TACKLING INEQUALITIES IN VALUE CHAINS

BREAKING THE CHAIN:

Value chain analysis as a tool for renewing trade union bargaining and organising strategies.

LRS
Labour Research Service

Breaking the Chain: Value chain analysis as a tool for renewing trade union bargaining and organising strategies

By Trenton Elsley, Shane Godfrey and Mario Jacobs

It is by now common cause that the traditional industrial workplace and the permanent, full time, direct employment relationship that went with it are no longer the norm. The workplace is increasingly fragmented and reshaped by processes of externalization and the reorganisation of production. Even the traditional industrial factory setting now involves several layers of outsourcing.

The security and cleaning functions are two clear examples of the contracting out of work previously undertaken by employees of the factory. Depending on the sector, the externalization of functions may include transport & logistics, catering, and even production itself. In many instances, prices are being set more by buyers than by producers, which can have the effect of shifting the locus of power away from the workplace and the company where the trade union is strongest.

All of this has created a crisis of organisation and representation for trade unions as their traditional membership is reduced and dispersed, industrial demarcation is reshaped and employment relationships are rendered more indirect and more insecure.

The trade union movement must of course move beyond lamenting the state of things to the development of strategies for dealing with these new realities. In this chapter we will argue that value chain analysis presents a way for trade unions to re-see the workplace and to examine what possibilities exists for renewing bargaining and organising strategies based on a new understanding of how production is organised.

Introducing value chains

The easiest way that we have found to begin to understand value chains is to break a familiar product down into the share of value that goes to each of the main areas of its production.

There is an example using a shoe on the following page. By looking at the size of the shaded areas it is easy to see where the most value is captured. It is clearly the retailer with a third (33%) and then the brand company with over 20% that get most of the value of the shoe.

The way that value is distributed in the manufacture and retail of a mobile phone is another good example. Again, it is obvious who gets the biggest share of the value of the phone and who gets the smallest share.

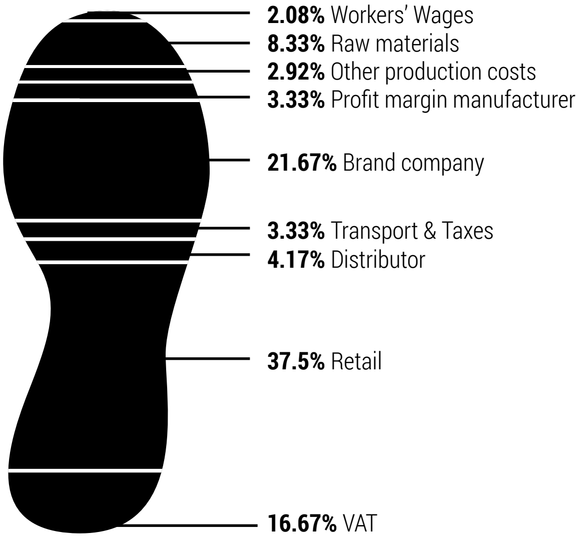
These two simple diagrams begin to describe the different parts of the production process of the shoe and the mobile phone. You might not have known exactly how the price of these products was shared between the different parts of the production process, but you probably do know a number of things about the products. You likely know who the big brand companies are and you certainly know the main retailers in your own country.

You know that there are many sectors and sub-sectors that can be involved in the production and sale of even one product or service. In the case of leather shoes, you know that there is animal farming somewhere down the production chain and that the leather must be processed. The plastics and metal sectors might be drawn into the manufacture of the soles of the shoes and the lace holes. The laces themselves will come out of the textile sector. We are talking about the input-output structure of the mobile phone and the shoe when we break down the different aspects of the production process and the different sectors that are involved in the manufacture of the product. We are talking about what goes into each stage of production (input) and what results from each stage of production (output).

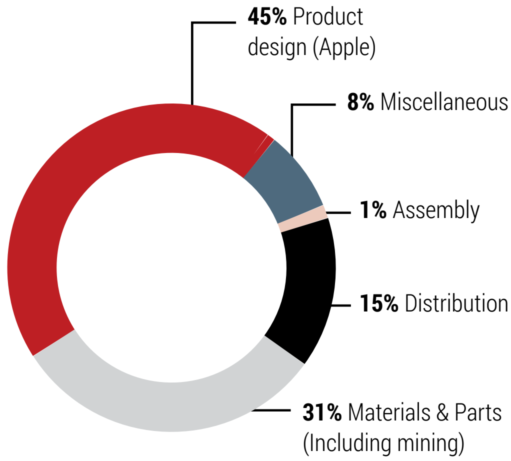
There are four quite simple elements to value chain mapping.

1. Input-output structure (What materials and labour go into the processes of production and what is produced at various stages?)
2. Geography (Where are the companies, operations and workers in the value chain?)

Price analysis of a running shoe



How the value of a mobile phone is shared



3. Institutional framework (How do laws and regulations affect companies and workers in the value chain?)
4. Governance or power (What power do the different companies in the value chain have? What power do workers have?)

The second element of value chain mapping is geography. This describes where the different parts of the production process are located. Trade unions have become increasingly aware that the boundaries between sectors and economies are not as defined as they once were. Globalisation means that we it is possible to buy a T-shirt at (i) a store near us that is (ii) branded by an American company, (iii) manufactured in Bangladesh and (iv) the material sourced from China.

This geographical spread of the production process also means that the clothing and textile workers in the different locations are not employed by the company that "makes" the T-shirt. The different workers in the geographically dispersed production process of the same product are governed by different laws and regulations, they are paid differently and they work under different conditions, even as they contribute to the production of the very same product. When we begin to talk about labour laws we are talking about the third aspect of value chain mapping – the institutional framework that the production process is situated in. This includes the legislation and policy environment in each of the countries that are involved in the production process. As you well know, the institutional environment can differ greatly between countries. Worker rights and trade union development, for example, are far more developed in South Africa than they are in Bangladesh.

The main message of the diagrams of the shoe and the mobile phone is what share of the value of the product goes to each sector. It is this sharing or lack of sharing of the value that shows us that there are power relations in the process. Now we are talking about the fourth aspect of value chain mapping, governance. Governance is a fancy word for power. The different companies in the production process do not have equal power in relation to one another. Quite often, a dominant client company in the value chain determines the price of the different parts of the production process, which determines the money available to pay workers at the outsourced firm. So, the dominant client firm influences the conditions of employment, but doesn't employ the workers.

Perhaps now we can say what a value chain is. A value chain is made up of the companies in the various stages of the production process that produce a final product, including the company at the end of the value chain that sells the product. These companies perform their role in the value chain on a long-term basis, regularly interacting with the companies that supply them and the companies that they supply to in the next stage of the process. Finally, there is power being wielded in the value chain. This power might be wielded moderately by strong companies to coordinate the value chain, but it can be exercised rigorously to exert control over companies in the chain and push prices down. Power is what distinguishes a value chain from an ordinary supply chain (Godfrey & Jacobs, 2018).

We can distinguish between two types of value chain. "Producer-driven commodity chains are those in which large, usually transnational, manufacturers play the central roles in coordinating production networks (including their backward and forward linkages). This is characteristic of capital- and technology-intensive industries such as automobiles, aircraft, computers, semiconductors, and heavy machinery."

"Buyer-driven commodity chains refer to those industries in which large retailers, marketers, and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in the third world. This pattern of trade-led industrialization has become common in labor-intensive, consumer goods industries such as garments, footwear, toys, housewares, consumer electronics, and a variety of handicrafts. Production is generally carried out by tiered networks of third world contractors that make finished goods for foreign buyers. The specifications are supplied by the large retailers or marketers that order the goods."
(Gereffi, 1999b in Kaplinsky & Morris, 2012)

Value chains and the division of labour

The value chain approach grew out of what is known as world systems analysis, which examines history over long periods and on a global scale. A key concept of world systems analysis is the axial division of labour. The working of the axial division of labour divides the global capitalist economy into three zones: the core, the semi-periphery, and the periphery. The main determinants of whether a country is in the core, semi-periphery or periphery are producer monopolies and competitiveness. Trade is the 'grease' the makes the axial division of labour work.

Prior to the 1970s global trade was dominated by the export of raw materials from undeveloped countries (on the periphery) to the developed economies of Europe and the United States (in the core of the world economy). The raw materials were used to manufacture products in Europe and the United States for use there, but many of these manufactured products were also exported to the countries of South America, Africa and Asia.

From about the 1970s, however, many firms in developed countries started to locate their manufacturing operations to developing countries, mainly because there was relatively cheap labour in these countries. Developing countries continued to export a lot of raw materials to developed countries, but now the pattern of global trade comprised significant exports of manufactured goods by developing countries to developed countries.

The axial division of labour between the core, semi-periphery and periphery of the world economy describes the geographical spread of the main sectors of the global economy. Even so, we can use this set of categories to understand to what is happening to the workplace and how people are employed.
The core, semi-periphery and periphery of the workplace are similar to the zones produced by the global axial division of labour. The wealth made by the main firm is distributed unequally to the employees, with the core employees getting the biggest share and those on the periphery getting the least. The risks go in the other direction. The workers on the periphery are in the most precarious jobs and bear the biggest risks of income and job insecurity, whereas those in the core are more secure and experience less risk. (Godfrey & Jacobs, 2019).

Over the last 20 to 30 years there have been a lot of changes to how people are employed.

You could say that in the core are workers who are employed by the company, are full-time, and who have indefinite contracts (they are permanent). These workers have reasonably secure jobs, they often get access to training and promotions, and some might qualify to join the company medical aid scheme and pension or provident fund. These workers are more likely to be trade union members. There has been a gradual decline in the numbers of workers in direct, full time, permanent or indefinite employment and the conditions of service associated with this form of employment, which tend to be better than that for other forms.

The workers in the semi-periphery are in less secure employment. While they might be employed by the firm, they might not have full time employment and they might employed for only a short period. They are employed by a service provider, but do their work at the firm (e.g. a cleaner or security guard). If employment at the firm is going to be reduced, it will usually be the part-time and temporary workers who are retrenched first. Such workers therefore do not have very much job security or income security. Their conditions of service and pay are strongly influenced by the terms of the contract between the client firm and the service provider.

Although they are employed by the service provider, their employment often depends on the contract being renewed with the firm at which they are providing the service. If the contract ends without being renewed they may well be retrenched. Such workers also often have lower pay and worse conditions than if they had been employed doing the same work by the client firm. Furthermore, fewer of these workers are union members. If they are, it will usually not be the same trade union that organises at the firm.

In the retail sector, we see a blurring of the boundary between the core and the semi-periphery. Permanent part time workers are the new norm in many large retailers. These workers are permanently employed, but are only guaranteed 80 hours per month. Despite their status as permanent employees, they effectively have half of a job.
Workers in the periphery have even riskier jobs. They have low skills and are employed by labour brokers or labour only contractors to do work at the firm. These contracts are frequently short-term and insecure, and workers will not have access to training or any chance of advancing themselves at the firm. This is the most extreme form of contracting. These workers remain the employees of the labour broker, although they do their work at the client firm and this arrangement might continue for many years. These workers are least likely to be members of a trade union. Informal traders that cluster around large firms and factories can also be seen as part of the periphery of these firms.

We see that many workers are being pushed towards the semi-periphery and periphery of the workplace, rather than being employed in the core of the company. This trend fragments workers and presents serious challenges for both worker organisation and the representation of worker interests.

Trade unions and value chains

The work of a trade union is to make connections between workers. It starts with making the connection between two workers side by side in the same workplace. Then we make the connection between those workers and workers in other operations of the same company. Then we make the connection between workers in different companies in the same sector. Then we make connections between workers in different sectors of the economy. Ultimately, we wish to make the connection between workers in different national economies around the world. This work of making connections between workers proceeds through trade unions, national centres, federations and confederations and global unions and federations.

Organising workers and representing the interests of workers are central to making these connections between workers meaningful. Ideas and ways of thinking that help us renew our strategies for organising and bargaining are important.
Value chain analysis offers just such an opportunity.

When we look at the diagram of the shoe, it suggests that workers and even the manufacturer of the shoe do not have very much power, since they get such a small share of the value of the shoe. In a similar way, the companies that are assembling mobile phones for multinational companies also have very little power.

"Today, transnational corporations dominate the global economy, controlling some 80 per cent of world trade through their own operations and those of their business partners, organised in global value chains." (Fichter, 2018)

Previously we said that there are two basic types of value chains, producer-driven and buyer-driven value chains. Understanding the character of the chain that a company is situated in provides clues to where power is located in the chain and therefore what power that the company that you are interested in has.

The implication for trade unions is that there is not much room to bargain pay and conditions upwards at some shoe manufacturers or at an electronics assembly company situated in a mobile phone global value chain.

Large retailers in particular have tended to assume powerful positions in modern day value chains. There has been a significant penetration of very large South African and international retailers into the sub-Saharan Africa (SSA) region. The major South African retailers are Shoprite, Pick n Pay and Walmart/Massmart, while clothing retailers such as Foschini and Truworths are also opening stores in the region. This development has created a network of manufacturers, intermediaries, and retail outlets in the SSA region, part of which is entirely regional and part of which is an extension of global value chains.

Centralised distribution

The Group has invested in an extended centralised distribution network that enables us to seamlessly manage the supply of products to our stores across the continent.

As the first South African retailer to receive the renowned ISO 9001 accreditation for import and export handling, we continue to pursue our strategic lead in supply chain management. Our International Trade Department sources products from anywhere in the world with extreme efficiency, assuring our customers of choice, availability of products and value for money. We have invested substantially to create a network of advanced distribution centres. Their accompanying transport operations are supported by sophisticated information management systems. A substantial portion of the investment in information technology and logistics infrastructure has been devoted to upgrading and expanding our distribution network.

Trade unions in value chains

Let's zoom in on one aspect of the retail value chain to see what ideas it can provide us with when thinking about bargaining and organising.

When mapping retail value chains, the distribution function presents itself a strategic link in these chains. It is a key means of integrating and coordinating the value chain at the point at which it meets the retailer. A major source of efficiency and competitive advantage for retailers lies in the distribution function. The trend has been for large retailers to increasingly centralise this function and in doing so to invest large sums of money in this area of operations. The Shoprite Holdings annual report (2017) makes it clear that the distribution function lies at the heart of the retail business.

Distribution centres are key to the work process in retail operations. While retail stores remain relevant, the stores have also been reduced in some respects to empty vessels that are filled from distribution centres. The Shoprite distribution centre in Cape Town also supplies its African store operations.

The South African Commercial, Catering and Allied Workers Union (SACCAWU) has become aware of the strategic importance of distribution centres and has stepped up its efforts to organise these workplaces. The work of UNI Global Union in establishing a series of shop steward alliances organised around multinational retailers in Africa has allowed us to begin to map the value chain in the sector more systematically.

The Shoprite/Checkers distribution centre at Brackenfell is a 50,000 square metre facility with approximately 1,400 workers onsite across three shifts of continuous operations. Conversations with shop stewards at the company suggest that the average Shoprite store size is around 100-200 workers. This distribution centre is therefore a very large workplace by retail standards. In addition, we understand that Shoprite-Checkers exerts a high degree of control over its transport fleet, although it reportedly uses a mixture of in-house and contracted transport.

Over 100 Shoprite stores in SA currently don't order stock manually, because the distribution system knows what they need already and automatically replenishes the stock. This centralizes an important aspect of store management away from the store to the distribution centre.

There are at least three different labour broker companies contracted at the distribution centre. Pickers move around the distribution centre on motorized vehicles building up individual orders for stores, before dropping them at areas where multiple orders are optimally packed for transport. The picker is guided by a voice prompt-and-respond system through a headset that advises them of the location of a product and the quantity to be loaded. The system recognizes individual voices and will only engage with the correct voice respondent. This management by technology effectively isolates and controls the worker. The company is also piloting individual training booths, not unlike a telephone booth, inside the workplace. These training booths offer a modular learning programme that a worker can move in and out of. This kind of on-the-job training system supports faster induction training and would limit the need for workers to have to leave the workplace for further training.

When thinking about regional value chains, a retailer like Shoprite struggles to centralise the distribution of perishable goods in particular, although the Shoprite Foodmark brand supplies over 200 stores outside of South Africa. The cost of intra-African export is high and they talk of red tape, bureaucracy and complex and inefficient import protocols with long time lines. It reportedly takes a container from Cape Town about 3 months to reach a country like Ghana. Perishable goods cannot survive the process.

This means that the retailer must source or develop suppliers of fresh goods in the countries to which it exports. Shoprite has 640 supplier farmers outside South Africa, with approximately 20 employees each according to Shoprite, resulting in about 12,800 livelihoods. There are 450 such suppliers in South Africa, but often much bigger, commercial entities. The table below provides a summary of Foodmark's efforts in this regard as of 2017.

Now we are beginning to map a regional agri-food value chain as it relates to retail multinational companies.

A new distribution facility was recently completed in Cape Town that is four times as large as the Brackenfell facility at 200,000 square metres and was projected to employ something like 5000 workers. Labour employed at the new centre will reportedly be 100% outsourced.

Despite its efforts to date, SACCAWU's foothold at the distribution centres remains limited to certain layers of administrative staff and to the company's transport division. The difficulty of organising a point in the value chain does diminish the importance of that point. SACCAWU's recognition of the strategic importance of these distribution hubs is what will fuel future efforts to organise. They will no doubt confront failure in future, but there is no surer path to success than the markers provided by what does not work along the way.

The starting point for beginning to integrate basic value chain thinking into unions is the local level

In a paper titled, Organising In and Along Value Chains, Fichter (2015) highlights the dominant role played by transnational corporations (TNCs), also referred to as multinational companies (MNCs), in modern value chains. He encourages trade unions to develop bold new approaches to fight the power of transnational corporations by securing their local and national power base within and along global value chains.

- The paper describes levels at which trade union movement can begin to act.
- Local Level
- National or Sectoral Level
- Global Level

Returning again to the retail sector, UNI Global Union has secured a global framework agreement with Shoprite, the largest retailer in Africa by far. This work at the sectoral and global level has delivered gains on the ground and the organisational gains won by an affiliate in Swaziland on the back of the global framework agreement bear testament to this.

UNI's conscious alliance building strategy has yielded several multinational networks, which are a critical resource for building trade union transnational power, now and in the future.

On the other hand, our work with trade unions in Africa suggests that it is unrealistic to expect shop stewards and even organisers to map vast global value chains. Value chain mapping can get very complex very quickly and it is important to maintain a clear focus to avoid being drowned in complexity. It is also true that for a number of unions in Southern Africa, the value chains clustered around retail operations quickly disappear over the border to South Africa, where the majority of manufactured goods come from.

The starting point for beginning to integrate basic value chain thinking into trade unions in Africa is the local level. It is useful to maintain a focus on the labour (worker) component of value chains, since this is the main currency of trade unions wherever they may be situated in a value chain.

Local unionists and workplace representatives can start by collecting information that can be helpful in negotiations with management and which begins to map one or more (global) value chain. Fichter provides some useful prompts to help a local unionist begin to map important aspects of the value chain.

Shoprite local fresh goods procurement in Africa, 2017

Country	No. of local farmers	% of Shoprite requirement
Ghana	70	40
Nigeria	102	50
Angola	76	25
Uganda	50	45
Malawi	82	20
Zambia	69	70
Mocambique	104	50
DRC	2	20
Namibia	58	45
Madagascar	24	50

When thinking about the different products and services of the company, ask where the products do or services of the workplace go, who are the (major) customers? How do they get to the customers (major logistic / transportation contractors)? Where do the materials, parts and components used in the workplace come from? Who are the major suppliers of materials? Who delivers products and services to your workplace? Can these links be followed further upstream (backwards to the suppliers of the suppliers) and downstream (forward to the customers of the customers)?
When thinking about suppliers and customers, ask what do you know about the major suppliers and business customers at your workplace? (ownership, turnover, profit, number of employees and agency, contract workers, etc.) Can you judge the role and importance of those companies in the value chain? Are there relevant competitors? How important is their product that you use to them? Is the supplier / customer a small / large unit in a larger corporation? What are the working conditions in those companies? What is the composition of the workforce (skilled / unskilled, men / women, permanent / temporary, etc.)?

When thinking about representation, ask which union(s) represent employees at the workplaces of suppliers or customers? Is there an employee representative body? Is there a union contract?

Some of this information is already available, some of it can be readily accessed. But some of it will take time to gather, and may lead to questions or resistance from management if it is expected to provide the information.

The next figure illustrates an effort by trade unionists in the retail sector in South Africa to map the labour component of production from where they are situated in stores. We asked shop stewards and officials to look around the store and identify jobs done by workers from other companies, to identify those companies and then further interrogate who organises them or does not organise them.

The unions identified a range of occupations and functions in the workplace and named the companies that provided these functions. They went on to identify which unions currently organise these workers and discussed potential obstacles to their own union starting to organise these workers. In South Africa, the main obstacle to organising these externalised workers is a political one.

The union's own constitution might be a barrier, but also the policy of their federation of one sector, one union. The situation differs from country to country. Zimbabwean unions appear to have fairly narrow sectoral scope, while unions in Mocambique are free to organise across sectors. This is not to say that that where there are legal and political barriers to organising, unions cannot build power in value chains. It does however mean that different approaches will be required, approaches that are sensitive to national contexts.

In another exercise, these retail unions considered three questions.

1. Where are sites of power in the value chain?
2. Where are potential sites of organising (existing and new)?
3. What is the possibility of establishing a presence there?

The Zimbabwean retail union identified that they could organise workers who work for the clearing agents on the border. It turns out the union already has membership there. The union also has organisational presence in the warehousing operation. The retailer has its own central warehouse in Zimbabwe and this warehouse and the drivers are organized. While some parts of the value chain can seem very distant from a shop steward in a store, it emerged in our discussions that the union actually had a presence at an agri-wholesaler positioned way down the chain. Rather than just being an interesting observation, the framing of the discussion in value chain terms allowed the union to recognize where that company is situated in relation to other companies that they organise.

What are the jobs in the store done by another company and their workers?	Who employs them? Name the company.	Who tries to organise? Your union / other/ nobody	Are there legal barriers or political barriers to organise them?
Cashier	**Not Outsourced**	SACCAWU	None
Security	**Outsourced** Silver Solution, Safe Guard, G4S, SIVA, Fidelity, Ross	SACCAWU, SATAWU, TAWUSA, NTM	Legal Regulatory confusion / Political
Merchandise	**Outsourced** Unilever, Clover, Tiger Brands, Fair Cape	SACCAWU, FAWU	Political
Cleaning	**Outsourced** Mr Clean, Bidvest, Priority Prestige	SACCAWU, SATAWU, TAWUSA, NTM	Political
Drivers	**Outsourced** SAB	SACCAWU, SATAWU, TAWUSA, NTM	Political

Ideas from the local level for renewing strategy

We have attempted to introduce the trade union reader to the concept of value chains.

Knowing where and how a company is situated in value chains can help the trade union understand how to best negotiate for better pay or conditions of work and how best to direct its organising efforts to build power in value chains. We share the belief that trade unions should act at a local, sectoral and global level in their efforts to tackle inequality in value chains. We also believe that cultivating an understanding at the local level among shop stewards and organisers is key to underpinning efforts at other levels.

It is in this spirit that we give shop stewards the last word, by sharing their ideas for renewing bargaining and organising strategies based on a developing understanding of value chains. This group was drawn from different unions that organise at South African multinational retail companies with operations in Africa. Their ideas embrace the local, the sectoral and the global.

We must network among ourselves across different companies.
We can strengthen visibility of the union at shop level.

We can promote the equal participation of both men and women in trade union activities.

We need to identify all forms of employment and include them. Some workers do not know they can be organized. Support functions such as cleaning and security need to be unionized. There needs to be cooperation between unions if necessary.

We can use regional trade union offices as a space where workers can be organized. This could provide a space for organising. This strategy provides a way of dealing with how retailers rotate workers between workplaces to prevent them from organising.

We can focus on the sector that gets the biggest share of the value in the chain.

We can develop our own standards. Unions need to set their own standards for workers in the absence of national laws or a global framework agreement.

We must pursue global framework agreements with all major companies in our sector.

References

Records of UNI Shop Steward Alliance meetings for Massmart/ Walmart, Pick n Pay and Shoprite, 2018

Records of Trade Unions and Value Chains workshops hosted by the Labour Research Service, 2018

Godfrey S and Jacobs M, 2019, An Introduction to Value Chains for Trade Unions, unpublished.

Fichter M, 2015, Organising In and Along Value Chains, Friedrich Ebert Stiftung.

Kaplinsky R and Morris M, 2012, A Handbook for Value Chain Research, International Development Research Centre.