

Chapter 23

The Role of Suppliers in the Greening of GVCs: Evidence from the Sri Lankan Apparel Industry

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ABSTRACT

Until now the Global Value Chains (GVCs) literature has highlighted the role of lead firms in the greening of GVCs, leaving the role of supplier firms under-theorized. This chapter contributes to this gap in the literature by providing empirical evidence to support the role supplier firms play in environmental upgrading in the context of the apparel industry in Sri Lanka. The findings reveal that an understanding of the process of environmental upgrading remains incomplete if the capabilities and strategic intent of suppliers are not taken into consideration. The role of the lead firm and the capability of the supplier firm cannot collectively ensure upgrading. Capabilities in the supplier base determine the relationship between supplier and buyer (governance), whereas a suppliers' strategic intent allows firms to be more inventive in situations where there is a misfit between resources (knowledge) and ambition. Thus strategic intent, coupled with capabilities, can provide competitive advantage to firms and pave ways toward environmental upgrading.

INTRODUCTION

Global value chains (GVCs) are “the internationalized structures of production, trade and consumption pertaining to specific products” (Palpacuer et al., 2005, p. 411). Participation in GVCs provides supplier firms with access to global markets as well as opportunities to potentially benefit from one or more forms of upgrading (Humphrey & Schmitz, 2002). Initial studies in GVCs focused principally

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on economic upgrading and competitiveness issues, while more recently social and environmental (or greening) upgrading initiatives have attracted research attention (Gereffi and Fernandez-Stark, 2011). Research into environmental upgrading, in particular, is still in its infancy when compared to economic and social upgrading. Furthermore, until now the GVC literature has been focused on the role of lead firms (large buying firms) in the greening of GVCs (De Marchi, Di Maria, & Micelli, 2013; De Marchi, Di Maria, & Ponte, 2013; Goger, 2013b; Jeppesen & Hansen, 2004; Khattak et al., 2015). Lead firms encourage suppliers to undertake environmental initiatives by implementing environmental requirements and standards, as well as by offering future contracts. As part of this process, lead firms transmit knowledge to suppliers regarding emerging environmental trends and policies in their home countries, as well as knowledge about certification standards. Importantly, lead firms play a key role in implementing and enforcing environmental strategies across GVCs, at least until formal institutions and regulations actively start setting and enforcing environmental standards.

However, the role of suppliers themselves in the greening of GVCs is under-theorized in the wider GVC conversation. We contend that a supplier's capability for assimilating knowledge transfer, learning, developing competencies and ultimately undertaking eco-innovations are also critical in this process. Most of the suppliers face the threat or fear of being excluded from GVCs due to their inability to meet particular environmental standards set and enforced by lead firms. However, not all suppliers will respond to such threats or fear. The objective of this empirically-motivated chapter is to contribute to an under-studied dimension: namely, the role of suppliers in the greening of GVCs, and will seek to do so by providing in-depth empirical evidence using the context of the apparel industry in Sri Lanka.

Sri Lanka was the first country to undertake green manufacturing in the apparel sector. The world's first green apparel factory was established there in 2008 (Wijayasiri & Dissanayake, 2008). Sri Lanka is one of the top 15 apparel-exporting countries globally (WTO, 2015). The United States (US) and the European Union (EU) are crucial markets for this Sri Lankan industry, as lead firms which dominate the apparel GVCs are located in these markets. The apparel industry here also provides an excellent case study to aid our understanding of how and why supplier firms engage in environmental upgrading initiatives. The chapter addresses an emergent gap in the literature as to the process of upgrading involving supplier firms. Such insights would allow us to arrive at a more systematic understanding of the greening processes in GVCs.

The chapter is organised as follows: the first section outlines the greening of GVCs from a conceptual perspective before discussing the conditions under which environmental upgrading can occur. The following section then discusses research methods. This is followed by an overview of the apparel industry in Sri Lanka. The key findings of the study are then presented, followed a discussion section, before conclusions are drawn.

GREENING OF APPAREL GVCs

Traditionally, lead firms in GVCs have used geographically-dispersed networks to access low-cost labor in developing countries, such as South Asia. Often developing countries lack rules and regulations pertaining to labour and environmental standards, potentially resulting in a 'low road' approach, wherein supplier firms reduce operating costs by disregarding standards (Appelbaum, Bonacich, & Quan, 2005). This has led to increasing awareness and concerns about sweat-shop conditions in outsourcing firms, resulting in the introduction of social compliance initiatives by key global lead firms.

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