other buyers contacted Armstrong requesting the removal of Armstrong’s name from the description of the living wage project on Nudie’s website. They were afraid that it would either reflect negatively on them, as they did not pay a living wage, or allow interested potential buyers to source directly from Armstrong (bypassing them as agents). Despite these reactions, both Nudie and Armstrong are, as of mid 2013, attempting to scale up the project by convincing other buyers at Armstrong to start paying living wages. These attempts seem to have had some initial success, at least one European SME being seriously interested in starting to pay a living wage at Armstrong.

Key Challenges in the Living Wage Project

How to Calculate a Living Wage?

In addition to the above-described overall challenges encountered in the living wage project, the project faced several specific practical challenges worth discussing. One such challenge was how to calculate a living wage. As FWF had made the living wage calculations in the FLO/FWF project, Nudie and Armstrong managers were uncertain how to make the calculations themselves. In 2012, HR managers at Armstrong therefore started to collect information about living wages from numerous sources, such as local NGOs and labor unions involved in the Indian living wage movement, FLO, FWF, Asia Floor Wage, SA8000, and other international certification bodies

and auditors. While several of these organizations provided estimated living wages for India (and even for Tiruppur), Armstrong managers wanted to develop a calculation specific to their factory.

The HR managers therefore developed a food basket survey (based mainly on SA8000 guidelines), distributed to over 100 workers, that asked about the number of family members in household, number of family members earning money, and the daily food cost. This was complemented by interviews with workers, workers' families, teachers, doctors, and other stakeholders to arrive at costs for clothing, housing, education, medical expenses, transport, and savings. The living wage calculated by Armstrong (INR 8550) was lower than Asia Floor Wage's (AFW) living wage for India in 2012 (INR 12,096), but higher than the AFW living wage in 2011 used in the FWF living wage calculation (INR 7967).

Armstrong's HR managers then calculated the current average wage for workers in different CMT departments based on regular working hours (48 hours) plus approximately nine hours of overtime per week. By comparing the living wage and current wage estimates, the HR managers concluded that a wage increase of 30–50% (depending on department) would be necessary to reach a living wage. This differed greatly from FWF's 2011 estimate of a 140% wage increase, much of the difference stemming from FWF's use of a 40-hour and Armstrong's of a 57-hour working week (including higher overtime compensation) to calculate the current average wage. Armstrong's HR managers seem to have been unaware of international stakeholders' emphasis on calculating living wages based on "regular" working hours, so their inclusion of overtime stemmed more from locally taken-for-granted ideas than a rejection of the international stakeholders' way of calculating. For workers, the inclusion of overtime is undesirable, because it lowers the difference between the average and living wage, i.e., workers receive a smaller wage increase. For buyers, the inclusion is arguably desirable, because it lowers the cost of paying a living wage.

Based on an estimated average production time per product, the total added cost of paying living wages was estimated at EUR 0.2–0.5 per item, depending on the type of Nudie product. Interestingly, this conclusion was similar to FWF's (FWF EUR 0.26 versus Armstrong EUR 0.2 for Empowerment t-shirts), despite the vast wage increase differences (FWF 130% versus

Armstrong 30–50%). This was because the average production time in Armstrong’s calculations was nearly twice that in FWF’s calculations. One reason, in addition to a lower wage increase, why Armstrong’s total cost was lower than FWF’s was that Armstrong calculated only the costs for CMT units while FWF included spinning, knitting, dyeing, and CMT units. Armstrong managers did this to limit the brand’s cost of paying living wages and increase the odds of brand acceptance. As the chief operations manager explained,

As a first step, we included only CMT. If you include knitting, spinning, and everything, the cost will make buyers scared.

Nudie played a limited role in calculating the living wage, mainly because Nudie trusted Armstrong to make correct calculations and partly because Nudie managers did not know how to calculate a living wage. As Nudie’s CSR manager explained, they “asked Armstrong to make the living wage calculations” and mainly “checked whether the end result [i.e., an extra EUR 0.2 per Empowerment t-shirt] was similar to Fair Wear Foundation’s calculations [i.e., an extra EUR 0.26 per Empowerment t-shirt.” Nudie’s poor understanding of Armstrong’s calculations was obvious in their press release, which stated that living wages were calculated based on AFW calculations (i.e., INR 12,096 rather than INR 8550) and amounted to 2.5 times current wages (i.e., a 250% wage increase rather than a 30–50% increase).

A Living Wage or a Living Wage Bonus?

Once the cost of paying living wages had been calculated, the question arose of whether Nudie’s additional payments should be part of the regular wage or a separate bonus. Nudie ideally wanted it to be part of the regular wage. As Nudie’s CSR manager explained, “hopefully we can get the living wage payment on the pay slip as soon as possible.” Armstrong, on the other hand, opted for bonus payments, because if workers received the extra payments as part of their monthly wages, they would start expecting this additional income each month. This would put Armstrong in a problematic situation vis-à-vis their workers if Nudie, for some reason, reduced orders. As the CEO explained,

There is no commitment from the brand that it will provide this every month. Next month orders might increase or decrease—there is no commitment. But

once we start paying it as a wage, it is a commitment that we have to continuously fulfill. Without financial support from the brand, this would be very difficult for us. This is why we proposed that it would be like a bonus whenever Nudie produces here.

Paying the living wage as a bonus also had the additional advantage that workers would specifically look forward to Nudie's orders, potentially leading to better production outcomes for Nudie. Another reason for paying the living wage as a bonus was that taxes would increase if the payment was incorporated into the regular wage payments. By making the living wage payment a "gift," all Nudie's living wage funds could be transferred directly to workers. Finally, infrequent bonus payments, as compared with regular wage payments, provided incentive for workers to stay with Armstrong until the bonus was paid. As the chief operations manager put it, "we want to control the turnover and if the bonus is large and workers know that they will get it on a specific date, no one will leave until the bonus is paid." In the end, Nudie agreed to pay the living wage as a bonus, as it currently comprised such a small and irregular total amount.

Who Should Receive the Living Wage Bonus?

The next tricky question was who should receive the living wage bonus. Because the living wage calculations had included only CMT workers, Armstrong managers opted to pay the bonus solely to CMT workers. This meant that only approximately 700 of Armstrong's 1200 employees would receive the bonus and that each of these 700 employees would receive a one-time payment of around EUR 4. Limiting payments to the 700 CMT workers (versus all 1200 workers) was important to both Nudie and Armstrong, as otherwise it would "be too little to share with everyone—it has to amount to something for those who receive it" (interview, Armstrong CEO). Nudie's CSR manager similarly argued that,

We ideally wanted all workers to receive the bonus, but it would then amount to close to nothing. The whole project could then be dismissed, because it would not really lead to anything for workers ... We left it to Armstrong to decide how to divide it in as fair a way as possible.

The prioritization of the CMT workers led to some questions from workers in the spinning and knitting units about their not receiving the bonus. In response, Armstrong managers explained that the goal was to “stage by stage cover the other units as well” (interview, Armstrong marketing manager). Another group not receiving the bonus was workers leaving the factory after completion of the Nudie order but before the bonus payment. These workers’ bonuses were retained and distributed to workers in the next bonus payment.

The first living wage bonus for the Empowerment t-shirts was distributed to the 700 CMT workers in January 2013, and the subsequent bonus for the backbone collection produced in fall 2012 would, if distributed only to CMT workers, amount to around EUR 15–20 per person. To further increase the impact of the living wage bonus for workers, Armstrong managers proposed moving Nudie’s production to the smaller of the two CMT units (about 250 workers). Restricting payments solely to workers in the smaller CMT unit would raise the amount of the bonus to EUR 50–60 (versus EUR 15–20) per person per six months (roughly equivalent to a 10–15% monthly wage increase). Nudie managers saw the potential advantages of this, because it would lead to better working conditions for those producing their products, make it more attractive to work on Nudie’s production, and potentially reduce turnover rates in their production (in turn improving quality and delivery timeliness). This was also the distribution solution communicated in Nudie’s press release in early February 2013.

In March 2013, however, Armstrong managers changed their minds, realizing that wage differences between the two CMT units might cause “grievances and conflicts” (interview, CEO), be “unfair and unequal” (interview, production manager), and be “biased and discriminating” (interview, production manager). This view was supported by the interviewed local NGO representatives, who argued that paying only some workers would “bring inequality, make the rest of the workers feel bad, and maybe even make some quit their jobs” (interview, SAVE representative). Armstrong therefore proposed that, in the future, the bonus should also be paid to all CMT workers. Nudie managers accepted this as they perceived that Armstrong was better equipped to make this decision.

Equal or Differentiated Payments?

With the calculations, the wage versus bonus discussion, and decision on who should receive the bonus out of the way, the question became how to distribute the bonus among the CMT workers. On the one hand, it made sense to give low-income workers a higher living wage bonus than high-income workers, because they were most in need of wage increases and had lowered the average wage in Armstrong's living wage calculations, thus raising the living wage payments from Nudie. Nudie managers also indicated that they prioritized raising low-wage workers' wages.

On the other hand, differentiated payments would reduce wage differences based on skill levels. This troubled Armstrong managers, because it would reduce incentives for worker skill development. As the chief operations manager put it, "if everyone makes the same wage, the tailor will think 'Why did I educate myself to be a tailor if I still get the same pay as a helper?'" Reduced pay differences would undermine the incentives to participate in Armstrong's ongoing skill training of workers. In addition, differentiated payments could be perceived as unfair by the more skilled workers and as going against the equal treatment of workers in the factory. As the financial assistant explained, "if we give less to some, they will feel that we are treating them differently, so to avoid this we want to distribute the bonus equally." In the end, Nudie accepted Armstrong's proposal to pay an equal amount to all CMT workers (EUR 4 per person in the first Empowerment payment and EUR 15–20 in the second backbone payment). A consequence of this is that some CMT workers will receive pay higher than the living wage thanks to their current relatively high wage level.

How to Communicate to Workers?

While living wages have been intensively discussed on the international scene in recent decades, workers at Armstrong did not know what a living wage was. Because Armstrong managers rather than workers had driven the living wage project, when paid the living wage bonus, workers had to be informed of the reason for the payment. This was done through a note stating that it was Armstrong and Nudie that provided the bonus to workers and that Armstrong's products had to be of high quality and delivered on time in order to increase future living wage payments.

When asked why they had received a living wage bonus, the interviewed workers gave a wide range of answers. Some knew that the bonus came from a particular buyer, with some identifying Nudie as that buyer, while others thought that it came from Armstrong. Workers gave numerous reasons why they received the bonus, such as improved quality, increased orders, improved productivity, and on-time delivery. Rarely did they state, however, that receiving a higher wage was a human or worker right. Workers mainly used the first bonus for clothes, family expenses, savings, school expenses, and medical expenses; they appreciated the unexpected living wage bonus and hoped to receive additional bonuses in the future. While those who received the bonus appreciated it, some workers, for example, in the spinning unit, who did not receive the bonus questioned why they did not.

Underlying Tradeoffs in Payment of a Living Wage

The Nudie case illustrates that paying a living wage is a complex undertaking involving numerous difficult decisions (e.g., how to calculate the living wage, and to whom and how to pay the wage). It demonstrates that coping with an increased purchasing price is just one of the many challenges of paying living wages. The case also demonstrates that, in contrast to the often straightforward suggestions about how firms *should* implement living wages (e.g., Miller & Williams, 2009), there are two underlying tradeoffs when actually paying them.

The first tradeoff is between the relevance of living wage payments to workers and the fair distribution of these payments. Buyers, especially SMEs, often purchase only small percentages of suppliers' production, leading to limited total amounts to be paid to workers if only one buyer pays a living wage. If this limited amount is distributed to all workers, it risks being regarded as irrelevant by them. In Nudie's case, the payments would, if distributed to all 1200 Armstrong workers, amount to only a 2–3% wage increase per month. This small increase is problematic, since payment of living wages should substantively improve workers' quality of life (Arnold & Bowie, 2003; Merk, 2009) rather than representing only marginal wage increases. To make living wage payments relevant, buyers and suppliers have incentives to reduce both the number of workers receiving payments and the frequency of payments. In the Nudie case, this is evident in the decision to pay the living wage as an infrequent bonus rather than a continuous wage, the

sole focus on CMT workers, and the initial decision to limit payments to one of the two CMT units.

The flipside of a meaningful living wage bonus is unfair distribution. When living wages are paid as an infrequent bonus, workers leaving the factory before the bonus payment lose out. When only certain workers receive living wages, this raises the question of why these, and not other workers, deserve fair payment. As Pollin et al. (2004, p. 167) put it, “there is no logical reason to exclude low-wage workers at different points in the commodity chain.” In the Nudie case, workers not receiving the bonus raised the valid question of why they did not have the same right to a bonus as did workers in the CMT units. Hence, firms, particularly SMEs, interested in paying living wages face the tradeoff between making payments relevant to workers and distributing them fairly.

The second tradeoff is between a private regulation logic and a factory management logic regarding living wage payments. Living wages are integral to labor organizations’ view of private regulation and are intended to lift workers out of poverty (Klein, 1999; Starmanns, 2010). From this perspective, low-wage workers should be prioritized and benefit the most from living wage payments. This logic is exemplified in the US company Knights Apparel’s Alta Gracia Apparel factory in the Dominican Republic (the globally best-known factory paying living wages), where all workers receive the same wage regardless of skill differences and job difficulties, and traditional low-wage workers, consequently, benefit more than do higher-wage workers from the living wage system (Kline, 2010). Furthermore, according to a private regulation logic, living wage payments should be communicated to workers as a human right.

In sharp contrast to this, Nudie’s living wage payments at Armstrong build on a factory management logic. Here, pay hierarchies based on skill differences and job difficulties are central and undifferentiated wages are seen as reducing skill development incentives for workers (cf. Miller & Williams, 2009; Pollin et al., 2004). This, in turn, becomes problematic when highly skilled workers (e.g., tailors) are lacking and the factory must depend on skill progression and internal recruitment to manage production. A factory management logic favors equal monetary bonus payments to all workers even though low-wage workers are more in need of

additional income and some high-wage workers make more than a living wage. In addition, treating wage increases as a human right (versus, for example, a reward for productivity or quality improvement) puts suppliers in a difficult position, as they cannot provide a full living wage unless all buyers agree to pay a living wage. Hence, firms interested in paying a living wage face the tradeoff between adhering to the private regulation logic that likely led them to pay a living wage or to the local logic at the factories where they produce.

In sum, firms attempting to pay a living wage in practice face not only challenges but also tradeoffs. As will be demonstrated in the next section, there are reasons to believe that SMEs will handle these challenges and tradeoffs differently from MNEs. In particular, SMEs can be expected to handle the private regulation versus factory management tradeoff differently and to challenge the prevailing Northern bias in CSR initiatives.

SME Peculiarities Shaping Payment of a Living Wage

SME Peculiarities Challenge Northern Bias in CSR Initiatives

CSR in general, and private regulation of worker rights in particular, has often been driven by a Northern agenda with limited involvement of local (i.e., Southern) actors (Bartley, 2007; Blowfield and Dolan, 2008; De Neve, 2009; Jamali et al., 2009). As Khan, Munir, and Willmott (2007, p. 1070) put it after having studied private regulation of soccer ball production in Pakistan, what mattered “was that the sensibilities of western consumers had been soothed, as the reputation of the branded balls was restored ... whether the stitchers approved of the means through which the ‘problem’ was solved or whether they welcomed the new practices was apparently of little interest to the companies and most of the NGOs.” This has led to the criticism that private regulation represents colonial ethnocentrism (Tharoor, 1999–2000), can do more harm than good (Prieto-Carrón, Lund-Thomsen, Chan, Muro, & Bhushan, 2006), and should be transformed to “incorporate the voices of suppliers, workers and communities in the design, implementation, monitoring” to ensure that local actors’ priorities shape private regulation “as opposed to what Northern companies, trade unions, NGOs, and consultants think they ought to prioritize” (Lund-Thomsen, 2008, pp. 1012–1013).

Interestingly, the Northern bias is not as prevalent as might be expected in the Nudie case, with Indian supplier Armstrong, rather than Nudie, driving the practical aspects of the living wage project and making the key decisions. This difference between the previously studied MNE initiatives and the Nudie case can be linked to the peculiarities of SMEs. Being an SME, Nudie had limited power vis-à-vis Armstrong (purchasing only 2% of Armstrong's production) and lacked the resources to be present in India (cf. Knudsen, 2013). This reduced its ability to drive and continuously audit the living wage project. Limited power and resources also meant that Nudie lacked in-depth knowledge of how a living wage "should" be calculated and implemented, making it difficult for Nudie to force solutions on Armstrong. Nudie had to rely on informal control mechanisms, in line with the expectation in the SME and CSR literature (Jenkins, 2004, 2009; Spence, 1999). Furthermore, Nudie's limited formalization of its living wage project (e.g., no living wage policy and no implementation plan) (cf. Fassin, 2008; Jenkins, 2004) allowed Nudie and Armstrong to solve challenges and tradeoffs in ad hoc, emergent, and flexible ways that were responsive to the local context (cf. Jenkins, 2004; Preuss & Perschke, 2010).

This flexibility and Southern drive was also enabled by another SME peculiarity: trusting supplier relationships (Jenkins, 2004; Russo & Perrini, 2010). Nudie managers constantly stressed that they trusted Armstrong to calculate a living wage correctly, distribute it fairly, implement it suitably, etc. This trust was, in turn, related to Nudie and Armstrong's joint perception that the main motive for paying living wages was to do good (cf. Jamali et al., 2009; Spence, 2007). If supplier managers are viewed as attempting to do good rather than as rational actors unwilling to voluntarily improve worker rights (Locke et al., 2009; Pollin et al., 2004), it is of course more likely that buyers will allow their Southern suppliers', rather than Northern stakeholders', priorities to shape implementation.

SME peculiarities—i.e., limited resources, informal control, emergent strategy, trust, and ethical motives—limited the Northern bias in the Nudie case. This raises the question of how to understand CSR initiatives that are not solely vertically forced through GPNs but also horizontally embedded in local contexts. One useful way to approach this question is to describe such initiatives as local translations of global institutional pressures (Czarniawska & Sevón, 1996). Nudie and Armstrong translated the international rationalized and impersonal living wage

myth to fit the specific context of Armstrong's production units (Zilber, 2006). The outcome of this translation resembled a hybrid of Northern and Southern elements (cf. Dacin, Goodstein, & Scott, 2002), and was shaped by Armstrong managers' strategic interests (Goodrick & Salancik, 1996) and their taken-for-granted ideas (Love & Cebon, 2008).

Armstrong managers' strategic interests, for example, led to living wages being: i) paid infrequently as a bonus rather than as a wage in order to improve worker retention rates, ii) distributed equally to retain skill level differences, and iii) described as stemming from productivity and quality improvements rather than as a human right. The managers' taken-for-granted ideas, for example, led to living wage calculations: i) being based on actual working hours (including overtime) rather than on regular working hours as prescribed by international stakeholders, and ii) including only CMT units to lower the cost of paying living wages so as not to deter buyers (cf. Barrientos, 2013; Jiang, 2009). Through this translation process, Armstrong managers were able to shape the living wage project so that it was perceived as legitimate inside the factory and did not challenge internal power relationships (cf. Boxenbaum, 2006).

While the ability of Armstrong managers to locally translate the living wage myth contributed to the Southern drive in the project, it also reduced the role of workers in the project. Workers, for example, were neither involved in key decisions nor knowledgeable as to why they were receiving living wage bonuses. This is in sharp contrast to international stakeholders' prescription that workers must play an integral part in the payment of a living wage (McMullen & Maher, 2011; Miller & Williams, 2009). As Merk (2009) puts it, "enforcement can **ONLY** be done effectively with union and workers representatives as part of the process" (p. 59; emphasis in original). In this respect, the living wage project resembled Northern-driven CSR initiatives in which workers are not empowered to participate in defining their rights, and in which process rights (e.g., freedom of association) are rarely improved (Anner, 2012; Barrientos & Smith, 2007).

In sum, SME peculiarities likely challenge the Northern bias observed in MNEs' CSR initiatives, indicating a distinct role for SMEs in contested GPNs. However, this does not necessarily lead to challenges of internal power relationships at suppliers or more involvement of workers, because

SME peculiarities (e.g., limited resources, informal control, and trusting relationships with supplier management) cause SMEs to shift influence to supplier managers rather than workers. Hence, while SMEs allow latitude for local actor involvement in contested GPNs, supplier managers rather than workers are likely to be the main actors involved.

SME Peculiarities and Decoupling of Symbolic and Substantive Actions

The SME peculiarities of informal control, trusting relationships, and limited resources not only lead to Southern-driven implementation but also likely, at least temporarily, to the decoupling of SME projects' symbolic and substantive actions. This is because informal control and trusting relationships are closely linked to minimized and ceremonial inspections that are in turn prerequisites for decoupling (Meyer & Rowan, 1977). Nudie, for example, had limited control over, and information about, how Armstrong shaped the living wage payments. Consequently, SMEs' symbolic actions, i.e., talk about CSR projects on the international scene, are likely to be only loosely connected to supplier-driven substantive actions, i.e., activities in practice at the point of production.

These decoupling tendencies are most clearly illustrated in Nudie's press release that incorrectly described how the living wage was calculated (AFW calculations versus Armstrong's local calculations), the difference between current and living wages (250% versus 30–50%), who would receive the living wage bonus (one CMT unit versus both CMT units), and the monthly wage increase for workers (17% versus 5%). Nudie managers intended the press release to challenge MNEs' unwillingness to pay living wages. Like many SMEs driven by ethical motives (Jenkins, 2006), Nudie became an external CSR champion. However, it became a champion for another, more Northern-inspired, living wage project than the one it was actually engaged in.

While certain SME peculiarities (i.e., informal control, trusting relationships, and limited resources) tend to generate decoupling, other SME peculiarities (i.e., emergent strategies and low visibility) could generate subsequent "recoupling" (Espeland, 1998). Recoupling, the process through which symbolic and substantive actions that once were decoupled become coupled (Espeland, 1998; Hallett, 2010), has been found to occur when external pressures increase (Hallett, 2010), become more specific (Sauder & Espeland, 2009), or become normalized and

internalized (Sauder & Espeland, 2009). In all these instances, substantive actions are envisioned as slowly being transformed so as to comply with symbolic actions.

The Nudie case indicates a potentially different recoupling process for SMEs in which both symbolic and substantive actions are transformed. In line with the expectations of the SME and CSR literature, Nudie spent little time reflecting strategically on the living wage issue (Spence, 1999), had no strategic plan for scaling up the project (Fitjar, 2011), and relied on ad hoc strategy formation (Jenkins, 2004; Preuss & Perschke, 2010). The ad hoc strategy formation was also enabled by Nudie sourcing only 2% of its production from Armstrong, which kept project costs relatively low. Before debate arose in the Swedish media about wage levels, Nudie, and Armstrong, focused on taking actions rather than talking about these actions (Fassin, 2008). Nudie then, in a characteristically ad hoc SME fashion, wrote a press release. Nudie's symbolic actions remained vague throughout the project and Nudie managers stressed the importance of reevaluating symbolic actions as the project developed. In this way, SMEs, in contrast to more planned and structured MNEs, run a lower risk of being locked into difficult-to-alter symbolic positions. This is supported by SMEs' lower visibility (Fitjar, 2011; Jenkins, 2004), allowing them to more easily reverse and alter previous symbolic actions. Nudie was therefore better positioned than, for example, H&M or Nike to alter its living wage project once it was externally communicated without enduring extensive legitimacy challenges. This is illustrated by the fact that Nudie has already changed its symbolic actions to reflect living wages being distributed to both CMT units, leading to more limited wage increases for workers.

Similarly, SMEs' substantive actions emerge in an ad hoc, rather than planned, fashion, so they are more readily changed. For example, Nudie and Armstrong will likely redo the living wage calculations based on regular working hours (excluding overtime) once Nudie comes to understand Armstrong's calculations. In sum, for SMEs, recoupling seems likely to develop through an emergent strategy formation process in which substantive actions are changed to become more similar to (Northern) symbolic actions, and symbolic actions are changed to become more similar to (Southern) substantive actions.

The Role of SMEs in Contested GPNs

Based on the above reasoning, it is possible to conceptualize a role for SMEs in contested GPNs that differs from that assumed by MNEs. The starting point for such a distinct SME role is an internal ethical drive to engage in CSR activities (Dincer & Dincer, 2013; Jamali et al., 2009; Spence, 2007). In the Nudie case, this ethical drive was the main reason why Nudie became one of the first companies in the world that attempted to pay a living wage. Miller and Williams (2009, p. 112) rhetorically asked why a brand (assuming that all brands are rational MNEs) would pay a living wage if its competitors did not, i.e., they assumed that payment of living wages would occur only once the key MNEs in an organizational field agree to start paying living wages. Nudie's, and other SMEs', ethical motives provide another answer to Miller and Williams' (2009) rhetorical question: because it is the right thing to do. SMEs' ethical motives explain why individual SMEs are likely to lead the way regarding the payment of living wages. Assuming that previous findings regarding the role of ethical motives hold for SMEs in contested GPNs (Bansal & Roth, 2000), SMEs will likely drive complex and difficult to communicate issues in GPNs. It is also reasonable to assume that SMEs will drive issues (e.g., living wages) where worker rights improvements are in conflict with low purchasing prices, because SMEs' products normally sell for higher prices than do those of MNEs (Spence, 2007).

SMEs' role in contested GPNs will be shaped not only by ethical motives but also by other SME peculiarities, such as low visibility, informal control, trusting relationships, and emergent strategy formation. As demonstrated here, these peculiarities will likely lead SMEs to engage in more Southern-driven activities and, at least temporarily, to decouple symbolic and substantive actions. Taken together, these findings contradict the argument made in previous research that SMEs cannot act as institutional entrepreneurs in contested GPNs (Jorgensen & Knudsen, 2006). SMEs can, as the Nudie case illustrates, create innovative translations of institutional myths that, in turn, can serve as benchmarks for other SMEs and MNEs. Furthermore, SMEs' role as institutional entrepreneurs is strengthened by these translations, as again illustrated in the Nudie case, often making SMEs external champions (although their decoupling tendencies might make them champions for more Northern-inspired initiatives than they actually engage in). SMEs might thus assume the role of underdogs that contest existing institutional setups through emergent trial-and-error activities. Nudie, for example, contested the existing rule of, at most,

symbolic compliance with living wage demands by actually starting to pay a living wage. Such contestations will likely evoke resistance from incumbents and dominant actors in GPNs that benefit from the existing setup (H&M and other Armstrong buyers in the Nudie case) or that prefer an alternative way forward (seemingly FWF in the Nudie case) (cf. Barley & Tolbert, 1997; Levy, 2008). By challenging the status quo and evoking resistance, SMEs can potentially trigger changes in GPN governance.

Conclusion

This paper has demonstrated that while MNEs are in the spotlight in contested GPNs, they do not necessarily lead the way in terms of proactive activities. SMEs, at least some of them, should not be dismissed as resource-restricted low-power actors unlikely to act as institutional entrepreneurs in contested GPNs (Ciliberti et al., 2008; Fitjar, 2011; Jorgensen & Knudsen, 2006). By challenging the prevalent MNE bias and not treating SMEs as weakly positioned “little big companies,” it is possible to conceptualize an important role for SMEs in contested GPNs—a role that differs from that assumed by MNEs. Such a distinct SME role is enabled by SME peculiarities such as ethical motives, low visibility, informal control, trusting relationships, and emergent strategy formation.

The paper contributes to the scholarly conversation about living wages, contested GPNs, and private regulation. In relation to the living wage conversation, it has done so by moving beyond conceptual discussions of whether and, if so, how buyers *should* pay a living wage at their suppliers. Based on a study of the Swedish SME Nudie Jeans’ payment of a living wage at its Indian supplier, this paper has outlined the key practical challenges of paying living wages, identified two underlying tradeoffs in paying living wages, and challenged the straightforward solutions previous research has proposed as to how a living wage should be paid. In relation to the conversation about private regulation and contested GPNs, this paper has contributed by identifying MNE and rational motive biases in previous research, demonstrating how SME peculiarities both restrict and enable SMEs, and outlining a distinct role for SMEs in contested GPNs. Given the dearth of empirical research into the role of SMEs in contested GPNs and living wages, further research is needed to more fully outline SME’s distinct role and the challenges of paying living wages.

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