Opinion piece

The promise and pitfalls of responsible sourcing in global value chains

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Multinational enterprises (MNEs) are facing increasing demands by policymakers and the public to improve working conditions in their supply chains. In response, it has become common practice for MNEs to impose minimum labour and safety standards on their suppliers, typically called "responsible sourcing" (RS) policies. The reasons why MNEs choose to adopt these standards probably vary. Their leadership may have altruistic objectives, unrelated to profits or shareholder value. RS policies may also be more calculated: MNEs may be attempting to avoid the reputational cost of workplace accidents, or to increase demand by improving their image and branding.

A natural concern regarding these mostly voluntary RS policies is that they may just be "hot air", and may not in reality bring about meaningful changes for workers in sourcing countries. However, mounting empirical evidence suggests that RS policies do indeed affect MNE suppliers and their workers.

One recent study by Boudreau (2024) found that MNE enforcement programmes of occupational safety and health (OSH) committees after 2013 significantly increased supplier compliance with regulations in Bangladesh. Another study by Alfaro Ureña et al. (2022) found that, when MNEs in Costa Rica imposed RS standards on their suppliers worldwide, these RS rollouts led to increased wages and workplace amenities for low-wage workers at suppliers of the MNEs. At the same time, the study found significant decreases in sales and employment in domestic firms not supplying to MNEs applying RS policies.

These findings underscore an important trade-off involved in RS policies. On the one hand, RS may bring meaningful benefits to workers at suppliers targeted by RS policies. On the other hand, RS imposes additional costs on MNE suppliers. If these costs are not sufficiently borne by the MNEs and their foreign customers, RS can give rise to adverse knock-on effects on local firms and workers due both to lower chances of finding jobs at RS suppliers and to increased local prices, as MNE suppliers may also produce for domestic consumption.

Alfaro Ureña et al. (2022) provide a theoretical framework to dissect these forces and study the drivers of this trade-off. The benefits of RS for workers in sourcing countries are larger when MNEs experience increased demand due to RS rollouts from their customers. However, the benefits to workers are reduced, and could even be negative, when MNE suppliers have little bargaining power and thus bear the cost of the policy, and when much of the affected production is sold locally, leading to increased local prices.

While the current state of research suggests cautious optimism about the ability of MNEs' RS policies to improve working conditions among their suppliers, the overall impacts of RS policies on the host economy's workers are, in general, ambiguous and will depend on the empirical context. There is therefore large scope for further empirical and theoretical work on these topics to help deliver the stated objectives of RS and limit the unintended side effects.

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