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Corporate strategy and the management of ethical trade: the case of the UK food and clothing retailers

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Abstract. Ethical trade, involving codes of conduct for worker welfare, has recently emerged as a form of corporate self-regulation for global commodity chains in the context of a neoliberal trading environment. I present a particular critique of ethical trade based on its embeddedness in corporate strategies and management systems. The ethical trading strategies of leading UK food and clothing retailers form the empirical focus of inquiry, and theories found in the literature on economic geography concerning corporate strategy and interfirm organisation are used to gain critical insight into the management systems used by these retailers when they attempt to put ethical trading principles into practice in their global supply chains. Variations are observed between retailers in terms of their commitment to ethical trade, which are shaped by issues of corporate culture, financial management, and corporate restructuring. Varying levels of commitment to ethical trading strategy are argued in turn to influence organisational approaches to social auditing in the supply chain. Three contrasting modes of organisation for ethical monitoring are suggested to be used by retail companies—the arm's-length approach, the coordinated approach, and the developmental approach—each of which holds contrasting implications for suppliers and workers at production sites. I argue that corporate approaches to ethical trade vary markedly and that these variations have the capacity to shape the regulation of labour conditions at sites of export production.

1 Introduction

Ethical trade, involving corporate codes of conduct for worker welfare and environmental protection, is a subject that has attracted significant interest from academics, the media, and nongovernmental organisations (NGOs) for almost a decade now. As part of a broader movement of corporate citizenship, the rhetoric of ethical trade has promised to provide a 'third way' solution to some of the social and environmental injustices resulting from exploitative global supply chains. My aim in this paper is to present a particular critique of ethical trade by investigating its embeddedness in corporate strategies and management systems. The ethical trading strategies of leading UK food and clothing retailers form the empirical focus of inquiry, with theories found in the literature on economic geography concerning corporate strategy and inter-firm organisation being used to gain critical purchase on the management systems used by these retailers when they attempt to put ethical trading principles into practice in their global supply chains. I argue that critical research into these economic geographies of ethical trade, involving studies of corporate worlds and supply chain organisation, has the potential both to complement research on the developmental implications of ethical trade at sites of export production and to advance debate on ethical trade as a form of corporate self-regulation.

In the context of a world trading environment shaped by neoliberalism, Western retailers and brand manufacturers since the 1980s increasingly have sourced their produce and manufactured goods from low-wage, economically less developed countries (Crewe, 2004; Gereffi, 1994a; 1994b; Klein, 2000; Watts, 1996; Watts and Goodman, 1997). A growing body of academic work has emerged that sheds light on the significant social and economic disparities between relatively affluent consumers in Europe and

North America and low-wage labourers working for export producers in the so-called 'Third World' (Barrett et al, 1999; Cook, 1994; 1995; Cook et al, 2000; Hartwick, 1998; Hughes and Reimer, 2004). In the realm of popular literature, Klein's (2000) bestseller *No Logo* has informed members of the public about the poor conditions of work at sites of export production that lie behind some of the best known brand names such as Nike and the Gap. Similarly, articles in broadsheets and magazines have drawn public attention to the plight of export workers producing goods sold in supermarket chains and high-street stores (Freidberg, 2004).

Although alternative consumption spaces involving fair trade produce, farmers' markets, and second-hand goods are emerging as forms of resistance to 'big capital' trade (Gregson and Crewe, 2003; Gregson et al, 2002; Holloway and Kneafsey, 2000; Raynolds, 2000; 2002; Renard 2003) the 'mainstream' economy dominated by large corporations is at the same time being more modestly adapted through principles and practices of corporate social responsibility and corporate citizenship (McIntosh et al, 1998; Sadler, 2004). Ethical trade has emerged since the early 1990s as a specific example of corporate social responsibility, most commonly involving the establishment of minimum labour standards for producers in supply chains, though Blowfield (1999) suggests that it should be broadened out from its currently narrow association with labour issues to incorporate a wider range of standards, including those concerned with the environment. Indeed, there is now a plethora of initiatives concerned with labour and environmental issues that could broadly be categorised as 'ethical trade'. These include: (1) multistakeholder organisations such as the UK Ethical Trading Initiative (ETI), the Dutch Fair Wear Foundation, and the Fair Labor Association and Worker Rights Consortium in the USA, which all set minimum labour standards for producers; (2) labelling initiatives such as the Kenya Flower Council, which cover industry-specific environmental and labour standards; (3) individual corporate initiatives for establishing minimum standards in supply chains, for example the Nike code of conduct. Such programmes now also develop within the context of international initiatives such as the United Nations Global Compact, which aims to promote corporate citizenship in the global economy. Despite the organisational differences between existing ethical trading initiatives, most use some kind of code of conduct as the key tool for establishing workplace standards (Blowfield, 1999; Jenkins et al, 2002), and practices of auditing are used to monitor and verify the degree to which the codes are actually being enforced by producers (Hughes, 2001a; 2004; Zadek, 1998). Although ethical trade is seen by many practitioners as being quite distinct from fair trade—ethical trade simply establishing a set of minimum standards for producers and fair trade involving more development-orientated strategies to increase producers' control over supply chains—commentators such as Blowfield (1999) argue that the interface between them is more blurred. This view is supported later in this paper when I show that some retailers are pursuing ethical trading strategies that implement labour codes in the developmentally sensitive ways more usually associated with fair trade projects.

Jenkins et al (2002) argue that the rise of voluntary corporate codes of conduct in the 1990s has to be understood in the context of the continuing processes of globalisation. They explain that, although initial attempts in the 1970s to regulate the activities of transnational corporations (TNCs) were made by regulatory institutions at the international and national levels, neoliberal policies and the increasing globalisation of trade from the 1980s onwards meant that the governance of TNCs took a 'voluntaristic turn'. Trade liberalisation and export promotion fuelled a move away from state regulation of TNCs and towards corporate self-regulation. Specific drivers of voluntary ethical trading initiatives are acknowledged in the literature as being: (a) the growth of global supply chains that extend beyond the reach of national governments; (b) the rise in the power of corporate brands and reputation, which makes large companies vulnerable to negative publicity; (c) an increase in public awareness of overseas production conditions via improvements in global communications; and (d) the growing importance to the investment community of ethical performance on the part of public companies (Adams, 2002; Barrientos, 2000; Blowfield, 1999; Jenkins et al, 2002).

Most of the current literature on ethical trade concerns its driving forces (Blowfield, 1999; Freidberg, 2004; Jenkins, 2002; Johns and Vural, 2000; Zadek, 1998), its organisation through multistakeholder approaches (Blowfield, 2002; Hughes, 2001b) and, most importantly, impacts on development and implications for workers (Barrientos, 2000; Barrientos et al, 1999; Freidberg, 2003; Hale, 2000; Hale and Shaw, 2001; Hughes, 2001a). What is arguably lacking from the critical literature on ethical trade is a serious engagement with corporate strategies and management systems, with published work on such issues limited mainly to descriptive accounts written by practitioners in the field (for example, see L Roberts, 2002; S Roberts, 2003).

In the remainder of the paper I first present an overview of the main drivers behind the specific development of ethical trade in the UK food and clothing retail sectors. The industry-level response to these drivers is discussed, and the central role played by the ETI in shaping strategic developments is acknowledged. I then move on to consider the ethical trading strategies of retailers at the firm level, exploring the commercial limitations of implementing ethical trading principles. Noticeable variations are observed between retail corporations in terms of the degree to which those corporations are committed to ethical trade. Finally, the modes of supply chain organisation through which the monitoring and auditing of ethical trade are implemented receive attention. I suggest that three contrasting modes of organisation are used by retail companies—the arm's-length approach, the coordinated approach, and the developmental approach—each of which holds contrasting implications for suppliers and workers.

The case-study material is drawn from a project sponsored by the British Academy on the ways in which retailers are learning to trade ethically. This project involved some twenty-seven corporate interviews with the following informants: (1) ethical trading managers (and also some technical managers) at most of the leading food and clothing retail corporations operating in the United Kingdom (fourteen firms in total); (2) managers of the five largest and most strategically significant international audit companies, the clients of which include the UK retailers; and (3) four key ethical consultants involved in advising and training retailers in matters of ethical trade. The identities of the companies are hidden, wherever possible, in order to respect the wishes of the corporate interviewees.

2 The emergence of ethical trade: the case of the UK food and clothing retailers

Literature within economic geography has charted the rise in power of retail capital in the United Kingdom since the 1950s, with the pace of development shown to increase rapidly from the 1980s onwards amidst a climate of deregulation (Wrigley, 1987; 1988; 1991; Wrigley and Lowe, 1996). In terms of market structure, the leading five grocery retail chains accounted for over 60% of food and drink sales in the United Kingdom by 2002 (Mintel, 2003a; see table 1, over). The UK clothing retail sector is more competitive and fragmented (Crewe, 2004), though the top five firms still accounted for 30% of total sales in 2002 (Deutsche Bank, 2002; see table 2, over).

A key feature of the development of retail capital has been the accompanying shift in the balance of power from manufacturers to retailers, as the concentration of retail capital has translated rapidly into oligopsonistic buying power at the retailer–supplier

Table 1. Market shares of the top ten food retailers (percentage share of sector sales), United Kingdom, 2002 (source: Mintel, 2003a).

Company	Market share (%)
Tesco	21.7
J Sainsbury	14.3
Asda	11.9
Safeway Stores	8.7
Somerfield	4.7
Wm Morrison Supermarkets	4.3
Marks & Spencer	3.1
Co-operative Group	2.9
Waitrose	2.3
Spar UK	1.9

Table 2. Market shares of the top ten clothing retailers (percentage share of sector sales), United Kingdom, 2002 (adapted from Deutsche Bank, 2002).

Company	Market share (%)
Marks & Spencer	10.2
Next	6.3
Arcadia Group[a]	5.9
Debenhams	4.0
Asda	3.6
Matalan	2.9
Tesco	2.6
Bhs	2.3
New Look	2.1
John Lewis	1.8

[a] The Arcadia Group includes the following high-street brands: Burton, Dorothy Perkins, Evans, Miss Selfridge, Topshop and Topman, and Wallis.

interface (Grant, 1987; Hughes, 1999; Wrigley, 1992). Since the 1990s, the leading food and clothing retailers operating in the United Kingdom have been found both by academic researchers (Barrett et al, 1999; Bowlby and Foord, 1995; Cook, 1994, 1995; Crewe and Davenport, 1992; Doel, 1996; 1999; Foord et al, 1992; 1996; Hughes, 2000) and by the media (Freidberg, 2004) to be operating highly sophisticated and manipulative forms of supply chain management, particularly in the sourcing of their own-brand goods from economically less-developed countries. Retailers' demands on food and clothing suppliers, in terms of dictating pricing and payment terms and requiring strict compliance with their specifications for product development and delivery times, has made for worsening conditions of work for overseas labourers, who already experience low wages, restricted rights in the workplace and barriers to joining trade unions (see Crewe, 2004; Hughes, 2000; Shaw, 2002). Since the mid-1990s the role played by UK-based retailers in exacerbating poor conditions of work at sites of export production has become the focus of high-profile campaigns by NGOs as well as the target of critical media attention (Freidberg, 2004). Christian Aid and Oxfam, for example, have focused their campaigns on the supermarket chains and the adverse effects of their global supply chains on own-brand producers in developing countries (Orton and Madden, 1996; Raworth, 2004). At the same time, CAFOD has targeted high-street clothing retailers in its Fashion Victims campaign (Hughes, 2001b). The Labour Behind the Label initiative also continues to operate in the United Kingdom as part of the international Clean Clothes Campaign, supported by various NGOs and trade unions.

The main way in which the UK food and clothing retailers have responded to this pressure has been through their membership of the ETI. Set up in the United Kingdom in 1997 this multistakeholder organisation has been operating, at the time of writing, for seven years as a civil initiative sponsored by the UK government Department for International Development. By 2003 the organisation was made up of thirty-four corporate members, seventeen NGOs, and representatives from four international trade unions (ETI, 2003). One of the first tasks of the ETI was to establish a code of labour conduct that could be used by all corporate members to guide the implementation of responsible business standards in the context of the supply chains of those members. This Base Code consists of the following nine provisions, which build directly on core International Labour Organisation (ILO) Conventions: (1) employment is freely chosen; (2) freedom of association and the right to collective bargaining are respected; (3) working conditions are safe and hygienic; (4) child labour should not be used; (5) living wages are paid; (6) working hours are not excessive; (7) no discrimination is practised; (8) regular employment is provided; (9) no harsh or inhumane treatment is allowed (ETI, 2000). The code applies to suppliers of the retailers' own-brand products, and its exclusive focus on labour conditions would appear to result from the focus of negative publicity in the United Kingdom on worker welfare. In this respect, the narrow interpretation of ethical trade by the ETI should be acknowledged (Blowfield, 2002).

Six of the seven food retailers discussed in this paper are ETI members and are therefore committed to this Base Code. The remaining supermarket chain—food retailer E—has its own code, which includes the same conventions, but with the addition of environmental clauses. Six of the eight clothing retailers in the study are also members, with the remaining two—clothing retailers F and G—operating their own independent codes built on similar principles. ETI membership, though, involves not only commitment to the Base Code but also programmes of learning based on workshops, meetings, the biennial ETI conference, and pilot projects for monitoring the implementation of the code (Blowfield, 2002; ETI, 2003; Hughes, 2001b). In practice, retailers acknowledge that they are only just beginning to scratch the surface in terms of ethically monitoring their supply base. In 2001, 7989 producers supplying goods to ETI corporate members were ethically evaluated against the ETI Base Code, but this represents only 55% of the aggregate known supply base of those members (ETI, 2002, page 25). And, despite the ETI strongly shaping an overall strategy at an industry level, there is considerable variation in the extent to which different companies are, and can be, involved in this movement.

3 Voluntary codes, corporate strategy, and the commercial limits to trading ethically

One of the sharpest criticisms of ethical trade concerns its voluntary nature (Kimerling, 2001; Klein, 2000). Although ILO conventions form the basis of most labour codes of conduct (Murray, 2002), as in the case of the ETI, there is no global institution set up to regulate and monitor the *implementation* of these standards. Companies can therefore opt into or out of ethical trading initiatives according to their own strategic needs. Some retailers have been specifically targeted by NGOs and the media to a greater extent than others, often because they are more high-profile brand names and are therefore most easily recognised by the consuming public (O'Riordan, 2000). As such, I acknowledge that the differential pressure exerted on retailers by external organisations can facilitate a variation in corporate commitment to ethical trade. However, it is the different ways in which such external pressures are internalised by companies that now receive attention in this paper.

The first factor suggested to influence a retailer's willingness to work seriously on ethical trade concerns its own values and traditions, or corporate culture (Schoenberger, 1994; 1997; 2003). For Schoenberger (2003, page 378), corporate culture refers to:

> "an ensemble of material practices, social relations, and ways of thinking. Material practices are how work is actually done—not just the work of people on the production line, but also the work of managers, engineers, accountants and the like."

Beginning with the more positive end of the strategic spectrum for ethical trade, a small number of retailers can be identified as being 'ethically driven'. These retailers have dedicated ethical trading managers who play a pivotal role in the work of the ETI and who attempt to embed the implementation of ethical trade as deeply as possible into the everyday workings of their supply chains. Food retailer F appears to fall into this category:

> "I think around the ETI table there are very few people who are working on developmental solutions. We're not totally on our own, there's probably one other retailer that I know of, but from what I know, we've put more effort in like this. I think that's probably linked back to us being a cooperative. Our ethos is slightly different .... We look at how our business works and we have to manage the business in such a way that cooperative values and principles are a day-to-day part of how the business operates and that's about how you deal with suppliers, it's about how you deal with your own teams, it's how we develop products, and ethical trade is really an extension of all those in one particular area. It also reflects what consumers want from us" (Head of technical centre, food retailer F, interview, 3 April 2003).

For this food retailer, ethical trade is seen as a logical extension of the values and approaches already circulating through its business practices. Clothing retailer B and food retailer E also have long-standing traditions of ethical practice in their business, including albeit paternalistic approaches to 'looking after' their employees and close, long-term relationships with their suppliers of own-brand garments and produce. Interviews with these companies also reveal how ethical trade has become very tightly woven into the core workings of their supply chains, though in the case of food retailer E the company has firmly decided to approach the challenges of ethical trade without the aid of a multistakeholder working group such as the ETI.

At the opposite end of the strategic range lie companies such as clothing retailers C, F, and G, and food retailer D. Although they too have been placed under pressure to get involved with the ethical trading movement they have opted to do this in a rather minimalist way. Clothing retailer C and food retailer D are signed-up members of the ETI but do not play central roles in its organisation. Clothing retailers F and G are not ETI members and consequently have less comprehensive codes of conduct and implementation strategies. Notably, all four of these companies operate at the middle to lower end of the market in terms of the cost and quality of the goods they sell. Investigating the case of clothing retailer G, for example, its history as a private company up until a few years ago meant that it was under less pressure, at least as far as its shareholders were concerned, to engage in matters of corporate social responsibility. Moreover, its strategic position as a low-cost, high-volume retailer has meant that ethical trade, with its dual emphasis on closer working relationships with suppliers and the investment of time and money in the social auditing of producers, does not sit easily with its everyday 'high-speed' culture of work. Coupled with an apparent lack of concern on the part of its customer base, this retailer has adopted a very low-key approach to ethical trade:

"We set our stall out with the investment community [on becoming a public company] and we told them that we would do things very gradually. I sat with quite a lot of analysts and I just told them that if you want us to be up there, forget it. If you want us to visit our whole supply base every year, forget it, we're not going to do it, we're just not that kind of company. But we *will* do a little bit more each year .... I think, you know, from *their* point of view so long as we're seen to be doing something a little bit more each year, they're reasonably happy. Similarly, we don't get too much of a problem from any of the other type of organisations that perhaps some of the bigger brands get. I think we had one target from a group called Labour Behind the Label, a postcard campaign, but we probably got about fifty cards back .... We've never had any pressure from customers .... We're a very low-cost organisation, therefore we weren't in the position à la Littlewoods at the time who were spending *X* million pounds on their supplier visits" (Head of business risk, clothing retailer G, interview, 27 May 2003).

This manager then goes on to discuss the company's decision not to join the ETI, and the rather less comprehensive corporate code of conduct that has resulted from this decision. Workers in garment factories supplying this UK clothing retailer are simply not covered by any kind of 'freedom of association' clause:

"As regards to membership of the ETI, [we've] really never been a company to join these type of bodies. We don't really stick our head up too much to be shot at, so we tend to keep a low profile .... One thing that's missing out of our policy [code of conduct] is the collective bargaining. It's something that our chairman felt very strongly about and we took it out. He doesn't believe in unions basically .... So that part you will find is not included in our policy, but I would think in years to come it will become part of it" (interview, 27 May 2003).

A further set of companies then fall into the strategic middle ground with regard to ethical trading policies. In the context of my study, food retailers A, B, and C fall into this category, along with clothing retailers A, D, E, and H. Space does not permit an extensive discussion of each of these companies and the ways in which each of their corporate cultures have accommodated, and been modified by, ethical trading practice. However, in sum, all of these corporations serve the middle range of the market, with emphasis on high-quality goods sold at affordable, but not low, prices. They are all signed-up members of the ETI and play a part in its various events and meetings, though their ethical trading managers are not necessarily fulfilling central roles in the organisation. They all acknowledge the increased pressure they are under to trade ethically and respond to this by following the guidelines set by the ETI in terms of establishing the Base Code as part of their corporate policy.

As well as corporate values shaping a company's propensity to become involved in ethical trade, the financial capability of a company is also a key factor. Indeed, the cultural aspects of a firm's decisionmaking, along with the relationship it has with its customer base, cannot be divorced from cost-based strategies. So far, it has already been suggested that lower profile retailers selling cheaper goods are less inclined to commit fully to ethical trade because of the relative lack of pressure from their customers to do so and the limited availability of funds. In terms of the cost of social audits, most interviewees agreed that a simple one-day audit of a single production facility conducted by an independent organisation amounts to approximately £1000, though if more detailed inspections and extensive interviews with workers need to be carried out the costs will, of course, rise. The financial success or failure of a firm can strongly influence the amount of funding made available by the board of directors to cover these auditing costs. The quality assurance director for food retailer D explained how his company's relatively poor financial results in recent years set limits on the amount of funding available for ethical trading purposes:

> "we as a business are in the process of coming out of serious financial problems, so I think we would be termed a business in recovery rather than, you know, a business powering away. Last year our reported profits for the year were thirty million [pounds sterling]. So we're not talking about, you know, the thousand million [pounds sterling] that Tesco made. So in terms of how much can I afford to plough into ethical trade, it can't be the same, so I have to make sure that what we do, we do efficiently" (interview, 2 April 2003).

Mergers and takeovers, which have been a key feature of UK retailing and its increasing concentration of capital over the past few decades (Crewe, 2004; Wrigley, 1987), also have significant implications for ethical trading strategy at the firm level. More strongly, the fragility of ethical trading strategy within retail corporations is at no time more evident than in the context of a major change in corporate ownership and structure. Entire programmes of ethical trade run the risk of being axed altogether if they do not fit in with the strategies and aspirations of the new ownership. During my corporate interviewing, a takeover of the fourth largest supermarket chain in the United Kingdom, Safeway, was imminent. At that time, it was possible that any one of the other leading UK grocery retailers could be permitted to buy the chain, including Asda, owned by the US retailer Wal-Mart. The manager responsible for ethical trade on behalf of Safeway expressed both concern and a great deal of uncertainty about the possible impacts of the proposed takeover on his ethical trading programme:

> "I think there are lots of potential implications in terms of the merger or takeover, whatever it happens to be, and it really depends who takes us over, you know. If it's someone like Wal-Mart then you've got to be concerned about whether there'll be the support and understanding there or not. I think it's, you know, really kind of a question that I simply don't have the answer to. What we're doing over the next nine months or so, or however long it takes, is just continuing with our strategy and that we continue to roll it out. And you know, we really can't do anything more than that".(1)

Wal-Mart's poor record in terms of corporate ethics and the power it wields over manufacturing suppliers (Bloom and Perry, 2001; Edwards, 2003) might have posed a real threat to Safeway's ongoing programme of ethical trade if such a takeover had proceeded. As part of an inquiry, though, the UK Competition Commission deemed a takeover by Tesco, Sainsbury, or Asda to be against both competitive and public interests. However, a bid from the fifth largest supermarket chain, Morrisons, was permitted (Safeway, 2003). Given that Morrisons are not currently members of the ETI, the future of Safeway's ethical trading policies remains uncertain.

In the clothing retail sector, too, mergers and takeovers have dramatically altered the structure of the industry (Crewe, 2004). In 2002 the Arcadia Group, which includes high-street brands such as Burton, Dorothy Perkins, Evans, Miss Selfridge, Topshop, Topman, and Wallis, was delisted from the London Stock Exchange and came under the private ownership of Philip Green (Mintel, 2003b). One of Arcadia's technical managers expressed worries about the minimalist ethical trading strategy she felt would result from this change in ownership:

> "The fact that Philip Green was taking over, I thought there was an outside chance that they were going to do a corporate social responsibilities department within

(1) A pseudonym and interview date are not provided. This prevents cross-referencing with other quotes and maintains the level of confidentiality promised to the interviewee.

> Arcadia, but knowing what Philip Green is like, I knew it was never going to happen. If the company went private, we were never going to have a corporate social responsibility scheme ... . I don't think, my personal view is that I don't think he has got much interest in it at all. Allegedly he keeps saying he does not want to get caught out, but he wants to do it [ethical trade] in as minimal way as possible."[(2)]

The point is made here that overarching corporate strategy, and the values held by top-level management in particular, affect a retailer's commitment to ethical trade. This supports the wider theories on the power of corporate strategy held by Bowman and Helfat (2001), Schoenberger (1994; 1997; 2003), and Westphal and Fredrickson (2001). In the context of corporate restructuring, significant changes to top-level management signal potential shifts in a company's ethical trading policy.

Overall, the neoliberal context for global commodity chains has encouraged the growth of private sector solutions to ethical trading problems (Barrientos, 2000; Blowfield, 1999; Hall and Biersteker, 2002; McClintock, 1999; O'Brien, 2000; Tallontire and Blowfield, 2000; Tsogas, 1999). Such a model of corporate self-regulation in turn permits the development of a striking degree of variation when it comes to strategies for ethical trading. This variation is facilitated by differences between firms in terms of corporate culture, financial capability, and pressures of corporate restructuring, which together intertwine to shape a company's response to ethical challenges. The implications of such strategic differences for the implementation of ethical trading strategy in the supply chain are now considered.

4 The social auditing of global supply chains: modes of organisation and implications for suppliers

Social auditing is effectively what makes the ETI Base Code practicable. Formalised practices of checking and monitoring producers' performance against the nine clauses of the Code represent the main ways in which ethical trade is implemented by UK food and clothing retailers. The pervasiveness of auditing as a central mode of governance in the regulation of public and private sector activities has received widespread critique from academics (Miller, 1998; 2000; Pentland, 2000; Power, 1997; Strathern, 1997; 2000). The use of auditing to regulate various aspects of food and clothing supply chains, including ethical trade, has also been highlighted (Hughes, 2001a; Le Heron, 2003; O'Rourke, 2002). It is not my objective here to rehearse the intricacies of these debates; rather, I simply want to draw out the clear ways in which retailers' approaches to social auditing can and do vary.

For the majority of retailers, the most efficient way of organising ethical trade initially was to bolt on social auditing to the technologists' job of technical monitoring, effectively conducting social auditing 'in-house'. However, problems with this organisational strategy were soon recognised. Social auditing involving the checking of producers' records and documentation on labour issues, along with in-depth interviews with workers concerning their experiences in the workplace, demands a set of new, specialist skills in the economy. And, increasingly, the retailers have come to recognise that they do not possess these skills in-house (social audits manager, audit company A, interview, 14 May 2003). As a result, a relatively new set of actors have entered the complex networks of food and garment supply—the independent social auditors (Barrientos, 2002). The largest of the specialist audit companies—Bureau Veritas, SGS, and ITS—are international organisations with offices and employees located worldwide. Retailers' use of these companies to conduct social audits has not completely replaced the role of the technologists and various other organisations such as NGOs. In fact, the precise ways in

[(2)] As for the previous interview quote, a pseudonym and interview date cannot be provided.

which the independent auditors are strategically deployed in the retailers' management systems vary markedly between companies.

I suggest below that there are three modes of organisation that appear to be used for the social auditing of retailers' global supply chains—the arm's-length approach, the coordinated approach, and the developmental approach—the character and implications of which are interpreted in the light of theories in the economic geography literature on interfirm relationships. The extent to which retailers are ethically motivated and the degree to which they are involved in initiatives such as the ETI, as discussed in section 3, are suggested to shape the approaches they take to social auditing. The more ethically driven retailers such as clothing retailer B and food retailer F, for example, are shown to champion coordinated and developmental approaches to social auditing, respectively, whereas the majority of retail firms with a more minimalist attitude to ethical trade tend to adopt an arm's-length approach to the social auditing of their suppliers.

4.1 The arm's-length approach

For the majority of retailers in the study, the social auditing of their global supply chains is contracted out to specialist independent auditors, usually to one or more of the 'big three' companies identified above—Bureau Veritas, SGS, or ITS. However, the funding constraints for ethical trade discussed in section 3 mean that the use of these third-party auditors is limited. For all but the most ethically driven retailers, the partial use of independent auditors has been largely within a framework of 'arm's-length' relationships between retailers, auditors, and suppliers. The term 'arm's-length' is used both by Sako (1992) and by Doel (1996; 1999) to describe contractual relations between firms that involve competitive bidding and the playing off of suppliers. Arm's-length relationships are also characterised by weak social ties and more detached social relations, which are argued in the food industry to be driven most strongly by price-based forms of competition (Doel, 1996; 1999).

One of the most evident features of the arm's-length approach in the context of ethical trade concerns the strategic way in which retailers initially target their limited resources towards selected independent audits. Techniques of risk assessment are increasingly being adopted by retail firms in order to identify samples of producers to be audited. Risk is conceived of as the threat of negative publicity and the possibility of damage to the retailer's corporate reputation. Suppliers are categorised as falling into one of three groups—high risk, medium risk, or low risk—according to the level of threat they present to the retailer's reputation in terms of the standards of worker welfare they operate. High-risk suppliers tend to be those operating in countries or industries with problems such as poor human rights records and weak or non-existent trade unions (for example, the Chinese garment industry), or they can be industries specifically targeted by the media (for example, the Kenyan horticultural sector). The following quote describes the application of risk assessment techniques to the prioritisation of suppliers for social auditing:

> "We start off by risk-assessing for high, medium, and low. We're not auditing the low risk, it's such a big job, you can't do it all. So we're primarily focusing on the high and medium. If we only had a short time, we'd get the high ones done first and then the medium. So the technologist goes through that, and we're now going through the phase where most of our high and medium have had external audits" (ethical trading manager, food retailer B, interview, 22 April 2003).

Such risk assessment approaches represent the first step in forging quite detached relationships with producers in the context of ethical trading matters. The techniques used are predominantly desk based first of all, and the fact that they centre on the perception of the suppliers as potential sources of threat to the corporate reputation of the retailers would seem to couch the supply relationships in somewhat adversarial terms. Moreover, it implies that a large number of suppliers categorised as low risk quite simply fall out of account altogether, even though it is conceivable that they may represent an albeit smaller number of cases of noncompliance with the ETI Base Code. Although such producers are still likely to be visited by the retailers' technologists during routine technical checks, matters of worker welfare cannot possibly be addressed in depth during these visits.

The arm's-length approach is also characterised by detached relationships between retail clients and independent auditors, which are framed more by price-based competitive concerns than by close, social relationships. Doel (1999) has argued that arm's-length relationships between retailers and own-brand suppliers of basic commodities are often initiated through a competitive bidding process, resulting in more detached and clinical relationships than those organised for the supply of high-value products. A similar competitive bidding process is evident in the initiation of relationships between audit companies and retail clients occupying the strategic lower to middle ground of the ethical trading spectrum:

> "We've had everything from full, formal tendering, as if it's a government contract type tender, followed by big presentations and one-to-ones and interviews, through to jotting on the back of a fag packet and then told you're going to be doing business .... Why do we win what we win? Price is important, it always will be. You know, if you're way off kilter, you won't get it. And typically, the three big players, we're very similar" (general manager, audit company C, interview, 10 July 2003).

Although retailers in the middle and low bands of the ethical trading range take arm's-length approaches to the social auditing of their suppliers there are still significant differences between them in terms of the *extent* to which they ethically monitor their systems of provision. For example, clothing retailer A, occupying the strategic middle ground, has moved completely away from conducting social audits in-house. In 2003 it used audit company C to monitor 50% of its supply base, which represents between 300 and 350 audits. By contrast, clothing retailer G, which was suggested in section 3 to be less committed to ethical trade, has done substantially less:

> "We've also just started to bring in some third-party verification around some of the more high-profile areas. We're at a very early stage with that, so we've probably not done a dozen of those yet, but that's where we're aiming to, for this year, is to probably bring a bit more third-party verification instead of doing it all in-house, which is what we intended to do" (head of business risk, clothing retailer G, interview, 27 May 2003).

Several of the more advanced retailers in terms of ethical trading strategy are aware of the shortcomings of the arm's-length approach to auditing and the degree to which it institutes detached relationships with auditors and suppliers. Indeed, food retailers A, B, and C are all additionally engaged in selected projects of a more developmental nature with particular producers, as discussed in section 4.3. In addition, the manager of ethical trade for clothing retailer A voices scepticism about the use of specialist audit companies to conduct the ethical monitoring of supply chains, making the point that the arm's-length approach to social auditing is, at least in part, a response to pressure from the investment community in terms of its desire for a tick-box, compliance-monitoring approach to ethical trading (interview, 6 May 2003). Such methods of policing global supply chains are argued to embody detached, price-based and more adversarial relationships between retailers, auditors, and suppliers, which are insufficiently geared up to serving the interests of overseas producers and workers, despite the fact that even within this approach suppliers are rarely delisted without first being given an opportunity to improve ethical performance. Food and clothing retailers occupying the strategic middle ground in terms of ethical trading strategy, several of which have quite close and direct contractual relations with producers (see Barrett et al, 1999), therefore openly acknowledge the limitations of the arm's-length approach and attempt in selected cases to follow more coordinated and developmental solutions to ethical trade.

4.2 The coordinated approach

In contrast to the case of arm's-length relationships, the literature on interfirm relations in economic and retail geography recognises contracting relationships that are built on trust, collaboration, and close interpersonal ties (for example, see Doel, 1996; 1999; Sayer and Walker, 1992; Scott, 1988). In the context of retailer–supplier linkages, they have variously been observed as forms of 'associative relationships' (Dawson and Shaw, 1990) and 'relational contracting' (Bowlby and Foord, 1995). A large literature in economic geography on industrial districts and clusters has focused predominantly on the role of such collaborative interfirm relationships in driving innovation (for example, see Pinch and Henry, 1999). However, this literature has been criticised for its marginalisation of issues of power (Doel, 1999; Sayer, 2001). In the context of social auditing, such collaborative interfirm relationships are shown to be a central part of a second type of approach taken by retailers—the coordinated approach. But within this mode of organisation, which is still shown to be very strongly retailer led, considerations of power are fundamental.

The coordinated approach to social auditing is currently being championed by one UK retail chain—clothing retailer B. Importantly, though, 'middle ground' retailers are learning about the success of this management system through networks such as the ETI and are seeking to apply it in future in the context of selected supply chains. The approach essentially involves the responsibility and costs of social auditing being passed down the supply chain to the producers themselves. However, this is achieved in the context of close relationships between the retailer and its suppliers. Returning to the earlier argument about the centrality of corporate culture to the choice of ethical trading strategy (see section 3), the organisational mechanisms used by clothing retailer B in the social auditing of its global supply chains emanate clearly from its strong and distinctive tradition of supply-chain management. Although the clothing industry is characterised by vast networks of subcontracting relationships in which it is quite common for retailers to be ignorant of exactly who is producing their garments and where this production is located (Crewe and Davenport, 1992; Hale, 2000; Hale and Shaw, 2001), Clothing retailer B has long-standing business relationships with a set of 'first-tier' clothing suppliers based in the United Kingdom. These first-tier suppliers in turn trade with recognised lower tier producers, meaning that although subcontracting exists it at least involves *known* networks of suppliers that can be traced and controlled. Prior to the 1990s, the company stood firm with its policy of retailing only goods that had been produced in the United Kingdom. In the context of a rapidly globalising industry, though, it finally gave in to competitive pressures to source its goods from lower cost producers overseas. However, as the social compliance manager in charge of ethical trade on behalf of the firm explains, the firm executed this global supply-chain strategy through the long-standing relationships it had already built with its first-tier UK suppliers:

> "Rather than go offshore ourselves, we said to our top thirteen suppliers [in the United Kingdom] to source on our behalf. And that is precisely what they did. So 70% of our offshore supply is controlled by those top thirteen suppliers, all of whom have good solid infrastructures within the UK, most of whom are UK-based PLCs, all of whom have got a long history with [our company], who have grown up with us, grown up with our culture, understood what our standards are about,

have got good management support to make sure those standards are delivered" (interview, 17 April 2003).

Through this known supply base, clothing retailer B has continued its tradition of maintaining face-to-face contact with all of its producers of manufactured garments. Such an infrastructure of long-term supply relationships in its subcontracting networks means that this retailer can exercise far greater control over the ethical trading process than can many of its competitors. The process is further embedded in a set of close interpersonal relationships, whereby the retailer's social compliance manager works closely with an opposite number working for each of her first-tier suppliers:

> "My team started off four years ago, as I have got thirteen suppliers. And the first thing we asked them was to identify a social compliance manager who could work with me, so who could take the role of responsibility within their business of implementing ethical trade. And that was my team, and within the first four years we met every six weeks ... . In doing that, what we have been able to do is foster and facilitate a tremendous openness and sharing, where all suppliers are building on the experiences of others ... . And using that model of the top thirteen social compliance managers, we then moved into our next group of suppliers, which accounts for another 15%. So those two groups together account for about 85% of our turnover" (social compliance manager, clothing retailer B, interview, 17 April 2003).

The system of social auditing used by clothing retailer B, as with many of its competitors, involves a formal assessment of labour conditions in suppliers' factories against the standards set out in the ETI Base Code. In contrast to other retailers, though, the company requires that *all* factories supplying finished goods are monitored. This can be accomplished through the tight control it has over its supply chains, and in this respect such a coordinated system can be argued to be far more advanced than the arm's-length approach outlined above in section 4.1. However, the shortcomings lie in the fact that the majority, though not all, of these audits are conducted by the suppliers themselves. Managers representing supplying firms are required to conduct regular social audits of their own factories and those with whom they have a subcontracting relationship. They then submit the reports to the retailer's internal website for review by the technologists. The big-three audit companies are brought in only to produce site assessments of new producers entering the retailer's supply chain and to provide external verification of a sample of suppliers' self-audit reports.

Clothing retailer B therefore firmly coordinates the social auditing of its supply chains, which are embedded in close interfirm relationships and strong social ties. In this system, tighter retailer control over the supply chain appears to translate into a greater regulatory coverage of systems of provision. However, such a coordinated approach is orchestrated within a model of retailer power. Labour conditions are monitored predominantly by managers of supplying firms and are only occasionally evaluated by any independent regulatory body. The interests of garment workers captured by clothing retailer B's supply chains are therefore assessed and represented primarily through a retail-led internal management system.

4.3 The developmental approach

At the sharpest end of the strategic spectrum for ethical trade, a minority of retail firms are working towards more development-orientated approaches to trading ethically with suppliers. In the context of the UK food and clothing retail sectors, food retailer F, with its strong cooperative values, stands out as a company taking such an approach. In addition, there are isolated examples of ethical trading projects run by the ETI that involve some of the 'middle ground' retailers in more developmental approaches to social auditing. Let us look first at the case of food retailer F. When pressure to trade more ethically became apparent in recent years it too recognised the limitations of conducting overseas social audits through its own retail technologists. However, in contrast to most of its competitors, it sought the services not only of the largest independent auditing corporations but also of NGOs based near sites of export production:

> "I would prefer to use an organisation that's got more developmental focus, perhaps an NGO with a slightly different perspective. At the moment we're using an organisation called International Resources for Fair Trade [IRFT], and they do all our audits in India, Bangladesh, and Sri Lanka. And their background is more about development and they do social audits and that suits us, because they actually have a better understanding of the on-the-ground issues, even than somebody for example in [audit company A's] local Indian office, because it's also about what people do and how that job function works" (head of technical centre, food retailer F, interview, 3 April 2003).

In this case, where a local NGO at the site of production is chosen to perform the role of social auditor instead of a large auditing company, close retailer–supplier relationships with strong social ties are broadened out further into the realm of stakeholding. Whereas arm's-length and coordinated organisational approaches to social auditing, although prompted to do so by pressure from a wide range of stakeholder groups, represent predominantly private sector solutions to ethical trading challenges, the developmental approach extends the involvement of stakeholder groups into systems of implementation on the ground. In so doing, workers receive a degree of representation through organisations that work more closely with them and that do not have corporate goals of profitmaking at their heart. In the case described here, the process is aided by supplementary seminars held by food retailer F with its suppliers and supporting NGOs. Furthermore, the developmental approach demands a rethinking of the role of auditing away from models of policing the supply chain and more towards ongoing programmes of mutual learning on the part of retailers and overseas suppliers:

> "The issue I have with international auditing firms is that they have to be good auditors. I'm not saying they're not good, but in reality they go into a site, they do the audit, they come out. It's quite clinical, it's quite cold. It doesn't lend itself to the developmental side, whereas with IRFT they come and do the audit for us and we know that they can do some follow-up things and support the suppliers when they need to. Now in one sense that works really well, but it also means that you've got somebody doing assessment and somebody who's potentially also offering advice to the supplier who they're assessing, which is something that you would normally steer clear of. But if you change your viewpoint from one that's totally compliance-based to one that's a mixture of compliance and development, then actually it works okay and in the long term it gives you a much stronger and more sustainable set of solutions because the supplier's got someone they can talk to and understands their situation and can actually get some benefit out of it" (head of technical centre, food retailer F, interview, 3 April 2003).

A small number of projects involving several other retailers have been initiated through the ETI that also take a more developmental approach to social auditing. An example is afforded by the Wine Industry Ethical Trade Association (WIETA), established in South Africa in November 2002 and that arose out of one of the pilot projects of the ETI. The pilot project involved three leading UK food retailers, a UK-based trade union, and several NGOs in the development of multistakeholder methodologies for social auditing. The emphasis of both the ETI project and WIETA is upon the education of workers in the provisions of its labour code of conduct and follow-up action after audits have been conducted.[3]

For export workers in global supply chains, the emphasis of the developmental approach on follow-up action and learning beyond the audit itself promises to deliver more improvements in terms of labour conditions, though further research is needed to investigate this claim. Caution must be exercised, though, when suggesting the potential benefits of this kind of approach. Although trading relationships within this organisational model are indeed more firmly reembedded in social relations and ethical values than they are through other managerial approaches, implying that this strategy takes ethical trade closest to projects of fair trade (see Barham, 2002; Murray and Raynolds, 2000; Raynolds, 2000; Raynolds and Murray, 1998), there are also some serious limitations. First, the approach is still deeply rooted in a neoliberal trading context in which retailers and brand manufacturers lead approaches to auditing. Second, and related to this, is the point that the codes of conduct, modes of auditing, and programmes for worker and supplier education still mirror Western models of development, an argument made by Freidberg (2003) and one that requires further theorisation and research. Corporate social responsibility exercised within these Western models runs the risk of producing paternalistic approaches to ethical trade (Crossley, 1999). However, when viewed in the context of the broader range of ethical trading strategies and modes of organisation for social auditing used by retailers, the developmental approach appears to promise greater opportunities for the involvement of workers in improvements to labour conditions at sites of export production.

5 Conclusions

In this paper I have presented a critique of ethical trade and labour codes of conduct based on their embeddedness in corporate strategies and management systems. As a form of corporate self-regulation that extends from a neoliberal trading context, ethical trade represents an attempt to provide a 'third-way' solution to the social injustices resulting from global supply chains. I argue that UK retailers internalise the pressure to trade ethically in very different ways and that aspects of corporate culture, financial management, and corporate restructuring facilitate variable formulations of ethical trading strategy on the part of individual companies. Such strategic differences between companies result from the voluntary nature of corporate codes of conduct. In turn, variations between retailers in terms of their commitment to ethical trade have been shown to shape, though not determine, organisational differences in the social auditing of global supply chains. Three contrasting approaches to this auditing were suggested to be used by retailers, with contrasting implications for labour conditions at sites of production. The developmental approach, which rests on a firmer reembedding of trade in social relations and moral values, is adopted by the retail firms most culturally and economically committed to ethical trade and is an approach that appears to afford export workers with a more powerful voice than other organisational approaches. As such, this approach appears to blur the boundaries between ethical and fair trade, supporting Blowfield's (1999) view that the two forms of supply-chain organisation can be connected.

Through the course of my analysis, I hope to have contributed to debates on ethical trade by asserting the importance of corporate agency in the organisation of more-ethical supply chains. Few studies of ethical trade to date combine a critical analysis with detailed knowledge of corporate approaches from 'the inside'. A 'close dialogue' (Clark, 1998) with key retail managers and an attempt to understand ethical trade from the points of view of the corporate actors who so powerfully shape its practice can help

[3] For more details, go to http://www.wosa.co.za/wieta_details.asp.

to generate more nuanced understandings of how ethical trade is implemented. This illustrates clearly the value of using interview-based methodology and qualitative approaches in economic research. Such an approach also attempts to broaden out understandings of commodity chains. Global commodity chain theories advanced by Gereffi (1994a; 1994b) tend to generate models of supply chain organisation at the overall level of the industrial sector, with little consideration of firm-level difference. At the same time, more culturally inflected studies of commodity chains, which have been concerned with questions of identity, representation, and knowledge, have traditionally prioritised the sphere of consumption. By focusing on corporate worlds and placing retailers and their managers at the centre of ethical trade analysis, I have sought to reveal the significance of strategic heterogeneity with respect to the organisation of commodity chains. Indeed, the multiplicity of corporate strategies and management systems permitted by private sector solutions to ethical trade is argued to generate a highly uneven geography of governance in the context of global commodity chains. A deeper understanding of how corporate self-regulation actually works in practice promises to open up new spaces of resistance for those seeking directly to challenge corporate power in global trading networks.

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