

Institutional Factors that Influence Social Upgrading in Global Value Chains in the Soccer Ball Industry

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Abstract

This research examines how institutional factors (public, private and social governance) influence social upgrading in supplier firms in global value chains (GVCs) in the soccer ball industry of Pakistan. Using primary multi-source data, we found that institutional factors in GVCs play a critical role in the social upgrading of the industry. Furthermore, we revealed that social upgrading is an outcome of an interplay between public, private and social governance in GVCs.

Keywords: Social upgrading; social, private and public governance; institutions; global value chains (GVCs); soccer ball industry; Sialkot, Pakistan.

Introduction

Globalisation, information technology advances and liberal trade policies have given rise to a new era of international production and trade in the form of global value chains (GVCs). GVCs involve a multitude of firms, one of which serves as the lead firm or channel captain (buyers, in most cases) in coordinating the activities of a number of suppliers with each contributing to the value of the final product or service (Gereffi, 1994). Lead firms (brand manufacturers, retailers and brand marketers), which are primarily based in developed countries, retain the high value-added activities (e.g. research and development, marketing) in-house and outsource the low value-added activities (e.g. manufacturing or production operations) to firms in developing countries, resulting in integration among firms. GVCs explain how the lead firms, on the basis of power and authority, determine the value generation (addition) and value capture (profits) among all actors linked in value chains that are geographically dispersed (Gibbon, 2008).

A well-developed body of literature exists to explain the power asymmetry between lead firms and their suppliers and to identify the contributions that lead firms make to the economic upgrading of

supplier firms (see Bazan & Navas-Aleman, 2004; Cammett, 2006; Schmitz, 2004, 2006) and, to some extent, to the relationship of the economic (product, process and related factors) and social upgrading of suppliers (Bernhardt & Milberg, 2011; Bernhardt & Pollak, 2016; Khattak et al., 2017; Rossi, 2013). The definition of social upgrading in GVCs, which is based on the incremental nature of workers' rights (Barrientos, Gereffi & Rossi, 2011), is described as the process of improving the rights and entitlements of workers as social actors (Sen, 2000). The roots of social upgrading lie in the International Labour Organization's (ILO's) decent work framework, which is based on employment, rights at work, social protection and social dialogue and entails security, dignity, remuneration and social protection (Deranty & MacMillan, 2012).

While research on the contributions that lead firms make to the economic and social upgrading of supplier firms is readily available, less is known about how external conditions and pressures through a variety of institutional governance processes contribute to social upgrading (Khattak & Pinto, 2018). Specifically, there is a lack of research on how the institutional environment facilitates the process of social upgrading for workers in suppliers' countries. To address this gap in the literature, this study aims to answer the research question: how do the interactions of public, private and social governance (institutions) create conditions for the social upgrading of suppliers in GVCs? To answer this question, we conducted a case study of the sporting goods industry, in particular, the soccer ball industry, in Sialkot, Pakistan.

For the last 100 years, Sialkot, Pakistan, has been recognised as a centre of excellence for the production of sporting goods (Hussain-Khaliq, 2004) and is considered one of the sectors that has improved significantly in social compliance due to participation in GVCs (Lund-Thomsen et al., 2016). The sector employs approximately 200,000 people, earns foreign exchange of over US\$1.6 billion annually (Pakistan-today, 2014) and contributes 6% to Pakistan's total exports (Awan et al., 2019). Due to vast experience, local workers have gained prominent skills for producing quality, hand-stitched soccer balls, helping the industry to maintain its position in international trade by meeting 70% of the global demand for hand-stitched soccer balls (Hussain-Khaliq, 2004). This led to the inclusion of the Sialkot sporting goods industry in GVCs, and over time Sialkot has become a permanent supplier of international sporting brands, such as Adidas, Puma, Nike, Diadora, Select, Lotto, Umbro, Mitre, Mikasa, Wilson and Decathlon (Lund-Thomsen et al., 2012). This paper begins with a review of the literature on social upgrading and institutions in GVCs, after which the study research method is described, followed by the findings, discussion and concluding remarks.

Literature Review

Social Upgrading and Institutions

When considering labour as a production factor, neoclassical economists argue that the labour market is a neutral arena where buyers and sellers interact for their economic interest and are free to develop relationships and exchanges through mutual understanding. The market is oriented towards the cost perspective, so suppliers try to maintain low marginal costs for production operations. This situation facilitates suppliers' efforts to manipulate labour costs by providing low wages, by requiring extra overtime without wages and by maintaining poor working conditions.

Political economists argue that markets are not neutral but are established within structures where exchanges are not made on equal terms but instead are based on power, asymmetric information and interaction nexuses between economic and social development. Therefore, in reality, labourers'

economic and social lives are not separate; rather, both spheres are interlinked and interdependent (Sen, 2000). On the other hand, GVC theorists argue that globalisation of production through GVCs has facilitated economic development that fosters employment growth in developing countries and provides opportunities for workers to participate in the world economy, participation that for these countries was previously limited to foreign investments (Bernhardt, 2013). However, empirical investigation has revealed that these developments come at the cost of vulnerability, exploitation and insecurity (Barrientos et al., 2016; Puppim de Oliveira & de Oliveira Cerqueira Fortes, 2014; Rossi, 2015); social downgrading has been observed in a few cases as well (Rossi, 2019). Moreover, child exploitation and an increase in sweat shops and unsuitable work conditions have been observed. Concerns about such issues are being raised by non-governmental organisations (NGOs) from time to time.

The institutional context varies from node to node of the GVC. For instance, buyers or lead firms are located in more advanced countries where institutional structures for social standards are effective, whereas supplier firms are located in developing countries where institutional enforcement is weak (Khattak, 2013). Institutional theories have gained popularity due to the powerful explanation they provide for different individual and organisational actions that take place at every level of society. Every society has established norms, practices and living habits of some sort that differentiate it from other societies; additionally, every society has economic, social and political roles that must be performed by economic agents, government, family, educators and religious actors, among others. They are all part of social systems that equally contribute to the better functioning of society. Most important are the economic and government systems. According to North (1990), institutions refer to the rules of the game in a society or are the humanly devised constraints that shape human interaction. These rules consist of both informal constraints and formal policies (North, 1990).

Formal institutions are centrally designed mainly by the state and are enforced through written rules, statutes, constitutions, civil codes and/or a society's legal system (e.g. constitutions, laws and property rights). The formal institutions comprise regulatory, political and economic institutions that define the parameters within which businesses operate. Governments endorse each type of formal institution and give them the authority to define rules, regulations, procedures and control systems by establishing effective monitoring (Covaleski & Dirsmith, 1988). The roles of formal institutions in governing market transactions are essential to facilitating the processes involved and reducing the costs of risks and uncertainty (Assaad, 1993). These roles have been documented in the literature of transaction cost economics based on new institutional economics (Brousseau & Glachant, 2008; Williamson, 1979).

Conversely, informal institutions evolve based on personal relationships, self-governance by economic agents learned over time and interactions that are deeply embedded in cultural factors, such as traditions, norms, values, taboos, customs and habits (Scott, 2013). These informal institutions are practised through channels that are not applied to the whole nation (Assaad, 1993).

Institutions in GVCs

Several forms of (vertical and horizontal) governance mechanisms that operate along GVCs can affect social upgrading. Primarily, the roots of GVC governance lie in vertical governance mechanisms (informal) based on the cross-national dimension of governance, where lead firms play the prominent role in establishing and regulating the GVC to respond to the needs of customers, associations and international humanitarian organisations (Gereffi & Lee, 2016). Recently, much attention has been paid to the role of the horizontal governance mechanism based on interactions between economic actors and local institutions (both formal and informal) that ensure better outcomes for all stakeholders (countries, firms and workers) (Islam et al., 2017; Khattak et al., 2017). Both types of governance (vertical and horizontal) and their interactions produce outcomes related to social upgrading (Islam et al., 2017).

The private governance in GVCs' vertical governance system is driven by the lead firms, such as global buyers that follow a code of conduct (addressing social and environmental working conditions and child labour issues, for example) to support their market reputation and sustainability initiatives (Locke et al., 2007; Lund-Thomsen & Lindgreen, 2013) and ensure that all actors in the chain, especially the suppliers (decentralised production system), adhere to those standards. Relationships between lead firms and suppliers exist on a continuum, ranging from a free market-based relationship on one end to hierarchies (buyers having their own suppliers) on the other end (Lund-Thomsen & Lindgreen, 2020). In between the two extremes are more balanced or equal relationships referred to as relational and modular networks (Gereffi et al., 2005). The weakest relationship is found in captive networks in which power asymmetry prevails, capabilities in the supplier's base are low and suppliers are dependent on buyers (Gereffi et al., 2005). The private governance in GVCs' horizontal governance system comprise of industrial associations and cooperatives. The role of industrial associations is becoming critical in GVCs, for example, the Joint Apparel Association Forum of Sri Lanka has taken the lead in branding the national apparel industry under its *Garments without Guilt initiative* as an ethnically based production industry.

The social governance in GVCs' vertical governance mechanism is driven by international NGOs that pressurize lead firms to incorporate social or environmental standards into their business practices and to ensure that the actors involved in the GVC adhere to those standards. Failure to adherence can result in various forms of activism, like boycotting the use of a product, protesting and organising petitions (Selwyn, 2013). The social governance in GVCs' horizontal governance mechanism is driven by local NGOs. Workers' associations raise concerns about local suppliers' adherence to appropriate standards and about the implementation of national rules and regulations. Hence, social governance often takes a multi-stakeholder form in which public, private and civil society actors pursue their common goals through joint action (Lund-Thomsen & Lindgreen, 2013; Nadvi et al., 2011). This form of joint governance, as noted previously, can be more effective than private, public or social governance alone in achieving sustainable improvements of working conditions in developing countries (Lund-Thomsen, 2019). Refer to Table 1 for a summary and details on public, private and social governance in GVCs.

Table 1: Types of governance in GVCs

Actor	Scope	
	Horizontal Governance	Vertical Governance
Public governance	Local, regional and national government regulations (e.g. labour laws and environmental legislation)	International organisations [e.g. ILO and World Trade Organization (WTO)]and international trade agreements [e.g. North American Free Trade Agreement (NAFTA) and generalized system of preferences (GSP)]
Private governance	Collective efficiency (e.g. industrial associations, cooperatives)	GVC lead firm governance (e.g. global buyers’ voluntary codes of conduct)
Social governance	Local civil society pressure (e.g. workers; labour unions; NGOs for civil, workers’ and environmental rights; gender equity advocates)	Global civil society pressure on lead firms and major suppliers (e.g. Fair Labour Association) and multi-stakeholder initiatives (e.g. Ethical Trading Initiative)

Source: Adapted from Gereffi and Lee, 2016

The public governance mechanism in GVCs’ vertical governance is exercised by international public actors that include the ILO, World Trade Organization (WTO) or bilateral trade negotiations and resultant facilities, such as the Generalised System of Preferences (GSP) between countries, through which social clauses are integrated into trade agreements with an aim to apply core labour standards to international trade. They effect changes in national labour rules and regulations that can have a significant impact on smaller firms and their workers in developing countries (Coslovsky, 2014). The public governance mechanism in GVCs’ horizontal governance, which is a more powerful tool due to the legitimate power of governments at various levels within nation-states, involves formal rules and regulations set by governments at local, regional and national levels (Nathan et al., 2016). However, these public governance mechanisms can hinder social upgrading because national rules and regulations are plagued by ineffective enforcement in many developing countries (Coslovsky, 2014). Nevertheless, GVCs are embedded in different institutional environments, and different nodes of the GVC interact with diverse institutional environments, making it imperative to understand how and what type of institutions interact with the GVC and affect firms’ outcomes.

Research Method

Data and Sample

We used a qualitative case study approach in this research where soccer ball manufacturing firms, operating within the context of Sialkot city in Punjab-Pakistan, comprise the main unit of analysis. For selection of firms, purposive sampling was used (Onwuegbuzie & Nancy, 2007) because in purposive sampling we find the relevant informants who can best guide us on the subject (Merriam & Tisdell, 2015).

Since qualitative researchers emphasize on the procedure of case selection, representativeness, appropriateness, and the number of cases (Basias & Pollalis 2018; Doz, 2011; Ghauri, 2004; Krippendorff 2018; Seale 1999). Therefore, the criteria for selection of cases and sample size as suggested by Boddy (2016), Creswell and Tashakkori (2007), and Hagaman and Wutich (2017) were used because they provide criteria for the sampling of firms clustered within the same geographical boundary. Since all soccer ball manufacturing firms were clustered within the same geographical boundary and operated in the same institutional context at all levels (public, private, and social), hence, as suggested by them, 10 multiple cases are sufficient. They further suggest that the number of interviews for every single case should be between 3 to 5 and in case of multiple cases, 15 to 30 interviews are sufficient for a research project. In order to obtain multiple actors' point of view, multiple sources of data and cases were used. Twenty-one semi-structured interviews were conducted with 11 firms' representatives (Human Resources HR, Product, General etc).

At first, a list of firms (sporting goods industry) registered with the Sialkot Chamber of Commerce and Industry (SCCI) was obtained from the office of SCCI-Sialkot, an apex industry association in the Sialkot sporting goods industry (Khattak & Stringer, 2017). The Microsoft (MS) Excel list contained 1,000 registered firms and included their names, addresses, phone numbers, email addresses, website addresses and core products, such as soccer balls, sportswear, leather or gloves, to name a few examples. At the second stage in the process, as our case study focused on soccer ball manufacturing firms, we applied the MS Excel filter option in the core product category to narrow our list to include only firms that manufactured soccer balls. After filtering, 243 firms were identified. For further classification during the next step to trace only soccer ball manufacturers, we identified addresses (that could be traced on Google maps) and their website addresses. Out of the revised list of 243 firms, only 80 that were identified as producing only soccer balls had traceable physical and website addresses. These 80 firms were shortlisted for the interviews. Each of the 80 firms was visited, and permission to meet with their Human Resource (HR) managers, the primary gatekeepers who allow access to factories, was requested.

A total of 11 firms out of the 80 firms on the shortlist participated in the research, which reflects a 13% response rate. This response rate is acceptable in any typical qualitative research; indeed, Ritchie et al. (2013) argued that large and diverse populations are not the concern of qualitative research. Therefore, there was no need to ensure that the sample was of a sufficient scale to provide estimates or to determine statistically significant discriminatory variables. Refer to Table 2 for details on the firms interviewed.

Also, focus group discussions (FGDs) were conducted with skilled, semi-skilled and unskilled workers. Carrying out focus group discussions during participants' work hours presented a challenge. The most suitable times identified for the FGDs were during the workers' break time and after their work hours. Thus, two FGDs were conducted during their break, and the six FGDs were carried out after work hours outside the factory at nearby small restaurants. In total, 64 participants took part in 8

FGDs, which is an appropriate number of participants based on earlier studies conducted (see Rossi, 2013). In addition, a survey was administered to collect information from workers for quantification purposes. A total of 250 workers, were asked to complete the questionnaire concerning wage issues, working condition indicators and enabling rights. As no questionnaire was available on GVCs to measure social upgrading dimensions (Islam & Polansky, 2018; Khattak et al., 2017), we developed survey items based on the content of the semi-structured interviews with the HR managers and issues raised by the workers during the FGDs.

Table 2: Classification of firms interviewed.

Factory Code (F=Factory, G=Government)	Classification (sector-wise)	Total workforce	Scale	Social Compliance
F1	Soccer (Thermo-Modelling) ¹	2,100	Large	SA8000 ² , WRAP ³ + CLEP ⁴
F2	Soccer (Machine-Stitch)	1,000	Large	SA8000 + CLEP
F3	Soccer (Hand/Machine)	700	Large	SA8000, WRAP + CLEP
F4	Soccer (Hand/Machine Stitch)	1,400	Large	CLEP
F5	Soccer	1,000	Large	CLEP
F6	(Hand/Machine Stitch)	200	Medium	SA8000
F7	Soccer (Hand Stitch)	80	Medium	CLEP
F8	Soccer (Hand Stitch)	25	Small	None
F9	Soccer (Hand Stitch)	45	Small	None
F10	Soccer (Hand Stitch)	43	Small	None
G ⁵ 11	Soccer (Thermo-OMB ⁶)	26	Small	Nil

¹ The thermal modeling method is a technologically sophisticated technique to produce a soccer ball that is different from machine-stitch and hand-stitch soccer ball production. It is used to produce the

Official Match Ball (OMB), declared by the Federation International de Football Association (FIFA) as the official ball for use in international matches. The retail price of the OMB ranges from approximately \$80 to \$150, as compared to the traditional soccer ball, which costs approximately \$15 to \$45 (Soccerpro, 2015). Moreover, the OMB was used in the FIFA 2014 Football World Cup with the name 'Brazuca' and is identical to that used in the Union of European Football Association (UEFA) champion leagues with the name 'Tango 12' and in the FIFA Confederations Cup 2013 with the name 'Cafusa' (Kotschick, 2006; Sofotasiou, Hughes, & Calautit, 2015).

¹ SA8000 is an auditable certification standard that encourages organisations to develop, maintain and apply socially acceptable practices in the workplace.

¹ World Responsible Accredited Production

¹ Child Labour Elimination Program

The objective of this structured survey was to collect the workers' views structurally and reduce interview time; establishing reliability and validity, while relevant, was of least concern due to the use of the dichotomous scale (Yes and No), which generates only response percentages. This method is widely used to carry out surveys, particularly by NGOs in developing countries where data collectors take the views of respondents on structured items. Furthermore, six interviews were conducted with the government officials (Labour Department) and one interview with the representative of Director of Independent Monitoring Association for Child Labor (IMAC). List of interview questions for the firms have been given in Appendix A, focus group discussion sheet in Appendix B, and interview list for the government officials and NGO representatives in Appendix C respectively.

Data were analysed using a thematic analysis. In the first stage of the analysis, data were sorted according to concepts and themes (coding), which helps to break down, conceptualise, categorise and present data in an understandable manner (Ghauri, 2004). At this stage, data were scrutinised and organised by identifying repeated keywords, important sentences and expressions in transcriptions by adopting a line-by-line coding approach (Gibbs, 2007). At the second stage, the cases were categorised according to common features and codes (clustering) (Bryman & Bell, 2015). This helped to determine the governance structures in different cases and explore similarities and differences across multiple cases with reference to social upgrading. In the third stage, the different matrices of social upgrading elements were classified (matrices) (Gliner et al., 2011). Finally, the matrices developed were compared to develop a robust model and network of different public, private and social governance actors, along with themes.

Findings

Private Governance and Social Upgrading

Lead firms and social upgrading

The findings suggest that the soccer ball industry is driven by international buyers (buyer-driven chain), where lead firms, mainly buyers, define the parameters of a product, such as its design and specifications. Common types of networks found in the soccer ball industry were captive, relational and market. To measure wage appropriateness, the minimum wages of all the workforces were used as criteria. According to the ILO (2019), minimum wage is defined as follows:

[The] minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cater to the minimum needs of the worker and his/her family, in the light of national economic and social conditions.

Measurable standards of social upgrading have two components: 1) physical well-being and 2) employment and income security. Physical well-being includes ventilation systems, emergency exit clarifications, reduction in number of accidents, reduction in overtime and other related items. The category of employment and income security includes written contracts, reduction of casual workforce and registration with social security institutions.

Intangible elements of social upgrading consist of enabling rights, which encompass dignity and empowerment; improved social climate, for example, improved communication between management and workers; no harsh treatment; no discrimination; and freedom of association.

Firms' perspectives: From the managers' perspectives, the findings suggest that they implement social upgrading dimensions for economic purposes. Primarily, supplier firms in the captive and relational networks were in contractual relationships with international buyers in which the supplier firms were required to implement codes of conduct, and that implementation was monitored and evaluated through third-party audits and by the representatives of social certification organisations, for example, WRAP and SA8000. In the case of non-implementation, the contracts were liable to be terminated, which would result in huge losses. Nowadays, it is indispensable for firms to be socially responsible; otherwise, the survival of the business is at stake. When managers were asked to identify their priorities for what to change to achieve social compliance, the firms operating in captive and relational networks replied that health and safety issues were among their major priorities due to the higher weightage assigned to such issues during third-party evaluations and buyers' audits by social compliance representatives. As mentioned by one of the firm's representative:

The reality is that we do 90% due to the pressure of international buyers; they force us to do what is necessary for business. Recently, Adidas conducted its separate audit, which was successfully completed, and we had a surprise visit by two other buyers as well.

Firms were asked, aside from good working conditions, what specific benefits they provide to workers, such as wage rates, written contracts and leave time, for example. Firms operating in the captive and relational networks reported providing employees with written contracts and maintaining a separate file for each worker. The workers received a 6% employment old age benefit institute (EOBI) contribution, towards which the employer paid 5% and 1% was deducted from the employees' salaries. Further, firms provided a 6% contribution for each employee to a social security institution, such as hospitals and schools at which workers were entitled to receive free medical assistance and education respectively. All firms were consistent in providing leave time: specifically, 6 casual leave days, 8 sick leave days and 14 annual leave days were provided; female employees were entitled to an additional 90 days' maternity leave paid by the social security institution.

In all interviewed firms, wage increases were granted based on performance and as per wages set by the Government of Punjab. The stringent path firms were required to follow was to provide the minimum wage as set by the Government of Punjab; therefore, the role of buyers was minimal in wage setting. Moreover, firms were asked under what conditions they considered labourers as permanent versus contractual employees, to which one of the HR manager replied:

If a person comes in for an office job, we offer him a permanent position. When labour workers come in to work on the floor or on production activities, we offer them a contract.

Another HR manager replied as follows:

Those who work in the office we consider permanent, while those who work on production floors, who work on piece rate, are also permanent, but their wage structure is different.

When asked about the salary structure difference for permanent and contract employees, one of the HR managers noted the following:

The minimum salaries are set by the Government of Punjab notification and skill wise, so workers are paid minimum wages and are also paid based on their skill base.

Another HR manager stated:

We classify our workers as unskilled, semi-skilled and highly skilled as described by the Government of Punjab in the wage board notification.

To measure employment and income security, managers were asked if they provided written contracts. A representative of a firm (HR manager) operating in a captive network said:

Yes, we give written contracts because international buyers mention the contracts in their code of conduct guidelines, and also the contracts are checked during third-party audit visits.

Moreover, when the HR managers were asked about the duration of contracts, one provided the following explanation:

Actually, there is no mention of time in the contract. We issue an appointment letter in which a three-month probation period is cited, and then after the successful completion of the probation period, the worker becomes a regular employee.

Similar practices were reported across the captive and relational networks. This condition is beneficial for firms which want the freedom to lay off labourers at any time. However, in the context of Sialkot, where a shortage of skilled labourers exists and labourers are able to find employment easily, the labourers are generally not concerned with the nature of the contract, according to feedback received during various interviews. Hence, the duration of contracts in the Sialkot context was not of significant importance.

Another aspect that received low priority was enabling rights, which gives workers the right to organise a union to protect themselves from exploitation. When firms were asked if they had a labour union,

the firms operating in captive and relational networks reported that they had no voting system for the establishment of a trade union, but they indicated that a committee comprising labour representatives and management meet monthly to settle disputes. No evidence of strikes or lockouts in the firms was found. Despite the absence of trade unions, management worked well with labour, and labourers were allowed to visit their department head or human resource manager to settle disputes.

The findings revealed that third-party labour contractors acted as a channel for recruiting and managing employee relations and benefits in hand-stitched soccer, machine stitched soccer and sportswear stitching small and medium-sized enterprises. Labour contractors were found to have a direct relationship with firms, where the firms gave orders and timelines for completion to contractors. Then the contractor was responsible for arranging labour, settling their payment issues and managing their work. In this way, workers and employers were linked through contractors, who were compensated with a certain percentage (commission). This third-party labour contract arrangement was found to be feasible for firms because it helped to manage seasonal demand, to match the right type of workers with tasks, to ensure labour supply on a just-in-time basis and to reduce the costs and need for management of labour (Rogaly, 2008). However, it significantly affected the social upgrading of GVC firms by compromising decent working conditions. For example, the minimum wage rules and other labour benefits are negotiated such as leave social security and EOBI contribution.

Employees' perspectives: During FGDs, the workers identified wages as the most important element that should be improved upon. Most workers mentioned that they ask for minimum wages as set by the government. During interviews, most of the firms reported following the classification set by the Government of Punjab Wage Board. Therefore, the labourers' bargaining power to negotiate wages was low.

The employees considered wages as highly relevant in GVCs because they constitute the core contribution to their welfare, as a cash benefit pre-requisite to managing daily life activities. Employees reported that in small firms, the minimum wage was not observed because the workers were controlled by the third-party labour contractors, even though the workers were performing their work duties on the factory premises. One non-skilled worker said:

We are paid by the contractors, and it is not sufficient for our family. However, we cannot ask for more because other labourers are easily available.

This issue applies only to non-skilled workers, as skilled workers are in short supply and jobs for skilled workers are plentiful, as noted previously. According to the data obtained through the questionnaire, in small firms 54% of workers were paid salaries ranging between Rs.⁷ 8,000–12,000 per month, which is below the minimum wage set by the Government of Punjab. Even in large firms, 21% workers (unskilled) were earning wages between Rs. 8,000–12,000 that did not meet the criteria established by the government. According to the data obtained through the questionnaire, in large firms, 21% of employees (unskilled workers) were not receiving the salary slip (a formal document showing salary month and heads), and in small firms, 80% were not receiving it because most were hired through third-party contractors who managed their salaries.

Results on the social security card issue were mixed. Those employees who were highly skilled and working in an organisation for more than 10 years had a social security card. However, workers who

⁷ Pakistani currency, which, when converted into USD, equals \$51.36–\$77.05.

were semi-skilled, inexperienced and/or unskilled did not have a social security card and never visited social security hospitals. The prime reason behind not visiting was that they did not find medicine or doctors when they required. Therefore, the workers were least concerned about the social security contribution. One factor they emphasised was the behaviour of their firms' owners and management staff. The ease of receiving loan for the medical and other purposes was one of the main factor. One worker from a small firm said:

Whenever we need any financial help, we ask our managers, and they always care. Our management takes care of our issues and helps us from time to time. Moreover, they also provide us with a loan if we need it.

Another worker mentioned:

Whenever we need help, our firm provides us with a loan, and then payments are deducted from our salary, but we do not visit the social security hospital.

Primarily, it is the responsibility of firms to pay the social security contribution of their workers to a government social security institution, and workers receive their social security cards. However, it is evident from the data collected from workers this was not always the case: even in large firms, 75% of workers did not have a social security card, while in small firms 100% of workers did not have a social security card.

Workers in captive and relational networks also shared their thoughts on other benefits and facilities in addition to wages:

We have a canteen facility where lunch is provided free of cost, and the company provides us with transportation because workers are coming from the multiple towns and villages.

The workers of firms in the market structure had this to say:

We bring our lunch from home or sometimes we go to the nearest hotel during break time.... Whenever we ask for leave, the officer deducts the time from our salary.

The workers were asked whether the working conditions, like the ventilation system, water plant, protective gloves and other related factors, were good. One worker of a captive network said:

Our supervisor always walks on the production floor and tells the workers to follow the instructions, and whenever any worker is not following instructions, the supervisor guides us respectfully like we are his own kids.

A worker of a small stitching centre said:

Our need to sit [sitting arrangements] is not good. Because of it, I feel pain in my back, and most of them [my co-workers] have back problems, also.

When the workers were asked about their working conditions, 42% from medium-sized enterprises and 46% from small enterprises expressed that they did not have good working conditions. The next priority for worker after the wages was physical well-being. In a few FGDs, the workers of captive and relational networks praised improvements made in working conditions, including health and safety systems and the cleanliness of production floors, and also noted that no overtime was witnessed. The groups were then asked why such improvements were made. One worker attributed the changes to visits from third parties' auditors:

They come on a routine basis and talk to us. Now our owner has improved the condition of the production floor.

When asked about formal voting system on the formation of a collective bargaining agent, surprisingly, 78% of workers from large firms replied 'No'. When HR managers were interviewed, they noted that they established an employee–management committee to resolve workers' issues. However, the mechanism for establishing a collective bargaining agent as described in labour laws had not been implemented. When factory employees were asked during FGDs about union participation activities, one said:

We have been working for a long time in this factory, and we never participated in union activities, but there is one committee that we can approach for HR related issues when needed.

Another employee mentioned:

We are uneducated and do not know about this because our matters are resolved through committees, so we do not have any interest in a trade union.

These statements indicate that labourers lacked awareness and interest in trade union activities because their matters were resolved through committees and they were satisfied with that option.

Most of the firms included in the sample employed few female workers. In the culture of Sialkot, females are less inclined to work in factory jobs. Most of the females we encountered were working in soccer stitching centres that were near their homes and they could easily manage their work. A few females were found in the sportswear industry working in ironing and packaging departments, which is considered unskilled labour. They were also managed by contractors. Due to this, the female perspective, which is an important aspect of GVCs, has not been incorporated into this study. Table 3 depicts the types of social upgrading under different private governance (vertical) mechanisms, along with various dimensions of social upgrading achieved in those firms.

Table 3: Relationship between private governance and social upgrading.

Factory	Social Upgrading
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	Governance structure	Measurable Standards					Enabling Rights		
		Wages	Physical well being		Employment and income security		Dignity and empowerment		
			Working environment	Overtime	Contracts	Social security	Social climate	No harsh treatment	No discrimination
F1	Captive	Yes	Yes	No	Yes	No	Yes	Yes	Yes
F2	Captive	Yes	Yes	No	Yes	No	Yes	Yes	Yes
F3	Relational	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
F4	Market	Yes	Yes	Nil	Yes	No	Yes	Yes	Yes
F5	Market	Yes	No	No	No	No	Yes	Yes	Yes
F6	Relational	Yes	Yes	Nil	Yes	No	Yes	Yes	Yes
F7	Market	No	Yes	No	No	No	Yes	Yes	Yes
F8	Market	No	No	Nil	No	No	Yes	No	No
F9	Market	Yes	Yes	Nil	No	No	Yes	Yes	Yes
F10	Market	No	Yes	Nil	No	No	Yes	Yes	Yes
G11	Market	No	Yes	Nil	Yes	No	Yes	Yes	Yes

*Yes = Following basic rules

*No = Not following

*Nil = Not applicable

Industry Associations and Social Upgrading

The SCCI played a key role in the development and implementation of the multi-stakeholder initiative to combat child labour in the soccer ball cluster. This agreement, known as the Atlanta Agreement, was formed between the ILO, the SCCI and the United Nations Children's Fund (UNICEF) on February 14, 1997. In Sialkot, the SCCI and Employers' Federation, along with ILO and UNICEF, played an important role in eradicating child labour activities from firms and stitching centres through the Atlanta Agreement, leading to social upgrading and providing access to key markets.

Public Governance and Social Upgrading

Local/domestic institutions and regulations

The Labour Department of Punjab is a state institution responsible for ensuring safe and healthy working environments, designing wages and monitoring several welfare schemes. Due to the absence of government-level inspections, employers (firm owners) were able to exploit labourers by paying

low wages, providing poor working environments and indulging in child labour activities. To understand the labour regulation enforcement mechanism and its effectiveness, different stakeholders were interviewed, including the Punjab Director of Labour and Welfare, firm representatives, and workers. According to the Director of Labour and Welfare:

There are a total of 17,000 registered factories in Punjab, and to inspect these factories there are 72 labour officers. Particularly in Sialkot, around 1,000 factories are registered, and for inspection, there are two labour officers. According to these numbers, on average one labour officer has to visit 500 factories in a year. Though there is less variation in the physical structure of firms, machinery and equipment, labour issues related to minimum wage, social contribution, overtime, enabling rights and workers' livelihoods are volatile, and therefore, it is nearly impossible to ensure strict monitoring through a labour officer due to the shortage of labour officers.

He was then asked what mechanism was in place to ensure efficient monitoring visits were conducted by labour officers, to which he replied:

We have incorporated technology, such as android tablets with 3G, which means monitoring through android to ensure that a particular person is visiting a firm along with sharing photos in real time. The biggest challenge is labour officer training, signal availability and recording mechanisms at head offices. Moreover, we have a toll-free number that workers can call to register their complaints.

However, during fieldwork, workers categorically made comments similar to the following:

We do not know any toll-free number, and no information is placed on factory gates or inside the factory premises, and we do not even know who our labour officer is.

Similarly, another worker representing labour replied:

Labour officers are corrupt. They do not visit the factories, and when once in a year they do visit the factory, they take a bribe and do not mention problems and issues in their report.

When a labour officer was interviewed, he observed the following:

The factories owners are so powerful that the labour officer is not in a position to make a charge. We are not protected because in the market there are practices of being threatened by different independent groups who state that if we highlight information, we will not be spared. We do not have resources for transportation and lack a real-time communication infrastructure with the director's office.

The results indicate that in Sialkot, the enforcement of formal public institutions regulations is weak and nearly non-existent.

International institutions and regulations

Pakistan obtained the GSP Plus⁸ on January 1, 2014, provided by the European Union (EU), which enabled access to 27 EU markets with the export of 6,000 product lines at reduced tariffs conditional on the implementation and establishment of monitoring mechanisms and transparent reporting on 27 international core conventions of the ILO. In this regard, Pakistan's third decent work country program (2016-2020) was launched, in which the major priority areas were promoting decent work in rural economies, promoting job creation for youth and vulnerable groups and promoting compliance with international labour standards through social dialogue.

Along these lines, the ILO and EU signed on to a six-year project for international labour and environment standards (ILES) in Pakistan worth €11.6 million implemented by the ILO and Worldwide Fund for nature to promote labour and environmental standards among public and private institutions. To improve the institutional capacity of the Labour Department, the ILO launched the Dutch-funded program to strengthen labour inspection in Pakistan; so far, 331 labour inspectors, including 318 men and 13 women from all over Pakistan, are involved.

The primary role of the ILO is to implement decent work approaches aligned with economic and social policies of the respective country. Pakistan has signed the ILO core conventions that enabled the ILO to work closely with local formal and informal institutions of Pakistan to improve the local institutions' capacity (labour inspector numbers and effectiveness) and to suggest rectification of national labour laws to align with global standards.

One of the major concerns identified by workers during the fieldwork was wages. Following the 18th Amendment to the Constitution of Pakistan, the provisional government became responsible for setting a minimum wage for workers working under the boundary of respective provinces. The Government of Punjab Wage Board is responsible for setting minimum wage criteria for workers according to their skill level. Thus, wages are based on the classification of workers.

Social Governance and Social Upgrading

Workers' unions and associations

In Sialkot, most of the home-based soccer ball stitchers were working to improve their livelihood. The practice of using home-based stitchers evolved when soccer ball manufacturing enterprises decided to outsource stitching work to employees to complete in their homes in order to tackle the frequent stitchers' trade union strikes that took place in the 1970s in Sialkot soccer ball clusters as part of a push for improved working conditions. These home-based soccer ball stitchers are not formally recognised under the Pakistan Factory Act 1936, and as a result, they are deprived of the minimum wage, overtime payment and social security benefits (Lund-Thomsen & Coe, 2013). Thus, the third-party labour contractor phenomenon erupted, with the contractors serving as factory agents responsible for interacting with factories and home-based stitchers to take orders, distribute materials and ensure delivery on time. Hence, home-based stitchers did not have any mechanism through which they could become familiar with market conditions and wage issues, which created an opportunity for third-party contractors to exploit them.

⁸ GSP Plus is in addition to normal GSP arrangements and is granted to developing countries for compliance with international labour standards.

In addition, due to the emergence of home-based stitchers, child labour became an issue of concern. The prime reason was that in families, children had an opportunity to learn the stitching skills and engage in the stitching process. This social transfer of skills was recognised as a key mechanism for the transfer of employable skills. Nevertheless, child labour issues were debated in international forums, and allegations were made that several multinational firms were deliberately outsourcing manufacturing in countries where labour was cheap, and children were involved in labour activities. During a field visit to Sialkot, it was observed that home-based stitchers established informal workers' associations to tackle issues such as appropriate and timely wages. Although all stakeholders agreed to provide labour rights to home-based stitchers, these changes were not implemented due to the scattered nature of home-based stitchers (Khan, 2007). When one member of the workers' association was asked what prompted him to form an association, he replied:

Individually, we had no power to bargain with contractors. Whatever wages they offered, we accepted, but the wages were very low, which made it hard for us to survive. Thus, I asked many stitchers to join together so that we could ask for better wages.

From another interview with home-based stitchers:

We stitch footballs [soccer balls] with hard work and try to deliver on time, but we receive our payments very late from contractors. Now we do not trust contractors anymore. Therefore, we ask for payments in advance.

Another home-based stitcher was asked about support from the government:

They [government officials] do not care about us and do not know what our problems are.

Thus, home-based stitchers realised that forming an association was a key mechanism to obtaining proper wages from contractors. In summary, the three key reasons the associations were formed were lack of trust, lack of bargaining power and lack of support that forced stitchers to establish associations to negotiate with contractors on wages. Due to the establishment of associations, the contractors became responsible for providing the wages that were decided upon by the association and providing payments on time.

The analysis of data reflected several barriers in the formalisation of unions at the bottom of the GVCs. Regarding horizontal governance, the freedom of associations was violated on a large scale in the industrial area studied due to weak government capacity to enforce labour regulations. Further, in vertical governance, lead firms were responsible for implementing a code of conduct in their supplier factories that focused on the health and safety conditions of workers through regular monitoring. However, lead firms were less concerned with implementing good working conditions in clusters where suppliers were linked with home-based workers. As a result, the need to increase the government institution's capacity to enforce labour regulations and amend existing labour laws to bring home-based workers into formal networks was essential.

International NGOs

As noted, the core purpose of the Atlanta Agreement was to remove child labour activities from homes where soccer balls are stitched, so an independent monitoring unit of child labour (IMAC) was

established. This unit maintains a complete list of villages where soccer balls are manufactured so that during random visits child labour can be identified and minimised.

The Director of IMAC was asked during an interview about how IMAC contributed to diminishing child labour:

Our prime concern is to eliminate child labour activities from stitching units, both in centralised stitching centres and home-based stitching centres. For that we have a specialised unit of monitoring officers that randomly visits each village and respective stitching centres to ensure that no child is involved in stitching activity, and if such activity is found, we inform factories of anyone involved and then the factories withdraw their orders from that location. A report is available on our websites; we are doing our best, and now child labour activities have been nearly eliminated from stitching units.

Figure 1 portrays the interaction of public, private and social governance in the soccer ball industry of Sialkot.

Figure 1

Public Governance:
Red
Private Governance:
Yellow

Country A
(EU)

Discussion and Concluding Remarks

In GVCs, the economic actors are embedded in different institutional environments, which presents difficulties in the enforcement of social agreements (Brousseau & Glachant, 2008). Thus, formal institutions are complementary in interacting with the governance structure of lead firms. Contrary to this, another camp argues that informal institutions are not effective but instead promote corruption and favouritism that undermine the performance of market governing institutions (Arnott & Stiglitz, 1991). However, the role of informal institutions becomes vital when the formal institutions' effectiveness is weak or lacks authority (Peng et al., 2008). There is still debate about the role of informal institutions in the social development of workers in developing countries (Lund-Thomsen & Lindgreen, 2020), but they may provide solutions to different problems that enhance coordination among actors and facilitate the formal institutions' functioning (Peng et al., 2008). As discussed by Ponte et al. (2019):

Actors, institutions, and norms external to the value chain also shape GVCs governance, for example through regulation, lobbying, civil society campaigns, and third-party standard setting. Institutional actors, including states and multilateral institutions shape GVCs by providing a mechanism for signatories to enforce, or not enforce, regulations and a platform for negotiating the terms of international trade agreement. (p.120)

Strong encouragement from NGOs and for their reputation, lead firms developed their codes of conduct and established a monitoring mechanism to enforce the codes. This practice was widely accepted due to the absence of a strong global social justice system (Brammer et al., 2012) and the inability of developing countries' governments to implement their labour laws due to poor institutional quality (Gereffi & Lee, 2016). Despite the effectiveness of the codes of conduct, several scholars critiqued the monitoring mechanism (Locke et al., 2013). The major criticisms focused on whether the auditors monitoring social compliance could be trusted and whether they reported the actual factory conditions since the internal audits are conducted by lead firms. Moreover, if monitoring was outsourced to a third party, like an NGO or other organisation, critics questioned if they possessed the necessary technical competence and expertise for social audits.

In response to this criticism, several procedures and rules were established to ensure transparency through monitoring by independent organisations like third-party audits along with internal audits from local NGOs and authorised independent labour associations. Hence, the collective monitoring recently termed as 'synergistic governance' (Lund-Thomsen, 2019, p.285) is helpful for improving working conditions, particularly in countries where the state's capacity for implementation of standards and laws is low (Gereffi & Lee, 2016).

As the GVCs operate throughout cross-border networks that surpass the role of state institutions, the multilateral governance structure is essential (Mayer & Pickles, 2008). For the implementation of the multilateral governance structure or national labour regulations, the role of the labour inspector becomes critical, particularly for inspection of small workshops and home-based workers or piece rate workers linked to GVCs. Overall, public governance is vital for improvement in working conditions (Gereffi, 2018), specifically in Sialkot, where government enforcement of labour regulations has been almost non-existent.

Another viable path for better working conditions at the aggregate level can be a set of complementary trade-incentive policies for low-income export-oriented countries adhering to high social standards. The EU's GSP and GSP Plus schemes for those countries that do not have export diversification and

are vulnerable to one segment provide one example. Initially, the GSP scheme was not witnessed as a viable engine for better working conditions due to several obstacles at the domestic level. However, it was later refined, and monitoring intensified through independent monitoring by the ILO.

In the World Summit of United National General Assembly 2005, all leaders agreed that to overcome vulnerability and poverty through, productive employment is an indispensable vehicle. For that, ILO is responsible for assisting countries in order to develop strategies to implement decent work agenda along with their national objectives (Thomas & Turnbull, 2018). The ILO developed a decent work agenda that emphasised fair and sustainable working opportunities for developing and developed countries alike irrespective of economic conditions (Deranty & MacMillan, 2012). In developing countries, often the employment also take place within the boundaries of the home where the employment and social life interact and overlap (Coe & Jordhus-Lier, 2011, Danish & Khattak, 2020). Such employment is more visible in rural communities where wages are considered protection payment that improves the livelihoods of families (Pyke & Lund-Thomsen, 2016). However, social right of workers working in informal sector is still a big question mark for the institutions and still mechanisms ensuring implementation of decent work principles in that sector is missing.

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APPENDIX A

Interviews Questions (Firms)

Governance Network

- For how many buyers are you working?
- Does the relationship of your firm with the buyers vary according to the specialization of the product?
- What drives you to engage with single or multiple buyers? What is the percentage of production taken by your largest customer [buyer]?
- How and why do buyers force you not to engage with other buyers?

Business Activities

- How do you and your buyers share information and responsibility for research and product development? What is the process of sharing information and responsibility?
- How do you decide and manage the lead time demanded by customers[buyers]?
- Under what conditions you outsource your orders to sub-suppliers?
- Which season is considered as peak time? How do you manage peak time orders, what type of strategies you follow and why? And what benefits you receive by following such strategies?
- Under what conditions you hire temporary workforce? What is the process for hiring temporary workforce? What are benefits that are associated with hiring a temporary workforce?
- How do you decide the workload for each worker? what are factors that force you to increase or decrease workload or production target of each worker?

Economic Upgrading

- What types of products are produced in your factory? Have you changed the product range during the past five years?
- Why did you change the product range?
- Did global buyers influence this decision?
- How new product range has a higher value-added than the previous one?
- How did buyers' support you to improve products or processes?
- Have you incorporated technology to produce goods? What drives you to incorporate technology? And what benefits you gained after the installation of new technology?

Social Upgrading

- What are the key factors that force you to improve your work floor? How is it beneficial to your business? And how it has improved the work quality and quantity?
- When do you prefer to give social security registration for workers? and when you don't go for workers' registration?
- How wages affect your prices? In your opinion being an employer, what are the factors that the Government should consider while setting wages? Which aspects fall under your jurisdiction?
- In your opinion why trade associations should not be allowed? How do they affect business either in a positive and negative way?
- Why are you following such CSR practices, how it is beneficial for your business?

- What benefits are you providing to your workers? Under what conditions you bring changes in such benefits

APPENDIX B

Focus group discussions with workers (Discussion Sheet)

Could you please describe a typical working day in the factory? [Starting from the morning, how you reach the factory, what type of work you perform, how many pauses [breaks]you have, where you eat, when you leave, any other detail you would like to share].

We can see (if it is published) the code of conduct that the factory follows. This probably means you often meet auditors. What is your opinion about this practice? Can you remember what was the situation before the audits start? What are the main issues where and when things have changed? Are you happy with your work? Is there anything connected to your work or to the workplace that makes you unhappy/uncomfortable? What are the things you would like to change if you could?

Do labour inspector visits? How often /If yes do they talk with workers? Have your ever casted vote for the union? How your disputes and matters are resolved in the factory? what are the main priorities concerning your social conditions?

APPENDIX C

Interviews Questions (Government Officials and NGO Representative)

- What are your inspection criteria? How do you decide the inspection time and factory? How do you start the inspection?
- How do you see the management' attitude towards monitoring factories?
- What difficulties/challenges you face while monitoring factories?
- What sort of resources do you need while visiting factories?
- Have you ever attended training or workshop from international organizations like ILO? Do they guide for better monitoring? What changes do you feel after getting training?
- What do you think of how mobile phone technology can be used for effective monitoring and complaints?
- What is a method by which workers' can launch their complaints? How we can empower workers?
- What is the process of registration of workers? How workers' registration process can be expedited?