New challenges for developing country suppliers in global clothing chains: A comparative European perspective

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Summary. - Through an analysis of clothing import patterns and sourcing practices of major clothing retailers in the UK, France, and Scandinavia, this paper uncovers salient differences between global value chains (GVCs) serving European clothing markets. It highlights entry barriers for developing country suppliers into the sourcing networks of UK retailers, and relates these to corporate financialization in the UK. Although suppliers' entry and industrial upgrading remain easier in mainland European sourcing networks, the maturation of GVCs challenges classical 'industrial upgrading' paradigms and the role of the clothing sector as a stepping-stone in the industrialization of developing countries.

Key words – Developing countries, Europe, clothing, global value chains, sourcing**,** entry barriers.

1. INTRODUCTION

The clothing industry has had a critical part in the industrialization process of a wide range of countries, over a period covering two centuries. This was the case with Britain and the United States during the early nineteenth-century, with Japan in the first half of the twentieth century, and with Hong Kong, South Korea, and Taiwan in the 1950s. The sector played at least four important roles in these countries' economic development. Firstly, it absorbed large magnitudes of unskilled labor. Secondly, it produced goods that satisfied elementary needs for large segments of the domestic population. Thirdly, despite low investment requirements, it served to build capital for more technologically demanding production in other sectors; and fourthly, it financed imports of more advanced technologies by generating export earnings. Many developing countries, especially low-income ones, believe that the industry can play a similar 'bootstrapping' role for them today, and on this basis they promote its development and its links to the global market. The extent to which the hopes such policies express are realistic depends, of course, upon whether the assumptions lying behind the successful experiences of Japan and the NICs remain valid.

There are both macro-economic and some more micro-economic and sociological reasons why this may no longer be the case. On the macro-economic side, the relevant issues concern the global supply-demand balance and – since clothing is (after agriculture) the most trade-regulated of all sectors - developments within the field of trade restrictions and preferences. On the more micro- and socio-economic side, the relevant issues concern the evolution of relations between developed country buyers and developing country suppliers, with respect to sourcing principles, supplier selection policies and supply base management. Some hard data relevant to the macro-economic aspect of the question is publicly available. As far as the micro- and socio-economic side of the question is concerned, an arguably relevant literature has also emerged, but mainly in relation to clothing buyers in the US. Some material exists on the nature of global sourcing by European retail, but practically without exception this covers sectors other than clothing.

As will be seen in a moment, both some of the hard economic data, and the wider literature referred to, suggest that the assumptions upon which the Japanese and NIC experiences rested upon are indeed no longer valid. This paper reports research aimed at testing part of the argument behind this suggestion, on the basis of interviews with 'global buyers' of clothing in three distinct European markets (UK, France and Scandinavia). In the process, it also explores the issue of the extent to which 'Anglo-Saxon' business models, at least with reference to global sourcing, have spread to mainland Europe and with what implications for developing country suppliers. Its main findings are that entry barriers have substantially increased in the UK, while for those developing country suppliers already 'in the game' upgrading opportunities are essentially confined to mainland European markets. Differences between European markets in opportunities available for suppliers relate partly to the uneven diffusion of 'Anglo-Saxon' business models, and to closely-related differences observable across countries in the size of buyers' enterprises.

The paper falls into five main subsequent sections. In Section 2, existing direct and indirect evidence is reviewed for and against the proposition that developmental effects still can be expected from clothing sector growth, and the degree of convergence between national or regional patterns of buyer-producer relations in the global clothing industry is discussed. In Section 3, recent clothing import data from the UK, France and Scandinavia is presented, followed by a discussion of the changing geographical patterns of sourcing that these reveal. Section 4 presents the results of interviews on sourcing strategies with leading clothing retailers and importers in these countries. Section 5 discusses explanations for some of the national differences revealed by these interviews, while Section 6 identifies implications for developing countries, in regard to entry barriers on the one hand and opportunities for upgrading on the other.

2. VALUE-CHAIN RESTRUCTURING AND OPPORTUNITIES FOR SUPPLIERS

Recent changes in the global clothing industry will first be reviewed from the perspective of suppliers' opportunities for successful entry and industrial upgrading within this industry (a), before addressing the issue of inter-country differences in buyer-supplier relations and factors that potentially explain them (b).

(a) Questioning the opportunities available to developing country clothing industries

Four main assumptions lying behind the successful developmental clothing experiences of Japan and the NICs can be identified: three concerning entry barriers, and one concerning upgrading. The first was that of low or very low initial financial requirements - especially important in Taiwan, where the development of the clothing industry involved hundreds of SMEs (Shieh 1992). A second was low labor costs as *the* key global competitiveness factor. First Japan, then the NICs and subsequently new entrants like Indonesia, Thailand and later China established positions in the world market largely by paying their workforces much less than did competing countries.

A third assumption, concerning trade regulation, should be mentioned in relation to post-NICs entrants to the global market. The main importing countries, anxious to protect their own domestic industries, imposed a succession of physical restrictions on exports from supplying countries through the Multifibre Arrangement. For new entrants, such restrictions served to dampen competition from established producers such as the NICs, and later China. Because importing from these countries entailed buying quota, it meant also that imports from new entrants were cheaper in relative terms, thus providing a competitive advantage to late comers.

A fourth assumption was the availability of opportunities to use the clothing sector as a basis for industrial upgrading, either within the clothing and textile sector itself, or cross-sectorally but on the basis of capital and know-how built up in clothing. Although clothing has never been a high margin business, until recently profits and learning opportunities proved adequate to allow a significant minority of entrepreneurs to move up and/or off its value-added ladder. These assumptions can be challenged in view of recent developments in the global clothing industry.

(i) Entry barriers

In questioning whether the assumptions about low entry barriers still hold, an appropriate point of departure is the literature on global commodity or value chains (henceforth GVCs). GVCs are the internationalized structures of production, trade and consumption pertaining to specific products. Gereffi (1994, 1995) identified four dimensions of GVCs: (i) input-output structures; (ii) geography; (iii) chain governance structures and (iv) institutional frameworks through which national and international conditions and policies shape the globalization process. 'Governance structure' has a double meaning. On the one hand, it refers to organizational processes of chain coordination while, on the other it refers to means of influencing the distribution between agents of total income generated along the chain. Gereffi distinguished two basic varieties of these structures. 'Producer-driven' chains are led by manufacturers who tend to retain control of capital-intensive operations and organize more labor-intensive ones in tightly integrated – often 'captive' – networks[i]. By contrast, 'buyer-driven' chains are found in more labor-intensive sectors (garments, footwear, toys), where retailers and branded marketers entirely outsource production to less integrated – and internally competing - networks.

Gereffi's contributions imply important insights concerning entry barriers for suppliers within GVCs. Buyers, he argues, capture higher shares of income by re-engineering the division of labor along value-chains. They oblige suppliers to take on a succession of generally low-profit functions that they no longer wish to perform. By implication therefore, entry barriers to supplier roles (or at least some of them) increasingly include the capacity to perform a range of service functions, as well as production ones. Gereffi does not elaborate this insight or qualify it in relation to different national or even (product-specific) sectoral contexts. But the observation is certainly resonated in much of the recent literature on the food retail sectors of the US and, particularly, the UK (Dolan & Humphrey 2001, Fearne & Hughes 1999). Here researchers have pointed out that, against the background of the rise of managerial doctrines such as 'Efficient Consumer Response' and 'Category Management', large-scale retailers are systematically re-engineering their supply bases. This involves identifying 'core' suppliers for each product category, and transferring to them functions such as analysis of sales data, prediction of demand, holding stock and new product development. It further involves an expectation of delivery of products on ever shortening lead times. Correspondingly, suppliers who lack the financial and human resources to perform these functions are relegated in importance or eliminated completely.

Some of the contributors to this literature (Fearne & Hughes, op.cit.) go on to argue that, since the role 'core' suppliers are now expected to play includes a wide variety of functions over and above production, buyers will incur increased transaction costs if and when they change suppliers. Against the background of the rise of another set of managerial doctrines, this time concerning the advantages of buyer-supplier 'partnerships', this factor implies that buyers will behave in a less 'footloose' way in relation to suppliers, thereby reducing the extent to which new suppliers are prospected and recruited.

These arguments are echoed by Abernethy, Dunlop, Hammond & Weil (1999) in their analysis of changes in the clothing sector. These authors focus less on escalating demands on suppliers' financial and human resources, and more on the issue of supplier location. Because, in their view, just-in-time delivery is attributed highest priority amongst new functions cascaded to suppliers, locational advantage shifts from far-flung low-cost countries to (often higher-cost) closer-to-home ones, in order to allow for very short lead times. Adoption of new technologies and production planning techniques in these locations can thus significantly narrow the strictly wage-based advantage of developing countries.

While these reported developments might lead to diminished competitiveness for developing country suppliers offering only basic manufacturing services from a far-flung location, changes in the field of trade regulation point in the direction of their greater exposure to competition from China. In 2005 the Agreement on Textiles and Clothing (the successor to the Multifibre Arrangement) will conclude, and quota restrictions will be removed from WTO member countries. Most projections converge towards a strong increase in China's global market share, on the grounds of its ability to make almost any type of clothing at any quality at a competitive price. This is predicted as occurring particularly at the expense of those low-cost countries that cannot offer trade preferences on high duty items, and whose suppliers cannot offer add-on services or short lead times (cf. US International Trade Commission, 2004).

To sum up, the rising expectations of retailers in terms of suppliers' service capabilities and locational proximity, and changes in the international regulatory context of the clothing sector, are likely to increase barriers to new developing country suppliers' entry into clothing GVCs.

(ii) Upgrading opportunities

Several dimensions of industrial upgrading have been distinguished in the GVC literature, mainly inspired by the successful Japanese and NICs experience[ii]:
- service-based upgrading, or the provision of a broader range of services beyond simple assembly, including product design, fabric sourcing, inventory management and management of production sourcing,
- volume-based upgrading, or the ability to reduce unit production costs on the basis of scale economies,
- a related form of process-based upgrading, involving reduced inventories and waste through the adoption of 'lean' production systems, and
- product-based upgrading, defined as suppliers' ability to manufacture higher quality products for higher price market segments.

However, there are reasons for questioning the opportunities that the clothing sector currently presents for suppliers' industrial upgrading. First, the recent literature on GVCs and supply chain management suggests highly ambiguous implications for suppliers' service-based upgrading in developing countries. If supply bases are becoming dominated by 'core' suppliers providing multiple services, then theoretically those able to attain this status will have enjoyed extended opportunities for learning and upgrading. As noted, however, those lacking the initial resources (or location-related

cost advantages) to be considered for this role will see their opportunities correspondingly diminish. New suppliers will also be facing the competition of established suppliers offering fully-developed service capabilities, such as the Hong-Kong based 'core' suppliers now serving the US market (Gereffi, 1994, 1995), making it more difficult for them to build a niche. Second, as analyzed below, the current demand situation is putting pressure on suppliers to focus on achieving greater economies of scale, in order to compensate for falling unit prices and to stay in the game. Since this implies greater specialization, it may very well further narrow the range of opportunities for learning that were open in earlier periods, in terms of service-based and product-based upgrading.

Third, from a macro-economic perspective, the second half of the twentieth century was characterized by rising demand in the clothing sector, although this trend slackened from the end of the 1970s. At the same time, it was characterized by an *accelerating* replacement of developed country production by imports from developing countries, so that demand for developing country imports was increasing. This provided the basis for fairly buoyant margins for developing country producers. Over the last half decade, however, demand in the major end markets has stagnated while import penetration levels have reached 80-100% (see section 3). This has been reflected, especially in the EU, in a stagnation in clothing imports (in value terms) from 1999 onwards.[iii] Since EU data on import volumes is not available, the inference that unit prices have dropped in consequence is not open to verification. But in the US, where the period 2001-2003 has seen an increase of only 3% in import values, volumes have increased by 16.8%[iv]. In 2002, they did so by 7.2%, while values increased by 0.5%, suggesting a decline of corresponding extent in unit prices. Falling unit prices probably also reflect increases in buyer bargaining power arising from factors other than stagnant demand, namely the emergence of very large clothing retailers as a result of industrial concentration in developed countries.

Accordingly, competition from established 'core' suppliers in GVCs, together with enhanced price pressures in stagnant clothing markets, might be creating an increasingly difficult context for new suppliers to upgrade their activities and improve margins through participation in clothing GVCs.

(b) Questioning the diffusion of a new 'supply chain rationalization' model

While the 'supply chain rationalization' model discussed above emerges out of a variety of literatures, including the GVC and management approaches, consideration of a different range of sources suggests that this business model (and thereby its implications) may not be as widely generalizable as has been supposed.

One consideration relates to differences in national regulative systems. Such differences exist not only between the US, where this model is probably most widely adopted, and Europe, but also within Europe itself. In a number of mainland European countries, for example, the state has used the law to restrain the power of retailers in various ways, ostensibly by promoting so-called 'equitable' relations between them and product suppliers. While these regulative frameworks have not generally worked to reduce market concentration in the retail sector, they have sometimes worked to reduce the

extent to which retailers can use high market share to demand more from (and pay less to) their suppliers. For example, in France and Spain, the state has promoted the existence of large, physically concentrated wholesale markets in certain sectors. The scale of these markets has made it more attractive for large retailers to source through them rather than dealing direct with producers, where bargaining power disparities would be greater and where they might be able to use a higher level of leverage.[v] Likewise, in some European countries including Germany and France, regulations exist to prevent retailers from selling below cost price, and/or to prevent suppliers from offering different conditions to different buyers.[vi]

In this case, the non-rationalization of certain mainland European supply chains relates to differences between countries in possibilities and/or incentives for realizing rationalization strategies. Differences in supply chain management patterns might also arise, this time between groups of firms, in relation to variations in corporate ownership. For example, a number of relatively large mainland European retail chains are federative in ownership and only a few of their management functions are centralized, implying that a single coherent supply chain strategy of any kind is improbable.[vii] As will now be discussed, a related and perhaps more important obstacle to the generalization of supply chain rationalization strategies can be found in differences between countries in levels of corporate exposure to financial markets.

In this context, a substantial literature suggests that, over the last decade, significant differences have emerged in corporate strategies between the UK (and the US) on the one hand, and mainland Europe on the other, as a result of divergences in the role of financial markets in national economic life. Financial markets are said to play a more or less dominant role depending on national differences in the proportion of the general population owning shares, in the role of institutional investors (particularly so-called 'delegate funds'[viii]) in listed companies, and in the role of share price in rewarding executives and in securing companies' access to finance on favorable terms. All of these variables are said to have a notably greater presence in the US and UK than in other market economies[ix]. Correspondingly, a great transformation in Anglo-Saxon corporate strategy is said to have occurred from the mid-1980s, through the shift from 'managerial' to so-called 'stock market' or 'shareholder' capitalism in which corporations are to be run, first and foremost, in the interest of shareholders – implying a focus on delivering increased returns on invested capital (ROCE).

While legitimized by a growing stream of research on agency theory, this evolution has also been criticized for generating a transfer of resources from firms towards shareholders, and a converse transfer of risk from shareholders to the firm, cascaded down to its employees and suppliers (Baudru and Morin, 1999; Lazonick and O'Sullivan, 2000). As shown in the US, corporate strategies to 'retain and reinvest' cash flow, that predominated through the postwar period, have been replaced by strategies to 'downsize and distribute' through cutting jobs, externalizing 'non-core' competencies, and redistributing a growing share of cash flow to stock owners (Lazonick and O'Sullivan, op. cit.). New financial market pressures and the diffusion of the 'shareholder value' doctrine predominantly apply to large public firms, who are typically also the 'drivers' of GVCs, and can be expected to influence their relationship to suppliers in several ways[x].

First, shareholder pressures combine with competitive pressures to focus the firm's activity on high-ROCE 'core competencies', while stripping out or selling off low-ROCE activities. In mature sectors such as automobile, food and clothing, higher-ROCE*s* are typically sought in product definition, marketing, and consumer lending, all activities traditionally controlled by big 'drivers' in GVCs. Accordingly, incentives increase for these large firms to externalize manufacturing and manufacturing-related service functions to suppliers (Batsch, 1998). Second, incentives can be expected to increase for large firms to focus on core suppliers in order to build up ROCE through scale economies, and to exert greater control over suppliers' production through the implementation of continuous cost cutting programs. Third, incentives can be expected to increase for the adoption of formal monitoring systems based on new information technologies, aimed at facilitating the rapid transmission of information to financial markets (monthly reporting of results) and the achievement of short-term financial performance objectives. Because tight monitoring systems cannot efficiently operate inside the firm without being simultaneously applied in inter-firm relations, the management of supplier relations is likely to be more formalized in firms committed to increasing shareholder value.

While it is clear that this model originates in the US and the UK, and while it is generally observed to be less entrenched on mainland Europe, considerable speculation has emerged over its current and future extent and contours of influence (Dore et al., op. cit.; Dore, 2002; Jackson, 2002; Jürgens et al., 2000; Schmidt, 2003). These authors observe movements away from past types of capitalism not only in the US and UK but also in Japan and mainland Europe, but deny any wholesale convergence on the Anglo-Saxon model. Although the set of managerial doctrines associated with the term 'shareholder value' are present in mainland Europe, they are not part of the everyday discourse of most public companies in the way that they are in the US and UK (Morin 2000, Kädtler & Sperling 2002). Inferences along similar lines can be drawn from a brief review of a set of basic variables concerning the financial and corporate sectors in the end-markets considered in this paper (UK, France, Denmark and Sweden).

Table 1: 'Shareholder capitalism' ratios (%) in the UK, France, Denmark and Sweden

	UK	France	Denmark	Sweden
1. Stock market capitalization/GDP (2002)	108	62	56	76
2. Household financial assets/GDP (1999)	227	125	98	138
3. Financial assets of Institutional Investors/GDP (2001)	191	132	103	154
4. Proportion of listed companies controlled by three largest shareholders (1995)	19	34	45	28
5. Proportion of family-controlled firms in largest 20 listed companies (1995)	5	20	35	55
6. Share of equity in total portfolio of Institutional Investors (1999)	68	42	46	73

Sources (by row):

1: for UK and France, OECD Economic Outlook 2003/1; for Denmark and Sweden GDP data, IMF Financial Statistics, 2003; for Danish stock market capitalization: www.cse.dk/kf; for Swedish stock market capitalization: www.stockholmsborsen.se ; 2, 3 and 6: OECD Institutional Investors Statistics at www.oecd.org/statsportal ; 4 and 5: Tylecote, A (1999).

Most of the variables listed in Table 1 indicate strikingly higher levels of 'financialization' in the UK than in other countries. The UK exhibits larger magnitudes of stock market capitalization, and of household and institutional financial assets, including stocks and shares, than do France and Scandinavian countries. It is also characterized by more dispersed forms of corporate ownership, a finding consistent with the strong presence of institutional investors as these typically hold minority shareholder positions, as a result of risk management strategies based on the diversification of their investment portfolios (Useem, 1996; Lowenstein, 1991). By contrast, traditional family-based and management-based forms of corporate ownership typically involve greater direct control over corporations' ownership structure. This translates into higher proportions of listed companies controlled by three major shareholders in France and Scandinavian countries than in the UK. Relatedly, the proportion of family-based ownership is remarkably weaker in the UK than in these other markets.

Nevertheless, one variable - the share of equity in the portfolio of institutional investors - stands at comparable levels in Sweden and the UK, while other variables generally indicate higher levels of financialization in Sweden than in France and Denmark. This finding should be analyzed against the background of the existence of distinct types of national institutional investors operating in various countries, meaning that Swedish investors might not follow 'shareholder value' strategies to the extent observed in Anglo-Saxon markets.[xi] The persistence in Sweden of family control of large companies against the background of relatively high 'financialization' indicators is explicable in terms of financial market regulations that allow the issue of non-preference (so-called 'B shares') with highly restricted voting rights Here, as well as in Denmark, and to a lesser extent in France, family corporate control may be retained with relatively small fractions of total equity – a practice generally considered to be an obstacle to the diffusion of 'shareholder-value' doctrines (cf. Demirag and Tylecote 1996).

Insofar as these considerations throw doubt on the notion that sourcing strategies and supplier management practices within buyer-driven GVCs follow a single logic or pattern, a case exists for comparative research conducted with clothing buyers in a number of different countries, aimed at eliciting the extent of common versus national patterns, and explaining the origin(s) of difference(s) between them, where the latter are evident. Only on this basis can firm predictions be made concerning entry barriers and upgrading opportunities for developing country suppliers.

3. SOURCING GEOGRAPHIES

Prior to describing similarities and differences in the import geography of the UK, France, and Scandinavia, a few words will be said about the nature of these end markets. Within Scandinavia the focus is upon the two EU member countries, Denmark and Sweden. The size of these markets at the end of the 1990s was 30-33 bn. euros (UK), 26-30 bn. euros (France), 2-2.5 bn. euros (Denmark), and 5-5.5 bn. euros (Sweden) (Euromonitor, 2002). These differences reflect contrasting population levels as well as differences in per capita expenditure on clothing. Per capita expenditure in the UK and Sweden tends to be significantly higher than in France and Denmark, despite France's reputation for fashion. All four markets have been characterized by long periods of flat real sales and rising levels of import penetration[xii]. By 2000, imports accounted for 85% of all UK sales by value, 82% of those in France and levels technically over 100% of sales in Denmark and Sweden[xiii] (Eurostat 2001a, b).

(Table 2 about here)

Besides current import penetration levels, Table 2 shows quantitative and geographical developments in clothing imports in the countries studied between 1988 (1990 in the case of Sweden and Denmark) and 2000. However, the data reported almost certainly overestimates intra-EU trade, since some of the major national sources of imports within this category turn out to be countries without significant clothing industries (Netherlands, Belgium, Denmark), but which are important sources of re-exports from third countries. Nevertheless, the share of intra-EU imports has declined in all countries studied, to the benefit of imports from Mediterranean, Eastern European, and Asian countries, although the share of Newly-Industrialized Asian Countries declined in UK imports in recent years, - a trend similar to that observed for American sourcing (see for instance Bair and Gereffi, 2002).

Table 3: Ranges of shares of imports of different origins in UK, France, Denmark and Sweden as a group

	Low cost (i.e., non-NIC) Asian producers	Medium cost/short lead time producers in 'greater Europe'	Portugal + Italy
1988*	13-18%	9-19%	16-33%
2000	27-33%	21-34%	10-23%

Source: Eurostat (2001a,b). *1990 in the case of Denmark and Sweden

Table 3 highlights major directions of change in import origins for our importing countries as a group, based on a reallocation of re-exports to their probable origins. The term 'greater Europe' is used here – following common practice in the industry itself – to refer to the countries of Central and Eastern Europe (CEE) and the Mediterranean, including Turkey. At the end of the 1980s, the leading regional source for all countries

was Southern Europe, particularly the respectively lower- and upper-end specialists Portugal and Italy. Low-cost producers in Asia and medium-cost but shorter lead time producers in 'greater Europe' were a long way behind in second and third place, respectively. By 2000, this picture changed so that Asian and 'greater European' producers were of roughly equal significance, ahead of their Southern European counterparts. Accordingly, we observe a higher priority for price factors – and correspondingly a higher focus on a group of Asian countries where operator costs are US$1/hour or below (Table 4).[xiv] This type of buying accounts for around one-third of total intake in each country. At the same time, there is almost an equal balance (in terms of intake share) between sourcing based on lead time (from Greater Europe) *and* sourcing based on price factors (from Asia).

Table 4: Total Textile Industry Operator Cost in US$/hour, Summer-Autumn 2000

Developed	Mediterranean	C. & E. Europe	Asia	Africa
Portugal 4.31	Israel 7.43	Hungary 2.63	Taiwan 7.23	Mauritius 1.87
Germany 18.10	Turkey 2.69	Poland 2.35	Hong Kong 6.10	RSA (urban) 1.82
Italy 14.71	Morocco 1.87	Lithuania 2.23	South Korea 5.32	Madagascar 0.37
US 14.24	Tunisia 1.65	Estonia 1.53	Thailand 1.18	
UK 12.72			Malaysia 1.13	
			China 0.69	
			India 0.58	
			Sri Lanka 0.46	
			Pakistan 0.37	
			Indonesia 0.32	

Source: Werner International, 2001 Note: exchange rates as of 25 July 2000

Importing countries' increasing dependence on a combination of 'low price' and 'medium price/short lead time' producing countries lends support to the idea that there are now commonly acknowledged 'global production centers', compared to a couple of decades ago when buyers' choices seem to have been more subjective. On the other hand, some subjective elements remain. Factors to do with history, language and proximity play a role in determining the weight enjoyed by specific supplying countries and regions in specific end-markets. Differences in choice of national suppliers are most striking in relation to the composition of the 'medium price/short lead time' category, with France and to a lesser extent the UK favoring the Mediterranean region while the Scandinavian countries favor the Baltic region. Within the Mediterranean region itself, French imports are heavily from the Maghreb, while the UK's are from Turkey. As for Asia, both the UK and the Scandinavian countries appear to have a preference for former British colonies where knowledge of English is widespread (English is the favored foreign language in Scandinavia). 'Cultural' and related factors thus have the status of a preference (positive or negative) for supplying countries - and therefore individual suppliers within them.

The sourcing geography of companies interviewed (see below) tends to differ from the official data – among other things probably due to the relatively large average size of enterprises interviewed: UK and Scandinavian retailers interviewed on average show greater reliance on Asia than reflected in import data. Likewise, French respondents seem to rely more heavily on the EU and Mediterranean countries than French enterprises as a whole. However, respondents from all country groups emphasized searching for complementarity between major import zones in balancing their lead time, cost, quality and product type requirements, a finding consistent with the macro-economic pattern derived from import data analysis in Table 3.

4. SOURCING POLICIES AND PRACTICES

(a) Research method

Three fieldwork studies were conducted during 2001-02 in the UK, France and Scandinavia, with groups of firms selected according to identical principles. In each case, a sample of 20 companies was constructed, representing in roughly equal numbers leading retailers drawn from the main market segments (mid-market chains, discount chains, mail-order houses, and super/hypermarkets), as well as a sprinkling of other segments depending on their local importance (branded marketers in the UK, work wear suppliers in Scandinavia). Interviews were then obtained with 10-12 companies in each country or - in the case of Scandinavia - region (Denmark and Sweden combined).

Care was exercised to ensure a balance between the main market segment categories in each group of respondents. Interviews were conducted personally by the authors[xv], with senior managers or directors with designated responsibility for sourcing. A total of 34 interviews were conducted. Additional sources consulted included company annual reports, trade publications and industry consultants. The variables covered related to: (i) types of sourcing channels; (ii) concentration of supply bases; (iii) services expected from existing and new suppliers; and (vi) nature of relationships with suppliers.[xvi] Each of these variables is studied below with the objective of identifying similarities and differences in the sourcing policies and practices of French, UK and Scandinavian retailers. The Fisher Exact test of independence is used in order to assess the significance of relationships between sourcing-related variables and the geographical origin of retailers[xvii].

(b) Sourcing channels used by retailers

The variety of sourcing channels used by retailers was similar in the three countries/regions considered. Besides sourcing directly from overseas manufacturers, retailers used a variety of intermediaries ranging from agencies based in foreign countries, to importers, converters and trading houses located in their home country. ‘Importers’ refers here to companies who buy merchandise on their own account from exporting manufacturers, who hold stock at their own expense and who re-sell products to retailers. Importers may also ‘pre-sell’ specially ordered stock to retailers. ‘Converters’ are also importers, but they finance fabric purchase and clothing production on behalf of retailers, on a commission basis. ‘Trading houses’ are (former)

French, UK or Scandinavian (in practice, Danish) manufacturers with overseas production capacity, who may also act as converters, importers or overseas agents[xviii].

Through direct sourcing, retailers aim to increase margins by cutting out intermediaries, to reduce lead times, and to better control for product quality and contract compliance. However, direct sourcing involves significant investment in overseas offices engaged in screening supplying country markets, identifying and negotiating with suppliers, and monitoring suppliers' production. Consequently, a resort to intermediaries may occur to reduce overhead costs and minimize the risks involved with direct sourcing. Retailers also typically use the intermediation of trading houses and/or converters when sourcing from CEE countries, where local manufacturers typically lack the financial depth needed to provide full manufacturing services. Agents are also considered useful for entry to new supply markets, via identifying potential suppliers and providing assurance of their track record.[xix]

Table 5: Main supply channels*

	Frequency mentioned by respondents in			Fisher's Exact Test (P value)
	UK	France	Scandinavia	
Overseas manufacturers (direct sourcing)	9	7	8	0.077
Overseas-based agents	9	10	8	0.135
European importers	6	6	2	0.020
European trading-houses and converters	11	5	7	0.002
Direct sourcing as main supply channel	4	2	7	0.006
	n=11	n=11	n=10	

Source: authors' interviews. * The number of responses does not add up to 34 in all tables because not all retailers answered all questions during interviews. In addition, the lack of a positive answer does not necessarily mean that a respondent did not engage in a given practice.

Table 5 reveals significant differences between countries in relation to the importance of direct versus indirect sourcing in retailers' intake. While overseas manufacturers were the main sourcing channel for 7 out of 10 Scandinavian respondents, this was the case for only 4 out of 11 UK and 2 of 11 French respondents.[xx] Higher use of direct sourcing by Scandinavian retailers was associated with a lower reliance on European importers, with only 2 out of 10 respondents resorting to this type of intermediary. Although major UK and French retailers had adopted policies to increase direct sourcing, intermediaries still played a major role in their sourcing networks. While claiming to be increasing 'direct sourcing', these retailers typically sought to supplement traditional types of importer with a combination of overseas agents and manufacturers. Also, UK retailers resorted systematically to UK trading houses and converters. By contrast, a number of Scandinavian retailers had a long-established tradition of direct sourcing from overseas

manufacturers and some had made significant investments in overseas offices. A number employed 60-100 overseas staff, and one employed 500.

(c) Concentration of supply bases

Respondents' levels of supply base concentration were assessed by two means: they were asked for the average share of intake sourced from their top 20 suppliers, and for their general policies regarding the size of their supply base (Table 6). First, different levels of intake concentration could be observed in the three end markets. Scandinavian sourcing networks exhibited the highest levels of concentration, with respondents' leading 20 suppliers accounting on average for about 75% of intake. As shown in table 6, five out of 6 Scandinavian retailers able to answer this question sourced more than 60% of intake from their top 20 suppliers. At the same time, it is worth noting that the suppliers working for Scandinavian end markets were in most cases small-scale operations relative to those exporting to the UK and France.

Table 6: Concentration of retailers' supply base

	Frequency mentioned by respondents in			Fisher's Exact Test
	UK	France	Scandinavia	(P value)
More than 60% of intake sourced from top 20 suppliers *	3	1	5	0.015
Supply base reduction	8	4	5	0.006
	n= 12	n= 9	n= 10	

Source: authors' interviews. * 60% is the combined median value of intake sourced from top 20 suppliers in our three samples; the median value is calculated on a sample of n=6 in each country group, or a total sample of n=18 for the three country groups.

By contrast, buying was highly dispersed in French sourcing networks, with the leading 20 suppliers' share accounting on average for about 50% of respondents' intake, and with only 1 out of 6 French retailers able to answer this question sourcing more than 60% of intake from its top 20 suppliers. UK sourcing networks showed intermediate levels of concentration, with an average of 65% of intake sourced from top 20 suppliers, and 3 out of 6 retailers able to answer this question sourcing more than 60% of intake from these suppliers.

Second, the presence of efforts to reduce the size of supply bases was highly unequal between countries. While 8 out of 12 UK respondents had recently reduced their supply base as part of rationalization strategies, only 4 out of 9 French retailers and 5 out of 10 Scandinavian ones had done so, or were planning to do so in the near future. However, the already concentrated nature of Scandinavian sourcing networks suggests that further supply base rationalization may be less possible in this region. The predominance of supply base rationalization strategies might significantly raise entry barriers for new

suppliers, a possibility underlined in the case of UK retailers by the nature of their expectations regarding service provision.

(d) Services expected from existing and new suppliers

Respondents were asked about the type of services that they required from their existing suppliers[xxi], and about their criteria for selecting new suppliers. With regard to current suppliers, table 7 highlights three types of results. First, a number of services were commonly expected by retailers regardless of their national origin. They included procurement of fabric on suppliers' own account (the service most commonly mentioned by UK, French and Scandinavian retailers alike[xxii]), as well as design contributions (the second most-frequently mentioned expectation in France and Scandinavia). The latter expectation reflected a variety of policies on design. Some retailers complemented their internal collection capabilities with external services, while others externalized the entire collection design function. French and Scandinavian retailers were slightly more likely to expect design services from suppliers than were their UK counterparts. Indeed, a number of UK retailers seem to have contracted out design services to providers other than clothing suppliers, *i.e.* to specialized design consultancies.

Table 7: Services expected from existing suppliers

	Frequency mentioned by respondents in:			Fisher's Exact test
	UK	France	Scandinavia	(P value)
Full-fabric/cloth sourcing	10	11	9	0.322
Design services	3	6	5	0.048
Supplier-managed inventory	6	1	2	0.005
Production flexibility	4	0	0	0.007
Making regular visits to retailer	2	0	0	0.097
Permanent presence at retailer HQ	1	0	0	0.344
Product development	1	0	0	0.344
Invoicing on 90 days	1	0	0	0.344
	N=10	n=11	n=10	

Source: authors' interviews.

Second, significant differences were observed between UK and continental European retailers regarding demands for 'supplier-managed inventory' and 'production flexibility'. Predominantly found in the UK, the expectation of 'supplier-managed inventory' embraced self-financed stockholding and delivery on a call-off basis, while 'production flexibility' referred to the related capacity to guarantee in-season replenishments at 4 weeks' notice, and to the ability to rapidly develop new styles. The highly exacting demand for stockholding services was only occasionally mentioned by mainland European retailers, none of whom made reference to production flexibility.

These findings should be analyzed against the background of a relatively low diffusion of so-called 'replenishment programs' in mainland European clothing retail. This term refers to the practice of reserving capacity with manufacturing suppliers over a period of 6 months or longer, for production of a single style on the basis of guaranteed minimum initial orders, but without a definite ceiling. Only two Scandinavian retailers had established such programs, and even in these cases only with a handful of suppliers. Replenishment programs were more common in France, with 6 out of 11 respondents reporting some use of these arrangements, but still remained marginal in retailers' total intake. Suppliers' lack of capability to implement such programs was cited as a major obstacle to their diffusion by Scandinavian and French retailers alike[xxiii].

In France, the limited adoption of replenishment programs and lack of requirements for stockholding services is related to the presence of the practice of 'multi-sourcing', through which 8 respondents reported placing initial orders for a specific style in far-flung, predominantly Asian, low cost locations in advance of a season, while allocating subsequent in-season re-orders of the same product to medium-cost shorter-lead time suppliers located in the 'greater Europe' area. The French use of multi-sourcing arrangements can be explained with reference to the historical roots of many clothing retailers in the Sentier – the main Parisian garment center – where quick re-orders could be obtained during a season from a variety of small local suppliers, a practice labelled 'réassort' in the local trade. The subsequent massive movement of French clothing retailers towards Asian sourcing left them with large stocks of unsold imported products during the severe market crisis of the 1990s. Through multi-sourcing, French retailers subsequently sought to reduce the risks involved with long-distance sourcing, and expanded on a global scale the 'réassort' principles initially adopted at the local level.

No UK respondent reported using or planning to use multi-sourcing arrangements and only one Scandinavian respondent was planning to, revealing a significant difference between France and these two country groups[xxiv]. However, a number of UK respondents expected a service of this type from *single* suppliers. Accordingly, suppliers serving the UK clothing market were required to possess much more sophisticated capabilities than those serving the French and Scandinavian markets, both in the geographical scope of their production/sourcing activities, and in the range of services performed.

Finally, Table 7 shows that the lists of requirements stated by some UK retailers were longer and more detailed than those of mainland European retailers, and included demands for regular visits from suppliers, product development, or a permanent presence at retailer headquarters. However, the low frequency of these demands does not make such difference significant.

Hill (2000) proposes a distinction between order-qualifying and order-winning critical success factors, emphasizing that some factors have the status of necessary conditions for obtaining contracts without counting as critical success factors (or sufficient conditions) for winning such orders. Table 8 shows that UK retailers tended to emphasize 'order winning' as well as 'order qualifying' conditions for new entrants to their supply bases, while French and Scandinavian retailers emphasized mainly 'order qualifying' ones alone, such as meeting standard quality, price and delivery

requirements. For a number of UK respondents, a new supplier 'had to bring something new to the table', in the form of design ideas or reduced prices for instance, on the grounds that 'taking on a new supplier usually means dropping an existing one'. Interestingly, Codes of Conduct were not used as a critical selection criteria for new suppliers in the countries studied, with the significant exception of Sweden. Suppliers into the Swedish market were generally expected to conform to such codes. This expectation was present only to a lesser degree in the UK and was virtually absent in France and Denmark.

Table 8: Selection principles for new suppliers

	Frequency mentioned by respondents in:			Exact test
	UK	France	Scandinavia	(P value)
UK pattern:				
Full-fabric/cloth sourcing capacity	10	2	2	< 0.001
Dedicated account management	10	0	0	< 0.001
Design contributions	4	0	0	0.008
'Seriously improved prices'	3	0	0	0.029
Mainland European pattern:				
Lead times conformity	0	7	3	0.001
Price conformity	0	7	7	< 0.001
Quality conformity, service capacity	0	7	4	0.001
'Chemistry'/signs of potential responsiveness	0	4	4	0.007
Codes of conducts*	3	1	3 (all Sweden)	0.054
	n=10	n=11	n=9	

Source: authors' interviews. * When Sweden is distinguished from Denmark, the relationship between retailers' national origin and their use of Codes of Conduct for selecting new suppliers becomes significant with P = 0.001

(e) Nature of relationships developed with suppliers

Most retailers interviewed in the countries covered made references to their participation in some kind to 'partnership' with 'core' suppliers in their sourcing networks, although variations could be observed, both within and across countries, in the ways in which retailers described such relationships (Table 9). Overall, the concept of partnership referred to a sense of 'mutual obligation', loyalty and trust, based on repeated interactions. Often it was expressed in efforts to maintain order volume stability over time.

However, this concept tended to be used somewhat less often, and to be elaborated in more restricted ways, in Scandinavia than in France or the UK. Typically, Scandinavian

respondents saw partnerships are corresponding to high levels of exchange concentration ('we are important to each other'), although references were also made on occasion to aspects of social embeddedness.

By contrast, 'partnerships' in the sense of *deliberately differentiated statuses* were more clearly identified in the somewhat less concentrated sourcing networks of French and UK retailers. They expressed retailers' efforts to maintain volume stability over time with *chosen* suppliers. French and UK retailers also provided suppliers with business information and forecasts aimed at joint forward planning. In a few cases, they had adopted 'open-book' policies allowing for an exchange of cost and price breakdowns. Beyond these shared characteristics, UK retailers exhibited higher levels of organizational integration with core suppliers, through continuous communication, joint planning of new overseas production capacity, and a sharing of business plans going beyond the production forecasts provided by French retailers. A number also claimed to share the impact of price deflation policies, in the form of absorbing part of falling retail prices in their own margins, instead of transferring this entirely to suppliers.

Table 9: Nature of relationships developed with suppliers

	frequency mentioned by respondents in			Fisher's Exact test
	UK	France	Scandinavia	P value
Reference to some forms of 'partnership'	9	10	7	0.140
Components of 'partnership':				
'Mutual obligation', volume stability	3	6	4	0.058
Loyalty, trust, human relations	1	4	2	0.068
Exchange of business forecast	5	6	0	0.003
Information-sharing	3	4	0	0.023
Exchange of cost and price breakdowns	2	2	0	0.094
Assistance with upgrading and sales maximization	2	1	0	0.120
Joint-planning of new capacity	3	0	0	0.027
Sharing impact of price deflation	3	0	0	0.027
	n=10	n=12	n=9	

Source: authors' interviews.

Most UK respondents also engaged in a comprehensive monitoring of supplier performance on a regular basis, using detailed performance indicators for delivery reliability, product quality and costs. About two thirds of French respondents had also established criteria for supplier performance appraisal, but the extent to which these tools were systematically used remained unclear. In Scandinavia, although half of respondents stated that they did some supplier monitoring only one had set up a bureaucratic procedure with explicit guidelines for doing so.

5. DISTINCT TYPES OF SOURCING NETWORKS IN THE UK, FRANCE AND SCANDINAVIA

While the findings described above indicate some commonalties in the nature of sourcing patterns across the EU, they also allow the identification of distinct sourcing practices in the countries studied. This simultaneously reveals broad shifts in the geography of world clothing production, and the persistent embeddedness of sourcing practices in specific, local level, 'clothing business systems'. The combination of practices observed in each country or country group evokes a well-established ideal-type of network structure and dynamics. According to Whitley (1999) the characteristics of firms and inter-firm networks are key variables that help to distinguish varieties of capitalism. Underlying them are different economic structures and institutional frameworks (including state and financial systems), as well as national cultures. This suggests the possible relevance of a number of factors in explanation of differences uncovered, some of which have been touched on already in Section 2(b) above.

The first factor is industrial structure. It can be hypothesized that large firm size, together with high levels of market concentration, will in general create incentives for buyers to seek to exploit economies of scale in their own organization, and/or 'big buy' bargaining power benefits in relation to suppliers, while such incentives will be present to a lesser degree – and be less realizable – for smaller companies operating in less concentrated markets. Hence national contexts where a small number of large firms dominate the clothing retail sector are likely to be associated with greater emphasis on supply base rationalization, greater demands on suppliers, more demanding selection principles for new suppliers as well as greater monitoring of suppliers' performance.

The second factor is ownership structure, and relations between the corporate and financial sectors. As discussed in section 2, it may be hypothesized that in following doctrines of 'shareholder value', publicly listed companies (and markets where these are the main actors) will exhibit higher levels of out-sourcing of 'non-core' competencies, a more centralized command structure, as well as management styles emphasizing 'strategic projects' and auditing/monitoring of multiple financial and non-financial parameters. Conversely, privately-owned companies (and markets dominated by them) should be less likely to exhibit these propensities. Again, this factor might account for greater or lesser predilections towards centralization and standardization of supply chain-related decision-making and procedures, concentration of buying on fewer, more 'capable' suppliers, and transfer to suppliers of more service functions.

Table 10 summarizes differences between our national samples with regard to the incidence of large companies and Plcs, and in respect of their wider industrial structures (level of market concentration). 'Large companies' here denotes those companies with annual sales exceeding 500 mn. euros. 'Plcs' refers to companies listed on the stock market of the country concerned, or subsidiaries of such companies.[xxv] Table 10 demonstrates differences in the nature of national samples, but not totally in the anticipated direction. The UK sample contains significantly greater numbers of large

firms and of Plcs than the Scandinavian one, but so does the French in the second case. If, however, the presence of large companies which are also publicly traded is taken as a single variable, then a significant difference exists between the UK sample on the one hand and the French and Scandinavian ones on the other.[xxvi]

Table 10: Composition of national samples in terms of specific characteristics

	UK	France	Denmark	Sweden	Fisher's Exact Test (P value)
Large companies	11	4	0	1	<0.001
Plcs	11	7	2	3	0.002
	n = 12	n = 12	n = 6	n = 4	
Market share of top 10 retailers*	52%	36%	60%	42%	

**Source: authors' data from company financial reports and interviews.*

This last finding broadly strengthens our confidence in the proposition of a link between the specific features of the UK corporate economy (including its close relation to the financial sector), and the adoption of a more or less consistent set of 'supply chain rationalization' practices. These manifest themselves within a broader organizational culture characterized amongst other things by numbers-based decision-making, and in which an uncritical pursuit of continuity is seen as a weakness. Supply chain rationalization strategies were resulting in reductions in the size of supply networks, setting of highly detailed and demanding standards for core suppliers and new supplier selection, intensive monitoring of supplier performance, high levels of inter-organizational integration with core suppliers, and the diffusion of replenishment and other forms of stock-holding programs. These practices reveal the predominance of 'rules', or formal procedures and standardization, as coordinating mechanisms in what can be labeled a 'UK model'. Not surprisingly, core suppliers had developed higher-level capabilities allowing them to produce in, or source from, diverse locations, and to offer a diverse range of design and manufacturing services. Core suppliers included UK converters and trading houses, and in a few cases global Asian manufacturers that are also well-established in American sourcing networks.

In Scandinavia, most of the strategies related to shareholder value doctrines were virtually absent. The limited extent of supply base rationalization, the rare adoption of replenishment programs, the lack of distinction between core and peripheral status, the basic nature of expectations concerning supplier services and the *ad hoc* nature of supplier selection, the absence of formal procedures for supplier performance appraisal, all indicate a predominance of informal relations with suppliers. In the case of larger Scandinavian companies, increasing import volumes had been dealt with not by the adoption of new analytical and managerial instruments but by establishing large overseas offices that allowed a scaling-up of this informality. These practices appear rooted in a specific Scandinavian organizational culture, which combines a preference

for a relatively high level of internal vertical integration with attachment to the idea that external relations are best managed via a form of low-intensity personal networking. Management styles are consensual rather than numbers- or rules-based and buyers appear to enjoy considerable discretion, within the constraints of a network-building approach. The 'Scandinavian model' was characterized by sourcing networks whose direct buyer-manufacturer relations and high levels of concentration reflected steady build-ups of volume with a small number of long-term suppliers, supplemented by new face-to-face searches.

The 'French model' had some similarities with the UK one, since the largest French firms were in a process of evolution towards a rationalization of sourcing practices – reflecting the relatively high presence of large firms and Plcs in this sample, and a corresponding gradual diffusion of the shareholder value doctrine in these enterprises (see Morin, 2000 and Schmidt, 2003). Indeed, a number of leading French retailers faced mounting pressures to achieve scale economies in the context of their international expansion and/or their growing dependence on financial markets.[xxvii] However, the model 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 (lack of) choices made concerning supplier selection. Such lack of formalization and sophistication in sourcing practices highlights the limits of the reach of shareholder value-oriented restructuring strategies and the persistence of traditionally high levels of informality in French buyer-supplier relations.

The French model was one of weakly concentrated, dispersed sourcing networks, where less was invested in direct sourcing than was the case in Scandinavia and less was invested in the purposeful planning of supply base construction than in the UK. Hence the French model seemed characterized by relatively 'passive' market-based sourcing strategies. When comparing buyer-supplier relations in the clothing industry of France and Germany, Hetzel (2000) similarly emphasized the opportunistic, short-term orientation of French buyers, valuing flexibility and the capacity to switch partners rather than continuity, as observed in Germany, in supplier relations. If Scandinavia and Germany share some cultural attributes, such as the value placed on continuity, then differences between Northern European and Southern European cultures might be at play in explaining the market orientation of French sourcing networks in our sample.[xxviii]

To sum up, specific sourcing patterns showed the greatest contrast between the UK and Scandinavia, with France falling in a somewhat intermediate position. These findings bring us back to the 'variety of capitalism' debate, raising the question of the likelihood of future convergence towards a global Anglo-Saxon model of financialization and supply chain rationalization in continental Europe. Only the largest firms in France, and to a lesser extent in Scandinavia, that were competing intensively on global consumer markets, were evolving towards this Anglo-Saxon model, while other local firms followed traditional sourcing practices historically developed in their country. Accordingly, a process of global convergence might be at work amongst global competitors on world markets, but in continuous interaction with persisting national differences arising from structural and cultural factors.

6. ENTRY BARRIERS & INDUSTRIAL UPGRADING OPPORTUNITIES FOR DEVELOPING COUNTRY SUPPLIERS

Sections 3, 4 and 5 strongly suggest that clothing GVCs into the UK, France and Scandinavia, while resembling each other in their broad geographies, differ strongly in their management practices. This section considers the implications of such geographical similarities, and of differences in supply chain management practices, in relation to developing country suppliers. Going back to the discussion developed in section 2 (a) of the paper, prospects for suppliers will here be assessed in terms of entry barriers and industrial upgrading opportunities.

With regard to sourcing geographies, contrary to the suggestion of Abernethy et al (1999), location *per se* appears not to constitute a major advantage or entry barrier. In all three end-markets, a balanced growth of sourcing between (mainly Asian) low-cost and (mainly 'greater European') medium-cost/short lead-time locations was evident. This position may evolve in the light of regulative changes, with the elimination of quotas after 2005, though. As noted above, the existence in China of a large population of companies able to produce competitively any clothing style at any quality may offer buyers who concentrate purchases there considerable savings in transaction costs. Respondent were not asked to address explicitly whether they considered that 2005 would give location a greater significance. At the time when interviews were conducted, a debate was still in progress concerning whether the timetable of the Agreement on Textiles and Clothing would be observed by importing countries, or whether the Agreement, like the Multifibre Arrangement earlier, would be continued under another name beyond 2005. Accordingly, when the '2005 question' did rear its head, buyers generally indicated that they were reserving their judgement and had not as yet made any concrete plans in respect of post-2005 sourcing. Now that it is clear that quotas will be removed, their answers are likely to be different, and this should be borne in mind during the discussion that follows.

Returning to the differences between GVCs into the EU, the analysis of sourcing practices highlights a strong increase in entry barriers and declining upgrading opportunities for suppliers in UK-driven value chains. The 'supply chain rationalization' hypothesis derived from parts of GVC analysis and the business school literature is here confirmed, and found to be linked to the combined effect of the predominance of large Plcs and a greater diffusion of 'shareholder value'-based strategies in this country. On the other hand, entry remains easier and 'windows of upgrading opportunity' might still exist in sourcing networks serving the French and Scandinavian markets, although persistent differences were observed between the two, underscoring the 'variety of capitalism' thesis. These findings are elaborated below.

(a) Rising entry barriers and declining prospect for industrial upgrading in UK-driven chains

A number of indicators highlight rising entry barriers and declining prospects for industrial upgrading in UK-driven chains. First, supply base rationalization policies have led to reductions in the number of suppliers used, lowering retailers' propensity to integrate additional members in their supply networks. Second, 7 out of 10 UK respondents normally preferred to 'migrate' with existing suppliers rather than start working with new suppliers when entering a new supplying country[xxix]. Third, potential suppliers were benchmarked against established ones not only on price, but also on fabric sourcing and other higher level capabilities, significantly raising the level of resources required to enter their supply networks.

Some UK respondents reported 'handholding' new developing country suppliers, but expected their standards to be met after a few months as a precondition for continuing the sourcing relationship. A significant amount of upgrading had therefore to take place *before* a supplier could qualify for entry to these sourcing networks. The classical upgrading trajectory through which suppliers could enter clothing sourcing networks with limited resources and climb a ladder of value-adding activities by 'learning from global buyers' no longer exists in the sourcing networks of major UK retailers. New suppliers with limited capabilities could only enter such networks through intermediaries, thereby reducing their opportunities to engage in service-based upgrading and to a lesser extent in volume-based upgrading.

Established suppliers were also reaching a ceiling in their industrial upgrading trajectory, since they were required already to provide high-risk stockholding services and to simultaneously absorb retailers' end-market price reductions. Scale economies derived from high sourcing volumes were considered by respondents to offset the impact of price declines on suppliers' margins, but this implied that suppliers could expect no more than to maintain margins while providing additional services, or to 'do more with less' in the words of Moss Kanter (1989).

According to an industry consultant: 'price deflation is becoming a permanent feature in [UK] buyers' targets…there's a real question of whether suppliers can survive on this basis'. Retailers' efforts to increase shareholder value in a flat market, together with the intensification of global competition in clothing production, are thus imposing new limits on suppliers' capacity to appropriate greater value out of their participation to UK-driven clothing chains. Finally, UK retailers appear to have already outsourced design functions to specialized design consultancies, so that suppliers' upgrading opportunities along these lines are also limited.

(b) Opportunities for supplier entry and upgrading in French sourcing networks

French-driven chains have not reached UK's levels of 'maturity', in the sense of a combination of retail concentration, close connection to financial markets, formalized sourcing relationships and the predominance of high-capability global suppliers. Consequently, sourcing networks should here offer greater opportunities both for new suppliers' entry, and for suppliers' upgrading.

First, ease of entry should be favored by the fact that French respondents do not insist that specific services should be offered by new suppliers. French respondents were also

much less likely than UK and Scandinavian ones to follow established suppliers when entering a new country[xxx], and their sourcing networks exhibited much lower supply base concentration levels than could be observed both in the UK and Scandinavia. Finally, the value French buyers attached to retaining the capacity to switch between suppliers should translate into greater ease of entry into French sourcing networks – even if, for the same reason, this may be only temporary.

Second, upgrading opportunities for developing country producers remained apparent in our French sample. A number of respondents had adopted design and styling inputs from suppliers, thus underlining the presence of this type of service-based upgrading opportunities. Likewise, the limited diffusion of replenishment programs implied opportunities for suppliers' volume-based upgrading, assuming that French retailers adopt more systematically these 'high-speed, high-volume' sourcing arrangements. However, the more retailers are served by an evolving group of multiple service-providing suppliers, as the gradual diffusion of 'shareholder-value'-based strategies seems to imply, the more this is likely to close off entry and upgrading opportunities to others.

(c) Opportunities for supplier entry and upgrading in Scandinavian sourcing networks

Like French ones, Scandinavian sourcing networks exhibit relatively low entry barriers in terms of service expectations placed on new suppliers. This notwithstanding, Scandinavian retailers did not seem to engage significantly more than UK ones in active search for new sourcing locations, and entry to their networks seemed relatively hard for newcomers. Scandinavian sourcing networks were already the most concentrated of those examined here, and in addition, retailers tended to follow existing suppliers and/or personal networks, when entering a new country, leaving few doors open for other potential suppliers. It could be expected that these highly concentrated supply bases, combined with the fact that Scandinavian retailers relatively often sourced directly from overseas manufacturers, might lead to industrial upgrading opportunities for existing suppliers.

In fact, while these opportunities existed, they were relatively narrow in range. Because an important part of the business of leading Scandinavian retailers is wholesaling to independents throughout northern Europe, they devote considerable attention to long-term planning of collections. This entails a vertical integration of design, rather than looking for design contributions from manufacturers. On the other hand, 4 of the 10 Scandinavian companies interviewed were in the process of developing a small number of so-called 'express' or 'quick flow' suppliers in low-cost countries, and a fifth was strongly considering this. Under these programs, manufacturers from the existing supply base were identified, who could supply re-orders of fashion products on lead times as low as three weeks. Upgrading opportunities in these networks hence lay more in the direction of improving manufacturing services, rather than offering new, 'pure' service-related functions.

More generally, it is important to note that the existence of industrial upgrading 'opportunities' in French, and to a lesser extent, in Scandinavian sourcing networks, does not imply that retailers might play an active role in improving suppliers'

capabilities. Indeed, most respondents in all countries studied did not contribute to suppliers' upgrading in the form of technical support, but rather adopted a generally hands-off approach to supplier capabilities. Where assistance was offered, it was most often in relation to improving suppliers' delivery accuracy, rather than their manufacturing competencies or their service offerings. Consequently, developing country producers probably need to resort to external consultants, or to participate in other chains, in order to gain these higher-level competencies. By inserting themselves into so-called 'triangle manufacturing' schemes (Gereffi, 1994), they might also benefit from technical support provided by intermediaries, but in such case the development potential of their learning dynamics will be restricted by the intermediates' control over key services and capacity to appropriate related margins.

7. CONCLUSION

An analysis of clothing import patterns and sourcing practices of major clothing retailers in the UK, France, and Scandinavia uncovers salient characteristics of GVCs destined for European markets, and allows a re-assessment of the development potential that these chains might offer low-cost producing countries. Clothing GVCs emerged in the 1950s and 1960s out of developed country buyers' initiatives to contract out production to developing countries, and expanded over the following decades to become the dominant form of industrial organization in the clothing sector. A central conclusion of this paper is that GVCs are now reaching a level of maturity that imposes new limits on the opportunities they provide for developing countries. The sourcing networks of global buyers have spread over a large range of countries and regions, clothing consumption in developed countries is almost entirely fed by imports from developing countries, but high-capability – and in some cases global - suppliers have reaped the benefits of service-based and volume-based upgrading to build high entry barriers into their competitive positions. In these maturing chains, growing pressures from financial markets are also skewing the distribution of value in favor of shareholders to the detriment of established suppliers, casting serious doubts on the contemporary relevance of classical 'industrial upgrading' paradigms.

This stylized view of GVCs maturation best applies to the 'Anglo-Saxon' business model. Both the spread of 'shareholder-value'-related doctrines (Crotty 2002), and growing concentration among both retailers and their preferred 'first-tier' suppliers, have been documented for the US, in the latter case in relation to US-driven clothing chains (Gereffi, op. cit.). This paper has provided evidence of comparable transformations in UK-driven chains, and made the link between 'shareholder value' and sourcing strategies more explicit. Interestingly, though, different types of core suppliers can be identified in relation to the American and UK clothing markets. US buyers have developed close linkages with global Asian manufacturers, while also sourcing from global Asian intermediaries and US 'trading houses', but UK buyers predominantly used the services of domestic trading houses and global Asian intermediaries, and have only marginally plugged into the production networks of global Asian manufacturers.

Different patterns were also uncovered in French- and Scandinavian-driven chains, where upgrading opportunities might still exist in the absence of established global 'first-tier' positions. Such differences can be alternatively considered to reflect the stratification of the global clothing industry into value chains of different shapes and scopes serving Anglo-Saxon and mainland European markets, or the uneven diffusion of a 'global model' in various national markets. The emerging trend towards retail 'financialization' and supply base rationalization in the French clothing market supports the second interpretation, although GVCs will continue to exhibit end market-specific characteristics in relation to the size of lead enterprises, their relations to financial markets, and their national business cultures. To conclude, although new developing countries might continue to enter GVCs, particularly in relation to offers of new bilateral trade preferences (Gibbon, 2003), serious questions are arising on how far this stepping-stone might take them into the industrialization process.

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[i] Following Palpacuer and Parisotto (2003), we use the term 'chains' with reference to broad patterns of industrial organisation, and 'networks' when describing micro-level inter-firm relations. The two terms might be alternatively used when referring to general inter-firm dynamics in global value chains.

[ii] See, for instance, Gereffi and Tam (1998), Gereffi, Humphrey, Kaplinsky and Sturgeon (2001), Humphrey and Schmitz (2000).

[iii] EU clothing imports were worth US$ 86.8 bn. in 1999 and US$ 84.9 bn. in 2002 (WTO, 2000-2003).

[iv] US import values were US$ 59.4 bn. in 2001 and US$ 61,2 bn. in 2003. Volumes were 16.1 bn. sq. metres and 18.8 bn. sq. metres respectively.

[v] In France, under a law passed in 1953, a national network of 'Marchés d'Intérêt National' was created for fresh produce, and protected from competition by 20 km. radius zones in which other wholesalers were not allowed to trade. The result has been to create a national network of 17 very large markets. Consequently, while UK supermarkets buy no produce through wholesale markets, French supermarkets buy in the region of 40% of their intake from this source (Gibbon, 2003).

[vi] The French version of this law, *loi Galland*, is commonly believed to be circumvented in practice, but it is still regularly attacked by large French retailers (on the grounds that it leads to price inflation). The German version of this law is widely credited with responsibility for Wal-Mart's failure to make the same impact in this country as in its other main markets.

[vii] e.g., Leclerc and Intermarché amongst French supermarkets, Din Tøjmand, Tøjexperten and (until very recently) JC amongst Scandinavian clothing retailers.

[viii] Delegate funds are exclusively dedicated to investment activity, in contrast to, e.g., insurance companies.

[ix] For a broader analysis of the determinants and macro-level dynamics of shareholder capitalism, see for instance Williams (2000), Froud, Haslam, Johal & Williams (2000), and Grahl (2001).

[x] See Gibbon (2002) for a more detailed discussion of financialization and global sourcing strategies in the UK clothing retail sector.

[xi] As Henrekson and Jakobsson (2003) point out, the institutional investment in Sweden is dominated by state- and trade union-owned pension funds. These funds, who controlled over half of Swedish stock exchange market capitalization in 2002, generally promote corporatist rather than 'shareholder value'-based strategies.

[xii] Measured in terms of imports as a share of (domestic production – exports) + imports.

[xiii] Levels above 100% are explicable in terms of high levels of re-exports.

[xiv] Table 3 refers to comparative textile, rather than clothing, worker costs. The latter will be significantly lower than the former (due to lower capital intensiveness, automation and workers' skills in the clothing sector), although the intervals between countries should be of the same magnitude.

[xv] Assisted in France by Hugues Poissonnier.

[xvi] This section summarises larger reports on each of the national studies (Gibbon, 2001; Gibbon and Thompsen, 2002; Palpacuer and Poissonnier, 2003).

[xvii] The Fisher Exact test can be used to calculate an exact probability value of the relationship between two dichotomous variables, as found in a 2 by 2 (or here in a 2 by 3) crosstable. It works in the same way

as the Chi-square test for independence, but can be used when the number of observations is small (less than five) in one of the cells. A P value smaller than the standard 0.05 indicates that the null hypothesis (independence between the two variables) can be rejected. The table program used here can be found at http://home.clara.net/sisa. The 2 by 3 tables were computed for testing the relationship between retailers' geographical origin (France, UK, Scandinavia) on the one hand, and sourcing characteristics on the other hand.

[xviii] "Agents" play a coordinating role by channelling retailers' orders and product specifications to overseas manufacturers, and supervising suppliers' production. They might be based in foreign countries or in retailers' home countries.

[xix] Use of overseas agents tended to be particularly common in sourcing from India, where average firm size tends to be lower than in most developing countries.

[xx] Not all 34 respondents answered all questions.

[xxi] In the UK, this question was restricted to retailers' expectations regarding their 'core' top 20 suppliers. This might contribute to accentuate differences in the responses made by UK vs. mainland European retailers.

[xxii] This demand was not applied to CEE manufacturers for the reason already noted.

[xxiii] In Scandinavia, retailers also mentioned their own lack of capabilities for managing them. The adoption rate of replenishment programmes is not statistically higher in the UK than in France, but UK retailers emphasized covering as many styles as possible through these programmes while French retailers's use of replenishment was restricted to a few products in the "basics" category.

[xxiv] The P value of the Fisher Exact test of independence between multisourcing and the national origin of retailers is below 0.001, indicating a strong relationship between the two variables.

[xxv] Where companies headquartered in one of the countries surveyed were also important players in a second surveyed country, they were excluded from the populations sampled in the second country.

[xxvi] There are 11 large publicly traded UK firms, four French ones and only a single Scandinavian one in the samples. P value is <0.001 and significant when $P<0.05$.

[xxvii] Although some leading French retail firms such as Auchan and Decathlon are still privately-owned, a number of major publicly-owned companies such as Groupe Carrefour and Vivarte have increasingly relied on financial markets to support their international growth.

[xxviii] This conclusion complements Schmidt's (2003) general observations concerning corporate life in France. She argues that while shareholder has become a driver of management strategy, it is by no means *the* driver. In fact, the most visible trend over the last decade has been the emergence of higher levels of executive autonomy, rather than the pre-eminence of financial market priorities.

[xxix] Only 2 out of 12 French respondents preferred to follow existing suppliers when entering a new country, while 7 out of 9 Scandinavian retailers indicated having such preference, a distribution closer to the 7 out of 10 respondents observed in the UK (the exact test of independence is here significant with $P = 0.001$)

[xxx] See note 28.

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