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Governance and Wealth Distribution in Global Value Chains

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Abstract:

This paper addresses recent changes in governance patterns that significantly altered power relations and wealth distribution in global value chains. First, it emphasizes the rise of a financial sphere made up of institutional investors and executives of large corporations at the top of GVCs, and discusses consequences for sourcing relations between 'financialized' lead firms and their suppliers. Second, by linking recent governance debates at the level of the firm to issues of governance of the whole chain, it identifies three distinct normative views (shareholder, stakeholder and institutional) of the ways in which firms and GVCs can be made to improve social welfare. Beyond the shareholder and stakeholder views, a call is made for strengthening an institutional view of GVC governance.

Issues of corporate governance have generated heated debates in recent years in the economic and managerial literature, broadly opposing shareholder-oriented and stakeholder-oriented views of the ways in which resource allocation decisions should be made within the firm. While the former held that the search for greater 'shareholder value' could benefit the economy and society as a whole, the latter argued that broader forms of value redistribution to 'stakeholders' including clients, employers and suppliers, were needed for firms to contribute to improve social welfare (see O'Sullivan, 2000). Meanwhile, discussions of governance patterns also developed in the Global Commodity Chain (GCC) research tradition, concerned with the dynamics of inter-firm relations in global industries. Bair (2005) highlighted how recent GCC research, adopting a Global Value Chain (GVC) terminology, progressively shifted from a holistic view of global processes and their social consequences towards a firm-level, performance-oriented focus, as did Gereffi, Sturgeon and Humphrey (2005) in their influential re-conceptualization of GVC governance. On the one hand, Bair (2005) argued that recent GVC approaches failed to address broader issues of unequal wealth distribution and the emergence of winners and losers in the global economy. She called for a 'second generation of GCC research' that would study 'how chains are articulated within and through the larger social, cultural and political-economic environments in which they operate' (Bair, 2005: 167-168). On the other hand, Gereffi et al. (2005) implied that a satisfactory analytical approach could be achieved on the basis of greater sophistication in the firm-level economic modeling of GVCs.

Against the background of these recent debates, and in line with Bair's call for re-emphasizing social and institutional aspects in GVCs analysis, this paper addresses recent changes in governance patterns that significantly altered power relations and wealth distribution in global value chains. Section I analyses such changes in the form of the rise of a financial sphere made of institutional investors and executives of large corporations at the top of GVCs, and its consequences for sourcing relations between 'financialized' lead firms and their suppliers. Section II discusses the political foundations of governance by building a link between governance at the level of the firm and governance of the whole chain. It identifies three distinct normative views (shareholder, stakeholder and institutional) of the ways in which firms and GVCs can be made to improve social welfare. Beyond the shareholder and stakeholder views, a call is made for strengthening an institutional view of GVC governance.

I – GVCs and the Rising Power of the Financial Sphere

In February 2000, a special issue of Economy & Society was devoted to the fundamental transformation undergone by developed economies during the 1980s and 1990s under the shift towards a new form of 'patrimonial' (Aglietta, 2000) or 'shareholder' (Williams, 2000) capitalism. Characterized by the growing importance of financial markets in the economy and the rise of institutional investors as major shareholders of large corporations, the transformation initiated in the United States during the 1980s, when institutional investors had accumulated amounts of collective savings large enough to exercise significant buying power on financial markets (Lazonick and O'Sullivan, 2000). These major institutional changes at the top of GVCs had deep consequences in terms of governance patterns, transforming the ways in which power, risks, and wealth are distributed among firms and social actors across global chains.

1.1 The financialization of corporate strategies

Greater investor pressures have been passed onto the top management of large corporations through a variety of devices including new rules for corporate governance advocating principles of transparency and accountability vis-à-vis shareholders, the distribution of stock-options aimed at aligning top management and shareholder interests in increasing returns on invested capital, enhanced interactions between top managers, financial analysts and money managers through 'conference calls', 'road shows' and 'one-to-one' meetings (Useem, 1998), as well as the use of new performance indicators such as Economic Value Added (EVA®) designed by the consulting firm Stern & Stewart (see Froud et al., 2000). Baudru and Morin (1999) argued that the use of such indicators was far from neutral in guiding managerial decisions. EVA® computes the difference between, roughly speaking, the wealth generated by a firm's operational activities and the cost of remunerating capital including not only the interest rate to be paid on the firm's borrowings but also, and this comes as a major breakthrough in finance theory, the level of return on equity demanded by investors. While shareholders traditionally absorbed risks by appropriating *ex post* a so-called 'residual' revenue after other stakeholders had been compensated by the firm according to predefined contracts, an EVA® calculation incorporates *ex ante* a level of expected shareholder return, shifting on the firm the burden to produce revenues and/or lower costs in proportion allowing to meet such expectations.

In the vivid language of shareholder value, a firm is said to *destroy* value if it fails to deliver anticipated shareholder returns, while value *creation* involves to produce operational results not just covering, but actually exceeding, expected returns incorporated in the calculation of capital cost. As noted by Baudru and Morin (1999), such performance measurement systems implicitly promoted a transfer of risk from shareholders to the corporation, in turn providing incentives to shift risks from the firm to employees and suppliers through a variety of devices including greater work externalization in the form of contingent work and subcontracting, as observed in the US during the 1980s and 1990s (Capelli, 1999; Pfeffer and Baron, 1988). Major US corporations shifted from a 'retain and reinvest' strategy, primarily using cash flows to sustain growth, to a strategy of 'downsize and distribute' coupling work externalization and lay offs to greater cash flow distribution to shareholders in the form of dividends and share buy-backs (Lazonick and O'Sullivan, 2000).

Shareholder capitalism spread from the US overseas during the 1990s, thanks to the internationalization of American institutional investors' activity, the opening of domestic financial markets to foreign investors, as well as recruitment policies favoring the entry of Anglo-Saxon executives in the top management of large corporations. The magnitude and significance of changes generated some disagreement in the literature. On the one hand, a number of variables could be seen to signal a growing financialization of European and Japanese economies but on the other hand, a uniform process of convergence could not be observed across countries (Dore, 2002; Jackson, 2002; Dore et al., 1999). In France, for instance, the share of foreign investors in the equity of large public corporations reached much higher levels than in Germany and the UK, up to 35% in 1997, 43% in 2002, and 46% in 2005 (Morin, 2000; Schmidt, 2003; Poulain, 2006). However, institutional investors rarely gained a majority position in the ownership structure of mainland European firms, other than as a group collectively owning a large aggregate of shares. Large corporations continued to be controlled by non-institutional shareholders such as families and management allies even though the average equity share of these core non-institutional shareholders declined from 30% to 20% over the 1990s in France (Morin, 2000). As reported in Table 1, a comparative study of ownership patterns in the 20 largest food multinationals in Europe revealed significant differences in the type of major shareholders exercising control over firms of various national origins. While the ten largest shareholders held similar average positions of about 40% of total equity in both American and European multinationals, institutional investors owned an average of 83% of top 10-owned equity in American food firms versus 41% in European firms. UK firms exhibited a distinct pattern with levels of institutional

investors' stake in top 10-controlled equity closer to those observed in American than in mainland European firms, although core institutional shareholders were here of UK – rather than American – origin.

Insert Table 1 about here

Such distinct ownership patterns translated into significantly different choices in terms of cash flow utilization by large food multinationals over the second half of the 1990s. On average, American food multinationals distributed 89,2% of cash flows in the form of dividends and share buy-backs between 1996 and 2000, while European firms allocated only 33,9% of cash flows to shareholders (Table 2).

Insert Table 2 about here

Nevertheless, between the late 1990s and the early 2000s, the largest European food multinationals including Nestlé, Unilever and Danone, could be seen to engage in financialization strategies characterized by intensified communication with financial analysts and investment managers, the launch of share buy-backs programs, rising dividends per share, stock-option policies for top executives, and the use of EVA-type tools in monitoring performance and rewarding executives.[1] Beyond the food sector, Maurin (2000) observed similar changes over the same period in the 40 largest public corporations in France. The rate of cash flow distribution in the form of dividends and share buy back climbed to 42% in 2006, while dividend distribution alone increased from 27% to 36% between 1987 and 2006 (Quiry and Le Fur, 2007). Obviously, the origin of such changes did not lie in direct pressures stemming from major institutional shareholders. The policy shifts were rather deliberately initiated at the top of the corporation, typically at the arrival of a new CEO such as Peter Brabeck at Nestle in 1997, Franck Riboud at Danone or Niall FitzGerald at Unilever in 1996. From the rapid pace of international growth observed within these firms over the same period[2], it can be inferred that the top management of large European corporations primarily engaged in financialization strategies in order to build and maintain global leadership positions. In the case of France, some observers emphasized that large firms had chosen this form of 'financial dependency', playing by the rules of institutional shareholders to boost share prices, in order to enhance their ability to finance acquisitions on global markets and avoid falling into a form of 'industrial dependency', i.e., being acquired by global competitors (CGP, 1999). Others underlined that in making such a choice, top executives had formed a

new alliance with key agents on financial markets, thus breaking up the old Fordist alliance historically established with employees – especially white collars – inside the firm. As a result, they formed a new power sphere at the global level – increasingly disconnected from employment and production patterns maintained at the local level (Boyer, 2000; Palpacuer et al., 2007).

1.2 Consequences for sourcing relations in GVCs

Paradoxically, while the notion of governance was acknowledged to be central to GCC analysis (Henderson et al., 2002; Bair, 2005), the shift towards financialization occurring in the governance of lead firms remained largely absent from the GCC/GVC literature. Although a number of empirical studies focused on identifying new demands made on suppliers by 'global buyers' (Schmitz and Knorringa, 2000) or large-scale retailers (Abernathy et al., 1999), these demands were seen as stemming from new competitive dynamics on end-product markets. Pressures from financial markets were not part of the picture.

Several considerations could help explain such paradox. First, lead firms in some well-studied GVCs such as apparel were not, and are still not, among key players in equity markets, so that product market dynamics might actually exercise a stronger influence than financial markets in shaping their sourcing decisions. Top American brands of fashion sportswear such as Polo Ralph Lauren or Donna Karan only went public in the mid-1990s, for instance, and the industry notoriously lagged behind in adopting the type of formal management and reporting systems expected by institutional investors (Palpacuer, 2005). The argument did not hold true for lead firms of capital- and technology intensive GVCs such as automobile and electronics, however, who ranked amongst top market capitalizations and could hardly remain immune to the shareholder value doctrine spreading in the 1990s. Accordingly, a second reason why financialization remained underplayed could have to do with the research design and approach to chain governance that spread over in mainstream GCC/GVC literature over the same period. Indeed, and as emphasized by Gibbon and Ponte (2005), the concept of governance encompasses two fairly distinct components including a rather technical notion of coordinating mechanisms applied to the organization of activities within the chain, and a more political view of power relations influencing the distribution of income among actors involved within the chain (see also Ponte and Gibbon, 2005). It can be argued that with the significant exception of Gibbon/Ponte (2005) publications, the growing conceptual sophistication of GVC analysis in the early 2000s focused on technical and

economic aspects of governance and did not to incorporate changes of a more political nature in value allocation systems at the top of GVCs.

Gibbon (2002) made one of few systematic attempts to explore linkages between lead firms' financialization and global sourcing practices, focusing on the UK clothing retail industry. He identified three main ways in which objectives to increase returns on invested capital could influence sourcing decisions. First, the search for greater shareholder value provided incentives to focus internal investments on higher return activities typically involving product definition, marketing, and consumer lending – all activities traditionally controlled by big drivers in GVCs. Accordingly, incentives increased for lead firms to externalize manufacturing and manufacturing-related service functions to suppliers. Second, the search for scale economies based on global leadership positions geared lead firms towards focusing on fewer, high volume suppliers. Finally, intensified reporting of corporate performance to financial markets involved more stringent monitoring of suppliers' performance based on formal management systems of interfirm relations. Such orientations in UK retailers' sourcing relations converged with trends identified in sourcing patterns of US retailers and suggested, therefore, that the dynamics of financialization unleashed in the US since the 1980s could play a role, in combination with product market dynamics, in the transformation of GVCs serving the US market. A comparative European analysis indirectly supported such hypothesis by revealing significant differences in the sourcing patterns of retailers in the UK vis à vis France, Denmark and Sweden – in relation to unequal levels of retail concentration and financialization (Palpacuer, Gibbon and Thomsen, 2005). UK clothing retailers were found to be more frequently engaged in supply base reduction policies and had established much more stringent criteria for new supplier selection than did their French and Scandinavian counterparts. In addition, they made significantly higher demands on suppliers in terms of production flexibility and risk transfer, expecting suppliers to hold stocks on their behalf and to provide inventory-management services. They were also more prone to engage in policies of 'sharing the impact of price deflation' by imposing continuous price reduction on suppliers. While French and Scandinavian retailers certainly exercised some price pressures on their own suppliers, their sourcing relationships remained more informal and price demands made on suppliers were less systematized.

In Scandinavia, financialization strategies were virtually absent. The limited extent of supply base rationalization, the rare adoption of replenishment programs, the basic nature of expectations concerning supplier services, the *ad hoc* nature of supplier selection, and the absence of formal procedures for supplier performance appraisal, all indicated a

predominance of informal relations with suppliers. These practices appeared rooted in a specific Scandinavian organizational culture where management style was consensual rather than numbers- or rules-based and local buyers appeared to enjoy considerable discretion. Holding an intermediate position, the 'French model' had some similarities with the UK one, since the largest retail firms had engaged in sourcing rationalization policies, reflecting a gradual diffusion of the shareholder value doctrine in these enterprises (see Palpacuer, 2006a). However, the French also shared some characteristics with Scandinavia: service expectations for current and new suppliers remained fairly basic, and supplier monitoring was not systematic. While replenishment programs had been adopted, they were limited in scope - partly due to inadequate suppliers' capabilities. Such lack of formalization and sophistication in sourcing practices highlighted the persistence of traditionally high levels of informality in French buyer-supplier relations.

Against this background of enduring national specificities, a major consequence of financialization has been a strong rise of entry barriers for new suppliers in UK-driven chains. The core suppliers of large UK retailers had developed capabilities to produce in, or source from, diverse locations in various regions of the world, and offered a wide range of design and manufacturing services. If a number of developing countries had historically been able to use entry into the manufacturing stage of global apparel chains as a stepping-stone in their industrialization process, then greater financialization and concentration at the top of GVCs made prospects for such development much weaker than in the past. The developmental potential offered by global apparel chains could thus be expected to continue to decline as financialization – and concentration – spread from the Anglo-Saxon world to other mainland European countries. Another major consequence of financialization and concentration in the UK clothing retail industry appeared in the form of greater institutionalized inequality in the distribution of value between firms within the supply chain. Although apparel retail prices had been stagnant or declining over the 1990s in the various end markets studied, only UK retailers mentioned adopting systematic price reduction policies with suppliers. "*The cut didn't come out of our margin, it came out of squeezing our supply base. Improvements in our margins have been obtained mainly by working with existing suppliers*", said a sourcing manager at a major UK retail chain. Companies typically sought to compensate falling unit prices with greater production volumes allocated to a reduced number of suppliers. However, the sustainability of such sourcing strategy in terms of suppliers' development remained an open question: *"Compensating for price deflation with higher volumes is a great idea, but it's not realistic as a general policy. Sometimes the decreases are massive (...) There's a real*

question of whether suppliers can survive on that basis" (UK retail consultant, interviewed by Gibbon, 2001).

A third consequence of financialization at the top of GVCs can be identified in the electronics industry, in relation to the shift towards 'modularity' in component and product sourcing. Although Sturgeon (2002) did not explicitly draw a link between financialization and the new patterns of supplier relations developed by leading electronic firms, the main advantages to be derived from such product standardization within the supply chain, i.e., to lower factor costs and increase capacity utilization rates, have been found to relate to financialization strategies in other industries such as apparel (Gibbon, 2002) and food (Palpacuer and Tozanli, 2008). Sturgeon (2002) demonstrates that modularity produced such outcomes by increasing lead firms' ability to switch both suppliers and places in sourcing standard products and components. Hence, a region's or supplier's capacity to retain lead firms' sourcing activity as part of a sustainable development strategy becomes increasingly precarious in these new GVC patterns.

II –The Governance of GVCs as an Open Political Question

Financialization and the related issue of corporate governance have generated heated debates over the last years among scholars preoccupied with the running and performance of large publicly traded corporations in the Western hemisphere. Contrasting views have been laid out of the ways in which these corporations could or should contribute to greater social welfare and the type of public policies needed to support such goal. In this section, I identify a few stylized views of corporate governance and discuss their implications from the perspective of GVC governance. This link between firm-level and chain-level can be made in so far as Gereffi defined GCC governance as 'authority and power relationships that determine how financial, material, and human resources are allocated and flow within the chain' (1994: 97), while the literature on corporate governance was similarly interested in the system that 'shaped investment decisions in corporations, what type of investments they make, and how returns from investment are distributed' (O'Sullivan, 2000: 1). There are at least two other reasons for establishing such link. First, if lead firms are acknowledged to play a central role in the governance process of GVCs, then the ways in which these firms are themselves governed cannot but exercise an influence on the whole chain. Second, highlighting the normative foundations of corporate governance models provides a vehicle for making explicit some foundations of the same type in GCC/GVC analysis. The three views of

corporate, hence chain, governance identified below (shareholder, stakeholder, and institutional) are indeed rooted in implicit but strong and long-standing premises in economic and work organization theories, regarding key features of human behavior and appropriate ways of organizing social interactions within productive organizations and the broader economy. I build on typologies of governance developed by Blair (1995), O'Sullivan (2000) and Brabet (2004) to compare the analytical frameworks, conceptions of the firm, public policy orientations and perceived ways of articulating economic performance and social welfare associated with these three views (also see Palpacuer, 2006b).

2.1 A market-oriented, shareholder view of governance

The shareholder view of governance draws on property rights theory (Alchian and Demsetz, 1972) and agency theory (Fama and Jensen, 1983; Jensen, 2000) to give primacy to ownership in the appropriation of wealth generated by large corporations. It also builds on transaction cost theory (Williamson, 1985) to define the firm as a 'nexus of contracts', i.e., a sum of bilateral contracts between individuals making opportunistic and rational decisions. According to this view, the market provides, or should provide, the best regulatory mechanism for maximizing shareholder value, and state intervention should be restricted to ensuring the efficient operation of markets in the spheres of corporate ownership and management. The development of a 'market for corporate control' is thought to contribute to maximize the wealth generation capabilities of large corporation by allowing investors to freely buy and sell shares of a corporation. This approach is based on the liquidity of capital ownership and on the promotion of a market for top management positions annihilating management's attempts to 'entrench' themselves at the top of large corporations (Jensen, 2000). A central claim of proponents of the shareholder view, and a major foundation for its social legitimacy, lies in the idea that maximizing shareholder value can provide the best avenue for maximizing the performance of the economy as a whole, thereby improving social welfare. Relying on a doctrine of methodological individualism, this view promotes a conception of the firm that excludes all forms of collective action and abstracts from power imbalances and conflicting interests between social groups contributing to a firm's activity such as shareholders, employees, clients and suppliers. A focus on free individual agents allows demonstrating that maximizing shareholder value can improve a firm's overall performance without being detrimental to other stakeholders. This can presumably be achieved because in a static world – and contrary to performance calculations using EVA-

type of indicators – shareholders' returns are not determined *ex ante*, while other stakeholders are protected by contracts specifying the returns that they will receive from the corporation (see O'Sullivan, 2000: 43-52).

With its emphasis on contracts, this first model of corporate governance shares core assumptions not only with neo-classical theory in economics, but also with the classic managerial school in organization theory. A central tenet of Taylor's (1911) approach to work organization was that human action should be controlled as tightly as possible through formalization and standardization in order to improve performance in productive organization. Hence, agency theory's central preoccupation with disciplining managers, controlling corporations, and drafting detailed – Taylor would have said 'scientific' – contracts to reduce opportunistic behaviour, can be seen as a transposition to corporate governance of Taylor's obsession with controlling workers and improving productivity at the shop floor.

With their focus on tight formal monitoring and standardized business practices, the new managerial doctrines of supply chain rationalization promoted as part of large corporations' policies to increase shareholder value are broadly consistent with this model of corporate governance, extending its core principles to inter-firm relations in GVCs. Some elements of a market-based view of governance can also be found in recent theoretical developments on GVCs, including Sturgeon's (2002) concept of 'modular production network' built out of the empirical observation of outsourcing strategies adopted by American lead firms in the electronics industry. Sturgeon (2002) highlighted advantages to be derived by lead firms from working with high capability suppliers on the basis of market-type relationships that high degrees of codification and standardization in inter-firm exchanges made possible within this industry. Under modularity, 'highly competent suppliers could be added and subtracted from global production arrangements on an as-needed basis' (in Gereffi Humphrey and Sturgeon, 2005: 83). Such enhanced freedom to switch partners also applied to suppliers, allowing them to reduce their sourcing dependency vis-à-vis particular lead firms. In the typology of governance systems elaborated by Gereffi, Humphrey and Sturgeon, GVCs governed by the market were indeed those associated with the lowest degree of power asymmetry in interfirm relationships. In this framework, power relations are acknowledged to exist in all forms of GVC governance, from markets to vertical integration, but the former alleviates them by providing greater individual freedom to the parties involved. Like the firm itself, under specific conditions of exchange codification, GVCs defined as 'nexus of contracts' could thus presumably allow for a more equal distribution of rents between lead

firms and their suppliers. Along a similar line, Gereffi, Humphrey and Sturgeon (2005) leaned towards a form of methodological individualism when using the Williamsonian notion of transaction as their core unit of analysis for understanding governance in GVCs. In doing so, they implicitly endorsed a key assumption of the market-based view that maximizing an individual firm's performance could serve to improve conditions for the economy and society as a whole. But the similarities between a market-based view and this stream of GVC research stop here. Gereffi, Humphrey and Sturgeon (2005) did not normatively promote the market either in its pure form or as a partial feature of the modular mode of governance, stating: 'there is clearly no single best way to organize GVCs' (Ibid.: 97). They also did not address the role of shareholders and the issue of wealth distribution within the chain, focusing on governance as specific coordination schemes and leaving aside its broader 'political economic' aspects (Ponte and Gibbon, 2005). A pure market-based view of GVCs would rather stem from macroeconomic neo-liberal doctrines promoting deregulation and the opening of developed and developing countries' markets to international trade and investment.

2.2 A trust-based, stakeholder view of governance

In the corporate governance literature, the stakeholder view arose in reaction to core assumptions of the shareholder model regarding human behavior and motivations at work. The premises of this alternative governance model can be traced back to the human relations movement in organization theory. Mayo (1945), Herzberg (1966) and others believed that the classic managerial school was wrong in seeing individuals as isolated, opportunistic, and guided by rational calculations, so that organizational designs built on such assumptions actually undermined corporate performance by leaving untapped the creative resources of individuals, while leaving unfulfilled their need and desire to form social groups and share common objectives. Leading thinkers in the stakeholder view have likewise criticized the shareholder approach by claiming that a focus on shareholder value was not only unfair from an ethical point of view but also detrimental to corporate performance (Freeman, 1984; Post et al., 2002). The human relation school emphasized the corporate benefits to be derived from investing in workers' skills and motivation, while the stakeholder view extended such rationale to a broader set of constituents: 'Individuals well endowed with economic and social capabilities will be more productive; companies which draw on the experience of all of their stakeholders will be more efficient', claimed Kelly et al. (1997: 244 in O'Sullivan, 2000: 52).

Some authors such as Blair (1995) relied on purely economic rationale rooted in human capital theory to establish the need for firms to nurture relationships with a broad constituency of stakeholders. Others considered that investment in stakeholder relations should stem primarily from moral commitment, independently of corporate search to maximize profits (Freeman, 1984; Berman et al., 1999).

Much of the surging interest in participative management and cooperative inter-firm linkages during the early to mid-1990s relied on similar premises. Leading labour market theorists such as Kochan and Osterman (1994) promoted a 'mutual gain enterprise' building sustainable advantage on the basis of employee participation and flexible work schemes. A number of sociologists similarly emphasized the role of trust in allowing for flexible, open-ended inter-firm relations, seen as more conducive to innovation than arm's length market relations (Powell, 1990; Sako, 1992; Uzzi, 1997). This core assumption was shared by much of the burgeoning literature promoting industrial clusters as a new route for economic development (Pyke, Becattini and Sengenberger, 1990; Nadvi and Schmitz, 1994). Attempts to incorporate such notions in the analysis of GVC inter-firm relations were also made, by taking into account the formation of transnational production linkages within studies of local industrial systems (Humphrey and Schmitz, 2000; Palpacuer and Parisotto, 2003).

In retrospect, one could say that this debate was largely across and about places. Proponents of trust relations offered Japan and Germany as superior models and used the lagging economic performance of the US in the late 1980s as an argument in favor of building the type of long-term solidarity observed between firms and their employees and suppliers in these countries (Best, 1990). The short-term orientation of Anglo-Saxon financial markets was considered as an obstacle to achieve such goal (for instance, Sako, 1992). Rather than seeing benefits in the geographical fluidity of inter-firm relations, as emphasized in a market-oriented approach, the trust-based view promoted socially embedded, locally rooted linkages. The strong macro-economic growth of the US since the mid-1990s deeply undermined this line of argument, together with the surge of low price imports as substitutes for domestic manufacturing, particularly strong in labour intensive industries such as apparel (Gereffi et al., 2002). To some extent, however, these two views of governance continued to coexist in distinct segments of a given industry, as shown by Ponte and Gibbon (2005) insofar as they differentiate between two types of lead firms and GVCs: 'Firms with a "financialist-network" set of values tend to be more "hands-off" with their immediate suppliers, outsource "non-core" functions, focus on short-term returns, play with the possibility of switching between suppliers, (…) and fine tune economies of scale and scope' (p. 20) among their main

characteristics while 'GVCs where quality is embedded in "domestic" conventions (…) are local (…) and/or require repeated interactions and the building of personal trust' (p. 21). The former were found to dominate mass markets while the latter occupied niche markets in the coffee and clothing industries.

On a normative level, ethical considerations promoting cooperative behaviors within and between firms recently reappeared in the managerial literature in the form of discourses on Corporate Social Responsibility (CSR). According to this literature, corporations should realize that the value of their products depends on consumers' perception of their endorsement of a socially responsible behavior with suppliers. Thus, they are expected to act on the basis of 'enlightened self-interest' when devising tools such as codes of conduct to ensure a greater incorporation of social values in their mode of operation and relationship with suppliers (O'Higgins, 2003). This provided for a third GVC profile in Ponte and Gibbon (2005) typology, involving marketers of 'ethical' products and other 'fair trade' initiatives where the dominant norms and conventions were of a 'civic' – rather than 'domestic' or 'industrial/market' – nature. While the first generation of trust-based relations literature had emphasized the need for public policies and institutions to stimulate innovation while containing opportunistic competitive behaviors in inter-firm networks, as did Piore and Sabel (1984) in their model of 'flexible specialization', this new managerial literature suggested that balancing social and economic considerations could and should be done primarily on the basis of voluntary individual action (Brabet, 2004). When members of this school prescribed governance reform (for instance, Blair, 1995), they did so with considerable caution, in favor of incentive-enhancing policies rather than regulatory constraints. As pointed by O'Sullivan in her critique of the stakeholder view, such policy orientations maintained the market-oriented, neo-classical assumption that 'resource allocation is individual and optimal' (2000: 59). Although claiming to take into account a variety of interests in the running of the corporation, the stakeholder view thus persistently overlooked the role of power relations in shaping the distribution of wealth among actors involved in global chains.

2.3 An institutional view of governance

A third approach to the challenges arising from the emergence of global financialized corporations at the top of GVCs can be devised by building on core analytical premises of early institutional theory – shared by subsequent research in French regulation theory – to explore recent institutional developments aiming to reduce inequalities in wealth distribution

and work conditions in global value chains. This third view was implicitly adopted in depicting changes towards financialization and their sourcing consequences in section 1, along a tradition of 'political economy' that Gibbon and Ponte (2005) endorsed when considering that power relations remained inherent to GVCs whatever organizational devices were used to coordinate activities.

A distinctive feature of institutional analysis, as defined by early labour market theorists, was to see individual action as embedded in collective dynamics by which norms and rules were developed and sustained in society and the economy (Kerr, 1950, Cain, 1976). Such dynamics contributed to shape opportunities and constraints faced by individuals belonging to diverse social groups and generated inequalities in their capacity to access resources such as education and well-paid jobs in the labour market. An institutional lecture on market dynamics thus called for public policy aimed at alleviating such inequalities (see for instance, Doeringer and Piore, 1971). The French regulation school went a step further by arguing that capitalism could not perpetuate itself without institutions that channeled the forces of competition and produced stable forms of wealth redistribution. Key economic conditions and institutions were identified that allowed for a 'virtuous circle' of wealth generation and redistribution to develop in industrialized countries under the Fordist system built in the post-World War II period (see Boyer, 1987; Boyer and Durand, 1997). A central redistributive mechanism of the time was labour laws and collective bargaining by which the employment relation could simultaneously mobilize labour forces for production purposes and fuel market growth on the basis of regular wage increases (Grahl and Teague, 2000). Along similar lines, radical labour economists and historians have analyzed how a combination of social struggle on the part of workers and economic interest of large corporations allowed for such institutions to progressively build up and stabilize the Fordist system in the US (Gordon, Edwards and Reich, 1982; Jacoby, 1991). Labour laws and collective bargaining systems provided the type of 'institutional order' or 'public process' by which 'the opportunity and capacity for legitimate self-assertion [of a variety of interests involved in the production process] could be guaranteed' (Selznick, 1969, as in Perrow, 1986: 114). Translated in terms of corporate governance, this perspective implied that stakeholder participation became institutionalized so that 'employees' role in governance wouldn't be left to the discretion of any other group in the economy (such as shareholders)' (O'Sullivan, 2003: 21). Against this background, a major consequence of the rise of GVCs was to spread production networks across local or national institutional systems that remained largely disconnected and of highly unequal redistributive capacities. Tightly regulated systems

providing for high wages and social protection competed against loosely regulated, lower wage locations in what could be called a 'vicious cycle' of global downward competitive pressure on wages and working conditions. The financialization of corporate governance at the level of 'lead firms' of GVCs thus concurred with the demise of older modes of governance promoting the employment relation, rather than ownership, as a primary vehicle for wealth redistribution.

Of particular interest in such context, a 'corporate accountability' movement emerged during the 1990s, primarily involving non-governmental organizations (NGO) and trade unions at the transnational level (Utting, 2005). In the global clothing industry, newly formed activist NGOs included the Clean Clothes Campaign in Europe, the Maquila Solidarity Network in Canada, United Students against Sweatshops (USAS) as well as Sweatshop Watch in the US, among others, bringing together a mosaic of community groups acting for the defense of human rights, women, consumers, immigrants, workers, as well as religious groups, student groups, lawyers and political organizations (Bonacich and Appelbaum, 2000). These new forms of activism shared similarities with the social movements observed in the formative stages of the Fordist system, including the adoption of a confrontational attitude vis-à-vis large corporations and demands for bidding rules, including firms' obligation to answer to different stakeholders as well as elements of enforceability linking compliance failures to some sorts of penalty (Newell, 2002; Utting, 2005). Unlike traditional counter-powers, however, these coalitions matched key organizational characteristics of GVCs by forming transnational networks allowing them to quickly pool resources for consumer campaigns that exposed global brands to labour abuses at their suppliers' factories (Palpacuer, 2006c), while a number of unions built up international framework agreements to facilitate collective bargaining within the production networks of multinationals (Riisgaard, 2005). More recently, these movements have targeted the 'root causes' of labour abuses laying in lead firms' sourcing practices – rather than their CSR department. The consequences on workers' wages and working hours of continuously declining prices and delivery times imposed by lead firms have been made explicit in several NGO reports (Barrientos and Smith, 2006; MSN, 2007) and greater 'political coherence' has been demanded between firms' CSR policies on the one hand and the economic rationale of their global sourcing policies on the other (Utting, 2005).

Conclusion

This overview of social and institutional changes in GVCs highlighted the rise of a financial sphere at the level of lead firms that captures increasing amounts of cash flows at the expense of rewards distributed to other social groups, particularly those in most vulnerable positions such as suppliers and employees in developing countries. Emerging in the US during the 1980s, financialization and its sourcing consequences have been shown to spread, under diverse forms and with unequal speed and intensity, to other regions such as Europe over the following decades. Through an 'institutional' view of governance, this article emphasized the existence of power relations and unequal bargaining capacity among social groups involved in GVCs, as well as the emergence of new social movements aiming to fill the gaps left by the demise of old Fordist modes of social relation. Such a view differs not only from a 'shareholder' perspective promoting a market-based regulation of firms and GVCs, but also from a 'stakeholder' approach relying on voluntary, individual action rather than collective, rule-oriented regulation to govern social relations in GVCs. Market, trust, and rules, the dominant coordinating mechanisms respectively advocated in these three views, are classic organizational devices. An institutional approach simply reminds us that the choice between them is neither neutral nor predetermined by economic conditions, but the outcome of historical social processes holding important developmental implications in GVCs.

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[1] As indicated in annual reports and inteviews with consultants and top executives conducted in 2000 and 2001.

[2] Rapid international growth is documented by Picard (2003) for top 40 French firms and Palpacuer et al. (2006) for top 30 European agrifood companies. The link between financialization and globalization also appeared in interviews conducted by the author with top managers at Danone and Nestle in 2001.

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Table 1 – Share of institutional investors in equity owned by top 10 shareholders in large food multinationals in Europe, March 2000

	Equity share of top 10 investors (%)	Of which, share of institutional investors (%)
European firms (n=9)		
Diageo (UK)	19	77
Unilever (UK)	25	74
Tate & Lyle (UK)	57	73
Nestlé (CH)	7	57
Danone (FR)	23	31
Pernod Ricard (FR)	34	28
LVMH (FR)	65	14
Parmalat (IT)	57	7
Heineken (H)	54	5
Average	**38**	**41**
American firms (n=9)		
RJR Nabisco	48	100
Sara Lee	22	100
Philip Morris	26	92
Pepsico	21	91
H.J. Heinz	19	91
Kellogg	70	83
Coca Cola	42	70
Dole Food	65	64
Seagram	53	56
Average	**41**	**83**

Source: Shareworld database; adapted from Palpacuer et al. (2006).

Table 2 – Dividends and share buy backs as % of cash-flows, 1996-2000

	European food multinationals (n=11)	American food multinationals (n=8)	Total food multinationals (n=19)
1996	26.6%	101.7%	48.8%
1997	28.1%	67.%	42.1%
1998	32.6%	116.0%	54.9%
1999	47.1%	93.1%	59.0%
2000	33.3%	68.1%	46.2%
Average	**33.5%**	**89.2%**	**56.4%**
Standard deviation	8.1%	21.4%	11.4%
Dispersion rate*	24.2%	24.0%	20.2%

Source: annual reports, in Palpacuer et al., (2006). * Although dispersion rates (standard deviation / average) are fairly high, they remain much lower than the 55.7% difference between European and American averages.