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# Human Rights and Corporate Social Responsibility in Developing Countries' Industrial Clusters

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**JEL codes:** R11; M14; J83; R58

**Keywords:** Human Rights; Corporate Social Responsibility (CSR); Industrial Clusters; Developing Countries

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# HUMAN RIGHTS AND CORPORATE SOCIAL RESPONSIBILITY IN DEVELOPING COUNTRIES' INDUSTRIAL CLUSTERS

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## **Abstract**

A recent preoccupation in scholarly research is the capacity of firms in developing country industrial clusters to comply with international corporate social responsibility (CSR) policies and codes of conducts. This research is at an early stage and draws on several – often quite distinct - scholarly traditions. In this paper I contend that future studies in this area would benefit from more explicit examination of the connection between cluster firms and human rights defined according to the 1948 Universal Declaration of Human Rights and subsequent covenants and treaties. I argue that cluster firms' adoption of CSR policies, often imposed indiscriminately on them by global buyers, should be differentiated from firms' actual human rights practice. Based on this distinction, I elaborate a typology of industrial clusters (“low-road”, “window-dressing” “rights-oriented”) and identify a set of factors likely to influence their practice. Against this background, I discuss an agenda for future research and elaborate on the potential methodological intricacies related to research in this area.

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## 1. INTRODUCTION

Industrial clusters in developing countries have at times demonstrated exceptional capacities to innovate and enter international markets. Clusters in the software industry in India (Chaminade and Vang, 2008); in the wine and salmon industries in Chile (Katz, 2004; Giuliani and Bell, 2005); or specialized in the manufacturing of surgical tools in Pakistan (Nadvi, 1999) are some examples of successful developing countries' clusters, populated by firms that have managed to upgrade the quality of their products, enhance their production performance and thrive in international markets. Following a long standing tradition of studies analysing clusters in the advanced countries (e.g. Piore and Sabel, 1984; Becattini, 1989; Camagni, 1991; Audretsch and Feldmann, 1996), in the 1990s research on developing countries' clusters was very much oriented at understanding how firms in such contexts would accumulate knowledge and engage in processes of technological learning, since this was seen as a very important driver of cluster growth over the long term: *“technological change is ...rooted in a specific set of change-generating resources or capabilities which are located within the structure of technology-using firms. Consequently, the learning processes which contribute to building and strengthening those capabilities are seen as playing an important role in the long-term dynamism and sustainability of industrial production.”* (Bell and Albu, 1999, p. 1718)

As this topic attracted considerable attention, another important challenge came to forefront: cluster firms' need to comply with a whole new set of international social and environmental standards, often mandated by large global buyers sourcing from suppliers located in developing countries (Blowfield, 1999; Barrientos, 2008). Indeed, the growing evidence of negative events that have discredited large corporations (e.g. the case of Nike's exploitation of child labour in the 1990s (e.g. Doorey, 2011); the Shell Oil involvement in the 1995 arbitrary assassination of Ken Saro-Wiwa in Nigeria (Wettstein, 2012a); the recent involvement of fast-fashion firms in the Rana Plaza accident in Bangladesh (Taplin, 2014)) have prompted consumers and other stakeholders to pay more attention to the social and environmental repercussions of business operations. In this scenario, firms have become more aware of the need to adopt Corporate Social Responsibility (CSR) practices, which are conceived here as voluntary self-regulatory measures that firms undertake in order to

contribute positively to the environment and to society.<sup>1</sup> This changing scenario has had an effect on developing countries' clusters as well, particularly in those places where firms have become integrated in Global Value Chains led by large mega-brands and retailers that are highly concerned about the social and environmental behaviour of their suppliers (Lundan and Muchlinski, 2012). Such global pressures have in turn stimulated cluster firms' adoption of codified codes of conducts, certifications and other explicit CSR policies<sup>2</sup> (among others Biggs and Messerschmidt, 2005; Damiani, 2008; Neilson, 2008; Lund-Thomsen and Nadvi, 2010; Lund-Thomsen et al., 2012; Tran et al., 2013).

However, the explicit adoption of CSR policies may have very little to say about the *de facto* social and environmental conduct of cluster firms in developing countries (and beyond that context as well). We know that firms behave responsibly and irresponsibly at the same time (Strike et al., 2006; Idemudia, 2009) and may use CSR instrumentally as an insurance against reputational damages while conducting 'business as usual' (Muller and Kraussl, 2011; Giuliani and Fiaschi, 2012). This phenomenon is also known in the management literature as "decoupling", whereby firms adopt certain CSR policies (or other formal policies) in a symbolic rather than in a substantial way (Westphal and Zajac, 1994; 2001; Fiss and Zajac, 2006; Marquis and Qian, 2014).

Yet concerns about the negative social and environmental conducts of business firms are growing both in the academic and policy arenas. Important contributions on this matter come from analyses on the intersection between business and human rights. Human rights are conceived here (and elsewhere) as inalienable fundamental rights to which a person is inherently entitled simply by being a human being whatever her or his nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or any other status. The relationship between business and human rights received heightened academic attention with the

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<sup>1</sup> Many classic and earlier definitions of social responsibility can be found in Crane et al. (2008). Among the landmark contributions, Jones (1980, p. 59-60) defines social responsibility as "an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract".

<sup>2</sup> I use the term 'CSR policy' as an umbrella term to refer to all those activities formally and explicitly undertaken by business firms in order to contribute to society and the environment. Therefore, in this paper CSR policy includes activities ranging from the formal adoption of firm or industry-level codes of conduct, adherence to principle-based initiatives, such as e.g. the UN Global Compact, sustainable reporting e.g. the Global Reporting Initiative (GRI), to certification initiatives such as the Forest Stewardship Council (FSC), ISO 26000, and SA8000.

appointment in 2005 of John Ruggie as the United Nations Secretary-General's Special Representative for Business and Human Rights (Wettstein, 2012b). Ruggie's responsibility in promoting an agenda about the respect of human rights by transnational corporations and other business enterprises largely influenced the current business and human rights debate,<sup>3</sup> which now revolves predominantly around his "Protect, Respect, Remedy" Framework (Ruggie, 2010; Cragg, Arnold, & Muchlinski, 2012). Among other things, this framework revamped the idea that business firms *do* have a responsibility to *avoid infringing the rights of others* and, thereby, reaffirms the duty of firms not to do harm while conducting business operations. According to Ruggie (2010, p. 3), "the corporate responsibility to respect applies to all [human] rights",<sup>4</sup> including those codified in several international instruments (such as the 1948 Universal Declaration of Human Rights (UDHR) and the subsequent treaties on civil and political rights; economic, social, and cultural rights; racial discrimination; women; torture; children; and the International Labour Organization (ILO) Conventions on labour rights) and those recognized under international customary law. Moreover, while the responsibility to respect human rights is a baseline responsibility of all companies in all situations (Ruggie, 2009), Ruggie acknowledged that some companies may be willing (and do in fact already undertake) to do more, proactively contributing to broader enjoyment of human rights through their voluntary initiatives. As a result, human rights language is increasingly adopted in CSR-related policy instruments (see e.g. the UN Global Compact; the ISO26000; the OECD Guidelines for Multinational Enterprises, and the Global Business Initiative - GBI).

While the relevance of the duty to respect human rights has been more widely discussed and analyzed in the context of large multinational corporations (MNCs) (Giuliani and Macchi, 2014 for a review), the analysis of

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<sup>3</sup> Research on business and human rights began in the 1970s (e.g. Asante, 1979; Horn, 1981) with the first international codes of conduct for corporations (i.e. OECD Guidelines for Multinational Enterprises, 1976; ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, 1977; UN Draft International Code of Conduct on Transnational Corporations, 1984) and intensified in the mid-1990s (e.g. Muchlinski, 1995; Meyer, 1996; Chandler, 1998, Addo, 1999), spurred by the emergence of considerable evidence of corporate scandals and growing economic and political power of non-state actors such as large corporations, connected to the global spread of liberalization policies during that period (e.g. Frynas and Pegg, 2003; Campbell and Miller, 2004). There was simultaneous business and human rights debate which revolved around defining the human rights responsibilities of private corporations (e.g. Paust, 2002; Reinisch, 2005; Clapham, 2006) and identifying normative solutions to the negative human rights repercussions of business (e.g. Muchlinsky, 2001; Ramasastry, 2002; Kinley and Tadaki, 2004; De Schutter, 2006, 2010).

<sup>4</sup> Use of the term "responsibility" rather than "obligation" reflects the fact that states continue to be the sole bearers of human rights obligations under international law, but also constitutes an authoritative acknowledgement of the existence of corporate responsibilities that are grounded in internationally sanctioned values.

the human rights conduct of industrial cluster firms is a relatively uncharted territory. Barely any cluster study refers explicitly to the concept of human rights and either focuses on specific aspects of labour rights, using such terms as workers' dignity, decent labour conditions, social upgrading, eradication of labour bondage, real labour standards, etc., or refer directly to environmental management issues. For instance, some studies explore how the adoption of CSR policies has changed certain environmental and worker-related management practices in clusters (see among others Lund-Thomsen and Nadvi, 2010 on child labour; Kennedy, 1999 and Nadvi and Yoon, 2012 on environmental management), while others have taken a rather critical stance in relation to the effectiveness of imposing international codes of conduct on small and informal suppliers in developing countries (Barrientos, 2008; Blowfield and Dolan, 2008; De Neve, 2009; 2012; Mezzadri, 2012; Jamali et al. forthcoming 2014). Another strand of development research analyses the interrelations between economic upgrading processes (i.e. product, process and functional upgrading experienced by local suppliers) and social upgrading (i.e. improvements to workers' conditions) in Global Value Chains (Knorringer and Pegler, 2006; Barrientos et al., 2011; Milberg and Winkler, 2011; Rossi, 2013).<sup>5</sup>

In this context of a wide spectrum of views and terminologies, and of the very narrow focus on only some selected human rights repercussions, I would argue that future cluster research should initiate a real 'business and human rights' debate (Muchlinsky, 2001; Wettstein, 2012b), and embrace a wider human rights approach to analysis of the social and environmental repercussions of cluster business operations. With that in mind, in this conceptual paper I promote an agenda of research for cluster scholars about the repercussions of cluster firms on human rights, and contribute to this area of research in three ways. First, I discuss why the human rights discourse is more adequate to address the social and environmental repercussions of business in industrial clusters, than the CSR (and related 'codes of conduct') discourse. Second, I elaborate a novel typology of industrial clusters based on: (i) level of respect for human rights in cluster, reflected by respect of the duty not to cause harm and promotion of universal human rights; and (ii) the extent to which cluster

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<sup>5</sup> There is also a strand of research that is preoccupied with the capacity of MNCs to ensure that no violations of human rights are committed by firms in their value chains - and particularly by suppliers located in developing countries (Arnold and Bowie, 2003; International Commission of Jurists, 2008; Mares, 2010; Lundan and Muchlinksy, 2012, among others), but this literature does not focus specifically on industrial clusters.

firms have explicitly adopted CSR policies in their business practices. I thus distinguish between different cluster models: i.e. “low-road” clusters where firms neither adopt CSR policies nor respect the negative duty not to harm, and do not promote human rights at the local level; “window-dressing” clusters where firms’ widespread adoption of CSR policies is symbolic only, and is aimed at obtaining a licence to operate with big global buyers and international markets while continuing to inflict human rights abuses; and “rights-oriented” clusters where firms demonstrate cluster-wide respect for the negative duty not to infringe others’ human rights in the conduct of business operations and/or promote human rights regardless of the adoption of CSR policies. Third, I identify and discuss a set of factors that I consider highly influential in determining the nature of the cluster model, with the intent primarily of sparking discussion in scholarly research on clusters, about the importance of more direct analysis of the human rights repercussions of business in these types of industry organizations. On these grounds I then discuss an agenda for future research, identifying the most urgent research questions and elaborating on the potential methodological complexities involved in conducting research in this area.

The present paper is organized as follows. Section 2 explains the differences between a CSR and a human rights approach in the analysis of business operations in developing countries’ clusters. Section 3 presents the different typologies of clusters. Section 4 discusses the factors influencing the nature of different cluster models, and Section 5 sets an agenda for future research. Section 6 concludes.

## **2. THE BUSINESS AND HUMAN RIGHTS DEBATE AND ITS RELEVANCE FOR INDUSTRIAL CLUSTER RESEARCH**

In this section I discuss why the human rights discourse is fundamentally more adequate to address the social and environmental repercussions of business in industrial clusters, than the CSR (and related ‘codes of conduct’) discourse. To be sure, I do not deny the importance of the ‘CSR movement’ at the global level and concede that, in certain contexts, it can be instrumental to enhancing human rights in clusters (see Section 3). I do also concede that the applicability of the concept of human rights to the analysis of firms’ social and

environmental repercussions presents elements of complexity that should not be overlooked, for which the development community has yet not mainstreamed this concept into its analyses, with most governments and international organizations preferring the language of ‘economic’ and ‘social development’ to the “inflammatory language” of human rights (Alston and Robinson, 2005, p. 4). Difficulties in mainstreaming a human-rights approach to development stem from the controversies between universal and relativist views on human rights (see among many others Donaldson, 1996; Velasquez, 2000; Wettstein, 2009; Muchlinski, 2004), where relativist perspectives accept that certain abuses of universally-conceived human rights will occur due to the cultural differences across time and space (i.e. in different communities, societies and civilizations). The human rights approach to business, moreover, poses a number of challenges with respect to the trade-offs existing in the enjoyments of rights – i.e. the improvement of some rights may come at the expense of others.<sup>6</sup> Such trade-offs are clearly a problematic terrain, and there is at present no agreement among human rights scholars on the possibility and desirability of establishing a ‘hierarchy’ of human rights (Klein, 2008; Quane, 2012). On the one hand, the United Nations recognizes no hierarchy of rights<sup>7</sup> and it is generally considered improper to speak about a category of ‘superior’ types of human rights. All human rights are in fact considered to be universal, indivisible, interdependent and interrelated (World Conference on Human Rights, 1993, para. 5), meaning that some rights cannot be fully enjoyed without the enjoyment of others and that there is a mutually reinforcing dynamic between different rights (Quane, 2012). On the other, scholars have tried to differentiate across different types of rights. For instance, Giuliani et al. (2013), using an international law approach, propose a distinction between non-derogable and derogable<sup>8</sup> human rights. The former refer to rights that have been afforded “reinforced” protection by the international community, being considered non-derogable in all circumstances, including in times of national emergency,<sup>9</sup> and

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<sup>6</sup> For instance, as compared to informal work, formal work guarantees a number of advantages to workers such as minimum wage, insurance and safer working conditions, but at the same time it imposes fixed time shifts and therefore reduces workers’ flexibility and freedom to choose how to organize their daily activities (see De Neve, 2012).

<sup>7</sup> <http://www.ohchr.org/EN/Issues/Development/Pages/IntroductionStatement.aspx>, last accessed 15<sup>th</sup> April 2014.

<sup>8</sup> Although human rights treaties obviously refer to derogations that *states* are permitted or not permitted to apply, Giuliani et al. (2013) use this categorization to highlight cases where firms – alone or in complicity with another party – have breached or are accused of breaching a norm to which the international community afford a particular degree of protection (*non-derogable* rights), and distinguish them from other abuses.

<sup>9</sup> The derogation regime aims at striking a balance between the protection of individual human rights and the protection of national needs in times of emergency. The provision of *non-derogable* rights poses a limit on the state’s emergency powers.

embrace the right not to be arbitrarily deprived of one's life; freedom from torture (including medical or scientific experimentation without consent); freedom from slavery, servitude and forced labour (International Covenant for Civil and Political Rights (ICCPR) art. 4.2; European Convention of Human Rights (ECHR) art. 15; American Convention on Human Rights (ACHR) art. 27.2); and child labour (Humbert, 2009). Thus, derogable rights include all other kinds of human rights, which, in the context of industrial clusters, could range from worker discrimination to cases of environmental contamination that infringe people's rights to live in a healthy environment, to instances of products launched on the market that contain dangerous or toxic ingredients.<sup>10</sup> Although this distinction could be useful to identify what rights could be given more relevance than others, the complex issue of trade-offs remains a very controversial one in the business and human rights community.

Even if one accepts these caveats, a universal human rights approach to analysis of the business conduct of firms in industrial clusters is not only desirable but also helps to overcome some of the limitations of earlier research in this area, for two fundamental reasons. First, adopting a human rights approach in cluster research allows a more comprehensive understanding and discussion of the repercussions of business in this context compared to earlier studies which focus almost entirely on workers' rights (see e.g. De Neve, 2009; 2012; Lund-Thomsen and Nadvi, 2010; Taylor, 2011; Carswell and De Neve, 2013; Lund-Thomsen, 2013; Jamali et al., 2014; Mezzadri, 2014), and environmental impacts (e.g. Kennedy, 1999; Nadvi and Yoon, 2012; Hamann et al., 2014; Puppim de Oliveira and Jabbour, 2014). As noted earlier, labour rights, such as freedoms of association and the right to collective bargaining, prohibition of all forms of forced labour, abolition of the worst forms of child labour and non-discrimination in employment and occupation, are also included in the UDHR (Art. # 23, 24) and protected by successive treaties. The advantage of referring to the UDHR is that cluster scholars may want to investigate the impact of cluster firms on other types of no less important human rights such as the right to an adequate standard of living and the right to health for people in nearby communities, and local and global consumers, the right of indigenous communities not to be

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<sup>10</sup> See also Donaldson and Dunfee (1994) and Donaldson (1996) reference to "hyper norms" or "core human values" – i.e. human rights such as "personal freedom, physical security and well-being, political participation, informed consent, the ownership of property, the right to subsistence and the obligation to respect the dignity of each human person" (Donaldson and Dunfee, 1994, p. 267), which in their view deserve different consideration from other types of rights.

displaced or relocated to other areas, the right of local communities to freedom of opinion and expression, among others. In this sense, I maintain that studies focusing on the environmental repercussions of cluster firms' operations should extend their focus to include a more profound understanding of their effects on human health and the right to enjoy a decent life. Also, by looking at human rights as a whole, scholars may more broadly investigate whether the improvement of certain rights comes at the expense of other rights, thereby addressing more directly the complex issue of trade-offs and assessing the wider impact on rights of firms' operations in clusters.

Second, it is imperative to neatly separate – both conceptually and empirically - analyses of cluster firms' adoption of different CSR policies (for a definition, see fn. 2) and their actual human rights conduct. The former are chosen discretionarily by firms that, within a CSR framework, are free to choose which social or environmental issues should be at the top of their agendas (Blowfield, 2005). In contrast, in a human rights framework “companies do not get to pick and choose from a smorgasbord those issues with which they feel comfortable” (Avery, 2006, p. 4), but are required to contribute to or at the very least respect, a set of globally recognized principles spelt out in the UDHR and subsequent treaties, which are nowadays binding on the vast majority of states across the globe, either through treaty norms, or international customary law.<sup>11</sup> Although the enforcement of human rights obligations is an Achilles heel in contemporary international law (see e.g. Joseph, 1999; Collingsworth, 2002; Kobrin, 2009) since ratifying states do not always guarantee respect of these rights within their own jurisdictions, a universal human rights approach to business has the advantage of not leaving space for firms' discretionary choices, and to their arbitrary privileging of some rights vis a vis others.

This is even the more important in the context of growing globalization where firms are increasingly locating production activities in or sourcing from developing countries that frequently are characterized by weak state capacity and rules of law, and have much less constraining legal standards than those in more advanced

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<sup>11</sup> As Wettstein (2012, p. 750) puts it: “while CSR has traditionally focused on the domain of virtue and beneficence and thus may have tended to put the emphasis predominantly on what is desirable (and thus optional) rather than imperative, human rights claims deal with the indispensable and thus with what is owed to human beings; they are, in other words, located squarely in the realm of justice”.

countries. In these situations, firms can profit from abiding by the local law while not conforming to universal human rights,<sup>12</sup> which is an area that cluster scholars should not neglect. This is not to say that a universal human rights approach should be imposed top-down on firms in developing country clusters (as often assumed in the literature on codes of conduct compliance, see e.g. De Neve, 2009; Mezzadri, 2014), but rather that the business practices of firms operating in these contexts should include respect for and promotion of universal rights, and should at least aspire to giving people (employees, communities, consumers, etc.) a free choice between having their universal human rights respected (or promoted) or maintaining habits anchored to local culture or law even if this implies infringement of an universal right.

These issues set the ground for most of the discussion on clusters and human rights in the remaining sections of the paper.

### **3. HUMAN RIGHTS CONDUCT AND CSR: A NEW TYPOLOGY OF INDUSTRIAL CLUSTERS**

Due to its concern mostly with industry competitiveness and innovation, earlier scholarly research does not explicitly classify clusters according to their firms' human rights and CSR conduct. An exception, perhaps, is Pyke and Sengenberger (1992), which distinguishes between "low-road" and "high-road" clusters. In the former, international competition is considered to be based on low labour costs and a deregulated labour market environment, a context where "institution and rules aimed at regulating competition are seen as mere straightjackets and should be kept to a minimum, [where]...small firms have ... been exempted from protective labour standards" (Pyke and Sengenberger, 1992, p. 12) The latter – i.e. "high-road" clusters - were defined instead as places where competition is based on efficiency enhancement and innovation and where workers rights are safeguarded, labour standards are promoted and adequate social protection is available.

While the focus on labour standards is salient in the present analysis, there is a need to extend the perspective on rights enjoyment in clusters to other stakeholders who deserve their rights to be respected or protected (see Section 2). Therefore, I classify clusters on the basis of two dimensions: (i) the degree of enjoyment of

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<sup>12</sup> A case in point may be that of women's rights, whose violation under UDHR standards is allowed by the local law in certain countries (see the Sharia law in Islamic countries).

all kinds of universal human rights in the cluster, as reflected by respect of the duty not to harm by local firms, and the promotion of human rights in general; and (ii) the extent to which cluster firms explicitly have adopted CSR policies in their business practices. I envisage three stylized types of clusters as depicted in Figure 1.<sup>13</sup>

1. “low-road” clusters<sup>14</sup> whose firms neither adopt CSR policies nor respect the negative duty not to harm, and do not promote the enjoyment of human rights at the local level;
2. “window-dressing” clusters whose firms’ widespread adoption of CSR policies is purely symbolic and aimed at obtaining a licence to operate with big global buyers and enter international markets while systematically violating human rights;
3. “rights-oriented” clusters whose firms, cluster-wide, demonstrate strong respect for the negative duty not to infringe others’ human rights while conducting business operations, and/or promote the enjoyment of human rights. This group includes clusters whose firms have also adopted explicit CSR policies (substantial CSR) and those who have chosen “silent” CSR or non-explicit CSR adoption, but they *de facto* compromise with the local labour environment and local community and their human rights.

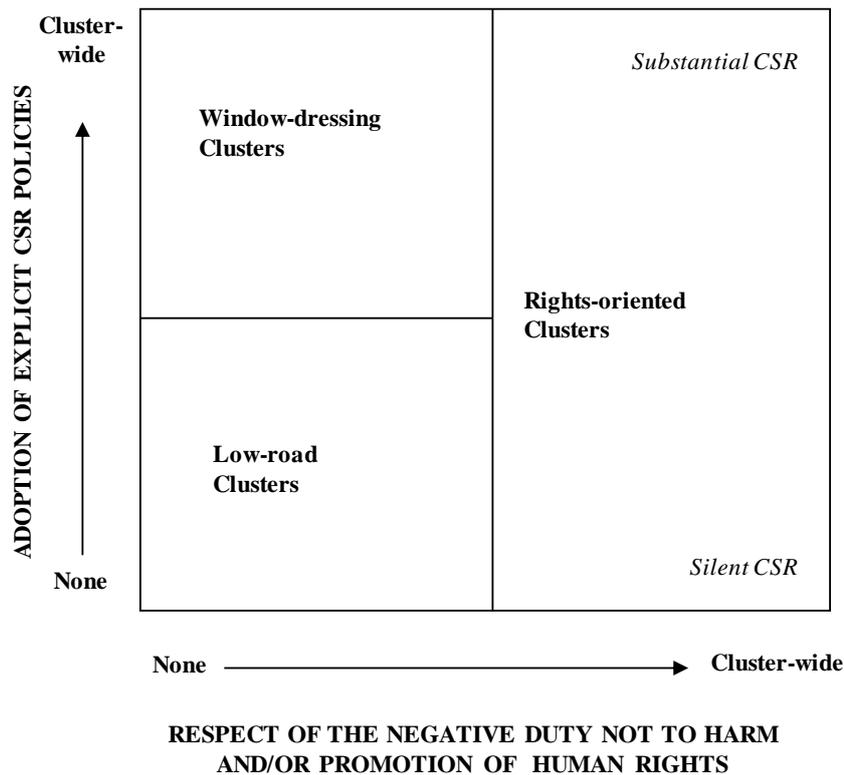
I provide empirical evidence and discuss each type of cluster in the remainder of this section.

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<sup>13</sup> This typology is coherent with and improves on the distinction in the AccountAbility-UNIDO (2006) report on a set of developing country clusters’ responses to the responsibility agenda (i.e. evasion; silent CSR; compliance with standards; market access through cluster responsibility).

<sup>14</sup> I borrow the term “low-road” from Pyke and Sengenberger (1992), although I attribute a broader meaning to that originally implied by Pyke and Sengenberger.

**Figure 1 Cluster types according to their human rights conduct and adoption of CSR policies**



*Source: Author own elaboration*

### 3.1 Low-road Clusters

Although a focus on human rights *per se* is not part of the industrial cluster agenda, scattered evidence exists about the fact that human rights infringements have occurred throughout the history of many clusters. For instance, in writing about the growth of an Italian industrial district in the 1970s, Brusco (1982) reported the existence of a “*clear connection between the proliferation of small enterprises and the use of 'black' labour*” (p. 170), where this concept refers to “*situations where social welfare contributions are evaded and again to cases where labour is paid lower wages than the minimum set by national agreement, works in substandard conditions, or does not receive agreed levels of supplementary bonuses and holiday pay. However defined, black labour is extremely common in Emilia-Romagna, and underpayment, tax evasion and the extraordinary flexibility of labour are all important features of the productive system.*” (p. 170)

Turning the focus on developing countries’ clusters, recent evidence presents scenarios in which workers’ and other people’s rights frequently are violated. In many such cases, small firms lack either the managerial or investment capacity to deal with or wipe out abusing behaviours, and/or use the infringement of rights as a

way to obtain otherwise unachievable efficiency gains. For instance, Blackman (2002) reports on the cases of informal firms in two Mexican clusters – brick kilns producers in Ciudad Juarez and leather tanneries in Leon – produced contamination that severely hampered employees’ and residents’ rights to health (for more examples see also Blackman, 2000).

Quite interestingly, Blackman (2002) shows that collective action among local entrepreneurs had been used to *block* the enforcement of new environmental regulations which would cause increased costs for firms. Also AccountAbility-UNIDO (2006, p. 21) reports the existence of “clusters [that] can be a haven for irresponsible companies”, and which lobby against the introduction of a more rights-oriented approach to social and environmental issues, often with the tacit complicity of local governments. An interesting interpretation to this vicious twist to local collective action is provided in Tandler (2002), who claims that the persistence of this phenomenon in clusters is often due to a “devil’s deal” with local politicians in the form of a tacit agreement with small entrepreneurs to neither collect taxes from them nor make them comply with environmental and social regulations as a *quid pro quo* for votes in the elections.

Cultural relativism (e.g. Velasquez, 2000) may also explain at least some of the misconduct observed in certain developing countries’ clusters. For example, what is considered harmful or even unlawful by international standards may be widely accepted within the firm’s local community – either because certain behaviours are strongly embedded in local cultural and ethnic values, or because, in that specific context, they do not imply breach of national law. Lund-Thomsen (2013, p. 79) examines the labour conditions of female workers in the football cluster of Sialkot in Pakistan, noting that some females are allowed to perform only home-based not factory-based work by their male family members. According to one of the male informants in that study, since

a wise man would not send a woman out even if a million is offered. A woman should not come to the factory. In our area, there is no one going to the factory. In our area ladies do not go out.

Such a discriminatory practice may well go against various international human rights norms (e.g. Art # 11 of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW); Art # 6 and 7 of the International Covenant on Economic, Social and Cultural Rights (ICESCR); the ILO Discrimination Convention (C111)), but is commonplace in certain communities.

Similarly, Blowfield and Dolan's (2008) analysis of fresh vegetables, fruits and cut flowers production in Zambia illustrate the issue of relativism in an interview quote:

not all [universal standards] are appropriate in the developing country context. . . For example, child labour — if there are no schools, what's the point of them staying at home when they could be contributing to family income? So long as the work is not dangerous, [it] shouldn't be a problem for children to work in school hols or weekends. There are also workers who don't want to be permanent, as they want to go to their home areas to plant maize at certain times of year — codes should recognize this.” (Interview, Zambia, 20 November 2002, cited in Blowfield and Dolan, 2008, pp. 9-10)

In other cases, workers are keen to accept poor labour conditions – extra-hours, uninsured work, etc. - not just because of the certain immediate economic payoffs, but also because they do not deviate from the norm in their community. For instance, De Neve (2009, p. 65), referring to a south Indian garment cluster, points out that:

many migrant workers...prefer to work 12-hour shifts in order to make a living in town and send money home, while others actively avoid working in firms where an eight-hour shift is imposed or where Employees' State Insurance (ESI) and provident fund (PF) contributions are deducted from their daily wages.

These relative conditions clearly “make it all the more viable for Small and Medium Enterprises (SMEs) to ignore the working standards”, such that “working conditions in some factories (especially those catering to domestic markets) are a serious point of concern in some clusters” (interview with a representative of the UNIDO Cluster Development Programme in India, cited in AccountAbility-UNIDO, 2006, pp. 21-22)

Therefore, in low-road clusters infringement of human rights is often well embedded and in such clusters there is no apparent or explicit attempt to even pretend that certain rights-oriented practices are put in place through the adoption of CSR policies. Rather, the infringement of rights is a resource for low-road clusters: it represents a strength by enabling cluster firms to make otherwise impossible efficiency gains.

### **3.2. Window-dressing Clusters**

Export-oriented clusters whose member firms belong to Global Value Chains led by mega-brands, producers and retailers with high visibility may find their way out of low-road trap. In such places local suppliers are using adoption of different types of CSR policies to achieve legitimacy and entry to international markets. However, this global pressure to adopt CSR policies may be “decoupled” from the *actual* human rights conduct of these cluster firms. A paradigmatic case of a window-dressing cluster is that of Jalandhar in India, specialized in football manufacturing. Jamali et al. (2014 forthcoming) report that the firms in this cluster have responded to pressure from global buyers to eradicate child labour by explicitly adopting codes of conducts to prevent such abuse, but have continued to practice other labour rights abuses, with the result that “football stitchers within the industry laboured under very poor conditions of work while they continued to toil in poverty” (Jamali et al., 2014, forthcoming p. 27). Such selective decoupling is a sophisticated strategy that is related largely to the fact that the global buyers involved place different emphasis on different types of rights: they tend to invest in the eradication of practices with the most problematic reputational impacts, such as child labour, while tolerating other types of human rights abuses, such as job discrimination or gender inequality, which are less likely to undermine their legitimacy and, not least important, guarantee them significant production efficiency gains (De Neve, 2009; Fiaschi and Giuliani, 2012; Jamali et al., 2014 forthcoming). Local suppliers then perceive this bias and organize their local production activities according to the different emphasis placed on different kinds of rights.

In the context of the analysis in this paper, the existence of decoupling practices is also connected to the issue of cultural relativism discussed earlier, and is reflected by the fact that local entrepreneurs – in spite of their formal adherence to international codes of conducts mandated by the buyers – choose to conduct their business activities based on inherited routines and locally accepted cultural values (Blowfield and Dolan,

2008), rather than shifting to what they consider to be purely western CSR values (Jenkins, 2005; Gilberthorpe and Banks, 2012).

In addition, local producers may oppose changes to their *actual* management practices to increase respect for universal human rights, because of their costs. For instance, in their work on Cameroonian SMEs, Demuijnck and Ngnodjom (2013) find that owners/managers are accepting of environmental mismanagement and corruption because these practices are accepted locally and also reduce costs. In the same vein, De Neve (2009, p. 66) notes that, for smaller producers in India, investment in compliance with certain labour-related codes of conduct imposed by western buyers is prohibitive, since the majority of subcontractors “work with unpredictable and fluctuating orders, making the recruitment of a regular labour force highly problematic and the provision of social benefits largely unaffordable”. In most such cases, decoupling is due to the failure of global buyers to support the transition of local firms’ towards full compliance with international codes of conduct and rights-oriented practices (Egels-Zandén, 2014). AccountAbility-UNIDO (2006, p. 26) reports that while global buyers make “pious noises” about social and environmental issues, they often put pressure on their suppliers over both prices and delivery times, and are not keen on sharing the costs of their compliance with such standards – de facto making it impossible for SMEs to both respect rights and also be profitable.

Also to blame for window-dressing efforts in clusters, is failure in global buyers’ auditing systems (Barrientos, 2008). As suggested by Lund-Thomsen and Nadvi (2010, p. 206), although global buyers monitor their supply chains, audits are often preannounced “making it possible for suppliers to appear to be in compliance the day of the audit by forging documents related to work hours and wages as well as coaching their workers to provide the ‘right’ answers”. Blowfield and Dolan (2008) take a very critical stance, arguing that audits, often consisting of abstract checklists, negate the complexity of labour, and the social relations that underwrite it, and, therefore, are highly likely to overlook other important social issues. They discuss cases in Kenya, Zambia and South Africa where “workers reported that they were told to hide, wear protective clothing, or stay away from sprayed green houses, when auditors came so that everything could be ‘in perfect order’ for the inspection” (Blowfield and Dolan, 2008, p. 14). They claim that audits

based on checklists fail to persuade producers to make changes, are not participatory and create no incentives not to cheat.

### **3.3 Towards Becoming a Rights-oriented Cluster**

The blue-jeans cluster in Toritama (Pernambuco), Brazil (Lazarte, 2005; Almeida, 2008) and the dyeing cluster in Banwol-Sihwa, South Korea (Nadvi and Yoon, 2012) were once infamous for being ‘pollution havens’. In the Pernambuco case, blue-jeans laundering produced approximately 21 million gallons of chemicals contaminated water per month, which was discharged into the local river. The laundries also generated atmospheric contamination, and gas leaks caused respiratory problems in nearby residents. In addition, the workplace conditions were unsafe and unhealthy (Lazarte, 2005). In Pernambuco, government had traditionally failed to enforce labour, tax and environmental legislation. Illegal dumping of toxic effluents and bad odours emanating from the industrial site were also commonplace in the Korean dyeing cluster, and undermined local residents’ rights to health and decent living conditions during the 1990s (e.g. children in local schools could not play outside). There are other places where violations of labour rights were common, such as the already mentioned Sialkot football cluster in Pakistan involved in the 1990s Nike’s child labour scandal (Lund-Thomsen and Nadvi, 2010).

I cite these examples because they are examples of initial attempts at escaping the low-road development path and progression towards a more rights-oriented development trajectory. The Toritama cluster now has in place proper control and recycling of its contaminating effluents. The Banwol-Sihwa cluster has been transformed into an Eco-Industrial Park (EIP),<sup>15</sup> and promotes development of a number of eco-efficient activities such as use of wastewater heat as a source of energy, and exchange of textile effluent sludge between the dyeing cluster and a cement manufacturer. Finally, Sialkot has gone some way towards becoming a rights-oriented cluster having organized its production to allow effective monitoring of child-

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<sup>15</sup> An EIP is generally described as a “community of manufacturing and service businesses located together on a common property, [which] seek enhanced environmental, economic, and social performance through collaboration in managing environmental and resource issues” (Lowe, 2001: 1).

labour monitoring, although scholars note that cluster-wide eradication of human rights violations has not yet been achieved and gender discrimination at work is widespread (Lund-Thomsen, 2013).

These three cases have some commonalities: first, NGOs and civil society at large (including in some cases the local community) were crucial for rising awareness and fighting against the local environmental and social problems; second, in all cases, improvements to certain human rights was achieved through a long term collaborative effort among various stakeholders including the business firms and their local associations, government actors and/or agencies at both national and local levels. Third, the process of change was stimulated or facilitated by international actors (e.g. market pressures in the Banwol-Sihwa and Sialkot clusters cases, and a German Training and Development Centre contributing to develop a technology to control water pollution in Toritama).

There is also a fundamental difference across these three cases. While firms in Banwol-Sihaw and Sialkot adopted a number of explicit CSR policies to comply with the requirements of their global buyers, this does not apply to the Brazilian blue-jeans cluster. In Banwol-Sihaw, global buyers, such as Gap, Target and Walmart, demanded that their local suppliers meet ISO, Eco Labels and Bluesign standards (Nadvi and Yoon, 2012). In Sialkot, notorious for child labour exploitation, a multi-stakeholder agreement was signed in 1997 among the Sialkot Chamber of Commerce and Industry (SCCI), the World Federation of the Sporting Goods Industry (WFSGI), the Soccer Industry Council of America, the International Labour Organization (ILO), the United Nations Children Fund (UNICEF) and Save the Children, to implement cluster-wide monitoring and eradication of child labour.

In the Toritama blue-jeans cluster, higher compliance with national regulation seems not to have been accompanied by the adoption of international standards or explicit CSR policies, and is similar to many other cases where, even in the absence of international pressure from global buyers or other international actors, cluster firms undertake a more ‘silent’ CSR strategy, and adopt rights-oriented management practices in a more informal way (i.e. similar to the “silent”, “sunken” and “implicit” CSR efforts described by Jenkins,

2006; Perrini et al., 2007; Matten and Moon, 2008; Russo and Tencati, 2009; Demuijnck and Ngnodjom, 2013).

#### **4. FACTORS EXPLAINING LOW-ROAD, WINDOW-DRESSING AND RIGHTS-ORIENTED CLUSTERS**

In this section I develop an interpretative framework for the factors that may fundamentally influence the tendency of a cluster to be low-road rather than window-dressing or rights-oriented. The framework includes the role played by the focal country's state capacity; the strength and activism of its civil society; the industry-specific and other international and institutional extra-cluster pressures and the existence in the cluster of local joint actions and social monitoring (see Table 1 for a summary).

##### **4.1 Strong State Capacity: Important, but not sufficient**

One of the first contextual conditions for cluster firms to respect the negative duty not to harm is the presence of strong state capacity, which is defined as the state's power to enforce contracts and regulate markets (Besley and Persson, 2009), and to guarantee a strong and impartial legal system (Englehart, 2009). The literature on business and human rights shows convincingly that a strong legal system is crucial to regulate firms' operations and human rights abuses (De Schutter, 2006; Eroglu, 2008), not least because it can be an important deterrent to firms' abusing certain community or employee rights. In this sense, when there is weak country or a regional government capacity to ensure the rule of law it may be harder to promote rights-oriented clusters, and may promote the persistence of low-road clusters. In the management research context, neo-institutional theories argue that compliance with rights-oriented practices may be the result of coercive isomorphism (DiMaggio and Powell, 1983), occurring when firms are under strong political influence and government pressure to respect rights.

However, strong state capacity may fail in certain contexts since not all firms respond to institutional pressures in the same way (Berrone et al., 2010). For instance, enforcement of the rule of law can prove very difficult if the local context is characterized by small and informal entrepreneurs. According to Puppim de Oliveira (2008, p. 8), "it proves often politically difficult for authorities to "be tough" with small firms, once

they are perceived to be weak and unable to comply with the laws (and if they tried to comply, they would be forced to close down)". Also, in such contexts, sanction-based approaches where the government tries to enforce the regulation by coercion, setting fines and issuing judicial orders, has often led to the closure or relocation of small firms outside capital cities, rather than to the stimulus of a greater respect for human rights (Kennedy, 1999; Dasgupta, 2000; Nadvi and Yoon, 2012). Hence, strong state capacity is an important corollary to the good human rights conduct of cluster firms, but it is not sufficient to ensure that rights are respected. In the most vulnerable and poor clusters, top down approaches may not be effective for ensuring that firms respect the negative duty not to harm (Almeida, 2008). Even considering these difficulties, I envisage that low-road and window-dressing clusters are more likely to manifest themselves in contexts where the country state capacity to ensure the rule of law is weak (Table 1-a).

#### **4.2 Civil Society and NGOs: Crucial to raise awareness**

Civil society plays an important role in shaping firms' behaviour along with state enforcement of law and creation of new laws. Civil society is characterized by local NGOs, activist groups, and the communities living close to firms' operations (Calvano, 2008). The literature generally recognizes the powerful role of civil society for shaping at least some aspects of firms' behaviour and it is thanks to increased human rights activism and closer media scrutiny that corporations are beginning to accept responsibility for the labour practices and human rights abuses associated with their operations (Spar 1998; Gereffi et al., 2001; Pegg, 2003).

In the cases of Toritama and Banwol-Sihaw cited earlier, civil society was crucial for drawing attention to the massive contamination and that both government and the business sector needed to find an environmentally-sustainable solution. Also, in places where workers movements have gained traction, the adoption of codes of conduct by firms has proved to be useful in promoting changes to management practices in favour of the promotion of human rights, as noted in Taylor (2011, 456): "bottom-up worker movements have in some circumstances been able to draw on corporate codes of conduct and the potential support of international consumer activist groups as resources to aid their campaigns".

Optimism about the role and power of civil society is sometimes counterbalanced by research that highlights that NGOs can contribute negatively by generating severe conflicts between local residents and the business community, and imbalances in the bargaining power and divergent perceptions of external legitimacy among cluster actors, can result in cluster-wide scepticism towards NGOs' intentions (Calvano, 2008). Hence, the roles of civil society and NGOs can be important to raise awareness about the duties of firms with respect to local people's rights, but for resolving battles to favour human rights they may be ineffective or controversial. Certainly, however, the presence of a strong and active civil society at the local level can be instrumental to ensure a more rights-oriented approach to business in clusters, whereas this might be more difficult to achieve when local civil society is inactive or weak (Table 1-b).

#### **4.3 Global Value Chains and Global Buyers: Enhancing cluster firms' familiarization with CSR - but at a risk**

Some cluster firms in developing countries have made huge progress in securing production linkages with large global buyers, whose own human rights are closely scrutinized, as, progressively, are those of the actors in their Global Value Chains, especially if these firms are located in countries with weak rule of law (Lundan and Muchlinski, 2012). However, there is no consensus on the extent to which such market pressures manage to transform (or maintain) cluster development along rights-oriented paths, and the extent to which they stimulate only the development of window-dressing clusters. Research in this area is still largely inconclusive.

On the one hand, scepticism has been expressed about the capacity of such internationally-imposed CSR policies to improve local practices. Criticisms include examples of CSR policies that exacerbate local power relations in clusters because they tend to give more power to first-tier or "full-package" suppliers, which in turn outsource production to a plethora of middle- and lower-tier powerless suppliers striving to survive in the market. Taylor (2011, p. 454) in his study of light-manufacturing in China notes that: "the entirely logical response of many small labour-intensive capitals in the lower tiers has been to develop elaborate manners of falsifying social responsibility data and of coaching workers to answer questions asked during site visits by auditors". Similar outcomes have been described by De Neve (2009) and Mezzadri (2014 forthcoming)

among others, in the context of the Indian garment industry. The authors express concern for the incapacity of Western-derived CSR standards to produce meaningful change in the complex web of non-factory based producers – *de facto* producing a decoupling of management practices in the clusters (see also Egels-Zandén, 2007 for a case of decoupling in Chinese toy suppliers).

On the other hand, advocates of CSR have long argued that the pressure to adopt CSR policies may be effective to stimulate a more rights-oriented approach to management over the long term by increasing the business sector's awareness of the need to respect or promote certain rights that previously were unknown or completely ignored (Rivoli and Waddock, 2011). While this is a plausible expectation in principle, the evidence is scant. A recent paper by Egels-Zandén (2014), contradicting earlier research (Egels-Zandén, 2007), shows that codes of conduct pressure exerted by a toy MNC on a set of Chinese suppliers has produced an improvement in certain workers' rights although the process took years. More interestingly, this study shows that this improvement was due both to more frequent auditing and the stringency demanded by the MNC as well as progressive strengthening of the local legal system. The study shows that the quality of the relationships between the global buyer and its suppliers is important in that the shift from pure arm's-length to more collaborative ties has improved codes of conduct compliance among local suppliers.

It would seem that external pressures to adopt CSR policies carry a decoupling risk, but may also spark a lengthy process of learning that progressively pushes firms, especially factory-based manufacturers, towards higher respect for human rights. It is thus plausible to argue that, when both great pressure towards codes of conduct compliance and also stringent monitoring and support to codes' compliance are present in a cluster, local firms/suppliers might tend to align over the long term to a more rights-oriented approach to business. On the contrary, window-dressing behaviours are more likely to manifest themselves when such pressure is not accompanied by any serious attempt to monitor and support such a process of compliance (Table 1-c).

#### **4.4 Local Institutions and Joint Action**

The local context can be important to reduce the incidence of behaviours that constitute violations of human rights when firms engage in purposeful and collective initiatives. Nadvi and Yoon's (2012) study of the

dyeing cluster in South Korea, shows that both inter-firm collaborations and local business associations played a very important role in the solution to local environmental problems connected to dye production:

The cluster, through collective joint action, invested in common effluent treatment plants and the odour prevention systems in response to the government regulation and the pressure from the local community. The cleaner production practices were introduced in accordance with the changing global market conditions. Thus, the joint actions undertaken in relation to pollution control and cleaner production can be seen as reactive, or defensive, responses to external pressures and regulatory demands. (Nadvi and Yoon, 2012, p. 35)

In the case of the Sialkot football cluster, Lund-Thomsen and Nadvi (2010, 216) show that the reduction of child labour was achieved thanks to local horizontal cooperation (and Global Value Chain pressures): “the presence of a tradition for collective action in Sialkot in areas prioritized by the local entrepreneurs appear to facilitate the development of a potentially stronger cluster-wide child labour monitoring mechanism in Sialkot”. Similarly, Kennedy (1999) finds evidence of the relevance of local collective action as an important driver of the resolution of pollution problems in the Palar Valley tannery cluster in India. She demonstrates that local cooperation was facilitated by the presence of a strong local community social identity that was reinforced by overlapping personal, religious and kinship ties.<sup>16</sup>

While there is evidence that local joint actions can stimulate the existence of a rights-oriented business culture in clusters, there is also evidence of the opposite – i.e. low-road clusters where joint action has resulted primarily in stalling a rights-oriented approach to business (see Section 3.1). The reasons for such differences have been poorly investigated so far, and it is likely that several factors will concur to these two different scenarios – among which those listed in Table 1. What can be inferred from the literature is that in low-road clusters joint action is either weak or perversely oriented at stalling the application of the rule of

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<sup>16</sup> It seems appropriate to add here that rights-oriented joint actions might be more likely to occur in those clusters where firms' owners and his/her family, have a tendency to pursue non-economic utilities, implying that they often engage in altruistic activities to project and perpetuate a positive family image and reputation, and to receive recognition of their generosity from the local community (Russo and Tencati, 2009; Berrone et al., 2010), and when such altruism and values align with the respect of universal human rights. In such contexts, rights-oriented decisions may be encouraged by the local SMEs being subject to the local community's societal judgements and easy sanctioning for misbehaviour (Berrone et al., 2010). Hence, in the presence of rights-oriented entrepreneurs, it is possible that local social monitoring processes further boost firms to make societal well-being more the core of their decision making.

law, whereas a rights-oriented approach to business in clusters may be facilitated by the presence of a stronger and more virtuous (i.e. rights-oriented) joint action by local firms (Table 1-d).

#### **4.5. Industry Specificities Matter**

Human rights scholars have documented that some industries are more exposed than others to ethical problems and firm complicity with human rights abuses (Blanton and Blanton, 2009). The energy and extractive industries (Papaioannou, 2006; Drimmer, 2010; Slack, 2011), labour intensive industries such as footwear and textiles (Arnold and Bowie, 2003), and the chemicals and pharmaceuticals industries (Leisinger, 2005; Santoro and Gorrie, 2005) have often been blamed for their involvement in human rights abuses. Also, it is important, within each industry, to account for the strategic orientations of producers. Firms oriented towards low value-added production may emphasize cost cutting and, thus, may be more at risk of wrongdoing, and in this sense the level of industry competition and the lifecycle stage of the industry also play a role. In contrast, industries oriented towards value creation and sustained competitiveness through innovation (Pyke and Sengenberger, 1992) might be less subject to human rights abuses (see Giuliani and Macchi (2014) for an extensive discussion on this). Thus, industry specificities might also condition the human rights conduct of cluster firms (Table 1-e).

**Table 1 A stylized framework of the factors influencing cluster typologies**

	Low-road Cluster	Window-dressing Cluster	Rights-oriented Cluster	
			<i>Silent CSR</i>	<i>Substantial CSR</i>
a. Country state capacity and rule of law	Weak	Weak	Moderate to Strong	Moderate to Strong
b. Role of civil society and NGOs	Weak	Weak	Moderate to Strong	Moderate to Strong
c-i Pressure by global buyers	None to low	High	Low to Moderate	High
c-ii Monitoring and support by global buyers	None	Low to Moderate or Selective	Not relevant	High
d. Strength of local institutions and joint action	Weak or oriented at lobbying against regulations	Weak to Moderate	Strong and oriented at ensuring the respect of rights	Strong and oriented at ensuring the respect of rights
e. Industry specificities	Industries at higher risk of human rights abuses; strategic orientation on reducing costs	Industries at higher risk of human rights abuses; strategic orientation on reducing costs	Industries at lower risk of human rights abuses; strategic orientation on value creation	Industries at lower risk of human rights abuses; strategic orientation on value creation

*Source: Author own elaboration*

## 5. AN AGENDA FOR FUTURE RESEARCH

### 5.1 Open Research Issues

I have proposed a novel typology of industrial clusters defined according to their firms' human rights conduct and CSR policies, and outlined the factors from the extant literature that are more likely to be associated with each type of cluster model. In doing so, I shall acknowledge the youth of this field, which means that, though there is a growing number of studies in this area, a lot more remains to be understood and investigated. In this section, I identify possible avenues for future academic research.

My first consideration regards the fact that scholarly research in this area needs to make an effort to converge more both in terms of language and research agendas. In this sense, reference to human rights as a whole – rather than to different and disconnected dimensions of them – could bring more conceptual coherence to this field. As research and practice has become more concerned with the repercussions for human rights of big business, a new strand of research looking at business and human rights in industrial clusters seems

particularly timely – and especially given the relevance of clusters for sustaining the development processes of regions and countries. This would also progress our understanding of the impact on human rights of the increased adoption of CSR policies by firms in Global Value Chains and clusters. As Egels-Zandén (2014, p. 59) remarks in referring to the impact of workers’ codes of conduct on labour rights, “surprisingly few studies have addressed this question systematically”. There has been very little research on the repercussions of CSR policy adoption for other types of rights and this would be an important area for future research. In other words, in my view it is time to broaden horizons, to explore the repercussions of cluster activities for local communities in relation to their civil, political and also socio-economic rights. Work on the environmental conduct of cluster firms addresses the issue of the local community’s right to health (e.g. Kennedy, 1999; Damiani, 2008; Nadvi and Yoon, 2012), but does so tangentially with the main focus very often limited to firms’ environmental conduct. This work provides little evidence on the causes and consequences of infringements of local people’s human rights. Future research could investigate this explicitly and also explore links with the burgeoning literature on sustainability transitions in regions (e.g. Truffer and Coenen, 2012). Cluster operations can also have repercussions for distant stakeholders, such as final consumers, whose rights to health could be jeopardized by toxic or dangerous artifacts produced in the cluster (e.g. Roloff and Aßländer, 2010), and this dimension also needs more research.

Linked to the above is the important issue of qualitative assessment of the human rights conduct of firms in clusters. Several types of workers’ rights have been studied and reference made to child labour as the worst category of abuses in this area. However, there is no agreed benchmark or principle against which to differentiate the most salient and serious abuses from other types of exploitation. This also connects to the discussion on the possibility that there might be trade-offs in the enjoyment of different rights and on the difficulties of establishing a hierarchy of rights (Section 2). The international-law distinction between non-derogable and derogable rights mentioned earlier is likely to be very important for understanding suppliers’ decoupling strategies, since it is plausible that non-derogable types of human rights are considered to be more salient by global buyers because of their potentially more negative repercussions on reputation (Fiaschi and Giuliani, 2012) and, therefore, suppliers may take direct action to avoid infringements of these rights

while continuing to abuse other types of derogable rights (for an example, see Jamali et al., 2014 forthcoming).

In exploring these questions, it is of course interesting to know more about the factors discussed in Section 4 as well as others, that mediate or moderate the relationship between explicit CSR adoption and different types of human rights conduct in clusters. Questions worth exploring are: How and when does country state capacity influence the degree to which CSR policies contribute to reducing cluster firms' abuses of human rights? Does the level of local collective action moderate the relationship between CSR policy adoption and cluster firms' human rights conduct? If so, in what ways? More generally, it would be interesting also to explore the causal links between the different factors discussed in Section 4, and their combined impact on the human rights conduct of cluster firms.

A second important area of research in my view is whether and how the approach to human rights by cluster firms changes through time. Few studies analyse this issue from a longitudinal perspective, which represents an important limitation of existing research. In particular, the relationship between the human rights conduct of cluster firms and cluster competitiveness over time has seldom received the attention of scholars, with only few scattered contributions suggesting that the infringements of labour and other rights has been pervasive in the early history of many industrial clusters (see e.g. Brusco, 1982 cited earlier). Possibly, being interested in promoting the cluster model as an alternative to the large fordist firm (Piore and Sabel, 1984), cluster scholars may have tended to celebrate the virtues of this model rather than to highlight its shortcomings. It is thus impellent to shed light on this largely neglected issue and to analyse the conditions that facilitate the achievement of cluster-wide efficiency gains and increased competitiveness, and at the same time guarantee a heightened enjoyment of rights by local consumers, communities and employees. An interesting challenge is understanding whether these two can be achieved contemporaneously, or, as generally held by economists, the enjoyment of rights will come only as a consequence of clusters' economic growth – whose achievement may be conditioned on some rights being sacrificed (e.g. rights to health due to manufacturing activities' contamination, rights to decent work to achieve efficiency gains that allow entering international markets, etc.) during the growth phase of a cluster. We moreover need to find answers to such

questions as: Does the human rights conduct of firms change through the life cycle of a cluster? Are emergent clusters more likely to be associated with different kinds of human rights abuses compared to mature clusters? What happens when clusters decline - does the human rights conduct of firms also deteriorate?

Finally, research needs to take account of the vast inter-firm heterogeneity within clusters (Rabellotti and Schmitz, 1999). In this paper, I have discussed the adoption of explicit CSR policies, and the human rights conduct of firms as if they were cluster-wide phenomena; however, I acknowledge that there may be huge differences across cluster firms, with more and less formal production units in the cluster. With reference to CSR policies, Puppim de Oliveira (2008, p. 13) points out that they are “self-selected by the leaders in the top, not the laggards in the bottom”. Likewise, some firms/entrepreneurs are likely to be pioneers in introducing codes of conducts and/or maintaining prolonged rights-oriented behaviour towards all kinds of stakeholders; other firms/entrepreneurs may continuously be lagging and never adopt any good rights-oriented business approach. Earlier research (see e.g. Mezzadri, 2014 forthcoming) shows that top-tier suppliers that respond more promptly to global buyers’ pressure on codes compliance are not able to promote heightened respect for human rights downwards in the local value chain. On the contrary, such suppliers often become ruling elites occupying very powerful positions and imposing huge price and quality pressure on lower-tier suppliers. This then stimulates fraud and deception in the local value chain (De Neve, 2009; Taylor, 2011). In this context, some scholars have pointed to the inadequacy of capitalistic competition to promote a human-rights approach to business (De Neve, 2012; Carswell and De Neve, 2013). While such scepticism may be justified, I would contend that more work is needed to further analyse, both theoretically and empirically, the spread of rights-oriented practices within developing countries’ clusters, in order to understand what types of firms or other organizations can contribute – via demonstration or other more purposeful effects – to the diffusion of such practices to lower tier or more “resistant” cluster actors.

## **5.2 Data Issues**

Investigating the human rights conduct of firms in industrial clusters is generally more complex than investigation of other research questions. While information on firms’ adoption of CSR policies may be

relatively easy to obtain,<sup>17</sup> it is usually much more difficult to collect reliable data and information on the infringement of rights. In the context of interest here, one of the most viable data collection methods is direct interviews and fieldwork research since secondary data on human rights in developing countries' industrial clusters are unlikely to be available at firm level (see below). However, even the collection of original data may be fraught with difficulties given the extreme sensitivity of the topic (e.g. victims might be intimidated, difficult to reach or diffident about being interviewed). For this reason, scholars have either adopted a participatory/ethnographic research approach (De Neve, 2012; Mezzadri, 2014), or they have undertaken interviews that were anonymous, unofficial, unannounced, and off site – i.e. the researcher is “invisible” in the empirical setting, meaning that his or her identity is not be revealed or perceivable by others (see on this Egels-Zandén, 2014). Researchers should also be aware that gathering information about firms' human rights' abuses may be particularly difficult in countries where political and civil rights are weak, freedom of the press is limited, and protests by local communities, NGOs, and other components of civil society are repressed. Also, abuses are unlikely to be broadcast in countries whose governments are complicit in firms' human rights abuses and which impose bans on this type of information; most of what is observable is likely to be *allegations* of abuses, since many never enter the judicial system.

Finally, as noted earlier, although there may be difficulties related to collecting data in the field, this is often the only source because secondary data at cluster level are scarce – reflecting the general scarcity of large-scale databases on CSR and firms' human rights conduct (Kolk and van Tulder, 2010). The few secondary data that are available (subject to a fee) (e.g. MSCI Environmental, Social and Governance (ESG) Indices, Sustainalytics ESG Indices, among others), focus on large public corporations not SMEs, which clearly limits their usability in cluster research.<sup>18</sup> To address this limitation, researchers in the field may want to invest in creating and sharing firm-level data on these very important issues.

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<sup>17</sup> CSR policies display a “positive” side to corporations which they are keen to communicate. Information on adherence to certain standards may also be available through secondary sources (e.g. the UN Global Compact website reports all the firms that participate in that programme, as does (with some caveats) the GRI, among others).

<sup>18</sup> This is due to the fact that large firms tend to be more monitored by the press and watchdog organizations (e.g. NGOs), whereas smaller firms attract far lower media attention and therefore any of their wrongdoings are less likely to be tracked and included in such databases.

## 6. CONCLUSIONS

A recent wave of scholarly research has become preoccupied about the capacity of firms in developing countries' industrial clusters to comply with western CSR policies and management practices that are respectful of workers and others' human rights (e.g. Barrientos, 2008; Blowfield and Dolan, 2008; De Neve, 2009, 2012; Lund-Thomsen and Nadvi, 2010; Mares, 2010; Barrientos et al., 2011; Milberg and Winkler, 2011; Taylor, 2011; Lundan and Muchlinski, 2012; Mezzadri, 2012, 2014 forthcoming; Nadvi and Yoon, 2012; Rossi, 2013; Lund-Thomsen, 2013, Jamali et al., 2014 forthcoming, among others). Yet such research is still at an early stage and coming from different scholarly traditions – i.e. anthropology, development studies, international law and human rights studies, which do not necessarily interact with each other.

In this paper I have claimed that forthcoming research in this area could benefit from looking more broadly at the human rights repercussions of business in industrial clusters, and define human rights with reference to the UDHR and other international instruments. I have argued that scholars in this area should neatly separate the adoption of CSR policies by cluster firms, often imposed by international actors such as global buyers, from their human rights conduct, which is based on their respect of the negative duty not to harm as well as on their positive contribution to the enjoyment of human rights. Using this distinction, I have elaborated a typology of industrial clusters (“low-road”; “window-dressing”; “rights-oriented” clusters) and identified the set of factors that are likely to influence the making of each type of clusters. This paper has been written predominantly with the objective of contributing to the ongoing scholarly debate on the various social and environmental repercussions of business, by initiating a discussion on the relevance of the human rights debate for cluster research, and by identifying a number of open research questions, as well as pointing to the difficulties inherent in collecting and accessing data on human rights infringements.

The relevance of this paper may also extend to more practice-oriented publications and interests. The typology of clusters and the mediating factors presented in this paper can serve as a general framework for practitioners, who have an interest in promoting sustainable clusters (e.g. AccountAbility-UNIDO, 2006).

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