

**Neither Global Nor Standard
Corporate Strategies in the New Era Of Labor Standards**

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Abstract

Two multi-national retail firms, IKEA and Wal-mart, illuminate the implications of a new era of labor standards -- focused on the transnational firm. Global labor standards are increasingly enforced through transnational corporation (TNC) adherence to voluntary codes rather than through national labor regulation. Nonetheless, privatized labor standards regimes within TNCs retain strong influences from the national market governance framework in the transnational corporation's country of origin. While, in principle, labor standards are arrived at through global political processes, in practice they are applied in conjunction with TNC production and marketing strategies. The way in which corporate objectives intersect with labor practices is different from one TNCs to another, depending in large part on political and regulatory influences in a particular TNC's country of origin.

The emergence of TNCs as the subject of International Labor Standards, promulgated by the OECD and The United Nations as well as private standards organizations, overtly responds to the limited capacity of TNC host countries to enforce labor standards. It may also reflect a fear among TNCs that changing norms in their originating countries may produce national action to restrict trade (and production) in countries with poor records of labor standards enforcement.

Key Words: Codes of Conduct; OECD, ILO, Unions, Industrial Relations, Labor Rights, Corporate Self-regulation, Trade Association, IKEA, Wal-Mart

The governmental response to acute suffering often depends on the pressure that is put on it, and this is where the exercise of political rights (voting, criticizing, protesting, and so on) can make a real difference...To concentrate only on economic incentives (which the market systems provides) while ignoring political incentives (which democratic systems provide) is to opt for a deeply imbalanced set of ground rules.

Amartya Sen, 1997

Introduction

Transnational corporations have had increasing difficulty presenting themselves as socially responsible actors in the global economy. As the role of the state in the global economy has been diminished by deregulation, so has its status as regulator, legitimator, and guarantor of rights. This has proved a two-edged sword. No longer able to fall back on the argument that the state is solely responsible for labor relations and rights policy, transnational corporations (TNCs) now find themselves compelled to recognize labor relations problems in their supplier companies. They are also confronted by international campaigns intended to damage their corporate image by associating their brand name with labor rights violations. Lax labor regulations give corporations the freedom to seek out inexpensive labor in the developing world, by, in effect, regime shopping. However, increased information about labor conditions in global subcontractors has encouraged TNCs to pursue private regulatory agendas. The rationale behind the adoption of private regulation resides in the need to protect brand image and to diffuse conflicts arising from poor labor conditions. These internal restraints are codified typically in Codes of Conduct, or written statements of corporate intent regarding expectations of and relations with product suppliers.

For most of the 20th century, the question of international labor standards was of interest only to a handful of international experts and union officials. Beginning in the 1980s, however, broader public interest in global labor standards has mushroomed, as has activity intended to influence the substantive content of the standards and the processes through which they are developed and implemented. The expansion of global labor standard (GLS) making by firms and international organizations has been both pro-active, in response to increasing foreign direct investment ¹ and reactive, reflecting a desire to control the terrain of labor standards and limit the influence of the standards "movement". Historically labor standards were considered a national responsibility with enforcement and legitimacy monitored by labor organizations and their political partners. They arose from international deliberations in the International Labor Organization, but

¹ The vast majority of Foreign Direct Investment (FDI) occurs in advanced industrialized economies. However, the share of FDI in developing economies increased from 17% in the 1980s to 32% in the 1990s (Wick, 2003; UNCTAD World Investment Report, 2002).

were implemented (or not implemented) by national governments using much the same diplomatic process as other international agreements.²

With the expansion of global sourcing by TNCs and increasing exceptions to national law (as a consequence of export processing zones and deregulation) the national basis for monitoring standards has come into question. New instruments for monitoring and enforcing labor standards have emerged. In effect, the “subject” of standards making has changed from the nation state to the multi-national firm (Murray, 2001; Wick 2003). This change is reflected, for example, in the guidelines embraced by international organizations including the OECD (2000) and the UN, via the “Global Compact” adopted in 1999.

While there is a considerable body of work (and much public debate) devoted to the efficacy of codes of conduct, empirical work has focused largely on documenting supplier conditions and on the effects of implementation and enforcement on corporate performance. Less has been written about the motivations for implementing, or inhibiting the implementation of labor standards.

To begin to fill this gap, we examine two multi-national firms, IKEA and Wal-Mart, and their responses to the new labor standards environment. The strategies of these two large retailers, which employ millions of people worldwide through their supply networks, indicate two contrasting dynamics affecting international labor standards. First, TNCs competing through a cost leadership strategy invariably exert pressure on their suppliers to reduce costs. These suppliers have strong incentives to undermine labor standards enforcement. Whatever the substance of TNC codes of conduct, price pressure will cause suppliers to find ways to reduce total labor costs by forced overtime, wage reductions or other measures. Both IKEA and Wal-Mart exert stiff cost reduction pressures on their suppliers and that pressure produces both overt and covert labor violations by their subcontractors.

Beyond this commonality, however, there are significant differences in how IKEA and Wal-Mart behave in the global economy – in the transparency of their processes, their commitment to working with their suppliers to improve conditions, and presentation of their position to their customers. These differences demonstrate the persisting influence of country of origin institutions, politics, and norms on multinational enterprises.

The question of norms is particularly salient in the adoption of codes of conduct and new, largely private, international regulatory regimes. Both established and potentially changing normative

² For example, according to Kettunen (1998), the politics of the ILO process in the 50s and 60s were intertwined with Nordic labor politics, in the context of formulating a tri-partite Nordic model in Finland.

values regarding labor standards pose significant risks to TNC brand images. If normative values become tied to a legislative agenda, they could significantly restrict TNC global operations. This partially explains TNC strategies to “displace” the nation state from a central role in enforcement of labor standards, thus reducing the possibility that changing norms can be translated into political actions.

The Contemporary Context for Making Global Labor Standards

Although there is no universally accepted definition of labor standards, Alexandro Portes (1994) provides a useful taxonomy that covers the scope of actual and potential rights.

Figure 1.

Taxonomy of Labor Standards

Basic Rights	Rights against use of child labor Rights against involuntary servitude Rights against physical coercion
Survival Rights	Right to a living wage Right to accident compensation Right to a limited work week
Security Rights	Rights against arbitrary dismissal Right to retirement compensation Right to Survivors compensation
Civic Rights	Right to free association Right to collective representation Right to free expression of grievances

Source: Portes, 1994

At the center of the expansion of global labor standard making and enforcement are conflicts over whether and how global labor standards should be “articulated” into domestic industrial relations. What articulation implies is the existence of institutional machinery for the translation of global standards from norms and conventions into actual industrial relations practice. This could occur via national implementation in law, through union enforcement in firms, or through the labor practices of firms - including codes of conduct. These conflicts are fueled by practical questions of accountability, enforcement, and legitimacy.

A series of changes in global politics have dramatically affected the direction of labor standards making in the since the 1980s. These changes have emanated both from those desiring to weaken labor standards and from those attempting to strengthen their enforcement. Both sides, however, recognize that how labor standards are enforced and who is responsible for enforcement and for the amelioration of violations is a central issue in the global economy.

As a consequence, both sides have attempted to capture the issues on their own terms. This means shaping global public opinion about labor conditions and influencing who talks about what and where in major international organizations. Until relatively recently the “national” focus in the most important standards regimes emerged from the intent to place accountability and responsibility for standards enforcement on the country hosting TNC subcontractors and suppliers.

This approach failed because of the desire of less developed economies to attract foreign investment. Both TNCs and “free traders” sought to separate the international venues within which trade rules and labor rules were formulated. A prominent example of this alternative “venue” strategy is the WTO ministerial declaration in 1996 stating that the International Labour Organisation (ILO) is the appropriate agency to deal with labor standards, and clearly separating trade issues from labor issues (Charnovitz, 1997). This stance reflected the perception of firm-based voluntary labor standards advocates that, given its history, allocation of standard setting to the ILO has been a way to move the discussion out of arenas where there are serious prospects for standards enforcement in the host country (e.g. WTO through trade-labor standard linkages) and into a weaker international venue that allows states to adopt principles but not enforce them.

The failure to find an effective venue for enforcement has stimulated a new approach to labor standards. The first reason for this shift in regulatory focus is the visible inadequacy of the ILO. As the original source of the global labor standards debates, the ILO has provided moral leadership but does not have the enforcement power that would enable it to sanction labor standards violators. Arguably, one result of the ILO serving as the fulcrum for the GLS debate is the effort to move the focus of labor standards articulation from the nation to the firm. Although the ILO has a quasi-state function, compliance with ILO conventions by countries is essentially voluntary. In any case, in many countries labor law enforcement is weak, and the mechanisms for implementing ILO conventions are unreliable. Since TNCs operate globally and select production locations based on total labor costs, some countries may, in fact, see a labor cost advantage in not enforcing ILO standards.

With the expanded potential for “corporate regime shopping” (Traxler and Woitech, 2000), favoring those locations with lax or accommodating regulatory regimes, the TNCs become the actors with power to implement labor standards. They are able to impose them internally, and quite often impose them in their supply chain as well. As a consequence of firm leverage, social movements interested in labor standards have focused more attention on the firms themselves rather than on international bodies.

Second, there is continuing evidence that labor conditions in developing countries have been deteriorating with the expansion of TNC subcontracting (ILO, 2002). This evidence is, in part, a consequence of the increased flow of information on working conditions in various parts of the world. Thus, a combination of factors has implications for the strategies of the global labor standards movement, providing both a motive and opportunity for global consumer-based campaigns. The reaction of consumers to the knowledge that their shoes and clothing were produced in sweatshops by young children has vastly increased attention to the question of labor standards by firms and governments. Although mobilizing opposition to these practices may be difficult and does not, as yet, pose a risk to profits, TNCs do perceive a risk to their freedom of action. As Arthur (2001) notes, "it is in the interests of transnational corporations to cosmeticise conflict, if they can, to pacify workers, neutralize unions and reassure NGOs, governments and consumers."

Codes of conduct represent a way to hold TNCs to a higher standard of conduct but, at the same time, allow them to determine the standard to which they shall be held.

Codes of Conduct as a Contested Terrain

Many social movement-based labor standards advocates have embraced firm codes of conduct. With the increasing toothlessness of national enforcement capacities in host countries and opposition of some developing countries to strong labor rights enforcement, codes of conduct have been seized on as a way to hold TNCs accountable to some minimum standard. Even if essentially voluntary, CoCs provide a way to evaluate the morality of corporate conduct. They provide unions, NGOs and others with the ability to assess the strength of a company's CoC against universal standards (such as ILO conventions), and with a certain amount of research, to assess the firm's compliance with its own CoC. In some cases, these advocates assume that the global standards movement will make labor practices transparent and that customer preferences for adequate standards will influence companies to adhere to better practices.

Critics of this new regime point to its ineffectuality because it relies on (largely) unenforceable norms rather than laws with teeth. In this respect, it is much like the ILO regime. According to Arthur (2001):

Legislation applies to the generality of enterprises; codes only to those which have chosen to promulgate a code or make themselves subject to one. Unlike the relatively precise and directory language of regulatory statutes, the language of codes is vague, hortatory and not well suited to compelling compliance in circumstances which are unclear or controversial. Virtually all statutes are enforced ultimately by the coercive agencies of the state; with rare exceptions, no coercive power is available to enforce voluntary codes. And, in principle those charged with violating state labour standards are judged by a court or

independent regulatory tribunal: those charged with violating codes are generally judged by themselves or their nominees. Codes, then, are, at best only a rough approximation of liberal legality, not a strict replication of it.

Instances of the integration of codes and “harder” contractual agreements, which lend the force of law to labor standards, are important because they suggest another strategy for labor standards advocates (Stone, 1999). They point to the residual power of labor politics (and its associated norms) in the TNC country of origin as a way to introduce “legality” into the private labor standards regime. Collective bargaining of CoC contents through such mechanisms as “Framework Agreements” between TNCs and Global Union Federations (GUFs) provide a possibly more robust articulation for company-based labor rights enforcement. “Framework agreements” also provide the TNC’s Code of Conduct with a higher level of legitimacy. This legitimacy is obtained at the cost to the TNC; however, of assenting to the demands the GUF makes for its participation. Not all TNCs are willing to consent to labor participation. Where labor’s political and normative influence on the firm in its country of origin is weak, as it is in the US, the firm is less likely to engage unions in code development and implementation.

For the firms themselves, the use of Codes of Conduct (CoCs) arises out of a desire to protect themselves from accusations of unacceptable labor practices. Codes of Conduct also, however, have a significant potential by-product – the ability to use consumer awareness of compliance with labor standards to add perceived value to company products. Analysts of international retailing have noted the way in which adroit construction of regulatory standards can allow retailers to create new markets for products by differentiating along the lines of perceived “quality”. Thus, privately directed labor standards regimes potentially become a complex marketing tool. They are, not surprisingly, also deeply implicated in questions of competition (Marsden et al, 1998).

The TNC strategy of choice is a private system of regulation that is established and then sponsored by a government to establish its credibility and legitimacy. This regime emphasizes enlightened self-restraint rather than legal regulation and opens venues for developing new product lines that reflect perceived differences within an ambiguously defined regulatory hierarchy. The Fair Exchange brand, which purports to provide fair prices to suppliers by eliminating intermediaries, and The Body Shop “no animal testing” commitment reflect these regulation based marketing strategies.

This type of regulatory strategy depends on the ability of the firm to have strong influence on the content of regulatory standards and the process through which they are developed. It also depends on cultural norms within which the TNC can present itself as the prime protector and representative of consumer interests.

We can understand the implications of this new type of standards regime by comparing it with older regimes within which standards, their development, establishment and enforcement, were perceived as a state function. What was once a relatively dichotomous world of state-based and private regulation has now become a merged public-private regime. In this new world of regulation, voluntary international regimes are valuable venues. They are effectively separated from the risks of national political influence from standards advocates in the TNC's country of origin and provide a global template to which firms can refer in legitimating their private standards regimes. The reality of the privatization of labor standards is reflected in the move away from national responsibility for standards in the recent (2000) OECD Guidelines on Multinational Enterprises.

Obviously this tendency is more advanced in some economies than in others and is only moving forward slowly in international institutions. The cases of Wal-Mart and IKEA demonstrate why adoption of private regulatory regimes still lags in some countries with strong TNC presence (Sweden) and why that has implications for the contest over who will define standards and enforce them.

Why IKEA and Wal-Mart?

Empirical studies of transnational firm responses to the changes in labor standards regime are rare although there are many compelling cases documenting labor standards abuses. IKEA and Wal-Mart are particularly important cases to examine in the current global labor standards "climate" because as transnational retailers they represent a new phase in the interpretation of who and what has to be considered in the framework of labor standards. Whereas early labor standards were promulgated to apply to an industry with multiple plants whose entire production activity was located in a host country (e.g. auto plants in Mexico), the new subject incorporates firms such as Dell computer, NIKE, and multi-national retailers, all of whom rely on extensive subcontractor networks. Retailers, such as IKEA and Wal-Mart, are particularly interesting because they rely on global sourcing networks and yet are sensitive to consumer norms through their retailing establishments.

The two firms have much in common, although it could be argued that Wal-Mart is unique because of its size and scale. Both firms are large international retailers pursuing their global strategies from national "home bases" in Sweden and the United States respectively (Rugman 2000). Although Wal-Mart is significantly larger because of its dominance in the world's largest retail market, IKEA has been more successful in internationalizing its concept to more countries.

Both firms have strong corporate cultures, organized around narratives about their mythical founders: Ingvar Kamprad for IKEA and Sam Walton for Wal-Mart. These narratives and the image they project (that of the firm representing the consumer's interest) are considered central to their success.

Both TNCs emphasize value for price, although IKEA has a more complicated concept – “low price with a meaning” that suggests that value has a moral meaning (Edvardsson and Enquist, 2002). Both firms use extensive networks of suppliers, employing millions of people worldwide and particularly in developing economies although IKEA also has its own manufacturing division Swedwood, which produces about 30% of its products.

In recent years, both IKEA and Wal-Mart have been the subject of consumer group campaigns attacking their international subcontracting practices. The campaigns have been directed at consumers of the two firms as an indirect way to alter firm policy regarding enforcement and monitoring of labor standards among their subcontractors.

The response of the two firms to revealed labor standards violations and to labor standards campaigns reflects differences in the political-economic environments within which they emerged and continue to operate and, in which each firm forged its successful concept.

IKEA: Projecting a Warm and Fuzzy Image through Multi-Stakeholder Labor Standard Enforcement

IKEA is a large multi-national retailer focused on household furnishing and related products. Headquartered in Sweden, with many of its corporate offices in the Netherlands, IKEA is owned by a Netherlands-based non-profit foundation. IKEA has stores in 31 countries and territories, and employs 76,000 workers in 43 countries. IKEA owns some of its supplier factories, through its Swedwood brand, but most purchasing is external. Altogether, approximately 1,000,000 workers are involved in producing IKEA products. IKEA asserts that it is protecting labor rights of workers in its supply chain through its Code of Conduct, “The IKEA Way.” IKEA's CoC is normatively grounded in the Nordic conception of a “society of virtuous circles.” Although globalization has given IKEA the capacity to “opt out” of such national institutional and normative arrangements, to maintain its corporate image, both internally and externally, IKEA has not done so.

There is no doubt that IKEA regards socially responsible conduct as a part of its core corporate philosophy, and that part of this philosophy is to demand decent labor standards of its suppliers. IKEA presents its corporate strategy is based on cost-reduction, accomplished through high volume production, and innovation in materials, transport and packaging. The corporate strategy is closely tied in with IKEA's ideology of social responsibility. Environmental awareness is regarded as consistent with savings in materials, transport and packaging, for example. The reasoning is that more efficient packaging is cheaper, and also more environmentally sustainable. Similarly, maintenance of high labor standards is thought to be just one element of a maintaining an efficient operation. Low labor standards result from poor management, so that there is no inherent conflict between maintaining good working conditions and maintaining profitability (IKEA 2001; IKEA 2003).

IKEA's corporate ideology derives from prevailing norms and institutional relationships common to Nordic countries applied in a global context. In the global context, collective institutions are weaker, and so many elements of the Nordic model are missing. Perhaps most importantly, many of IKEA's suppliers in developing countries do not have strong union organizations in the work place, normally considered an important piece of the "Nordic Model." However, within the limited capacities of a TNC, IKEA's ideology arises out of a conception of "society of virtuous circles. This conception, according to Kettunen, connects "economics, politics and ethics" in a unity, promoting social equality as a means for releasing human productive capacities (Kettunen 1998: 52-53). Through virtuous circles, the apparent contradiction between labor rights and profits is resolved, in concept if not in reality.

IKEA's corporate ideological grounding provides a strong basis for unions and NGOs to monitor and address specific problems as they arise, even if suppliers are under cost pressure to cheat. IKEA's framework agreement with the IFBWW developed as part of a corporate strategy to give external credibility to "The IKEA Way." A socially responsible image has always been a part of IKEA's marketing appeal, but with a growing network of suppliers in developing countries it was becoming more difficult to maintain this image. IKEA found increasingly that it could not avoid being implicated in the labor rights violations of its suppliers. IKEA had a corporate code of conduct (CoC) long before other TNCs, but until the 1990s it was never emphasized or systematically enforced on supplier companies.

As the debate about codes developed in the 1990s, IKEA management felt the need for a more formal and systematic structure, in particular to ensure that the labor rights practices of IKEA suppliers did not result in bad publicity for the IKEA brand. A Swedish TV documentary in the 1992 implicated IKEA suppliers in forced child labor in Pakistan, highlighting to IKEA

management the need to check on conditions at suppliers. More reports followed, and it became clear that IKEA would need a pro-active approach to avoid the same sort of damage to their brand image as companies like The Gap and Nike have suffered. Although IKEA quickly discontinued its relations with suppliers when labor rights violations became public, this was not sufficient to prevent bad publicity. IKEA sought advice and assistance from human rights NGOs and unions to legitimize its labor rights efforts and to tap their expertise in designing and monitoring an effective CoC.

In its initial efforts to develop a CoC, IKEA consulted mainly with NGOs such as “Save the Children” in an attempt to come to grips with the child labor issue. Unions became involved when, in 1998, the Nordic Woodworkers Federation, a body that associates the woodworking unions of the Nordic countries and has close ties to the IFBWW, threatened to organize a boycott of IKEA because of poor working conditions at IKEA supplier factories in Romania (Miller 2001). IKEA responded, agreeing to adopt a framework agreement with the IFBWW based on ILO conventions and setting up joint monitoring procedures with the IFBWW.

IKEA’s first 1998 framework agreement specified only that IKEA would abide by ILO labor standards and local national legislation. In 2001, the IKEA signed a more developed framework agreement based on the practical experience of working with the first agreement. The 2001 agreement, although more extensive than the first in that it also makes reference to UN Human Rights conventions, nonetheless remains focused on core rights such as the abolition of child labor, observation of national legislation, and the right to free association and collective bargaining.

IKEA’s internal auditing structures to monitor the framework agreement have been in place since 2000, and since that time have detected 70,000³ violations of the “IKEA Way” in IKEA suppliers.⁴ Of these, 20,000 have been corrected, according to Thomas Bergmark, of IKEA’s PR and Communications department. Most of the violations which IKEA has detected through internal audit procedures have been problems with the physical work environment. The fact that a great many physical problems have been detected, but many fewer less tangible violations is not necessarily an indication that intangible violations are occurring less often, however. Such violations are much more difficult to detect using the sort of internal auditing mechanisms which IKEA and auditing firms use (see O’Rourke 2000). A union-funded study conducted by the

³ It is not clear how many of these are labor rights (as opposed to environmental) violations. However, there is a good deal of overlap, as toxic workplace hazards, for example, fall into both categories, so it is probably not possible to differentiate these completely.

⁴ IKEA refers to auditing companies such as Price Waterhouse as outside auditors. Because these are essentially consultants hired by IKEA, it is probably more accurate to conceptualize them as part of IKEA’s internal auditing system, rather than as independent confirmation of IKEA’s policies in a political sense.

SOMO research center in the Netherlands found a number of serious violations of the IKEA CoC in Bulgaria, India and Vietnam, indicating that IKEA's internal auditing mechanisms are proving inadequate to detect certain types of labor rights violations, and that suppliers sometimes deliberately deceive IKEA into thinking they are complying when they are not (de Hahn and Oldenzeil 2003).

In reality, IKEA's systematic cost reduction strategy is at odds with high labor standards in IKEA suppliers, a fact which IKEA management has yet to confront (de Hahn and Oldenzeil 2003). IKEA asserts that it does not begin to do business with suppliers that are not willing to commit to maintaining the standards of "The IKEA Way," although IKEA will work with suppliers to help them in into compliance. IKEA becomes intimately involved in the production processes of its suppliers and, by contrast with many other TNCs, emphasizes long-term relationships with them as a route to cost effective production within ethical standards.

IKEA keeps its retail prices low by driving tough bargains with its suppliers, who generally make thinner profit margins on their sales to IKEA than they do on sales to other foreign buyers. But, in turn, IKEA offers the prospect of forging long-term, high-volume business tie-ups for fledgling Vietnamese entrepreneurs, whom IKEA advises in detail on everything from sourcing raw materials to improving productivity and buying equipment (Cohen 2003).

Since "The IKEA Way" is regarded not only as a guidebook for corporate responsibility, but also a system for productivity improvement (referring back to the "society of virtuous circles") it is generally not accepted that suppliers may have higher costs from implementing labor standards. This creates an incentive for suppliers to cheat on "The IKEA Way," in order to maintain profitability.

Despite the fact that IKEA's record of CoC implementation in supplier firms has not been perfect, IKEA's strategy of working seriously with NGOs and unions on labor rights enforcement has so far prevented revelations of labor rights violations from having negative consequences to IKEA's public image. For example, after completing the investigation for the SOMO report, the unions' first reaction was not to begin a public campaign against IKEA, but rather to present the report to IKEA management to show them that their monitoring mechanisms need improvement. IKEA no longer hears about these issues first from media documentaries and boycott threats, but rather through quiet and controllable resolution mechanisms.

Although the articulation of labor rights standards through IKEA arises from the relatively labor friendly Nordic model, important elements of that model are absent in the global setting, making monitoring and enforcement problematic. Firms have difficulty in self-monitoring, even when they find it in their own interest to do so. They simply do not have enough control to institute concrete

protections in their suppliers when faced with national conditions where labor rights are not respected (Murray 2002). Furthermore, the skills and capacities needed for effective monitoring are not readily available in a form with which corporations are comfortable.⁵ Independent unions with strong workplace structures, capable of democratically determining, monitoring and enforcing standards, would be far more effective at preventing labor standards violations than, for example Price Waterhouse Coopers. TNCs, IKEA included, choose to source from places where such unions are not present, undermining, from the start their attempts to introduce more than cosmetic mechanisms for standards enforcement.

Thus, while IKEA attempts to transplant elements of the Nordic “society of virtuous circles” crucial elements of the circle are missing. To what extent these can be replaced by forcing IKEA a supplier to implement the “The IKEA Way” is not clear. The available evidence suggests that the process is not straightforward or simple.

Within the context of the deplorable labor conditions that characterize production conditions that exist in the contemporary global economy, IKEA is an unusual representative of high ethical standards. In the corporate world, it is considered a shining example of internalized norms that demonstrate social responsibility and provide apparent business advantages (Miller 2001). However, as much as IKEA is a model in the business world, its labor standards problems also demonstrate the limitations of corporate self-regulation and self-restraint as a vehicle for resolving social and economic inequities.

Wal-Mart as a “Hard Case”: Strategic Public Relations to Avoid Compliance

Wal-Mart is the world’s largest retailer. It is also the biggest grocery retailer in the US. In 2002, Wal-Mart had over 3400 stores in the United States. It employs over a million people in the United States, 1.2 million worldwide, and millions of people in developing countries (particularly China) through its supplier contracting networks. Wal-Mart’s approach to the application of labor standards is: 1) to undertake cosmetic programs to appear to comply with international norms, including controlled monitoring programs; 2) to use its image a homegrown retailer to assure its (primarily US) customers that Wal-Mart acts in their best interest; and 3) to anticipate bad publicity from labor standards violators among its subcontractors and to sever its relationship with the subcontractor before the bad publicity hits the press.

⁵ For example, see Dara O’Rourke’s (2000) work on the problems of Price Waterhouse auditing. Price Waterhouse is a large multi-national auditing firm which offers services in finance and taxation, in addition to labor rights monitoring. It is one of the firms which audits IKEA’s CoC.

What a close look at Wal-Mart's approach to labor standards reveals is that the company's primary business strategy -- avowed non-binding contracts, purposeful fostering of competition among suppliers, and continually squeezing suppliers to reduce costs -- makes it virtually impossible to apply the norms embodied in core labor standards. Without a mediating force, such as a unionized US Wal-Mart workforce, to encourage modification of company practices, viable strategies to ensure compliance with international norms are limited to, for example, national laws prohibiting trade with countries violating standards.

The Wal-Mart "Story"

Wal-Mart's enormous success can be traced to effective firm strategies in a global market place but also to the evolution of its "concept" under the rules that govern firm investment in the US. While there are many individual features of this governance regime, they can be encompassed in one concept: --- the ability to continually experiment to find the optimal ways to reduce costs and increase profits. A major portion of the cost of this experimentation is borne outside the firm -- by suppliers, by the workforce, and by the communities in which Wal-Mart locates.

Wal-Mart has maintained its high shareholder value only through aggressive international expansion. With \$216 billion in sales in 2002, it has bypassed General Electric to become the world's second largest company, after Exxon Mobil. It is difficult to quantify what this means: Wal-Mart is now the largest private sector employer in the world. It broadcasts more live television than any network. The power of the computer network controlling its logistics operations is surpassed only by that of the US defense department.

Among the key features of Wal-Mart's global expansion strategy is its desire "to be the McDonald's of retailing and to stamp its brand on every store." (Ferne and Arnold, 2002). Alexander and Myers (2000) and Vida (2000) note that Wal-Mart favors repeating its successful US strategy (branding, regional distribution centers, highly centralized operational control) in markets that are similar to the US (i.e. Canada and Mexico) rather than adapting its strategy to a multiplicity of international market conditions. Significantly, Vida (2000) notes that Wal-Mart's desire to enter international markets under a full control strategy is more generally characteristic of US retail expansion. Wal-Mart's success in the US has been enabled by a high degree of corporate control over all dimensions of the distribution and retailing process and vertical organization of supply chains (Christopherson, 2000).

A central component of the Wal-Mart strategy is to foster continuous competition among its stores and its suppliers. There are no long-term relationships in the Wal-Mart system. And, because it is

the only elastic factor of production, the primary sources of cost reductions is in wages, working conditions and personnel policies.⁶

The final factor influencing Wal-Mart's success is its customer. In the US economy, one characterized by serious income inequalities and uncertain jobs, Wal-Mart caters to the very large number of people who have to scrimp and save on every penny they spend. Without collective bargaining power to protect their wages and with a deregulated labor market, many Americans have had to become savage consumers, using their power in the retail marketplace to compensate for their lack of bargaining power as workers.

Sam Walton, founder of Wal-Mart, was a model for this kind of consumer. A child of the 1930s depression era in rural America, where unions were, for the most part, absent, Walton developed a business whose culture was rooted in an ethic based in American hardscrabble poverty. And, because of the uneven impact of unions on US society and economy during the period of Wal-Mart's emergence, no norms or institutions were introduced into the firm's business model that reflected broader social and economic concerns. Wal-Mart was on its own.

This ethic is both suited to an international environment and, at the same time, completely unsuited to it. In general, the Wal-Mart business philosophy is to starve workers and suppliers in the interest of the business and the consumer. Those workers and suppliers are particularly disadvantaged when they are in countries without minimal protections from labor standards.

Although Wal-Mart is now the world's largest retailer, approximately 83% of its sales still take place in the US. Wal-Mart portrays itself as a patriotic American company to its US consumers, providing "the little man" with an opportunity to make his dollar go further. This image is perpetuated in the business culture, for which Wal-Mart has become an important model (Hays, 2003).

According to a US business school expert on retailing:

"If I've learned anything about Wal-Mart, its that cost is king...they have an almost single-minded focus on reducing costs. It's imbued throughout the organization. They are very stingy when they buy for America and distribute products for America."
(Ibid.)

Within the US, the Wal-Mart culture is manifested in its personnel policies. The store chain pays

⁶ In the current US class-action suit brought against it by female employees who allege discrimination in promotion procedures, Wal-Mart argues that there is no corporate policy regarding promotions, every store manager acts individually.

its sales staff slightly above minimum wages but, because such a high proportion of the workforce is part-time, only 40% of Wal-Mart's employees are covered by the chain's health insurance package. This compares with a national average of 47% covered by employer health insurance in wholesale and retail jobs (United Food and Commercial Workers, 2000).

Wal-Mart is aggressively anti-union. One strategy the US United Food and Commercial Workers (UFCW) used to encourage unionization in Wal-Mart stores was to organize meat cutters who, because of their skills, were more susceptible to organization. Wal-Mart responded by eliminating meat cutter jobs in many of its stores, turning to prepackaged meat products. The company has also issued a 56 page Manager's Toolbox to Remaining Union Free. The rationale for Wal-Mart's policies is the flexibility and low operating costs required to compete on the basis of product cost

Wal-Mart's Supplier Relations

With respect to its relations with suppliers, Wal-Mart's policies are particularly rapacious. An executive in a major international food company who is familiar with Wal-Mart's practices with its US suppliers indicated that they are well known.

"First they lure in suppliers and get them to make major investments in equipment that will allow them to meet Wal-Mart's demand. Wal-Mart introduces the product for three months to see if it sells. If it doesn't you're out. If they want to continue to work with you, they come back to you with a competitor's lower cost offer and begin to squeeze you. Because you've made the investments in equipment, you want to play ball and will take a very slim profit margin. They will never sign a contract with a supplier. You're always liable to get cut off and they are always squeezing you."

(Personal interview, fall, 2003)

Wal-Mart's relationships with foreign suppliers follow this same pattern, in which all risks are assumed by the subcontractor, but the consequences have been more serious because they run afoul of international core labor standards.

Since the early 1990s, Wal-Mart has been found to be in serious violation of core labor standards by international NGOs that independently monitor labor standards in subcontractors to transnational firms. Some examples:

- From 1999 to 2001, the National Labor Committee reported that Wal-Mart was sourcing from sweatshops in China (Chun Si Enterprise Handbag) that were paying 8 cents per hour under virtual forced labor conditions and from sweatshops in Bangladesh and Myanmar where forced labor is used in supplier firms.

- In 2001, a Wal-Mart supplier in California was indicted for withholding \$850,000 in wages from employees forcing them to continue to work in order to earn what they were owed from work done months previously.
- In February 2002, Human Rights Watch reported Wal-Mart contracts with Guatemalan sweatshops where employees were given pregnancy tests prior to and during employment.

One of the original NGOs promoting international labor standards, The “Clean Clothes Campaign, headquartered in The Netherlands, has no less than 882 entries in its database devoted to Wal-Mart labor standards violations.

Wal-Mart’s Response to Allegations Concerning Labor Standards Violations

Wal-Mart’s strategy in response to the allegations that its products are produced under exploitive labor conditions was three-fold: In the early 1990s, the company launched a “Buy American” campaign in which it displayed products produced by US subcontractors alongside those produced by its foreign sub-contractors. Wal-Mart Marketing literature asserted:

"We Buy American, Whenever We Can." "The Buy American program is both a commitment and a partnership. It's a commitment to our customers -- our friends, neighbors and fellow American citizens -- that we will buy American-made products whenever we can that deliver the same quality and affordability as do their foreign-made counterparts."

This strategy was aimed at assuring its primary consumer base -- poor Americans -- that the company was a US company rather than a transnational and that they continued to use US suppliers.

Union investigations of this campaign indicated that the prices for US produced products and those produced by international subcontractors were nearly identical in Wal-Mart stores indicating that Wal-Mart was not allowing customers to pay a small premium to purchase products manufactured in the United States (Welch, 1999).

Its second strategy was to adopt a code of conduct (CoC) and to engage a firm to monitor its subcontracting activities. These actions resulted in Wal-Mart’s listing on the Domini 400 Social Index, a leading mutual fund index of socially responsible firms. Wal-Mart's policy was as stated:

“Wal-Mart strives to do business only with factories run legally and ethically. We continue to commit extensive resources to making the Wal-Mart system one of the very best. We require suppliers to ensure that every factory conforms to local workplace laws and that there is no illegal child labor or forced labor. Wal-Mart also works with independent monitoring firms to randomly inspect these factories to help ensure compliance. In fact, we conduct more than 200 factory

inspections each week to ensure these facilities are being run legally and ethically.”(Emphasis added)

This policy statement, however, made no provision for Wal-Mart’s complicity in the abuse of labor standards as a consequence of its practices to continually squeeze profits out of subcontractors. Essentially, the risk was put on the subcontractor to both meet Wal-Mart’s targets and maintain core labor standards.

In February, 2001, spurred by reports by NGOs on Wal-Mart’s labor practices, KLD Research & Analytics, which maintains the Domini 400 Social Index removed Wal-Mart from the index (Green, 2001).

In the US environment, the only potential to moderate Wal-Mart’s practices in ways that would allow for meeting core labor standards lies with Wal-Mart’s stockholders. In June of 2002, a group of Wal-Mart stockholders responded to the continuous accusations that Wal-Mart subcontractors violated of basic human rights and core labor standards and stated that “corporate violations of human rights in these overseas operations can lead to negative publicity and public protests” (International Shareholder Services, 2002). They submitted a proposal to be considered at the annual stockholders meeting requiring that the company commit itself to the implementation and independent monitoring of a code of conduct. The company management responded that since 1992 Wal-Mart had required suppliers to “comply with all applicable laws: fairly compensate employees at the legally required minimum wage or the prevailing industry wage if that is higher; maintain reasonable work hours and compensate for overtime work; maintain employment on a voluntary basis and not utilize child labor; base employment on an individual’s ability to do the job, not on the basis of personal characteristics or beliefs; maintain a safe, clean and healthy workplace environment: and demonstrate a commitment to the environment.” (Ibid.)

Wal-Mart management indicated that all subcontractors must be certified through a “factory certification process” and that it posts Supplier Partner Standards on its Website. The standards are in line with very basic human rights but do not include the right to freedom of association or collective bargaining. In addition, Wal-Mart indicates that it uses third party monitors to insure compliance but does not identify them.

Wal-Mart’s independent monitoring program, administered by PricewaterhouseCoopers, has been severely criticized in a study by Dara O’Rourke (2000). This report found that PriceWaterhouseCoopers (PwC) auditors, the world’s largest private monitor of labor and environmental practices was seriously remiss in documenting labor standards abuses in

subcontracting firms.⁷ They “overlooked” hazardous chemical use, violations of overtime laws, health and safety violations, and evidence of uncompensated overtime. Managers identified the workers who would be interviewed by the PwC monitors.

In a Korean factory, the auditors “skipped over all the interview questions regarding freedom of association during the worker interviews. The auditor explained this omission saying “There is no union in this factory, so I don’t need to ask these questions.” (Ibid: 3) This factory, as well as all the others audited during this trip (which, it should be noted was audited while under scrutiny from NGO officials) was found in complete compliance with the codes of conduct for the companies represented by PwC. (Ibid.)

In addition to PriceWaterhouseCoopers, other major private auditing firms, such as Ernst and Young, have come under attack for their inadequate and superficial monitoring of subcontractor practices (CleanClothes.org, 1999).

Since firms such as Wal-Mart know that labor standards violations are certain to be identified with even cursory scrutiny by NGOs, they need a fallback strategy, again rooted in the need to maintain a positive image. Wal-Mart uses its worldwide information network to anticipate trouble and to distance itself from subcontractors identified by NGOs as “problems”. In several recent cases, Wal-Mart anticipated the negative public relations from sub-contractors found in violation of labor standards and discontinued sourcing from the factories in advance of the negative publicity.

In summary, Wal-Mart’s approach to labor standards is largely cosmetic and is in profound conflict with its basic business goals, practices, and norms.

Implications of the Two Cases

The literature on labor standards, why and how they are adopted, typically neglects the institutional context within which firm strategies are introduced and applied. Particular choices of what to do and how to do it are assumed to be based in universal economic rules that define what constitutes success (e.g. rapidly increasing shareholder value or return on investment versus capturing market share over time). In reality, however, motivations and practices are also

⁷ PricewaterhouseCoopers performed over 6,000 factory audits in 1999, including monitoring for NIKE, Disney, Wal-Mart, and the Gap.

influenced by regulation in areas such as labor market policy, competition, and intellectual property, and by the capacity of the nation state or states to set standards that enable effective integration of production, transport, and distribution.⁸ Thus, the ways in which the market is governed have important implications for how firms respond to the requirements posed by labor standards and behave in the globalized production environment.

The two firms we examined responded very differently to NGO –initiated efforts to improve labor conditions in their supplier firms. In the case of IKEA, consumer NGO pressure has been influential and has become an aspect of the company’s marketing strategy and has also been internalized in the company’s production strategy. IKEA pursues a CoC strategy of legal compliance, social partnership and collective responsibility, based on a corporate philosophy derived from the Nordic “society of virtuous circles” ideal, applied, if incompletely, through corporate leverage in the retailer-supplier relationship.

What this has meant for actually improving working conditions in IKEA suppliers is ambiguous. There do appear to have been labor rights improvements directly resulting from CoC implementation. Nonetheless, practical difficulties in code monitoring, coupled with pressures from IKEA on suppliers to keep costs down, mean that CoC violations, including quite flagrant violations, though often concealed, nonetheless occur regularly (de Haan and Oldenziel 2003). Thus, there appears to be a contradiction between IKEA’s low cost competitive strategy, and the desire to maintain the image of high standards. However, IKEA management’s active engagement with the issues, commitment to longer term relationships with suppliers and forward-looking desire to improve has, thus far, sustained its socially responsible image.

In the case of Wal-Mart, the NGO - driven efforts to affect the company’s activities have affected the company’s marketing strategies but have had little influence on its labor practices. There is continuing evidence of labor standards abuse by Wal-Mart suppliers at the same time the company was touting its adherence to labor standards and providing independent monitoring of its suppliers. For example, the company launched (simultaneously) “Buy American” and “Buy Mexican” campaigns to suggest that it was encouraging and using domestic suppliers while, at the same time, squeezing competing suppliers to produce products at unsustainable costs. Wal-Mart’s domestic and international strategies are consonant with US market rules, which encourage firms to operate as close as possible to the line defining legality from illegality; to redistribute as much risk as possible to suppliers; and use the US norm of “independence” to take advantage of fostered competition among stores, domestic personnel, and international suppliers (Christopherson, 2000).

⁸ These types of investments allow domestic suppliers to compete with foreign suppliers.

These two cases demonstrate how vastly different the application of labor standards can be when left to firm codes and discretion. They also demonstrate how national frameworks continue to influence firm practices at an international scale. In the case of IKEA, codes of conduct directed at the consumer are linked to framework agreements, bringing unions into the regulatory process and strengthening the enforcement process. The institutional strength of labor (albeit weakened from its prime) plus national regulation instantiated via labor politics affects IKEA's relationships with its suppliers and its employment relations in its retail operations worldwide.

The cases of Wal-Mart and IKEA are useful in two ways. First, they demonstrate that, in whatever political-economy they originate, transnational firms that use extensive global supplier networks face a daunting set of problems in the new global labor standards environment. TNCs almost invariably foster competition among their international suppliers, squeezing them to reduce wholesale prices. The intensity of competition, however, may vary depending on pressures arising from country of origin rules affecting expectations of short-term profits. Recognizing that the "squeeze" strategy is inevitably going to result in exploitive labor conditions, the transnational firm must find ways to distance itself from the practices of its sub-contractors, that is, from the production process itself. They also need to try to minimize potential disruptions to the supply chain from NGO or labor instigated actions. Increasing information about labor conditions in the firms with which they subcontract distresses potential consumers of their products and may injure their brand reputation.

Second, the two cases suggest that the national regime in which a transnational corporation originates continues to have ramifications for firm behavior vis-a-vis domestic labor practices and international supplier networks. In the case of Wal-Mart, the pressure to continue to produce high returns for its shareholders every quarter encourages the most rapacious and extreme forms of squeezing suppliers, encouraging them to continually cut costs while turning a blind eye to the inevitable consequences of that induced cost-based competition.

Wal-Mart can continue, with relative ease, to use suppliers who violate basic labor standards. They rely on information gathering about labor standards monitoring to keep themselves one step ahead of bad publicity. Before the news about the supplier hits the press, they have broken ties with that supplier. Their labor standards strategy is, in essence, to anticipate bad publicity and to announce, "We are no longer dealing with that subcontractor." Their strategy manifests a "strict liability" approach to responsibility for abuses --isolating perpetrators, assuming background

conditions that are “normal”, and assuming that a violation is an isolated action that occurred in the past and that needs to be rectified (Young, 2003)⁹

Wal-Mart understands that the labor standards movement cannot be everywhere all the time and so they are free to pursue their cost - driven subcontracting practices 95% of the time. They know that they face no sanctions if a Wal-Mart supplier is found to be in violation of core labor standards, including from their working-class customers who have few options but to stretch their meager earnings at Wal-Mart.

IKEA is in a more difficult position both ethically and economically, with numerous interested actors looking over its shoulder. The company doesn't face the same quarterly return pressures as a US-based transnational but still must balance labor standards compliance with cost competition pressures. And, while union influence on supplier relations is limited to code of conduct provisions, it still puts a spine in the company's concern for the procedures that are used to produce its products.

Like Wal-Mart, IKEA squeezes suppliers on costs, and this creates an incentive for subcontracts to violate labor standards. Unlike Wal-Mart, however, IKEA engages with its suppliers on a variety of issues. In this sense, IKEA's CoC has effectively raised labor standards in some instances (de Haan and Oldenzel 2003). IKEA's policy of working over time with its suppliers to raise standards rather than pro-actively cutting them off to preempt consumer campaigns, is probably a more practical solution if improving standards rather than PR damage control is the objective. Constructive engagement with NGOs and unions allows IKEA this luxury. Thus, IKEA reflects a “social connection” model of liability (Young, 2000).

Beyond basic differences in what constrains practices in the two firms, they are positioned differently with respect to the labor standards regime that allocates primary responsibility for monitoring and enforcement to the nation state. In the US, the ILO -based provisions have allowed firms such as Wal-Mart to displace responsibility for labor standards to the subcontractor host country. The country of origin is perceived as incidental to the GLS project. In Sweden, however, a collective sense of limits defining what is acceptable in producing the goods they consume, and a historical orientation toward collective bargaining have carved out a stronger role for the Swedish state as an actor in the Global Labor Standards debate. Through their supplier networks, IKEA and Wal-Mart extend the industrial relations traditions of their home countries into

⁹ These conditions draw on Iris Marion Young's interpretation of the difference between “strict liability” and the “social connection” model of liability.

environments where these are foreign. The actual and potential results of these “extensions” are decidedly mixed.

The existence of different capacities for influencing sub-contractor behavior in host countries, in combination with increasing moral claims in support of state action to limit trade with countries that allow labor exploitation, have arguably changed the terrain for creating international labor standards regimes. In the emerging “globalized” regimes, the role of the state, not only in the TNC host country but also in the TNC country of origin has become ambiguous and potentially diminished.

The New Labor Standards: Regime Shopping at a Global Scale

The emerging standards regimes, such as that adopted by the OECD in 2000, would weaken the national role in labor standards monitoring and enforcement. In fact, a wide range of standards regimes, oriented around the firm rather than the nation state has been adopted since the late 1990s. These include the voluntary code taking shape in The International Organization for Standardization and the SA (Social Accountability) 8000. The Global Compact between the United Nations and fifty corporate representatives in July 2000 is also representative of the orientation of this new phase of standards making.

But why after almost a century of displacing responsibility for labor standards to the nation state should firms be interested in shifting to a global standard, focused on firm codes of conduct? There are two possible explanations. First, TNCs recognize that they are “holding the bag”. It is their image that is going to be besmirched when NGOs reveal violations of basic labor rights in firms with which they are doing business. The convenience of host state ineffectiveness has, in effect, become a liability. TNCs need to provide evidence that they are good corporate citizens of the global economy and that they are “doing the best they can” and trying to distance themselves from subcontractors who abuse labor rights. By moving to an international sphere, TNCs can distance themselves from ineffectual state regulation, take control of the regulatory process and yet retain the voluntary mode of enforcement. This strategy essentially enables them to expand the sphere of “non-regulation”, to include fundamental human rights and core labor standards in the non-binding OECD instrument. By implication, “governments are promising not to hold themselves accountable for ensuring that MNEs (TNCs) abide by these supposedly universal and non-negotiable principles” (Murray, 2001: 267).

Secondly, there is the slim chance that the actions of the labor standards movement will take hold in TNC countries of origin and result in legislative action to prevent trade with nations that abuse labor rights. This specter has already been raised with respect to China, where firms and state

enterprises have been found to be in violation of basic labor and human rights. Even economists completely in support of free trade acknowledge that nation states can take positions with respect to the morality of trade with nations whose lax enforcement and encouragement of abusive practices contravenes the norms of those nations that buy its products. So, for example, Dani Rodrik (1996):

“Restrictions on technologies or market transactions that violate a widely held moral code are an established and accepted practice in domestic trade. There is little reason to believe that the attitude toward international trade would be any different. So I take it as axiomatic that no nation has to maintain free trade with a country or in a specific product if doing so would require *violating a widely held ethical standard or social preference at home* (our emphasis)”.

The threat this type of national legislative action would pose to TNC freedom of action and ability to foster supplier competition is obvious. Thus, it is in the interest of TNCs to move the sphere of regulation away from the nation state and to the global sphere. What appears to be emerging is an expanded order of “regime shopping” in which competing international regulatory declarations, codes or conduct and standards can be called on to buttress TNC actions in the global economy.

However, and this is a big “however”, the residual power vested in national governance regimes (and rooted in the influence of labor) may provide a counterweight to the efforts of TNCs to expand non-regulation by vesting regulation in international bodies that have no legitimate political power. In Australia, NGOs and labor attempted to take the new “international” standards as a guideline to bind TNCs based in Australia to abide by the newly expanded standards. Similar actions were undertaken in the US and Europe though none produced legislation (Murray, 2001).

What this on-going battle suggests is that the significance of national political institutions and their potential influence on international regimes, particularly those protecting labor rights, is still an open question.

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