Local Implementation of Quality, Labour and Environmental Standards: Opportunities for Upgrading in the Footwear Industry

by

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Foreword

This document is part of a new series on “Small Enterprise Clusters and Global Value Chains” that forms part of the set of SEED Working Papers. This area of SEED’s work explores how the relationships between small enterprises, their relevant supporting agencies and market opportunities are key factors that shape opportunities to raise growth, competitiveness and the potential for job creation.

IFP/SEED’s work in its theme of Market Access is based on the premise that small enterprises can grow and become competitive economic ventures when they have clear and well-developed strategies to target and access quality market opportunities for selling their outputs. An important factor supporting the strategic development of these small enterprises is the development of a deeper and more nuanced understanding of the dynamic nature of market access, and thereafter, the application of this knowledge to see where market opportunities are opening or becoming restricted. The present series aims to address this issue by examining the embedding of small enterprises in horizontal linkages between firms (through clusters and networks) and vertical linkages with markets (through local and global value chains). This perspective of small enterprise linkages can be a particularly effective approach to overcome many of the traditional constraints facing small enterprises and to help in fostering the development of truly vibrant and economically viable small enterprises that can serve as a sustainable form of quality job creation and income generation for developing countries. In a global economy, the vertical linkages between small enterprises and markets increasingly shape the range of market opportunities available.

An extensive body of literature already exists regarding clustering and value chains. However, largely lacking from these studies is a more explicit concern with the labour implications that may arise as part of small and medium enterprise (SME) upgrading, particularly within the context of globalization. More specifically, this area of SEED’s work is concerned to show that a cycle of “virtuous linkages” can be formed, where improved competitiveness of SMEs and better scale and quality of work and employment need not be mutually exclusive goals. Rather than state any direct causality, it is believed that such goals can walk hand-in-hand, given appropriate tools and demonstration cases.

Several publications in this series aim to contribute toward the conceptual framework for this new area of work, while other empirical studies present cases of particular interest, sometimes based upon experiences arising from project activities developed within IFP/SEED.

The present study addresses the diffusion of standards along global value chains and the impacts this has in terms of changes in behaviour, trends in certification and forms of compliance among developing country producers and their input suppliers. Three types of standards are considered – quality, labour and environmental – reflecting the use of both process and product standards. Original field research findings gathered
among footwear clusters located in the Sinos Valley of Rio Grande do Sul state in southern Brazil are used to examine this set of questions. These findings reveal very complex linkages between value chain governance and standard compliance. The role of different patterns of value chain governance and location of footwear buyers (e.g., whether domestic, regional, Latin American, European or US) are considered as key factors influencing the diffusion, adoption and compliance with standards among local producers.

One of the main findings of this study is that any standard demanded through the tight value chain governance of ‘directed networks’ (Humphrey and Schmitz, 2001) (present in both US and European value chains) tends to be quickly implemented by developing country producers and effectively monitored by the buyers. It was found that global buyers were mainly concerned with quality standards and selected labour standards (such as standards forbidding child labour). In cases where pressure from global buyers for compliance with standards was not strong, as was often found concerning environmental standards, then local governance was found to potentially play an important role in enforcing strict standards which were particularly important at the local level. Given the diversity of standards, chain governance styles and priorities in the local agencies dealing with standards, the author argues that various policies will be needed to promote compliance with standards. While this will involve the strong governance of buyers, as in the case of directed networks, this may also include greater efforts by local government agencies and the support of international agencies and NGOs.

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Kees van der Ree
Director a.i.
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Executive summary

Making the globalization of product markets work for producers in poor countries is one of the big endeavours of our time. Too often these producers enter a ‘race to the bottom’ in which competitiveness is achieved on the basis of lowering wages and disregarding environmental and labour norms. In order to achieve both export growth and sustainable income growth, it is important for developing countries to upgrade activities. Global standards (labour, environmental and quality) have often been viewed as a potential tool to support this upgrading, even if little research has been carried out to test this assertion.

In the new order of global trade and production, producers from developing countries are increasingly in contact with global standards, particularly if they belong to a global value chain. It has been hypothesized that lead firms in developed countries can exert a form of global governance on their internationally dispersed set of suppliers, to produce better compliance with standards than local governance alone. Yet, systematic empirical evidence is still scant in order to verify (or falsify) this hypothesis. Furthermore, varying forms of value chain governance might have a different impact upon varying types of global standards. This paper is particularly concerned with how global standards are demanded (and implemented) along the value chain and how developing country suppliers’ compliance affects local governance, and ultimately, local upgrading. These issues are empirically analysed by examining different types of chain governance and levels of compliance to global standards in a selected cluster of Brazilian footwear producers.

It is found that different policies will be needed to promote compliance, due to the diversity of standards, chain governance styles and priorities in local agencies dealing with standards. Some of these policies may take advantage of the strong governance in directed networks while others will have to include greater efforts by local government agencies and support from international agencies and NGOs. This paper considers policy implications for several types of standards, such as those addressing product quality standards (and the consequent technical and institutional capacity to implement them along the value chain), selected social and labour standards (such as those forbidding child labour) and environmental standards. Different forms of monitoring and the role of labelling schemes are also discussed.

As a final note, the author argues that complying with standards does not guarantee that local producers will become more competitive in international markets. Competitiveness is also linked with functional upgrading, which is not related directly with product and process standards. Policy makers will need to find ways to support local producers in design, branding and marketing, particularly as these activities are unlikely to be undertaken by global buyers (particularly in directed networks).
1. Introduction

Making the globalization of product markets work for producers in poor countries is one of the big endeavours of our time. Too often these producers enter a ‘race to the bottom’ in which competitiveness is achieved on the basis of lowering wages and disregarding environmental and labour norms. This kind of integration would at best lead to immiserizing growth (Kaplinsky, Morris and Readman, 2002). In order to achieve both export growth and sustainable income growth, it is important for developing countries to upgrade activities. Global standards (labour, environmental and quality) have often been viewed as a potential tool to support this upgrading,¹ even if little research has been carried out to test this assertion.

In the new order of global trade and production, producers from developing countries are increasingly in contact with global standards, particularly if they belong to a global value chain. A value chain is the sequence of activities required to bring a product (or service) from conception to the final consumer. The ‘global’ dimension is often added to the concept since one of the most salient features of globalization is the trend among business corporations to extend their sourcing networks to sites all over the world.

Recent work on value chains has shown that the (non-market) co-ordination of different chain stages that are performed by several independent firms located in various countries constitutes the governance of the value chain (Gereffi, 1994 and 1999, Humphrey and Schmitz, 2000 and 2001). This governance entails deciding who produces what, how it is produced and what standards this product or service should comply with. The exertion of this global governance – by lead firms in developed countries – on local suppliers in developing countries has been hypothesized to produce better compliance with standards than local governance alone (Humphrey and Schmitz, 2001). Yet again, systematic empirical evidence is still scant in order to verify (or falsify) this hypothesis.

Additionally, there are three different types of chain governance – namely hierarchy, quasi-hierarchy and network – (Humphrey and Schmitz, 2000) and different types of global standards (product standards, process standards). This paper is particularly concerned with how global standards are demanded (and implemented) along the value chain and how developing country suppliers’ compliance affects local governance and, ultimately, local upgrading.

These issues will be empirically analysed by examining the different types of chain governance and the levels of compliance with global standards in a developing-country industrial cluster that supplies one of the most emblematic global value chains in the world: the footwear value chain. The cluster selected is located in the Sinos Valley in southern Brazil where fieldwork carried out in 2000 and will provide data for the analysis.

¹ Just as often, however, they have been deemed part of the ‘the new Western protectionism’ (Nadvi and Waeltiring, 2001).
The next section (Part 2) will define the main concepts to be used throughout the paper. Part 3 will introduce the footwear value chain and the importance of developing country suppliers for the industry (with special emphasis on Brazil), which has also generated a renewed and highly publicized interest in standards. Part 4 explains the methodology used and Part 5 presents the main empirical findings. Part 6 concludes the analysis, offers some suggestions for policy and proposes new areas for research.

2. Standards, chain governance and local industrial upgrading

The increasing globalization of product markets raises new challenges for developing-country producers. Some of these challenges come from increasing public concerns about the ways in which production takes place. These concerns have often been translated into a proliferation of standards dealing with a range of issues, from labour conditions to health and safety norms, quality management practices and environmental impacts of production (Nadvi and Waeltring, 2001). Can these challenges become opportunities for firms in the developing world to upgrade their activities and therefore avoid the race to the bottom? The present paper will try to answer this question but first some of the basic concepts will be explained.

Standards

“Standards are agreed criteria by which a product or a service’s performance, its technical and physical characteristics, and/or the process, and conditions, under which it has been produced or delivered can be assessed.” (Nadvi and Waeltring, 2001)

Standards deal with two aspects of production: what is produced and how it is produced. When standards set the norms for what should be produced, defining the final characteristics a product should have in order to be acceptable, these are ‘Product Standards’. This is the case of technical norms such as CEN (the Comité Européen de Normalisation), DIN (the Deutsches Institut für Normung which sets German technical norms for footwear) and BS (British Standards), for example.

On the other hand, when standards aim to regulate the conditions surrounding the manufacture of a product, that is, are concerned with the process of production, they are called ‘process standards’. These can be used to monitor the effects that production is having on the environment (Environmental Standards), on the well-being of the workforce involved (Labour Standards) and also to ensure consistent (or ascending) levels of quality in production (quality standards). Examples of process standards are the ISO 9000 quality management standards, which have been adapted to a wide range of firms and industries (including the service sectors); the ISO 14000 environmental management standards and the recent standard, Social Accountability 8000 (SA 8000), which is trying to harmonize the diverse social standards in international trade by retaining the reference to the core ILO (International Labour Organization) standards. This is by no means an exhaustive list and it should be noted that voluntary labels and codes of conduct are also part of the process standards category even though most of
them are firm-specific and lack external monitoring and/or certification. (See Nadvi and Waeltring, 2001 for the first systematic classification of all existing types of global standards.)

Note that in the case of both quality and environmental process standards, these can be complemented by product standards determining that the final product has achieved the expected level of quality and/or does not represent any hazard for the environment. In the case of labour standards, there is no physical characteristic in a product that may inform on whether slave or child labour was used to manufacture it. Hence the importance (for labour standards) of monitoring along the whole production process and the value chain in order to really discern whether labour conditions need to be improved or not.

**Chain governance**

Monitoring standards along the value chain and down to its suppliers (even those located in developing countries) might be increasingly facilitated in these globalized times because many chains are not based on pure market relations but are subject to complex governance patterns exerted by lead firms. Indeed, many producers from developing countries have found that the only way to sell their products in global markets is by joining a global value chain in which a lead firm (usually a buyer who is knowledgeable and closer to the end consumers) dictates not only ‘what’ and ‘how’ should be produced but also ‘when’, ‘how much’ and even ‘at what price’ (Humphrey and Schmitz, 2001). It is clear then, that lead firms in value chains are often better positioned than local policy actors (such as local governmental agencies and NGOs) to demand and implement standards on their local suppliers. Whether they do this or not, and what mechanisms they use to do it, are two issues central to this research.

But first it is important to consider the different ways in which governance is exerted in the chain. Some imply a tighter control over the supplier’s activities, while others are characterized by looser ties and therefore exert less influence on what the local supplier decides to do. Based on this criterion, Humphrey and Schmitz (2001) differentiated three types of chain governance or ‘governance patterns’:

a) **Hierarchy**: Takes place when the lead firm (or buyer) actually owns the supplier’s operations, and is totally responsible for product definition (‘what’ is produced) sometimes involving proprietary technology. Since both parent firm and subsidiary are the same company, processes and activities are regulated by the parent company, which also bears full responsibility for standards adhered to by the subsidiary, wherever it may be located.

b) **Quasi-hierarchy** (or **directed network**): Implies a high degree of control of buyer over supplier, but no ownership. The buyer is usually responsible for product definition but may share parts of it with intermediaries (design offices, export and import agents) and sometimes even with suppliers. The buyer prevents losses due to potential supplier failure (such as late deliveries and low-quality output) by exerting a tight control over the supplier’s activities. Recently, a new
risk has appeared which is also associated with supplier failure: the loss of reputation if low standards (mainly labour and environmental) are discovered at any point of the value chain. Large retailers and branded manufacturers in the developed world are nowadays held responsible for the conditions in which their products are produced by their developing-country suppliers. Consumers do not excuse shortcomings, even if the supplier is not owned by the buyer. Chain governance suffices to hold the buyer responsible (morally for the moment, but in the future this could involve legal action) for the conditions in which its products are being manufactured anywhere in the world.

c) **Network** (or **balanced network**): Exists when both buyer and supplier have a relationship of ‘equals’. They may define the product together, but even if they do not, there is no unduly exercised influence of one over the other’s activities. This is common when both buyer and supplier are highly competent and knowledgeable of their end markets and their competencies complement each other. Needless to say, so far this is the least common typology of chain governance when developed-country buyers and developing-country producers are involved.

As a point of comparison, patterns of chain governance are usually contrasted with the lack of governance that exists in *market-based value chains*, those in which buyer and supplier do not need to cooperate for product definition either because the product is a commodity or the supplier is clearly capable of producing it with no guidance. In these chains, transactions are viewed as one-off events and long-term interaction is not expected, therefore the buyer does not have any excessive leverage on the supplier nor does it control the latter’s activities.

**Upgrading**

The main point of studying chain governance patterns and their effects on standard-implementation is to find ways in which developing-country producers in a value chain can upgrade their activities instead of joining the ‘race to the bottom’. Upgrading in this sense “involves insertion into local and global value chains in such a way as to maximize value creation and learning” (Gereffi *et al.*, 2001). Nowadays, it could be added: ‘and ensuring that workers’ and environmental concerns are not compromised in the process’. This is the strong link between upgrading and standards.

However, upgrading is not a single notion and there are several types of upgrading depending on what part of the value chain is being upgraded. This research will differentiate between three types of upgrading:

- **Process upgrading** means doing certain tasks better, for example, reorganizing the process of production or introducing a new machine;
- **Product upgrading** implies making a product, which is of better quality, more sophisticated or simply carries a better price;
• **Functional upgrading** involves moving into new stages of the value chain, for example, design, branding or marketing (Humphrey and Schmitz, 2001).  

Incidentally, different chain governance patterns may produce different types of upgrading. Some patterns of chain governance will stimulate improvements in the production process while others will strengthen the supplier’s ability to assume new functions within the value chain. These functions perhaps constitute the core competence of their buyers (i.e., marketing, design, organization of the supply chain), which can originate a conflict of interest within the chain. It is becoming more and more accepted that under tighter patterns of value chain governance, as in directed networks, suppliers tend to invest more in product/process upgrading and are not encouraged by their buyers to engage in any other different function in the value chain (Humphrey and Schmitz, 2001; Bazan and Navas-Alemán, 2001; Gereffi et al., 2001).  

These heftier investments in product/process upgrading often include implementing more stringent labour and quality process standards, which could mean that directed networks are more conducive for the diffusion of standards to their developing-country suppliers. It should be noted, however, that competing in the new globalized economy may involve more activities than adopting the right standards in the production process; it may also imply mastering other functions of the chain such as design, marketing and the optimum organization of the supply chain. Developing-country producers must be aware that while implementation of product and process standards may be facilitated by lead firms in directed networks (due to their interest in the product/process upgrading of their suppliers), other sources may have to be sought in order for developing-country producers to achieve the other kinds of upgrading to compete successfully in today’s markets.  

3. **The global footwear value chain and Brazilian producers: Governance issues and the need to comply with standards**  

The footwear industry remains a highly labour-intensive activity, regardless of recent technological innovations in footwear manufacturing. Hence, production has continued to relocate across national boundaries in pursuit of lower wages and inexpensive raw materials (US Department of Labor, 1997). This highly specialized division of labour evolved gradually as increasing costs and widespread diffusion of footwear manufacturing practices made footwear production uncompetitive in developed countries. Former shoe manufacturers from the North closed down their factories, retained their know-how of marketing and design and started to “shop-around” for low-cost sites source from in the developing world to (Bazan and Navas-Alemán, 2001).  

The footwear industry in most of the developed world has become a net importing industry. For example, the US in fall 3 is the largest importer of footwear in the world, as table 1.3 shows.
Table 3.1   Global footwear market, 1998, (millions of pairs)

<table>
<thead>
<tr>
<th>Consumers</th>
<th>Producers</th>
<th>Importers</th>
<th>Exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,436.5</td>
<td>China</td>
<td>5,520.0</td>
</tr>
<tr>
<td>USA</td>
<td>1,605.8</td>
<td>India</td>
<td>685.0</td>
</tr>
<tr>
<td>India</td>
<td>652.7</td>
<td>Brazil</td>
<td>516.0</td>
</tr>
<tr>
<td>Japan</td>
<td>515.3</td>
<td>Italy</td>
<td>424.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>414.0</td>
<td>Indonesia</td>
<td>316.3</td>
</tr>
<tr>
<td>France</td>
<td>323.5</td>
<td>Turkey</td>
<td>276.7</td>
</tr>
<tr>
<td>Germany</td>
<td>309.1</td>
<td>Mexico</td>
<td>270.0</td>
</tr>
<tr>
<td>UK</td>
<td>306.1</td>
<td>Thailand</td>
<td>260.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>243.0</td>
<td>Pakistan</td>
<td>226.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,094.0</strong></td>
<td><strong>-</strong></td>
<td><strong>10,786.0</strong></td>
</tr>
</tbody>
</table>


The United States also has the strongest “buying power”, importing more than 28 per cent of the world’s shoes (Table 3.1). In addition, it is the host location of most of the branded retailers that source their products from other parts of the world. By pioneering this method of global sourcing, US buyers have been able to impose their type of governance in “their” chains. Their type of governance is the best example of a directed network. The US quality control practices (namely, with in-house monitoring technicians) tight deadlines and ever-increasing pressure to lower production prices have been the blueprint for international sourcing in the footwear industry for almost 30 years. Other buyers from the developed world (mostly in Europe) have copied their sourcing practices, including the division of chain activities between global buyers (in charge of design, marketing, branding and supply-chain organization) and local footwear producers, which deal only with the manufacturing aspects (Bazan and Navas-Alemán, 2001).

When these global buyers found able producers in the South, they were nevertheless concerned about the consistency of the output’s quality in the long term. The buyers organized a complex supervision strategy that included guiding local producers about product technical standards and quality management programmes. Many of the quality management programmes are based on internationally accepted production practices (sometimes including ISO 9000 types of practice) but their only monitoring and certification comes from the buyer through the use of overseers sent to the shop floors. In this aspect, process quality standards in the Southern footwear clusters working for directed networks fail to bring the harmonization and public recognition that product standards carry. This is perhaps a sector-specific trait in an industry where the global lead producer is better known for its reputation (the label “Made in Italy”) than for its compliance with any product or process standard.
Indeed, the high participation of developing countries as suppliers in these footwear value chains (mainly directed networks) poses a number of questions regarding local industrial development, labour standards and environmental conditions in the developing world. Will this participation improve developing countries’ chances of upgrading industrially? Or is this new division of labour creating a group of exploited manual workers enduring poor working conditions while producing fashion articles for consumers in the developed world? In order to counteract these potential risks from global sourcing, the enforcement of standards has been seen as a possible course of action (Nadvi, 2001).

As noted in Part 2, standards often serve important economic and social goals by facilitating production, reducing transaction costs and protecting health, safety and the environment. However, there are also concerns about the sincerity of invoking standards by sectors that may be more interested in protecting their domestic industries in the industrialized North than in protecting humble workers in the South.

Social standards such as the prohibition of employing children or slave labour have been controversial because they are desperately needed in many developing countries and because they have been subject to manipulation by interested sectors in the North. Nevertheless, for today’s buyers in global footwear chains, these standards are crucial: the scandal that surrounded NIKE’s labour practices in Viet Nam, for example, is still fresh in the industry’s collective memory.

Around the time of that incident (mid- to late 1990s), American and European buyers were already putting pressure on their footwear suppliers to comply with higher labour standards. These initiatives had been fuelled by well-informed consumers and NGOs such as CAFOD (Green, 1997) who produced a report denouncing poor working conditions in footwear firms around the world (particularly China and Brazil) and invited European buyers to assure such practices were not going to be allowed in their value chains.

The European Confederation of the Footwear Industry and the European Trade Union Confederation of Textiles Clothing and Leather jointly subscribed a charter in 1995, seeking to encourage affiliated members to eradicate child labour in the footwear industry. The charter asks European producers and importers to adopt this commitment and to extend it to their subcontractors and suppliers all over the world (BFA, 2000).

American buyers had to comply with a federal prohibition to import any product in which child labour had been used (US Department of State, 1997), following a report by the US Department of Labour in which child labour usage in the footwear industry was highlighted, especially in Brazil.

Meanwhile, environmental standards, though not as highly demanded as quality or child labour standards, have attracted increased interest in their application (mostly in the leather components and the chemical components sectors).
The Brazilian footwear sector has been one of the most affected by changes in demand owing to consumer pressures for higher labour standards in the footwear industry. This is due to its high dependence on the export market (particularly the USA) for its survival. In 1999, almost 70 per cent of all Brazilian footwear exports went to the USA, making Brazil the second supplier of leather footwear for that country (ABICALÇADOS, 2000).

In 1998, Brazilian producers had an output of 516 million pairs and exported 131 million. This performance put Brazil in seventh place in the global ranking of exporters. More than 85 per cent of the country’s footwear exports come from one state: the southernmost state of Rio Grande do Sul, and particularly from one small region: the Sinos Valley cluster (ABICALÇADOS, 2000).

In Bazan and Navas-Alemán (2001), the different mechanisms through which chain governance was being exerted in the Sinos Valley were studied. A systematic comparison and analysis of the different types of value chain governance affecting local firms (including input suppliers) and the corresponding types of upgrading was constructed. Results confirmed the American value chain as the best example of a directed network and the one where process upgrading was most rapid and functional upgrading least common. Buyers in the European chain had a looser grip on their suppliers (a softer version of the directed network) with higher levels of functional upgrading. The Latin American and domestic value chains presented the lowest levels of governance (actually, they were mostly market-based chains) and the highest of functional upgrading. However, the research also shows that the most common situation is for local firms to be involved in several value chains simultaneously and thus be exposed to different patterns of governance and upgrading at the same time.

Based on these findings linking value chain governance with types of upgrading and the present paper’s interest in the implementation of labour, quality and environmental standards by producers in the developing world, the following research questions are explored in Parts 4 and 5.

- How are global standards being diffused through value chains? Does it vary with the type of chain governance (hierarchy, directed network, balanced network) or the lack of it (market-based value chains)?

- Is local compliance with global standards strengthening or weakening local governance?

- Is there any relationship between compliance with certain standards and the type of upgrading pursued by producers?
4. Methodological considerations

The present analysis, though commissioned by the ILO, is an output of a larger research project funded by the Volkswagen Foundation (WV) and executed by an international research team led by the Institute of Development Studies at the University of Sussex, United Kingdom. Several value chains were studied, including footwear, with the Sinos Valley (in Southern Brazil) footwear cluster being one of the case studies researched in detail. The original project “The interaction of Global and Local Governance: Implications for Industrial Upgrading” had two main objectives: First, to examine the scope for local upgrading strategies in clusters that supply global value chains; and second, to study how global norms and standards impacted cluster governance and upgrading. Until the ILO commissioned this paper, it had not been possible to analyse the empirical results addressing this second objective for the Sinos Valley.

In order to analyse the case of the Sinos Valley, field research was conducted aiming to collect both quantitative and qualitative data from primary and secondary sources. Our sample, however, does not fully represent the reality in the Sinos Valley as the research aimed to focus mainly on export-oriented firms. The following table illustrates the share of firms oriented primarily toward export markets in the research sample and in the Sinos Valley as a whole (using data provided by the local business association, ACI). As can be seen, the research sample was biased toward export-oriented firms.

Table 4.1 Share of footwear firms in the Sinos Valley and in the research sample, by market served, 2000

<table>
<thead>
<tr>
<th></th>
<th>Sample</th>
<th>Sinos Valley</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export-oriented firms</td>
<td>40 %</td>
<td>11.34%</td>
</tr>
<tr>
<td>Domestic-oriented firms</td>
<td>27.5 %</td>
<td>53.9 %</td>
</tr>
<tr>
<td>Firms serving both markets</td>
<td>32 %</td>
<td>34.6 %</td>
</tr>
</tbody>
</table>

Source: Research data.

Earlier periods were also covered by drawing on previous research (Klein, 1991; Schmitz, 1993, 1998, 1999; Bazan, 1997; Bazan and Schmitz, 1997; Knorringa and Schmitz, 1999).

For the primary qualitative data, a series of in-depth interviews were carried out with 11 export agents and final buyers plus 9 governmental institutions and trade associations. These two stages of data collection took place between the months of April and August 2000. The present document, however, has also benefited from additional interviews carried out in July 2001.

3 For further information on this research project and its outcomes, and to find the final papers in PDF format, see the website www.ids.ac.uk/ids/global/vwpap.html.
5. **Empirical findings**

The complexity of the relationships found in the value chains was staggering. An attempt was made to separate and describe the main trends that appear to link levels of compliance with standards in some value chains with their dominating pattern of chain governance. Moreover, from the evidence gathered in the field, it was also found that levels of compliance with standards varied according to other factors: a) type of certification required (buyer’s approval, voluntary codes, labels, formal certification by an international body, formal certification by a national body); and b) whether they were demanded by their customers or by local governmental regulations. Section 5.1 explores the linkages between local producers and buyers. Section 5.2 explains the influence of buyer’s governance one step further down the chain – over the input suppliers. Section 5.3 provides some answers to the questions posed in the final paragraph of Part 3 of this paper.

5.1 **Chain governance and standard compliance by local footwear producers**

Due to the intense publicity received by the ISO series all over the world, local producers in this research sample were pleasantly surprised to realize that they were complying with many standards even if they were not part of the much publicized series. Indeed, having codes of conduct, following quality-management programmes and joining Child-Friendly labelling schemes are all practices that are commonly found in the Sinos Valley. Nevertheless, most of these practices do not use any formal (and external) certification procedures, which could indicate a high degree of unevenness in how these standards are complied with.

For example, during the in-depth interviews with key informants along the chain, it was clear that ISO certification was not considered as important as it is for other industries, such as the car industry (Humphrey, 2001) or the surgical instruments industry (Nadvi and Schmitz, 1999). Even other formal certifications monitored by national institutions that mirror the ISO series or take into account concerns for better quality, social and environmental conditions were not considered crucial by respondents (see table 5.1) with the exception of the ABRINQ Foundation for Children’s Rights⁴ (a local NGO devoted to the struggle against child labour) seal which certifies that a firm does not use child labour.

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⁴ The ABRINQ Foundation for Children’s Rights was established in 1990 and its name originates from the industry to which its founder members belonged: Associação Brasileira dos Fabricantes de Brinquedos (Brazilian Association of Toy Manufacturers).
Table 5.1 Certification demanded of producers according to geographical origin and type of governance of the value chain, Brazil, 2000

<table>
<thead>
<tr>
<th>Certification</th>
<th>US value chain (directed network)</th>
<th>European value chain (directed network)</th>
<th>Domestic value chain (market)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Firms</td>
<td>%</td>
<td>Firms</td>
<td>%</td>
</tr>
<tr>
<td>ISO 9000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISO 14000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABRINQ</td>
<td>4</td>
<td>25.0</td>
<td>2</td>
<td>50.0</td>
</tr>
<tr>
<td>Comfort Seal</td>
<td>1</td>
<td>25.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>2</td>
<td>10.0</td>
</tr>
<tr>
<td>None</td>
<td>12</td>
<td>75.0</td>
<td>2</td>
<td>50.0</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>100.0</td>
<td>4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Authors’ survey, 2000.

Seals\(^5\) like ABRINQ and the Comfort Seal (which certifies firms that follow technical norms aimed to ensure footwear is comfortable) were deemed useful mostly for the domestic market.\(^6\) Firms in the sample claimed their lack of interest in formal certifications but claimed they did comply with internationally and nationally accepted product and process standards.

Clearly, if they did not find formal certifications useful but actually complied with standards, there had to be other indicators by which this compliance might be tested by those actors interested in ensuring that producers work with certain standards. In most cases, it was the buyers’ demands that made sure that footwear producers were complying with certain standards. This role seemed to be carried out with different intensity according to the final market the value chain was serving. Figure 5.1 presents the more detailed picture obtained by asking producers which standards were most demanded by their buyers.

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\(^5\) A new national environmental seal, the “Green Seal” is being advertised by the local technological institution (who will also be in charge of certification) but it has not raised much interest locally (Interviews with buyers, 2000).

\(^6\) ABRINQ is also reasonably well-known among the US buyers, but is not demanded in the products they source from Brazil to sell to their American customers: “We would have to explain to our customers what is it about and is not worth it, we make sure our suppliers do not use child labour” (Interview survey, 2000).
Figure 5.1 implies that if buyers are not requesting formal certification it does not mean that they do not care about compliance with standards. In fact, they actively encourage local firms to adopt mechanisms for improving quality, environmental and social (labour) practices – even if in some cases (environmental requirements) these practices have long been better implemented and enforced through local governance (as Part 6 shows). Particularly in the value chains where quasi-hierarchy (directed network) is the norm, buyers ensure standard compliance by sending their technical supervisors to monitor suppliers’ operations. In the case of product standards of a technical nature, they may even suggest that the producer sets up an internal laboratory or sends samples of the output to the local technological centre if (and only if) both the corresponding test and the technological centre count with the approval of the buyer.

In the following paragraphs, there will be an analysis of how the three types of standards considered in this study (quality, social and environmental standards) are being diffused to local footwear producers along the four main value chains present in the Sinos Valley: America and Europe (directed networks) and Latin America and Brazil (Market-based chains).

**Quality standards**

The ISO series was irrelevant for the majority of surveyed footwear producers and also for their buyers. Only one out of 40 sampled firms had ISO 9000 (see table 5.1). Such lack of interest in certification has many explanatory factors. One of them is a widespread belief within the industry that shoe production is an artisanal and changeable process, therefore difficult to standardize.
Another factor – and one more linked to chain governance – is the reason given by some buyers and producers surveyed from directed networks (American and European value chains) for whom “there is no point in asking firms to be ISO 9000 certified, since it is the final buyers and export/import agents that ultimately own the product and control the process and in many ways set the parameters under which footwear producers operate. Final clients can vary a lot, and can also vary the product and the processes – which makes it hard to achieve ISO certification.”

Consistent with this opinion, the only firm interviewed that had ISO 9000 is a branded firm working in the Brazilian value chain (a typically market-based one, as noted earlier), which was starting to export. Having total control over all their processes and products, this firm found the certification process “a revelation in how to better manage our company”\(^7\) but they by no means felt any pressure or governance from any of their buyers (mainly domestic but also an international buyer in Europe) to obtain certification.

In the directed networks the alternative means – to certifications – by which buyers check producers’ compliance with (mainly) product quality standards can be divided into a visual test and technical testing. The former constitutes the constant examination carried out by the buyer’s overseers in the producer’s shop floor and the latter is carried out in laboratories (both local and abroad) and includes chemical tests on the materials, leather resistance and durability, heel resistance, sole abrasiveness and glue adhesion.

As shown in Figure 5.2, technical testing requirements are an almost exclusive feature of American and European value chains (with no significant variation between America and Europe as all producers who sell to those markets are requested to perform the tests). However, even though technical testing is not required in the domestic market, large domestic manufacturers carry them out nevertheless because they find them useful to increase the quality levels of their outputs and, since most producers in the Sinos Valley have a percentage of their production exported, it is a common practice in the cluster.\(^8\)

\(^7\) Interview with the producer.

\(^8\) Argentina, a neighbouring country and Mercosur trade partner (as well as competitor), has reportedly used technical testing as a non-tariff barrier to control the amount of Brazilian footwear coming into its market.
Even though the totality of surveyed firms that have America and/or Europe as their main markets are requested by buyers to test their products, slight differences can be pointed out between the two markets. For example, European buyers tend to be more demanding in their requests for technical testing than American buyers. As stated by an interviewed export agent, “while US final buyers accept tests performed in the Sinos Valley technological centres, Europeans re-test the products in European centres (mainly in the British Technological Centre SATRA). Even among Europeans, differences exist. For example, French buyers “tend to be less demanding than English buyers”, according to the export agency interviewed. One possible explanation for these discrepancies is that the average price of footwear in Europe is higher than in the US and therefore their demands for quality tend to be more exacting than the US buyers’. Along with the average price factor is the greater presence that US buyers have in the Sinos Valley. Thanks to this more prolonged and broader presence, US buyers have influenced local institutions (including technological centres) making them follow their practices. European buyers came to the Sinos Valley in a later stage, when the cluster bore already the ‘American trademark’ imprinted by its dealings with US buyers.

According to many of the interviewed export agents, the total number of required tests has been increasing in the last three years due to heightened concerns for quality and safety matters by the final consumers. It would be misleading to say that producers enjoy having to comply with the testing procedures or (particularly) the close supervision from the buyer’s overseers, but many producers have come to view these tests as an advantage, since they provide them with an objective ground of discussion with the often overpowering overseers. Additionally, the tests have become an assurance of quality before an order is shipped. This assurance (in the shape of testing reports) will serve as a defence against rejections and attempts by the export agent or even the final buyer to blame the producer for imperfections in the products. In sum, technical testing to ensure

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9 The majority of foreign buyers have stopped dealing directly with the developing-country footwear producers they source from. Nowadays they use local buyers called ‘export agents’ (if they are independent) or ‘purchasing offices’ (if they are partially or wholly owned by the foreign buyer).
compliance to product quality standards is not seen as a barrier to export to external markets, but as a necessary requirement that safeguards both parties’ interests and helps to raise quality levels. Local producers seem to be complying with them without problems and this could be a sign of product upgrading. The important detail is that this upgrading on local footwear producers has been brought about (mainly) by the global buyers’ demands in directed networks.

Another important consequence of buyers’ demands has been the collective actions initiated by local producers such as lobbying for the recognition (by foreign laboratories) of the local technology institution’s tests. In a way, these international product quality standards revived the necessity to have efficient technological institutions within the cluster, and collective private-public efforts have been undertaken in order to preserve them in optimal conditions. For example, when the main technological institute in the Sinos Valley (CTCCA) ran into serious financial difficulties in 2000, many local footwear producers and input suppliers convinced the local State government to take over the institute (assuming responsibility for its debts). This concerted action saved CTCCA from legal actions by its creditors that would have meant closing down. As one of the footwear producers explained: “We need this institute, they can carry out complex tests that are recognized by our buyers.” This support came from both directed network and Market-based value chain footwear suppliers (Bazan and Navas-Alemán, 2001).

Technical testing was found to be required in the Latin American market, but mainly by Argentina in an attempt to protect its dwindling footwear industry. As for the other countries in the region, they benefit from products that have been tested since this practice is now absolutely widespread across the cluster. Brazilian producers also use their technical testing certificates as a marketing strategy in those neighbouring countries where the Brazilian footwear industry is regarded as the leader in the sub-continent.

There are more than 150 Brazilian technical norms under which footwear can be tested. Most testing required by the buyers (except very complicated ones) takes place locally at the Sinos Valley’s technological centres and/or laboratories served by vocational footwear schools such as SENAI. Additionally, many large firms have their own internal laboratories which speeds up the process of testing. In spite of the fact that most Brazilian technical norms are adaptations of foreign ones, “re-tests” are commonplace abroad (particularly in the European value chain) and they are performed in line with international norms as the BS standards and DIN.

The majority of surveyed firms (both buyers and producers) confirmed that there is a trend towards increasing the use of technical tests for ensuring compliance to product quality standards. Regarding process quality standards, local footwear suppliers working for directed networks are required to comply with the buyer’s or export agent’s process requirements. The overseers enforce the requirements, and sometimes the buyer/export agent will assist the supplier to adopt quality management programmes designed by the buyer. In the American value chain, buyers largely encourage firms they source from to

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10 Interview with a technology institute official.
adopt quality management programmes, as this is one more tool for ensuring better performance in production.

Another interesting trend among Export Agents is to try and obtain the ISO 9000 certification. One of the interviewed export agents had already acquired the certification and others were either involved in the process or seriously considering it. Since many of these agents feel that they “own” the productive process (commonly referring to local footwear producers as “my producers” or “my firms”) they do not have the same reservations as producers regarding ISO certification processes. Besides, having no intermediaries between themselves and final buyers in the international market, agents are also aware of the potential rents they can appropriate if they market themselves in the international market as ISO-certified. Local producers working in directed networks usually lack the skills to act on their own in the international market (a situation that is reinforced by export agents) so they prefer to stay away from any extra expense (such as the costly ISO certification process) if this is not being expressly demanded by their buyers (through their export agents).

Environmental standards

As shown in table 5.1, none of the surveyed firms was ISO-14000 certified. ISO 14000 certifications were found to be still less relevant for global (and even for national) buyers than ISO 9000. The reasoning behind this lack of interest is the following: the most polluting stage of the leather footwear value chain is the production of the leather. Foreign buyers claim that they do not have any contact (or governance) over these input suppliers. However, according to Bazan and Navas-Alemán (2001), in the Sinos Valley directed networks there is governance being exerted by foreign buyers on local suppliers, including tanneries. This has implications for the way chain governance is used to implement standards at the level of input suppliers.

In spite of their lack of interest in process environmental standards (whether they are ISO 14000 certification or any other), global buyers have high expectations on the usage of environmentally friendly materials (see figure 5.1) by their footwear suppliers. However, these concerns are more centred on assuring that the final product does not contain materials\textsuperscript{11} that could harm end-consumers in the developed world rather than assuring good environmental conditions in the regions they source from.

American and European buyers ensure that these high expectations are satisfied by establishing agreements (whether in writing or verbally) with footwear producers, as shown in table 5.2. Monitoring of these agreements is carried out by performing chemical tests in the materials and also by manual inspections performed by overseers sent in by the agents. Strict security norms are deployed so that no needle or other potentially harmful material is left inside the shoe.

\textsuperscript{11} Chemicals such as chrome and nickel.
Table 5.2  Agreements with buyers regarding the use of environmentally friendly materials, Brazil, 2000

<table>
<thead>
<tr>
<th>Does an agreement exist?</th>
<th>Value chains</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brazil (market)</td>
</tr>
<tr>
<td></td>
<td>N</td>
</tr>
<tr>
<td>Yes, in writing</td>
<td>1</td>
</tr>
<tr>
<td>Yes, verbal</td>
<td>1</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Authors’ survey, 2000.

According to in-depth interviews carried out with governmental agencies, business associations and firms, the real pressure for implementing environmental standards comes from the local government, not from any footwear buyer. This is not a case where the local environmental law is written but not applied. Rio Grande do Sul (the State where the Sinos Valley is located) has been an example of environmental good practice in many industries and also in urban management. Further research on the functioning of policy networks in this Brazilian State would be needed in order to find the reasons behind these achievements. Particularly significant for the leather footwear value chain are the tight regulations that deal with effluents from tanneries, which have been closely monitored by the Companhia RioGrandense de Saneamento (a governmental institution for water sanitation) for over 40 years and more recently sanctioned by FEPAM (the State’s environmental agency deals with all matters, not only water effluents) since 1991. It is important not to be over-optimistic about the efficiency of local agencies and laws, but one could expect to see a much lower compliance with environmental standards in the Sinos Valley, since there is so little interest by foreign buyers in this matter. The fact that environmental standards are observed in the local links of the footwear value chain shows the relevance of local policy to enforce standards, even in the absence of buyers’ demands in this respect.

**Labour standards**

As a consequence of the labour standards scandal that tarnished NIKE’s reputation in 1997 and the same year’s resolution of the US government to ban any imports where child labour was involved (see Part 3), American branded buyers and large chain stores became very demanding regarding the absolute non-existence of child labour in their footwear suppliers premises (including their subcontractors).

The issue of child labour has been, indeed, a bone of contention between the Brazilian and the US government. During a WTO meeting in Seattle, in December 1999, the US President publicly criticized Brazil for using children in different sectors of

12 Interview with a trade association official; FEPAM, 2001.
production, using the footwear sector as an example. The Brazilian government asserted that this matter had been solved since 1998 (Correio do Povo, 1999). The degree to which the problem has been resolved is still controversial: in the present research, footwear producers asserted that child labour had been abolished. On the other hand, a few surveyed buyers admitted that it still exists in the outskirts of the Sinos Valley, in many surrounding towns. In any case, the practice of employing children in the footwear industry is declining.\footnote{Particularly in urban centres. Unfortunately, our research did not cover small production units in the neighbouring rural areas.} Strong governance in the American and European value chains is largely responsible for this change. This is one example where buyers in a directed network have been able to successfully demand and implement a labour standard (ILO Convention No. 182 on the Elimination of the Worst Forms of Child Labour, 1999).

Part of the trend initiated in the value chain has been the footwear producers’ quest for new ways to assure both buyers and the public of their ‘child-free’ manufacturing practices. In 1995, Brazilian businesspeople (including footwear producers) joined efforts with the local NGO ABRINQ and with the local technological centre CTCCA to develop a seal to show that a firm not only does not employ children but is also committed to the eradication of the practice in the cluster.

The seal “Empresa Amiga da Criança” (“Child-friendly Firm”) is well known in the Brazilian market and by the local export agents in the American value chain, but is less known in the other value chains of Europe and Latin America. This labelling scheme has undoubtedly helped to create awareness about the issue of child labour in Brazil, but its soft approach towards monitoring and certification has also raised criticism. Some of the interviewees (including buyers and producers) regarded the seal as “effortless” to obtain, hence they were somewhat cynical about its effectiveness. In order to obtain the ABRINQ seal, firms fill out a form stating that they do not use child labour, pay a low fee to the NGO and if they have already had any involvement in programmes benefiting children, they should also attach media articles, reports or any other documents attesting to these actions. The following quote comes from ABRINQ itself: “The seal recognizes the company’s commitment but it does not constitute a certification of compliance with this commitment” (www.ABRINQ.com).\footnote{For a thorough discussion of the achievements of ABRINQ and other Child-friendly NGOs in the region (such as Pro-Criança in the men’s footwear cluster of Franca), see, US Department of Labor, 1997; Universidade de Sao Paulo, 2000; and Universidade Federal do Rio Grande do Sul, 1998.}

Nevertheless, foreign branded retailers and large chain stores have other, more trusted methods for enforcing compliance: they use their supervisors ( overseers) to check for themselves that there are no children on the shop floors. The use of “Codes of Conduct” and verbal or written agreements is also common, as shown in Table 5.3.
Table 5.3 Agreement with buyers regarding non-existence of child labour

<table>
<thead>
<tr>
<th>Does an agreement exist?</th>
<th>Main Market</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brazil</td>
<td>USA</td>
<td>Europe</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>%</td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>Yes, written</td>
<td>1</td>
<td>5.3</td>
<td>7</td>
<td>43.5</td>
</tr>
<tr>
<td>Yes, oral</td>
<td>1</td>
<td>5.3</td>
<td>6</td>
<td>37.5</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>89.5</td>
<td>3</td>
<td>18.8</td>
</tr>
<tr>
<td>Totals</td>
<td>19</td>
<td>100.0</td>
<td>16</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Authors’ survey, 2000.

Other social concerns have been introduced in the Sinos Valley in the wake of the child labour issue. The demands of these global buyers are often a response to the public opinion these buyers face in their own countries, initiated by some very militant NGOs and informed consumers. Issues such as security and health in the workplace and even improvement of wage conditions are now discussed in the cluster. Issues frequently discussed for other countries (China, for example) such as the existence of slavery or humiliation in labour relations have been left out of the discussion, as they do not seem to be a problem in the footwear sector, even though they are of concern for other Brazilian industries.

Have such improvements actually had an impact on workers’ wages? This is highly debatable. One reason is that this calculation will look better (or worse) depending on the currency being used. For example, one union representing local businesses showed that, in some areas of the Sinos Valley, wages increased from R$0.70 to 1.24 per hour between 1995 and 2000. However, if these figures are converted to US dollars, then wages decreased from US$0.86 to US$0.68 per hour. Moreover, when real wages are deflated by the inflation rate, the average monthly wage in 1999 (R$367.28) was at a very similar level to that in 1994 (R$365.06) (Nogueira, 2000). To leave this controversy on an optimistic note, Schmitz (1997) pointed out a trend towards improvement of wage conditions based on a variable system of payments linked to productivity increases. This kind of system, however, cannot appear in the official data on wages, due to Brazilian labour regulations (Bazan and Navas-Alemán, 2001).

5.2 The influence of chain governance on the adoption of standards by input suppliers

Until recently, global buyers leading directed networks were not held responsible for the activities of their suppliers in the developing world. The emergence of value chain studies in the late 1990s and their emphasis on governance issues has changed all that. Nowadays it is not only recognized that global buyers exert governance on the firms that supply them, but also in the political, social and economic environment of the region in which they source. In short, tight chain governance (the form of governance dominant in directed networks, and of course, in Hierarchies) interacts and influences local

A natural step within this process was to debate whether buyers in directed networks exert any governance on the firms that provide inputs for production to the local manufacturers, i.e., input suppliers. In the case of the footwear value chain, these input suppliers can be tanneries, chemical and plastic components firms, makers of metal accessories, packaging companies, etc. To this end, input suppliers were included in the sample of the Sinos Valley footwear value chain and were asked which standards (if any) were demanded from them by their customers. Their answers were cross-checked with footwear producers (the direct customers of input suppliers), export agents and final buyers.

Standards were mentioned by 20 per cent of the 40 surveyed input suppliers as one of the elements used by their customers to decide whether to select them or not. This suggests that standards, even though not highly demanded, are more requested for input suppliers than for footwear producers. Input suppliers also admitted that more important than certification per se was their ability to follow the quality assurance procedures (standards) that global buyers (represented in the cluster by the agents) found acceptable. In this way, the input supplier can become one of the agent’s ‘preferred input suppliers’ and would be strongly suggested to the footwear producers in the value chain (Bazan and Navas-Alemán, 2001). This shows that governance in the directed networks does extend to the input suppliers regarding the adoption of certain product and process standards.

Since their customers do not request certification, why is there a percentage of input suppliers that have applied for ISO 9000 or even ABRINQ? Their answer was that they had done so as a tool for market differentiation since they perceive it will be important in the near future. The majority of input suppliers can decide whether they adopt or not a certain standard based on their own perception of the market or they can follow the indications of buyers. More often than not, they would choose on their own to upgrade activities, adopt standards and even advertise the fact that they were adopting them. It has been observed that footwear is an industry where innovation is pushed by input suppliers (Piccinini, cited in Zawlslak, 1995) and adoption of standards can be seen as innovations in some circumstances. Even though it has been shown that innovations are also ‘pulled’ by buyers (mainly foreign, represented by the export agents), it emerged from this study that chain governance is less important for input suppliers to adopt high standards as compared with footwear producers. It also emerged that chain governance was an important factor in imposing product and process quality standards and testing on input suppliers, but this case applied less to labour standards and even less to

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15 Input suppliers have a wide variety of customers: local footwear producers, foreign footwear producers, other sectors such as furniture, clothing and even the automotive industry. However, most of the answers reported refer to their relationship with local footwear producers within Directed Networks and Market Chains.

16 At the time the fieldwork was being done, they had not yet received the certification.
environmental standards. Among the sampled input suppliers (including large chemical firms), no firm had applied for ISO 14000.

The type of standards and certification that are demanded from input suppliers differ substantially from those required of footwear suppliers. For example, quality standards seem more important for this group than child labour standards: while 27.5 per cent of footwear producers had obtained ABRINQ certification, only 7.3 per cent of sampled input suppliers had done so. On the other hand, 7.3 per cent of input suppliers obtained ISO 9000 against only 2.5 per cent of footwear producers. A small percentage (10 per cent) of input suppliers had obtained locally issued certification related to quality standards; for example, the certification issued by the “Programa Gaúcho de Qualidade”, a State organization created for promoting and stimulating quality improvements in the firms of Rio Grande do Sul, Brazil.

The type of production in input suppliers’ firms is usually not labour-intensive which may explain why these firms are less concerned with the issue of child labour. The independence in production parameters and the predictability of processes involved in manufacturing supplies for the footwear industry – with the exception of tanneries – largely explain the differences between input suppliers and footwear producers in terms of standards requirements. Whereas input suppliers find quality standards (and even certification) useful and are quite eager to implement them, footwear producers tend to go for the minimum necessary, usually what is expressly demanded by their buyers (mainly their agents in directed networks).

Nevertheless, some input suppliers are also subjected to the common rules of not employing children and not using non-environmentally friendly materials (24.4 per cent stated they keep agreements on the former issue and 24.4 per cent on the latter). Technical testing is also demanded (but not monitored by buyers’ overseers, as in the case of footwear producers): 58.5 per cent of input suppliers claimed that their clients in the domestic market asked for technical testing to be carried out and 56.2 per cent of exporting input suppliers claimed the same. A good number of such tests are requested by footwear global buyers or by footwear producers at the demand of their global clients.

Compared to footwear producers, input suppliers appear to be better prepared to adopt and implement quality, environmental and labour process standards, provided that there is a business case to justify the effort or a pressing local agency that is effectively monitoring compliance. It does not seem likely that chain governance alone could pressure input suppliers into adopting any standard. In this regard, input suppliers share their decision-making style with the domestic footwear producers who are also outside of directed networks and in market-based value chains. Diffusion of standards to these two groups can be promoted by advertising best practices in the cluster. This should arouse the competitive spirit of these firms, combined with strict governmental monitoring and some degree of encouragement by the global buyers in directed networks. If it became crucial, compliance with standards would not be a problem for input suppliers as they would be able to respond quickly to such requirements. Many input suppliers are already anticipating such a situation.
5.3 Chain governance and standards: Emerging answers

Some answers to the research questions begin to emerge: Tight chain governance (directed network) such as that prevalent in the American and European value chains seems quite effective at implementing the product and process standards dear to foreign buyers—quality and labour. Again, slight differences appear: European buyers tend to be more demanding regarding quality standards by re-testing products in their European laboratories. Regarding labour standards, no significant difference was found between American and European buyers; both seem equally concerned with preventing child labour in footwear production. Environmental process standards are not of interest to foreign buyers, so they do not use their leverage to ensure that these standards are adopted by local suppliers. There is another possible explanation, however. Some key informants thought that foreign buyers were relying on the good job that local government has done to monitor compliance with the State’s environmental regulations. It is more plausible to believe that buyers in directed networks demand and monitor what they are interested in; their lack of interest in local environmental standards will last until their consumers in the developed world start to raise these issues, regardless of the performance of the Brazilian environmental agencies.

This is not to say that the implementation and monitoring of environmental regulations by the Brazilian agencies is irrelevant, far from it. From a local governance point of view, the zeal with which local actors are setting their own environmental standards and enforcing firm compliance shows that foreign chain governance is not always needed for standards to be upheld in the developing world. At the end of the day, both types of governance can be used to implement standards in the footwear industry.

As for the domestic value chain, even though market relations with local buyers are not as demanding as those in the directed networks, diffusion of standards is also taking place. The means by which this is happening are better explained by the dynamics of an industrial cluster (and its local governance) than by value chain analysis. Local actors—such as vocational schools, technological centres, input suppliers and governmental agencies—can help to spread practices along the horizontal governance lines of the cluster. Inter-firm co-operation and competition play an important role. Neighbouring producers tend to have certain common parameters for their production processes and these include adopting similar standards, even if they are selling to different markets (for a detailed discussion of cluster dynamics and their role in local upgrading see Nadvi and Schmitz, 1999).

Another reason for local producers’ similar approaches to the adoption of standards is that most firms have at least a percentage of their production exported, most likely to one of the directed networks’ markets (the United States and Europe). Clearly, it does not make sense in the long term to have standards only for output that is going to these markets. Once standards are used for one client or market, they tend to stay within the firms and be used for all production. A few respondents also mentioned marketing as a valid reason for adopting a standard, and for advertising it with the corresponding seal, such as the ABRINQ seal. The only footwear producer in the survey (domestic-oriented
with incipient exporting activity) that had adopted ISO 9000 also thought that certification would help to attract more clients abroad, as this firm has its own brand and deals directly with international buyers. This point of view, however, was only found among firms that dealt directly with their buyers. When they had intermediaries in the shape of export agents, their view was contrary to the adoption of standards or certification that were not expressly demanded by their agents.

Another finding that emerges from this research is that foreign demands for standards through strong chain governance affect the local governance of the cluster and even its local upgrading efforts. However it does not seem that they affect upgrading in an adverse way. On the contrary, they appear to activate local collective initiatives to meet the challenge (development of ABRINQ) and promote individual self-assessment as in the case of firms who internalized laboratory testing.

Table 5.4a and 5.4b summarize the findings on chain governance and adoption of standards by footwear producers and their input suppliers in the Sinos Valley.

Table 5.4a  
Role of chain governance in the adoption of standards by footwear producers in the Sinos Valley, Brazil, 2000

<table>
<thead>
<tr>
<th>Type of Standard</th>
<th>USA (directed network)</th>
<th>Europe (directed network)</th>
<th>Latin America (market-based chains)</th>
<th>Domestic (market-based chains)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>Product: Medium</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Process: Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Quality</td>
<td>Product: Medium to High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Process: Medium to High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Labour</td>
<td>Process: Medium to High</td>
<td>Medium to High</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

Table 5.4b  
Role of chain governance in the adoption of standards by input suppliers in the Sinos Valley, Brazil, 2000

<table>
<thead>
<tr>
<th>Type of Standard(*)</th>
<th>USA and European footwear value chains (directed networks)</th>
<th>Other foreign countries (market-based chains)</th>
<th>Domestic market (market-based chains)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Quality</td>
<td>Medium</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Labour</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

(*) In this case the distinction product/process was not considered due to the more indirect influence of chain governance on input suppliers.
6. Conclusions

This paper has been concerned with the diffusion of standards along global value chains and towards their producers in developing countries. Using case evidence from Brazil, the linkages between chain governance and standard compliance have been ‘unpackaged’ in order to understand their complex functioning. In doing so, some clues have appeared to answer questions such as: which type of chain governance is more conducive for the implementation of which standards? Other questions considered included whether local compliance to global standards strengthens or weakens local governance; and whether there is any relationship between compliance with standards and upgrading.

With the staggering variety of standards available nowadays and its unevenness regarding monitoring and certification, it became clear that distinctions need to be made (particularly by policy-makers) in order to identify which standards hold the greatest promise to support upgrading for producers in developing countries and in what circumstances.

Chain governance

When analysing the footwear global value chain and its Brazilian suppliers, it was found that standards were implemented differently according to two main factors. First, the type of governance (usually directed network to America and Europe) that was prevalent in the chain, or the lack of it, as in the case of the market-based chains operating in the domestic market and neighbouring Latin American countries. Second was the issue that standards set the norms (quality, environmental or labour) for what is produced. Not all standards were considered equally important by the producers, input suppliers or the buyers, and not all types of chain governance equally encouraged the adoption of certain standards.

One of the main findings of this study is that any standard demanded through the tight governance of directed networks (American and European value chains), tends to be quickly implemented by developing country producers and effectively monitored by the buyers. It has been shown that global buyers employ many resources (such as overseers, financial help and advice) to improve the quality levels of producers’ output. This assistance includes helping the producers to adopt quality standards and to introduce quality management programmes. The downside is that only the standards that are important to the buyer are implemented and may not be either those that are most needed for a positive social impact or those the producer should adopt to become more competitive in new markets.

Footwear producers working in market-based chains that were found operating in the domestic and Latin American value chains adopted standards in a different way. In these cases, adoption of standards was a voluntary decision rather than the imposition of any particular buyer, and this decision was justified by: a) the role of such standards in increasing the competitiveness, or b) the need to comply with regulations of strong local
governmental actor. Here again, in the absence of strong local pressure by the government or an NGO, for example, footwear producers may choose to abide only by those standards that have a direct and tangible impact on improving the economic indicators of the company.

**Product standards**

Indeed, product technical standards (mostly product quality and safety standards) appeared the best implemented in the Sinos Valley footwear industry, particularly in the directed networks. Perhaps because they have been around for much longer than process standards (and demanded by foreign buyers in a consistent and exacting way), they are the epitome of what truly well-monitored and certified standards should be: they follow the same parameters for all producers, are certified by independent, external institutions (whether in the Sinos Valley or abroad) and therefore inspire confidence in both buyers and consumers. Even if they are sometimes perceived as a nuisance because of their variety according to final markets, Brazilian producers consider that these norms bring a certain order to production, allowing to distinguish the “serious, quality-conscious producers” from the rest and give an objective measure to discuss the ever-increasing demands from the overseers sent by buyers. Many large producers (mainly in the directed networks but also in the market-based chains) have taken to installing their own laboratories inside their plants, in order to speed up testing procedures.

**Process standards**

As for process standards, along with being immensely varied in their form (labelling schemes, internal codes of conduct, international certifications such as the ISO series) they were also diverse in their monitoring and certification procedures (self-assessed, externally certified, overseer-certified). Unevenness is still unfortunately the rule when it comes to adherence to process standards in the Sinos Valley. Nevertheless, the very presence of a plethora of process standards on a wide range of topics (child labour issues, quality management and environmental concerns) shows an increasing awareness and interest in dealing with these matters. Harmonization of a selection of standards that prove to be most useful and legitimate will take some time, but it is a worthwhile challenge in which policy-makers can provide input and support.

Some of the findings that may help in this process of selection are related to why local producers did not find certain process standards relevant. For instance, certification

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17 In this section on product standards, the author is referring to the specifications required of a determined product to be considered of good quality, such as “the thickness of the sole between 2 – 2.8 cm. for men’s comfort shoes”. These product standards change between organizations such as DIN, CEN and BS, although there is a trend towards harmonization of most of these. When the ISO series is mentioned in the following section on process standards, this refers to the process that needs to be followed in order to achieve the specified product standard. It is assumed that, if the process is controlled and the quality of the process is high, then the output should be of high quality. There has been a customization of the ISO series for several sectors and many times they include product specifications as well, which is the result of the harmonization trend, but ISO is not meant to provide these specifications, as they are taken from product standards set elsewhere.
such as the ISO 9000 series was perceived as “not very relevant”. This general opinion was based on the reasoning that there are other means for quality assurance: supervisors (from the buyer) and technical testing. It can be argued, however, that there might be yet another reason for this rejection of the ISO series: as local footwear producers do not have total control over their production processes (the buyers give them not only product specifications but also production ones) they may feel unable to define the standard procedures required to develop an ISO system. The investment to acquire the ISO certification is also a deterrent, combined with the crucial fact of buyers (in both directed networks and market-based chains) not demanding it. The only footwear producer with ISO certification is quite happy with its usefulness for quality management but admits the main reason to apply for certification was its international marketability outside the typical Sinos Valley’s directed networks. As a branded firm with a distinctive product, this firms sees being ISO-certified as its entrance to new value chains where certification may make it look more trustworthy.

This argument is supported by the trend of export agents becoming more interested in the ISO 9000 certification. It appears that being ISO-certified may give a competitive edge when the firm has a) direct access to the market, and b) ownership of the production system including the functions of design and/or branding. Otherwise, being ISO-certified will just make the footwear producer a better supplier for its current buyer but, since buyers are not asking for this certification, it may be a large expense with no added competitive advantage.

In the case of input suppliers, a similar situation occurs. A number of chemical companies (usually large, branded companies) do strive to obtain ISO certification because they have direct access to foreign buyers (with no intermediaries overseeing their processes). Also, it is a way to make their products consistent (something that is not so demanded in the footwear manufacturing sector, with its frequent changes in models, materials, and shapes). However, smaller input suppliers who produce leather and metallic components are also wary of the ISO series and any process standard that tries to set norms for daily production routines. Small input suppliers also feel that they need to change their production according to their buyers (usually footwear producers) and that they do not own the whole process, making it difficult for them to engage in certification processes such as ISO 9000. Here again, their buyers are not demanding ISO certification. This highlights the thread connecting the chain governance exerted by global buyers (in directed networks) on local producers, which reaches even the small input suppliers.

**Social standards**

Regarding social standards (process standards by definition), such as the prohibition of child labour, it can be said that international pressure (mostly from the US government and consumer groups) was mainly responsible for this practice almost disappearing from the formal sector of footwear producers and input suppliers, both in the directed networks and the market-based chains. Besides, as American and European footwear producers are held responsible for their subcontractors’ actions, it seems that the
practice is being tackled even at the level of smaller workshops, at least in the central areas of the cluster. The most stringent controls in this respect are to be found in the footwear producers and input suppliers working for directed networks. This example confirms that when a standard is crucial for the global buyer, its implementation by local suppliers is almost guaranteed.

Buyers often promote and give advice to their suppliers on how to adopt these improvements, as they are of paramount interest for the former. Other standards (environmental or even some labour standards not linked to child labour) tend to be ignored by the buyers. In consequence, their suppliers may ignore them too, especially if local monitoring is not strong enough.

**Upgrading**

As for types of upgrading, it was found that footwear producers in directed networks are very concerned with improving their production processes (which will involve product and process upgrading) and with attaining higher levels of compliance with the standards that help them reach this superior level of performance, i.e., quality standards. However, producers supplying market-based chains have to make additional investments in design, branding and marketing which are part of their functional upgrading strategies. This need to invest in strategies to penetrate markets – instead of only producing better outputs for a global buyer that also provides the design – may be one of the factors for the smaller investment in quality standards in the market-based chains.

It is fair to say that footwear producers in directed networks tend to invest a larger percentage of their budget in the implementation of standards (mainly quality and labour) than their counterparts in the market-based chains. Hefty investments in quality improvements (including quality standards) are strongly linked with the type of upgrading that firms in directed networks are encouraged to follow: product and process upgrading.

**Local governance**

When turning to the issue of how local governance is affected by global chain demands for standard compliance, an optimistic finding emerged: sometimes, local governance is capably enforcing strict standards. Indeed, for environmental standards, local environmental regulations in this southernmost state of Brazil have been established and monitored by the local government for over 40 years. In this case, there was a clear need for local actors to undertake the responsibility of implementing and monitoring these environmental process standards since it is not (yet) a concern that buyers in the value chains are about to champion.

Moreover, it was found that local producers and input suppliers step up their participation in local governance when they find a set of standards important or when they cannot escape compliance. In these cases, they tend to engage not only in individual
but also in collective action aimed at raising the legitimacy of their compliance strategies (i.e., achieving foreign recognition for local testing or promoting the child-friendly labelling scheme) or making them affordable for most local producers (i.e., by rescuing and keeping the main local technology institution operational). These actions, though originated by global chain governance, are strengthening local governance, which in turn may enhance local opportunities for other collective action aimed at industrial upgrading. Policy-makers could highlight and commend these initiatives in order to use them as starting points for further collaboration leading to better compliance with other standards.

7. Policy recommendations and suggested areas of research

Due to the diversity of standards, chain governance styles and priorities in the local agencies dealing with standards, various policies will be needed to promote compliance. Some may take advantage of the strong governance in the directed networks while others will have to include greater efforts by local government agencies and the support of international agencies and NGOs.

Let us begin with policies that may widen the implementation of standards by using almost exclusively the strong, quasi-hierarchical governance of directed networks. These policies should be based on a thorough knowledge of the types of standard that interest global buyers currently. Quick surveys could be carried with key buyers in developed countries that may serve to inform these policies. It is already known that global buyers are mainly concerned with quality standards and selected labour standards that may enhance their image (such as standards forbidding child labour).

Stakeholders and actors

There are associations of buyers (and/or producers that also buy a large percentage of their products from the developing world) and importers in the North, which are interested in raising the profile of their sector. There are also technological institutes in the North (i.e., SATRA) that want to ensure their testing procedures are relevant and widely used. These two types of institution are the natural first contact for any actor trying to encourage better diffusion of quality product standards down the value chains. Promoting meetings among these institutions and their members to discuss ways of harmonizing practices could be a sound strategy, which has the added benefit of rewarding their current efforts (by publicly recognising their standardization efforts) and hopefully lowering transaction costs (by encouraging mutual recognition of standards among different countries and institutions). Harmonization and mutual recognition may imply lower costs for technological and testing institutions in the South, which often have to meet testing requirements from different countries (France, Germany, United Kingdom, United States). The Sinos Valley cluster already has a good local network of testing institutions, but for other regions and/or traditional industries in the world, harmonization and mutual recognition of standards at the top of the value chain will undoubtedly mean greater savings and more efficient implementation at its base.
The actors that may promote these harmonization policies could be international agencies, international NGOs and also governments in the North through their international development agencies. These organizations could also team up with local governments in the South in order to build the necessary technological institutions and capacities to carry out these tests. There has been much scepticism regarding the role of technological institutions in recent times (particularly in respect to their role in local innovation processes) but one activity in which they have proved essential is independent technical testing. Therefore, supporting the establishment of these institutes and ensuring that their costs are affordable even for small firms should be one of the endeavours of a policy oriented towards a wider implementation of standards.

**Quality standards**

Promoting harmonization of quality product standards and establishing the technical and institutional capacity to implement them along the value chain could open the door towards the harmonization of other standards, which are widely in use but lack proper monitoring and certification in footwear value chains. This is the case of quality process standards and labour standards which are usually monitored internally by overseers sent in by global buyers but fail to provide public legitimacy for their efforts.

Regarding quality process standards, harmonization processes cannot rely solely on the efforts of global buyers. It must be remembered that footwear is an industry where not even Italy, which is the leading country in this industry, uses externally certified quality standards to compete in international markets. Besides, certification of compliance with global quality process standards seems to give more ‘freedom’ to local producers to search for new foreign buyers, which may cause a conflict of interest with buyers in directed networks wanting to keep the quasi-hierarchical nature of their chain governance. If, after careful research, it is shown that compliance with global quality process standards is linked with improvements in performance for producers in developing countries, then policy-makers (both local and international) should promote and support harmonization and compliance strategies. It would facilitate matters if global buyers supported these strategies through the close ties that directed networks offer, but policy-makers should not expect as warm a reaction as they may receive for harmonization efforts in product quality standards.

**Labour standards**

As for labour standards, it is necessary first of all to understand what exactly these buyers expect from these standards and what they are willing to commit to reach harmonization and proper monitoring and certification. This is why one of the policies recommended is to support governments, trade associations and researchers (from both the North and the South) to study these issues from a global value chain perspective, focusing on the needs and expectations of each one of the links in the chain. For example, it may be found that global buyers are willing to cooperate with certain standards but not with others; from this it would be clear where other institutions can take the lead. Another line of research would be to quantify the costs of compliance for all and each one of the
links in the value chain. Financial hurdles could be identified and credit policies designed to tackle the problems defined.

**Entry points for policy-makers**

One component that could offset the high costs of monitoring and certification is the assurance of ‘wide acceptance’ and ‘marketability’ of a labour standard. Economic rationality and recent evidence shows that global buyers would prefer to contribute to labelling schemes such as ABRINQ instead of risking a bad public image. This willingness should be seen as an entry point for local and international policy-makers wanting to introduce more rigorous external (and independent) monitoring for such labels. This should not discourage the application of internal codes of conduct that tend to be more individual, as long as their clauses match or exceed the minimum required by ILO core labour standards or local legislation. It is crucial to strike a balance between the ‘naming and shaming’ strategy followed by some NGOs and the ‘promoting the best practices’ strategy championed by business associations. Both approaches are necessary in order to give both incentives and guidelines to firms, but mediation by public agencies should be available when tense or conflictual situations arise. Disagreements may bring about change, but a permanent state of conflict can also be disruptive for local governance and ultimately for upgrading efforts.

**Environmental standards**

Here, chain governance will be negligible in the implementation of environmental standards for some time. Global buyers are not (yet) interested in using their influence strongly enough for local producers to take notice, leaving scope for other actors to step in. For example, environmental NGOs could start raising concerns about the polluting stages of leather tanning in developing countries and the higher value-added (and less polluting) stages being carried out in the developed world. Business associations and technological institutions could divulge techniques that reduce waste and promote optimal use of materials, which in turn reduces production costs. Policy-makers should lead an inclusive, participatory process defining what is (or is not) environmentally acceptable in terms of production practices. At the same time, it is important to keep in mind the economic reasoning behind the motivations of compliance with standards. The aim is to support businesses in translating consumers’ environmental demands into profitable or, at least, not very costly practices of compliance.

As a final note, it should be emphasized that complying with standards does not guarantee that local producers will become more competitive in international markets. Competitiveness is also linked with the other type of upgrading that has nothing to do with product and process standards: functional upgrading. Policy-makers still have to find ways to support local producers in design, branding and marketing. These actions are unlikely to be undertaken by global buyers (particularly in directed networks) and it would be unfortunate to have a compliant, but non-competitive footwear industry in any developing country.
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