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Global Production Networks and the Changing Corporation

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Introduction

The fragmentation and international dispersion of production has given rise to complex global production networks (GPNs), also termed Global Value Chains (GVCs), transforming structures and processes of international production. This phenomenon, which has attracted considerable attention in geography (Dicken, Kelly, Olds, & Yeung, 2001; Henderson, Dicken, Hess, Coe, & Wai-Chung Yeung, 2002), sociology (Bair, 2005; Gereffi & Korzeniewicz, 1994), and political science (Berger, 2005), represents a new phase in the organization of the global political economy (Neilson & Pritchard, 2009), and bears significant implications for the role, and even the meaning, of the corporation. New economic and institutional forms are shifting and blurring the traditional boundaries of corporations, industries and countries, while altering the economic and governance relationships among business, labor, governmental agencies, and non-governmental organizations (NGOs).

Despite the growing research on GPNs, large corporations are still frequently portrayed as self-contained, unified entities, with clear boundaries defined by ownership. This conception is dominant not just in the international business literature, but also in policy circles where discourses are elaborated and decisions are made to promote economic growth, competitiveness, development, sustainability, and social welfare. As a consequence, the implications of the transnational disintegration of economic activity remain poorly understood. An adequate conceptualization of globalizing processes, we contend, requires focused attention to GPNs as integrated, if contested, economic, political, and cultural systems. GPNs are emerging as complex ‘global factories’, transforming the corporation and bearing important implications for labor, development, and civil society actors. For example, the power relations and division of labor within GPNs can be understood as a form of global Taylorism, as dominant firms outsource activities that are routinized and commoditized.

The GPN framework (and its conceptual forerunner, Global Commodity Chains, or GCCs) hence highlights the forms of control - and market power - that dominant or ‘lead’ firms exercise across these networks, even without equity ties. GPNs enable relatively focused firms to extend their locus of control beyond their formal legal, spatial, and ownership-based boundaries. “Despite spatially diverse production systems and the fragmented ownership of different productive functions, lead firms have continued to dictate the terms and conditions of participation in networks and chains through different types of governance that act upon participants ‘at-a-distance’ (Neilson et al, 2014: 2). As Bair (this volume) points out, the relationships of control exerted by some lead firms in GPNs can create a degree of integration that meets the OECD guidelines for defining Multinational Enterprises (MNEs).

Although most GPNs are dominated by small groups of oligopolistic firms who exert considerable market power, GPNs are far from analytically equivalent to a single corporate entity with hierarchical governance. In some respects, a GPN resembles a geographically dispersed sectoral cluster, with a core group of firms interacting with layers of suppliers and distribution channels. The lead firms compete with each other for market share and struggle to assert market power over firms (and other actors) at key nodes in the value chain. Other actors, such as labor, NGOs, and governmental agencies, also interact with GPNs (Coe, Dicken, & Hess, 2008; Neilson, Pritchard, & Yeung, 2014). These actors increasingly develop GPN-based strategies; NGOs, for example, display a growing awareness of operating in GPNs by targeting brand-sensitive retailers rather than manufacturers (Schurman & Munro, 2009). GPNs are thus contested political and economic arenas, in which NGOs, labor organizations, and other actors are frequently engaged, competing for influence to shape governance structures and standards, consumer attitudes and pricing mechanisms.

In this chapter we highlight the need to examine and understand GPNs as a key emerging configuration of global capitalist production. GPNs blur the lines between corporate hierarchies and market networks, and reshape the meaning and nature of corporations; in turn, evolving corporate strategies mold the structure of GPNs. Traditionally, political economy analysis has examined relations between capital and the state at the national or global level, or the power of the corporation in relation to labor and the state. The GPN framework, however, provides a conceptual apparatus for analysis of shifting power relations and economic linkages among the array of actors who interact around a production system, or a 'value regime' (Levy & Spicer, 2013), in which there is contestation over economic value creation and appropriation, cultural values, and the governance system. In the following sections, we contrast the mainstream business literature on corporate disintegration with more critical views of the rise of GPNs, and assess implications both for workers and for development opportunities for firms and countries. We then highlight the specific contributions that a neo-Gramscian framework can make in rethinking the nature and role of corporations in evolving GPNs.

The Corporation in the GPN

The business literature in the late 1980s and early 1990s celebrated the coming of a post-industrial era where corporations would become more agile and profitable by focusing their energies and capital on 'core competences' (Hamel and Prahalad, 1994), such as design and marketing, hence gaining from specialization while mobilizing complementary 'non-core' competencies within inter-firm network arrangements (Gulati, Nohria, & Zaheer, 2000; Teece, Pisano, & Shuen, 1997). Porter's (1990) framework suggested that firms make ownership and location decisions for various value chain activities to take advantage of market structures and corporate competences. Buckley and Ghauri noted that: "the managers of MNEs are increasingly able to segment their activities and to seek the optimal location for increasingly specialized slivers of activity… MNEs are also increasingly able to coordinate these activities by means of a wide variety of mechanisms from wholly owned FDI through licensing and subcontracting to market relationships (2004: 83).

The management literature has generally embraced the vertical disintegration of firms and the formation of ‘strategic networks’ (Sydow, 1992) as a positive development in which corporations become more agile and dynamic, focusing on their core competencies while leveraging complementary capabilities held by network partners that remain indispensable to the overall productive enterprise. Governance in these networks is often viewed as less hierarchical and more democratic than in production systems dominated by large multinational corporations (MNCs); indeed, the fragmentation of production has been associated with the demise of the era of large, powerful integrated corporations (Davis, 2013).

A more critical view emerged in the mid-1990s to highlight the patterns of domination shaping these networks across countries and industries. Harrison (1994) was influential in arguing that the rise of small firms resulted from vertical disintegration strategies by large firms who externalized non-core activities while retaining strong control over subordinate firms. Conversely, places of ‘flexible specialization’ (Piore & Sabel, 1984) such as the Italian industrial districts were shown to be progressively controlled by larger outside firms that introduced new forms of hierarchy and dependency in local inter-firm relations.

Gereffi’s (1994) seminal work on Global Commodity Chains (GCCs) developed this insight by holding that ‘lead firms’ governed transnational production networks in which complementary production activities were being performed by subcontractors or subsidiaries in foreign countries. Governance involved coordinating network relations, logistics, quality and technical standards, but also had a political dimension: the dominance of lead firms in chain governance reinforced their market power, allowing them to appropriate a disproportionate share of the value in the chain. Lead firms in GCCs could be major retailers in ‘buyer-driven chains’ (Gereffi, 1994), typified by branded clothing and footwear companies, or major manufacturers in producer-driven chains, such as in the automobile and electronics sectors. These new forms of control effect the ‘quasi-internalization’ of core suppliers and distribution channels, blurring traditional conceptions of the sovereign corporation (Sydow, 1992).

The market power of lead firms has been enhanced by increasing concentration and a wave of mergers during the 1990s in key oligopolistic sectors (Ernst, 2000; Gereffi, 1999). The financialization trend, particularly in the 1990s, entailed a focus on share price and leveraged financial structures that not only facilitated mergers and acquisitions but also drove the reorganization of production (Palpacuer, 2008). Milberg and Winkler (2010) described how financialization has created intense pressures on firms to focus capital on high-margin activities and outsource other stages. Sassen (1998) grasped the spatial dimension of the globalization-financialization nexus in her concept of ‘global cities’ such as New York, London, or Tokyo, GPN command centers where financial, design, and marketing services are concentrated. Trade liberalization policies have also steered the development of GPNs, such as the phase-out of the Multi-Fiber Arrangement which ended apparel quotas and accelerated exports from low-cost producers such as China.

Hence, by the end of the 1990s, production systems were no longer organized in the unity of space and legal status that had constituted, in the industrial era, the defining features of the corporation as a self-contained entity. A new conception of control now extended key management functions across a broader network of geographically dispersed subcontractors. Conversely, legal entities upstream and downstream of the focal firm were placed in a subordinate situation, controlled through standards, specifications, and increasingly integrated logistics and information systems. The evolution of GPNs has transformed the character of production systems and firms, with important implications for labor, development, inequality, and the ability of social forces to contest and influence corporate behavior.

Breakdown of the Fordist Regime: Implications for labor

The introduction of Taylorism into the workplace in the early twentieth century standardized working practices, raising productivity but, in the process, separating production planning from execution; Indeed, Braverman (1974) claimed that the primary goal of Taylorism was political rather than efficiency, to shift control of the labor process from labor to management. The expansion of GPNs creates a similar Taylorist dynamic at an international scale, as lead firms organize production and distribution through control over logistics, design, quality, and information systems. While some opportunities are created for sophisticated first-tier suppliers, lead firms strive to routinize organizational linkages within the network, making suppliers – and their workers - more dependent and interchangeable, thus commoditizing the outsourced activities. In industries as varied as electronics, automobiles, toys, apparels, and shoes, lead firms typically retain in-house those higher paid, more symbolic managerial activities associated with corporate headquarters, such as product development and branding (Kaplinsky, 2005), while externalizing lower-margin component manufacture, assembly, and retail channels.

While trends such as financialization and trade liberalization have encouraged the growth of GPNs, the rise of the global network form has, in turn, driven a deeper transformation in the nature of social relations, work conditions and employment. The increased mobility of production generally entailed a move to weaker regulatory regimes regarding labor and environmental conditions, and without a tradition of collective organizing by workers. Moreover, it created competitive pressures among regions to restrict regulation. The fragmentation of production thus creates a growing disjuncture between the market power of companies and the fate of employees, in both industrialized and developing countries, undermining the Fordist social contract (Hough, 2010). It has traditionally been assumed that workers in oligopolistic firms share in the benefits of market power. The micro-division of labor and mobility of slivers of activity in GPNs, however, is increasingly divorcing the welfare of workers from the prosperity of lead firms and first-tier suppliers. Labor is increasingly employed on a contingent basis, weakening the bargaining power of labor in general. Yet labor can also adopt strategies that employ insights from GPN analysis to improve their bargaining position (Quan, 2008).

In developing countries, GPNs have generated a process of ‘adverse incorporation’ whereby vulnerable, less-skilled workers are mobilized into the most cost-sensitive segments of global chains, trapping them into structural poverty (Phillips, 2011). The balance of forces in the national political economies of some countries might lean more toward coercion than consent, and thus require fewer concessions to labor. This process is driven by lead firms seeking to minimize costs and the social structures of domination, often gender-based, in regions hosting production activities. The ‘dormitory labor system’ (Ngai, 2005) for young female migrants in Chinese export zones exemplifies this interaction of these global and local forces in the GPN. While it is hardly novel to observe that globalization entails the relocation of labor-intense production to low-wage countries in which workers, especially women, have few opportunities and little political power (Frobel et al., 1980; Hymer, 1979), the GPN perspective emphasizes relational processes and power configurations among multiple actors that cross levels, from the factory to workforce stratification to inter-state relations (Dicken et al., 2001: 91). From this perspective, low wages for women in developing countries are not just an economic phenomenon reflecting low "value added"; rather we understand low wages to result from the combination of patriarchal gender relations that leave women little opportunity (Calás & Smircich, 1993), geopolitical relations that establish trade and investment regimes favoring firms from industrialized countries (Enloe, 1989), and the repression of unions (Boje, 1998). The implication is that the concept of "value added", is itself deeply political.

GPNs: A Framework for Development or a Theory of Inequality?

The Global Value Chain framework, which is the more mainstream approach to Global Production Networks, has been enthusiastically embraced by governments and development agencies to suggest how firms in developing countries might 'upgrade' their capabilities and thus create and capture more 'value' locally through branding, technology, or developing integrated capabilities (see for instance, OECD, 2007, Cattaneo, 2010). The GVC perspective extends Porter's (1980) work on corporate competitiveness and asymmetric market structures to the international sphere, equating the economic interests of regions and countries with those of large firms.

Detailed case studies reveal some contradictory outcomes of GVC-based development strategies, however. While some opportunities exist for a few first-tier suppliers to adopt "full package production" with higher margins, Bair and Gereffi (2003) found, in a study of the Mexican textile industry, that the profitability of these suppliers primarily benefits a small local elite that controlled access to dominant US companies in the sector. In turn, these suppliers relied on a network of smaller, tertiary suppliers who suffer low-margins and pay low-wages. Similar trends occur at the global level, where core suppliers have emerged to supply lead firms in various European markets, generating significant entry barriers for newcomers (Palpacuer, Gibbon, Thomsen, 2005). Other studies in the automobile components sector (Dicken, 2003; Kaplinsky, 2000) and electronics (Ernst, 2003) illustrate 'platform leadership' strategies that enable lead firms to leverage their technologies and market power across GPNs, offsetting the market power of sophisticated first-tier suppliers. For example, lead firms have adopted 'modular' technological interfaces, reducing switching costs (Gereffi, Humphrey, & Sturgeon, 2005).

More critical versions of GPN theory highlight these concerns with inequality and asymmetric market power, a continuation of a radical tradition that links multinational corporations (MNCs) to larger geopolitical and economic systems. Stephen Hymer (1976), in his pioneering work on MNCs, argued that their economic success in global markets was less attributable to efficiency than to market power, derived from the possession of unique firm-specific advantages such as brands and technologies. In his later work, Hymer (1979) developed a radical political-economic theory positing that MNCs "transplant their vertical power structures to the globe, creating a vertical division of power between 'superior and inferior' states, cities and indeed peoples" (Pitelis, 2006: 104). While others pointed to the structural disadvantage of developing countries (Frank, 1966; Wallerstein, 2004), Hymer's distinct contribution was to link global structures of inequality to corporate strategy. Vernon's (1971) 'obsolescing bargain' approach posited that developing countries would gain market power over time as they developed more capabilities to control local subsidiaries, but Gereffi (1985), amongst others, described how MNCs could protect their power through market and technology strategies and through alliances with local political elites.

It is within this intellectual tradition that Gereffi's (1994) seminal contribution *Commodity Chains and Global Capitalism* should be located. His concept of GCCs, the forerunner of GVCs and GPNs, represented a key shift from a focus on the operations of integrated MNCs with direct control over their international subsidiaries via FDI, to exploring the dynamics of market power and non-equity forms of control in more fragmented value chains. The GPN framework is thus a theory of inequality and asymmetries in the global political economy rooted in *firm-level* corporate strategy and market power. Next, we introduce a neo-Gramscian approach to GPNs that builds on the insights of Hymer and Gereffi to develop a rich conceptual framework that locates the corporation in a network of actors and forces, and accounts for the contingent stability of GPNs, despite power and economic asymmetries.

A Neo-Gramscian Approach to GPNs

The neo-Gramscian theoretical framework provides an integrative perspective on GPN dynamics, casting them as contingently stable yet contested systems of economic value generation and distribution, normative values, and governance mechanisms. The "neo-Gramscian perspective highlights dynamic struggles over governance and the relationship between technical features of the market and the wider political environment" (Levy, 2008: 954). Social forces frequently attempt to intervene in GPNs with a progressive agenda to enhance conditions for labor or to advance environmental goals. This approach views GPNs as coherent systems with asymmetric power relations among an array of actors who simultaneously collaborate in synchronizing the overall system while competing for position and trying to challenge or defend the GPN in pursuit of their interests. The framework further illustrates how market and political power in a GPN are inextricably intertwined, recasting our notions of corporate and political strategy. It also illuminates CSR as a struggle between corporations and social forces over the corporate practices, governance structures, and societal values that shape GPNs.

GPNs, from this perspective, are hegemonic structures in which a dominant coalition secures a degree of systemic stability despite unequal distributions of influence, resources, and risk. This hegemonic stability rests on a particular configuration of economic, political, and cultural forces that are mutually reinforcing. At the same time, hegemony is always contingent and contested, with unresolved tensions and fractures (Fontana, 2006). GPNs are nested within the broader structures of neoliberal institutions, such as those for global trade and investment, and are therefore both shaped by and constitutive of them. Long term trends, such as new technologies that facilitate the fragmentation of production and the rise of intellectual property (IP) rights, will, over time, have significant impacts on GPNs as well as wider international trade and investment institutions.

From a neo-Gramscian perspective, GPNs closely resemble 'value regimes' (Levy and Spicer, 2013), networks of corporations, NGOs, and other actors interacting in complex systems that comprise three inter-related dimensions: economic models of value creation and distribution, cultural values, and governance mechanisms, both formal and informal. The normative dimension relates to the moral and social value of products, lifestyles, the natural environment, labor conditions, and the status of various stakeholders. This multidimensional view is important for understanding how systems of economic value are closely intertwined with normative values regarding, for example, the worth of branded clothing or norms regarding adequate working conditions for female textile workers. GPNs bring a spatial dimension that involves not just the dispersion of production but also the distancing of consumers and regulators in industrialized countries from subcontractors and workers in developing countries, which likely plays a role in securing hegemonic stability despite stark inequalities. The multi-dimensional nature of hegemonic stability in GPNs means that struggles to challenge them require "the re-thinking of social, material and spatio-temporal relations among economic and extra-economic activities, institutions and systems and their encompassing civil society" (Jessop, 2010: 348).

Hence, GPNs are not just economic phenomena but also represent contested arenas where business interacts with civil society and state actors around controversial social and environmental issues (Levy, 2008; Teegen, Doh, & Vachani, 2004). This contestation can be understood in terms of the political dynamics of CSR (Scherer and Palazzo, 2011), as actors attempt to challenge, restructure, or stabilize a 'value regime', within which viable configurations of economic value, normative values, and governance structures are aligned and stabilized (Levy and Spicer, 2013; Levy, Reinecke, and Manning, Forthcoming). Challengers can target the three dimensions of hegemonic stability in a GPN, its economic structure, its governance mechanisms, and the norms and values regarding corporate and consumer behavior. Some activists explicitly lean on GPN insights to achieve their goals, for example, Fairtrade attempts to increase incomes and shift market power toward growers in developing countries by increasing their capabilities to negotiate with MNCs and eliminating intermediaries (Reinecke, 2010). Anti-GMO campaigners have targeted retailers rather than food companies or GMO producers not just because of their vulnerability to consumer pressure but because of their power over suppliers in the value chain (Schurman & Munro, 2009).

From a Gramscian perspective, contestation in GPNs takes the form of bargaining and compromise that results in the emergence of a dominant coalition, or 'historical bloc' around a hegemonic "institutional settlement" (Zysman, 1994). Actors lend their contingent assent to the asymmetric outcomes in a GPN due to a combination of cultural legitimacy, a degree of economic accommodation, and strategic acquiescence in the face of power differentials. The dynamics of contestation in GPNs can resemble 'passive revolution' (Gramsci, 1971; Morton, 2010), in which dominant actors make some concessions to absorb and deflect challenges in efforts to defend the hegemonic system (Levy, Manning, and Reinecke, Forthcoming). Hence, challengers with few resources and little formal authority can sometimes accomplish extensive, if incremental, change that reconfigures the GPN.

Discussion and Conclusion: The Corporation as a Political Actor in Contested GPNs

Even as we understand how corporations are extending their reach, GPNs remain a contested terrain in which different companies and other actors strive to shape the competitive and governance landscape. The GPN is far from a unified hierarchy with centralized coordination, and GPNs vary in the balance of power among different actors. Bair (this volume) notes that electronics firms such as Samsung face much stronger suppliers than garment firms such as Nike or general retailers like Walmart. The price, however, of being a top tier supplier offering ‘full package production’ is a degree of virtual integration with lead firms through logistics, design and accounting software, locking them into subordinate relationships.

GPNs connect global economic regimes with local nodes of activity, and struggles over value appropriation reverberate across the spatial terrain. To illustrate, the phase-out of the protectionist textile agreement, the Multi-Fiber Agreement (MFA) was driven by a coalition of western states and major retailers, with support from China. The end of MFA greatly intensified competition as China, the lowest cost producer, rapidly gained market share. In Pakistan, subcontractors responded by “modernizing” the production systems, shifting from a piece rate system with mostly male workers to a factory based salaried female workforce, who were preferred as employees due to their very low wages and subservience in the local cultural context (Munir et al. 2014). The result was a complex cascade of changes in market, political, and cultural relations, benefiting branders and retailers at the expense of subcontractors and workers. Corporate involvement in the termination of MFA and the imposition of factory discipline on a cheaper female workforce illustrate well the intersection of economic and political strategy and the spatial linkages across the GPN.

Corporate efforts to gain and protect their market power in GPNs represent the intersection of business strategy and political maneuvering. Firms form alliances with other firms, governmental agencies, and NGOs, engaging in complex multi-level games as they struggle to build or defend their market position. Corporations thus negotiate their external environments in order to build and defend market position, so that the boundary between the economic and the political “must be considered artificial” (Mintzberg, Ahlstrand, & Lampel, 1998: 235). In the 1990s, a coalition of Western MNCs in the software, entertainment, and pharmaceutical sectors was instrumental in strengthening the international regime for intellectual property rights (Sell, 2002), invoking discourses of ‘anti-piracy’ and ‘national competitiveness’ for media framing and to secure wider support. The neo-Gramscian framework helps us understand these integrated political, discursive and economic strategies as an effort to mobilize a hegemonic bloc to bolster the legitimacy and economic position of these sectors. The strategies of corporations (and other actors) shape the political and economic terrain of GPNs, even as the emergence of GPNs as an important mode of capitalist production has reshaped the corporation. Deciphering the complex connections through which social and environmental outcomes are produced by GPNs at the local level, and identifying conditions under which counter-hegemonic forces might effectively promote alternative forms of economic and political organization, are equally important contributions that a neo-Gramscian perspective provides to our understanding of global production.

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