**Business Ethics, Supply Chains and a Living Wage**

Date: Thursday, 3 April 2014

Lead: Dr Tom Pegram, t.pegram@ucl.ac.uk

Venue: UCL/Institute of Global Governance

**Participants**

* Prof Jeremy Moon, Nottingham University
* Dr Rory Sullivan, Ethix SRI Advisors
* Mr Luke Wilde, Director of Twenty Fifty
* Ms Rachel Wilshaw, Ethical Trade Manager for Oxfam GB

Chair: Mr Stephen Rubin

**Format**

Roundtable 5.30-7pm, followed by reception

Advertised through UCL website, open to university community and the public

**Event concept**

*Business and Global Supply Chains*

Globalisation has radically transformed the rules of trade for business. Faced with rapid developments in communication technology, offshore production and global human and resource capital linkages since the early 1990s, corporations can no longer rely on the old certainties of domestic operational and management functions. Multinational corporations must now maintain market position in a hyper-competitive global landscape. Their efficiency and quality targets are dictated by an ability to optimise multiple supply and demand networks operating across all regions of the world. It is no surprise then that supply chain management and the ability of corporations to enhance the efficiency, transparency and security of highly decentralised procurement lines – often many tiers deep – goes to the heart of modern global business practice. This modern global footprint means that the potential impact of corporations on local economies and social systems has never been greater.

Global supply chains are now institutionalised. Growing attention is being paid to their internal workings far beyond the level 1/tier 1 suppliers. In some industries, such as extractives, complex minerals and metals, supply chains may be relatively fixed and shallow, extending two or three tiers deep from the supplier or sub-contractor to the originating buyer. However, in other industries, such as automobiles, groceries, electronics and apparel, supply chains can extend down many tiers, involving flexible supply lines, multiple sub-contractors and complex interdependencies.

Corporations have rapidly evolved to meet this challenge and supply chain modelling now routinely factors in potential ‘black hole’ risks, points of failure, susceptibility to natural disasters, and contingency options in the event of supply disruption. Formalised in a set of structures, supply chain strategic resilience, while changing at the margins, is now fundamentally established in practice. Management has become key. Across all sectors, complex supply chains are here to stay.

These developments in transnational private business practice raise a host of questions around global regulatory governance. First, questions of goal-setting or outcomes arise. Managing global supply chains has been conventionally approached as a question of managing risk (how to limit the negative externalities of decentralized action). However, it may also be framed in terms of ensuring long-term business sustainability (providing guarantees to ensure individuals can optimise their capabilities to productive ends). There are also issues surrounding procedures and how to best deliver on established goals. Supply chain governance reform advocates are vocal about strengthening accountability mechanisms based on voluntary codes of conduct, with particular emphasis on transparency and monitoring as a means to not only reduce risk, but also reap reputational dividends for the corporations involved, and enhance supply chain performance.

*A Focus on Wages*

A relatively new issue-area, the campaign to embed a living wage into global supply chains, provides a powerful example of the interplay of ethical and business-led transformation within this principally private governance domain. Underpinned by voluntary standards such as the Ethical Trading Initiative (ETI) and the SA8000 standard, a diverse range of actors, from business, to unions, governments, and a range of CSOs, are now engaged in debating the legitimate scope and depth of a living wage (as opposed to minimum wage) commitment and, by extension, the reach of transnational labour governance.

Advocacy organisations such as Oxfam, Global Reporting Index, and Sedex have dedicated considerable resources to monitoring compliance with labour standards through third-party auditing. Some corporations such as Unilever and H&M, institutional investors and governments, have responded positively to this agenda, facilitating in-depth investigations conducted by these advocacy organisations on labour standards and health and safety practices across their global, regional and local supply chains. In turn, organisations such as Sedex also offer collaborative platforms for their 27,500 corporate members to share ethical supply chain data based on the ETI code.

A living wage is defined by Oxfam as one which ‘for a full-time working week without overtime, would allow a family to meet its basic needs – including shelter, clothing, and nutrition – and allow an amount for discretionary spending’.[[1]](#footnote-1) The Asia Floor Wage campaign and wage ladder tools provide a credible methodology for calculating a living wage. However, often the focus of international standards has fallen on upholding statutory minimum wage levels (with the exception of the ETI Base code and SA8000). This is problematic given that minimum wage provisions often fall far short of a living wage in a context of rising staple food costs. Weak enforcement of minimum wage provisions and the prevalence of informal practices such as ‘labour dispatch services’ and a black market in temporary workers pose further obstacles.

*The Governance Challenge*

At its most fundamental, as highlighted in Table 1, embedding a living wage into global supply chain management highlights a realm where the forces of globalisation are constantly reshaping the *scale* of governance challenges, the *sources* of control and influence, and the *subjects* of control.[[2]](#footnote-2) In this exercise, we are interested in identifying where, why and how governance operates among a diverse set of actors.

**Table 1. Labour Governance: Actors and Sources of Control**

| **Actor** | **Levers of Control** | **Subjects of Control** |
| --- | --- | --- |
| Transnational corporation | Procurement and wage bargaining; implementation of international and domestic regulation; internal codes of practice | Suppliers (at multiple tiers); third parties; workforce |
| In-country supplier SMEs | Procurement and wage bargaining; implementation of international and domestic regulation; internal codes of practice | Sub-contractors; third parties; workforce |
| Institutional investor | Ethical investment decision-making | Transnational corporations |
| International and local CSOs/public interest groups | Status maximisation and reputational costs; external auditing; adjudicatory and grievance mechanisms | Transnational corporations; suppliers; third-parties; government  |
| Government (purchaser country) | Implementation of domestic, international labour and human rights standards | Transnational corporations; governments |
| Government (supplier country) | Implementation of domestic, international labour and human rights standards | Suppliers; sub-contractors; third-parties; workforce |

Significant progress on embedding a living wage standard in supply chain systems is observable and suggests the potential for new forms of corporate governance to transform the status quo. At the close of 2013, supporters of a living wage are increasingly confident of breakthrough pointing to a range of recent developments. Corporate support for a living wage may initially have been a tactical concession to manage reputational risk but increasingly corporations are assimilating it as internal policy. Sensitivity to social unrest is on the rise. Recent wage increases in China, in response to internal pressures, have cascaded across Southeast Asia, with Malaysia introducing minimum wage legislation in 2012. Big purchasing companies like Unilever, John Lewis, Marks & Spencers and Intel are introducing mandatory reporting on a range of social and environmental metrics across their supply chains, spurred on by organisations like GRI. Finally, the UN Guiding Principles on Business and Human Rights underpins a growing global consensus on the importance of embedding human rights into domestic and international business practice.

A general development towards embedding a living wage into business practice has been driven by multiple processes, both instrumental – shoring up such protections as a core component of a sustainable global business model and adverse publicity generated by catastrophic failures – as well as ethical imperatives in an increasingly interconnected world of consumers, many of whom now reside in developing countries.

Nevertheless, powerful countervailing forces remain and may impede further progress. The race to rock bottom prices in retailing, driven by consumer demand for ever cheaper products, provides little spending margin for corporate social responsibility innovation in the apparel industry. The business case for a living wage is not necessarily self-evident. Weak links in the chain may mean that investment intended for local workers does not reach its intended recipients. Audits remain blunt tools for evaluating compliance and may serve to diminish the importance attached to collective bargaining. Other dilemmas also persist, including where primary responsibility should fall for providing a living wage, the dangers of unfair cost-shifting to suppliers, and what global corporations can do when local authorities fail to enforce regulation.

At root, the combination of deepening interdependence and a governance vacuum at the global level poses significant challenges (and potential dangers). A number of core governance concerns can be identified:

1. *Coordination and collective action problems.* Asymmetric distribution of negative externalities and costs present very severe distribution and enforcement problems. The risk of defection and handing advantage to a competitor provides little incentive for mutual cooperation among key actors, especially MNCs. In turn, while developing country governments may be sympathetic to a living wage policy, attracting FDI may take priority.
2. *Regime complexity.* Multiple overlapping public and private domains of governance dilutes efforts towards coordination. The proliferation of competing forums and service providers provides a range of choices to governments and MNCs in addressing the issue of wages. Actors can engage in forum-shopping and choose to abide by regulatory frameworks which may offer broader scope and discretion over liability, baselines regulatory standards, and attribution of responsibility.
3. *Lines of accountability and control.* Supply chains operate at multiple scales and levels with employees located at all levels, both vertically and laterally through third parties and sub-contractors. Violations generally occur at the local level and local authorities may be unwilling or unable to take enforcement action. The role of intermediaries such as CSOs and Unions may be crucial here, offering a channel for information upwards (to investors for instance) and downwards. In the absence of stable, routinised and credible rule of law frameworks, sector informality, rent-seeking and corrupt practices may further undermine decentralised action.
4. *Technical barriers.* Disagreement over methodology persists, particularly with regard to variation in individual wages and productivity across workforces. Private actors often abide by codes of non-interference and commercial sensitivities which can impact on the quality and availability of data. Data may also have perverse consequences, accelerating as opposed to mitigating a race to the bottom, if profit incentives override ethical policy. Action may have other unintended consequences, for instance promoting a living wage at the expense of other less visible contractual benefits.

**Format of the event**

This event will survey a rapidly evolving global policy domain and highlight some of the key questions likely to feature prominently in any concerted effort to establish a living wage in global supply chains, from the vantage point of four key governance actors:

1. **Developing supplier-country government:** Prof Jeremy Moon, Nottingham University
2. **Institutional investor:** Dr Rory Sullivan, Ethix SRI Advisors
3. **Multinational corporation:** Mr Luke Wilde, Director of Twenty Fifty
4. **International CSO:** Ms Rachel Wilshaw, Ethical Trade Manager, Oxfam GB

Each participant will be requested to argue from their designated perspective (i.e. that of an investor, government etc) in response to the core question: ‘Is a living wage something business and government can and should support?’ They will have 10 minutes to lay out their position, and they have been encouraged to be forthright and provocative. It will be made clear to the audience that on this occasion participants are being requested to play a role. The panel will then engage in a debate, led by the facilitator, while requested to stay in their allocated role. They will have free rein to be polemical with a view to highlighting the key faultlines in the debate.

We hope the discussion will shed light on some of the key issues in debates around the ethical governance of transnational private actors. As we survey opinion across these four key groups, are there any prospects of agreement between such diverse stakeholders? What governance practicalities need to be in place? How will it work? Is a living wage the best solution to in-work poverty? Do we need agreement to make progress on a living wage? What are the key obstacles to change?

The objective of the meeting will be to take stock of current thinking on the living wage debate from a range of vantage points. By giving free rein to express positions in clear unequivocal terms (and acknowledging that they may be somewhat stereotypical), the participants will contribute to mapping out the fundamental coordinates of the debate, the diverse incentives in play, stated and unstated assumptions, and how governance innovation may offer a solution to achieving the systematic payment of a living wage in global supply chains.

The evening will be opened by UCL Institute of Global Governance Director Prof. David Coen and will be followed by a diverse panel of business, human rights and supply chain experts, chaired by Mr Stephen Rubin. It will be followed by a reception and dinner for participants.

1. Oxfam, *Labour Rights in Unilever’s Supply Chain* (Oxford: Oxfam, 2013), p. 62. [↑](#footnote-ref-1)
2. A. Hurrell, *On Global Order* (Oxford: Oxford University Press), p. 293. [↑](#footnote-ref-2)