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# Economic and Social Upgrading of Firms in Football Global Value Chains\*

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## Abstract

**Purpose:** Participation of firms in Global Value Chains (GVC) has contributed significantly to the improvement of economic outcomes for firms in developing countries. However, evidence suggests that these economic outcomes are gained at the cost of labourers' poor working conditions. This research contributes to existing literature on GVCs by investigating the influence of different governance structures on economic and social upgrading of firms participating in GVCs. Furthermore, the research attempts to understand the relationship between economic and social upgrading in GVCs. **Research design and methodology:** Detailed qualitative primary research was carried out in the football industry of Sialkot, Pakistan. The case study approach was employed, and football firms were the unit of analysis. Semi-structured interviews with firms' representatives were conducted. **Results:** Findings reveal that most firms were found in captive, relational and market governance structures. Furthermore, product and process upgrading were witnessed in all firms; however, social upgrading was observed mostly in captive and relational GVCs. Moreover, social upgrading was linked to economic upgrading in captive and relational networks. **Conclusions:** The findings from the Sialkot football industry reflect that buyers pay higher prices and margins to their suppliers once they upgrade their products and processes.

**Keywords:** Governance, Global Value Chains (GVC), Social upgrading, Economic upgrading, Football industry, Sialkot, Pakistan

**JEL Classifications:** A13, F01, F02, F23, F36, L23

## 1. Introduction

GVCs are functionally integrated but globally dispersed industrial structures (Khattak, 2013). Nevertheless, GVCs have contributed to the expansion of world trade, improvement in countries' economic positions, employment opportunities, and firms' growth. However, despite being key stakeholders, workers did not benefit from economic growth. Rather, economic outcomes occurred at the cost of manipulating labourers' basic rights (Locke, 2013). Empirical evidence from different parts of the world has shown that economic growth took place as a result of the exploitation of labour, poor working conditions, low wages and insecurity (Posthuma & Rossi, 2017; Riisgaard, 2009).

GVCs are governed by lead firms (in most cases, buyers), also called channel captains. They decide what products will be produced, how they will be produced, and who will produce them. Moreover, lead firms decide how values (margins) are distributed among different firms of GVCs (Gibbon, 2008). These power and authority dynamics to organize and manage value chains are termed the governance framework in GVCs (Gereffi, Humphrey, & Sturgeon, 2005). Lead firms transmit knowledge to other firms (suppliers) in networks, which improves suppliers' capabilities (Gibbon, 2008; Strambach & Surmeier, 2018), creates favourable market reputation, expands market linkages and increases suppliers' profits and competitiveness (Tajoli & Felice, 2018). These economic outcomes are called economic upgrading (Barrientos, Gereffi, & Rossi, 2011).

Economic upgrading takes place when firms move to higher value-added activities like improving products, production processes; and moving to new functions and industries (Humphrey & Schmitz, 2002). The earlier empirical tests of the role of governance framework on economic upgrading are inconsistent and vary from sector to sector and contexts (Bernhardt & Pollak, 2016) because

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GVCs are spread across different countries that have different economic, political and industrial infrastructures. Due to such variations, the outcomes of participation in GVCs vary; as a result, the discussion of theoretical inclusiveness is limited in the existing literature on GVCs.

Earlier studies documented that different governance structures have different implications for economic upgrading (Rossi, 2013). Therefore, how different governance structures influence economic upgrading at the firm level needs to be explored (Alfaro, Chor, Antras, & Conconi, 2019). In GVCs, the improvements in working conditions are termed social upgrading and are viewed as a process of improvement of the rights and entitlements of workers as social actors (Pickles & Godfrey, 2013).

Both social and economic upgrading are important factors within GVCs if they take place simultaneously (Bernhardt & Pollak, 2016) by contributing to creating decent work and economic growth (Clarke & Boersma, 2017). Economic upgrading stimulates innovation and competitiveness of firms (Gereffi & Lee, 2016) and social upgrading promotes employment based on decent work and respect for labour standards (Posthuma & Rossi, 2017). However, how the two are related, and what strategies can help to combine them, requires further analysis (Khattak, Haworth, Stringer, & Benson-Rea, 2017). This study contributes to the existing literature of governance and upgrading in GVCs by empirically examining the influence of different governance structures on economic and social upgrading and the relationships between economic and social upgrading. The main objective of this paper is to investigate the governance structures that influence economic and social upgrading and their relationships. The main research question is how and why governance influence economic and social upgrading and their relationships in GVCs?

To understand the influence of governance structures on economic and social upgrading, the case study of Sialkot (Pakistan) football industry was selected. Sialkot is famous for producing high quality, hand-stitched footballs that meet 70% of global demand (Lund Thomsen, Nadvi, Chan, Khara, & Xue, 2012). Sialkot is also an industrial cluster of small, medium and large enterprises; employs approximately 200,000 labourers; and contributes 6% in total exports (Awan, Khattak, & Kraslawski, 2019). The cluster is a supplier for global brands, including Adidas, Puma and Nike (Awan et al., 2019).

This article is structured as follows. The next section discusses governance and upgrading (economic and social upgrading) and provides details on the methodology. Findings and discussions are then presented, followed by the conclusion.

## 2. Theoretical Background

### 2.1. Governance

Governance in the GVC framework was proposed by Gereffi et al. (2005) to explain how lead firms control and coordinate inter-firm linkages that are spread across geographical boundaries and that intertwine different business functions, like sourcing, production, distribution and consumption, to create value (Sturgeon, 2009). There are five types of governance structures based on three core theoretical underpinnings of governance, including transaction cost economics, interpersonal relationships and the resource-based view (Gereffi et al., 2005). Hierarchical and market structures are at the extreme end of the continuum where firms either make their products in-house, in the case of hierarchy, or buy them, in the case of market (Lund-Thomsen, Hansen, & Lindgreen, 2019).

In between the market and hierarchy categories are captive, relational and modular networks. In modular networks, the ability to codify information is high because suppliers manage the diverse codifications. Moreover, the diverse codification and product design improves the suppliers' capabilities to handle different buyers' requirements. In relational networks, relationships are developed based on goodwill, trust, family or ethnic ties. The barriers of switching suppliers are high because of these social relationships. In captive networks, lead firms establish relationships based on opportunistic behaviour with suppliers. Further, suppliers are limited to producing goods for one specific brand in most of the cases; therefore, suppliers' capabilities are low and their reliance on lead firms is high.

### 2.2. Upgrading (Economic and Social)

Upgrading in GVCs is defined as moving to higher value-added activities to gain a higher share of values by participating in GVCs (Bair, 2009). In this regard, extensive research has found that lead firms are key stakeholders in shaping and/or creating international products, increasing demand and providing platforms for firms from developing countries to gain access to international markets. Further, research has substantiated that GVCs also have contributed to creating employment opportunities. Lead firms facilitate the process of learning and development by transmitting knowledge (Appelbaum, 2008), providing technical knowledge (Khattak et al., 2015) and assistance to improve production processes and product quality.

Economic upgrading may result in four types of upgrading namely product, process, function and chain. Product upgrading occurs when firms add new products to

existing product lines or improve product quality by updating ingredients (Gereffi & Lee, 2016). Process upgrading occurs when firms incorporate modern technology to improve production processes and product quality and add or subtract functions in an assembly line to reduce production errors, leading to increased efficiency through the use of new equipment (Rossi, 2013). Functional upgrading occurs when firms adopt more value added functions, like designing, branding, marketing or retailing (Tokatli, 2013). Chain upgrading occurs when firms invest in other sectors through horizontal moves. In other words, firm use existing knowledge to produce other relevant goods belonging to another sector (De Marchi, Lee, & Gereffi, 2014).

Theoretically, different GVC-governance frameworks have different implications for economic upgrading (Azmeah & Nadvi, 2014). The existing literature indicates that in a market structure, product and process upgrading is not witnessed, while the road for functional and chain upgrading is open (Tokatli, 2013). In modular, relational and captive networks, product and process upgrading is witnessed, while functional upgrading is limited in captive and relational networks and upgrading could be slower or faster (Golini, De Marchi, Boffelli, & Kalchschmidt, 2018). In modular networks, the adoption of product, process, functional and chain upgrading is likely to occur because suppliers in modular networks establish strategic relationships with different global brands due to their competencies and capacity to produce various designs and quality products at low prices (Sturgeon, 2009). However, GVCs' governance structure varies from sector to sector, industry to industry and country to country; in consequence, effects of different governance structures on economic upgrading varies. Scholars are integrating evidence from different sectors and contexts to generate a robust theory that explains which governance structure facilitates each dimension of economic upgrading (Gereffi & Lee, 2016).

In the existing literature on GVCs, social upgrading means a process of improvement in workers' rights, entitlements, quality of their employment and working conditions (Barrientos et al., 2011). These facets of social upgrading are based on international labour organizations' (ILO) decent work framework, which consists of measurable dimensions for example, employment, remuneration, social protection; and immeasurable aspects for example, enabling rights, freedom of association and dignity at the workplace (Deranty & MacMillan, 2012). Existing studies of GVCs have paid particular attention to understanding the negative outcomes of outsourcing and purchasing practices on labourers' poor working conditions in GVCs (Bernhardt & Pollak, 2016). The root cause for poor working conditions at the suppliers' end are associated with those occurring at the lead firms' end; the latter exerts

cost-cutting pressures on suppliers that eventually are reflected in the poor working conditions (Locke, 2013). Such a situation happens because the lead firms strictly adhere to their Just in Time (JIT) sourcing practices, business uncertainty when lower demand challenges are passed on to suppliers; that eventually increases suppliers' overhead costs (Posthuma & Rossi, 2017). To meet these costs, suppliers further pass them on to more vulnerable segments of the chain; that results in a wide array of labour violations, such as excessive overtime, poor working conditions, use of a seasonal workforce and refusing to pay national minimum wages (Acquier, Valiorgue, & Daudigeos, 2017).

In GVCs, where lead firms are powerful enough to force their economic interests on suppliers, their role in upgrading workers' conditions was also recognized (Flentø & Ponte, 2017). The existing literature on corporate social responsibility (CSR) in GVCs argues that lead firms are required to incorporate social responsibility aspects into their businesses, as well as utilize sourcing practices to improve working conditions through specifying codes of conduct (Yunis, Durrani, & Khan, 2017). In the case of football GVCs, lead firms strictly require their suppliers to adhere to their specific technical, social and environmental expectations (Lund-Thomsen, 2013). The outcomes of these specifications and sourcing practices can have positive and negative aspects. On one hand, these social and sourcing practices are helpful for full-time, registered workers who are working at a suppliers' factories. On the other hand, all those labourers working outside the factories' premises (e.g. home-based workers) and linked with GVCs are ignored.

### 3. Research Design

This study employed a qualitative approach using multiple case studies involving football manufacturing firms that belonged to the Sialkot football industry of Pakistan; these firms were considered as the core unit of analysis (Lund-Thomsen, 2013). The selection of firms was based on a purposive sampling technique (Onwuegbuzie & Leech, 2007) because it helped to reach the potential informants who were in the best position to guide the subject matter (Bryman & Bell, 2015) and because it is frequently used by scholars of GVCs (Rossi, 2013).

There were 1,000 total registered firms in 2016 with the Sialkot Chamber of Commerce and Industry (SCCI). Total 243 firms were identified that were manufacturing footballs. Out of 243 firms, only 80 firms had complete addresses or contact information in order to trace them on Google Maps. Out of 80 firms, only 11 allowed to carry out the research. It was also ensured that all 11 firms were of different sizes (large, medium and small), as per the criteria defined by the

Small and Medium Enterprises Development authority (SMEDA) of Pakistan (see Table 1 for details). According to SMEDA, firms having fewer than 50 employees are categorized as small, between 50 and 249 employees are considered medium and those having 250 or more are considered large firms. Size of these firms is critical because it influences their relationships and their abilities to upgrade in GVCs.

**Table 1:** Details of Firms (Cases)

| Types<br>F=Firm<br>G=Government | Total<br>Workforce | Size   | Total<br>Interviews<br>Conducted |
|---------------------------------|--------------------|--------|----------------------------------|
| F1                              | 2100               | Large  | 3                                |
| F2                              | 1000               | Large  | 2                                |
| F3                              | 700                | Large  | 3                                |
| F4                              | 1400               | Large  | 1                                |
| F5                              | 1000               | Large  | 3                                |
| F6                              | 200                | Medium | 1                                |
| F7                              | 80                 | Medium | 1                                |
| F8                              | 25                 | Small  | 2                                |
| F9                              | 45                 | Small  | 2                                |
| F10                             | 43                 | Small  | 2                                |
| G11                             | 26                 | Small  | 1                                |
| Total                           |                    |        | 21                               |

Source: Authors

Twenty-one semi-structured interviews with firms' representatives (e.g. HR manager, Factory manager, General manager, Owner, Relationship manager and Production manager) were conducted to trace the governance structures and economic and social upgrading trajectories. Qualitative data were analysed using deductive thematic analysis because the data were collected based on earlier existing themes (Fereday & Muir-Cochrane, 2006). Ethical considerations were observed during all phases of data collection by showing trustworthiness, obtaining permission to tape interviews and assuring confidentiality by not releasing individual or firm names at any part of reporting the findings.

## 4. Findings and Discussion

### 4.1. Governance Framework Analysis

The findings reveal that out of 11 firms, two were in captive networks, two were found in relational networks, six firms were in a market structure and one unit was

developed and organized by the government of Pakistan working in a market governance structure. Firms in captive networks indicated that buyers intervene in their production processes and have strict monitoring mechanisms. For instance, the manager of a captive firm recalled that,

Their [buyers] representative visits the factory on a daily basis with their team who checks our production processes (Interview No. 1, Production Manager, Football).

Their [buyers] inline-inspection department visits the assembly line every time (Interview No. 7, Production Manager, Football).

Further, captive firms highlighted that buyers prohibit them from using their production plants for other customers in order to retain competitiveness in the market. Managers of captive networks highlighted that,

The plant where the buyer's ball is manufactured, at that floor no other [competitor's] ball will be produced. Now, whole production for a [specific] buyer is in Unit 5 (Interview No. 7, Production Manager, Football).

The production floor where the work of our buyer is going on, we can't produce for other customers on the same floor (Interview No. 1, Production Manager, Football).

These findings are in line with others where lead firms in captive networks lock in suppliers in relationships on the grounds of asset specificity (fear of opportunistic behaviour by the other party) (Artz & Brush, 2000). These conditions are developed when the complexity of transactions is high, and suppliers are highly dependent on buyers. Hence, suppliers are required to meet buyers' standards which, in turn, ensures that continuous orders are made to their suppliers. In captive networks, supplier firms can gain business benefits by capacity allocation and by complying with buyers' parameters and monitoring mechanisms. On the other hand, firms in relational networks witnessed strategic relationships that were based on long-term orientation. A manager of a relational firm mentioned,

As we are in a long-term relationship, like a 5 to 10-year contract or agreement, we discuss and communicate issues as strategic partners (Interview No. 3, Relationship Manager, Football).

Further, in relational networks the nature of relationship is strategic and facilitates the transfer of knowledge and communication. The doctrine of core competencies argues that when firms are engaged in relationships based on complementary competencies, they perform better than do internally integrated firms (Cambra-Fierro, Florin, Perez, & Whitelock, 2011). In such cases, lead firms provide technological assistance to their suppliers for codification of knowledge in terms of systems, designs and parameters that is available for partners in strategic relationships. Such codifications create relational cum modular networks because, in modular networks, processes are fully codified. Managers in relational networks identified that,

Yes, the buyer provided the GBS system, or global business services. This is standardized across the whole world, and our customer provided a framework online. Further, if we find any difficulties, they have given us their email by which we can discuss the issues and ask for clarifications (Interview No. 3, Relationship Manager, Football).

Yes, the buyer supported and provided a lot of guidelines, particularly from a quality perspective, that tells us how to improve systems, and they sometimes provided training on lean manufacturing, as well (Interview No. 5, Production Manager, Football).

All the three types of footballs have different raw materials requirements, specifications, designs, manufacturing processes, weights, bounce, shape and retail prices making a football a non-standardized product. Firms in market structures are linked with many buyers and are in a position to produce standardized goods, especially hand-stitched and machine-stitched footballs. In such networks, the buyers do not provide the design or any parameters; rather, suppliers develop their own designs that are not patented. Most small- and medium-sized firms were found in market structures. Table 2 shows firms positioning in various governance structures.

**Table 2:** Classification of Firms Based on Governance Structures and Product Types

| Types (F=Firm, G=Government) | Type of Football             | Type of Network     |
|------------------------------|------------------------------|---------------------|
| F1                           | Thermo-Moulding              | Captive Networks    |
| F2                           | Machine Stitch               | Captive Networks    |
| F3                           | Machine Stitch / Hand Stitch | Relational Networks |
| F4                           | Hand Stitch                  | Market Structure    |
| F5                           | Hand Stitch                  | Market Structure    |
| F6                           | Machine Stitch / Hand Stitch | Relational Network  |
| F7                           | Hand Stitch                  | Market Structure    |
| F8                           | Hand Stitch                  | Market Structure    |
| F9                           | Hand Stitch                  | Market Structure    |
| F10                          | Hand Stitch                  | Market Structure    |
| G11                          | Thermo-Moulding              | Market Structure    |

Source: Authors

#### 4.2. Economic Upgrading Analysis in Relation to Governance Structures

No evidence was found for functional and chain upgrading (branding, retailing and shifting to other business sectors). Only product and process upgrading were witnessed. In captive networks, lead firms lock-in suppliers

through contractual agreements to ensure production capacity allocation or plant allocation to retain their competitive edge. Further, in captive networks, lead firms provide their own designs and parameters for production. In such cases, lead firms are key drivers in the improvement of product and process upgrading. Product upgrading in the football industry means firms add new products (machine-stitch or thermo-moulded) or add other relevant balls (e.g. basketball). Firms in captive networks highlighted that,

Yes, we have changed. We were producing hand-stitched and machine-stitched balls. Now, for the last 6 years we have been producing thermo-moulded balls because this product has a good price and provides a better margin as compared to the machine- or hand-stitched balls (Interview No. 1, Production Manager, Football).

Firms in captive networks identified that buyers give high prices and better margins as compared to markets that are key drivers for improvement in product upgrading. Further, process upgrading means supplier firms acquire new technology or improve their assembly line, which is beneficial to increase outputs and reduce production errors. The captive firms highlighted that,

Yes, we installed state-of-the-art technology and called experts from Faisalabad and Lahore [cities in Pakistan]. In 2007, we acquired this technology (thermo-moulding). As I told you, thermo gives good margins, so we installed it. (Interview No. 1, Production Manager, Football).

The above findings are contradictory to the research done in the context of Sri Lanka, where process upgrading (green manufacturing) did not result in high margins (Khattak et al., 2015). However, findings reveal that while lead firms do not provide financial support or invest in specific relationships and technologies, they do provide technical assistance in installing the technology. For example,

We purchased it all by ourselves, with no financial contribution by the buyer. They helped a little bit; their representative came, but our company's technical team did 80-90% of the work to install it (Interview No. 5, Production Manager, Football).

These findings are similar to earlier studies where, in captive networks, lead firms do not create investment-specific relationships because they establish relationships for 3-5 years and can switch if and when new low-cost suppliers enter the market due to low entry barriers (Khattak, 2013; Lane & Probert, 2009). Findings reveal that lead firms provide support to their suppliers in relational networks to move towards high value-added goods, like moving from football to sportswear (apparel, shoes and goods). One manager of a relational firm mentioned,

Basically, we are in the sports business, and the sporting goods and sportswear we recently started (Interview No. 4, Manager-Sportswear, Football).

In market networks, suppliers are engaged in the production of standardized goods, where design, production processes and prices are easily imitated by other suppliers. Therefore, any change in design or manufacturing processes is not found to be a key competitive factor; therefore, lead firms don't establish any long-term contractual relationships with suppliers. In market structures, the results are mixed. Few suppliers were engaged in product and process upgrading. One manager mentioned,

Our business survival lies in the improvement of products (Interview No. 13, General Manager).

Findings also reveal that most small manufacturers were unable to upgrade product or processes due to weak financial positions. The government of Pakistan established the Sport Industries Development Centre (SIDC) in Sialkot which uses modern technology to produce footballs. The SIDC produces thermo-moulded balls on the request of small manufacturers or agents who help to increase exports and employment opportunities. This opportunity has been availed by small firms and helps to improve their position in international markets: 'Now we are in a position to offer thermo-moulded balls to our buyers due to the availability of the SIDC' (Interview No. 16, Owner). Overall, product and process upgrading were witnessed in all three types of firms and in all three types of networks.

#### 4.3. Social Upgrading Analysis in Relation to Governance Structures

The findings indicate that in captive and relational networks, social upgrading is linked with economic interests. Through contractual relationships, the lead firms force suppliers to implement codes of conduct that were monitored and audited by third-party institutions. In the case of non-compliance, the contracts were liable to be terminated and businesses were at stake. A manager in a captive network said,

The reality is that we do 90% due to pressure from international buyers, and they force us to do what is necessary for business. (Interview No. 8, HR Manager).

These social aspects increase overhead costs, and managers from a relational network held the following view:

Yes, the code of conduct has a large impact on price. It increases factory overhead. For instance, the operating cost of this thread plant is (National currency called "Rupee", plural "Rupees"). 100,000 per month. But due to the social compliances, buyers pay higher prices compare to the rest of the market (Interview No. 9, HR Manager).

These findings are consistent with earlier studies where social compliance was found to be a prerequisite for participation in GVCs and a survival tool for businesses (Khattak & Stringer, 2017). In captive and relational

networks, employment security was found to be high because lead firms, through their codes of conduct, require suppliers to issue contracts in both English and Urdu [Pakistan's national language], in which a probation period of 3 months is outlined. After that, labourers are considered permanent. Managers from captive and relational networks highlighted that,

Yes, we give written contracts because international buyers have mentioned this in their code of conduct guidelines, and also during third-party audit visits they check the written contracts (Interview No. 8, HR Manager).

Actually, this is not a contract. We issue an appointment letter in which there is a 3-month probationary period. After successful completion of this, a worker becomes regular (Interview No. 2, General Manager).

The findings indicate that within market structures, firms of all sizes were present. Large firms were issuing written contracts, while medium and small sized firms in the private sector were not issuing any written contracts. The primary reason was that these firms were having fluctuations in their orders due to which they hire workers to meet seasonal demands. Government unit was issuing the written contracts. In large firms, all workers stitching hand-stitched balls were working within the premises of factory, due to which firms were compelled to issue written contracts to their workers as prescribed under labour laws of Punjab (a province of Pakistan where Sialkot is located). HR Manager highlighted that they were observing the labour laws strictly to protect their market reputation as well.

We are well known firm in Sialkot, thereby we have to comply with all national rules (Interview No.13, HR Manager).

In captive and relational networks, managers' views on wages indicated that they follow the wage criteria as required by the government of Pakistan, and lead firms were not strict about wage structures. The main drivers behind change in wages are determined by the government, which sets the minimum wage, and supplier firms also highlighted that performance is also a criterion to increase wages. Managers highlighted that,

One is minimum wage, as set by the government of Punjab [a province of Pakistan]. So, we pay that. And second is performance reviews conducted annually. We do not see the targets; we basically see the quality of work, punctuality, attendance, behaviour (Interview No. 9, HR Manager).

The buyer says that you have to pay the workers whatever is required [set by the government] (Interview No. 12, HR Manager).

In all networks, enabling workers' rights, specifically union participation, was not witnessed. To overcome this gap, in captive and relational networks specifically, a

workers-management committee was in place to overcome workers' issues, and meetings were conducted every month. Further discrimination was found in registration for social security. Permanent staff were being registered for social security, but the labourers who truly needed these benefits were not registered. Social security contributions were not witnessed in all networks.

In small and medium-sized enterprises, it was found that third-party labour contractors act as a channel for recruiting and managing employees' relations and benefits in hand-stitched football, machine-stitched football and sportswear stitching. Labour contractors were found to have direct relationships with firms, where firms were giving contractors orders and a timeline for completion. Then contractor is responsible for arranging labour, settling their payment issues and managing their work. In this way, workers and employers are linked through the contractor who takes a percentage (commission or fee) as payment. This third-party labour contract has been found feasible for firms because it helps to manage seasonal demand, match the right type of workers to their tasks, ensure labour supply on a JIT basis and reduce labour and management costs (Rogaly, 2008). However, it significantly affects the social upgrading aspect by compromising decent working conditions. First, in terms of wages, work is negotiated on a task basis, which compromises the minimum wage rule. Further, lack of other labour benefits like leave, social security, enabling rights and exploitation of rights were observed by not following the overtime rules.

#### **4.4. Economic Upgrading Leading to Social Upgrading in GVCs**

All firms upgraded their products and processes in the study. However, social upgrading dimensions were not consistent among all the firms. The findings of the present study are similar to those of Khattak et al. (2017) who found a positive relationship between economic and social upgrading in relational networks only in the apparel industry of Bangladesh and Sri Lanka. In the GVC literature, lead firms encourage suppliers to invest in technology to produce a better product that has a higher value. Though it is beneficial for buyers to take advantage of financial investment by suppliers in processes, at the same time suppliers also improve their position in order to receive more orders. In the present study, firms were asked, when new technology is installed in existing factories, do the factories lay off labourers? The managers replied,

We do not lay off workers, they are trained labourers. We are not using this labour for a single purpose, but we have several other departments where these workers can be utilised. There are at least 15 slots in an assembly line

where a worker can be placed (Interview No. 6, General Manager).

We face great difficulty in finding trained labourers because [skilled] labour is short in Sialkot (Interview No. 6, General Manager).

Above statements indicates that owners do not want to lose their trained and skilled labourers, particularly in Sialkot, because trained labour is limited and difficult to find.

Similarly, process upgrading improvements in firms due to the incorporation of new technology forces buyers to provide more orders that contribute to increasing the suppliers' capacity. Moreover, when supplier capacities are improved concerning production, it encourages more jobs and improvement in working conditions that increase the skill level of workers using newly installed machinery. To establish the impact of process upgrading on social upgrading, firms were asked whether workers in newly established departments, i.e. a technological production unit, are provided more benefits compared to other workers:

When workers increase their skills by working on the latest technology, it changes their

classification of wage and improves their wages (Interview No. 11, HR Manager).

Further, most of the firms were observing single shifts in order to manage large volumes that resulted from installing capacity. As such, there was no overtime. The manager stated,

We have enough capacity so we do not have overtime (Interview No. 14, HR Manager).

However, one firm that installed new higher value-added technology used overtime because of middle-level production capacity and a higher frequency and volume of orders. Product upgrading took place in the industry by moving towards high value-added products that have better financial and market values. For example, the football industry moved from hand-stitched footballs to machine-stitched or thermo-moulded balls. It is not easy to establish the influence of product upgrading on social upgrading because this varies by circumstance, particularly for different nodes of the production chain. For instance, international buyers in all governance structures, i.e. captive, relational and market, are strict about suppliers following specific standards in production and products that primarily enhance the quality of the product and contribute to safer working conditions. This result is contrary to an earlier study that claimed no relationship between product upgrading and social upgrading (Rossi, 2013). This discrepancy may be because the nature of the value chain is different. Rossi's study was conducted in apparel industries, while this study was conducted in the football industry. There seems to be no evidence of impact of process and product upgrading on social security and enabling rights.

Refer to Table 3 for the relationship between economic and social upgrading in the football industry of Sialkot.

**Table 3:** Relationship between Economic Upgrading and Social Upgrading in GVCs

| Types<br>F=Firm<br>G=Gover<br>nment | Network    | Economic Upgrading |                   | Social Upgrading     |                     |          |                                |                 |                        |
|-------------------------------------|------------|--------------------|-------------------|----------------------|---------------------|----------|--------------------------------|-----------------|------------------------|
|                                     |            | Product Upgrading  | Process Upgrading | Measurable Standards |                     |          |                                |                 | Enabling Rights        |
|                                     |            |                    |                   | Wages                | Physical Well-Being |          | Employment and Income Security |                 | Empowerment            |
|                                     |            |                    |                   |                      | Working Environment | Overtime | Contract                       | Social Security | Freedom of Association |
| F1                                  | Captive    | Yes                | Yes               | Yes                  | Yes                 | No       | Yes                            | No              | No                     |
| F2                                  | Captive    | Yes                | Yes               | Yes                  | Yes                 | No       | Yes                            | No              | No                     |
| F3                                  | Relational | Yes                | Yes               | Yes                  | Yes                 | Yes      | Yes                            | No              | No                     |
| F4                                  | Market     | Yes                | Yes               | Yes                  | Yes                 | NA       | Yes                            | No              | No                     |
| F5                                  | Market     | Yes                | Yes               | Yes                  | No                  | No       | No                             | No              | No                     |
| F6                                  | Relational | Yes                | Yes               | Yes                  | Yes                 | NA       | Yes                            | No              | No                     |
| F7                                  | Market     | Yes                | Yes               | No                   | Yes                 | No       | No                             | No              | No                     |
| F8                                  | Market     | Yes                | Yes               | No                   | No                  | NA       | No                             | No              | No                     |
| F9                                  | Market     | Yes                | Yes               | Yes                  | Yes                 | NA       | No                             | No              | No                     |
| F10                                 | Market     | Yes                | Yes               | No                   | Yes                 | NA       | No                             | No              | No                     |
| G11                                 | Market     | Yes                | Yes               | No                   | Yes                 | NA       | Yes                            | No              | No                     |

Source: Authors

## 5. Conclusions

This research contributes to existing literature on GVCs and in particular upgrading by investigating the influence of different governance structures on economic and social upgrading of firms participating in GVCs. The findings suggest that product and process upgrading were witnessed in all three types of networks. The findings from the football industry in Sialkot reflect that buyers pay higher prices and margins to their suppliers when suppliers upgrade products and processes. These findings are unique in the sense that previous studies showed contradictory results where suppliers upgraded their products and processes and were not offered higher prices (Goger, 2013; Khattak et al., 2015; Tokatli, 2013). These contradictory findings could be due to contextual factors, as the research was done in different contexts and on the types of products manufactured in those contexts. As mentioned by Gereffi and Lee (2016) the implications of different governance structures on economic upgrading varies due to differences in each sector, industry and country; scholars are integrating evidence from different sectors and contexts to generate robust theories that explain which governance structure facilitates each dimension of economic upgrading. Social upgrading dimensions were witnessed in firms in captive and relational networks where economic upgrading took place. The social upgrading aspect was not evident in

the market structure because these firms mostly engaged labour on seasonal and on-demand bases. These workers were paid through third-party contractors that exploit their labour. Findings of the study could be utilized by firms, local governments and non-governmental organizations to identify and focus on specific areas in GVCs where economic upgrading not only results in financial outcomes but translates into social upgrading. The main limitation of the study was time and financial constraints due to which the views of lead firms could not be obtained. Future research may study the role of institutions (local and international) in social upgrading of suppliers

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