

# Private corporate standards: advantages and disadvantages

[Business](#), [Company](#)



## **Abstract**

Starting in the late 1980s, early 1990s, the quantity of private corporate standards and their authority over international trade has gradually increased due to factors such as policy liberalization, consumer preferences, and most importantly globalization. What makes private corporate standards so interesting is that it is very difficult to gain access to how much they are actually penetrating into the market considering national agencies do not monitor this type of information. It raises the question as to if this could give organizations too much room to slack in terms of the standards that are in place.

There are certain benefits that private corporate standards can offer their producers. For instance, private standards can lead to cost reduction, efficient management, enhanced product quality, and an overall improved image, if done correctly. Private standards have the ability to reduce costs and raise productivity by reducing the rates of accidents and sickness. In addition, some standards that private corporations implement can contribute to value adding by allowing producers to sell a higher quality product at a higher price point.

Although there are benefits to private corporate standards, they also raise many issues due to a number of reasons. The main issues can be seen in situations where the producers are not from the same area where the original standard was developed, such as institutions that are overseas in developing countries. In order for all standards to be met, the producers

have to have an in depth understanding of the standards as well as have the money, skills, and time to do so. Producers run into issues when standards are created without collaborating with all parties involved. If companies are setting standards without knowing the environment and conditions that their producers are working in, they are not going to be able to guarantee that their standards are capable of being met.

There are instances where producers work in environments that were not constructed to follow these laws. For instance, in cases such as the tragedy of the Rana Plaza collapse, the conditions that the workers were working in were setting them up to fail. It was almost impossible for them to follow the standards that they were expected to meet. This type of situation can be seen in many, if not the majority of large-scale retailers considering they will demand high quantity with strict deadlines and neglect what goes into those requests.

The biggest competitors for private standards would be government regulations. Many of the issues that arise could be solved if main stakeholders were involved to negotiate certain standards. Throughout the research done, it was seen that in order to have the best chance for positive effects regarding private standards on producers, there should be some form of collaboration or negotiation between stakeholders and private corporations involved.

## **Introduction**

Private corporate standards are specific standards that are created and possessed by individuals that are not associated with the government.

According to the actual definition of a private standard by Fao. org, “ Private Standards: relevant definitions and a typology”, “ Private standards by definition are voluntary, although they may in practice become de facto mandatory where compliance is required for entry into certain markets”.

When taking a look into the definition, it can only bring up the question as to whether these types of standards can be reliable and met. Starting in the late 1990s globalization has boomed, making these type of standards more commonly used among international trade.

This paper will address the current state and situation of private corporate standards, as well as the benefits and issues that they could bring upon producers. Throughout the paper, it will also explain the different categories that private standards cover. By the end of the paper, the goal is to bring enough attention to the type of opportunities and difficulties that private corporate standards can cause, and in the end show that private corporate standards can be beneficial if they are implemented in a correct manner.

## **Why Private Standards**

In the 1990s, activist’s groups began to crack down and put pressure on firms that were not being held accountable for unsatisfactory conditions within their supply chains. One of the first big firms that took action in result of the pressure from the activists was the apparel and footwear firm, ABC. In 1991, ABC took initiative and decided to implement one of the earliest

known “ codes of conduct” in the apparel industry (Amengual 406). This code of conduct that was created was designed to recognize freedom of association, limit the amount of overtime workers could clock, prohibit forced labor, setting minimum age limits to prevent child labor, create a minimum wage, and implement health and safety standards (Amengual 406). After it became known of the standards that ABC was applying, an increasing number of firms began to catch on and follow.

Although private standards started with the intent of being this new way to create improved conditions for workers, it was not always kept that way. In the article, “ Institutional Emergence in an Era of Globalization: The Rise of Transnational Private Regulation of Labor and Environmental Conditions” by Tim Bartley, Bartley from the beginning of the article makes it a point that private standards may not always be reliable by stating, “ Corporations and conservative policy makers have often worked to undermine government regulation of environmental, labor, and consumer safety standards, while promoting voluntary and “ free market” alternatives” (Bartley 300).

From this quote it is apparent that although there may be benefits of private corporate standards, if the wrong individuals are in charge it can create major issues. For instance, with the terms “ voluntary” an “ alternatives” and as seen later in the article “ symbolic commitments”, it just gives producers the permission to not follow the standards that are being set. When these type of events occur, they have the ability to create a snow ball effect, resulting in even larger issues. Throughout Bartley’s article he addresses

what he sees as the reasons for collective action problems: reputations, information, and competition.

Bartley states that the reputation of certain industries can lead to a variety of dilemmas. For example, he brings up the point that a firm's biggest concern is their reputation (Bartley 307, 308). If the reputation of a certain firm has been tarnished, it is going to lose revenue. With the rise of activist groups and other "justice fighters", firms have to be even more aware of the image that they produce. This fear of ruining the reputation a firm may possess; it can cause them to freeload off of others to reap the benefits. With this problem being so present, this is where private corporate standards start to actually become helpful. Private standards are the cause of the term, "certification", which allows the firms that are actually doing the work to not worry about other institutions taking credit for their success and good reputations (Bartley 301, 302, 303).

The need for being more aware of a firm's reputation has become more of a concern with the rise of being more aware of where consumer's products are coming from. Especially in today's society, consumers are starting to "shop with a conscience" (Bartley 308). Consumers are more likely to look into where they are buying things with the concern that they are supporting immoral or harmful institutions. Certification comes in handy to those institutions that are using good moral tactics to create a good reputation, for it not only puts pressure on other institutions to do so, but gives them an advantage.

## **Incorporation of the Rana Plaza Collapse**

An issue that can arise from this view on reputations, is that if the majority of brands of the same size are following the same standard, there is no way to punish them all. In the journal entry, " Private Standards, Global Governance, and Transatlantic Cooperation", the authors mention that, " Other market access problems triggered by private standards emerge from the fact that several standardization schemes may coexist, compete and contradict each other. This would result in situations where, on a same local market, the same product would have to comply with (and possibly be certified under) several different and potentially conflicting standards in order to be sold in different supermarket chains, involving a multiplication of compliance costs."

This type of issue can be seen especially in industries such as those associated with garments. A tragedy that sticks out and is very well known in the Rana Plaza Collapse. The Rana Plaza Collapse was a tragic event that occurred in 2013, killing over 1, 000 people (Harvard Business School, 2). This collapse occurred because of the lack of regulation, caused by these " voluntary standards" (Harvard Business School 3, 4) The loose terms that were given regarding these standards allowed the production base to feel like it had the capability to build unsafely, which led to the death of many. Institutions such as those associated with production bases overseas are at the highest risk for incidents such as the collapse. It is a surprise that these sort of tragedies do not occur more often, considering these factories are more concerned about production and meeting deadlines than they are the safety of their workers.

In Bartley's article he says, " Analysts often treat initiatives for monitoring and certifying labor conditions either as promising vehicles for " ratcheting labor standards" in a world of diminishing state capacities or as thin public relations scams that protect corporate reputations more than workers" (Bartley 325). In this section of the article it explains that it is so easy for these standards to be ignored because of the multiple layers of brokers, contractors, and subcontractors. The apparel and garment industry especially have many branches that are never heard of or mentioned because of the number of people involved in the production to shelf process. With the ability to fly under the radar of the public eye, it is made a lot easier for these higher ups involved in production to supply their workers with unsafe work conditions, unpaid wages, and in some instances, even harassment and intimidation. Many of those that work at the lower levels of the apparel production are those that rely on their job for survival. Therefore, it would greatly be against their best interest to risk their only form of income.

Toward the mid 1990s, there was a rise in anti-sweatshop protests which resulted in larger, more well known companies to create their own codes and standards for their factories to follow. In the article it mentions that although these powerful companies took it into their own hands to create their own standards, eventually it got to a point where there was very little follow up and regulation of whether or not the standards set were being followed.



## **Advantages of Private Standards**

Throughout a variety of articles, there was no shortage of information regarding the benefits private standards had for the companies involved, but what may come as a surprise is that there are also benefits for the consumers. Although throughout this paper the primary focus has been on the apparel industry, it is seen that for consumers the biggest benefits are seen in the food industry. With private standards, distributors have the ability to lower rates of food poisoning, as well as increase consumer well being. It is easier to regulate food laws by area instead of having governmental laws that are not region specific (Wouters 21).

In addition to consumers, society as a whole can reap benefits from area specific standards. When the government has control over standards, the environment in specific areas is not being protected. It is impossible for governmental standards to protect specific regions; therefore, private standards preserve an area's natural resources. It has to be made clear that in order for private standards to create these benefits, they have to be done correctly. They have to have extensive research to back up the claims and cannot just be made out of convenience. In addition, to maintain quality these standards need to be heavily regulated and enforced.

The implementation of private standards has the ability to also benefit those involved in the labor field. If done correctly, private standards have the ability to decrease the rates of unemployment and sickness, which could result in an increase in productivity and a decrease in costs. If all of the standards are met, it is even possible that it could benefit the producers. In

the day and age where moral rights are increasing in awareness, producers have the ability to request the premium price for their products.

## **Disadvantages of Private Standards**

It is apparent that depending on whether done correctly, private standards have the ability to be either very useful or very harmful. The purpose of private standards is to improve an already existing issue. In the article, “Private Standards in international trade: issues and opportunities”, it brings up the idea of two different goals in regards to private standards. Private standards can be either results-based or prescriptive based. According to the article, results-based standards practically give the companies involved results that need to be met, but don't involve instructions as to how these results need to be achieved.

On the complete other hand, prescriptive based standards give and set requirements for how products should be produced, like a template. It is mentioned that most companies and producers involved prefer results-based standards because it is more efficient for them. There are instances where a prescriptive standard could be set, but it would be too much of an inconvenience to the company involved. The issue with results-based standards is that there are instances where companies will cut corners to make certain expectations. In addition, private standards can create issues when they try to enforce standards into an area that is already properly regulated. When this occurs, the area will either become too strict, or it will begin to fall apart by unrealistic standards.