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Economic, social and environmental upgrading in value chains: Social entrepreneurship and the role of emerging economy lead firms

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ABSTRACT

Both in developed and developing countries, the possibility of fostering production and consumption systems that reconcile economic with environmental and social objectives is coming to the fore as an important policy goal. In the context of the rising importance of global production networks, lead firms emerge as key players by encouraging the improvement of environmental and social standards beyond their boundaries. To date, the literature has focused mainly on the strategies of developed countries' lead firms. Often starting as suppliers of low-cost products, firms in emerging economies are increasingly performing more complex functions and eventually becoming lead firms themselves. This paper sheds light on when and how firms in such countries may foster upgrading, and the conditions under which these firms achieve a combination of economic, environmental and social gains. Building on the global value chain framework, on the existing literature on firm competitiveness and sustainability, and on social entrepreneurship, this paper proposes an integrated framework, incorporating economic, social and environmental upgrading, and examines the role of emerging economy lead firms in these processes, based on the case study of the Indian firm Mother Earth specializing in the home and fashion industries.

Keywords: global value chains, upgrading, sustainability, emerging economies, lead firms

INTRODUCTION

The importance of the sustainability agenda has been rising exponentially at the international

level in recent years. On the one hand, both in developed and developing countries the possibility of realizing production and consumption systems that reconcile economic with environmental and social objectives is coming to the fore as an important policy goal, given the global climate change and the alarming news from the scientific community (see eg, Porter and Van der Linde, 1995). On the other hand, both managers and policy makers are increasingly recognizing the business opportunities linked to the introduction of products and practices that reduce the impact on the environment and improve the social conditions of workers (see eg, Porter and Kramer, 2002). The increasing level of consumer awareness—especially in the Global North—of the impacts of their consumption choices on the environment and on workers' conditions in developing countries, the stringency of policy pressures and the actions of NGOs—which draw attention to firms' social and environmental performance—all encourage firms to pursue more sustainable production systems in order to reduce reputation risks, tackle specific market niches or reduce costs.

Lead firms may be the engines of the change towards a more sustainable development. In the context of the disintegration of production at the global level, lead firms, mainly located in developed economies, have proven to be key actors in economic development, managing global value chains that represent a significant proportion of global trade, and imposing standards in their industries (Gereffi, 1994, 2005). By requiring developed countries' social and environmental standards from all suppliers, and by transferring technology and knowledge, lead firms may also decisively encourage environmental and social improvements from their suppliers (Andersen and Skjoett-Larsen, 2009; Jeppesen and Hansen, 2004; van Tulder et al., 2009). If it is argued that in developed countries environmental upgrading is mainly driven by stakeholders and competitive pressures, in emerging economies (EEs) lead firms may become key players in the change (Jeppesen and Hansen, 2004).

To date the literature has focused mainly on the strategies of developed countries' lead firms. The rise of EEs, like India, China and Brazil, as engines of the global economy requires a new perspective on whether and how firms located in those countries may reconcile economic growth with better working conditions and labour standards, reduced

environmental impacts, and broader social and ethical concerns. Starting as suppliers of low-cost products and components, firms in these countries are increasingly performing more complex functions and eventually becoming lead firms themselves (Altenburg et al., 2008). EE firms have proven to be skilled enough not only to become major producers for the international markets, able to compete with world-class companies in developed economies (Khanna and Palepu, 2006; Wright et al., 2005), but also to possibly achieve the innovation capabilities that could ensure economic upgrading, at least in some industries (Altenburg et al., 2008). While these analyses provide evidence of the possibility for lead firms in EEs to upgrade from an economic standpoint, there is still little knowledge of how they could upgrade their value chains from a social or environmental perspective.

This paper sets out to explore those open issues on the basis of evidence from a case study of a lead firm based in India, which has been able to compete in national and international markets while increasing the share of value received by its suppliers and considering the environmental side of their production. As well as exploring a way for EE lead firms to ensure they achieve sustainable value chains, the paper suggests new insights for interpreting social upgrading in this setting and discusses potential strategies for mixing economic, social and environmental upgrading.

ECONOMIC, SOCIAL AND ENVIRONMENTAL UPGRADING: A THEORETICAL ANALYSIS

Since the 1970s, the disintegration of production and the integration of trade at the global level has spurred the development of global and regional production networks that account for a growing share of overall production and employment worldwide, especially in export-oriented industries (eg, Feenstra, 1998). The emergent literatures on global value chains (GVCs) have focused on how production and material flows are organized within those networks, and the division of labour between independent actors from developed and developing countries (Bair, 2009). The frameworks are primarily geared towards understanding the nature and the content of inter-firm linkages that span international borders, moving from a model of vertically-integrated firms to the development of complex

forms of coordination between independent actors that are globally dispersed.

Many of the theoretical and empirical contributions within the GVC literature have explicitly focused on the opportunities—in terms of learning and market access—for developing countries' suppliers as they participate in value chains led by developed countries' firms. Scholars emphasize the opportunities for EE producers to 'move up the value chain' (Ponte and Ewert, 2009: 1638), through the process of *upgrading* (Gereffi, 1999; Ponte and Ewert, 2009) in which lead firms transfer and share knowledge with suppliers who can then improve their capabilities in the value chains in which they participate. So far, scholars have focused mainly on understanding the economic side of upgrading. However, the growing importance of sustainability is pushing firms to engage with the issues of social and environmental upgrading as well (eg, Roseland, 2000; Nadvi 2008; Staritz et al., 2011).

Economic Upgrading

Economic upgrading has been defined as 'the process by which economic actors – nations, firms and workers – move from low-value to relatively high-value activities in global production networks' (Gereffi, 2005: 171). In this interpretation, upgrading implies moving up the value ladder, moving away from the 'low road' on which competition is high and entry barriers low and which does not represent a sustainable strategy in the long run (Giuliani et al., 2005; Kaplinsky and Morris, 2003). Four types of economic upgrading have been identified (see Humphrey and Schmitz, 2000, 2002):

- *Process upgrading*: involving changes in the production process to increase efficiency;
- *Product upgrading*: moving into more sophisticated and advanced product lines;
- *Functional upgrading*: performing higher value-added activities such as marketing, design or logistics;
- *Intersectoral or chain upgrading*: moving towards different chains, which are more technologically advanced.

The main GVC argument is that upgrading, in any of these forms, may be successfully stimulated by the vertical interaction with lead firms, more or other than by the horizontal interactions with firms in the same position in the chain (Ponte and Ewart, 2009).

Participation in GVCs driven by global buyers may allow suppliers—located mainly in EEs—to upgrade by learning ‘how to improve their production processes, attain consistent and high quality and increase the speed of response’ (Humphrey and Schmitz, 2000: 12). The possibility of upgrading in any of these four directions is affected by the internal effort and capabilities of the firm but also by the governance structure of the GVC (Giuliani et al., 2005; Humphrey and Schmitz, 2000, 2002; Schmitz, 2006). In particular, quasi-hierarchical (Humphrey and Schmitz, 2002) or captive (Schmitz, 2006) relationships enable product and process upgrading at suppliers but hinder functional upgrading, whereas the opposite is true for chains characterized by market-based relationships.

Social Upgrading

If until now the literature has focused mainly on economic upgrading, it has recently begun expanding to take into account the social dimension of upgrading as well, considering the impacts of the inclusion in GVCs on the entitlements of workers and the quality of employment, and inquiring into the conditions that lead to joint improvements in the competitiveness of firms and the social conditions of workers. Social upgrading has been defined as ‘the process of improvement in the rights and entitlements of workers as social actors, and enhances the quality of their employment’ (Barrientos et al., 2010: 4). According to those authors, social upgrading can be subdivided into two components:

- *measurable standards*, including the improvement of workers’ conditions in terms of contract type, social protection, and health and safety levels; and
- *enabling rights*, including less easily quantifiable aspects such as freedom of associations, collective bargaining and non-discrimination.

This definition of social upgrading is very similar to the ILO’s framework of ‘decent work’, including the concepts of employment, standards and rights, social protection and social dialogue (Ghai, 2003; International Labour Organization, 1999), rather than a broader view of workers’ development in terms of skills enhancement, degree of autonomy and the like. In their framework, Barrientos et al. (2010) suggest that social (and economic) upgrading is affected by factors such as the position of the firm within a value chain; the closer it is to the

lead firm, the higher social conditions it is likely to have.

While participation in GVCs, under certain conditions, leads to economic upgrading, it may not necessarily lead to social upgrading as well. In particular, EEs' participation in GVCs, especially in labour-intensive industries, has enabled employment generation yet the enhancement of working conditions and employees' rights and protection has not always followed. On the one hand, case studies have highlighted possible tensions between economic and social improvements, analysing the poor working conditions and the salience of irregular work, even at firms participating in GVCs led by buyers located in developed countries (see eg, Locke and Romis, 2007). On the other hand, different trajectories for joint economic and social upgrading may be envisioned, including a move towards better work typologies, increasing social upgrading for better work conditions and finally social upgrading at a smaller level, for household-based producers (Barrientos et al., 2010). Several contributions have highlighted the possible tension between economic and social upgrading, but few have provided evidence that can help us to understand under which circumstances both may occur.

Environmental Upgrading

Adapting definitions drawn from the managerial literature, we propose a definition of environmental upgrading as 'the process by which economic actors move towards a production system that avoids or reduces environmental damage'. As with economic and social upgrading, environmental upgrading too has different dimensions—technological, organizational, and institutional—and involves different areas in which companies may upgrade to lower their ecological footprint (Rennings, 2000). Such areas include greenhouse effects, and the consumption of soil or other resources at a higher rate with respect to natural reproduction. The literature (see eg, Orsato, 2009) suggests that firms can improve their environmental performance in different ways:

- process improvement, such as by saving energy or reducing the use of materials;
- product innovation, through new design (eco-design), the use of new components and materials and a consequent green communication strategy (eco-branding);

- organizational enhancement, through the overall way of doing business and managing the organization, for example moving into new businesses such as energy production or recycling.

These paths also have an impact on value chains, since the activities can really be effective only through an integrated approach, by involving suppliers, retailers, and customers. An increasing number of studies, mainly in the field of management, have focused on the ‘business case’ for environmental upgrading, providing evidence that improving the environmental performance of the firm through appropriate sustainability strategies also leads to the enhanced productivity or competitiveness of the lead firm and its suppliers (see eg, Orsato, 2009; Vachon and Klassen, 2008). However, little is known, except at the conceptual level (see Bolwig et al., 2010), about whether and how it may be possible to achieve both environmental *and* social upgrading together (Seuring and Müller, 2008), especially in the developing-countries setting.

UPGRADING AND THE ROLE OF LEAD FIRMS

Since its earlier contributions in the mid-1990s, the GVC literature has focused on the role of lead firms as ‘key drivers in the formation of globally dispersed and organizationally fragmented production and distribution networks’ (Gereffi et al., 2005: 82) and how they shape the trajectories of such chains, value creation and its distribution (Bair, 2009; Gereffi, 2005; Gereffi and Korzeniewicz, 1994; Gereffi et al., 2005). By focusing mainly on low-tech manufacturing industries, empirical contributions have identified two main typologies of lead firms and therefore two forms by which global players explicitly coordinate the activities of their suppliers: buyer-driven and producer-driven chains (Gereffi, 1994). The first includes large retailers and global brands or marketers, the latter transnational manufacturers specializing mainly in capital and technology-intensive industries.

While there is agreement on the pivotal role of lead firms in governing value chains that are responsible for an increasing share of the overall global production, little is known about the way they could also lead to an increase in the conditions of workers and to a reduction of the

environmental footprint. This is despite the growing interest in the social and environmental dimensions of upgrading, especially in developing countries, where social and environmental best practices are thought to be less diffused than in more advanced economies (Frenkel and Scott, 2002; Ivarsson and Alvstam, 2010; Lim and Phillips, 2008).

One way in which lead firms may enhance working and environmental conditions while achieving economic improvements is through the implementation of standards or Codes of Conduct (COCs) throughout their GVCs. This is increasingly at the heart of the corporate social responsibility (CSR) strategies of lead firms. Such standards may be a powerful tool for firms to ensure that their suppliers, located worldwide, improve their practices regarding social and environmental concerns and increase their compliance with standards, especially when cooperation among partners is present (Frenkel and Scott, 2002; Lim and Phillips, 2008; Nadvi, 2011). However, CSR practices and the implementation of COCs are not as widespread in the developing world as in developed economies (Lund-Thomsen, 2008). In some contexts, they may also fail to achieve the intended goals (Blowfield and Dolan, 2008) or even lead to a worsening of social and environmental conditions (Barrientos, 2008; Lund-Thomsen, 2008). Another strategy that lead firms may apply is providing technical support to their partners (Ivarsson and Alvstam, 2010). Through short and long-term technical assistance and knowledge sharing concerning products and processes (ie, materials to be used, recycling possibilities, and the like), lead firms can help suppliers and other players to increase their capabilities and autonomy, especially in the economic and environmental fields.

In relation to this view, studies on social entrepreneurship suggest that some firms can explicitly include social (and environmental) upgrading into their strategies, making creating and sustaining social value an explicit mission of the company (Dees, 1998). Even though there is no univocal definition of social entrepreneurship (eg, Martin and Osberg, 2007), one can argue that in the framework of social entrepreneurship the aim of the entrepreneur is coupling the for-profit initiative with more social-oriented outcomes for the benefit of society in general. Hence, social entrepreneurs are oriented to carry out economic activities to obtain positive impacts for specific disadvantaged categories that lack, for instance,

sufficient financial resources to ‘achieve any transformative benefit on [their] own’ (Martin and Osberg, 2007: 35). From this perspective, firms develop processes to increase their connections with the categories they want to serve and support (ie, poor individuals). Social entrepreneurs mobilize public and private resources and combine them originally within a productive scheme. They also assess their financial, economic, managerial and social results (Dees, 2007), going beyond the traditional economic indicators (eg, size) to adopt new measures and tools (eg, social audits) as well. Socially-oriented lead firms are able to innovate in their productive activity, their organizational approach and their business models. ‘They embrace innovation, value effective management, and are open to a wide range of operational and business models. [...] They are even willing to use for-profit forms of organization or hybrid structures that include for-profit and nonprofit elements’ (Dees, 2007: 28). Especially in developing countries, social entrepreneurs may become interesting economic players, able to cooperate with a wide range of partners—governments, NGOs, other firms—so as to achieve social improvements and sustainable development (Seelos and Mair, 2005).

The Role of Emerging Economy Lead Firms

Traditionally, literature on GVCs and on sustainability emphasizes how the abovementioned activities are put in place by lead firms from developed countries. However, more and more firms located in EEs are evolving from being efficient and competitive suppliers to GVCs, to being lead firms in their own right, new active players in upgrading strategies and governance of value chains rooted in those economies (Yeung, 2009). Khanna and Palepu (2006) identify as ‘emerging giants’ the firms in EEs such as China, India and Brazil who are able to overcome their internal resource constraints as well as the institutional barriers of those countries and compete successfully in their domestic markets and at the global level as well. Thanks to their unique knowledge concerning the peculiarities of domestic markets (Bijapurkar, 2007; Biyani and Baishya, 2007; Khanna and Palepu, 2006), they can arrange manufacturing processes and production networks more efficiently than foreign firms, and develop original business models consistent with local institutional voids (Khanna, 2008). In addition, they can exploit a global access to capital and dedicated financial resources, by

overcoming the domestic boundaries. Wright et al. (2005: 7) specifically stress that ‘these environmental uncertainties with which firms must deal if they want to survive in the long run create the need for upgrading and re-configuring existing resources and capabilities’.

Studies on upgrading in GVCs have emphasized the variety of upgrading paths that firms in developing countries can follow (Staritz et al., 2011; Sturgeon and Kawakami, 2011; Sturgeon and Van Bieserbroek, 2011), showing that new market opportunities lie in approaching dynamic emerging markets and not only high-income countries. Moreover, EE firms can also innovate in terms of business models and organizational forms when adopting a social entrepreneurial approach. In this case, besides economic upgrading, the firms are oriented towards social upgrading processes.

UPGRADING IN INDIA: THE INDUSTREE CASE STUDY

Methodology

In order to explore the relationship between economic, social and environmental upgrading within the GVC framework and explore the role of lead firms in emerging markets, we carry out a qualitative analysis based on the case study methodology (Siggelkow, 2007). The arguments that we want to understand and explain are difficult to approach on a quantitative basis; they call rather for an analytical examination of the characteristics of the lead firm’s strategies in organizing and structuring the value chain, the forms of governance adopted and the upgrading outcomes achieved by the actors involved in the value chain.

In this paper we analyse the Indian company Industree and its retail brand Mother Earth. The Indian context is interesting because of its dynamic and peculiar internal market among EEs (Bijapurkar, 2007), as well as the characteristics of its retail system, which couple traditional and independent small shops with newly-emerging large retailers (Biyani and Baishya, 2007). India has a long history of textile manufacturing and is also becoming a global player in the home-furnishings industry. The case study was selected for two main reasons: firstly, it has been recognized by several qualified sources (eg, social entrepreneurship foundations

such as Virtue Venture, Skoll Foundation and the Schwab Foundation for Social Entrepreneurship (World Economic Forum) —who awarded it as India’s Social Entrepreneur of the year 2011— not-for-profit foundations such as Shop for Change, and Indian media organizations such as retailindia.com) as one of the first retailers to invest in social and environmental sustainability in India; secondly, it has been entirely thought-out, designed and developed in an emerging country, India. The data for the analysis is drawn from in-depth interviews conducted in January 2011—as listed in Table 1— complemented and triangulated with evidence emerging from documental information (Industree’s and Idiom’s internal documentation, corporate websites, journal articles and independent and scientific reports) and from direct observation (see Table 2).

Table 1. Overview of Interviews

Company	Name and role	Number of interviews
Industree (lead firm)	Neelam Chhibber (co-founder)	4 (>15 hours)
	Mervin Joseph (Enterprise Incubator)	2 (10 hours)
	Vrnda Dalal (Supply chain manager)	1 (2 hours)
Idiom (partner)	Jacob Mathew (designer)	3 (8 hours)
Greenland (supplier)	Selvam (Industree’s SHG leader)	1 (2 hours)
Ashraya (supplier)	Rajendra K.M. (Industree’s SHG leader)	1 (1 hour)

Table 2. Overview of Direct Observations

Mother Earth Store in Bangalore	2 visits (3 hours)
Suppliers’ factories in the productive sites in Bangalore (Ashraya SHG, United SHG)	1 visit (4 hour)
Suppliers’ factories in the Dharmapuri District of Tamil Nadu (Greenland and one of its suppliers specializing in dyeing)	1 day (8 hours)

Industree: Economic and Social Upgrading and the Governance of the Value Chain

Neelam Chhibber (NC), an industrial designer, and Gita Ram, a craft activist, founded Industree Crafts Private (ICP) in Bangalore, in India. Industree’s mission is ‘to enhance and

create artisanal owned rural livelihoods through marketing of contemporary designed artisanal produce for urban markets' (Miller et al., 2009). ICP offers three product categories: home (57 per cent of total sales), fashion (33 per cent) and foods (10 per cent), and in 2010 its turnover was US\$3 million. It employs approximately 130 people (100 in the production units), store teams included. These positive data in terms of sales and employment are the result of an evolutionary process, through which the mission of the company has been translated into precise strategies, governance and organizational solutions oriented to achieve the economic and social upgrading of craftsmen. The process has been shaped through a specific investment in design—in which environmental issues have been included—as the main driver of the process. The following paragraphs will describe this strategic path.

The company started operating in 1994, selling artisanal products both through proprietary stores and other retailers. During the first years of operation, the entrepreneurs were able to refine their business model so as to make it sustainable. Specifically, they decided to focus production on natural fibre products (Bijl, 2007), which offered interesting market and productive opportunities: an abundance of raw materials in India, the availability of highly skilled producers, links with fair trade organizations (ICP is a member of the International Fair Trade), product positioning in the specific segment of hand-made products, and design-driven product innovation (see below).

In its first few years in business, the company suffered from the small size of the market—accentuated by supply-side limitations associated with the production scale of craftsmen who were not able to supply them on a regular basis or in line with ICP's requests related to the Indian market. Hence, NC decided to invest in expanding production, involving NGOs and redefining the production network, and relying on projects that were funded by the government. The enlargement of the supply base helped ICP to enter international markets; in 2000, it started to export products made with natural fibres to Japan, the UK, France, Spain and Italy. The company reached break-even point in 2001.

The entrepreneurs' acquisition of knowledge related to upgrading and value chains was

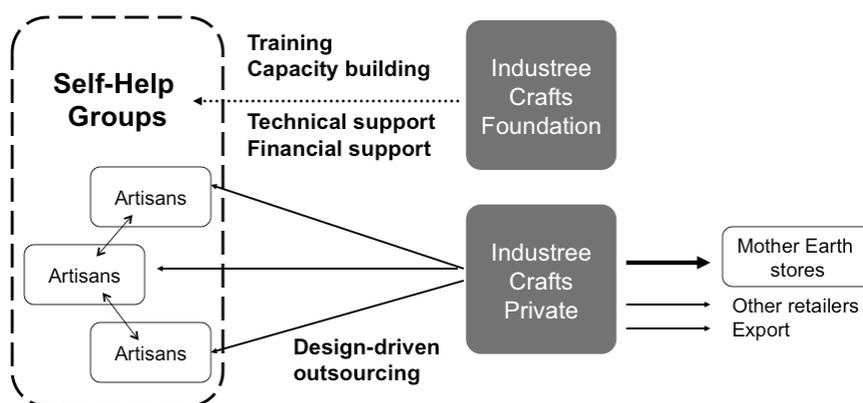
based on the initiatives of UNIDO and other social entrepreneurial programmes. This pushed them to define a more precise mission for ICP: to identify the drivers of the upgrading process for ICP suppliers or, as NC put it, *'how to increase the wages of producers?'* Artisans are open to process innovation and new forms of division of labour (a novelty in the artisan domain) as long as it leads to higher wages. NC stressed, *'artisans want to earn more, not just maintain memories of old works'*. The ICP entrepreneurs were, in fact, oriented not only to obtain profit from their company, but also to improve the social and economic conditions of small craft suppliers. From this point of view, their initiative can be interpreted under the framework of social entrepreneurship. Indeed, in 2007, NC enrolled in a professional development programme for social entrepreneurs, named Social-Impact International (now Dasra Social Impact), based in Hyderabad (Jain and Garderet, 2011).

In order to cope with this tough goal, ICP developed an original business model to manage its suppliers: the Self-Help Group (SHG) model¹. This model is aimed at achieving the economic and social upgrading of suppliers through training and institutional support (ie, financial intermediation), with the focus on increasing the skills and competences of ICP's producers. With this strategy, ICP aims to augment its independence from the leading company—technologically, financially and in terms of production definition and market knowledge. Indian craftsmen are usually focused on small-scale production based on their skills, and are completely decoupled from the market and customers' requests. Craft production faces difficulties meeting large orders and is unable to organize production coherently so as to achieve higher rates of productivity. Hence, craftsmen tend to be highly dependent on their buyers and the mechanism of governance applied towards the craftsmen suppliers is usually captive. Instead, ICP's entrepreneurs aimed to reduce small craftsmen's dependence on one individual buyer and to strengthen their opportunities for enlarging their market by achieving more added value from their production activities. As an outcome of this attitude, the net profit margin of ICP's suppliers is usually 6-7 per cent, and this margin is always discussed and agreed with ICP in advance.

¹ SHGs can be used to describe multiple forms of associations targeting financial and non-financial goals: '[I]n India it has come to refer to a form of Accumulating Saving and Credit Association (ASCA) promoted by government agencies, NGOs or banks. These groups manage and lend their accumulated savings and externally leveraged funds to their members' (Tankha, 2002: vi).

Two distinctive, albeit complementary, organizations co-exist in Industree: a for-profit one (Industree Crafts Private - ICP) and a non-profit one (Industree Crafts Foundation - ICF). The two work on an integrated basis to provide support to rural producers. This is the second peculiarity of the business model of Industree and one of the key factors in its success. ICP has started to work to support and enhance rural production clusters, also in collaboration with the government, which has funded projects based on ICF (together with craftsmen in villages). The SHG model is oriented towards building the capacity of the producers through specific training in different fields (firm organization and management, financial management, supplier selection, quality control, technical support).

Figure 1. Industree's Business Model



Source: authors' elaboration

The SHG model was refined and started to work properly in 2007. More recently, ICP has decided to enhance its supply chain management (SCM) approach by applying SCM practices such as supplier evaluation and ranking. In the SHG framework, ICP divides suppliers into groups according to their capabilities for organizing their work and addressing new markets autonomously from ICP. Its group grading system works as follows:

- Group A: Suppliers fully independent in terms of their organization and management. Three groups are now included in this level.

- Group B: Suppliers that require support with cash flow and financial management. About five groups are in this level.
- Group C: new groups (one), which have to be fully trained.

Training is specifically aimed at transferring managerial skills to groups B and C. The training is carried out through the foundation, while market and production information are based on the inputs of ICP. For instance the for-profit company provides suppliers with detailed budgets and cost descriptions of the products that need to be supplied. This can only be accomplished because of ICP's for-profit profile (*'a for-profit company is the key'*, NC affirmed): only companies that face the market on a stable basis, unlike NGOs, are able to understand costs and outline target prices, which can be provided to craftsmen so as to align their work with ICP's requirements.

New groups of suppliers (group C) need training to scale up their production and this is one of the key processes ICP has to manage: the social and economic upgrading of craftsmen has become the core of the company's entrepreneurial efforts. As the name of the model (Self-Help Group) suggests, the training method is based on *'peer learning'*, with more experienced craftsmen training others. Initially, the training was carried out only by the Enterprise Incubator (Mervin Joseph), but now ICF wants to invest in additional human resources and specifically in codification (a training manual), to stabilize this crucial process and increase its efficiency and effectiveness.

Furthermore, ICP assists and trains producers on how to organize the production process, specifically following a low-capital-intensive approach that is more affordable for small producers located in rural areas.

In the process of upgrading the management and governance of the suppliers, two key questions arise:

- how to select the producer groups; and
- how to train the vendors.

Concerning the first problem, ICP decided to select people independently of their production experience as long as they were able to: (a) invest money and become a co-investor in their entrepreneurial initiative (50,000 Rupees (Rs) – about US\$ 940, about 20 per cent of the capital required for a new firm), (b) use Excel and c) read written English (which is not very common in rural areas of India). The relationship starts with a signed agreement of a trial order: the lead firm supports the rise of the new firm by becoming its main buyer. ICP also pushes producers to use information and communications technologies (ICT) (eg, email for order transfers and communication exchange) and uses training to reduce the digital divide of the craftsmen.

Concerning the second issue, the focus is on '*building confidence in production*', to use NC's words. ICP provides financial support to entrepreneurs through microfinance and credit support as well as its three-months training programme. ICP sets the standards on costing. From this perspective, ICP has become the incubator by providing an 'incubator plan' with sizes, costs, prices and all the information needed to set up a new business. The SHGs are also 'saving groups': the group collects money to be used by members in an emergency. ICP pushes the groups to set up new companies based on collaborations among the group members, in which ICP can become a shareholder: (*'they can scale the market from outside'*).

In last five years, ICP has been able to set up and provide suppliers with:

- common production facilities;
- dyeing support and instructions;
- access to raw materials;
- support with organizing work (division of labour, investment in low-capital processes);
- access to funds (microfinance – 16 per cent rate of interest).

The artisans from the more advanced SHGs we interviewed (Greenland, Ashraya SHG, United SHG) confirmed to us that they were able to achieve positive economic results in terms of growth of turnover due to the support obtained from ICF as well as through their entrepreneurial attitude. For instance, as described on ICP's web site, Rajendra K.M., the

leader of the Ashraya SHG, started in 2003 as a helper in a production unit (with a salary of 3,500 Rs, about US\$ 70, per month). He then became an entrepreneur in 2004 when he joined other co-workers in starting a small production unit of twenty-six people. In 2009, ICP formed a SHG with his 30 workers and divided them into two groups (the Ashraya and Samanvaya SHGs). Rajendra's group now independently produces home products worth around US\$ 10,200 per month. The leader of the Greenland SHG, Selvam, followed a similar path, starting as a tailor when he moved from the Dharmapuri District of Tamil Nadu to Bangalore during the 1990s. When he came back to the Dharmapuri District he was able to set up a productive unit involving mainly women in the production of river-grass-based home products. As described on Industree's website, over a period of about three years, from 2000 to 2003, Selvam's turnover from ICP products grew from 3,500 to 30,000 Rs (approximately US\$ 70 to 615) per month.

The Launch of Mother Earth: Focus on Retail and Environmental Upgrading

In 2008, the founders of ICP decided to focus more explicitly on environmental sustainability, becoming a first mover in the Indian market by launching the brand Mother Earth (ME). Through this new retail brand, ICP aims to achieve higher value from a new market position. According to the entrepreneur NC, ME has in fact been conceived to be '*not another craft shop*', but to offer value through sustainable products in the fashion, home and organic food industries. The brand was developed to control the value produced, through a proprietary sales channel.

Initially, ICP products were commercialized in different stores by mixing direct distribution with sales through independent stores. In 2004, the company built a partnership with a furniture company to sell its product jointly in outlets called 'The Design Store' (Bijl, 2007). With the development of the brand ME, ICP is aiming to extend its control of activities downstream in the value chain, based on an explicit investment in design as a source of upgrading (see below). The entrepreneurial idea behind the ME initiative is that of increasing the value offered to craftsmen through a retail-driven design-based value chain. ICP now has five stores under the ME brand, located in the most important Indian cities.

Up to now, the main player in this industry in India has been Fabindia (a company founded fifty years ago, that focuses on artisanal products supplied by seventeen companies), which has set a trend in the market for crafts products that is followed by department stores (such as Pantaloons owned by Future Group). Over the years Fabindia has been able to establish a large national and international retail network that is strongly export-oriented, having invested specifically in its brand since the 1970s. However, differently from ICP, the social orientation of Fabindia—achieved through a more explicit CSR approach—was developed only in the late 1990s with the specific, formal engagement by partner companies of about 40,000 artisans and craftpersons who had previously worked for Fabindia (Singh, 2010).

The focus of ICP is on emphasizing the '*value in work*' ('*knowledge is in the workers*' as NC stated). The idea was to reduce ICP's profit as middlemen and enhance artisans' role through groups. Group leaders in SHGs, in fact, can expand their businesses and eventually become independent and succeed in the domestic market. ME can offer them stability of order placements and thus supports the upgrading framework.

This new strategy is proving to be a success, since sales of branded products—'earth fashion', 'earth home' and 'earth food'—are increasing over the years (20 per cent of sales are related to natural fibres). The category of home products has increased the most in terms of variety offered, again, due to the contribution of design (see below). At present, only 5 per cent of ME turnover comes from exports. ICP has tended to focus on Indian products for Indian tastes ('*contemporary Indian taste products*'), targeting the wide internal market (the Indian upper-middle class). Through its brand, ME, ICP couples the '*customer-centric model*', based on retail, with the '*producer-centric model*' that takes into account artisans' needs and characteristics.

Since launching a new retail chain is particularly expensive, NC applied for funding to Indian and Swiss venture capitalists. The most important sponsor is Future Group, owned by Mr Kishore Biyani—the entrepreneur who developed modern distribution in India (Biyani and Baishya, 2007)—who provided not only capital but also key knowledge about retail. The social entrepreneurship approach used by Industree was also important to their success at

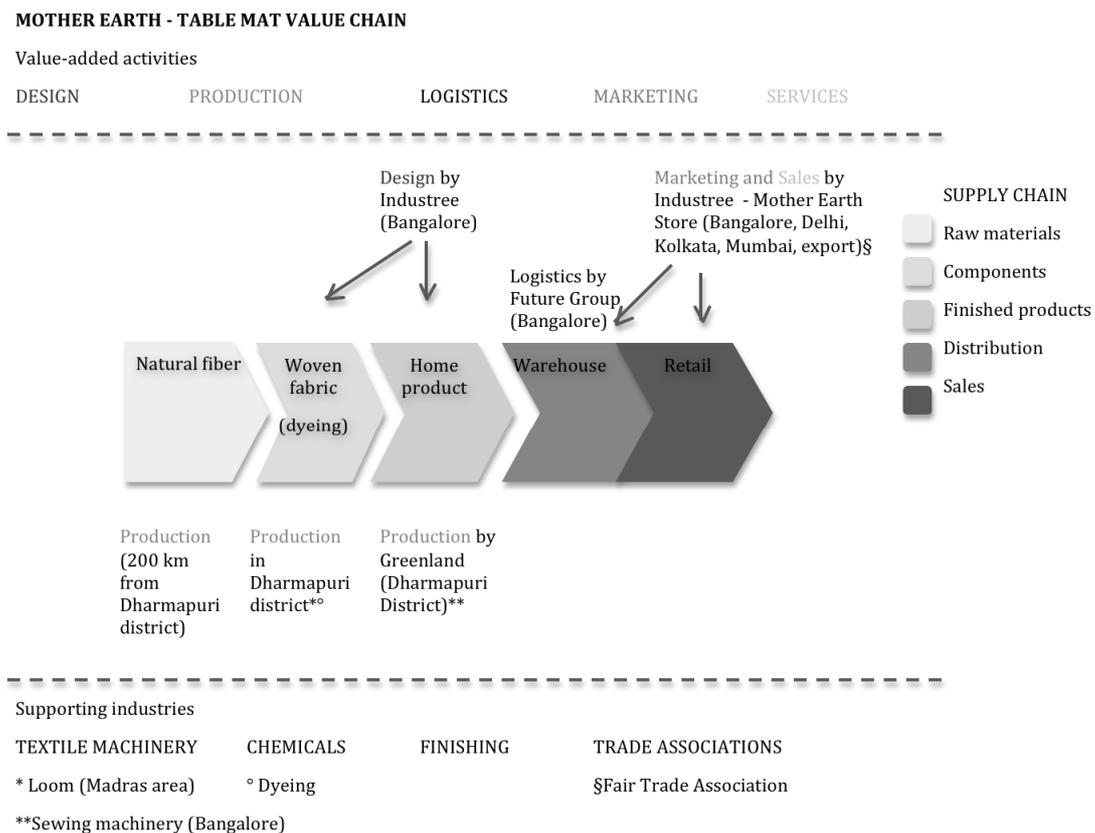
fundraising. They raised US\$ 1.5 million from Future Group thanks to the high score they received for the social conditions of craftsmen and employees in rural areas in a third-party social audit report. Every two years, in fact, ICP asks for an external evaluation of its social-related activities through a Social Accounting and Audit (SAA) process (Shastry, 2008) involving all relevant stakeholders (customers, staff, partner organizations, trustees and especially artisans from SHGs). As far as social (and economic) upgrading is concerned, the social audit report states, for instance, that ‘all producers consulted have reported an improved quality of life—usually because of wage security. The median monthly income increase per producer is Rs 1000’ (Shastry, 2008: 31). Being part of the International Fair Trade movement is further proof of Industree’s social efforts (it has been a member of the International Fair Trade Association – IFTA since 2007) as is the UNESCO Seal of Excellence for Handicraft Products in South Asia that it received in 2004 and 2006 for design and cultural sustainability.

Concerning the organization of the supply chain, 20 per cent of the products come from internal groups, 20 per cent from external groups of craftsmen and the rest from other firms, which also sell to foreign markets. ICP are supplied by approximately 2,000–2,500 artisans and more than 600 small companies, with 3–5,000 people involved in total. Initially, the company also sourced its products from suppliers located up to 300 km from Bangalore, but now the suppliers chosen are all located close to ICP and the Bangalore area, in order to achieve benefits in terms of inspection efficiency, control, support with cost definition, and transportation. Suppliers receive orders 60 days in advance and they are incentivized to find other customers as well as ICP and ME. ICP promotes competition among the vendors: it sources the same products from two or three firms, adopting a parallel sourcing system. Through this approach, it aims to enhance vendors’ capabilities to cope with its requirements, without causing a race to the bottom in terms of prices, which would occur if a multiple sourcing strategy were used.

ME has a range of approximately 250 finished products (stock-keeping units), which, thanks to format and design differentiations, may lead to up to 1,000 final products. About 3,000 pieces per month are ordered on average (regular orders). Product collections are changed

every three months (every two months for fashion products) and around 10–20 per cent new products are launched into the market by the ICP’s design department every three months. ME has also developed a colour selection feature (the introduction of colours in palm-leaf products was a design-driven innovation promoted by ICP) suppliers can use to check colours. Orders are prepared through specific software that manages product categories, references and codes. Then the orders are placed either on paper or by email to the craftsmen every sixty days. ME currently provides suppliers with fabrics, but in the near future groups will have to purchase fabrics themselves.

Figure 2. Mother Earth’s Value Chain



Source: authors’ elaboration

The Role of Design in Economic, Social and Environmental Upgrading

Design plays a fundamental role in upgrading for ICP. Although organizational improvements and training have been extremely helpful in increasing the quality of production and improving the living standards of workers, they have not increased added value (productivity) or pushed up wages. This is exactly why NC, a trained designer herself, turned to design, understanding its role in upgrading production and wanting to ‘*go up [...] the value chain*’. This idea, that could be considered a trivial decision from a western perspective, had a tremendous impact for ICP and completely changed its business model and approach to the market. ICP decided to use design in a very broad sense, close to what is defined in the literature as *Design Thinking* (Brown, 2008). In other words, design was not considered to be just a way of improving the aesthetics of the products but of reconsidering what ICP’s business is about and its role in Indian society. NC decided to invent a new world with a specific identity and visibility, and the ability to attract the interest of Indian consumers: ‘*To sustain no-profit and social business I had to go profit and establish a new business*’. This strategy produced two main elements: the development of a brand (ME) that was able to communicate the values ICP cared about, and the transformation into a retailer. Both elements literally redesigned ICP: from a business-to-business trademark into a consumer brand, from a manufacturer to a retailer, from no-profit to profit. This transformation, a big step forward for the company, was possible thanks to the help of two strategic partners: Idiom, as far as branding, communication and design were concerned, and Future Group for retailing.

The objective ICP hoped to achieve through ME was to increase the gains for artisans and shareholders (who own 15 per cent of the company). In particular, ICP had three main goals:

- to build a new brand and create strong identity (*‘it is a pull model’*);
- to involve craftsmen;
- to educate customers (explaining sustainability).

In order to increase value through design and enhance its internal competences on design, the support provided by Idiom was strategic. In order to scale up the business, the focus became design: ‘*Pull rather than push*’; ‘*create the demand rather than support supply*’; ‘*how to increase the “cool” of products in craft products?*’ The role of Idiom was to build

the brand, the visual identity, and communication and to develop the concept of the store. The entire process took about nine months, followed by three months to build the first main store in Bangalore.

ICP also used design to rethink their processes and jobs. Idiom's proposed design helped the firm to set up its labour management system and planning. This approach was helpful in supporting creativity and the new strategic view of the firm. NC, as a designer, shared the same language as Idiom and this element helped to speed up the process of strategic renovation and upgrading through design. However, mediation was required in the interactions with craftsmen, who need simple and stable directives to organize their work and scale up their production. Designers are in fact trained to '*respect materials*' and so they understand the value of artisanal work ('*design embedded into social practice*') and should be prepared to interact with craftsmen to explain how the design-based approach to product innovation can be translated into real products. One person, Mervin Joseph (the Enterprise Incubator of Industree), was responsible for interacting constantly with craftsmen, training them and aligning them with ICP's strategy and the ME approach. For some products there are only internal designers, for other products external and internal designers (who act as information consolidators) combine. Design is used to develop new product concepts based on the information gathered from the retail stores as well as on the designers' experience.

The design-based approach of ME and its related meanings highlighted the opportunity to enhance the environmental dimension of ME. Instead of stressing the link with the artisanal origin of the products, following a traditional approach to hand-made products, Mr Biyani and Idiom suggested orienting the brand development towards a different positioning. Due to the conflict between the craft and green approaches, both of which are included in the Industree project, Idiom decided to integrate the two perspectives in designing the store, the communication and the retail experience, by creating '*a new aesthetic*', '*a green Indian aesthetic*'. In the brand management strategy, ME is proposed as a green brand and Idiom proposed the concept of '*sensible shopping*' to support this brand positioning. However, NC felt that Indian customers would not understand its meaning at present, and changed it to '*Mother Earth – natural way, the better way*' in order to educate the customers. Hence, ME

now proposes its products as being related to sustainable purchasing, leading to positive social and economic outcomes. As described in Industree’s social audit report, all the raw materials are biodegradable and environmentally-friendly, as are almost all of the components, while the production processes are generally sustainable, except for the dyeing (Shastry, 2008). In its social entrepreneurial approach, ICP has put its social and environmental goals at the heart of its economic behaviour and hence ICP’s operations and many of its decision-making processes are socially and environmentally driven. Through a design-based strategy, Industree has been able to increase the positive connection between craftsmen’s production and the market, also augmenting the value it achieves (net profit is 35 per cent of the retail price) and the value achieved by the craftsmen.

DISCUSSION

The case of Industree demonstrates that it is possible for EE firms to pursue a combination of economic, social and environmental upgrading through their value chains, especially for firms with a social entrepreneurial approach (Table 3).

Table 3. The Industree Case Study: A Summary

Strategic approach	<ul style="list-style-type: none"> • Social entrepreneurship • Design-driven company
Business model	<ul style="list-style-type: none"> • Mix of for-profit (ICP) and not-for-profit (ICF) • (Supported) self-organization of suppliers (Self-Help Groups)
Economic upgrading	<ul style="list-style-type: none"> • Design-driven product and process innovation (product and process upgrading) • Investment in developing a new retail brand (Mother Earth) (functional upgrading)
Social upgrading	<ul style="list-style-type: none"> • Craftsmen’s wages increase due to training activities to developed their technological skills • Craftsmen’s profits increase due to ICP’s capacity building initiatives to develop their managerial competences • Social impacts measured through an explicit Social Accounting and Audit process
Environmental upgrading	<ul style="list-style-type: none"> • Use of natural, bio-degradable raw materials • Local value chains • Eco-branding

Source: authors' elaboration

The strategic approach followed by Industree's entrepreneurs can be explained in terms of social entrepreneurship, where the goal of the firm is to increase the value produced and shared within the value chain, putting social upgrading at the very origin of the entrepreneurial initiative. Interestingly, the upgrading strategy of this firm was conceived to adapt to the specificities of the Indian market and industrial structure, suggesting that the social upgrading pursued by lead firms from EEs may differ from those pursued by developed countries' firms and may even be specific to each emerging country. Also, the business model implemented by the firm—based on the SHGs and the non-profit side of Industree—describes an original path to supporting social and economic upgrading. Again, this is related to the specificities of the Indian market and its socioeconomic structure (ie, strong productive competences in the craft sector among a skilled rural workforce with limited access to markets, poor economic and social conditions for women, institutional voids), and it shows that a lead firm based in an EE can identify original strategic paths to merge different forms of upgrading in a manner consistent with the characteristics of its context.

The ICP entrepreneurs stressed the need to outline from the beginning a distinctive strategy and business model that support its process of value creation for rural artisans and local communities effectively. The analysis of the way Industree governs its value chain highlights the relevance of coupling for-profit and non-for-profit forms of governance to achieve positive economic (and social) results. In other words, not only is it possible to achieve both, but also the pursuit of one dimension (the economic) may be necessary for the achievement of the other (the social). This approach suggests that, in addition to an upgrading process lead by NGOs that fund specific projects, it is possible to achieve an alternative form of governance to increase the economic and social conditions of small entrepreneurs and workers in EEs, using market-based mechanisms such as in the case of ICP.

Thanks to this innovative business model, Industree was able to achieve positive results in

terms of social upgrading, both in terms of measurable standards (including an increase in the wages of the workers and the quality of their work) and enabling rights (Barrientos et al., 2010). In this case, enabling rights—the less quantifiable aspect—are not considered only in terms of freedom of associations (as occurs through the SHG model), collective bargaining and non-discrimination, as suggested in the frameworks of Barrientos and al., but also in terms of an increase in the skills and knowledge base of the entrepreneurs and workers for the suppliers. Through their formal participation in SHGs, entrepreneurs and workers obtain a certification of their status as ICP's stakeholders, benefiting from ICF's training efforts as well as commercial stability, which allow the suppliers to improve their competitiveness and enter new markets.

As mentioned earlier, Fabindia developed a similar approach at the end of the 1990s. However, it decided initially to create one cooperative of artisans and later adopted the model of the community-owned company—seventeen Supplier Region Companies (SRCs) in total—in which the artisans are shareholders. Through this form, Fabindia obtained a more stable supply chain, while the artisans were 'empowered to control their means of livelihood' (Singh, 2010: 267). Fabindia aims to achieve CSR goals and economic returns, while Industree puts the sustainability issue at the heart of its entrepreneurial orientation. Industree's approach is based not only on the more 'traditional' approach (training focused on workers to increase the quality of their work and their wages), but also on developing the managerial competences of small Indian entrepreneurs through ICF's specific capacity-building programmes. Due to its social goals, in fact, Industree also uses supporting their suppliers' independence as a measure (and a result) of the social upgrading process it has achieved. Social upgrading for workers in its value chain occurs in many forms, from small-scale workers to the more highly skilled (Barrientos et al., 2010), as can be seen in the case of SHG leaders who started out as low-skilled workers and have since become entrepreneurs.

Within the GVC framework, through its investment in the ME brand, Industree emphasizes its leading role in designing and managing the value chain by investing into two key drivers of economic functional upgrading: design and retailing. On the one hand, the development of

internal competences in design allows the firm to propose an innovative and up-to-date product portfolio of craft products. Studying Italian firms, Bettiol et al. (2010) suggest that industrial design plays an important role in upgrading strategies. In the case of product upgrading, an explicit design-driven innovation strategy (Verganti, 2009) can improve the intrinsic (functionality) as well as the extrinsic (aesthetics, meanings) quality of the product, allowing the firm to achieve better positioning in the market and higher value. Interestingly, our case supports the idea that design can also play an important role in developing country settings: investing in an explicit design function can improve the firm's ability to compete at the global level, by focusing on more advanced functions within the GVC. On the other hand, by becoming a retailer, Industree has moved downstream in the value chain, adopting the logic of a customer-centric firm and enhancing its capability for absorbing and transferring market knowledge upstream. While usually it is firms from developed countries that have the competences in marketing, retail and design, the Industree case suggests that EE lead firms may also invest in these aspects, in order to capture more value within the GVC. Industree's investment in social audit activities was a key strategy that helped it to codify and communicate its socially-oriented strategy to external stakeholders and raise funds to support its social and economic upgrading strategies.

While its social and economic upgrading strategies are well-developed, environmental upgrading at Industree is still at an initial step. The firm, in fact, has invested in the use of environmental-friendly raw materials, but it is still lacking in some of the most harmful steps of its operations, such as dyeing, where no competitive alternatives to the polluting process have been found as yet. The company has invested mainly in building a brand based on the values of nature and the environment (eco-branding). ME is the means by which 'green' meanings are attached to the products offered through proprietary stores, highlighting the use of natural materials and local value chains. However, this sustainability strategy still seems limited, as it does not yet include deeper transformations in terms of the environmental upgrading of products or processes in compliance with international standards or certifications. From this point of view, ICP encourages production through environmentally-sustainable means but has not yet developed a process of control or evaluation of suppliers, or adopted an environmentally-related standard to certify its sourcing (Ivarsson and Alvstam,

2010).

This evidence suggests that, given the potential trade-offs and difficulties in achieving the three aspects of upgrading simultaneously, firms may prefer to adopt a stepwise approach. The choice between which aspect to address first, among the social and the environmental, may depend on specificities at the micro level, that is the firm's business model and capabilities, but also at the meso or macro level, that is the local or national context. Nevertheless, and despite the fact that our evidence comes from one case only, we argue that this case study shows that it is possible to integrate economic, social and environmental upgrading and, more importantly, that even lead firms located in EEs may be the engineers of this process.

CONCLUSIONS

The paper proposes an original contribution focused on an integrated approach to economic, social and environmental upgrading and discusses how EE lead firms can be active players in governing value chains in developing countries. Instead of developing captive relations with suppliers, Industree has invested in long-term relationships with selected groups of suppliers (and entrepreneurs), in order to upgrade their position in the value chain and increase their independence. Thanks to its peculiar business model, which mixes the social entrepreneurship approach with design-driven strategies, this Indian lead firm has been able to improve the social and economic conditions of its suppliers, while improving its competitiveness and reducing the environmental impact of its products.

The main limitation of our study is that it is focused on one case study only, which may challenge the external validity of the analysis. Further research should be devoted to comparing multiple case studies of domestic firms in EEs to demonstrate the upgrading strategies implemented and the governance models adopted. Additional research should also explore in more detail the synergies between economic, social and environmental sustainability strategies in terms of the organizational processes implemented, the role of players within the value chains and how to evaluate impacts.

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