1. Upgrading the global garment industry: internationalization, capabilities and sustainability

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The global pandemic of 2020 has highlighted the geographically dispersed, yet connected nature of many business activities as well as levels of inequality within and between countries. The Covid-19 crisis caused some clothes retailers in developed economies to cancel orders with their suppliers, exacerbating yet further the living conditions for many workers in the garment industry in Bangladesh (Deutsche Welle, 2020; Kelly and Ahmed, 2020; Reinecke and Donaghey, 2015). Indeed, for many years, production in the garment industry has shifted from one location to another (Gereffi, 1994); each move drives the economy, but simultaneously damages the environment and creates inequality.

The international trade in the sixteenth century by colonial multinational corporations (MNCs), such as the East India Company, which is a forerunner of modern MNCs, drove the creation of early value chains in the textile industry between Europe and Asia. These affected not only the condition of textile and cotton manufacturers in India, but also the garment manufacturers and consumers in England (Gupta, 2013). A geographical spread of economic activities across national – particularly colonial – boundaries with low-value creation at the supply side and low levels of functional integration characterized the internationalization processes in the global production network of the textile and clothing industry between India and Europe (as a large clothing market in the seventeenth century). Although this was the beginning of internationalization and the creation of a global production chain, studies in international business have largely overlooked this phenomenon, and not only that, they have also downplayed the phenomenon of internationalization within the global value chain network of the global textile and garment industry.

Phenomena, such as local supplier development, changing regulations, inequality and labour conditions, were the key issues in the sixteenth-century global textile and clothing value chain. They remain so today, with the addition of two more key issues. First, active civil society and functional organizations have recently emerged that highlight these issues and try to address them.
to improve outcomes for workers, and society more broadly, in emerging economies (Reinecke and Donaghey, 2015, 2021). Second, sustainability and climate change issues that influence both national and transnational regulations, standards, technology and the processes of production and consumption have developed (Allen et al., forthcoming); this is a new phenomenon that also drives the global garment value chain. The world is both a ‘space of place’ and a ‘space of flows’ (Dicken, 2011); thus, global value chains do not float freely in a ‘spaceless’ world. The regulations and policies of buying countries and multilateral organizations influence the institutions or the ‘rules of the game’ for supplying countries vis-à-vis suppliers; while the institutions of supplying (that is, manufacturing) countries shape suppliers’ comparative advantage in the value creation process.

Production costs, together with regulations and control over end users, impact upon the configuration of the global apparel value chain (GVC) and the allocation of power to actors that drive the chain. It is, therefore, these forces from the top (that is, policies, regulations and standards of powerful nations and global institutions and global buyers) and the bottom (that is, labour and consumers) that affect bargaining power and competitiveness in the GVC, shaping it differently at different times. In 1705, Daniel Defoe declared that whoever wished to maintain the interests of the textile suppliers should ‘make fashion follow the trade, and not trade the fashion’ (Douglas, 1969, p. 28). However, fashion – or the demands of consumers – was the main driver of the garment industry then (Douglas, 1969), as it is now. Western buyers make fashion; in doing so, they control markets and drive the value chain.

We are not arguing that the garment industry has not benefited emerging economies. Over time the apparel industry has certainly provided some emerging economies, such as Bangladesh, China, Korea, and Vietnam, with a boost, and it has until recently created a steady income for some workers there, and has accelerated the growth of ancillary industries (Kelly and Ahmed, 2020). Indeed, the importance of the apparel industry to many emerging economies is hard to overstate, necessitating research on apparel companies, their internationalization strategies, capability development and sustainability (Gereffi, 1999; Gereffi and Frederick, 2010; Sturgeon and Gereffi, 2009). For instance, the ready-made garments industry accounts for approximately 80 per cent of Bangladesh’s manufacturing revenues, and more than 4 million workers depend on it for income (Deutsche Welle, 2020). Similarly, in Vietnam in 2018, the garment industry generated income in excess of $36 billion and was the country’s third most important export (Hutt, 2020). However, as the Covid-19 crisis has amply demonstrated, the revenues, jobs and wages that this industry creates are precarious and heavily dependent on overseas buyers. To reduce that level of dependency and risk, firms in developing economies in this industry need to upgrade their organizational capabilities and the skills of
their employees. If they do not, lead buyers will start to use new suppliers in more advantageous locations, as has been done for centuries (Fernandez-Stark et al., 2011a; Gereffi et al., 2011; Regional Office for Latin America and the Caribbean, 2016).

The GVCs that lead buyers create, and that link consumers in developed economies to workers in emerging markets, can be important mechanisms for knowledge diffusion, learning and firm upgrading (Ernst and Kim, 2002; Gereffi et al., 2005; Humphrey and Schmitz, 2002). Lead firms that engage in the purposeful transfer of technical and managerial know-how to ensure that local suppliers are able to meet their specifications for product quality and process efficiency, as well as environmental and labour standards, can often drive knowledge transfer. Consequently, some selected suppliers have, without lead firms’ direct assistance, enhanced their in-house capabilities, enabling them to participate in more complex and higher-value-added activities (Ernst and Kim, 2002; Morris and Staritz, 2014).

However, having domestic firms embedded in GVCs has not benefited all emerging economies equally, reflecting the variable ability of companies in different countries to improve their capabilities, to internationalize, and to ensure sustainability in production, processes and industry structure. Most GVC studies acknowledge the existence of considerable challenges for learning, upgrading and innovating in these networks, and that a complex relationship exists between the governance of GVCs, the nature of the industry and knowledge involved, and suppliers’ absorptive capabilities. Moreover, suppliers’ abilities to deepen and widen their capabilities and strengthen their competitiveness are not automatic, but depend on their existing capabilities; these, in turn, often reflect the context they operate in (Allen, 2013; Fernandez-Stark et al., 2011b; Frederick et al., 2015; Gereffi and Sturgeon, 2013; Lane, 2008; Lane and Probert, 2006; Rainbird and Ramirez, 2012).

By focusing on employee and firm upgrading within geographically dispersed production networks, the GVC literature has had a significant impact on both scholarly and policy debates (Bamber et al., 2014; Cattaneo et al., 2013; Gereffi, 1999; Gereffi and Lee, 2012, 2016; Goger et al., 2014). Contributions have drawn attention to the types of skills that employees require if both workers and firms are to upgrade their capabilities and, hence, improve their positions within GVCs (Cattaneo et al., 2013; Fernandez-Stark et al., 2011c; Gereffi et al., 2011). This is important for individuals, societies and policy-makers (Sturgeon and Gereffi, 2009).

That perspective has not typically examined how supplier firms in, say, the garment industry are themselves able to internationalize and establish production facilities overseas. Indeed, analyses of emerging-market firms that internationalize tend to focus primarily on Chinese companies, downplaying firms from other countries (Cuervo-Cazurra et al., 2014; Mathews,
This neglect creates the impression that firms in, say, the garment industry in Bangladesh and Vietnam lack the resources to increase their competitiveness, inadvertently suggesting that these firms will not or cannot internationalize. It may even lead to pessimistic prognoses and conceptualizations of these firms as passive recipients of the work provided to them by multinational enterprises. However, as many of the contributions to this book demonstrate, some firms in the garment industry in Bangladesh and Vietnam have been able to upgrade, thanks in part to their own efforts as well as to their interactions with multinationals. Therefore, whilst interest in emerging-economy firms is burgeoning and whilst analysts are keen to explain the competitiveness of these firms to aid business and individuals, little is known about a key industry in important emerging economies. Learning more about firms’ upgrading and internationalization processes is likely to benefit similar firms as well as policy-makers in these and other emerging economies.

Moreover, there is a growing demand from researchers, students, businesses and policy-makers to understand and influence how the three interrelated dynamic processes affect societies, firms, individuals and the environment around the world. These three processes are: (1) the globalization of different industries; (2) the geographical distribution of work; and (3) the policies, regulations and standards deriving from the sustainability agenda. The Rana Plaza disaster in Bangladesh has heightened awareness of some of these issues, leading to the formation of a private governance-creating Accord (private institution formed by European retailers) and Alliance (formed by North American retailers). However, in the end, the Bangladeshi government and the high court would not allow these foreign-run institutions to continue their activities in the country, thus ensuring governance of the Bangladeshi state institution. Whilst much research focuses on the Bangladeshi garment industry from a labour or worker perspective (Reinecke and Donaghey, 2015), we know less about firms’ dynamic developments, together with the issues that derive from the demand side (that is, about the buyers and the end-consumer markets) (Hoque and Rana, 2020). For instance, international business studies, and research that draws on the GVC perspective, do not typically examine how the business model of fashion retailers influences the governance between buyer and suppliers, and hence suppliers’ development. In addition, existing studies often downplay the interactions between demand side activities (the business model of the retailer) and supply side activities (that is, manufacturing and procurement).

The contributions in this book build on the GVC perspective, often combining it with other theoretical perspectives such as international business, national business systems, institutionalism, innovation, entrepreneurship and dynamic capabilities, to examine how individual workers gain particular skills, how firms expand their capabilities within specific socio-economic contexts,
and how suppliers grow and internationalize their production activities to foreign countries. All of the actors that exert some influence within GVCs are dispersed across the world, requiring micro-, meso- and macro-level analyses to understand better the governance relationships between them. A range of perspectives enables in-depth analyses of complex socio-economic and environmental outcomes and encourages a number of impactful recommendations for firms, worker representatives and policy-makers. By drawing on just such a range of perspectives, the chapters in this book develop novel insights that will help businesses, researchers, society more broadly and policy-makers, enabling us to understand the dynamics and mechanism of value-creation processes, internationalization and firms’ capability upgrading in GVCs. The upgrading and internationalization of these firms can, as contributions to the book demonstrate, help to improve employees’ working conditions, environmental outcomes and the sustainable garments industry. This book therefore provides firm-centred, contextualized analyses of how firms in the garment industry in Bangladesh, China, Vietnam, India, Sri Lanka and Pakistan upgrade their capabilities and internationalize, supplementing broader accounts within political economy and the economic development literature.

The book’s contributions address four key questions. First, how do developing-countries’ apparel manufacturing companies internationalize? Second, what factors promote or hinder higher levels of internationalization? Third, how do suppliers develop different types of capabilities, and what factors and conditions influence the development of their capabilities? Finally, how do firms achieve sustainability, and what factors affect sustainable products and production? They do so from various perspectives, including international business, global value chain, operations management and sociological perspectives.

Chapter 2 in this volume by Rana, Allen and Servais focuses on the efforts of one Bangladeshi supplier to internationalize into upstream value chain activities. The existing literature has tended to overlook how emerging-market firms expand overseas into these activities. By focusing on one firm, the research reveals how the buyer’s business model, institutional features and the supplier’s entrepreneurial capability influence the supplier’s internationalization. The chapter therefore highlights the interplay between institutional and firm-level, or agency, factors that enable one supplier to expand abroad, helping to balance the explanations for the developments within GVCs away from a primary emphasis on the governance of GVCs to include more contextual factors, including the supplier’s own entrepreneurial capability.

The work by Sørensen and Ngoc in Chapter 3 on the internationalization of Vietnamese garment manufacturers highlights the importance of adopting a longitudinal view of firm and GVC developments. By focusing on one firm, Sørensen and Ngoc are able to reveal how a Vietnamese supplier’s innovative
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Capabilities change and adapt over time. Whilst the firm’s initial phase of internationalization relied on reactive innovation to enhance efficiency, the second phase relied on a more proactive innovation strategy that focused on the domestic market, and that helped to enhance the firm’s design capabilities and its brand value.

Chapter 4 by Abdullah, Khattak and Sumbal addresses the outsourcing of innovation-related activities by developed-economy companies to emerging-market ones. Although the outsourcing of research and development is increasing, relatively little is known about the impact that outsourcing has on emerging-market firms. Abdullah et al.’s research, by focusing on four case study firms in Pakistan, highlights how suppliers’ links to foreign buyers, as well as their own innovation and broader firm strategies, help to explain their ability to increase their competitiveness and ability to expand abroad. Once again, supplier characteristics are important.

Faroque et al.’s research presented in Chapter 5 examines the relationship between suppliers’ foreign-market knowledge, institutional networks and export performance, arguing that foreign-market knowledge alone cannot explain their performance. Institutional networks also play an important role in influencing suppliers’ abilities to use their knowledge of foreign markets to improve their competitiveness. These findings, based on a quantitative analysis of 206 apparel exporters from Bangladesh, enhance and contribute to the knowledge-based view of the firm as well as to network theory.

Chapter 6 by Rana and Allen examines why some firms are unable to upgrade their capabilities within GVCs, revealing the importance of: (1) socially constructed entrepreneurial vision, ownership and management characteristics; (2) the nature of governance between buyers and suppliers; and (3) emerging-market institutions. In particular, for the Bangladeshi firm that the chapter analyses, entrepreneurial vision does not support the upgrading to own-brand development, as entrepreneurs are overoccupied with multiple businesses, paying high attention to supply and production capability and profit maximization. Institutional supports for upgrading are often inadequate. For instance, the government does not provide sufficient incentives to firms to internationalize; intermediary organizations and management education that can guide the firms in any attempt to internationalize are often absent or inadequate; and low levels of trust exist between firms in Bangladesh, reflecting the ownership and control of many Bangladeshi firms.

Hoque, Sinkovics and Sinkovics’s research, which Chapter 7 presents, examines the knowledge-acquisition strategies that Bangladeshi garment suppliers adopt in their efforts to upgrade their capabilities. Examining four case study companies in Bangladesh’s garment manufacturing sector, Hoque et al. reveal how, in the absence of readily available knowledge from buyers, larger Bangladeshi suppliers are able to access tacit and codified knowledge.
from abroad. By contrast, the two smaller firms that they examine must rely on local knowledge only, restricting them to technocratic or output-oriented aspects of upgrading.

Liu, Tylecote and Xiao’s research in Chapter 8 shifts the geographical focus to China and returns to the question of why supplier firms may not be able to upgrade their capabilities. Much of the existing literature on upgrading has emphasized how a shift in the trajectory of technology creates opportunities for new firms, who are not tied in to the ‘old ways’ of doing things or outdated products, to gain competitiveness. However, as the authors demonstrate, these shifts do not always favour new firms. Indeed, their longitudinal research reveals that such shifts can represent more of a threat than an opportunity to latecomer firms, such as textile suppliers from China.

Chapter 9 by Dao et al. focuses on firms’ development of dynamic capabilities among the Vietnamese apparel exporters. Despite some improvements to their capabilities, these firms often rely on low-cost labour and imported materials to gain business, putting them in competition with many other firms. By examining six case study firms, Dao et al. reveal two patterns in firms’ development of dynamic capabilities. The nature of the GVC that the firms are embedded within, as well as their institutional context, influence the development of both patterns.

Khattak and Saleem, in Chapter 10, examine how social upgrading and environmental upgrading in GVCs interact. Whilst much research exists on social upgrading in GVCs, very few studies examine environmental upgrading, and even fewer examine the interactions between them. By filling this gap, Khattak and Saleem’s work reveals the very important links between both processes. In their qualitative study of apparel firms in Bangladesh and Sri Lanka, they find that the two processes reinforce one another, helping to increase wages and to improve workers’ skills, learning and training, as well as their working conditions and satisfaction.

In Chapter 11, Rana and Tajuddin examine a topic that the burgeoning literature on sustainability within GVCs has yet to address: namely, the links between suppliers’ sustainability capabilities and the circular economy. Drawing on key literature, they develop a framework to measure firms’ sustainability capability, and discuss the challenges that companies face when improving their sustainability capabilities to achieve a circular economy. They validate their new measure of firms’ sustainability by examining H&M. Their work contributes to our understanding of important strategic management issues within GVCs.

Working conditions in the garment industry in emerging markets are often poor, reflecting a view that measures to improve occupational health and safety are detrimental to productivity. In Chapter 12, Hasle, Morshed and Hansen argue forcefully against this view, revealing how firms can use lean
production techniques at the micro level to produce a symbiosis between occupational health and safety, on the one hand, and productivity, on the other. To achieve this result, however, requires: (1) firms to operate within a favourable institutional environment; (2) buyers to support their suppliers through the change process; and (3) regulatory bodies, such as health and safety officials, as well as multi-stakeholder initiatives to focus on the issue of employees’ working conditions.

Many studies have highlighted the tensions that can exist in buyer-supplier relationships within GVCs; however, less research focuses on the means that firms can use to reduce these tensions. In Chapter 13, Hoque reveals how firms can use systematic quality control practices to reduce potential conflict between buyers and their suppliers, helping to improve not only suppliers’ sustainability, but also the stability of the relationship between buyers and suppliers. Hoque’s qualitative research, which focuses on one Danish buyer and four of its key suppliers in Bangladesh, reveals how systematic quality control measures can improve suppliers’ economic returns and enhance suppliers’ social performance.

Despite strong pressures that prevent many firms in GVCs from improving their sustainability, some firms are able to enhance their environmental performance. Focusing on three companies in India’s garment industry, Alexander reveals in Chapter 14 how suppliers’ context, including pressures for and against change, the role of stakeholders, and how suppliers seek to enhance their sustainability, help to explain their moves to better environmental performances. Alexander’s research also reveals the systemic nature of GVCs, demonstrating how changes in one company can influence other firms’ behaviour or the challenges that they face.

In this vein, Rahman and Rahman in Chapter 15 demonstrate how a new set of rules on building and fire safety set by private governance institutions – Accord and Alliance (A&A) – evolved and were legitimized in the Bangladeshi garment industry after the Rana Plaza disaster of 2013. While the new private institutions of transnational stakeholders aimed to develop a more sustainable garment sector, the state institutions and local suppliers contested their legitimacy. This reveals how trust and control may be critical in legitimizing new practices and rules in a sector via a foreign entity, despite the power exerted by foreign buyers. Chapter 15 reveals the roles of multiple stakeholders, and the contradictions and gaps between national rules and the rules of A&A, and the existing practices in factories, which led to doubts regarding the efficiency that factories could gain under the old routines. The chapter explains how the factories responded and adapted to the new set of institutional practices developed by A&A, and presents the mechanism of firms’ negotiations with local rules and embedded routines in order to adapt to new A&A rules, aiming to legitimize them to both foreign buyers and local
institutions. This eventually led to sustainable practices in building and fire safety in the Bangladeshi garment industry.

Together these chapters represent an important contribution to the literature, focusing on important aspects of GVCs using firm-centric analysis that the existing literature tends to downplay. Many of the contributions highlight how suppliers in emerging economies can enhance their capabilities, helping them to become less reliant on developed-economy buyers. Other contributions illustrate the challenges that suppliers face when they seek to upgrade their capabilities. By enabling us to understand those challenges better, those contributions can help to provide ways for suppliers to overcome them. Collectively, therefore, we hope the chapters in this book offer a positive message for suppliers and workers within GVCs during a time of unprecedented challenges.

REFERENCES


