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Why Do Multinational Companies Sign International Framework Agreements?

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ABSTRACT

International framework agreements are negotiated between the management of a multinational corporation and global trade union federations. They are a result of the limited capacity of states to regulate internationally and lead to institutional convergence driven by private actors regulating labor standards and industrial relations within companies worldwide. This analysis asks for the "value added" of international framework agreements and explores potential incentives for multinational companies to sign these agreements. Prior research into international framework agreements has mostly been conducted from trade union or governmental perspectives and provides only limited insights into the research question. This paper adds a corporate perspective and identifies four groups of relevant incentives. Only few companies use international framework agreements to create a positive corporate image for third parties. For many multinational companies these agreements rather seem to create institutions for international dispute resolution and help privatizing conflicts and avoiding trade union campaigns. The incentive to promote equal competitive conditions in an industry sector to overcome disadvantages resulting from higher standards becomes visible only in few agreements. State policies and other international regulatory initiatives can give additional incentives for companies to sign international framework agreements. Further research is needed to analyze the identified incentives in more depth. In addition, more attention should be paid to the variation of incentives between industry sectors and types of specific agreements.

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LIST OF ABBREVIATIONS

BWI	Building and Wood Workers' International
CSR	Corporate Social Responsibility
EUROFOUND	European Foundation for the Improvement of Living and Working Conditions
EFA	European Framework Agreement
ETUI	European Trade Union Institute for Research
EWC	European Workers' Council
GRI	Global Reporting Initiative
GUF	Global Union Federation
ICEM	Federation of Chemical, Energy, Mine and General Workers' Unions
IFA	International Framework Agreement
ILO	International Labor Organization
IMF	International Metalworkers' Federation
IndustriALL	IndustriALL Global Union
ITC-ILO	International Training Center of the International Labor Organization
ITGLWF	International Textile, Garment and Leather Federation
IUF	International Union of Food Workers
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
TCA	Transnational company agreement
UNI	Union Network International
WWC	World Workers' Council

1 INTRODUCTION

International framework agreements (IFAs) have developed over the last two decades in response to economic globalization and exhibit a growing need of some multinational companies for additional governance structures that regulate their business conduct. These agreements are negotiated between the management of a company and employees' representatives. They specify the responsibility of a multinational company to follow particular standards with regard to fundamental social rights, working conditions, industrial relations, health & safety conditions, training, and environmental protection provisions in more than one country and often even worldwide (Telljohann, da Costa, et al. 2009, p. 6). Recently such agreements were signed at the companies Solvay, Siemens, Ford, Securitas, and Volkswagen.

IFAs are part of a more general development of law- and rule-making in an increasingly interrelated world. Global challenges often demand global solutions and individual states only have a limited capacity to regulate cross border activities. These governance gaps provide the permissive environment for wrongful acts by individuals, companies and states without adequate sanctioning (Ruggie 2008, p. 189). As a reaction, there has been a rapid growth in the body of international law in recent years (van Saksenlaan 2012, p. 5). In particular, there has been a remarkable growth of new transnational regimes that are self-regulatory based on what is called soft law. A new type of "non-state market-driven governance regimes" (Cashore 2002, p. 504) has emerged simultaneously across a number of policy fields (Hassel 2008, p. 233). This general development is mirrored in the transformation of international labor regulation. IFAs are an example of an emerging new international labor governance regime that involves private bargaining partners and global rule-making through private agreements.

However, why do multinational companies sign IFAs? This is a puzzle as in principle the conclusion of such agreements can mean a loss of competitiveness. Labor standards such as the right to collective bargaining are likely to result in higher labor costs. All else equal multinational companies would prefer a situation with weaker labor standards and lower costs. Additionally, many multinational companies have already instituted voluntary codes of conduct relating to their own labor policies. The existing literature on IFAs has mostly been conducted from trade union or governmental perspectives and provides only limited insights into the question what are possible incentives for multinational companies to sign IFAs.¹ IFAs are a relatively young phenomenon of the current internationalization of the law and little research has systematically analyzed and focused on the incentives for signing an

¹Many publications touch on the question why companies sign IFAs but do not explore the incentives in more depth (Müller, Platzer, and Rüb 2008; Fichter, Helfen, and Sydow 2011; Hessler 2012; Stevis and Fichter 2012).

IFA from a corporate perspective. This gap in the literature is addressed by this paper. The contribution of this paper is that it identifies four groups of incentives that are of relevance for multinational companies to enter into IFAs. The paper discusses the following incentives: (1) public relations, (2) the reduction of conflicts and privatization of conflict resolution, (3) the promotion of equal competitive conditions in order to overcome disadvantages resulting from higher standards, and, (4) to respond to exogenous requirements from public regulation or to avoid further regulation. When discussing the four groups of incentives it is analyzed whether there are objective factors that favor the conclusion of IFAs.

The research was exclusively desk-based, it includes a text analysis of IFAs and uses information publicly reported by the 41 companies in the research sample during the period from January to March 2015 (or earlier). Of the 41 companies, 33 companies were headquartered in Europe, two companies were headquartered in the USA and Indonesia respectively, Russia, Japan, Brazil and South Africa are each the headquarter country to one company in the sample. With regard to trade union participation, about 56 percent of the analyzed IFAs were concluded by IndustriALL² and 24 percent by UNI global union³; the remainder of the agreements were signed by the BWI⁴ and IUF⁵. A listing of all companies in the research sample is included in the annex. Additionally, the text analysis of the agreements is supplemented by insights drawn from case studies that analyze the implementation of IFAs. The 41 companies are a full sample of all companies that concluded an IFA in the period investigated from 2010 – 2014. In total, the 41 MNCs are the direct employer for approximately 1.8 million employees.

The remainder of the paper proceeds as follows: The second section gives a narrative account of the evolution of law in response to globalization, especially on the transformation of labor standards; the third section defines and gives an overview of IFAs; the fourth section presents the literature review; the fifth section discusses the four groups of incentives why multinational companies sign IFAs; and the last section concludes and gives an outlook on avenues for further research.

²In 2012, IndustriALL Global Union represented more than 50 million working people of 140 countries working in different sectors. IndustriALL is an unification of three former global union federations: IMF (International Metalworkers' Federation), ICEM (International Federation of Chemical, Energy, Mine and General Workers' Unions), and ITGLWF (International Textile, Garment and Leather Workers' Federation).

³UNI Global Union is a global union federation for skills and services. It's 900 affiliated unions in 140 countries have 20 million members.

⁴Building and Wood Workers' International (BWI) is the global union federation of trade unions in the building, building materials, wood, forestry and allied industries. It represents 350 member organizations in 135 countries with a combined membership of more than 12 million employees.

⁵The International Union of Food, Agriculture, Hotel, Restaurant, Catering, Tobacco and Allied Employees (IUF) is composed of 336 member organizations in 120 countries, representing more than 12 million employees.

2 ANALYTICAL BACKGROUND - THE EVOLUTION OF LABOR LAW IN RESPONSE TO GLOBALIZATION: TOWARDS A GLOBAL LABOR GOVERNANCE REGIME

A global economy often demands global standards but individual states only have a limited capacity to regulate cross border activities. Some individual states may not have sufficient resources for a comprehensive enforcement of certain labor and environmental standards or have a preference for low enforcement levels. An empirical investigation by Davies and Vadlamannati (2013) finds evidence for competition between governments to relax labor standards and particularly the enforcement of labor standards to attract business (Davies and Vadlamannati 2013). Olney (2013) comes to very similar results (Olney 2013). Pressure to compete on international markets can give incentives to companies to sacrifice labor standards and governance gaps provide the permissive environment for wrongful acts by individuals and companies without adequate sanctioning. Up to a certain degree, globalization can lead in these instances to a race to the bottom. The former United Nations Secretary-General's Special Representative for Business and Human Rights, John Ruggie, (2008) perceives governance gaps created by globalization "as the root cause of the business and human rights predicament"⁶ (Ruggie 2008, p. 189).

Often these developments are perceived as market or government failures and regulatory steps are taken in order to raise labor standards worldwide to a level that is considered to be preferable to most states and citizens. In the last decades the traditional regime of labor regulation based on the compliance by governments has been re-shaped by moving away from International Labor Organization (ILO) conventions towards an emerging global labor governance regime (Hassel 2008, pp. 231). This emerging new set of global labor governance takes place in various arenas involving different actors. In contrast to the traditional regime of labor regulations it is soft law providing incentives and information and it addresses new responsibilities primarily to firms and not to governments (Bartley 2007, pp. 298).⁷ There

⁶The aspiration of IFAs to address the aforementioned governance gaps is stated expressively in an agreement concluded by the multinational company SUEZ S.A. and three global trade union federations, the Building and Wood Workers' International (BWI), the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), and Public Services International (PSI):

"As specified in the agreement, GDF SUEZ will respect national law and regulations. Unfortunately, in too many countries, national laws and regulations are not adequate or are not fully implemented. GDF SUEZ and the signatory Global Union Federations seek good governance and the rule of law." (GDF SUEZ 2010, p. 7)

⁷In the last decades, the labor standards debate has long been depicted as a distributional conflict between the

already is a myriad of different initiatives and mechanisms by which a global regime of labor standards is being created: e.g. the Global Compact of the United Nations, the ILO-Core Labor Standards, the Organization for Economic Co-operation and Development (OECD)-Guidelines, and the ISO-26000 by the International Organization for Standardization. There are as well private initiatives like codes of conduct, the Global Reporting Initiative (GRI), and the Sullivan Principles or the Caux Principles of Business (Hassel 2008, pp. 240). IFAs add to the general development presented above and are part of the web of private regulation that is emerging in this area of law right now. The different initiatives and developments highlight the importance of the research topic to business, employees, financial investors, international organizations and states. Furthermore, the emergence of private ordering illustrates that some multinational companies perceive it to be in their interest to have certain labor and environmental standards.

The theoretical framework of this paper draws on self-regulation theory (Sinclair 1997; Coglianese and Mendelson 2010; Koenig-Archibugi 2010). Self-regulation is characterized by Sinclair "as relying substantially on the goodwill and cooperation of individual firms for their compliance" (Sinclair 1997, p. 534). It is regarded as more cost-effective, more speedy, and more sensitive to market circumstances than traditional regulation by state authorities. This produces higher levels of voluntary compliance. In a setting of self-regulation it is a problem that even though companies have better information to reduce negative externalities of their actions, they do not necessarily have better incentives to do so. A general criticism of self-regulation is its inability to significantly realign companies' incentives, and interests and a resulting credibility gap (Coglianese and Mendelson 2010, p. 161). Therefore, self-regulation is only successful when parties decide that it is in their best interest not to defect from the self-imposed standards. When it is assumed that compliance is at least somewhat costly, external forces of some kind will be needed to provide an incentive for voluntary compliance. Ginsburg and Shaffer (2010) argue that private actors as companies, non-governmental organizations (NGOs), and activist networks play a significant role in producing international law and rules (Ginsburg and Shaffer 2010, pp. 7). While these actors often influence governments to act in their interest, in the case of IFAs they are direct participants in international rule construction. In the absence of traditional regulation by governments, incentives can arise from non-governmental pressures, like actions by competitors, customers, communities, investors or employees (Coglianese and Mendelson 2010, p. 161). Global union federations (GUFs) as the bargaining partners of multinational companies are supposed to monitor

North and the South. The shift from a state-based to a private regulatory regime enables further progress on global labor standards by diverting distributional trade-offs which governments in low-standard countries may face (Hassel 2008, p. 232).

compliance with the rules set out in IFAs.

IFAs can help to bridge the aforementioned credibility gap of self-regulation and offer new possibilities for private ordering. In the literature, the participation of global trade union federations as the bargaining partners of multinational companies is perceived as a tool to overcome some shortcomings of business self-regulation. For example, Schömann et al. (2008) and Eichenhorst et al. (2011) argue that IFAs are able to alleviate the criticized shortcomings of codes of conduct (Schömann et al. 2008a) (Eichhorst, Kendzia, and Vandeweghe 2011, p. 64). Hence, it seems particularly fruitful to study IFAs in this theoretical framework as they are not only an example of self-regulation but can help to mitigate a major problem of self-regulation in the field of labor standards.

3 NEW PHENOMENON: INTERNATIONAL FRAMEWORK AGREEMENTS

IFAs are that are global in their scope, involve GUFs⁸ as signatories and contain the ILO core labor standards⁹ at a minimum (Fichter, Helfen, and Sydow 2011, p. 73). For the employer side these agreements are mostly signed by the company's CEO or head of human resources, sometimes together with managers of the group's subsidiaries (International Trade Center 2010, p. 17). The agreements specify the responsibility of a multinational company to follow particular standards with regard to fundamental social rights, working conditions, social dialogue, industrial, health & safety conditions, training, and environment protection provisions in more than one country and often worldwide (Telljohann, da Costa, et al. 2009, p. 6). The European Commission has defined an IFA/TCA¹⁰ as:

"an agreement compromising reciprocal commitments the scope of which extends to the territory of several States and which has been concluded by one or

⁸For a complete list of global union federations, see: <http://www.global-unions.org/about-us.html?lang=en>
Global trade union federations as the bargaining partners of multinational companies have in total 2,400 member organizations representing around 92.5 million members from the majority of countries worldwide (Observatoire sur la Responsabilité Sociétale des Entreprises 2007, pp. 59).

⁹The ILO's core labor standards are (1) freedom of association and the effective recognition of the right of collective bargaining, (2) the elimination of forced or compulsory labor, (3) the abolition of child labor, and (4) the elimination of discrimination in respect of employment and occupation.

¹⁰Transnational Company Agreement (TCA) is the overarching term for International Framework Agreements (IFAs) and European Framework Agreements (EFAs). The two types of agreements differ in their scope, signatories, content, implementation and monitoring. A study by Telljohann et al. (2009) finds that most EFAs focus on restructuring and social dialogue (Telljohann, da Costa, et al. 2009, p. 29). Moreover, EFAs typically address issues like: health & safety at work, work life balance, diversity management, data protection, CSR and are more explicit in their provisions than IFAs (European Commission 2014), (Telljohann, da Costa, et al. 2009, pp. 82). This analysis focuses on the incentives for companies to sign IFAs.

more representatives of a company or a group of companies on the one hand, and one or more workers' organizations on the other hand, and which covers working and employment conditions and/or relations between employers and workers or their representatives." (European Commission 2012, p. 2)

IFAs stipulate obligations for companies and make references to other international regulatory frameworks which have to be honored. At a minimum, all IFAs make a reference to the ILO core labor standards. Moreover, often a reference is made to other ILO conventions, to the Universal Declaration of Human Rights and the OECD-Guidelines for Multinational Enterprises, the ILO Tripartite Declaration, and the UN-Guiding Principles on Business and Human Rights ("Ruggie-Principles"). While references to international regulatory frameworks are very common also more specific obligations can be created by IFAs. These obligations are often more tailored to the particular challenges a company faces. These can be environmental issues for companies in the oil and gas industry or training programs for employees in companies with many hazardous workplaces.¹¹

Regulatory Framework	Reference
Universal Declaration of Human Rights	71 %
UN Guiding Principles on Business and Human Rights ¹²	19 %
OECD Guidelines	54 %
ILO Core Conventions	100 %
Global Compact	44 %
ILO Tripartite Declaration	24 %

Figure 3.1: References to Regulatory Frameworks in IFAs. Table created by the author (n=41)

In December 2014, in total 110 IFAs were identified by the author.¹³ In the building and wood sector, the global trade union federation BWI has signed 18 agreements; the IUF¹⁴ has signed a total of seven agreements; the IFJ¹⁵ has signed one agreement; in the service sector, UNI Global Union¹⁶ has signed 38; and IndustriALL Global Union¹⁷ has signed 46 agreements.

¹¹See for example the IFAs signed by the companies Telenor ASA and Inditex S.A.

¹³Sources: Database of the European Commission <http://ec.europa.eu/social/main.jsp?catId=978>, websites of the GUFs, Observatoire sur la Responsabilité Sociétale des Entreprises, and Telljohann, da Costa, et al. 2009, pp. 30.

¹⁴The International Union of Food, Agriculture, Hotel, Restaurant, Catering, Tabacco and Allied Employees (IUF) is composed of 336 member organizations in 120 countries, representing more than 12 million employees

¹⁵The International Federation of Journalists (IFJ) is a global union federation of journalists' trade unions. The IFJ represents around 600,000 members in more than 100 countries

¹⁶UNI Global Union is a global union federation for skills and services. It's 900 affiliated unions in 140 countries have 20 million members.

¹⁷In 2012, IndustriALL Global Union represented more than 50 million working people of 140 countries working in different sectors. IndustriALL is an unification of three former global union federations: IMF (International

The following figure illustrates the growing importance of IFAs in the last years and shows furthermore the spread of IFAs apportioned by GUFs and the corresponding industry sectors.

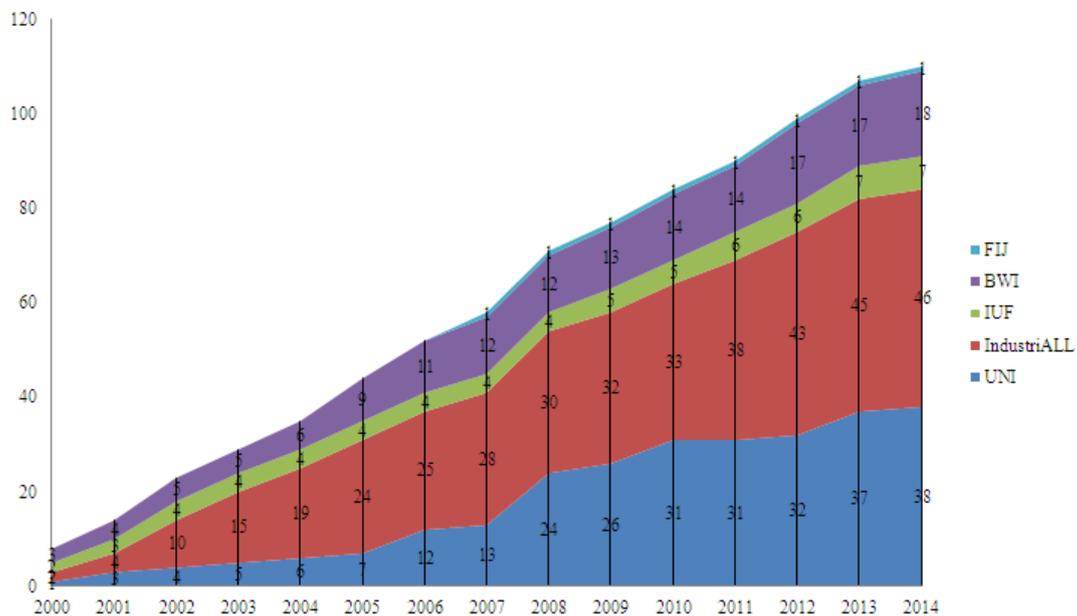


Figure 3.2: Number of IFAs apportioned by GUFs. Graph created by the author (n=110)

Most of the agreements are signed by companies headquartered in Europe. The following figure shows a global map that indicates the geographical origin of companies that signed an IFA. However, it is important to emphasize that the provisions of IFAs are frequently applicable to the companies' subsidiaries and their supply chain in developing countries. This gives them potentially a big leverage effect and a worldwide relevance.

4 LITERATURE REVIEW

There is a growing literature on IFAs. In the last years, different international governmental organizations have published reports on IFAs. In January 2015, the European Commission published a report with case studies on the implementation of IFAs and EFAs and an extensive discussion about the legal status of IFAs and particularly EFAs (Leonardi 2015). The report was conducted by the Instituto di Ricerche Economiche e Sociali – IRES within the

Metalworkers' Federation), ICEM (International Federation of Chemical, Energy, Mine and General Workers' Unions), and ITGLWF (International Textile, Garment and Leather Workers' Federation).

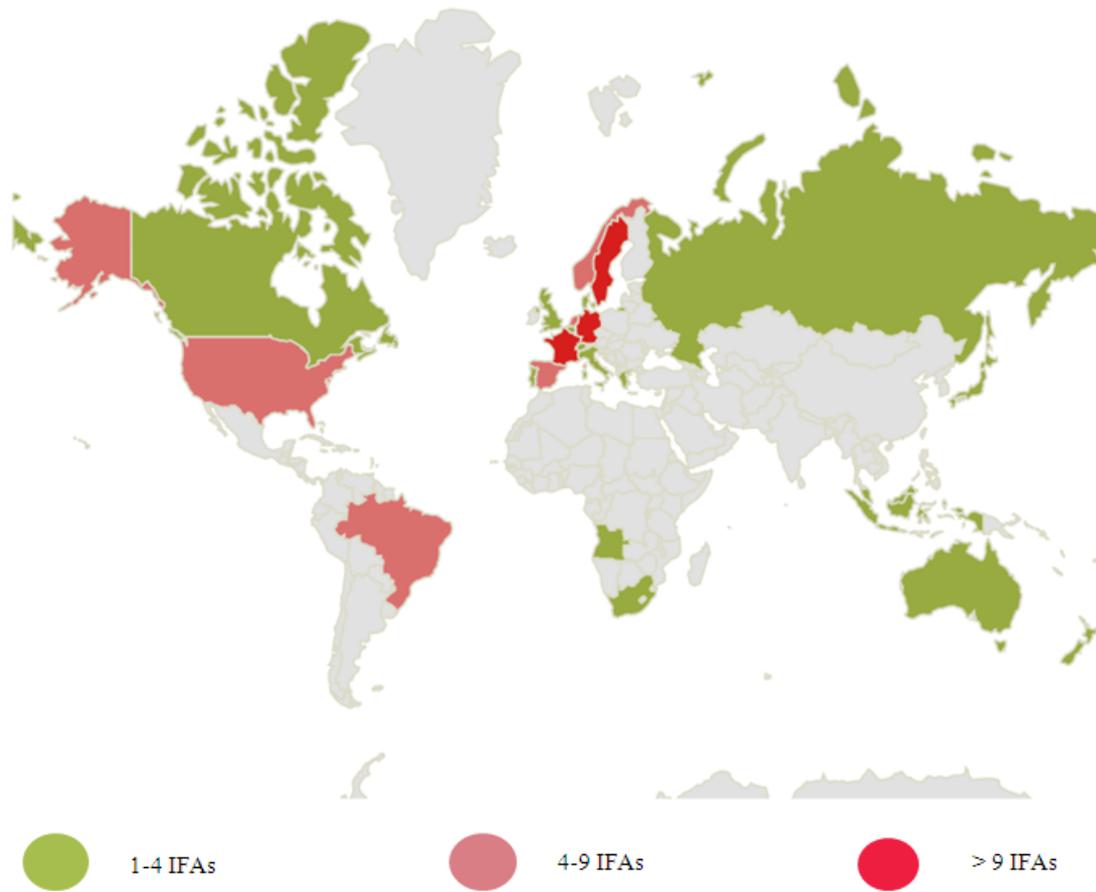


Figure 3.3: Number of IFAs by headquarters location. Figure created by the author (n=110)

context of EUROACTA II - European Action on Transnational Company Agreements. For EUROACTA I a number of publications give an overview of TCAs and investigate their potential contribution to the internationalization of industrial relations.¹⁸ EUROFOUND published reports on TCAs in 2008 (Schömann et al. 2008a) and in 2009 (Telljohann, Costa, et al. 2009). Moreover, the ILO published reports in 2010 (Stavis 2010) and 2011 (Papadakis 2011) that give information on a large variety of topics connected with TCAs. Most notably for the research question of this paper is a publication by the International Training Center (ITC) of the ILO in 2009. This publication gives a short documentation with lessons learned from a series of workshops for management representatives with regard to TCAs (International Trade Center 2010). The summary of the workshop lists the following incentives for signing a TCA: a deepening social dialogue, the creation of early-warning systems or tools to avoid trade union

¹⁸See for an overview: <http://ec.europa.eu/social/main.jsp?catId=707&langId=en&intPageId=214>

campaigns, access to public procurement markets, and public relation purposes (International Trade Center 2010, p. 10).

Moreover, there are several publications on IFAs by non-governmental organizations. GUFs as the bargaining partners of multinational companies offer a wealth of information on their websites and in the so-called grey literature. More fruitful for the research question of this paper is a publication by the International Association of Employers in 2010 (International Organization of Employers 2010). In this publication, it is argued that companies sign TCAs to achieve a better working relationship with unions, gain advantages with regard to ethical criteria in investment decisions, and as an additional element for their public relations (International Organization of Employers 2010, pp. 8, 9). Further research into IFAs has mostly been conducted from trade union perspective. Many of these publications analyze the conclusion and implementation of IFAs with case studies and do mention different reasons for companies to enter into IFAs but do not elaborate in detail on them (Müller, Platzer, and Rüb 2008; Fichter, Helfen, and Sydow 2011; Hessler 2012). However, these publications give valuable evidence for this paper. A research project by Fichter et al. (2009 - 2012) named "Organization and Regulation of Employment Relations in Transnational Production and Supply Networks" analyzed the implementation of IFAs in Brazil (Arruada 2012), Turkey (Fichter, Kadire, and Agtas 2013), India (Gartenberg 2011), and in the USA (Fichter and Stevis 2013). Fichter et. al. (2011) propose that signaling and risk management can be incentives for multinational companies to sign IFAs (Fichter, Helfen, and Sydow 2011).

However, only a few scholarly publications on IFAs are directly targeted at the research question of this paper. An exception is a publication by Egels-Zanden. The article "TNC Motives for Signing International Framework Agreements: A Continuous Bargaining Model of Stakeholder Pressure" (2009) was published in the *Journal of Business Ethics* (Egels-Zanden 2009, pp. 529-547). Egels-Zanden argues that companies' motives can be linked to a desire to retain a trusting relationship with the labour union movement. The results of this paper are drawn from an explorative study describing the process of a single European multinational company entering into an IFA. Given that the motives why multinational companies sign IFAs are poorly understood the reliance on a single qualitative study is a valid approach. Nevertheless, the results of the study are only of limited generalizability. Moreover, the paper in hands does not consider a single incentive to be strictly determinative in the decisions of companies to sign an IFA. The following table provides a first and selective overview about existing case studies and indicates among other things the companies and the region in which the implementation of the agreement was analyzed. However, the available information in case studies on this specific research question of this paper is rather scarce. Nevertheless, many

case studies contain valuable examples on the implementation process of IFAs and on the motivation of the actors.

Author	Company	Country	Year of publication
Salvo Leonardi et al.	Volkswagen, SKF (Satander Group, Unicredit, BNP Paribas, Thales, Schneider Electric)	Europe	2015
César F. Rosado Marzán	Securitas, G4S, Volkswagen, Daimler	USA	2013
Anton Wundrak	Volkswagen, Daimler, Bosch	India	2012
Michael Fichter et al.	Lafarge, Rhodia, Daimler, ISS, Danone, Hochtief, Faber-Castell, Skanska, Freudenberg, Leoni, Bosch, G4S, Volkswagen	Brazil, India, Turkey, USA	2012
Siglinde Hessler		Mexico	2012
Jamie McCallum	G4S	South Africa	2011
Marc Hennebert	Quebecor World Inc.	Canada	2010
Kostantinos Papadakis	Lukoil, Anglo Gold Ashanti, Takashimaya	South Africa, Russia, Japan	2009
Dimitris Stevis	Daimler	No country focus	2009
Tony Royle, Louis Ortiz	Carrefour	Spain	2009
Isabelle Schömann et al.	EDE, Telefónica, Arcelor, BASF, Bosch, Chiquita, IKEA, Leoni, PSA Peugeot Citroën, Securitas	No country focus	2008
Lone Riisgard	Chiquita	Latin America	2004

Table 4.1: Case Studies on IFAs. Table created by the author.

5 ANALYSIS: WHY DO MULTINATIONAL COMPANIES SIGN INTERNATIONAL FRAMEWORK AGREEMENTS?

The number of companies that are signatories to an IFA has been steadily increasing for more than fourteen years now. However, the vast majority of multinational companies did not sign an IFA and do not intent to sign such an agreement. An obvious question, then, is what makes multinational companies choose to enter into an IFA? This is a puzzle as in principle the conclusion of such agreements can mean a loss of competitiveness. In this section four groups of relevant incentives for multinational companies to sign an IFA are identified and discussed: (1) public relations, (2) the reduction and privatization of conflicts, (3) the promotion of equal competitive conditions in an industry sector in order to overcome disadvantages resulting from higher standards, and, (4) to respond to exogenous requirements from public regulation or to avoid further regulation.

5.1 PUBLIC RELATIONS

An incentive for a multinational company to sign an IFA can be to credibly signal to the media, consumers and investors that a company complies with certain social and environmental standards. This incentive is often briefly mentioned in publications on IFAs (Hassel 2008; Coleman 2010; Helfen, Fichter, and Sydow 2012; International Organization of Employers 2010).¹⁹ Investors, business partners, consumers, and employees can have an interest to know whether a company complies with minimum labor standards. The claim is that they and other market participants may be less likely to deal with a non-compliant company on favorable terms.²⁰ But, most of the time, investors, business partners, consumers, and employees cannot verify themselves whether a company complies with the standards. Third parties have to mainly rely on the statements of companies. Therefore, the starting point of this analysis is characterized by information asymmetries. The remainder of this section analyze the validity of the claim that MNCs use IFAs for public relation purposes.

The two primary solutions to information asymmetries are screening and signaling (Akerlof 1970, p. 499f.). By signaling the informed parties move first and credibly convey information

¹⁹Moreover, this motivation for signing an IFA has found it's way into the wording of several agreements. In a statement of the CEO of Groupama S.A, Thierry Martel, emphasize that this IFA should develop a "positive image of the group with regard to its members, clients, suppliers, employees and partners" (Groupama 2013, p. 3).

²⁰However, the magnitude of the sanction may be less than commonly assumed and only be of relevance for some crimes and not for others (Arlen 2012).

about themselves to other parties (Spence 2002, p. 434). I use the term "signal" in Eric Posner's (2000) sense, as a symbolic gesture designed to distinguish oneself to some intended audience as a "good" type (Posner 2000). IFAs could be used by the companies to present a corporate identity committed to the above mentioned international standards. Thus, the intuitive hypothesis is formulated:

H1: Multinational companies use IFAs as a tool to signal their commitment to labor standards to third parties.

Under information asymmetry, the uninformed parties will ask for tangible proofs for a compliant business conduct of companies. Codes of conducts are a commonly used way of companies to react to these requirements. Calliess and Renner (2009) argue that companies act as private norm entrepreneurs and use CSR standards for signaling their reliability towards other economics actors (Calliess and Renner 2009, p. 273). As codes of conduct are often vague and aspirational in their language and not legally enforceable many companies are able to send this signal with small costs. Consequently, the large majority of multinational companies has issued codes of conduct over the last twenty years. Signals like adopting codes of conduct and participating in voluntary programs are often relatively costless and may fail to create a separating equilibrium.

Therefore, business as the norm entrepreneur has an incentive to create a new signal in the hope that it will be more successful (Posner 1998, p. 774). Efforts to create a better signal can be observed when companies strive to include NGOs or other third parties to certify that the standards in codes of conduct are met in reality. Also GUFs and MNCs can engage as norm entrepreneurs. The norm entrepreneurs announce that a particular action, for example concluding an IFA, will be understood as a signal (Posner 1998, p. 773). The motivation to create a new signal may become visible in a few IFAs. In these IFAs certain provisions can be interpreted as attempts to act as norm entrepreneurs. The IFAs concluded by the companies Salino Impregilo, Dragados, GDF SUEZ, Solvay, Norske Skog, Lafarge, Ferrovia, Securitas, and FCC CONSTRUCCIÓN stipulate that the agreement should be published on the companies' website and/ or can be integrated in the annual report of the company. Moreover, in many agreements a provision is included in which both parties agree to spread the agreement as far as possible in their organizations. These provisions can be an indication that GUFs and MNCs try to create a new signal.

In the literature, it is often assumed that IFAs can improve a company's image and raise the "social profile" of a company.²¹ The conclusion of IFAs and the following monitoring

²¹The International Organization of Employers (2010) argues in a publication that: "with an increased focus on

by workers' councils and GUFs is assumed to increase the credibility of companies vis-à-vis companies with unilateral codes of conduct (Schömann et al. 2008b, p. 120). Many agreements establish additional monitoring procedures that create or collect information.²² In some agreements it is arranged that a monitoring group of management and trade union representatives conducts site visits in the production factories of the company around the world. The purpose of the site visits is to jointly ensure that the obligations in the agreement are upheld.²³ Other IFAs stipulate that a global review of the agreement has to take place on a regular basis (Renault Group 2013, p. 89). Moreover, to gain information about compliance with the terms of the agreement, access rights to local employees are crucial for GUFs. There are as well provisions on this in several agreements.²⁴ Other agreements make a reference to whistle-blower regimes and require employees to report a business conduct that is not consistent with the IFA.²⁵ Moreover, some IFAs stipulate training measures for the local management and employees' representatives to implement and monitor the agreement.²⁶ Additional training measures will increase awareness of problems and help to detect breaches. Therefore, concluding IFAs should be less costly for companies of "good" type than the "bad" type. Hence, IFAs could help to create a separating equilibrium between companies of different types.

First Analysis

The Internet makes information accessible to a broad spectrum of users. Most multinational companies use their websites to signal their commitment to social and environmental values and to present their corporate identity. Often a whole section – named "Sustainability" or "Our Commitments" – of a company's website is devoted to this task. When a company has issued a code of conduct, the text is most of the times accessible via the website.

"ethical criteria" for investment decisions in financial markets, some companies have noticed that, in concluding an IFA, this has resulted in advantages in this respect." (International Organization of Employers 2010, p. 8, 12)

²²For example: CODERE agrees to monitor labor rights guarantees and violations as part of a systematic risk assessment program and provide a written report on this.

²³For example: Inditex S.A., Solvay, Melia

²⁴Access rights are prominently addressed in the IFAs signed by Securitas AB and FCC CONSTRUCCIÓN

²⁵For example: ZF Friedrichshafen, MAN SE, Siemens AG, Renault

²⁶For example: "The signatories recognise the need for effective local measures to ensure that this agreement is respected. This should involve the local management, the workers and their unions and, as appropriate, health and safety representatives. Training may be necessary for both local management and trade union representatives." (GDF SUEZ 2010, p. 5) "Inditex and IndustriALL Global Union undertake jointly to develop training policies and programmes on labor issues designed to progress the implementation of the Agreement throughout the Inditex supply chain" (Industria de Diseño Textil, S.A. (Inditex) 2012, p. 4).

The websites of all companies that concluded IFAs in the last five years were analyzed and the results are displayed in the annex. As an objective measure it was recorded how many computer clicks are necessary to find a reference to the IFA on the website. Furthermore, a subjective scale from 1 - 4 was used to evaluate how easily the IFA is accessible and how prominent it is positioned on the companies' websites. This was coded on a scale 1 (reference to the IFA is easily accessible on the company's website and prominently positioned) to 4 (no reference on the company's website to the IFA and no press release on the conclusion of the IFA).

Code	Description
1	Reference to the IFA is easily accessible on the company's website and prominently positioned
2	There is a reference to the IFA on the company's website.
3	There is no reference to the IFA on the website or it is very difficult to find, but the company issued a press release on the conclusion of the IFA
4	No reference on the company's website to the IFA and no press release on the conclusion of the IFA

Table 5.1: Rules for coding the websites

First Results

A content analysis of the websites of the 41 companies that concluded IFAs in the investigated period between 2010 - 2014 led to counter-intuitive results. Only the companies Solvay, Renault, Norske Skog, and Svenska Cellulosa AB (SCA) use the signed IFAs as a prominent feature for the CSR sections on their websites. On the websites of eight other companies, a reference to the signed IFA is easily accessible. 15 companies do not mention the conclusion of an IFA on their websites, but issued a press release when the agreement was concluded. More than a third of the companies do not make a reference to the concluded IFA on their websites nor did they issue a press release on the conclusion of the IFA.

Moreover, there is variation among groups of companies. Companies that signed an agreement with the global union federation IndustriALL Global Union use the IFA more frequently for public relation purposes than other companies. Companies that signed an IFA with UNI

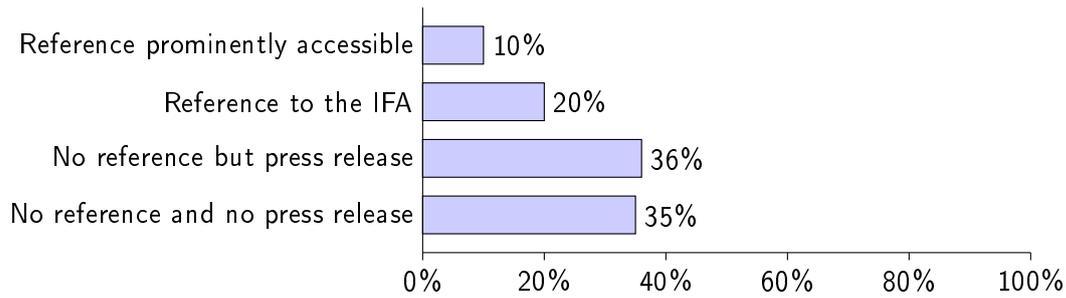


Figure 5.1: IFAs as Signaling Devices. Graph created by the author (n=41)

Global Union rarely use this agreement for public relation purposes. During the last four years ten companies signed an agreement with UNI Global Union and six of the companies do not make a reference to the concluded IFA on their websites nor did they issue a press release on the conclusion of the IFA. No company that signed an IFA with UNI Global Union use the agreement as a prominent feature for the CSR sections on their websites. A possible explanation for the counter-intuitive result that companies do not use IFAs as a signaling device can be a coordination problem. Companies of the "good" type only have a rough idea of which signal will allow them to distinguish themselves from the "bad" type. Moreover, they must also worry whether the receiver, the third parties, will recognize the signal as an effort to distinguish oneself (Posner 1998, p. 773). This is a coordination problem. A signal does not only need to have the right cost structure, it must also be perceived by everyone, or most parties, as a signal. A reason why most MNCs do not use IFAs as a signal can be because they do not expect other parties to recognize this signal.

To conclude, when companies rarely communicate externally that they have signed an IFA this indicates that IFAs only have limited value to companies for external symbolic gestures to build up a positive corporate image. This implies that one of the standard theoretical explanations from business ethics literature explaining why companies sign codes of conduct is not be readily applicable to IFAs and that claims in the literature about a positive public relation effect of IFAs should be interpreted with care.

5.2 REDUCTION AND PRIVATIZATION OF CONFLICTS

This section starts from the observation that the vast majority of IFAs establish international conflict resolution mechanisms in MNCs (Fichter, Sydow, et al. 2012, p. 5). Those dispute res-

olution regimes are non-state based mechanisms, that are non-judicial and dialogue based. The goal is to manage conflict between the management of a company and employees' representatives within a cooperative framework. The next sections explore different aspects of the incentive for companies to reduce and/or privatize conflicts about labor standards. International conflict resolution mechanisms can (1) help to avoid or privatize conflicts, (2) act as a safeguard against negative publicity, (3) legitimate management decisions and reduce transaction costs, and, (4) help to achieve a better management of global supply chains.

(1) Privatization of Conflicts

Conflict resolution in IFAs is cooperative. If a party alleges a breach of the IFA, then the majority of agreements oblige the parties to jointly resolve any disputes concerning the interpretation and application of the substantive provisions of the IFA.²⁷ In a publication of the International Organization of Employers one company used the term "alert" to describe the role of their IFA and expressed the hope that it would act as an indicator of major problems (International Organization of Employers 2010, p. 12). In anticipation of conflicts, 76 percent of the agreements establish a specific continuous forum for dialogue between the management of the company and representatives of the GUFs.^{28, 29} Those international conflict resolution bodies can be appealed when alleged breaches of the agreement are identified and cannot be resolved at the workplace or national level.³⁰ This body usually consists of several senior representatives of the bargaining partners.³¹ Different names are used for this forum. Often

²⁷For this criterion, a very broad definition was used in the evaluation. It was sufficient when the text of the agreement indicated at least in some ways that the parties anticipate conflicts about the interpretation of the agreement and express their willingness to resolve these disputes cooperatively on the basis of the agreement.

²⁸IFAs are recent phenomenon and come in a dizzying array of forms. While most IFAs establish some kinds of dispute resolution mechanisms others do not, monitoring provisions vary from significant to almost nonexistent, and some IFAs are highly detailed on conflict resolution procedures while others are extremely vague. This variety of different regimes complicates a quantitative evaluation of the agreements and sometimes simplifications were necessary to summarize all different characteristics under the chosen categories.

²⁹For this criterion, it was necessary that the parties agree to meet continuously in regular time intervals. Most bodies meet once a year. It was not sufficient, when the parties vaguely agreed to meet regularly or to meet if extraordinarily incidents occur.

³⁰For example the IFA signed by the Siemens AG stipulate, "[t]he 'Verhandlungsdelegation' (Central Works Council negotiating team) has the task of supporting the worldwide implementation of the agreement and advising on suitable measures. This task includes pursuing serious reports and complaints that cannot be resolved through the local and national complaint and arbitration facilities in order to prevent external legal disputes." (Siemens AG 2012, p.4)

³¹"The parties agree that any dispute regarding interpretation or application of this agreement shall be considered jointly in order to make recommendations to the parties involved. If necessary, an oversight committee shall be appointed, comprising three CODERE representatives and three UNI representatives, to analyze the case and submit a report to the President of CODERE and to the General Secretary of UNI." (Codere S.A. 2013, p. 7)

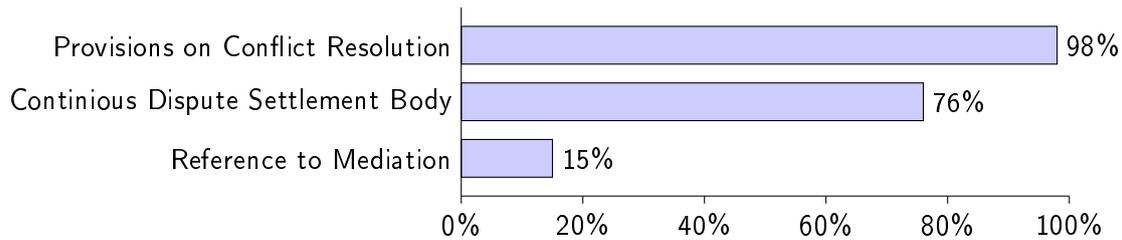


Figure 5.2: Characteristics of Conflict Resolution Regimes in IFAs. Graph created by the author (n=41)

it is called the "reference group" (Dragados S.A.), "implementation group" (Codere S.A.) or "committee" (Inditex S.A.).

Moreover, some IFAs make a reference to mediation or arbitration in cases of conflicts. About 15 per cent of the evaluated IFAs stipulate that if the dispute resolution body does not reach a consensus then the case can be transferred to a neutral mediator or arbitration. In total, five IFAs make reference to mediation and one agreement to arbitration. Four IFAs make a reference to a neutral mediator chosen by the parties. Under the IFA concluded by Inditex S.A. the contested case is transferred to mediation by the ILO. In a mediation process a third party makes recommendations to the parties that they are free to follow or not. The agreement signed by Aker ASA stipulates that in "case of deadlock, arbitration will be handled by the ILO or a neutral party agreed upon by (company) management and the union side" (Aker ASA 2012, p. 4). Under arbitration a third party is asked to make a decision that is binding for the parties to the dispute. The following figure gives an overview of the characteristics of conflict resolution regimes in IFAs. The variety of different regimes complicates a quantitative evaluation of the agreements and sometimes simplifications were necessary to summarize all different characteristics under the chosen categories.

In a previous evaluation, Schömann et al. (2008) report similar results and find that 79 per cent of the existing IFAs (1989 – spring 2007) contain provisions on dispute settlement procedures (Schömann et al. 2008b, p. 70). Unfortunately, they do not elaborate in their analysis which provisions in IFAs did qualify for them as dispute settlement procedures.³²

While rule-making in IFAs takes place globally, conflict resolution should occur locally. Of-

³²In a text box the authors give three examples of dispute settlement procedures in IFAs. However, it remains unclear whether the establishment of a conflict resolution body is taken for dispute settlement procedures or whether also general aspirational declarations to solve conflicts cooperatively qualify for this.

ten it is stipulated that conflict resolution should take place within the spirit of subsidiarity.³³ The characteristic design of conflict resolution regimes in IFAs follows this approach: Firstly, the local management of the workplace should deal with the potential breach. Only when no consensus about the matter is possible, secondly, the claim will be dealt with on a national level between union representatives and national management representatives. Thirdly, if the dispute is not solved, then the established dispute resolution body will make recommendations for solving the controversy. If the dispute resolution body is not able to find a commonly agreed on solution then some IFAs stipulate that the case can be transferred to a neutral mediator.



Figure 5.3: Conflict Resolution Pyramid in IFAs. Created by the author

While conflicts about the implementation of the IFA are mostly raised by trade unions complaining about the business behavior of the company, some agreements also explicitly address the possibility that companies ask for a behavior consistent with the IFA. GUFs are international umbrella organizations and sign IFAs on behalf of national trade unions and trade union federations. MNCs can have an interest to ensure that local trade unions' behavior is consistent with the principles of cooperative conflict resolution set out in IFAs. They can push for enforcement in an indirect way throughout the cooperative international dispute resolution regimes established by IFAs. An example is the IFA concluded by the South African retail company Shoprite Checkers Limited, "[i]n the event that members of a UNI affiliated union engage in any form of strike or other unprotected and/or unlawful industrial

³³An example how the provisions for conflict resolution is phrased in IFAs: "In the event of any complaint or infraction of the present agreement, the following procedure will normally apply: a) Firstly, the claim will be dealt with by the local management of the workplace. b) Any infraction which could not be solved through discussions at the workplace will be dealt with the BWI coordinator in close cooperation, with the BWI affiliates from the country of origin and will be reported to the responsible manager. c) If the subject is not solved, the reference group will deal with the matter, aiming at providing the parties involved with recommendations for solving the controversy." (Dragados S.A. 2014, p. 11)

action, and if requested by Shoprite Checkers to do so, UNI will take active, appropriate steps to normalize the situation" (Shoprite Checkers (PTY) Limited 2010, p. 6). Another example is the IFA signed by the Swedish security services company Securitas AB. In this agreement a complete conflict resolution procedure for the local management for alleged breaches by local trade unions is stipulated (Securitas AB 2012, p. 8).³⁴ However, only few IFAs explicitly mention enforcement procedures or provisions against local trade unions.

To conclude, MNCs have an interest in avoiding conflicts about breaches of labor standards and if unavoidable in privatizing them and the conflict resolution regimes in IFAs proliferate a privatization of conflicts. One goal of private conflict resolution via IFAs is to avoid external conflicts and replace them with cooperative conflict resolution or mediation procedures.

An Explanation for Variations Between Agreements: Different Traditions of Industrial Relations

IFAs are recent phenomenon and come in a dizzying array of forms. While most IFAs establish some kinds of dispute resolution mechanisms others do not, monitoring provisions vary from significant to almost nonexistent, and some IFAs are highly detailed on conflict resolution procedures while others are extremely vague. The fact that the majority of IFAs was concluded by European companies suggests that the domestic bases is central for explaining the emergence of IFAs. Here, the country of the headquarter is used as a proxy for the quality of prior labor relations. A long tradition of cooperative industrial relations is one of the objective factors that seems to strongly favor the conclusion of IFAs. Most IFAs and EFAs were signed in Germany and France (Rehfeldt 2015, p. 29). Moreover, compared to the size of their economy, Norway and Sweden host a large number of companies with IFAs in place. The European focus of IFAs indicates the importance of a long tradition of collaborative industrial relations for entering into an IFA. Moreover, all companies that agreed to mediation or arbitration mechanisms as the most formal conflict resolution procedures in IFAs are headquartered in Europe. Generally, IFAs signed by European companies are more detailed on conflict resolution than the remainder of the agreements.

Most of the literature emphasizes the importance of collaborative industrial relations for the emergence of IFAs. Egels-Zanden (2009) developed a "continuous bargaining model of stakeholder pressure" to explain the conclusion of an IFA in a case study (Egels-Zanden 2009). He

³⁴An third example is the IFA signed by the Spanish company CODERE: "UNI will urge all affiliates to work within the spirit of this agreement (Codere S.A. 2013, p. 6).

describes the company's motivation for adopting an IFA as "to retain a trusting corporate-union relationship" (Egels-Zanden 2009, p. 543). However, only few multinational companies in Europe have signed an IFA although many more companies in this region are faced with a strong workers' council or trade unions and have a long tradition of collaborative industrial relations (Schömann et al. 2008b, p. 116). Additionally, Stevis (2010) points out that IFAs are not widespread in Japan in spite of a collaborative industrial system (Stevis 2010, p. 11). Furthermore, while the conclusion of IFAs is on the agenda of GUFs since 1970, multinational companies only started signing these agreements after the year 2000 in considerable numbers (Telljohann, Costa, et al. 2009, pp. 508). This all indicates that the tradition of cooperative industrial relations with workers' councils and trade unions is an important explanatory factor and may even be a necessary condition but can not be the only driver for companies to sign an IFA. However, considering the different geographical origins of companies may help to explain some variations in the design of conflict resolution mechanisms in IFAs.

(2) Safeguard Against Negative Publicity and Risk Management

Furthermore, an incentive for multinational companies to sign an IFA can be that companies see those agreements as a safeguard against negative publicity (Helfen, Fichter, and Sydow 2012, p. 304), (International Trade Center 2010, p. 10). In the previous section it was shown that with the emergence of IFAs international institutions of social dialogue are created, which provide additional conflict resolution arenas in multinational companies. In the absence of IFAs the only opportunity to create pressure on a company for workers' councils and trade unions is sometimes exposing misconduct to the public and some companies are particularly vulnerable to consumer campaigns via reputational risks.

The claim that IFAs can serve as a safeguard against negative publicity is supported by a text analysis of the agreements. In the agreement signed by the French company Sodexo S.A., the GUF "agrees that it will not initiate or support any international boycotts, adverse publicity, corporate campaign or other similar adverse activity against "Sodexo", as long as dialogue on the questions at stake is pursued under this agreement" (Sodexo S.A. 2011, p. 6). In the IFA signed by Securitas AB, the parties agree that "[u]nions shall seek to settle any disputes by peaceful means to help to avoid disruption to customer service or to damage the reputation of Securitas" (Securitas AB 2012). This exchange of promises is explicitly spelled out in a few other agreements and this understanding of a mutual relationship seems to govern most

IFAs.³⁵ As long as companies honor their commitments under the agreement, trade union federations agree not to engage in adverse activities. Private conflict resolution provisions mitigate the threat that companies are exposed in public for wrongful behavior and may reduce in this way ex ante the costs for companies connected with deviations from labor and environmental standards.³⁶ For many multinational companies IFAs provide early-warning systems (International Trade Center 2010, p. 10) or act as tools for avoiding trade union campaigns (Helfen, Fichter, and Sydow 2012, p. 305).

IFAs serve as a safeguard against ceased cooperation, negative publicity campaigns and resulting market sanctions. In essence, companies agree to respect certain standards and reinstate in case of deviations a compliant behavior, and, in return, global trade union federations agree not to engage in negative publicity campaigns that can damage a company's reputation and profitability as long as dialogue is pursued under the agreement. A privatization of conflicts will help the companies to protect their reputation and profitability.

(3) Legitimation of Management Decisions and the Reduction of Transaction Costs

Moreover, an incentive of multinational companies to sign an IFA can be to gain additional legitimation for a particular measure or to foster transparency. In a globalized world, national trade unions are increasingly unable to deal with the demands of multinational companies' managements (Fichter, Helfen, and Sydow 2011, p. 69). Besides additional legitimation for certain management decisions the reduction of transaction costs can be an incentive

³⁵In the IFA signed by Loomis AB it is agreed that "UNI and its affiliates shall seek to settle any disputes by peaceful means to help avoid disruption to customer service or damage to the reputation of Loomis. UNI agrees to take concrete steps to avoid risk of unofficial industrial action by its affiliates and shall encourage its affiliates to exhaust good faith communication and local dispute resolution procedures before engaging in industrial action, media or corporate campaigns" (Loomis AB 2013). In the IFA signed by Aker ASA, it is agreed that "[a]ny differences arising from the interpretation or implementation of this Agreement will be examined jointly at global level to ensure that necessary discussions can take place before possible external discussion" (Telenor ASA 2013).

³⁶Moreover, this analysis suggests that the effect of IFAs on deterrence is less clear than proposed in the literature. The analysis shows that the effect of IFAs on deterrence seems to be ambiguous. From an ex post perspective - after the detection of a deviation - newly created conflict resolution procedures make it more likely that a company voluntarily agrees to comply with the contested standards in the future and not to continue its deviating behavior. However, from an ex ante perspective - before a deviation is detected - an IFA can set perverse incentives because the agreement can reduce ex ante the expected total costs for a deviating behavior. An IFA can do this by reducing the probability that a deviating behavior becomes public knowledge. This eases the threat of consumer boycotts, negative media coverage or throwbacks at the financial markets from signatory companies. A shallow examination could lead to the assumption that IFAs are a fig leaf for corporations helping them to protect their reputation and having eventually an unclear effect on deterrence. In spite of that, most publications clearly attribute a positive effect on deterrence to IFAs (e.g. Helfen 2012, Coleman 2010, Hassel 2008). In a consequent paper, I argue that insights from the economic analysis of law can help to explain these seemingly contradictory statements.

for multinational companies to sign IFAs.

The management of a multinational company may have an incentive to pursue international dispute settlement when they anticipate considerable domestic opposition by employees' representatives. Then the incentive to enhance legitimation of management decisions can be especially important in order to mitigate opposition in the different subsidiaries of a company. Here, it can be preferable for a multinational company to have a single international bargaining partner than to go through several rounds of negotiations with national workers' representatives and possible strikes (International Trade Center 2010, p. 10), (International Organization of Employers 2010, p. 12). Having to undertake the bargaining process at each branch abroad can involve struggles against hostile locale trade unions and put the company's image each time at risk. Here, IFAs can provide an overall collaboration framework that can contribute to a better management and harmonization of industrial relations throughout the whole company.

(4) Better Management of Global Production Networks by Standardization

An other incentive for multinational companies to sign an IFA can be to smooth trade relations by common standards in production networks. Common standards can reduce transaction costs and increase the reliability of the supply chain (Nadvi 2004), (Fichter, Helfen, and Sydow 2011, p. 77). Multinational companies at the end of buyer-driven commodity chains may find advantages in making IFAs part of the contractual obligation of suppliers and subcontractors (Hammer 2005, p. 525).

Most of the existing IFAs contain provisions defining their application to the company's suppliers and subcontractors (Telljohann, da Costa, et al. 2009, p. 32). With such references in IFAs, the contracting parties create incentives for third parties to follow the agreed standards. The central management of a multinational company has sometimes no direct control over the business conduct of local management in other regions, and over the actions of suppliers and subcontractors, which in turn increases the risk of violations of central values of the company. However, the content of the clauses relating to the application to suppliers and subcontractors varies considerably among the different agreements (Telljohann, da Costa, et al. 2009, p. 32). An evaluation by the author of all IFAs that were concluded between 2010 – 2014 shows that over 80 percent of the agreements address adherence to minimum labor standards in the supply chain. In about 59 percent of the agreements, MNCs agree to inform their suppliers about the content of the IFA and to encourage them to adhere to these

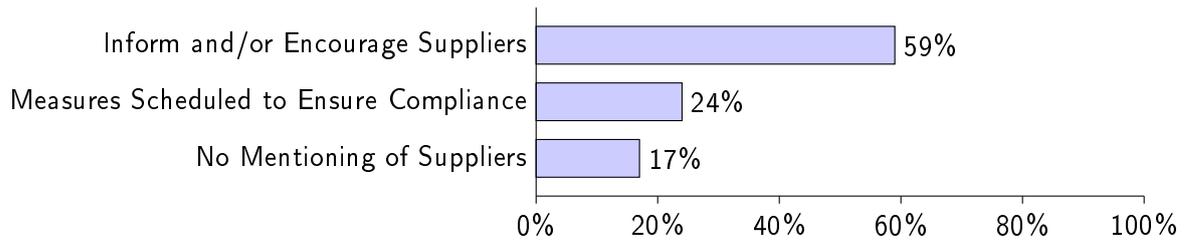


Figure 5.4: How Suppliers and Subcontractors are Addressed in IFAs. Graph created by the author (n=41)

standards.³⁷ About a quarter of the agreements use a stronger wording. Some IFAs do even threaten contract termination in the case of non-compliance along the chain. Exemplary, in the IFA signed by the Belgium company Solvay S.A. it is agreed that "[a]ny serious violation of employee health and safety legislation, environmental protection or basic human rights that is not remedied despite previous warnings shall lead to termination of relations with the company concerned in compliance with contractual obligations" (Solvay S.A. 2013, p. 9). Contractual termination, however, constitutes in all IFAs the last resort, deployed only after cooperative enforcement has been tried without success.

In a previous evaluation, Telljohann et al. (2009) broadly confirm these results and find that 69 percent of the existing IFAs (1989 – summer 2008) address adherence to minimum labor standards in the supply chain (Telljohann, da Costa, et al. 2009, p. 32). However, a slight change how IFAs address this issue can be observed. While Telljohann et al. (2009) report that 31 percent of the IFAs do not mention suppliers and subcontractors at all, this number shrank in the evaluation of IFAs concluded between 2010 – 2014 to 17 percent. Moreover, a larger part of the more recent IFAs stipulate to take measures when suppliers do not adhere to the standards set out in the IFA.

In the supply chain a rather hierarchy enforcement takes place (Estlund 2012, p. 250). MNCs act as enforcers vis-à-vis the regulatees (the suppliers), using their market power to ensure adherence to the substantial provisions of the IFAs. Some agreements make compliance with the IFA mandatory for suppliers, for instance through commercial contracts or in the selection process of suppliers.³⁸ This can create a situation in which a supplier is more bound to

³⁷An example for the wording: "Norske Skog will notify its subcontractors and suppliers of this Agreement and encourage compliance" (Norske Skog 2013, p. 2).

³⁸Exemplary, "Enel will take particular care in defining safety standards in tenders - including by using a model to assess and select contractors that work with Enel - and on enhancing management and monitoring processes" (Enel S.p.A. 2013, p. 10).

the IFA than the company signing it. The conditions that the private parties – MNC and GUF – agreed on become for third parties the precondition for access to the global value chain of the MNC. Particularly in the textile sector, a certain number of IFAs include detailed sanctions when suppliers or subcontractors do not obey to the standards set out in IFAs (Wilke and Schütze 2008, p. 10). Moreover, IFAs establish internal conflict resolution mechanisms. This gives multinational companies a low-cost method of ascertaining when low-level managers are failing to follow the wishes and strategy of upper management. The IFA concluded by Inditex³⁹ makes an explicit reference to the monitoring role of trade unions in its supply chain.⁴⁰ A more strict approach with regard to the supply chain is also taken in the construction industry. Monitoring is as well more elaborated. Provisions regarding suppliers and subcontractors are more often mandatory than in other IFAs.

5.3 PROMOTION OF EQUAL COMPETITIVE CONDITIONS

Some multinational companies are particularly vulnerable to public pressure and provisions in IFAs can put an additional burden on them. Those companies have an incentive to rise the standards in the whole sector in order to avoid unfair competition (Helfen, Fichter, and Sydow 2012, p. 304). They have an interest in sharing that burden with other competitors in the sector to make sure that they do not suffer a competitive disadvantage (Helfen, Fichter, and Sydow 2012, p. 305). The idea to "level the playing field" is very explicitly spelled out in an agreement between Sodexo and the international trade union federation IUF. In this IFA the parties agree that:

"Sodexo operates in a highly competitive environment and is facing, in numerous countries, competition by enterprises that disregard national law and practice with respect to the principles set forth in this Agreement. "IUF" commits to establishing a dialog with other multi-national enterprises in the sectors in which "Sodexo" operates in order to negotiate agreements similar to this one and to create an environment in which all companies in the sector will be able

³⁹Industria de Diseño Textil, S.A. (Inditex) is a Spanish multinational clothing company with around 120,000 employees

⁴⁰In the agreement signed by Inditex S.A. it is agreed that:

"Local trade unions have an important role to play in ensuring the implementation of the IFA within the Inditex's supply chain (Industria de Diseño Textil, S.A. (Inditex) 2012, p. 2)"

to improve social and working conditions without compromising their competitive position" (Sodexo S.A. 2011, p. 1).

The IFAs signed by Securitas AB⁴¹ and Loomis AB⁴² contain similar provisions.

The interest of high-standard companies to impose these standards as well on other companies is a valuable stabilization mechanism of a private self-regulatory regime. Hence, the conclusion of other IFAs in the same industry sector are connected with positive externalities for all companies that already apply these standards. Within the group of companies that signed an IFA, companies have an incentive to monitor each others behavior in order to avoid to have a competitive disadvantage (Hassel 2008, p. 232). The incentive to monitor competitors becomes visible in the agreement signed by Securitas AB, in which the parties agree "[i]f improvements in terms and conditions of employment appear likely to result in a loss of market share or margins to Securitas, the local union and company management will develop a joint strategy and action plan to monitor and raise standards among all the key companies in the market, [...] in which Securitas will be able to raise standards without compromising its competitive position" (Securitas AB 2012, p. 4). These interests may lead to a spiral of upward regulation, as companies have incentives to monitor each other and to pressure global trade union federations to look at other companies as well. A crucial limitation of this upward spiral is that companies only have a preference to bring other companies up to their level but no further (Hassel 2008, p. 235).

⁴¹In the agreement signed by Securitas AB the incentive not to suffer from a competitive disadvantage and hence to monitor competitors becomes visible:

"Securitas operates in a highly competitive environment in which many local competitors do not respect laws on working hours and pay. Securitas an UNI agree that organizing campaigns shall include strategies to ensure that Securitas remains competitive within the market organized. If improvements in terms and conditions of employment appear likely to result in a loss of market share or margins to Securitas, the local union and company management will develop a joint strategy and action plan to monitor and raise standards among all the key companies in the market, or submarket, to attempt to create an environment in which Securitas will be able to raise standards without compromising its competitive position" (Securitas AB 2012, p. 4).

⁴²In the IFA signed by the Swedish company Loomis AB the parties agree that:

"UNI Global Union will publicly support companies that they consider to be frontrunners in employment standards and use their influence to raise standards of employment in the market [...] UNI agrees that organizing campaigns shall include strategies which are designed to ensure that the Loomis Group remains competitive within the market being organized" (Loomis AB 2013, pp. 1, 4).

Besides, companies can have an incentive to position itself vis-à-vis its competitors as the only company that adheres to certain standards. In particular cases this might be a competitive advantage. This advantage is gone when the whole industry sector starts to adhere to certain labor or environmental standards. In this special constellation high-standard companies do not have an incentive to induce other companies to enter into an IFA their selves.⁴³

5.4 EXOGENOUS REQUIREMENTS

Private ordering invariably operates in the shadow of the law. Most of the literature dealing with IFAs does not pay close attention to the so-called shadow of state policies. Stevis (2010) is an exception as he gives in his report for the ILO a few examples how state policies can influence the incentives of companies to sign an IFA (Stevis 2010, p. 12). Moreover, requirements in other international regulatory initiatives can proliferate the conclusion of IFAs.

(1) The Shadow of State Policies

The shadow of state policies can take different shades. First, multinational companies are sometimes (partly) owned by states. There is a large share of ex-public sector companies among those companies that have signed IFAs (International Organization of Employers 2010, p. 8). Those companies have traditionally a strong union presence and close links to public authorities. An example in Germany is VW, which concluded an IFA in 2009 (European Commission 2014). In an IFA, signed by Petrobras, a semi-public Brazilian multinational energy company, one chapter is explicitly dedicated to "Relations with Society and Government Bodies" (Petrobras 2011, p. 3). In this section it is stipulated that Petrobras respects and contributes to inspections and controls by public authorities (Petrobras 2011, p. 3). Second, states can give incentives to companies by regulatory frameworks. In France, social responsibility reporting policies may facilitate IFAs (Stevis 2010, p. 12). Stevis (2010) reports that the state of Norway had expressed support for negotiating more IFAs (Stevis 2010, p. 12). Seven Norwegian companies have signed IFAs in the last years. That is respectively to other States a high number given the overall size of the Norwegian economy. Third, States can influence the incentives for companies to sign IFAs with access rules for public procurement markets (International Trade Center 2010, p. 10). IFAs can help to fulfill governmental procurement stipulations and give access to these markets. To credibly respect fundamental labor rights

⁴³This constellation can not only delude the incentive to bring other companies to a higher level of compliance with certain standards but may theoretically also lead to a "race-over-the-top".

can for example be an advantage in the constructing industry that continuously discusses public procurement regulation and blacklisting (Hammer 2005, p. 526). An IFA between Ballast Nedam⁴⁴ and the International Federation of Building and Wood Workers (IFBWW)⁴⁵ explicitly takes this into consideration:

"The IFBWW and FNV BOUW will attest Ballast Nedam vis-à-vis state and international institutions and major private clients a particularly positive role as setting a good example of responsible corporate management, the yardstick of which is the implementation of this agreement" (Ballast Nedam 2002, p. 2)

While states can facilitate the conclusion of IFAs with specific policies, companies can also have an incentive to conclude IFAs in order to avoid further public regulation. Any industry shares some degree of collective interest in ensuring that each member of the industry acts responsibly because the least responsible company potentially determines the regulatory costs imposed on the industry by state regulation and placed on the other companies (Coglianese and Mendelson 2010, p. 160). Here, IFAs or sectoral agreements⁴⁶ with GUFs can be a way to avoid governmental interference.

(2) Requirements in Other International Regulatory Initiatives

Moreover, IFAs can help companies to fulfill their obligations required by other international regulatory initiatives. Many MNCs are a member of the UN Global Compact. These companies commit themselves to issue an annual Communication on Progress (COP), a public disclosure to stakeholders (e.g., investors, consumers, civil society, governments, etc.) on progress made in implementing the ten principles of the UN Global Compact. One criteria in the standardized reporting is the conclusion of an IFA. An other recent regulatory initiative are the UN Guiding Principles on Business and Human Rights adopted in June 2011. Here the companies are required by the Principle 30 to provide effective grievance mechanisms. In the official commentary to the UN Guiding Principles IFAs are explicitly mentioned as an opportunity to ensure the availability of effective grievance mechanisms for companies. Moreover, consultation mechanisms in IFAs can help companies to prove that they employed

⁴⁴Ballast Nedam is a Dutch-based construction and engineering company with around 4,000 employees and a revenue of approximately 1.4 billion Euro.

⁴⁵The IFBWW is now part of the Building and Wood Workers' International (BWI). The IFBWW represented around 12 million members in 135 countries.

⁴⁶An example is the Bangladesh ACCORD on Fire and Safety Standards, which was concluded between 150 apparel companies from 20 countries and the global trade union federations IndustriALL Global Union and UNI Global Union. <http://bangladeshaccord.org/>

due diligence in their business decisions. Consultation procedures in IFAs may be particularly important for the involvement of relevant stakeholders required by the Principles 18 b and 20 b of the UN Guiding Principles.

6 SUMMARY AND OUTLOOK

This paper explored potential incentives for multinational companies to sign IFAs. One of the results is that IFAs come in a dizzying array of forms. There is no single incentive that can explain on its own why multinational companies sign IFAs. The conclusion of IFAs seem to require the existence and interplay of a whole range of favorable company-specific factors. Often a mixture of the analyzed incentives will be decisive why companies enter into IFAs.

The conjecture that companies sign IFAs for public relation purposes is often briefly proposed in the literature on IFAs. A content analysis of the websites of the 41 companies that concluded IFAs in the investigated period between 2010 – 2014 led to counter-intuitive results. Only ten percent of the companies used the signed agreement as a prominent feature on their websites. Moreover, there is variation among groups of companies. Companies that signed an agreement with the global union federation IndustriALL Global Union use the IFA more frequently for public relation purposes than other companies. The standard theoretical explanation from business ethics literature explaining why companies sign codes of conduct is not readily applicable to IFAs and claims in the literature about a positive public relation effect of IFAs should be interpreted with care.

The conclusion of an IFA can help a company to avoid or to privatize conflicts about labor standards. The goal is to manage conflict between the management of a company and employees' representatives within a cooperative framework. In some IFAs the bargaining partners explicitly agree to refrain from publicizing a conflict. Companies agree to respect certain standards and reinstate in case of deviations a compliant behavior, and, in return, global trade union federations agree not to engage in negative publicity campaigns that can damage a company's reputation and profitability as long as dialogue is pursued under the agreement. Moreover, IFAs and the inclusion of employees' representatives can help a company to gain additional legitimation for management decisions and to achieve a better management of global production networks. With regard to variations between companies, there are some generalizable observations that can be made. A long tradition of collaborative industrial re-

lations seems to favor the conclusion of IFAs and a strong trade union may in some cases be a necessary but not a sufficient condition for the conclusion of an IFA.

The interest of high-standard companies to impose these standards as well on other companies in their industry sector only becomes apparent only in a few agreements. Those companies have an interest in sharing that burden with other competitors in the sector to make sure that they do not suffer a competitive disadvantage. Moreover, private ordering invariably operates in the shadow of the law. States can give incentives to companies by regulatory frameworks, for example with access rules for public procurement markets. Additionally, other international regulatory initiatives like the UN Global Compact or the UN Guiding Principles on Business and Human Rights can proliferate the conclusion of IFAs. These agreements can help companies to fulfill obligations required by these regulatory initiatives.

To conclude, after the identification of four groups of incentives for companies to sign an IFA and a first examination of the relevance of these, there is further research needed to analyze the identified incentives in more depth. Furthermore, more attention should be paid to variation of incentives between industry sectors and types of specific agreements.

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7 ANNEX

Company	Country (HQ)	Year	Global Trade Union	Sector	Number of Employees
Industria de Diseño Textil, S.A. (INDITEX)	Spain	2012	IndustriALL	Manufacturing	120,314
Salini Impregilo	Italy	2014	BWI	Construction	28,000
Dragados S.A.	Spain	2014	BWI	Construction	
Codere	Spain	2013	UNI	Entertainment/ Gaming	14.043
Loomis AB	Sweden	2013	UNI	Services	20,000
Solvay	Belgium	2013	IndustriALL	Chemicals	29,400
Melia	Spain	2013	IUF	Tourism	16,820
Enel S.p.A.	Italy	2013	IndustriALL	Utility	73,402
Norske Skog	Norway	2013	IndustriALL	Pulp and paper	4,000
Telenor ASA	Norway	2013	UNI	Telecommunications/ Media	31,000
Renault	France	2013	IndustriALL	Manufacturing	128,000
Lafarge	France	2013	IndustriALL	Building materials	64,000
Svenska Cellulosa AB (SCA)	Sweden	2013	IndustriALL	Personal Care	43,697
Aker ASA	Norway	2012	IndustriALL	Resource	28,000
Statoil ASA (formerly StatoilHydro ASA)	Norway	2012	IndustriALL	Oil and gas	29,500
Eurosport	France	2012	UNI	Telecommunications/ Media	750
OHL	Spain	2012	BWI	Construction	19,811

Siemens	Germany	2012	IndustriALL	Manufacturing	367,000
SAAB	Sweden	2012	IndustriALL	Manufacturing	13,968
Ferrovial	Spain	2012	BWI	Construction	57,276
Ford	USA	2012	IndustriALL	Manufacturing	166,000
MAN SE	Germany	2012	IndustriALL	Manufacturing	52,500
Securitas	Sweden	2012	UNI	Service	318,800
Lukoil	Russia	2012	IndustriALL	Oil and gas	150,000
FCC CONSTRUCCIÓN	Spain	2012	BWI	Construction	11,421
SODEXO	France	2011	IUF	Service	428,000
Umicore	Belgium	2011	IndustriALL	Manufacturing	14,438
Mizuno	Japan	2011	IndustriALL	Manufacturing	5,238
Petrobras (Petróleo Brasileiro S.A.)	Brazil	2011	IndustriALL	Oil and gas	80,497
ZF Friedrichshafen	Germany	2011	IndustriALL	Manufacturing	71,488
Mann+Hummel	Germany	2011	IndustriALL	Manufacturing	15,321
GDF SUEZ	France	2010	IndustriALL	Utility	138,200
Norsk Hydro	Norway	2010	IndustriALL	Manufacturing	21,566
Pfleiderer	Germany	2010	BWI	Manufacturing	41,277
PSA Peugeot Citroen	France	2010	IndustriALL	Manufacturing	204,287
Electrolux	Sweden	2010	IndustriALL	Manufacturing	59,461
Orange S.A. (formerly France Télécom S.A.)	France	2010	UNI	Telecommunications	170,000
Kimberley Clark	USA	2010	UNI	Manufacturing	58,000
Telkom Indonesia	Indonesia	2010	UNI	Telecommunications/ Media	25,683

Antara	Indonesia	2010	UNI	Telecommunications/ Media	66,434
Shoprite Checkers	South Africa	2010	UNI	Retail	95,000

Table 7.1: List of IFAs

Company	Accessibility on company's website	Number of computer clicks	Year	Country (HQ)	Global Trade Union	Number of Employees
Industria de Diseño Textil, S.A. (INDITEX)	2	4	2014	Spain	IndustriALL	120,314
Salino Impregilo	3	-	2014	Italy	BWI	28,000
Dragados S.A.	4	-	2014	Spain	BWI	
Loomis AB	4	-	2013	Sweden	UNI	20,000
Codere	4	-	2013	Spain	UNI	14,043
Solvay	1	1	2013	Belgium	IndustriALL	29,400
Melia	4	-	2013	Spain	IUF	34,352
Enel S.p.A.	3	5	2013	Italy	IndusriALL	73,402
Norske Skog	1	3	2013	Norway	IndustriALL	3,274
Telenor ASA	4	-	2013	Norway	UNI	31,000
Renault	1	2	2013	France	IndustriALL	128,000
Lafarge	2	3	2013	France	IndustriALL	65,000
Svenska Cellulosa AB (SCA)	1	1	2013	Sweden	IndustriALL	43,697
Statoil ASA (formerly StatoilHydro ASA)	2	2	2012	Norway	IndustriALL	29,500
Aker ASA	2	3	2012	Norway	IndustriALL	28,000

Eurosport	4	-	2012	France	UNI	750
OHL	4	-	2012	Spain	BWI	19,811
Siemens	3	4	2012	Germany	IdustriALL	367,000
SAAB	4	-	2012	Sweden	IndustriALL	13,968
Ferrovial	4	-	2012	Spain	BWI	57,276
Ford	4	-	2012	United States	IndustriALL	166,000
MAN SE	3	-	2012	Germany	IndustriALL	52,500
Securitas	2	3	2012	Sweden	UNI	318,800
Lukoil	3	-	2012	Russia	IndustriALL	150,000
FCC	3	3	2012	Spain	BWI	11,421
CONSTRUCCIÓN						
SODEXO	3	-	2011	France	IUF	428,000
Umicore	3	-	2011	Belgium	IndustriALL	14,438
Mizuno	2	3	2011	Japan	IndustriALL	5,238
Petrobras (Petróleo Brasileiro S.A.)	4	-	2011	Brazil	IndustriALL	80,497
ZF	3	2	2011	Germany	IndustriALL	71,488
Friedrichshafen						
Mann+Hummel	3	2	2011	Germany	IndustriALL	15,321
GDF SUEZ	3	4	2010	France	IndustriALL	138,200
Pfleiderer	4	-	2010	Germany	BWI	41,277
PSA Peugeot Citroen	2	2	2010	France	IndustriALL	204,287
Electrolux	3	-	2010	Sweden	IndustriALL	59,461

Orange S.A. (formerly France Télécom S.A.)	3	3	2010	France	UNI	170,000
Kimberley Clark	2	4	2010	United States	UNI	58,000
Norsk Hydro	3	-	2010	Norway	IndustriALL	21,566
Telkom Indonesia	4	-	2010	Indonesia	UNI	25,683
Antara	4	-	2010	Indonesia	UNI	66,434
Shoprite Checkers	3	-	2010	South Africa	UNI	95,000

Table 7.2: Accessibility of IFAs on company's websites