

# Human resource implications of globalization and restructuring in commerce

Report for discussion at the Tripartite Meeting on the Human Resource Implications of Globalization and Restructuring in Commerce

Geneva, 1999

International Labour Office Geneva

Cover design: Claude Duchemin, *Restructuring*, 1975

*To purchase this document, [click here](#)*

Copyright © 1999 International Labour Organization (ILO)

---

## Contents

### Preface

[Background to the Meeting](#)  
[Background to the report](#)

### Acknowledgements

### Introduction

## 1. Globalization, restructuring and employment in commerce

### 1.1. Some regional trends

- [1.1.1. Western Europe](#)
- [1.1.2. North America](#)
- [1.1.3. Central and Eastern Europe](#)
- [1.1.4. Asia and Pacific](#)
- [1.1.5. Latin America and the Caribbean](#)
- [1.1.6. Sub-Saharan Africa](#)
- [1.1.7. The Middle East and North Africa](#)

### 1.2. The role of the informal sector in employment generation

### 1.3. Some effects of globalization in the commerce sector, with particular reference to women

## **2. Internationalization and new commercial circuits**

### 2.1. Recent trends

- 2.1.1. The changing face of retailing
- 2.1.2. International mergers and acquisitions
- 2.1.3. Leading companies
- 2.1.4. Foreign affiliates of wholesalers and their share in sales figures
- 2.1.5. Foreign companies and their share of wholesale and retail turnover in Europe
- 2.1.6. Affiliates of United States and European companies in developing countries
- 2.1.7. Franchising as a popular form of entry to the markets of emerging and transition economies
- 2.1.8. Made in emerging economies and consumed in industrialized countries

### 2.2. Employment effects

- 2.2.1. Acquired firms are more likely than non-acquired firms to lose jobs: The case of the United States
- 2.2.2. Greater risk of jobs loss in the acquisition of large firms
- 2.2.3. Among acquired establishments net job loss rate is higher in retail than in wholesale
- 2.2.4. Displaced workers often end up with part-time jobs and lower earnings
- 2.2.5. The scale of transnational corporations puts local enterprises out of business -- especially in developing countries
- 2.2.6. Multinationals challenge the locals to boost their labour productivity

## **3. The market-place becomes more liberal**

### 3.1. Recent trends

- 3.1.1. Liberalization of foreign direct investment and competition laws go hand in hand
- 3.1.2. Differences in regulations on licence and opening hours have widened

### 3.2. Employment effects

- 3.2.1. Liberalization of distribution favours high-value shop formats likely to increase jobs
- 3.2.2. Liberalization also encourages large stores which endanger traditional self-employment
- 3.2.3. Flexible forms of work increase employment opportunities

## **4. Improving the efficiency of the supply chain through information technology**

### 4.1. Recent trends

- 4.1.1. From producer-driven to consumer-driven distribution
- 4.1.2. Efficient consumer response
- 4.1.3. Changes in IT drive the structural change in the supply chain
- 4.1.4. Three forms of distribution channels have emerged
- 4.1.5. Vertical integration puts pressure on the wholesalers
- 4.1.6. Wholesalers are bought by manufacturers
- 4.1.7. IT enables personalized direct marketing
- 4.1.8. Electronic commerce aims at "frictionless market"

### 4.2. Impact on employment and working conditions

- 4.2.1. IT personnel grows and its benefits increase
- 4.2.2. Biggest job increases at the top and at the bottom of income distribution
- 4.2.3. E-commerce and employment
- 4.2.4. E-commerce and skill requirements
- 4.2.5. Working conditions: The potential of e-commerce
- 4.2.6. The distribution of jobs is going to change

## **5. The changing consumer and retail formats**

### 5.1. Recent trends

- 5.1.1. Time-saving formats for the convenience-oriented group
- 5.1.2. Money-saving formats for the price-conscious group

### 5.2. Impact of globalization and restructuring on training

- 5.2.1. The self-employed require more training to modernize their business
- 5.2.2. Improved training of the sales staff becomes crucial
- 5.2.3. More resources are needed for in-house training

## **6. Labour-management relations in the context of globalization of distribution circuits**

- 6.1. Unionization in the commerce sector
- 6.2. Collective bargaining developments and international agreements between the social partners
- 6.3. A number of "framework agreements" arising from the European Works Council Directive
- 6.4. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

- [6.5. Globalization as a potential source of tensions in multinational enterprises](#)
- [6.6. Industrial relations in the informal commerce sector](#)

## **7. Voluntary initiatives in the commerce sector and the ILO's involvement**

- [7.1. Codes of conduct](#)
- [7.2. Social labelling](#)

### **Suggested points for discussion**

### **Bibliography**

#### **Statistical annex:**

- [1. Total employment and employment in wholesale and retail trade by sex](#)
- [2. Total unemployment and unemployment in wholesale and retail trade by sex](#)
- [3. Wages in wholesale and retail trade by sex](#)
- [4. Hours of work in wholesale and retail trade by sex](#)

#### **Tables:**

- [1.1. MERCOSUR countries: Production, employment and productivity growth, 1990-97](#)
- [1.2. Commerce sector: Production and employment in the MERCOSUR countries, 1990-96](#)
- [1.3. Structure of informal sector activities in selected Ugandan urban centres](#)
- [2.1. Top wholesale trade companies among Global 500, 1997](#)
- [2.2. Top general merchandise companies among Global 500, 1997](#)
- [2.3. Top Asian retailers among Asia 1,000, 1998](#)
- [2.4. Employment in some of the largest companies](#)
- [2.5. Sales of services to foreign persons by foreign affiliates of US wholesale and retail trade companies, 1995](#)
- [2.6. Sales of services to persons in the United States by US-based affiliates of foreign retail and wholesale trade companies, 1995](#)
- [2.7. Sales of foreign and domestic franchises in Brazil, 1996-98](#)
- [2.8. Number of foreign and domestic franchises in Hungary, 1995-97](#)
- [2.9. Major foreign franchisers in the Czech Republic, 1997](#)
- [2.10. Job change in acquired and non-acquired surviving establishments by industry, United States, 1990-94](#)
- [2.11. Acquired establishments and their employment by industry, United States, 1990-94](#)
- [2.12. Total displaced workers in the United States in January 1995-December 1997 by selected characteristics and employment status in February 1998](#)
- [2.13. United States displaced workers who lost full-time wage and salary jobs in January 1995-December 1997 and were re-employed in February 1998 by industry of lost job and characteristics of new job](#)

- [2.14. Growth and labour productivity in the distribution sector in OECD countries in 1979-94](#)
- [3.1. Numerical summary of WTO member States' commitments on Modes 1, 2 and 3 in distribution services, 1988](#)
- [3.2. Numerical analysis of the limitations maintained by WTO member States in distribution services, 1998](#)
- [4.1. Market share of wholesalers per distribution channel, Netherlands, 1991](#)
- [4.2. Consumer goods distribution in France: Distribution of market shares in 1985 and 1992](#)
- [4.3. Who bought the European wholesalers in 1981-95?](#)
- [4.4. Employment and average hourly and annual wages of some occupations, United States, 1997](#)
- [4.5. Share of high-skill occupational categories in wholesale and retail trade in selected countries](#)
- [5.1. Private label penetration by country](#)
- [5.2. Grocery market shares of the principal retail formats in Europe, 1995](#)
- [5.3. Enterprises of different industries offering training in 12 Member States of the EU, 1993](#)
- [5.4. Distribution of employment and participation rates in courses by gender, in 12 Member States of the EU, 1993](#)

**Figures:**

- [1.1. Share of commerce sector employment in total employment for 17 industrialized countries in 1997](#)
- [1.2. Average annual growth in total employment and employment in commerce for 16 industrialized countries \(1995-97\)](#)
- [1.3. Share of commerce sector employment in total employment for eight countries in transition in 1997](#)
- [1.4. Average annual growth in total employment and employment in the commerce sector for eight countries in transition \(1995-97\)](#)
- [1.5. Share of commerce sector employment in total employment for five Latin American countries in 1997](#)
- [1.6. Average annual growth in total employment and employment in the commerce sector for five Latin American countries \(1995-97\)](#)
- [1.7. Brazil: Sectoral formal employment evolution, 1996-98](#)
- [1.8. Commerce -- Brazilian formal employment evolution, 1996-98](#)
- [1.9. Employment variation by economic sector in South Africa](#)
- [1.10. The rate of unemployment in 1997 compared with the economy as a whole, in the commerce sector, and for women in 12 selected industrialized countries](#)
- [1.11. The rate of unemployment in 1997 compared with the economy as a whole, in the commerce sector, and for women in eight countries in transition](#)
- [2.1. Earnings of displaced wholesale and retail trade workers in the United States \(January 1995-December 1997\) in their new job in February 1998](#)

**Boxes:**

- [1.1. Employment in the commerce sector in Finland](#)
  - [1.2. Employment in the food retail trade in Switzerland](#)
  - [1.3. Employment effects of the entry of multinationals in the Czech commerce sector](#)
  - [1.4. Employment and gender differentiation in the retail trade in Canada](#)
  - [1.5. The clothing distribution channel in France](#)
  - [2.1. \*Wal-Mart\*](#)
  - [2.2. Operation of international firms in Poland speeds up the globalization processes in commerce](#)
  - [3.1. The Large-Scale Retail Store law in Japan](#)
  - [3.2. The new collective agreement of \*Carrefour France\*](#)
  - [4.1. \*UPS\* courier service turns to e-commerce](#)
  - [4.2. Job opportunities in e-commerce-related industries](#)
  - [5.1. Emerging formats in the Czech Republic](#)
  - [5.2. In-house training in European micro-enterprises](#)
  - [6.1. Unions in the clothing retail sector in the United States](#)
  - [6.2. The informal sector retail workers in Caracas seek international recognition](#)
  - [7.1. The Apparel Industry Partnership and the Fair Labor Association](#)
  - [7.2. The Clean Clothes Campaign](#)
- 

## **Preface**

This report has been prepared by the International Labour Office as the basis for discussions at the Tripartite Meeting on the Human Resource Implications of Globalization and Restructuring in Commerce. It reviews the impact of restructuring and globalization in the commerce sector -- and increasing liberalization of the market-place - - especially the emergence of new distribution circuits, the growing use of new information and communication technologies on the personnel in this sector. The report examines the implications of these changes in employment, labour relations and working conditions.

## **Background to the Meeting**

The Meeting is part of the ILO's Sectoral Activities Programme, the purpose of which is to facilitate the exchange of information between constituents on labour and social developments relevant to particular economic sectors, complemented by practically oriented research on topical sectoral issues. This objective has traditionally been pursued by holding international tripartite sectoral meetings for the exchange of ideas and experiences with a view to: fostering a broader understanding of sector-specific issues and problems; developing an international tripartite consensus on sectoral concerns and providing guidance for national and international policies and measures to deal with related issues and problems; promoting the harmonization of all ILO activities of a sectoral character and acting as a focal point between the Office and its constituents; and

providing technical advice, practical assistance and support to the latter to facilitate the application of international labour standards in various economic sectors.

At its 267th Session (November 1996) the Governing Body of the ILO decided that a meeting on human resource implications of globalization and restructuring in commerce would be included in the programme of sectoral activities meetings for 1998-99. At its 268th Session (March 1997) the Governing Body decided that the meeting should be tripartite, that it should be composed of 75 participants and that the following 25 countries should be invited: Burundi, Canada, China, Colombia, Cyprus, Czech Republic, Egypt, France, Germany, Ghana, Italy, Japan, Republic of Korea, Luxembourg, Madagascar, Mali, Nepal, Nicaragua, Peru, Portugal, Slovenia, Suriname, Switzerland, Thailand and Turkey. It was also proposed to place the following countries on a reserve list from which further invitees would be drawn in the event that a government in the first list declined the invitation: Algeria, Argentina, Benin, Brazil, Croatia, Dominica, Ethiopia, Finland, Grenada, Guatemala, Morocco, Nigeria, Tunisia, United Arab Emirates, United Kingdom, Zambia. Furthermore, 25 private employers' and 25 workers' representatives were invited. The Governing Body decided that the purpose of the Meeting would be to exchange views on experience of the emerging circuits of distribution and their impact on employment and working conditions of commerce personnel; to draw up practical conclusions that include guidance and proposals for further action; and to adopt a report on the discussion. The Meeting may also adopt resolutions.

## **Background to the report**

Technological breakthroughs, the international mobility of enterprises and rapidly spreading competition-driven changes are now deeply affecting the organization and human resource strategy of commercial firms. Due to globalization and the growing interdependence of markets, an increasing proportion of the world labour force is engaged in activities that are linked to international trade and capital flows. The number of workers employed in export- and import-competing industries has grown significantly. Labour markets have thus become more and more interlinked. One of the main reasons productivity has grown faster in wholesale/retail trade than in other sectors since the early 1970s is that wholesalers and large retail chains have invested heavily in information technology (IT).

Technological changes, coupled with a steady decline in communication and transport costs, have thus been a major factor behind global integration. Governments are increasingly seeking to improve the international competitiveness of their economy rather than shield it behind protective walls. Developing countries have made tremendous progress in education and steady improvements in physical capital and infrastructure, thus boosting their productive capacity and enabling them to compete in world markets. This shift in development strategy has been reinforced by communication technologies which have made the world easier to navigate. However, the labour and social impact of globalization implies that political, business and union leaders must accept their share of responsibility and pay heed to international labour standards, thus contributing to an

improvement in working conditions, including in the commerce sector. This report outlines the social impact of globalization and restructuring in commerce. Chapter 1 shows recent trends in employment in the commerce sector worldwide. Chapter 2 highlights the ongoing process of internationalization, mergers and acquisitions in the commerce sector and their effects on employment, earnings and productivity, while Chapter 3 analyses the ongoing liberalization process in the sector and its effects on employment. Chapter 4 reviews trends and changes resulting from the introduction of new technologies, in particular information technology and electronic commerce and their impact on employment in the commerce sector, while Chapter 5 describes changing consumer demands, new retail formats, and gives indications on training and qualification needs in the sector. Chapter 6 of the report examines the impact of restructuring and globalization on industrial relations in the commerce sector and indicates some of the responses of the social partners to the challenges posed by these processes. The last chapter refers to voluntary initiatives in the commerce sector and discusses the ILO's role in ensuring decent employment and working conditions in the sector. The report concludes with a list of suggested points for discussion.

---

## **Acknowledgements**

The information on which this report is based comes from a variety of sources. Valuable information was provided by a number of employers' and workers' organizations and the International Federation of Commercial, Clerical, Professional and Technical Employees (FIET), which replied to a questionnaire on issues dealt with in the report. Further contributions to the report were provided by Professor José Paulo Zeetano Chahad (Brazil) and Professor Peter B. Doeringer from Boston University, United States. ILO publications, studies from other international organizations and research institutions were also frequently consulted. The report was prepared on the basis of contributions made by Paula Repo, an external expert, and by an ILO team composed of Claude Duchemin, John Sendanyoye and Brigitte Steck (Salaried Employees and Professional Workers Branch), Frances Papazafiroopoulos (Official Documentation Branch) and Messaoud Hammouya (Bureau of Statistics).

The report is published under the authority of the International Labour Office.

---

## **Introduction**

This report, which deals with the impact of globalization and restructuring in the commerce sector on employment and working conditions, is published only a few months from the advent of the third millennium. What is now referred to as "globalization", which has left such a mark on the social and economic landscape of the end of the twentieth century, is a modern and more extreme form of what has long been a

determining factor in the evolution of commerce. It is even possible to discern some sort of continuity from ancient trade routes -- beginning with the caravans, through the Phoenicians' sea-lanes and the Hanseatic towns, to today's electronic commerce. From this perspective, the "information highway" would appear as a modern and more global equivalent of the legendary Silk Road or spice routes. The appearance of general merchandise stores at the end of the nineteenth century and mass distribution chains which flourished from the second half of this century have left a deep imprint on commerce's structure in diverse countries, without for all that completely displacing more traditional forms of distribution. Distance marketing, and more particularly its more recent Internet-based varieties, is in turn engendering fundamental social and economic changes: removal of distance constraints; the absence of physical interaction during the purchase and payment functions; the need to revise education and training policies and programmes; the concurrent destruction and creation of certain categories of jobs as well as the transformation of others, etc.

Often associated with the search for new products or the pursuit of new markets, international trade has often also been, for better or worse, a catalyst for social change. A principal ILO objective has, from the very beginning, been to ensure that international trade contributes to general social progress without adversely affecting working people and their families. Indeed, the Preamble to the Organization's Constitution affirms that "... the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries". This principle remains valid today, as confirmed at the 86th Session of the International Labour Conference in June 1998 by the adoption of the ILO Declaration on Fundamental Principles and Rights at Work.

All over the world, globalization and the restructuring of commercial distribution circuits are reinforcing the linkages between internal and external trade. At the same time, there is a parallel growth in informal sector commerce in a number of developing countries. While regulations and rules which govern the operations of commercial actors remain mostly local or national in scope, the expected growth in electronic commerce seems increasingly to call into question the ability of the public authorities to fully impose their prerogatives on national markets. Electronic-based distance transactions are, in effect, less amenable to any kind of control than the transfer of material products. This development increases consumer clout, at least for those with effective purchasing power, while raising a number of new public policy concerns.

In its report to the Tripartite Meeting on Productivity and Employment in Commerce and Offices (1994), the ILO noted that "Enhanced competition, greater consumer consciousness and especially the widespread acceptance of market economics have made governments, employers and workers in all parts of the world more aware of the need to satisfy customer demands in order to thrive in the market-place ..." and that "With global, rather than simply local, competition, new products and services can come on to the market with astonishing speed."<sup>(1)</sup>

It is evident that these developments have a continuing effect on employment, working conditions and industrial relations, not only in commerce but also in such contiguous sectors and related activities as manufacturing, marketing, transport, finance, logistics, management, communications and data processing. There are often high hopes in various countries that increased investment in commerce and the infusion of new commercial technology and know-how would encourage economic growth, directly or indirectly generate significant numbers of new jobs, and contribute to improved working and living conditions. However, these hopes are frequently balanced by contradictory concerns, mainly related to fears of an emergent global social order almost entirely dictated by market forces.

As noted in the Report of the Director-General of the ILO to the 85th Session (1997) of the International Labour Conference.<sup>(2)</sup>

By a strange irony of history, the "dawning of a new age" is no longer expected to occur with the end of the class struggle ... This time will only come now once the State has been stripped of its social and economic prerogatives and a global civil society emerges which is answerable only to the laws of economic rationality, itself the sole guarantee of a future so full of prosperity and promises that people forget the harshness of their present circumstances. This new form of the ideology of progress persists in affirming ... that human progress is more important than actual human beings ...

The Report of the Director-General, Juan Somavia, to the 87th Session (1999) of the International Labour Conference<sup>(3)</sup> similarly highlights those concerns when it observes that "Globalization has brought prosperity and inequalities, which are testing the limits of collective social responsibility". This is particularly relevant in the context of globalization and restructuring of commerce, where new technologies and changes in production and distribution systems have led to changes in social consciousness. As stated in the same Report "increasing consumer choice and access to knowledge and new means of communications have made individuals and social institutions not merely subjects but also potential actors in the process of globalization".

---

1. ILO: *Productivity and employment in commerce and offices*, Tripartite Meeting on Productivity and Employment in Commerce and Offices, Geneva, 1994, pp. 1 and 6.

2. ILO: *The ILO, standard setting and globalization*, Report of the Director-General, International Labour Conference, 85th Session, Geneva, 1997, p. 6.

3. ILO: *Decent work*, Report of the Director-General, International Labour Conference, 87th Session, Geneva, 1999, pp. 1 and 2.

---

# **1. Globalization, restructuring and employment in commerce**

Whether or not the impact of globalization has yet been fully felt on the employment market at national level it has, in any event, brought about qualitative changes in the global economic environment affecting workers throughout the world. Economic liberalization and restructuring have increased foreign takeovers through mergers and acquisitions, resulting in modern distribution circuits associated with new technology, innovative management styles, different approaches to work and new employment arrangements. However, these developments have yet to fully penetrate the national markets of many developing countries. Traditional commercial structures and trading methods continue to prevail in countries such as Bangladesh, Gabon, Lebanon and Sri Lanka, where few chain stores have emerged and no significant acquisitions or mergers have taken place involving foreign companies with local enterprises. Consequently, both the Confederation of Gabonese Employers (CPG) and the Association of Lebanese Industrialists report that there is little or no visible link in their countries between globalization and employment.

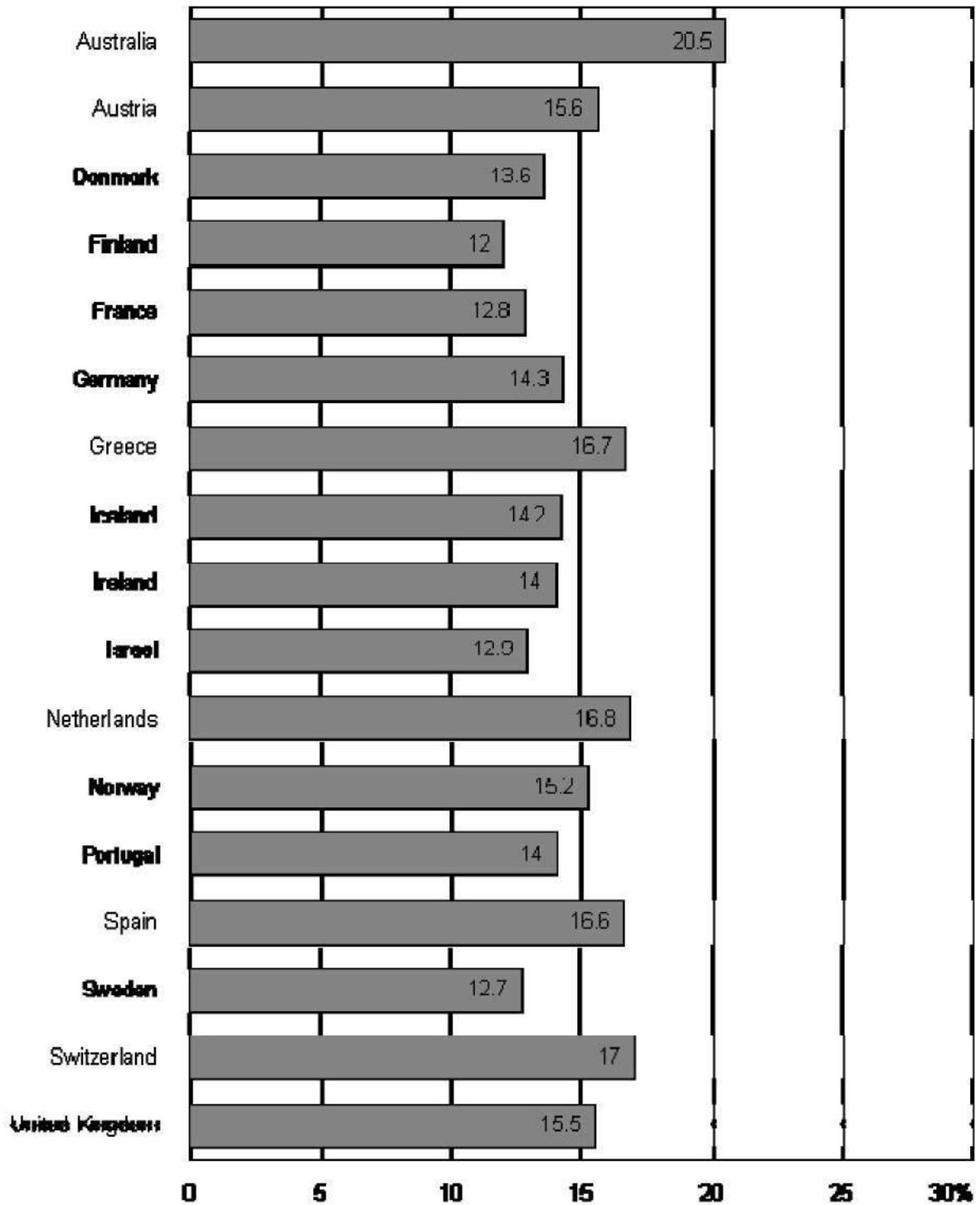
The situation is entirely different in the industrialized countries, where there is growing debate over the magnitude of the impact that trade with low-wage countries is having on national employment. Recent ILO studies suggest that, on balance, trade with developing countries and the relocation of industries have only been minor factors contributing to the rise in unemployment and the declining wages of unskilled workers in the industrialized countries. The job-loss pessimists also overlook the significant reverse benefits that are derived from trade and investment links with developing countries. While, in many cases, economic liberalization undoubtedly gives rise to short- or medium-term social costs, these are outweighed by greater long-term gains compared to the alternative of protectionist policies.

## **1.1. Some regional trends**

The effect that globalization has had on employment in the commerce sector varies throughout the world. Over the past few years the number of workers employed in import and export industries, or those with which they are in competition, has grown significantly, as have the linkages among labour markets worldwide. Despite this increase, however, their number remains small as a proportion of overall employment. In the industrialized countries, for instance, an average of almost 70 per cent of workers are employed in the service sector, most of whose end-products are not easily traded beyond national borders. Similarly, in many low-income developing countries, the bulk of employment remains in subsistence or traditional agriculture or in the urban informal sector -- and the products of these sectors are largely intended for the home market and are only minimally affected by globalization. Nevertheless, the impact of global economic competition is being felt by a growing number of workers, who are apprehensive that intensifying globalization will generate worldwide pressures to lower wages and labour standards.

A major hurdle in assessing employment trends in the commerce sector is the paucity of accurate national statistics. Even in countries in which they are regularly received, most are current only up to 1997. The significant time lag in their receipt means that, while available data are sufficiently appropriate for ascertaining long-term trends, they are deficient when applied to the analysis of the current situation in quantitative terms. Unlike the data on the countries appearing in figures 1.1-1.6, the statistics presented in the statistical annex at the end of the report include not only those for wholesale and retail trade but also those for hotels and restaurants, as this corresponds with Major Division 6 of the International Standard Industrial Classification of all Economic Activities (ISIC, revision 2, of 1968). However, an evaluation of the situation for each of the countries in figures 1.1-1.6 indicates that the inclusion of the hotels and restaurants sector does not significantly affect analysis of the general trend in the wholesale and retail trade.

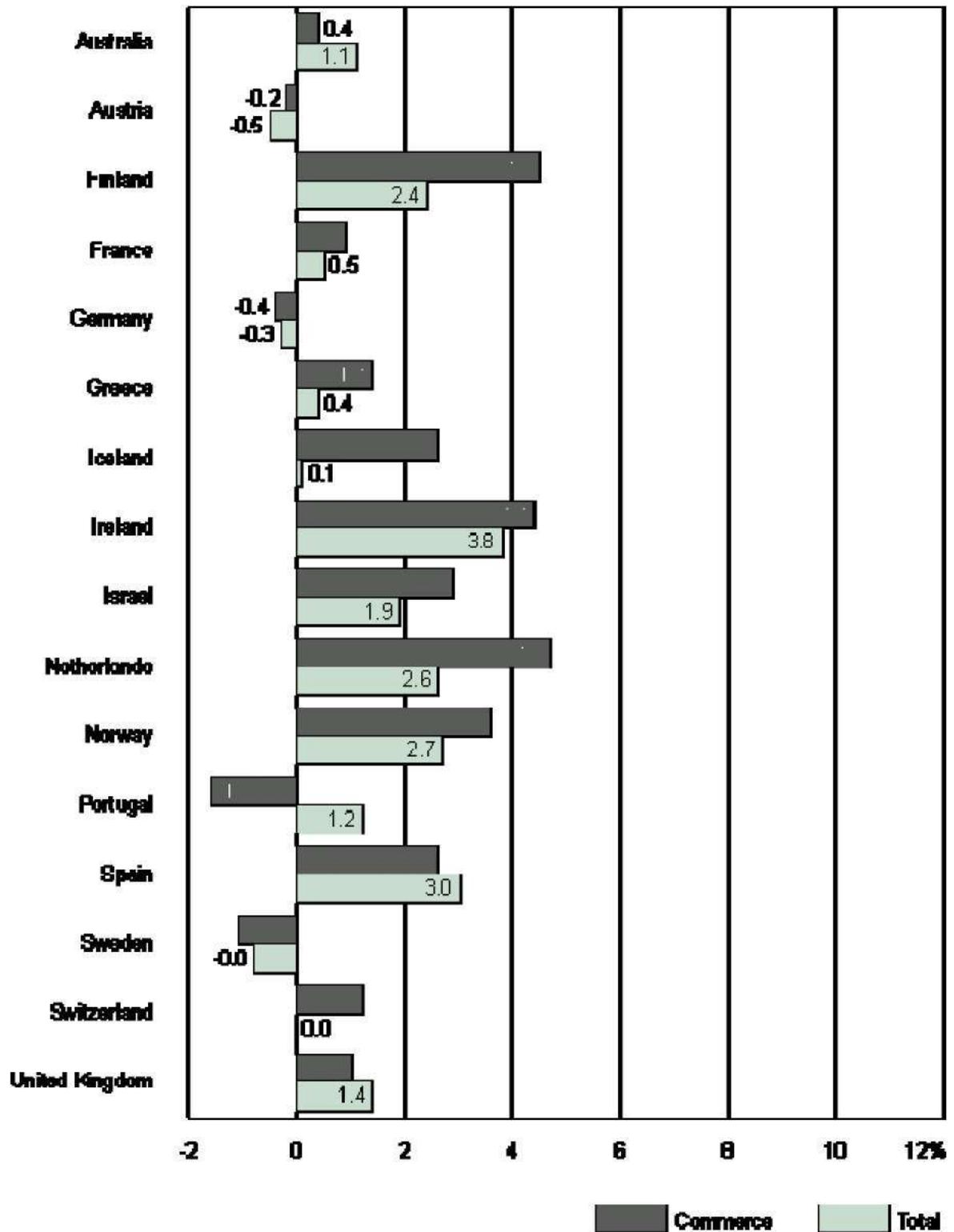
**Figure 1.1. Share of commerce sector employment in total employment for 17 industrialized countries in 1997**



Source: ILO database on Labour Statistics (LABORSTAT).

ILO data shows that, in general, employment in wholesale and retail trade in most industrialized countries has risen over the last few years compared to overall employment. As may be noted from figure 1.1 and figure 1.2, employment in the commerce sector as a proportion of total employment in the industrialized countries varies from 12 per cent (Finland) to 20 per cent (Australia). The sector recorded employment growth in a majority of these countries, with Finland, the Netherlands and Ireland showing the highest gains of more than 4 per cent between 1995 and 1997. However, in Sweden and Portugal the sector lost jobs at the rate of about 1.5 per cent during the same period.

**Figure 1.2. Average annual growth in total employment and employment in the commerce sector for 16 industrialized countries (1995-97)**



### 1.1.1. Western Europe

In the European Union, 4.7 million commercial companies, representing 30 per cent of all European enterprises, provide the essential link in the distribution of goods and services between producers and the more than 370 million consumers. An overwhelming 95 per cent of these enterprises are small and medium sized, employing on the average fewer than ten workers each. The commerce sector is the second largest employer in Europe, with more than 22.5 million workers -- accounting for 16 per cent of total employment. In addition, while other sectors have been shedding workers, the commerce sector in the European Union generated 1.5 million new jobs between 1985 and 1995, or half the number of those lost in the manufacturing industry and 15.5 per cent of all new jobs created during the period.

#### Box 1.1

##### **Employment in the commerce sector in Finland**

According to the Employers' Confederation of Service Industries of Finland (LTK), a huge structural change took place during the first four years of the 1990s. Subsequently, from 1994 to 1998 the number of people working in the commerce sector grew as follows:

Year	Retail	Wholesale	Other	Total
1994	125,700	73,400	43,100	242,200
1998	136,900	91,200	46,300	274,400

In line with work tasks which continue to evolve, the priority need for the sector has become a more highly qualified and continuously trained multi-skilled professional workforce. Increased automation did not, as feared, reduce employment in commerce which had declined to a minimum in 1994. Given that Finland has the highest level of card purchases in Europe, workers have long been familiar with direct debit and credit card transactions. Training emphasizes public relations, customer service and data processing skills. Wholesale companies require, in addition, foreign language skills. Efforts continue to be made to continuously raise education standards, and commercial schools provide a three-year business administration diploma which includes six months of practical experience. Stakeholders in the sector are directly involved in planning of the curriculum for the business administration diploma.

Employment in commerce has increased in most Western European countries such as Cyprus, Norway, and Turkey, and stayed stable in France, Italy, Malta and Switzerland.

#### Box 1.2

##### **Employment in the food retail trade in Switzerland**

Consolidation within the food retail trade in Switzerland has resulted in a reduction in the density of commercial enterprises, calculated on the basis of 10,000 inhabitants. Employment has similarly declined. In 1995, the proportion of annual revenue from the food trade for both *Migros* and *Coop* was 61 per cent.

This may be explained by the market power of these retailers, the range of their product choice as well as the opening of new branches and the extension of floor space of old stores. As in numerous other countries, there has been a replacement of staff by increased floor space since the new self-service systems require less customer service and therefore fewer personnel. According to the Swiss Federal Office for Economic Development and Labour (OFDE), 60 per cent of workers in this segment of the commerce sector are employed in small and medium-sized companies with less than 250 workers, while the rate for all the other segments is 75 per cent. The same agency considers that the only way jobs will be safeguarded from the effects of consolidation in the food retail trade is if the big operators which now dominate the market are able to generate a corresponding number of jobs lost from small retailers.

Source: OFDE.

### 1.1.2. North America

In North America, commerce's share in total employment increased slightly in Canada but declined in the United States between 1985 and 1997 -- even though the sector generated 4 million new jobs during this period.

Retail trade is one of the largest and most diverse sectors in the United States economy. According to an ILO-sponsored study, in 1996-97, there were 1.6 million retail establishments ranging from gas stations and automobile distributors, to restaurants and food stores, to department and speciality clothing stores. These rang up annual sales of US\$2.2 trillion in 1997 and employed over 20 million workers. In relative terms, retail sales amount to about 27 per cent of GDP (S&P, 1998) and almost one in five jobs in the United States economy is in retailing. Retailing has been a growth sector with the number of establishments increasing by about one-third between 1972 and 1992 (S&P, 1998); the sector now surpasses manufacturing as a source of jobs. While growth has required the industry to attract more workers, it remains a relatively low-wage sector with few unions and is dominated by a young, female and poorly educated workforce. Average hourly earnings were approximately \$8 in 1996, or about 60 per cent of those in manufacturing. Because retailing is seasonal and many workers are employed only part time, annual earnings rank even further behind those in manufacturing. The most likely skills requirements projected for the sector as a result of globalization are indicated later in this report.

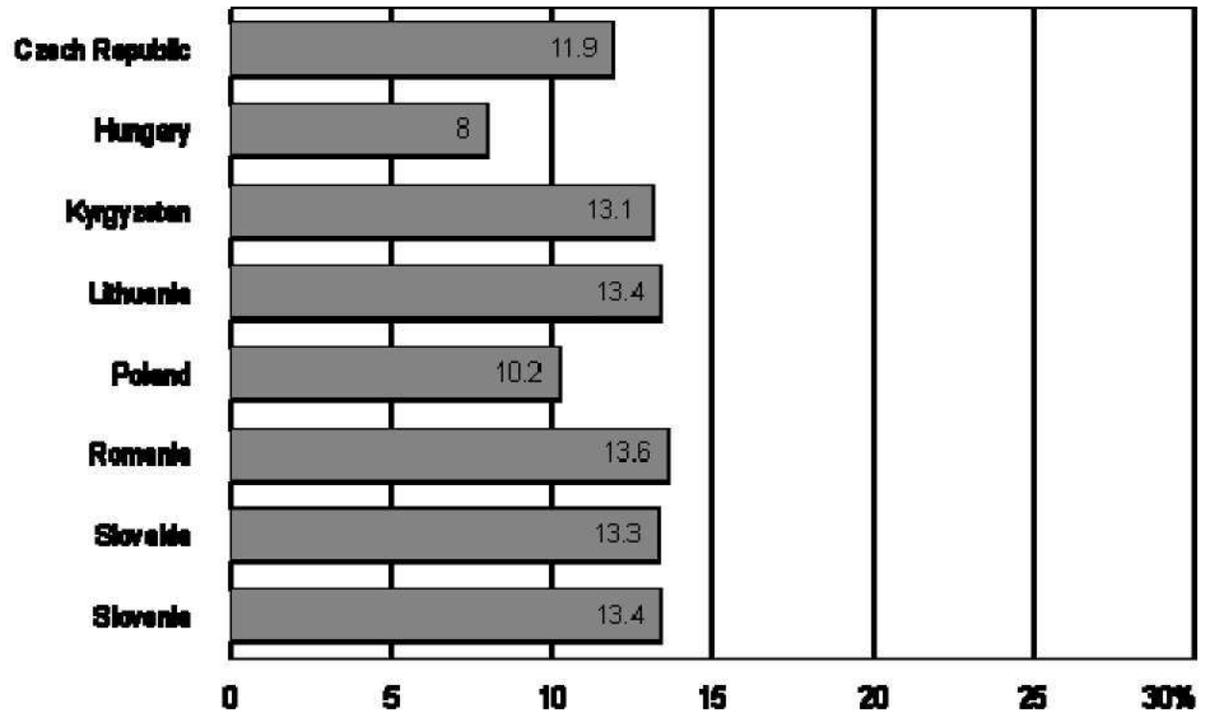
### 1.1.3. Central and Eastern Europe

In the transition countries of Central and Eastern Europe, globalization and market liberalization have, in some countries such as the Slovak Republic, resulted in sectoral concentration, an increasing number of joint ventures, the entry of international own-brand distribution chains or the increasing role of purchasing centres. The employment impact has, however, not been uniform, with the employment share of the commerce sector increasing in some countries but declining in others.

Figures 1.3 and 1.4 indicate that in the transition countries, the share of commerce in total employment is relatively low compared with other groups of countries. In 1997, it varied

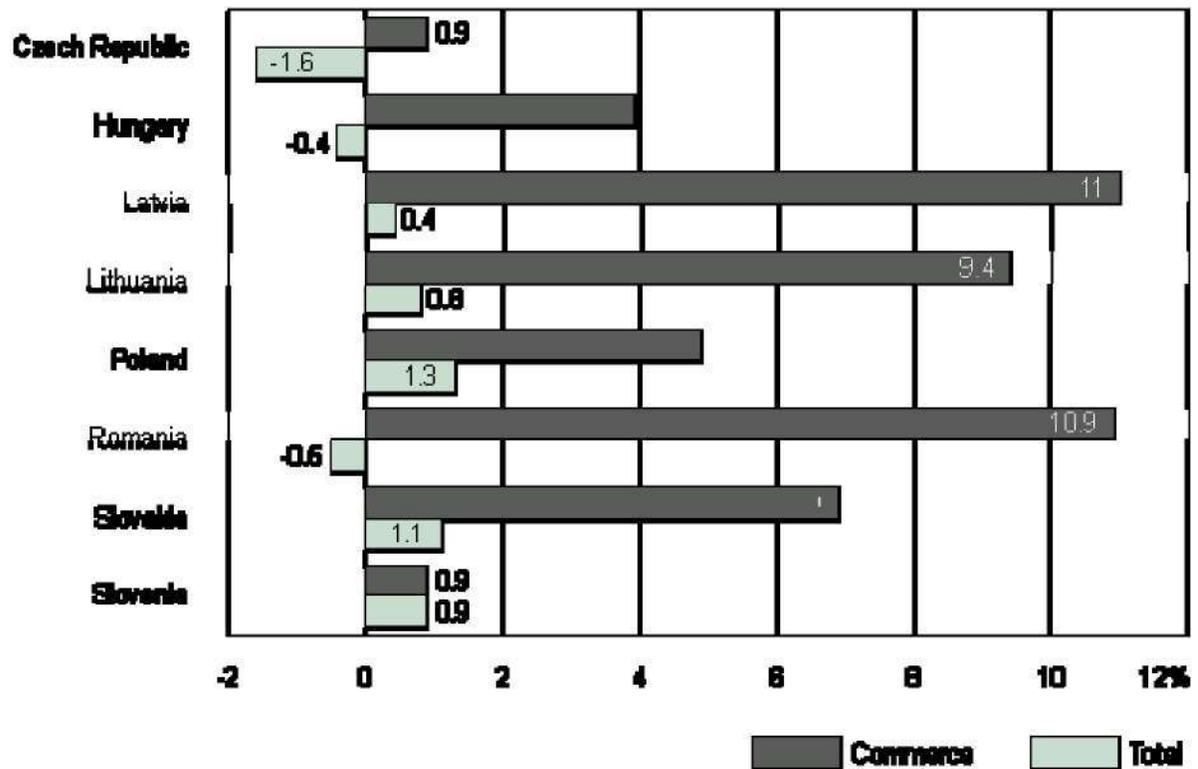
from 8 per cent in Hungary to 13.6 per cent in Romania. It may be noted, however, that while total employment declined in these countries, employment in the commerce sector rose on average by 6 per cent annually between 1995 and 1997, with the highest annual growth of 11 per cent recorded by Latvia.

**Figure 1.3. Share of commerce sector employment in total employment for eight countries in transition in 1997**



Source: LASORIDA.

**Figure 1.4. Average annual growth in total employment and employment in the commerce sector for eight countries in transition (1995-97)**



Source: LABORSTA

### Box 1.3

#### Employment effects of the entry of multinationals in the Czech commerce sector

The entry and expansion of multinationals in the Czech domestic market has brought with it a growth in job opportunities. There were over 30 multinational companies active in retail and wholesale trade in the Czech Republic at the end of 1998, employing a total of some 40,000 workers. The largest employers are *Euronova* (6,000 employees), *Julius Meinl* (4,000 employees), *Delvita* (3,000), *Tesco* (3,000), *Plus Discount* (2,500), *Billa* (2,000), *Ikea* (2,000), *Kaufland* (1,700) and *Spar* (1,000).

Most sector workers are in small companies employing one to 19 workers (totalling approximately 250,000), followed by companies with 20-99 employees (about 138,000). In certain instances, entry by multinationals such as *Penny* and *Plus* into the domestic market has been employment-neutral as this has occurred through the acquisition of operations from local entrepreneurs. Also in some cases, the disappearance of strong cooperatives, such as five in Northern Bohemia employing a total of 3,000 workers, has contributed to significant job losses in the sector.

New supermarkets and hypermarkets are planned, which will undoubtedly create additional job opportunities. These new stores are owned by multinational companies, with very strong capital investment capabilities and the resources to absorb "temporary losses" over a number of years during an initial period, with the aim of increasing market share. There are therefore concerns for eventual job losses as competition pushes small companies out of business.

Since 1990, when over 400,000 licences for "purchasing and further sale" were issued, the commerce sector has been able to absorb 130,000 workers who had lost their jobs in industry, agriculture and transport. There are fears, however, that the unregulated expansion of multinationals into the domestic commercial distribution network will shortly result in the disappearance of traditional town centres with their small shops, which provide easy access to inhabitants without cars. Similar apprehension is expressed for medium-sized local stores, as these may be unable to react flexibly enough to price reductions and sales promotions by multinational affiliates. Another important drawback to job growth -- overlooked during the process of large-scale privatization -- is the fact that multinational distribution chains do not give sufficient preference to domestically produced goods.

Source: Reply to ILO questionnaire.

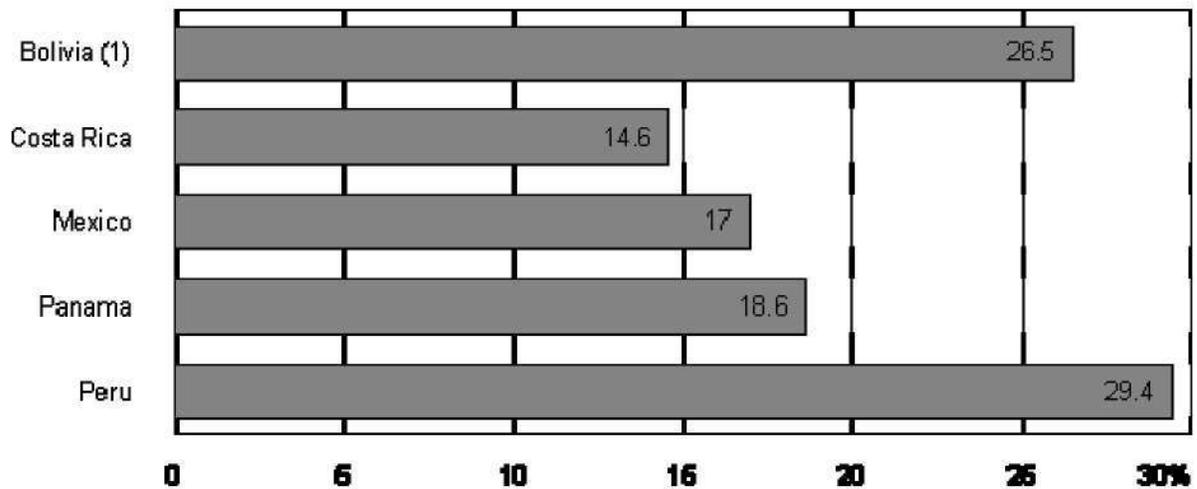
#### 1.1.4. Asia and Pacific

During the period preceding the 1997 economic and financial meltdown, the Asia and Pacific region recorded dramatic trade-driven economic and employment growth rates. Between 1985 and 1997, the commerce sector created about 400,000 new jobs in Hong Kong, China, increasing its proportion in total employment by 7.7 points. More moderate gains of between 1 and 5 points were registered in China, Indonesia, the Republic of Korea, Pakistan, the Philippines and Thailand. Commerce's share of employment also increased in Fiji, Malaysia, the Solomon Islands and Sri Lanka, but by much less than in the abovementioned countries. It declined in Bangladesh, India, Myanmar and Singapore. In Australia and New Zealand the rate of employment growth in the commerce sector has been higher than that of overall employment. In Japan, although commerce generated a million new jobs during the same period, its share in overall employment declined. According to the Japanese Federation of Textile, Garment, Chemical, Commercial, Food and Allied Industries Workers' Union (ZENSEN), job creation in the sector expanded up to 1994 and then started to decline from that year to 1997, especially as a result of technological changes (bar codes, increased computerization, logistical advances, etc.). Bipolarization between high-skilled and low-skilled employment, mainly in jobs requiring the accomplishment of repetitive tasks, was increasingly evident. In addition, the recent economic and financial crisis in Asia, where Japanese commercial operators play a major role, has aggravated the difficulties of a number of distributors pushing them towards restructuring of their operations through the shedding of jobs. As a result of a fall in its revenue and heavy indebtedness, for instance, *Daiei*, a major Japanese retailer, recently embarked on a vast restructuring plan to be implemented over several years. During 1999, the group intends to reduce its workforce through early retirements and the transfer of workers to less well-paid positions in its affiliates.

#### 1.1.5. Latin America and the Caribbean

In Latin America the share of commerce in total employment ranged from 14.6 per cent in Costa Rica to 29.4 per cent in Peru during the 1996-97 period (figure 1.5), while the annual employment growth in commerce was less than that of employment as a whole. Nevertheless, the growth rate has been significant, as may be noted from figure 1.6, which covers a representative number of countries in the region.

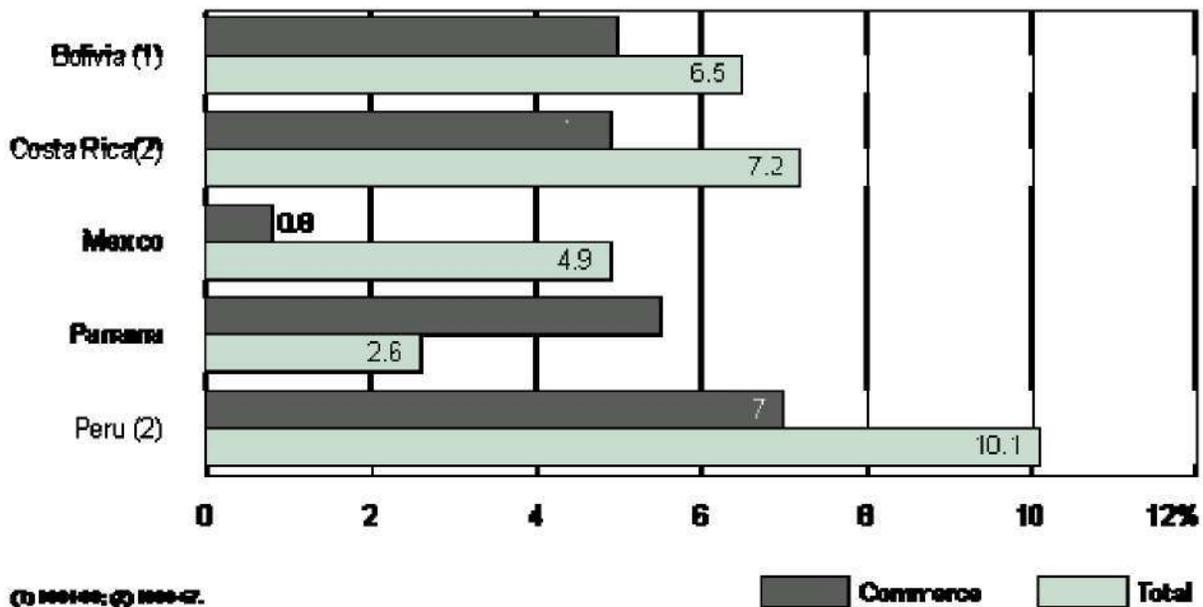
**Figure 1.5. Share of commerce sector employment in total employment for five Latin American countries in 1997**



(1) INCL

Source: LABORSTA.

**Figure 1.6. Average annual growth in total employment and employment in commerce sector for five Latin American countries in 1995-97**



(1) 1995-96; (2) 1996-97.

Source: IANIGLA

With particular regard to the MERCOSUR countries (Argentina, Brazil, Paraguay, Uruguay), disaggregated data in table 1.1 show that the growth of employment in the commerce sector has been higher than or roughly equal to both GDP growth and overall growth in employment, with the exception of Argentina. In Brazil and Uruguay, growth in employment within the commerce sector has been even more rapid than the annual rate of growth of the labour force, thereby helping to relieve pressure on the labour market to create jobs.

**Table 1.1. MERCOSUR countries: Production, employment and productivity growth, 1990-97**

(non-agricultural sectors, annual rates %)

	Country			
	Argentina	Brazil	Paraguay	Uruguay
1. GDP	5.5	2.8	2.7	4.2
2. Labour force	3.0	2.7	5.6	1.9

3. Total employment	1.8	2.5	5.6	1.4
4. Employment in the commerce sector	0.8	4.8	n.a.	4.5
5. Non-agricultural productivity	3.6	0.3	-2.7	2.8
6. Non-agricultural informal sector <sup>1</sup>	1.6	1.9	1.4	0.3

<sup>1</sup> Annual growth of informal employment share. n.a. = not available.

Source: Panorama Laboral '98, ILO, Lima, Peru.

In any case, the evolution of employment in the commerce sector of the MERCOSUR countries has not led to any significant change in the relative share of this sector of total job creation, as may be observed from table 1.2. In this way, given the short period of time under consideration, the evolution of employment in the commerce sector shows a similar pattern of behaviour to that of the output of the sector, whose share of GDP has remained constant in every country.

**Table 1.2. Commerce sector: Production and employment in the MERCOSUR countries, 1990-96**

	Country							
	Argentina		Brazil		Paraguay		Uruguay	
	1990	1996	1992	1995	1991	1996	1990	1996
1. Sector production as % of GDP <sup>1</sup>	16.0	16.0	7.6	6.8	26.8	26.0	12.6	12.4
2. Sectoral employment as % of total non-agricultural employment	20.4	19.2 <sup>2</sup>	21.0	21.8	n.a.	23.1	18.5	20.8
3. Employment in small firms as % of total employment <sup>3</sup>	14.9	18.7	24.0	25.2	29.0	29.7	11.0	10.3
4. Urban open unemployment rate (total) (%) <sup>4</sup>	7.5	17.3	4.9	4.6	5.1	5.5	9.2	12.4

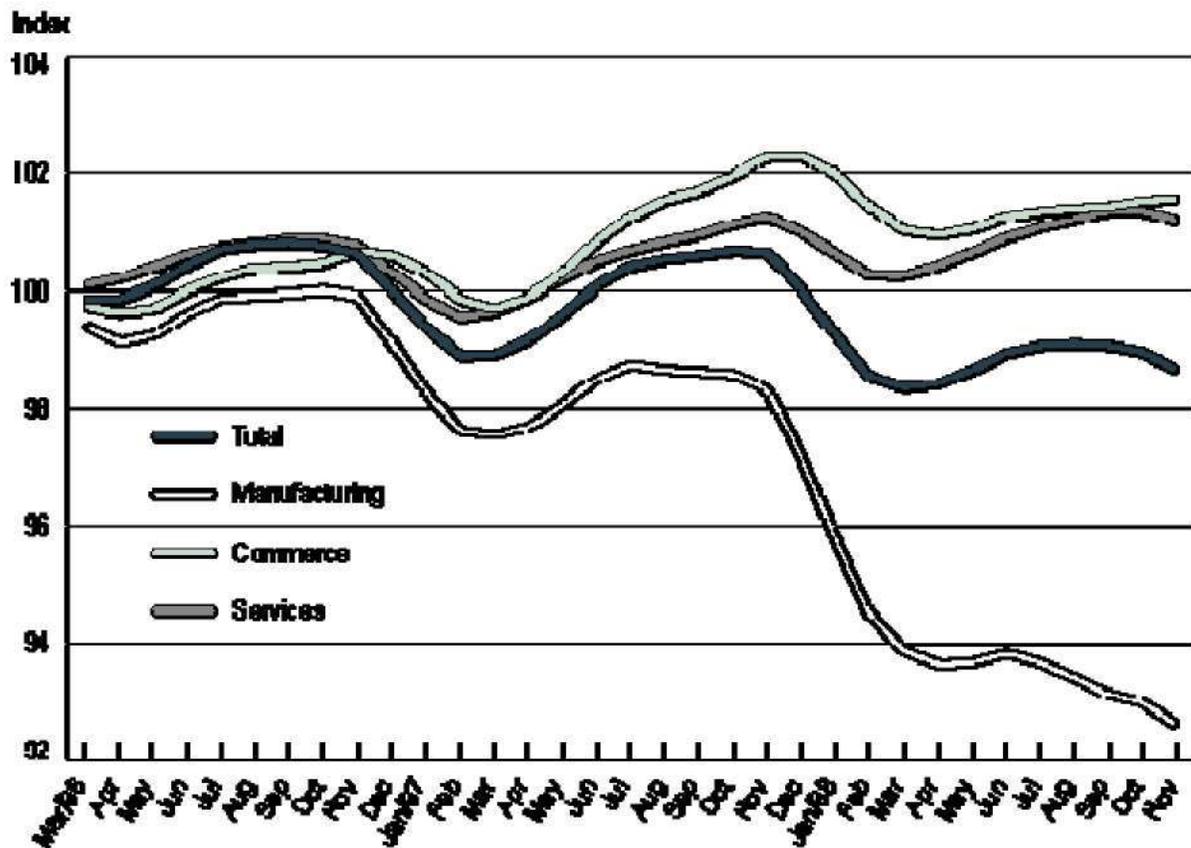
<sup>1</sup> Argentina: commerce including hotels and restaurants; Brazil: GDP -- factor cost concept; Paraguay: commerce including financial sector; Uruguay: commerce including hotels and restaurants. <sup>2</sup> 1997. <sup>3</sup> Small firms: enterprises with ten or less employees. <sup>4</sup> Argentina: urban area; Brazil: six metropolitan regions; Paraguay: Asuncion area; Uruguay: Montevideo area. n.a. = not available.

Source: Official national statistics.

In line with the trend observed in other countries of Latin America and a number of countries in Asia, the share of commerce sector employment represented by small businesses has risen, as mentioned previously in the text. This trend cannot be attributed solely to growth in open unemployment, since it has been observed both in Argentina, where unemployment levels have risen sharply, as well as in Brazil and Paraguay, where unemployment levels have remained relatively stable. Employment of workers in small service sector businesses, which include commerce businesses, appears to form part of a reorganization of the labour market in response to the challenges that it faces.

As shown in figure 1.7, there was an increase in the volume of employment within the commerce sector from 1996 to 1998 in Brazil, in line with the general service sector trend, while there was a decline in employment in manufacturing industries. It is in the latter sector that the impact of globalization has been most problematic, obliging it to undertake a major structural adjustment in order to boost competitiveness in response to the process of trade liberalization that began in 1990. This, in turn, entailed a sharp increase in labour productivity and a reduction in employment levels. In percentage terms, while there was an overall reduction of 2 per cent in employment, and an 8 per cent reduction in processing industries, commerce sector employment grew by approximately 2 per cent. It may be concluded from this that the formal commerce sector has aided in reducing the negative impact on employment of the restructuring that has occurred in other sectors.

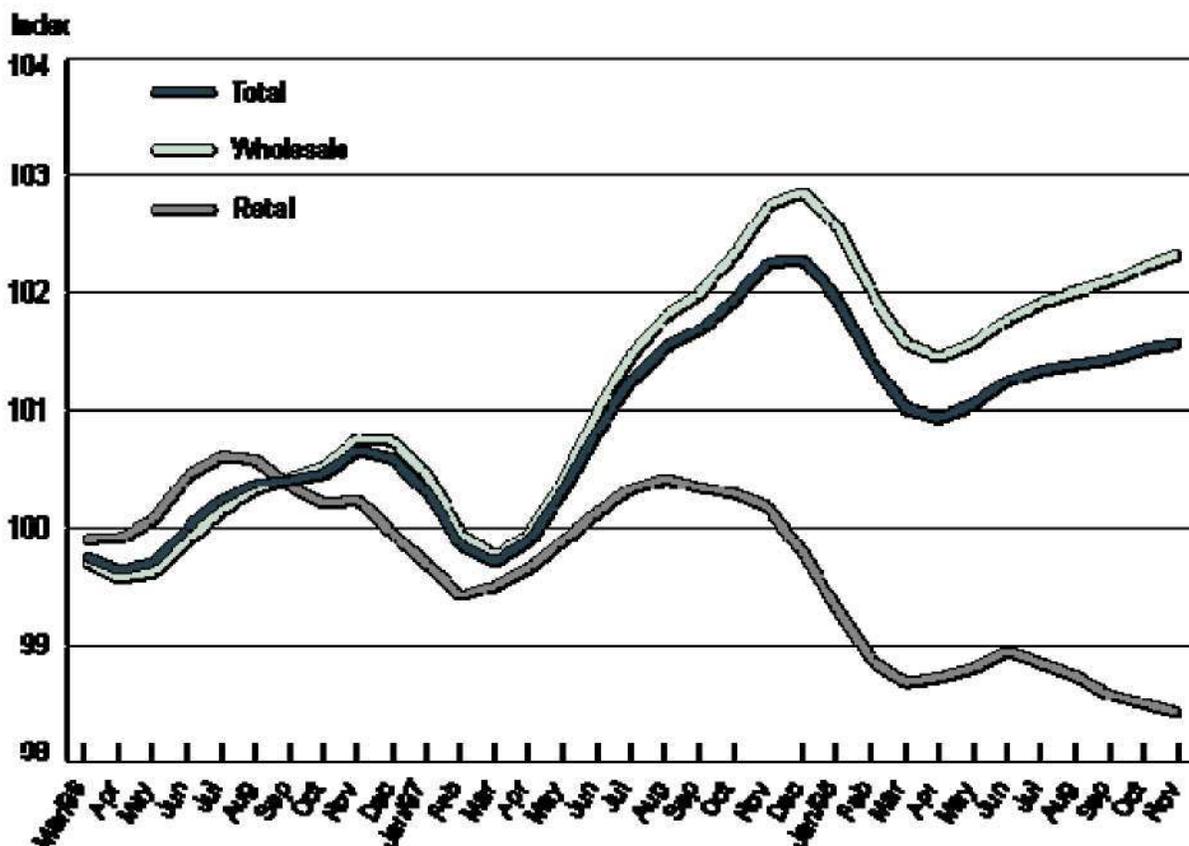
**Figure 1.7. Brazil: Sectorial formal employment evolution, 1996-98 (quarterly moving average) (January 1996 = 100,00)**



Source: CAGED - LE N. 482396 - MTE.

It should nevertheless be noted that the rate of increase of employment in the commerce sector has recently slowed in Brazil. This is due in part to a relative loss of momentum of the Brazilian economy as a whole, following the waning of the consumer euphoria that resulted from the success of the Real Plan. This may be seen in figure 1.8, which shows a sharp reduction in retail employment between 1996 and 1998, while wholesale employment maintained its growth trend during this period. Although this reduction in retail employment may have been influenced by the level of activity, there is strong evidence to suggest an accelerated modernization process for retail sales, most notably as a result of the computerization of many functions that were previously performed by employees. Between January 1996 and November 1998, retail commerce employment fell by some 1.6 per cent while total commerce employment rose by a similar percentage.

**Figure 1.0. Commerce D Brazilian formal employment evolution, 1996/98 quarterly moving average (January 96 = 100,00)**



Source: ILO, 1998, 1999, 2000, 2001.

Commerce in the Caribbean has generally experienced a drop in employment relative to the overall economy, with losses of between 4 and 6 percentage points recorded in Barbados, Bermuda and Trinidad and Tobago. Less steep losses have been noted in the Bahamas, British Virgin Islands and the Netherlands Antilles.

### 1.1.6. Sub-Saharan Africa

In Africa, as in other developing regions, globalization and restructuring in commerce are bringing about striking changes. Traditional commercial operators (petty traders, hawkers, etc.) continue to function side by side -- and sometimes in competition with -- modern retailers such as shopping malls and supermarkets, particularly in the major urban agglomerations. However, the lack of any data, let alone reliable up-to-date sector-specific statistics, makes it extremely difficult to determine both the relative weight of commerce in employment and comparative trends of sectoral contributions to the generation of new employment. The meagre data available from a handful of countries in the region indicate that for the period 1985-86 to 1990, the change in commerce's share in

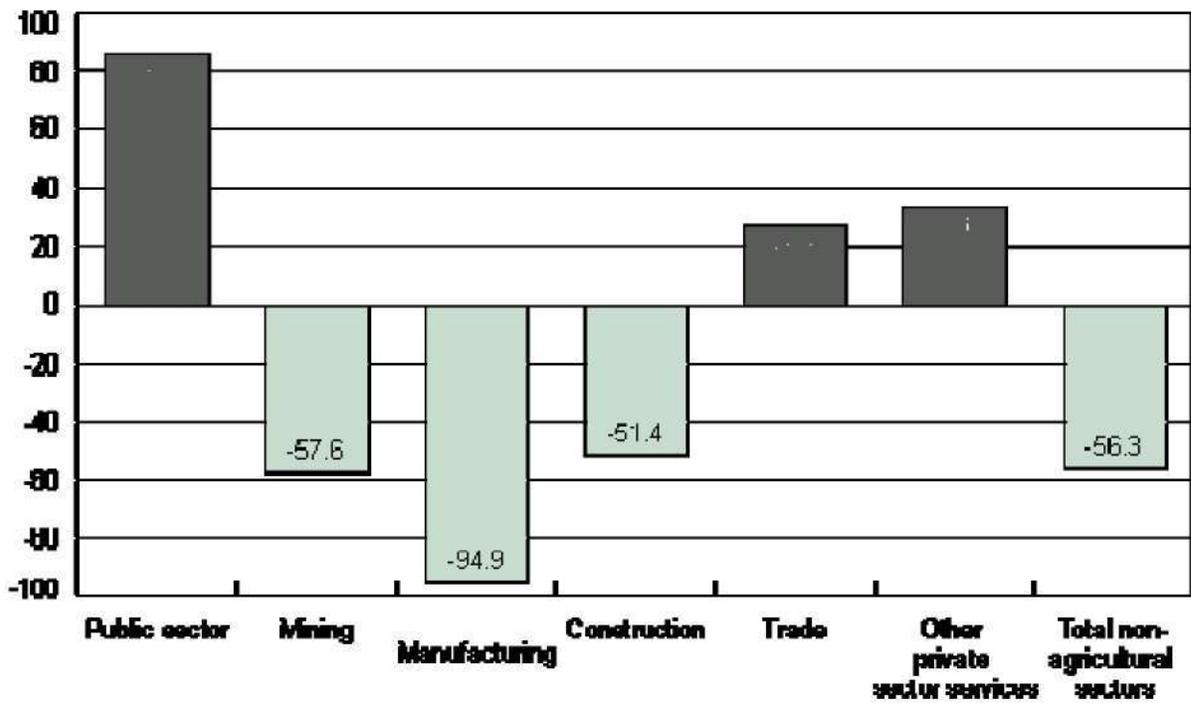
employment in sub-Saharan Africa ranged from about ten points in the Central African Republic to a decline of about ten points in Chad. In between these two extremes, there were significant increases in the share of the sector in Botswana, Ethiopia, Kenya, Mauritius, Niger and Swaziland and a slight rise in Zimbabwe. The sector's share of employment declined in Burundi, Côte d'Ivoire, Ghana, Malawi and Togo. Figure 1.9 shows that in South Africa, commerce recorded the third highest employment growth (about 27,000 additional jobs or 3.9 per cent) from 1994 to 1997. During the same period, the only other sectors in the formal economy to make net contributions to employment were other private service sectors (about 34,000 extra jobs or 11 per cent) and the public sector (86,000 more jobs or an increase of 4.8 per cent). Manufacturing lost 95,000 jobs or 6.4 per cent while construction dropped 14.2 per cent (51,000).

#### 1.1.7. The Middle East and North Africa

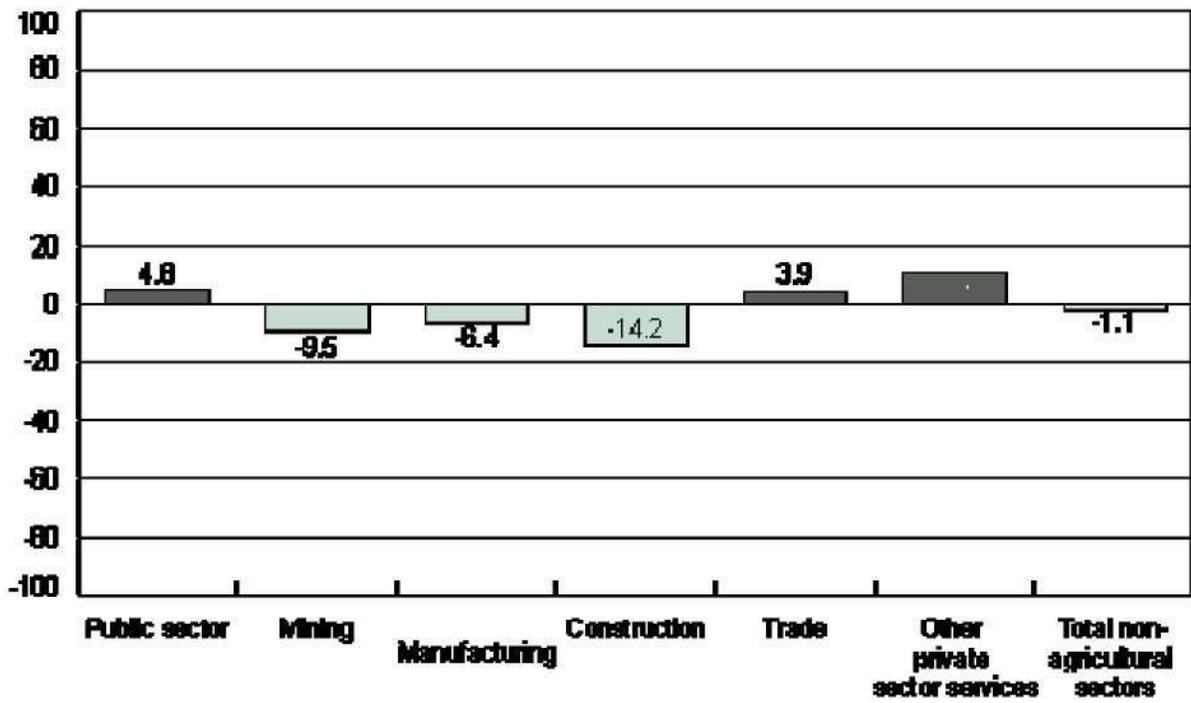
In the majority of Middle Eastern and North African countries, such as Bahrain, Egypt, Jordan and the Syrian Arab Republic, commerce increased its share in total employment by between 1 and 5 percentage points from 1984 to 1995. The absolute numbers resulting from some of these increases were very substantial since, in Egypt for instance, employment in the sector grew from around 1 million to 1.5 million jobs during the same period, bringing the share of commerce in total employment to 10.3 per cent. However, in others such as Tunisia, the proportion declined slightly.

**Figure 1.9. Employment variation by economic sector in South Africa (total change in per cent from 1994-97)**

**A. Employment variation in thousands**



**B. Employment variation in per cent**



**Note:** Data are based on establishment surveys in the formal business sector; they thus exclude non-registered enterprises and all self-employed workers.

**Source:** South African Reserve Bank.

## **1.2. The role of the informal sector in employment generation**

While it is difficult to determine the exact nature of the relationship between globalization and the continued growth of the informal sector, the fact remains that the sector, much of which is comprised of retail activities, is an important provider of jobs -- sometimes the most important -- in a great number of developing countries. As may be expected of activities which remain, for the most part, unregistered and outside national statistics, informal sector data is difficult to gather and of doubtful accuracy when available. However, according to the ILO's *World Labour Report 1997-98*, there seems to be a consensus on the steady growth of the informal sector in almost all developing countries, with the exception of the newly industrializing countries (East Asia). In Latin America, for instance, 15.7 million new jobs were generated between 1990 and 1994, of which 8.4 in every 10 were in the informal sector. Informal sector employment grew in the region at an annual rate of 4.7 per cent, compared to 1.1 per cent in the formal sector.

In Asia, it is estimated that the informal sector absorbs between 40 and 50 per cent of the urban labour force, although significant variations may be found between the newly industrializing countries (less than 10 per cent before 1997), and countries such as Bangladesh, where the sector's employment share is as high as 65 per cent. According to the Bangladesh Employers' Federation, there has recently been a loss of jobs in the formal sector due to restructuring. However, employment in the small service industries, which are classified as informal sector and not reflected fully in the official statistics, has increased. In South-East Asia, more and more workers who have lost their jobs in the modern sector as a result of the economic crisis that has shaken the region since 1997 are having to look for survival in the urban informal sector. The quality of these jobs may not be of the same level as those in the formal sector but this employment is, by and large, steady and sustained.

In Benin, as is generally the case in the rest of sub-Saharan Africa, the informal sector represents, after agriculture, the second biggest provider of jobs, and encompasses mainly crafts and micro-commerce. The proportion of informal sector commercial activity carried out in fixed premises is -- at 17.2 per cent -- very much lower than that carried by semi-itinerant operators (40.1 per cent) and hawkers (42.7 per cent). These statistics demonstrate the precarious nature of commercial activity in Benin's urban centres and reflect the situation in other developing countries, where informal commerce only represents one of the elements of a survival strategy for a sizeable number of the population. The Uganda Manpower Survey of 1989 (the latest available data) similarly identified commerce (trade and restaurants) as the dominant segment in urban employment; indeed it accounted for 40.22 per cent of informal sector employment. Table 1.3 highlights the relative employment weight of informal sector segments in Uganda in 1989. It should be noted that the relative share of commerce would certainly be significantly higher if the trading aspects of the non-trade/restaurants activities were taken into account. The importance of the informal sector in employment generation is underlined by the fact that the same survey indicates that while the formal sector accounted for only 5.5 per cent (378,227 jobs) out of a total labour force of about 7 million people, the urban informal sector employed 978,227, representing 13.7 per cent.

**Table 1.3. Structure of informal sector activities in selected Ugandan urban centres**

Industry	Per cent
Food processing	9.94
Clothes/shoes	10.41
Metal fabrication	9.94
Wood products	5.99
Handicrafts	3.15
Construction	4.26
Garages	1.73
<b>Trade/restaurants</b>	<b>40.22</b>
Transport	4.10
Services	8.99
Other	0.47
NS	0.79
<b>Total</b>	<b>100.00</b>

Source: Uganda National Manpower Survey (table 4.42), 1989.

Informal sector commerce typically includes the selling of various consumer items, such as food, charcoal, firewood, newspapers, books and household items -- which may be sold at kiosks, market stalls and verandas or by means of hawking. It also includes the preparation and serving of food, drinks and meals in small restaurants, kiosks, markets and open spaces (grilling of meat, chicken and corn, etc.). In a number of countries with a significant tourism sector, the selling of locally made carvings and handicrafts in major urban centres is a considerable source of employment and income.

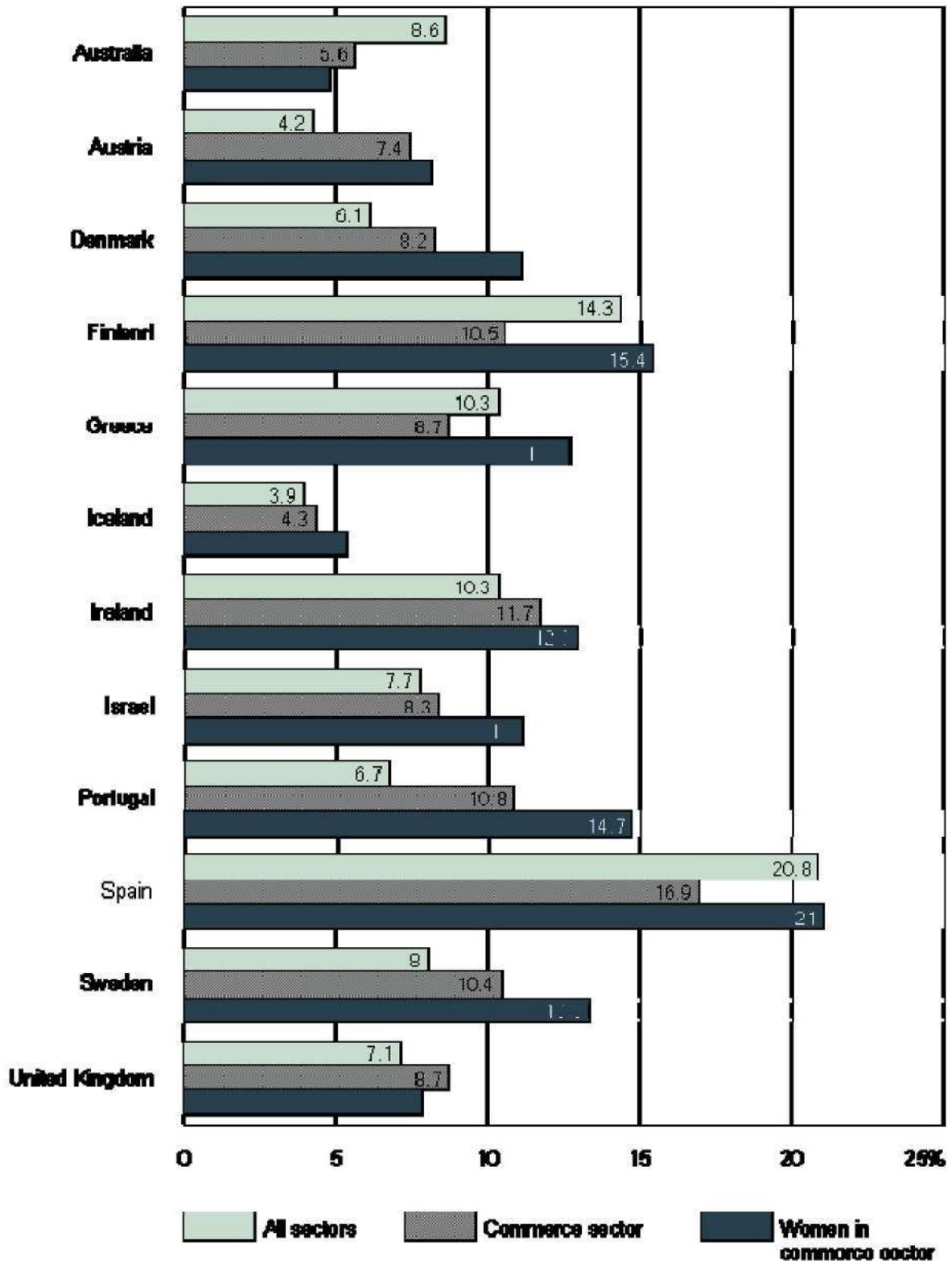
By and large, the dramatic growth of micro-enterprises and the related expansion in the use of casual labour in developing countries has increased the possibility for multinational companies to indirectly utilize the labour of informal sector workers through subcontracting arrangements. Homeworkers and children are often to be found at the very end of extensive global production and distribution chains.

### **1.3. Some effects of globalization in the commerce sector, with particular reference to women**

Despite the fact that commerce has registered significant net employment growth in industrialized countries, the rate of unemployment in the sector remains higher than for the economy as a whole (figure 1.10). In contrast, as shown in figure 1.11, the rate for the transition economies is substantially lower.

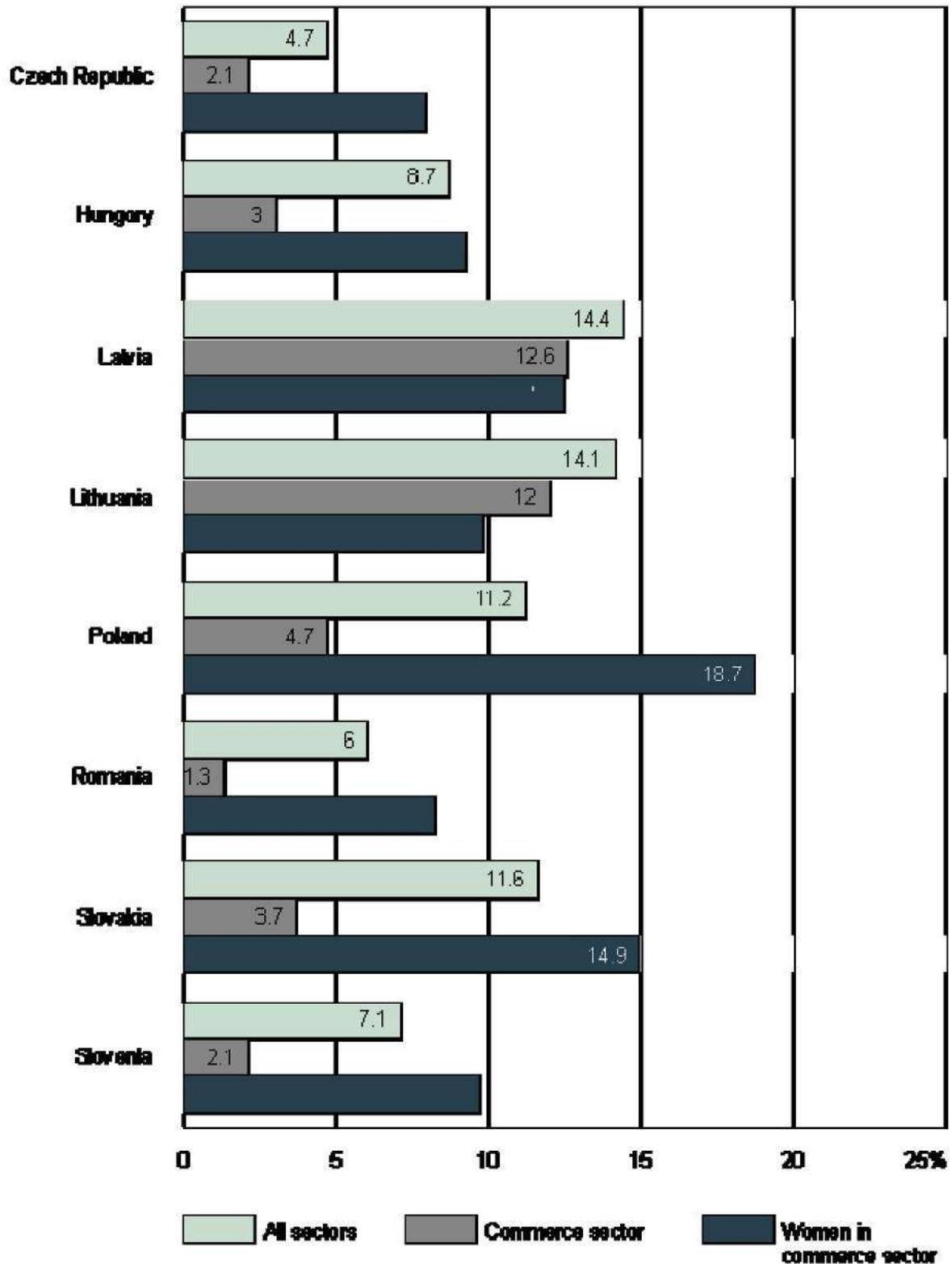
In general, commerce employs more women than other sectors. Women's participation in the sector is highest in a number of countries in Latin America and countries undergoing economic transition; indeed, on average, the proportion of women employed in commerce is higher than for the economy as a whole.

**Figure 1.10. The rate of unemployment in 1997 compared with the economy as a whole, in the commerce sector, and for women in 12 industrialized countries**



Source: ILO database on Labour Statistics (LABORSTAT).

**Figure 1.11. The rate of unemployment in 1997 compared with the economy as a whole, in the commerce sector, and for women in eight countries in transition**



#### Box 1.4

### **Employment and gender differentiation in the retail trade in Canada**

Retail trade is Canada's second largest employer. In 1993 it accounted for 13 per cent of all paid employment, and employment in the sector continues to experience sporadic growth. Over the years, jobs in retailing have become increasingly feminized and deskilled. Non-standard forms of employment predominate. According to the Canadian Chamber of Commerce, total employment in the retail sector in Canada stood at 1.7 million in 1990, with unemployment from the sector at 6.6 per cent. By 1997, total employment in the sector still stood at 1.7 million but the unemployment rate had dipped slightly to 5.8 per cent.

In 1995 women represented 51 per cent of the retail trade workforce, and 46 per cent of all persons employed in sales occupations. According to figures on the distribution of women workers -- by size of establishment, trade group and occupations -- female employment in the retail trade of Ontario exhibited distinctive features. Women were concentrated in very small enterprises (i.e. with less than five employees) as well as large establishments (i.e. over 500 employees). They were more likely to work in enterprises selling general merchandise, women's clothing, dry goods, drug stores, florist shops and tobacconist shops as opposed to motor vehicle sales and repair companies, and enterprises selling hardware, furniture, appliances, liquor and beer. Women tended to be concentrated in the following occupations: cashier (91 per cent), non-commission salesperson (84 per cent) and tailor/seamstress (73 per cent). Male workers, in contrast, were mainly in commissioned sales positions (74 per cent), and warehouse occupations (95 per cent).

Source: ILO, Multinational Enterprises Programme Working Paper No. 79, 1997.

Although commerce generally experienced a higher loss of jobs relative to the rest of the economy in most industrialized countries in 1997, this situation was the reverse in Australia, Japan and Spain, where losses in commerce were fewer than in other sectors.

Up to the 1970s most discussions on salaried employment were either implicitly or explicitly based on the model of a "standard" employment relationship with the following characteristics: the existence of only one employer and workplace; the existence of an indefinite work contract; full-time work; and the existence of some degree of social and legal protection.

Although even during the 1970s this standard employment relationship was far from universal (especially in many developing countries), non-standard or atypical forms of work are today on the rise in many countries.

According to a study by the ILO Governing Body Working Party on the Social Dimensions of the Liberalization of International Trade, the difficulty in obtaining comprehensive data and differences of definitions in this area make cross-country comparisons difficult. Analyses of trends within countries and within groups of countries are somewhat more reliable. Part-time work has increased since the mid-1970s in most of the countries for which data are available: in the 12 countries that were already members

of the European Union in 1987, part-time work, as a share of total employment, rose from 8.9 per cent in 1987 to 10.2 per cent in 1990 and to 12.2 per cent in 1997. Temporary employment has increased since the mid-1980s in all the sample countries except Japan, where it has remained largely unchanged, and the Republic of Korea, where it has decreased substantially. In many developing countries, non-standard employment often takes the form of "unprotected" employment without a written work contract or without legally established social security coverage. Although this kind of "informal" paid work is of course not new, available data for a sample of Latin American countries indicate that unprotected salaried employment has increased in all of them since the early 1990s.

It is hard to tell whether globalization is the main factor responsible for this, but there are reasons to believe that some correlation exists. A more quantitative assessment of the correlation is still largely an issue for future research. In addition to globalization, developments on the supply side have also contributed to the surge in certain forms of non-standard employment, such as part-time work, which is very important in the commerce sector. When it was a question of choice, it has so far been mainly women who have opted for this arrangement, which enables them to combine paid employment with family responsibilities.

In the great majority of countries, women are the most affected by unemployment in the commerce sector. This may be attributed to a number of factors -- but the most significant is their higher representation in low-skilled, part-time and precarious employment. In 1997, among the countries for which data was available, the greatest gender difference in the unemployment rate in commerce was in Poland (4.7 per cent unemployment for the sector as a whole, compared with 18.7 per cent for women in the sector). Among the transition countries, only Latvia and Lithuania had lower rates of unemployment for women in commerce than the overall sectoral rate. Similarly, Australia and the United Kingdom were the only industrialized countries in which women's unemployment in the sector was lower than the overall sectoral rate. In Asia, where employment in commerce has been particularly hard hit in recent years -- and more especially following the 1997 economic and financial crisis -- there are indications of women workers having been disproportionately more affected compared to men, even if hard data is rather limited.

The impact of globalization and restructuring on employment in commerce therefore clearly has important consequences for gender and equality-related policies and initiatives throughout the world.

#### Box 1.5

##### **The clothing distribution channel in France**

Retail trade is one of the most important sectors of the French economy, accounting for 13.3 per cent of employment. Retailing is characterized by low wages, a workforce that is mostly young and female, and a relatively large share of part-time employment. Within the retail sector, clothing retailers account for almost one-half of all employment, 57 per cent of sales, and more than 15 per cent of all firms.

Greater size and the introduction of new computer technology and other modern management practices have dramatically changed the nature of the internal organization of retailers, and of the job duties that are performed. Part-time work is more prevalent, the skill composition of work has been altered, and productivity has increased.

These changes, however, have not stimulated much growth in jobs. Neither have they substantially altered the nature of work in clothing retailing. The retail trade sector remains characterized by low earnings, high female labour force participation (55 to 60 per cent), high employee turnover, and weak unionization. Part-time employment and part-time labour contracts have become more pronounced in recent years, particularly in hypermarkets and supermarkets. The increase of part-time employment is an indicator of labour flexibility for employers, but of "precarious" work for employees.

Today, the clothing retailing sector plays an active role in the traditional textile clothing "filière"; it has completely changed the rules of competition and especially the content of jobs among both producers and retailers. A new model for regulating and controlling clothing commodity channels has been emerging since the early 1990s. It combines flexible production and lean distribution, with a complete mixture of short-term and long-term contracts aimed at the delivery system. Many of the changes in structure and organization of clothing retailing are also being felt through the entire "filière". The largest retailers have had a substantial impact on the upstream apparel and textile manufacturing sectors. These retailers have emphasized the importance of reducing the prices charged by manufacturers, improving the delivery speed and completeness of orders, and the shifting of various additional services to the manufacturing sector. Retailers have also developed new partnerships with subcontractors and have stimulated traditional manufacturers to alter manufacturing practices, relationships between manufacturers and the retail sector, as well as cooperation among manufacturers and subcontractors.

Source: ILO.

The rise in "non-standard" work does not necessarily mean a higher degree of precariousness. Part-time or temporary work may be chosen freely by certain individuals. For example, in 1997, 58.5 per cent of part-timers in the 15 EU countries did not want a full-time job, and a further 9.5 per cent combined part-time work with school education or training. The share of voluntary part-timers was even higher among women.

\* \* \*

This chapter has attempted to demonstrate the extent to which employment growth, in general, and the proportion of employment in commerce in total employment, in particular, have been influenced by globalization and restructuring. It is extremely difficult, however, to establish the exact correlation between globalization and employment in the commerce sector as other economic, political and technological factors need to be taken into account.

The employment situation in the commerce sector generally improved during the 1990-97 period. In a majority of countries the number of workers in the sector increased. Similarly, the proportion of commerce in total employment increased in one country out of two.

The magnitude of commerce's contribution to employment between 1990 and 1997, and hence its importance to economic well-being in different regions of the world, is best

viewed in absolute terms. In the 24 industrialized countries for which statistics are available, approximately 6 million new jobs were created in the sector. The sector also generated 1.5 million new jobs in 19 transition economies for which data are similarly available. In the 17 Asian and Pacific countries reviewed, a remarkable 40 million jobs, half of them in China alone, were created during the same period. Six million new jobs were created in 27 countries in Latin America and the Caribbean during the same period.

The share of commerce in total employment for the 35 countries studied was 18 per cent: it accounts for 15 per cent in the industrialized countries, 12 per cent in countries in economic transition, 17 per cent in the countries of Asia, and 20 per cent in Latin America. It is also worth noting that the sector's annual employment growth is significantly higher than for overall employment in a majority of countries. At 6 per cent and 4 per cent respectively, the transition countries and Latin America recorded the highest growth rates for the sector between 1995 and 1997.

The commerce sector's ability to retain the present employment levels or, better yet, to raise its employment capacity will largely depend on the continued increase in purchasing power and economic growth.

Other specific aspects of employment related to the impact of globalization and restructuring are covered in Chapters 2, 3 and 4.

---

## **2. Internationalization and new commercial circuits**

### **2.1. Recent trends**

Trade in distribution services takes place mainly through both commercial presence and cross-border supply. The two major components, wholesale trade and retailing, are supplied primarily through commercial presence, but this may change in the light of recent technical developments. Trade in franchising and other distribution circuits is usually undertaken on a cross-border basis, whereas commission agent services are supplied cross-border and through commercial presence.

#### **2.1.1. The changing face of retailing**

Retailers play a critical role in the marketing process. Not only do they transfer goods from producers to customers, they also channel information back from consumers. The importance of retailing is underlined by its immense size; in the United States alone it employs about 25 million people. The "new-style" retailers seem to have adopted a philosophy and a new operating style. Rather than monitor the inventory of each item themselves, they move much of the responsibility for ensuring product availability to suppliers. Suppliers accomplish this by monitoring sales at the point of sale on a real-time basis through computerized links. They then automatically replenish stock when

inventory levels run low. Payments are made through automated bank-to-bank transfers to suppliers, eliminating much paperwork.

Dramatic gains in distribution and marketing efficiency are realized when manufacturers and retailers work together. "Partnering" between these two groups represents a major departure from their previous antagonistic relationship; it recognizes that both are part of a single process -- which can be greatly streamlined and simplified -- for distributing products to customers. Partnering thus provides the advantages of vertical integration without its attendant drawbacks. It has roots in the "quick-response" movement in the clothing industry. In the grocery business, it is known as Efficient Consumer Response (ECR) (see Chapter 4).

Apart from facilitating partnerships, technology is having an impact on retailing inasmuch as electronic shopping is replacing much store-based retailing. For many time-pressured customers, shopping online or via a catalogue for next-day delivery provides greater time value than a trip to the mall or shopping centre.

Catalogue retailers might be the most affected by electronic shopping. Although electronic shopping has some of the same limitations as catalogue retailing, such as delivery times, it can provide customers with much more information than catalogues.

Retailing, entertainment and recreation are also converging. Entertainment companies, such as *Walt Disney*, *Warner Bros.*, *Discovery Communications Inc.*, *Sony* and *Viacom*, are moving into retailing in a big way, while retail developers are rapidly adding entertainment options to their new and existing developments. In the rediscovery of the link between shopping and entertainment, there is a much more explicit focus on using entertainment to differentiate the retail experience from conventional and electronic retailing. Some new retail developments incorporate nightclubs, zoos, virtual-reality rides, comedy clubs, target ranges, musical revues and stadium-style cinemas. Retailing is also converging with learning. Customers can develop expertise in new areas and parents make their limited time with their children more meaningful. Customers come to such stores not just to buy products or learn skills but to browse, socialize and be with other people. They also spend more than in a traditional shopping centre.

Finally, it is expected that regional internationalism will prevail rather than a full-blown globalization of the retail industry. Given that the supply function is not sufficiently globalized, global retailers would have to deal with different suppliers in different parts of the world, erasing much of their scale advantage. Retailers will therefore probably try to dominate a particular area (because of shared costs) rather than spread out thinly throughout the world.

### 2.1.2. International mergers and acquisitions

Mergers and acquisitions (M&A) are only one approach to internationalization. Alternatively, companies can participate in joint ventures or build up their own foreign

subsidiaries through organic growth. However, M&A activity is dominating foreign direct investment (FDI) flows among the leading developed economies.

In 1998, European retailers were the most active purchasers and targets of international retail trade M&A activity. Retail trade was globally the tenth most active industry. The total value of cross-border deals in retailing accounted for \$17,967 million in 1998. In the wholesale trade, North America was a more important target than Europe. The total value of cross-border deals in wholesaling accounted for \$6,553 million in 1998.

The annual value of international retailing M&As increased from \$1,729 million in 1991 to \$17,967 million in 1998. The annual value of international wholesaling M&As increased much less, from \$1,675 million in 1991 to \$6,553 million in 1998.

Among the strongest United States performers in foreign retail markets are:

- *Wal-Mart*, now the largest retailer in Mexico and Canada, with major plans for Germany and Brazil through acquisitions (see box 2.1). The company recently bid £6.7 billion for the United Kingdom's *Asda*.
- *The Gap*, now with 15 stores in Japan. Next in line for expansion are countries with strong textile industries. The company is contracting with local manufacturers and in adjacent low-wage countries to assure competitive pricing for apparel.
- *Toys 'R' Us*, now the largest toy retailer in Japan, attributing its successes to its sourcing strategy.

Among the strongest European performers in foreign retail markets are:

- *Metro group AG* (Germany), which entered a joint venture with Turkey's largest supermarket retailer and acquired Netherlands retailer *Makro*. *Metro's* foreign presence will include the United Kingdom, Spain, Portugal, Greece, the Netherlands, Belgium, the Czech Republic and Poland.
- *Carrefour SA* (France), which grew to 323 hypermarkets worldwide with the opening of its first store in Poland. About 60 per cent of the company's revenues are now generated by its 207 foreign stores.
- *Pinault-Printemps-Redoute* (France) which sees most growth generated by foreign business. The retailer bought a Swedish mail-order firm and 40 per cent of *Brylane*, the largest United States-based mail-order company. It plans to open buying offices in Hong Kong and Shanghai and expand retail activities and building materials distribution in Latin America.

One retailer in Asia is poised to take advantage of the consumer spending rebound when it occurs:

- *Jasco Co. Ltd.* (Japan) has followed a strategy of diversifying its interests as a local retailer and shopping centre developer. To attract United States companies to its shopping centres, it negotiates major land deals, expanding its operations

with local acquisitions. It is also thriving on leveraging cost-saving technology solutions.

**Box 2.1**  
***Wal-Mart***

<i>Wal-Mart stores in the US</i>	2,435 (includes 565 <i>Wal-Mart Supercenters</i> ): during the fiscal year that ended (FYE) 31/1/99, <i>Wal-Mart</i> opened 37 discount stores, closed one, and relocated or expanded two additional stores, and opened 123 <i>Supercenters</i> (including 88 discount store replacements).
<i>SAM'S Clubs in the US</i>	451 clubs: during the fiscal year that ended 31/1/99, <i>Wal-Mart</i> opened eight new <i>Sam's Clubs</i> , and relocated or expanded five additional clubs.
<i>Wal-Mart Stores International</i>	<i>Wal-Mart Stores, Inc.</i> (WMT) operates 704 units: Argentina (13), Brazil (13), Canada (152), Germany (95), Mexico (410), and Puerto Rico (14), and under joint venture in China (3) and the Republic of Korea (4). During the fiscal year that ended 31/1/99, <i>Wal-Mart</i> opened or acquired 114 international units -- Argentina (4), Brazil (6), Canada (9), China (2), Germany (74), Republic of Korea (4), Mexico (14), and Puerto Rico (1).
History	<ul style="list-style-type: none"> <li>• First <i>Wal-Mart</i> opened in 1962 (Rogers, AR).</li> <li>• First <i>SAM'S Club</i> opened in 1983 (Midwest City, OK).</li> <li>• First <i>Supercenter</i> opened in 1988 (Washington, MO).</li> <li>• First <i>International Store</i> opened in 1991 (Mexico City).</li> </ul>
Company trade territory	<i>Wal-Mart</i> serves more than 90 million customers weekly in 50 States, Puerto Rico, Canada, China, Mexico, Brazil, Germany, Argentina and the Republic of Korea.
Total employees	<ul style="list-style-type: none"> <li>• United States -- more than 780,000.</li> <li>• Internationally -- more than 130,000.</li> <li>• Total employees -- more than 910,000 worldwide.</li> </ul>
Employment	FYE 31/1/99: 910,000 -- 10% increase over the previous year. In 1997-98 <i>Wal-Mart</i> created 105,000 jobs -- a 16 per cent increase in its workforce.

### 2.1.3. Leading companies

The largest wholesalers are from the United States and Western Europe. Among the major wholesalers included in the list Global 500, there are, however, only three European ones -- two from Germany and one from Ireland (see table 2.1). Among the list of Global 500 retailers, there are three from Asia and three from Europe. The rest are from the United States (see table 2.2).

**Table 2.1. Top wholesale trade companies among Global 500, 1997**

Company	Global 500 revenues rank	Revenues		Profits	
		\$ millions	% change from 1996	\$ millions	% change from 1996
<i>McKesson Corporation</i>	174	20 857.3	32.8	154.9	15.7
<i>Supervalu Inc.</i>	222	17 201.4	3.9	230.8	31.8
<i>Franz Haniel &amp; Cei. GmbH</i>	226	16 907.1	0.9	177.6	-13.6
<i>Ingram Micro Inc.</i>	233	16 581.5	37.9	193.6	75.0
<i>Fleming Companies Inc.</i>	254	15 372.7	-6.8	25.4	-4.9
<i>Sysco Corporation</i>	281	14 454.6	7.9	302.5	9.2
<i>Bergen Brunswig Corporation</i>	387	11 660.5	17.3	81.7	11.1
<i>Cardinal Health Inc.</i>	415	10 968.0	23.8	181.1	61.9
<i>Edeka Zentrale</i>	465	9 887.3	-8.3	46.8	19.2
Total	-	133 890.4	-	1 394.4	-

Source: *Fortune Magazine* (New York).

**Table 2.2. Top general merchandise companies among Global 500, 1997**

Company	Global 500 revenues rank	Revenues		Profits	
		\$ millions	% change from 1996	\$ millions	% change from 1996
<i>Wal-Mart Stores Inc.</i>	8	119 299.0	12.4	3 526.0	15.4
<i>Sears, Roebuck and Co.</i>	50	41 296.0	8.0	1 188.0	-6.5
<i>K-Mart Corporation</i>	76	32 183.0	2.4	249.0	0
<i>J.C. Penney Co. Inc.</i>	87	30 546.0	29.2	566.0	0.2
<i>Dayton Hudson Corporation</i>	107	27 757.0	9.4	751.0	62.2
<i>The Daiei Inc.</i>	120	25 882.2	-8.5	9.9	0
<i>Federated Department Stores Inc.</i>	246	15 668.3	2.9	536.0	101.6
<i>Groupe Pinault-Printemps</i>	256	15 280.0	-2.8	488.8	21.1

<i>MYCAL Corporation</i>	262	15 005.8	-7.3	83.2	-39.1
<i>Karstadt Group</i>	300	13 720.4	-14.1	93.6	141.3
<i>Marks &amp; Spencer PLC</i>	308	13 536.5	8.8	1 361.2	13.7
<i>The May Department Stores Co.</i>	344	12 685.0	0.7	775.0	2.6
<i>Takashimaya Co. Ltd.</i>	431	10 463.9	-8.7	67.7	-19.1
Total	-	373 323.1	-	9 695.4	-

Source: *Fortune Magazine* (New York).

In Europe, the top 20 retailers include retailers from Germany, France, the United Kingdom and the Netherlands. In Asia, Japan is very dominant. Among the top 35 retailers, Australia has two companies and the Republic of Korea one company. The rest are from Japan (see table 2.3). Table 2.4 shows employment in some of the largest retail companies in different countries.

**Table 2.3. Top Asian retailers among Asia 1,000, 1998 (\$ millions)**

Asia Week 1,000 rank	Company	Country	Main business	Sales	Net profit	Assets	Equity	Market capitaliz- ation
29	<i>Ito-Yokado</i>	Japan	Retailing	25 867	582.4	16 318	7 756	22 820
62	<i>Coles Myer</i>	Australia	Retailing	14 305	289.8	4 983	1 872	4 964
74	<i>Woolworths</i>	Australia	Retailing	12 867	207.9	3 039	1 021	3 880
106	<i>Takashimaya</i>	Japan	Department stores	10 269	68.4	7 312	1 775	2 439
130	<i>UNY</i>	Japan	Department stores	8 702	106.1	5 123	1 792	3 275
136	<i>Mitsukoshi</i>	Japan	Department stores	8 413	-320.6	5 165	276	1 302
152	<i>Daimaru</i>	Japan	Department stores	7 251	11.4	3 603	587	619
231	<i>Seibu Dept. Stores</i>	Japan	Department stores	5 073	4.2	3 736	98	-
241	<i>Isetan</i>	Japan	Department stores	4 880	21.2	4 350	990	2 116
267	<i>Marui</i>	Japan	Department stores	4 531	158.9	6 011	3 265	6 316

279	<i>Tokyu Dept. Store</i>	Japan	Department stores	4 312	-127.1	3 827	597	232
284	<i>Matsuzakaya</i>	Japan	Department stores	4 214	-29.7	2 167	637	887
349	<i>Hankyu Dept. Stores</i>	Japan	Department stores	3 445	9.6	2 804	833	1 144
369	<i>Nagasakiya</i>	Japan	Clothes retailing	3 226	-35.0	3 144	9	158
484	<i>Kintetsu Dept. Store</i>	Japan	Department stores	2 491	4.8	1 401	106	-
510	<i>Seven-Eleven Japan</i>	Japan	Convenience stores	2 371	504.2	4 877	3 514	29 947
512	<i>Parco</i>	Japan	Fashion stores	2 356	6.8	1 846	429	242
561	<i>Best Denki</i>	Japan	Electronics retailing	2 202	-29.4	1 550	788	884
573	<i>York-Benimaru</i>	Japan	Retailing	2 166	52.3	839	655	1 419
650	<i>Lotte Shopping</i>	Korea, Rep. of	Department stores	1 906	21.4	2 137	304	-
652	<i>Joshin Denki</i>	Japan	Electronics retailing	1 904	-27.5	1 157	489	104
673	<i>Chiyoda Co.</i>	Japan	Shoe retailing	1 853	20.9	1 261	531	252
723	<i>Deodeo Corp.</i>	Japan	Electronics retailing	1 735	-97.9	1 358	518	422
724	<i>East Japan Kiosk</i>	Japan	Retailing	1 734	-8.2	n.a.	n.a.	-
739	<i>Tobu Dept. Stores</i>	Japan	Department stores	1 689	n.a.	n.a.	471	-
743	<i>Amway Japan</i>	Japan	Household goods retail	1 681	191.1	911	524	1 646
773	<i>Odakyu Dept. Store</i>	Japan	Department stores	1 615	-32.6	n.a.	n.a.	-
807	<i>Senshukai Co.</i>	Japan	Retailing	1 545	3.5	1 046	526	290
829	<i>Sogo</i>	Japan	Department stores	1 498	5.2	3 018	341	205
834	<i>Cécile</i>	Japan	Mail-order sales	1 482	-21.7	807	350	297
899	<i>Aoyama Trading</i>	Japan	Clothes retailing	1 338	82.2	2 155	1 835	1 765
917	<i>Daikuma</i>	Japan	Discount stores	1 308	13.8	493	n.a.	-
918	<i>Keiyo</i>	Japan	Household	1 308	5.7	792	350	192

			goods retail					
926	<i>Marutomi Group</i>	Japan	Shoe retailing	1 291	-4.1	824	181	38
987	<i>Nagoya Mitsukoshi</i>	Japan	Department stores	1 193	8.2	n.a.	n.a.	-

n.a. = not available.

Source: *Asia Week*.

**Table 2.4. Employment in some of the largest companies**

Name of company	Country of origin	Number of employees
<i>Wal-Mart Stores</i>	United States	825 000
<i>Sears Roebuck</i>	United States	296 000
<i>J.C. Penney</i>	United States	260 000
<i>K-Mart</i>	United States	258 000
<i>Kroger</i>	United States	212 000
<i>Metro</i>	Germany	177 470
<i>Jardine Matheson</i>	United States	175 000
<i>Dayton Hudson</i>	United States	149 500
<i>Coles Myer</i>	Australia	148 346
<i>Safeway</i>	United States	147 000
<i>Koninklijke Ahold</i>	Netherlands	142 020
<i>Limited</i>	United States	137 100
<i>Home Depot</i>	United States	130 000
<i>Tesco</i>	United Kingdom	124 172
<i>Carrefour</i>	France	123 437
<i>American Stores</i>	United States	121 000
<i>May Department Stores</i>	United States	116 000
<i>Federated Department Stores</i>	United States	114 700
<i>J. Sainsbury</i>	United Kingdom	114 042
<i>Delhaize "Le Lion"</i>	Belgium	107 208
<i>Ito-Yokado</i>	Japan	102 617
<i>Daiei</i>	Japan	100 000

<i>Woolworths</i>	Australia	100 000
<i>Winn-Dixie Stores</i>	United States	95 000
<i>Karstadt</i>	Germany	94 463
<i>Albertson's</i>	United States	94 000
<i>Toys 'R' Us</i>	United States	93 000
<i>CVS</i>	United States	90 000
<i>George Weston</i>	Canada	83 000
<i>Groupe Auchan</i>	France	81 000
<i>Publix Super Markets</i>	United States	76 750
<i>Asda Group</i>	United Kingdom	76 619
<i>Walgreen</i>	United States	70 500
<i>Groupe Pinault-Printemps</i>	France	63 301
<i>Lowe's</i>	United States	58 504
<i>Migros</i>	Switzerland	57 051
<i>Republic Industries</i>	United States	56 000
<i>Great Atlantic &amp; Pacific Tea</i>	United States	52 400
<i>Promodès</i>	France	50 781
<i>Safeway</i>	United States	50 580
<i>Groupe Casino</i>	France	49 990
<i>Kingfisher</i>	United Kingdom	49 225
<i>Marks &amp; Spencer PLC</i>	United Kingdom	48 200
<i>Costco</i>	United States	42 750
<i>Otto Versand</i>	Germany	41 476
<i>MYCAL</i>	Japan	38 322
<i>Jusco</i>	Japan	41 177
<i>Inchcape</i>	United Kingdom	37 889
<i>Seiyu</i>	Japan	19 752
<i>Takashimaya</i>	Japan	17 101

Source: *Fortune Global 500* (1998).

#### 2.1.4. Foreign affiliates of wholesalers and their share in sales figures

According to the World Trade Organization in a document on distribution services (1998), two sources of information are available for trade in distribution services through foreign affiliates. Until recently, it states, the United States was the only country which

collected such statistics on a regular basis, but now the Statistical Office of the European Communities has also begun work in this area.

The United States data suggest that wholesale trade is the largest single component of distribution services and accounts for a significant proportion of all services trade through affiliates. Wholesale services sold to foreign persons by affiliates of United States firms were nearly \$15 billion in 1995, representing 9 per cent of total American sales of services through affiliates (see table 2.5).

**Table 2.5. Sales of services to foreign persons by foreign affiliates of US wholesale and retail trade companies, 1995 (\$ millions)**

	All countries	Canada	Europe					Latin America and other west. hemisphere	Other countries			
			Total	Of which:					Total	Of which:		
			France	Germany	Netherlands	Switzerland	UK		Australia	Japan		
Wholesale	14 977	746	8 491	741	535	857	774	926	2 071	3 669	658	1 075
Retail trade	1 133	138	761	(D)	251	10	30	100	57	177	(D)	4

(D) Suppressed to avoid disclosure of data of individual companies.

Source: World Trade Organization (WTO). Data from the survey of current business, 1997, quoted in WTO: *Distribution services*, Background note by the secretariat, doc. S/C/W/37, Geneva, 1998.

Wholesales services bought from affiliates of foreign companies by people in the United States exceeded \$9 billion in 1995, which amounted to 7 per cent of total American purchases of services from foreign affiliates (see table 2.6).

**Table 2.6. Sales of services to persons in the United States by US-based affiliates of foreign retail and wholesale trade companies, 1995 (\$ millions)**

	All countries					Canada					Europe					Latin America and other west. hemisphere		Other countries	
	Total	Of which:				Total	Of which:				Total	Of which:				Total	Of which:	Total	Of which:
		France	Germany	Netherlands	Switzerland	UK												Australia	Japan
Wholesale	9																		
	363	105	3	202	41	2	339	213	293	249	5	6	051	0	5	885			
Retail trade	575	41	207	26	0	41		34	185	48	279	0	125						

Source: WTO. Data from the survey of current business, 1997, quoted in WTO: *Distribution services*, op. cit., Geneva, 1998

Services provided by retailers constitute a much smaller proportion of total trade in services. In 1995, United States sales and purchases of retailing services through affiliates amounted to only \$1.1 billion (less than 1 per cent of services sales) and \$0.6 billion (less than 0.5 per cent of services purchases), respectively.

The most important markets for the United States in wholesale trade were Japan and Germany but in retail trade the United Kingdom replaced Germany. Sales of professional and commercial equipment and supplies -- in particular related to computers -- account for a large share of the sales of American affiliates. Affiliates of Japanese and United Kingdom companies provided the largest amounts of wholesale services in the United States, whereas those from Germany and the United Kingdom were the most important in retail trade.

### 2.1.5. Foreign companies and their share of wholesale and retail turnover in Europe

In 1997, the Statistical Office of the European Communities (Eurostat) presented the first foreign affiliates trade (FATS) statistics which provide information on demographic, employment and financial aspects of foreign affiliates operating in wholesale and retail trade in the European Union. The statistics showed -- perhaps not surprisingly -- that the enterprises of all countries were to a great extent nationally owned. While seven of the nine countries studied had less than 2 per cent foreign-owned enterprises, Ireland and Italy had a much larger proportion (17 per cent and 16 per cent) respectively. Fifty-eight per cent of the non-national enterprises were owned by companies or individuals from other European Union countries, though in the United Kingdom, the owners of 63 per cent of foreign-owned enterprises belonged to countries outside the EU.

According to the WTO, foreign-owned enterprises account for a significant share of the total turnover of the wholesale and retail trades in the European Union. On the whole, turnover is greater for foreign enterprises owned by extra-EU countries than those owned by other EU countries, but this reflects the importance of non-EU enterprises in the United Kingdom and the Netherlands, and is not the pattern in other EU countries.

## Box 2.2

### **Operation of international firms in Poland speeds up the globalization processes in commerce**

The access of Poland to the WTO and the bilateral agreements it reached with the European countries (and others) have provided opportunities for Polish trade firms to join the globalization trend. At the same time these firms set favourable conditions for foreign investors in the sector of business services.

The scale of the globalization of Polish commerce may be mainly attributed to the influx of foreign capital, which takes the form of direct investment of foreign business networks.

The foreign retail business enterprises enter the Polish market mainly by:

- strategic alliances and interception of property assets from the firms operating in the Polish market, and formation of its own networks on such a basis, e.g. *Globi, Robert, Savia*;
- investments, e.g. *Auchan, Leclerc, Geant*;
- franchising, e.g. *Rema 1000, Spar, Yves Rocher*.

The most characteristic feature of the **globalization of retail trade** in Poland is the development of networks of large spacious commercial establishments distributing consumables:

- networks of supermarkets (e.g. *Globi, Robert, Rema 1000*);
- networks of hypermarkets (e.g. *Auchan, Geant, Hit*);
- networks of discount stores (e.g. *Netto, Plus, Sezam, Tip*);

and to a lesser extent with non-food goods (e.g. *Ikea, Nomi, Rossman, Leroy Merlin*).

Another form of the globalization of the retail trade in Poland is the development by foreign firms of:

- networks of consumer-oriented convenience stores (e.g. *Star Market* at petrol stations);
- networks of specialized shops offering branded products and a high standard of customer service, usually to well-to-do customers (e.g. *Pierre Cardin, Yves Rocher*);
- direct sales (transactions at the client's home or office, e.g. *Oriflame S.A.* (cosmetics firm); *Lux*; a Swedish producer of vacuum cleaners; *Avon* (an American cosmetics firm)).

The **globalization of wholesale trade** is taking the form of:

- establishment of contracted distribution channels by foreign manufacturing enterprises; different varieties of such distribution channels have been formed by, among others, *Procter & Gamble, Unilever, Danone, Tchibo, Bonduelle*;
- organization of networks of independent retail stores around a common distribution centre, e.g. *Comi Polska*, a branch of a French capital group *Intermarché*;

- organization of distribution based on the logistical considerations:
  - distribution centres that take over from the enterprise basic logistics functions, such as: expedition of goods, their storage and collection; the role of a wholesale intermediary;
  - centres of logistics services organized and run by specialized enterprises, which render various services on order (storing, coding of goods, paletting, etc.). The logistics centres' services are based on integrated information systems of all the participants of the distribution channel (producers, wholesalers, retailers), e.g. *Raben Logistic Sp. z.o.o.* in Gabki near Poznan.

Source: Ministry of Economy, Department of Commerce and Services, Warsaw, 1999.

### 2.1.6. Affiliates of United States and European companies in developing countries

The WTO reports that, unfortunately, there are no comprehensive statistics on the importance of affiliates' trade in other parts of the world. There is apparently considerable investment in Asia and the Pacific from United States companies such as *J.C. Penney*, *Toys "R" Us*, *Price Club*, *Compaq Computer*, *Wal-Mart*, *Levi Strauss*, *Tower Records*, *Ace Hardware*, *McDonald's*, *Kentucky Fried Chicken*, *IBM* and *K-Mart*. Other major companies established in the region include *Marks and Spencer*, *HMV*, *Virgin* (United Kingdom), *Siemens* (Germany), *Makro* (Netherlands), *Gucci* (Italy), *Carrefour* and *Delifrance* (France), and a number of Japanese wholesalers such as *FamilyMart*. Companies, such as *Wal-Mart*, *J.C. Penney*, *Makro* and *Carrefour*, are also reported to have established a presence in several Latin American countries such as Argentina, Brazil and Chile.

The enterprises mentioned above provide an interesting spectrum of reasons for the internationalization of distribution services. Some of these companies, such as *Compaq Computer* and *Levi Strauss*, are better known as manufacturers, and their emergence as exporters of distribution services is likely to derive from their competitive edge in the manufacture of the underlying products.

*Compaq Computer's* entry into distribution probably reflects the advantages of vertical integration for manufacturers of consumer durables for which pre- and post-sales service are important. *Levi Strauss's* decision to market its own products may stem from the desire to eliminate the negative "vertical externality" arising from the successive mark-ups charged when the distribution chain is made up of independent enterprises.

*McDonald's* and *Kentucky Fried Chicken* provide restaurant services, but their sales of food not consumed on the spot constitute distribution services. Their competitive advantage is related not only to the underlying product, but also to the manner in which the sales are made, involving attributes such as speed and simplicity. Companies such as *Marks and Spencer* have successfully developed retailing brand names which perform a quality-certification function for consumers. Finally, there are the companies, like *Wal-Mart*, whose advantage derives primarily from their retailing format, i.e. the manner in which they offer products for sale and conduct sales.

### 2.1.7. Franchising as a popular form of entry to the markets of emerging and transition economies

Franchising is still new to most emerging and transition economies. With the exception of a few countries, there are no statistics on franchising operations. In recent years, however, there has been a marked tendency for international retailers to enter the markets of these economies through franchising. In many countries, the concept of franchising has been introduced by the multinationals -- and in many cases they dominate the franchising in these countries.

According to the "Guia do Franchising", an annual survey prepared by the Brazilian Franchising Association (ABF) and Editora Globo, 14 per cent of all franchises operating in Brazil, amounting to 102 companies, are headquartered outside the country. Among these foreign franchises, almost two-thirds, or 66 companies, are headquartered in the United States, followed by Italy and France, with eight franchises each. However, the sales of these foreign franchises accounted for 36.3 per cent of the total sales of franchises (see table 2.7).

**Table 2.7. Sales of foreign and domestic franchises in Brazil, 1996-98 (\$ millions)**

	1996	1997	1998
Total market sales	11 500	12 075	12 728
Locally owned sales	7 300	7 665	8 048
Total foreign sales	4 200	4 410	4 680
US-owned sales	2 100	2 205	2 315

Exchange rate: US\$1.00=R\$1.17 (June 1998).

Source: Brazil Franchise Census, specialized trade publications; trade contacts.

Prior to the political changes in 1989-90, franchising was practically non-existent in Hungary. Despite its short history, however, franchising is developing rapidly in some sectors. Today, there are about 150-180 franchise systems in the country, representing 2-3 per cent of the retail sector. In terms of dollar value, an estimated 40 per cent of the systems are foreign, while 60 per cent are Hungarian-owned. The bulk of franchises are found in the fast food sector, followed by other retail operations, including clothing, photo services, copying/printing, petrol stations, business services and hotels.

The United States is the leading investor in Hungary (35 per cent of total foreign direct investment), with investments in a variety of sectors: food, telecommunications, automotive, household consumer products, apparel and services.

Official Hungarian statistical reports do not keep any records on franchising and there are no statistics on the sales of the foreign franchises. The following statistics are unofficial estimates based on information from the Hungarian Franchise Association and official government statistics on the retail trade (see table 2.8).

**Table 2.8. Number of foreign and domestic franchises in Hungary, 1995-97**  
(estimate) (\$ millions)

	1995	1996	1997 (estimate)
Domestic franchises	318	350	385
Foreign franchises	212	230	255
US franchises	106	115	128
Total	530	580	640

Source: Hungarian Franchise Association.

Although franchising is a relatively new industry in the Czech Republic, there were about 30 franchisers operating in the country at the end of 1997, the majority of which were foreign (see table 2.9). These franchising companies are now operating hundreds of individual units (shops, restaurants, etc). Retail and fast food dominate the industry. The majority of international retailers who have entered the Czech market in recent years have done so through franchising. These include *Next* (United Kingdom), *Mothercare* (United Kingdom), and *Future Kids* (United States).

**Table 2.9. Major foreign franchisers in the Czech Republic, 1997**

Germany	Italy	France	United Kingdom	United States
<i>OBI</i> (household, hobby), <i>Nord-West-Ring</i> (shoes wholesale), <i>Family Frost</i> (frozen food), <i>Zimbo Czechia</i> (meat, delicatessen)	<i>Stefannel</i> (fashion boutiques), <i>Versace</i> (fashion boutiques), <i>Ungaro</i> (fashion boutiques), <i>Versus</i> (fashion boutiques), <i>Sergio Rossi</i>	<i>Yves Rocher</i> (cosmetics), <i>Kookai</i> , (clothing) <i>Lacoste</i> (clothing)	<i>Marks &amp; Spencer</i> (clothing), <i>Mothercare</i> (mother and baby clothing and accessories), <i>Next</i> (family fashion)	<i>McDonald's</i> , <i>Kentucky Fried Chicken</i> , <i>Pizza Hut</i> , <i>TGIFriday's</i> , <i>Dunkin Donuts</i> , <i>Future Kids</i> (computer training for children),

(fashion boutiques)

*Holiday Inn,  
Choice Hotel  
International,  
Rentex-Hertz*

Source: The Central and Eastern European Business Information Center (Washington).

---

### 2.1.8. Made in emerging economies and consumed in industrialized countries

As discussed earlier, the distinction between manufacturing, wholesaling and retailing sectors is becoming increasingly blurred. In many cases today, the function of the wholesale distribution subsector itself may be partially or fully undertaken by the manufacturer, while some retailers are active in both wholesale distribution and manufacturing.

Companies like *Levi Strauss*, which both manufacture and market their own products, are increasingly relocating their manufacturing plants from industrialized to emerging economies. *Levi Strauss Americas*, a division of *Levi Strauss & Co.*, announced in February 1999 that it will close 11 of its 22 manufacturing plants in the United States and Canada and lay off about 5,900 people, or 30 per cent of its workforce in North America. The company is shifting a large portion of manufacturing for the American and Canadian markets to contractors throughout the world; at present 60 per cent of its manufacturing is carried out overseas. It markets brand name apparel in more than 60 countries. The company employs a staff of about 1,900 people at its San Francisco headquarters, and approximately 30,000 people worldwide. It operates 41 production facilities and 27 customer service centres in more than 50 countries.

While low-tech products are increasingly made in developing countries, an increasing proportion of those products are sold to consumers in industrialized countries. According to an overview of human development published by the UNDP in 1998, consumption per capita had increased steadily in industrialized countries (about 2.3 per cent annually) over the past 25 years, spectacularly in East Asia (6.1 per cent) and at a rising rate in South Asia (2.0 per cent). Yet these developing regions were far from catching up to levels of industrialized countries, and consumption growth had been slow or stagnant in others. Indeed, the report states that the average African household at the time of writing consumed 20 per cent less than it had 25 years previously. Globally, the 20 per cent of the world's people in the highest-income countries accounted for 86 per cent of total private consumption expenditures – the poorest 20 per cent, a minuscule 1.3 per cent.

An OECD study on the employment outlook in 1997 suggested that the incidence of imports from emerging economies to OECD countries was especially high in sectors characterized by both relatively low earnings and a high incidence of manual labour, e.g. textiles and clothing. It identified six sectors which were net importers, i.e. sectors in which the value of imports from the emerging economies exceeded the value of the sector's exports to these countries. These sectors were textiles and apparel, wood

products, rubber and plastics, computer equipment, transport (other than aircraft and motor vehicles) and a variety of light consumer products such as toys.

Apparel manufacturers and retailers are increasingly turning to low-cost suppliers abroad to supplement their domestic production. Free trade agreements have contributed to this phenomenon. For example, the North American Free Trade Agreement (NAFTA) provides reduced or duty-free entry and eliminates most quotas for apparel products from Mexico and Canada that meet certain rules of origin. Under the US Special Regime Program, apparel assembled in Mexico from United States-formed and cut fabric is allowed quota-free and duty-free entry into the United States market. Finally, under the US Special Access Program for the Caribbean, also known as the 807A Program, certain apparel products assembled in participating countries from fabric wholly formed and cut in the United States are afforded quota-free entry and preferential duties upon re-entry into the United States.

While apparel is more and more made in emerging economies, apparel manufactured in the United States is increasingly made by immigrants from developing countries. Joel Kotkin, of Pepperdine University, estimates that in Los Angeles, which is America's biggest manufacturing centre, the clothing business has become the second largest employer after the entertainment industry. This renewal has been spurred by a new generation of Asian, Middle Eastern and Latin American immigrants.

On the other hand, John Dunlop, a former US Secretary of Labor who is studying the links between America's textile, clothing and retail industries, claims that "labour costs no longer decide the global economy: time is the critical issue". Oscillating fashions, promotion schedules and seasonal offerings demand flexibility. *Nike's* distributors have to order their shoes from Asian suppliers months in advance -- a system which relies on the shoes staying in fashion. When the enthusiasm of American teenagers for *Nike* cooled last year, the system clogged up with unsold sneakers.

## **2.2. Employment effects**

### **2.2.1. Acquired firms are more likely than non-acquired firms to lose jobs: The case of the United States**

Comprehensive data covering mergers and acquisitions among both large and small firms in all industries were not available in any country before 1998. Most studies on mergers before that date were therefore based on special industry databases or samples of large firms for which appropriate data could be compiled. The newly available information from the Longitudinal Enterprise and Establishment Microdata (LEEM) file, produced by the United States Small Business Administration (SBA) Office of Advocacy in cooperation with the United States Bureau of the Census, enables analysts for the first time to examine the sources and effects of United States merger and acquisition activity. This analysis focuses on industries, establishments and employment by employment size of firm.

Of the 5.5 million private sector establishments with employees in the United States in 1990, 3.8 million were still active and had employees in 1994. Among these surviving establishments, 98,924 (2.6 per cent) had been acquired by another firm some time between 1990 and 1994. These acquired establishments employed 5.25 million people in 1990 -- accounting for 6.9 per cent of 1990 employment in all surviving establishments. They came from 43,085 different source firms. By 1994, these firms were part of 31,555 acquiring firms, and their aggregate employment had dropped 3.3 per cent to just over 5.07 million. In comparison, employment in the surviving establishments that had not been acquired rose by 470,000 or 0.7 per cent (see table 2.10).

**Table 2.10. Job change in acquired and non-acquired surviving establishments by industry, United States, 1990-94**

Industry division	Acquired establishments				Non-acquired establishments			
	1990 employment	Net change	Job gains	Job losses	1990 employment	Net change	Job gains	Job losses
Manufacturing	1 360 870	-5.6	16.9	-22.5	15 313 215	-2.7	14.1	-16.9
Transportation, communications, public utilities	244 726	0.8	25.1	-24.3	4 342 876	-0.8	18.6	-19.4
Wholesale trade	287 712	-2.7	22.3	-25.0	4 799 006	2.4	21.1	-18.7
Retail trade	951 737	-12.6	12.7	-25.3	14 542 342	-2.6	15.1	-17.7
Finance, insurance, real estate	644 857	-14.6	19.6	-34.2	4 695 374	-3.5	18.9	-22.4
Services	1 622 009	7.8	29.4	-21.6	22 560 140	7.2	22.6	-15.5
Other	135 696	-3.8	26.8	-30.6	4 720 166	-5.5	22.5	-27.9
All industries	5 247 607	-3.3	21.3	-24.6	70 974 100	0.7	18.6	-18.0

Source: US Small Business Administration: Office of Advocacy.

In absolute terms, the largest number of acquisitions occurred in retail trade (about 29,000 or 30 per cent of all acquired establishments), followed by finance and services (about 22,000 or 23 per cent each) (see table 2.11).

**Table 2.11. Acquired establishments and their employment by industry, United States, 1990-94**

Industry division	Establishments acquired		Employment acquired	
	Number	Per cent of industry	Number	Per cent of industry
Manufacturing	8 371	3.1	1 360 870	8.2
Transportation, communications, public utilities	5 090	3.4	244 726	5.3
Wholesale trade	9 372	2.9	287 712	5.7
Retail trade	29 291	3.1	951 737	6.1
Finance, insurance, real estate	22 473	6.4	644 857	12.1
Services	22 434	1.6	1 622 009	6.7
Other industries	1 893	0.5	135 696	2.8
All industries	98 924	2.6	5 247 607	6.9

Source: US Small Business Administration: Office of Advocacy.

### 2.2.2. Greater risk of jobs loss in the acquisition of large firms

Surviving establishments owned by large firms (with 500 or more employees in 1990) were five times more likely than small firm establishments to be acquired: 9.2 per cent of large firm establishments were acquired, compared with 1.6 per cent of small firm establishments.

Employees in large acquired firms were also more likely to lose their jobs. Business locations acquired from large firms by large firms lost 9.3 per cent of their employment on average, while those acquired from small firms by small firms gained 1.1 per cent. Those acquired from large firms by small firms lost almost 40 per cent of their employment and those acquired from small firms by large firms gained 18.5 per cent.

In contrast to the overall 6.7 per cent employment losses in establishments acquired by firms already in existence in 1990, the employment in establishments acquired by new firms started after 1990 grew substantially, on average by 6.2 per cent. Establishments acquired by new firms from small source firms grew even faster, by 11.1 per cent.

### 2.2.3. Among acquired establishments net job loss rate is higher in retail than in wholesale

In only two of the major industries did acquired establishments have positive job growth in 1990-94, and in both of these major industrial groupings in the United States -- transportation, communications, and public utilities; and services -- the average job growth rates in the surviving acquired establishments exceeded those in non-acquired establishments. Service establishments in both categories had both above-average job-creation rates, and below-average job loss rates, resulting in unusually high net job growth rates for surviving establishments.

The finance, insurance and real estate industry had the highest net job loss rate for acquired establishments, primarily because of a high rate of job destruction. The acquired establishments in retail trade also had a high net job loss rate, mainly as a result of a low rate of job creation. Wholesale trade had a low net job loss rate, mostly due to a high rate of job creation (see table 2.10).

#### 2.2.4. Displaced workers often end up with part-time jobs and lower earnings

In the United States, the total number of workers displaced between January 1995 and December 1997 (regardless of how long they had held their jobs) was 8 million. A total of 3.6 million workers were displaced from jobs they had held for at least three years. In both groups, 76 per cent of displaced workers had been re-employed when surveyed in February 1998.

In the wholesale trade 79.8 per cent of all displaced workers, and 74.7 per cent of those who had three or more years of tenure were re-employed. In the retail trade, 73.6 per cent of all displaced workers and 75.1 per cent of those who had three or more years of tenure were re-employed by February 1998. Altogether 1,882,000 workers were displaced in wholesale and retail trade (see table 2.12).

**Table 2.12. Total displaced workers in the United States in January 1995-December 1997 by selected characteristics and employment status in February 1998**

Occupation and industry of lost job	Total number (thousands)	Per cent distribution by employment status in February 1998			
		Total	Employed	Unemployed	Not in labour force
Managerial and professional specialty	1 708	100.0	82.6	8.7	8.8
Technical, sales and administrative support	2 650	100.0	75.5	9.8	14.7

Service occupations	853	100.0	69.2	16.5	14.3
Precision production, craft and repair	924	100.0	81.8	10.7	7.5
Operators, fabricators and labourers	1 510	100.0	71.1	15.1	13.8
Farming, forestry and fishing	138	100.0	73.2	18.8	8.9
Agricultural wage and salary workers	114	100.0	79.5	15.9	8.2
Non-agricultural wage and salary workers	7 634	100.0	76.4	11.5	12.1
Private wage and salary workers	7 189	100.0	76.3	11.7	12.0
Construction	636	100.0	79.5	15.3	5.2
Manufacturing	1 782	100.0	74.6	11.3	14.2
Durable goods	992	100.0	78.6	10.8	10.6
Non-durable goods	791	100.0	69.5	11.8	18.7
Transportation and public utilities	524	100.0	81.0	7.7	11.3
Wholesale and retail trade	1 882	100.0	74.8	10.4	14.8
Wholesale trade	347	100.0	79.8	10.1	10.1
Retail trade	1 535	100.0	73.6	10.5	15.9
Finance, insurance and real estate	511	100.0	77.9	11.3	10.8
Services	1 815	100.0	77.0	12.9	10.1
Government workers	444	100.0	77.1	8.5	14.4

Source: Bureau of Labor Statistics (BLS).

A surprisingly high proportion of those 508,000 wholesale and retail trade workers who had three or more years of tenure on the full-time job they lost ended up with a part-time job (58,000) or with lower earnings in their new full-time job (149,000) (see table 2.13 and figure 2.1).

**Table 2.13. United States displaced workers who lost full-time wage and salary jobs in January 1995-December 1997 and were re-employed in February 1998 by industry of lost job and characteristics of new job (in thousands)**

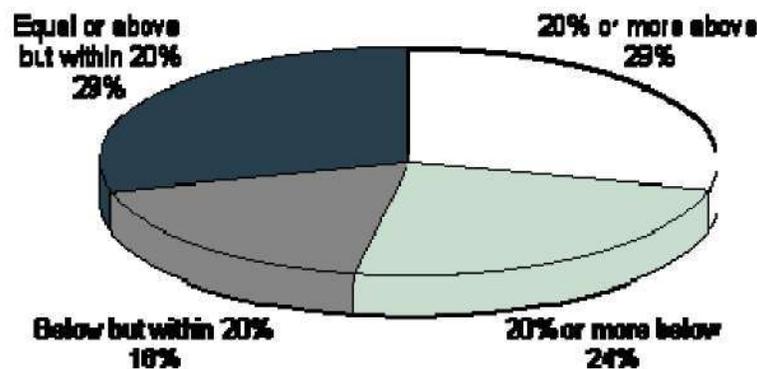
Industry of lost job      Total    Re-employed in February 1998

	Part-time	Full-time total	Earnings of the full-timers relative to those of lost job				Self-employed or family workers	
			20% or more below	Below but within 20%	Equal or above but within 20%	20% or more above		
Total who lost full-time wage and salary jobs	413	265	1 984	417	334	501	426	164
Mining	16	-	11	4	2	2	-	5
Construction	126	8	109	23	17	36	11	9
Manufacturing	691	88	564	140	72	132	106	39
Durable goods	403	47	340	71	55	85	65	15
Primary metal industries	15	2	10	4	2	2	2	3
Fabricated metal products	55	6	49	15	9	6	8	-
Machinery, except electrical	77	10	62	16	10	17	12	5
Electrical machinery	59	4	55	5	14	15	6	-
Transportation equipment	72	13	59	8	9	18	13	-
Automobiles	25	2	22	6	4	7	4	-
Other transportation equipment	47	11	37	2	5	11	9	-
Nondurable goods	289	41	224	69	17	47	41	24
Transportation and public utilities	183	15	161	58	30	23	24	8
Wholesale and retail trade	508	58	406	84	65	102	103	44
Finance, insurance, and real estate	202	23	171	33	43	52	27	8
Services	541	61	431	59	81	112	127	49
Professional services	328	54	253	38	39	60	90	22

Other service industries	213	8	178	21	42	52	38	28
Public administration	85	7	76	4	13	26	20	2

Source: BLS.

**Figure 2.1. Earnings of displaced wholesale and retail trade workers in the United States (January 1993-December 1997) in their new job in February 1998 (workers who had 3 or more years of tenure on a full-time job they had lost)**



**Data from Bureau of Labour Statistics**

In February 1998, the median job tenure in the retail trade was only 1.8 years in the United States. Job tenure of retail trade sales workers was even shorter -- 1.2 years. In January 1983, it had been 1.6 years. In the retail trade, the median job tenure is shorter than in any other industry, and the job tenure of retail trade sales workers is shorter than in any other profession. In wholesale trade, the median job tenure is much longer -- 4.1 years.

### 2.2.5. The scale of transnational corporations puts local enterprises out of business -- especially in developing countries

According to the WTO, foreign-owned wholesale and retail trade enterprises are more important in their share of employment than in numerical terms, suggesting that foreign enterprises are on average much larger than national enterprises. In the document on distribution services it issued in 1998, the WTO stated that about 1 million persons in the European Union were employed by enterprises owned or controlled by interests outside the country in which the enterprise operated.

In emerging and transition economies, the local firms are finding it even harder to compete with the multinationals than those in industrialized countries. The chief advantage of the foreign-owned enterprises is size.

Latin America serves as a good example of emerging economies. Overall among developing regions of the world, Latin America and the Caribbean were the star performers in 1997 in attracting foreign direct investment (FDI) from transnational corporations (TNCs).

Latin America's family-owned corner shops and small supermarkets have found it hard to match the low unit costs of the foreign giants and the bargaining power they wield over suppliers. In Brazil, for instance, intense competition forced the owners of four of the top dozen supermarket chains to sell out in 1996. *Carrefour's* Brazilian operation extracts net profit margins of close to 4 per cent, compared with only around 1 per cent in France.

*Carrefour* arrived in Brazil in the 1980s and, by cutting margins and increasing volumes, has become one of the country's leading supermarket chains. In 1998, *Wal-Mart* of the United States began opening stores. Meanwhile, the arrival in São Paulo of *Blockbusters*, the United States video rental chain, is set to shake up the overpriced local market.

Although the foreign-owned stores are larger -- i.e. the number of employees is higher than in domestically owned stores -- their sales/worker are much higher than in small stores. For instance in Brazil, where food retailing accounts for 2.5 per cent of GDP and 4.2 per cent of employment, traditional retail formats, such as minimarkets, counter stores, street markets, and individual street vendors, account for 64 per cent of sales and 93 per cent of employment, while modern high-volume formats such as supermarkets and hypermarkets account for the remaining 36 per cent of sales and 7 per cent of employment.

#### 2.2.6. Multinationals challenge the locals to boost their labour productivity

A recent study by the OECD estimated the productivity levels in various manufacturing and service sectors. The United States is the undisputed leader among the big economies. At the bottom of the league, according to the OECD, is Australia. But the data showed rapid "catch-up" towards United States levels in Japan and Europe throughout the 1960s and 1970s. Since 1985, however, American productivity advantage over most continental European economies has actually widened.

The differences in labour productivity are attributable to differences in the establishment scale, capital and especially technology intensity, and employee skill level (education and training).

Comparative studies on the labour productivity of foreign and domestically owned companies concentrate heavily on the manufacturing sector. The studies suggest that the labour productivity of foreign companies is higher than that of domestically owned companies -- even in the United States. A US Bureau of Economic Analysis (BEA)

survey published in 1996 covered establishments owned by investors from six major investing countries: Canada, France, Germany, Japan, the Netherlands and the United Kingdom. One of the main findings of the analysis was that the labour productivity of the establishments of the six countries varied significantly from country to country, but each country's establishments had higher labour productivity than US-owned establishments in the same industries.

In developing countries, the differences in the labour productivity of locals and multinationals are even more marked. In Brazil, for instance, labour productivity in the modern Brazilian food retail formats (supermarkets and hypermarkets) is about half that of United States food retailers, but in traditional formats it is just one-eighth of the American level, bringing down the sector's overall total to only 14 per cent of the United States standard. With so much scope for improving productivity, food retailing is a highly attractive sector for international operators.

However, the locals in both Latin America and Central and Eastern European transition economies have started to fight back against the multinationals who are overrunning them. A sharp drop in the cost of retailing technology has also helped the indigenous chains. They can now afford to install the stock-control and logistics computers that have contributed so much to the giants' efficiency.

In Latin America, a number of retailers are already successfully defending themselves. One of them is Brazil's *Companhia Brasileira de Distribuicao* (better known as *Pao de Azucar*, the name under which its supermarkets trade). Like so many other Latin American businesses, it is a family firm that has recently undergone far-reaching changes. It has brought in professional managers, and expanded and modernized by raising capital through share issues. With net sales of 3 billion reais (\$3 billion) in 1996, *Pao de Azucar* is Brazil's second largest retailer, with 155 supermarkets, ten hypermarkets and 11 discount food stores (plus a chain of electrical shops). *Pao de Azucar* is spending around half of its annual investment budget of almost \$250 million on new stores, but the rest is aimed at increasing the productivity of existing shops. All this has implied investing in information technology and doubling the size of its central warehouse in São Paulo. The firm increased its sales per employee by 11.6 per cent in 1996. According to Luiz Antonio Viana, *Pao de Azucar's* chief executive, this gain was achieved by introducing incentive bonuses and flexible working practices. But the highest return on investment, he says, comes from refurbishing the firm's old-fashioned neighbourhood supermarkets because many of these occupy prime locations -- an advantage that newcomers cannot always match.

The locals have also successfully implemented other strategies which help them to boost their productivity. Besides the implementation of modern logistic processes linked to modern information systems, the Czech retailers have begun to join forces through mergers. For example the first and the third largest Czech firms, *Interkontakt* and *M-holding*, merged in 1997 to create *Interkontakt group*, the largest distribution chain in the Czech Republic. Retailers are joining forces in organizations such as Czech Marketing Distribution (CMD) and by forming alliances. For example, to obtain volume discounts,

smaller firms are forming "purchasing alliances" to buy in bulk from suppliers, and "voluntary alliances" to deal with selected wholesalers.

**Table 2.14. Growth and labour productivity in the distribution sector in OECD countries in 1979-94**

Country	Growth in the distribution sector, 1979-94		
	Value added	Employment	Labour productivity
United States <sup>1</sup>	3.84	1.76	2.04
Japan	4.74	0.58	4.14
Germany	2.22	0.96	1.24
France	1.84	0.18	1.65
Italy	2.47	1.46	1.00
United Kingdom	2.53	0.72	1.80
Canada	2.86	1.51	1.33
Australia	1.94	1.97	-0.02
Austria <sup>2</sup>	3.13	1.31	1.80
Belgium	0.82	-0.11	0.93
Czech Republic	n.a.	3.13	n.a.
Denmark	2.20	-0.96	3.19
Finland	0.89	-1.10	2.02
Greece	1.61	3.15	-1.50
Hungary	n.a.	n.a.	n.a.
Iceland	n.a.	1.51	n.a.
Ireland	n.a.	1.70	n.a.
Korea, Republic of	7.42	4.50	2.80
Luxembourg	3.46	1.40	2.02
Mexico	1.12	1.28	-0.16
Netherlands	3.42	1.61	1.79
New Zealand	n.a.	n.a.	n.a.
Norway	n.a.	0.40	n.a.
Poland	n.a.	n.a.	n.a.

Portugal	1.55	0.42	1.13
Spain	1.93	1.36	0.56
Sweden	2.79	-0.64	3.45
Switzerland	n.a.	n.a.	n.a.
Turkey	n.a.	n.a.	n.a.

n.a. = not available.

<sup>1</sup> Distribution and retail trade include restaurants. <sup>2</sup> Includes machinery and equipment rental and leasing.  
Source: World Trade Organization.

### **3. The market-place becomes more liberal**

#### **3.1. Recent trends**

##### **3.1.1. Liberalization of foreign direct investment and competition laws go hand in hand**

In many countries the liberalization of trade and foreign direct investment (FDI) policies has been accompanied by the establishment of competition authorities.

By 1997, at least 143 countries and territories had enacted FDI-specific legislation. Initially, many investment laws were intended to control the entry and operations of foreign companies; however, recently, most countries have adopted frameworks designed to attract investors and create a favourable investment climate.

Since 1990, some 30 developing countries and transition countries have introduced anti-trust laws. In all, nearly 80 countries now have such laws.

There are a number of competition policy-related concerns in the distribution sector. The most pertinent issue is the possible anti-competitive consequences of vertical relations between manufacturers and distributors. In addition to vertical restraints, several types of regulation have received attention, in particular restrictions on pricing, promotion, large-scale outlets, shop opening hours, and zoning and planning laws.

It is striking that many of the regulations that affect the distribution sector are often implemented by local governments and municipalities, which have a powerful influence on the authorization of new stores and the conditions of operation. Distributors are therefore confronted not only with national differences in policy, but also divergent national, regional and local attitudes.

The European Commission has developed a specific policy for four types of distribution: exclusive selling whereby a producer undertakes to sell only to a particular distributor in a given territory; exclusive buying whereby a distributor undertakes only to take supplies

of the product in question from a single producer (found in particular for beer and petrol); franchising, whereby a franchisee is allocated an exclusive territory in which to exploit the know-how and intellectual property rights of the franchiser and sell in a standardized format; selective distribution whereby distributors are chosen on the basis of objective criteria necessary for the efficient distribution of the product in question and these distributors can only sell either to final consumers (to whom they normally provide a service in addition to the product), or to other selected distributors who fulfil the objective criteria. This system is found in particular for highly technical products -- e.g. certain consumer electronics -- or luxury goods -- e.g. perfumes.

The development of new international distribution circuits has prompted many to call for an increased coordination of competition policies. Some economists have argued, according to the WTO, that vertical relations (ranging from full integration to certain vertical controls) serve primarily to improve internal efficiency of the vertical structure while others have pointed to possible anti-competitive effects from vertical foreclosure, but the debate has produced few clear conclusions. In the trade context, tensions have arisen because of the perceived negative effect of vertical relations between domestic manufacturers and distributors on market access for foreign goods. A recent subject of dispute at the WTO provides a good example of this. On 18 May 1995, the *Eastman Kodak* company filed a complaint with the United States Government alleging that *Fuji* and its network of domestic wholesalers and distributors sustained anti-competitive practices to limit the Japanese market access of *Kodak* films and print paper.

In its document on distribution services, the WTO points out that the arrangements which have aroused concern include selective distribution, exclusive dealing, exclusive territories and retail price maintenance.

It goes on to say that the impact on conditions of competition in the distribution sector depends on whether and how competition authorities intervene. On balance, competition authorities have tended to adopt a relatively permissive approach towards non-price-based vertical arrangements, especially in the case of consumer durables like cars. The attitude to price-based arrangements has changed over time. A case in point is the United States, where retail price maintenance was exempted from anti-trust penalties in order to prevent chain stores and discount houses from undercutting branded goods prices specified by manufacturers and charged by smaller retailers. Despite this exemption, there was an erosion of retail price maintenance, which contributed to the boom in chain stores, discount houses and large retail outlets. Since distribution services have a close relationship with trade in goods, the trade regime for goods inevitably has an effect on the distribution sector. While the liberalization of trade in goods has facilitated the growth of trade in distribution services, the persistence of certain barriers to trade in goods also has a negative spillover effect on trade in distribution services.

Restrictions in the form of complex customs clearance procedures, differences in product standards, burdensome practices for certification and testing of products are among the non-tariff barriers which adversely affect the distribution trade. Still according to the WTO, there is evidence to suggest that technical harmonization and the removal of

barriers caused by differences in national product regulations and the elimination of border controls can greatly encourage the internationalization of distribution.

A number of WTO Members have undertaken to eliminate barriers and restrictions to trade in the services sector, including in the distribution services sector. However, commitments to full liberalization in the distribution services sector are rare. Some Members have undertaken commitments in the wholesale (34) and retail (33) services, and a smaller number on commission agents services (21) and franchising (23) (table 3.1). Even though many Members have not made commitments in any of these sectors, member States with commitments account for, on average, around 90 per cent of the GDP of all member States (see table 3.2).

Furthermore, according to the WTO, foreign investment regimes restrict market access in many countries. Wholesalers and retailers rely most heavily on the freedom to establish a commercial presence. Hence, barriers which limit the ability of firms to establish a commercial presence and to employ nationals from their home country affect these distribution services more significantly than franchising and commission agent services.

The general foreign investment regime crucially affects conditions of market access in many countries. Limitations on foreign investment, including those on the extent of foreign ownership (for instance, limiting foreign equity ownership to specific levels), on the type of legal entity required (such as the requirement to incorporate locally), on the ownership of specific assets (such as land), and on the scope of operations (restrictions on number and location of outlets) also have a strong effect on this sector. Similarly, the requirement to form a joint venture with local suppliers curtails the freedom of foreign suppliers to decide on the optimal business arrangement. More generally, the application of economic needs tests to determine whether new entry will be allowed, reduces regulatory transparency and leaves administrators with a high degree of discretion.

Given the high labour intensity of distribution (especially in retailing), the sector is affected by limitations on the employment of expatriate workers. Nationality requirements for staff prevent firms from minimizing labour costs through international recruitment. Residency requirements for managers and directors de facto disadvantage foreign suppliers even when the requirements are imposed on all distributors. Immigration policy, visa restrictions, and levies and charges for social security also impact on the sector.

**Table 3.1. Numerical summary of WTO member States' commitments on Modes 1, 2 and 3 in distribution services, 1988 (number of member States and percentage share of GDP)**

Sector	Member States with commitments	Member States with full	Cross-border supply (Mode 1)	Consumption abroad (Mode 2)	Commercial presence (Mode 3)
--------	--------------------------------	-------------------------	------------------------------	-----------------------------	------------------------------

	(% share of GDP of all member States)	commitments on Modes 1, 2 & 3	Full			Limited			Unbound		
			Full	Limited	Unbound	Full	Limited	Unbound	Full	Limited	Unbound
Commission agents	21 (86%)	2 (0.04%)	3 (0.04%)	14 (97%)	3 + 1 (3%)	3 (0.04%)	16 (98%)	1 + 1 (2%)	2 (0.04%)	19 (99.96%)	
Wholesale trade	34 (92%)	4 (0.06%)	9 (2%)	19 (93%)	5 + 1 (5%)	11 (35%)	18 (60%)	3 + 1 (5%)	5 (0.1%)	29 (99.9%)	
Retailing	33 (92%)	1 (0.004%)	6 (2%)	19 (92%)	7 + 1 (6%)	7 (2%)	22 (93%)	4 + 1 (5%)	1 (0.004%)	30 (99.98%)	
Franchising	23 (89%)	1 (0.03%)	10 (4%)	13 (96%)	0 (0%)	10 (5%)	11 (92%)	1 + 1 (3%)	1 (0.03%)	20 (99.9%)	

Notes: Full: complete sectoral coverage, no market access or national treatment limitations. Limited: incomplete sectoral coverage, market access/national treatment limitations. Unbound: both market access and national treatment unbound or market access unbound. Unless otherwise indicated (as in the second column), percentages for each subsector are calculated as a share of GDP of all member States with commitments in the sector.

Source: WTO, *Distribution services*, 1998, op. cit.

**Table 3.2. Numerical analysis of the limitations maintained by WTO member States in distribution services, 1998**  
(number of member States and % share of GDP)

Sector	Limitations on sectoral coverage applying to Modes 1, 2 & 3	Cross-border supply (Mode 1)			Consumption abroad (Mode 2)			Commercial presence (Mode 3)		
		Only horizontal limitation	Sector-specific limitation		Only horizontal limitation	Sector-specific limitation		Only horizontal limitation	Sector-specific limitation	
			Market access	National treatment		Market access	National treatment		Market access	National treatment
Commission agents	14 (46%)	1 (31%)	1 (6.8%)	0 (0%)	2 (2.1%)	0 (0%)	0 (0%)	3 (31%)	1 (1.3%)	1 (0.7%)
Wholesale trade	23 (98%)	0 (0%)	3 (38.5%)	1 (2.4%)	1 (0.05%)	1 (29%)	0 (0%)	7 (3.1%)	8 (48.5%)	1 (0.05%)
Retailing	24 (98%)	1 (0.2%)	4 (36%)	3 (35%)	2 (0.3%)	0 (0%)	1 (0.6%)	7 (2%)	8 (21.9%)	1 (0.6%)

Franchising	11	4	4	1	4	0	0	11	4	0
	(60%)	(33%)	(6%)	(3%)	(32%)	(0%)	(0%)	(39%)	(4%)	(0%)

Note: Some member States have maintained limitations on sectoral coverage as well as horizontal and sector-specific limitations. The figures in the rows do not, therefore, add up to the number of member States with limitations. Percentages for each subsector are calculated as a share of GDP of all member States with commitments in the sector.

Source: WTO.

Discrimination against foreign firms can also be through taxation or subsidization, though tax incentives sometimes also favour foreign investors. Performance and local content requirements can have the effect of modifying competitive conditions against foreign investors. Discrimination against foreign workers can also be through taxation or subsidization, denial of access to benefits and amenities, restrictions on the rights of dependants and unfair treatment in the workplace.

Limitations on cross-border trade of distribution services include measures such as discriminatory taxation of goods delivered by mail. Consumption abroad is typically constrained by limitations on foreign currency and spending abroad imposed on travellers, and sometimes by travel restrictions.

For example, the Republic of Korea previously had a permit system which restricted floor space and the number of stores for foreign investment. In January 1996 these restrictions were lifted and the permit system was changed into a notification system. In the same vein, in Indonesia the law on foreign investment barred entry of foreign firms in the distribution sector. By Presidential Order, a foreign trading house was only allowed to set up representative office for agency activities and could not conduct sales or marketing. However, in January 1996 a deregulation programme was announced, allowing foreign export traders to deal in any product, and to establish 100 per cent foreign-owned import traders to supply areas like export processing zones. Furthermore, since June 1996, foreign manufacturers have been allowed to directly conduct wholesale activities of their own products and to buy complementary products from related companies abroad for wholesale. Since March 1998, similar liberalization steps have been taken in retailing.

### 3.1.2. Differences in regulations on licence and opening hours have widened

National regulations on the creation of enterprises, siting and rental of commercial premises and opening hours are very different, and in recent years these differences have widened. Some countries have liberalized regulations, while some have tightened them.

In Belgium, Italy and Japan, for instance, licences or diplomas are required to open a shop. By way of contrast, in France, Germany, Portugal and the United Kingdom, only some activities, such as the sale of arms and munitions and that of alcoholic beverages, are regulated.

As regards the construction of commercial premises, specific regulations requiring the authorization of stores above a certain size threshold have been in force since the 1970s

in Belgium, France and Italy. In 1996, France tightened its legislation on the establishment of large stores (*Loi Raffarin*) making it mandatory for administrative authorization to be sought before opening any store larger than 300 m<sup>2</sup>. At the beginning of 1996, Spain introduced similar legislation. Zoning regulations can also hinder the establishment of large stores. In the United Kingdom, strict planning laws -- part of the explanation for high land prices and rents -- make it harder to build mega-stores. For example, it recently took *Costco*, an American-style discount warehouse club, two years to obtain outline planning permission for a new store. *Costco* is now planning to open a further 47 new warehouses in the United Kingdom, selling more than 3,500 products at discounts ranging up to 40 per cent. A recent report on productivity conducted by the McKinsey Global Institute, quoted in an OECD report on *Regulation and performance in the distribution sector* (1997), found that, on average, selling-space in the United Kingdom was 40 per cent more expensive than in the United States and 20 per cent more than in France.

One of the most representative examples of differentiation between "national policies" are regulations relating to opening hours, legislation which can have an important impact in border areas. In Austria, for example, consumer demand led to an increase in cross-border shopping to countries where hours were more liberal -- and this sped up deregulation to some extent. At present, regulations on opening hours differ substantially across the OECD area. In a number of countries, opening hours are completely free, although local authorities (states or municipalities) can often introduce some restrictions. In other countries, opening and closing hours are tightly regulated and limits are imposed on the total weekly opening hours of shops.

In 1998, Italy abolished most of its license regulations and allowed shops to be open much longer. If a shop takes up less than a certain number of square metres, no permission is now needed to start trading and shopkeepers are able to sell more or less what they want; there are no longer separate licenses for 14 different categories of merchandise.

In Japan, until 1992, any firm that wanted to set up a large shop had to ask permission from existing small ones -- and these rarely voted to commit commercial suicide. Japan was therefore dominated by shops employing two people or fewer, accounting for 14 per cent of total retail sales, double the figure for the United States. In 1992 the law was relaxed. Anyone who wanted to open a big shop merely had to seek permission from local government committees.

Over the past few years, Austria, Denmark, Germany, Greece, Japan, the Netherlands and the United Kingdom have all liberalized regulations on shop opening hours, which were previously rather restricted.

In Norway, on the other hand, legislation was adopted in 1998 preventing larger shops from opening on Sundays. Stein Erik Hagen, the owner of *RIMI*, the country's biggest supermarket chain, was quick to notice that the new law allowed all but the largest petrol stations to open on Sundays. Hence his announcement, on 23 July 1998, that in

partnership with a Swedish company, *ICA*, he would be buying 1,500 filling stations from *Statoil*, the national oil company, for 26 billion kroner (\$3.4 billion).

### Box 3.1

#### **The Large-Scale Retail Store law in Japan**

More than any other factor, the Large-Scale Retail Store (LSRS) law which was introduced in 1974 has shaped Japanese retailing over the past decades; now, its deregulation is bringing major change.

The law required retailers planning to open a Category I store to submit a detailed business plan to the local Business Regulation Council (Shogyo Chosei Kyogi, in Japanese) for approval. Next, the opinion of the local chamber of commerce had to be obtained. It then went to the Ministry of International Trade and Industry (MITI), where further input from local officials and residents was collected. The final permit often included a number of changes to protect local retailers, such as a reduction in floor space. The process took between one year and 18 months. Needless to say, this process -- difficult enough for Japanese retailers and developers -- was seen as an almost insurmountable problem by foreign retailers.

The revision of the LSRS law in 1991 (effective from January 1992) aimed at simplifying the process of opening large stores. First, the minimum size of Category I stores was doubled from 1,500 to 3,000 m<sup>2</sup>. Second, the task of examining applications for new stores was transferred from the local Business Regulation Council to the LSRS Council, a MITI advisory body. Third, larger stores were allowed to stay open until 7 p.m. -- an hour later -- without special permits, and the number of compulsory closing days was changed from four a month to 44 a year.

One immediate effect of the 1991 revision to the LSRS law was to shorten the procedure for opening new stores. The maximum time required for the various applications and approvals was set at 12 months. With the shorter lead time, a greater percentage of proposed projects have come to fruition since retailers have been better able to react to the business environment and build new store development into their planning. Before revision, there was a 30 per cent withdrawal rate within a year of the application date.

The LSRS law was revised further in May 1994. The following changes comprised the main body of the second revision:

- opening of new stores of up to 1,000 m<sup>2</sup> was liberalized;
- tenancy changes were liberalized;
- permits were no longer required for sales at non-store locations;
- stores could now stay open until 8 p.m. without a special permit;
- store holidays per year were reduced from a minimum of 44 days to a minimum of 24 days.

Particularly significant was the fact that no lengthy application process was required for stores under 1,000 m<sup>2</sup>. Other elements of the revision were considered positive mainly because they made large retailers' lives easier.

The newly acquired ability to stay open until 8 p.m. was welcomed by department stores but it also created some new problems. If stores continued to open at 10 a.m. as previously, the one-hour increase in work hours would necessitate a shift-work system.

Estimating the extent to which regulation increased costs for retailers is difficult. But before the latest revision in the law, each new store opening required 20 different kinds of permit relating to 18 different laws, 45 administrative requirements and more than 200 pages of documentation, leading to an annual

expenditure of 60 million yen.

Source: Japan External Trade Organization (JETRO).

## **3.2. Employment effects**

### **3.2.1. Liberalization of distribution favours high-value shop formats likely to increase jobs**

The transformation of retailing involves innovation in the form of new store formats focusing either on increasing efficiency through scale economies, or on increasing value to the customer through specialization in a particular product group.

Policy-makers are in a position to influence the kinds of formats that retailing entrepreneurs develop. By modifying anti-competitive practices they can foster job creation in high-value formats.

A study published in *The McKinsey Quarterly* (1994) suggests that product market barriers have restricted the development of high-value formats in favour of high-efficiency ones in France, Germany and Japan, and that this has ultimately harmed employment. Indeed, in the United States weaker constraints have resulted in a shift beyond high-efficiency to high-value formats and created jobs. Deregulated retailers in the United States created almost five jobs for every 1,000 working-age people between 1980 and 1990. In France, Germany and Japan, on the other hand, jobs have disappeared. In France, the drop was highest (-3.6 jobs for every 1,000 working-age people). In Germany (-2.1) and Japan (-2.3) the loss of jobs was almost the same.

### **3.2.2. Liberalization also encourages large stores which endanger traditional self-employment**

The main argument for restricting competition is the well-being of small shops and workers.

Germany's publishers claim that price-fixing allows them to subsidize less popular but worthier titles out of the profits from bestsellers. Take away the subsidy, they say, and sales would shift to discounted pulp titles, forcing good books off the shelves and small bookshops out of business, and concentrating power among a few greedy publishers and retailers. The German shopworkers' union and retailers' associations opposed the liberalization of existing rules on the business hours of stores in 1996, by arguing that the livelihoods of shopkeepers would be destroyed, the customers would quickly disappear to distant hypermarkets and the jobs would be lost.

In France, the license and price competition legislation which subjects the opening of large shops to administrative authorization and prohibits the resale of goods at a loss was justified in terms of the need to stop hypermarkets, such as *Carrefour* and *Leclerc*, from

driving small shopkeepers out of business. By hobbling new large stores, the argument goes, the Government is merely giving the small ones a chance.

There are a number of studies on the impact of the Japanese Large-Scale Retail Stores (LSRS) law of 1974 which restricted the establishment of large stores. The broad conclusion that has emerged from these studies is that this law had a profound effect on the establishment of large stores and on the size and density of retail outlets; the impact of its liberalization has been substantial (see box 3.1). The number of new stores of over 500 m<sup>2</sup> is increasing by almost 12 per cent a year. In addition, traditional "mom and pop" stores are disappearing and are often integrated in the larger convenience chains, such as *7 Eleven*. The liberalization of the LSRS law has also contributed to structural changes in the supply chain. In the past, manufacturers wished to standardize price setting across stores and often set prices to reflect the higher costs of small stores. Larger stores were not allowed to set lower prices but received volume rebates of special promotions for short periods. Currently, large retail stores often negotiate directly with manufacturers.

There are also a number of studies on the impact of the liberalization of opening hours. The results point to the same kind of employment effects as the studies on the liberalization of restrictions on the establishment of large-scale outlets.

Liberal opening hours strengthen the position of large firms, as these are generally better able to respond to longer opening times. Some small shops (e.g. convenience stores) may gain, but the majority will lose market share against larger shops. This is particularly likely in the food segment of the market, where smaller supermarkets and general food stores are likely to lose market share.

Consumer welfare is markedly enhanced when opening hours are liberalized. Longer hours allow consumers more time to make their choice and thus enhance the "entertainment" value of shopping. The employment effects of longer opening hours are unequivocally positive, mainly due to an increase in threshold labour, but possibly also as the result of increased sales.

In a working paper for the OECD, Dirk Pilat suggests that protecting small shops from large-scale outlets to save employment may not be needed. The developments over the past decades suggest that small shops continue to have an important place in advanced retail systems, particularly outside the mass food market. Small shops are increasingly becoming more specialized and customer-oriented. In addition, they are increasingly finding ways to remain competitive relative to large stores, for instance by engaging in cooperative arrangements, such as franchising, that allow them to reduce costs and achieve economies of scale. Many of them also find their own specialized "niche" in the market. However, small supermarkets and general food stores are likely to disappear due to competition from larger outlets (and small specialty stores), but this process is unlikely to affect overall retail employment.

Indeed, modern retail formats are quite labour-intensive. Large stores often need significant threshold labour, in particular if they are open during the evening and on

Sundays, or if they are service-oriented, and are therefore quite labour-intensive compared with traditional supermarkets or hypermarkets. Small specialty stores are often highly service-oriented and also require a high level of staffing. Thus, the distribution sector in the United States, arguably among the most advanced in the world, has continued to show rapid employment growth over the past 15 years. Furthermore, the liberalization of the LSRS law in Japan over the past five years appears not to have led to employment losses. More importantly, analysis at OECD in the context of the *OECD Jobs Study* suggests that slowing down adjustment by engaging in protectionist measures, whether internationally or domestically, is not the best answer to employment and unemployment concerns.

### 3.2.3. Flexible forms of work increase employment opportunities

The pressure for more flexible opening hours stems partly from a view that short opening hours are in conflict with a general demand for more flexible working hour arrangements. This demand arises partly due to greater diversity in working hours in the economy as a whole, as well as the higher participation of women in the labour force.

In the United States, according to analysis by Harriet Presser of the University of Maryland, one employee in five now works mainly outside conventional nine-to-five hours; and one in three families with children is what she calls a "split-shift couple", with one partner working chiefly outside normal daytime hours.

The initial regulation of opening hours was mostly intended to create a common day of rest (often Sunday) and to prevent employees from being forced to work excessive hours. Trade unions and shop employees have sometimes opposed the liberalization of opening hours, fearing that employees might be forced to work longer hours. However, in many countries working hours are already regulated in labour legislation. Additional legislation on shop opening hours to prevent employees from working long hours may thus not be required (see box 3.2).

Another important concern for employees is whether or not firms are willing to pay a premium for evening and weekend hours, which depends primarily on the relative bargaining strength of employees and firms in the distribution sector. The low degree of organization and the large share of part-time and informal labour in this sector suggest that the employees' bargaining strength may be relatively low.

#### Box 3.2

#### **The new collective agreement of *Carrefour France***

At *Carrefour France* (53,000 employees), the statutory introduction of a 35-hour week in 1999 has given the trade union and management the opportunity to overhaul completely the enterprise-level collective agreement. This fresh start has allowed them, at the same time, to introduce a gradual cut in working time, create 1,000 jobs and considerably upgrade the concept of part-time work. For the employees themselves, this has implied that from 1 June 1999 onwards, their working time was reduced to 35 hours (instead of

35¼ hours of actual work) and they obtained a sixth week of paid annual leave. Part-time employees (35 per cent of staff) were granted, amongst other things, a 2.1 per cent pay increase. The working time of managers will henceforth be calculated in days; managers will now work 214 days a year, which gives them an additional week's leave. Extra days worked will be paid at a premium rate or into a time-savings account. A staggered time schedule (from 29 to 41 hours per week) will be introduced to take account of peak and slack hours in the stores to ensure there is a balance of 35 hours on average per week over the year. Employees will be given, three weeks in advance, a detailed "schedule of duties" to be divided among them in accordance with their preferences. For its part, the management will be able to stagger their work schedules; they also obtained an overall freeze in pay increases in 1999 and a freeze (for those already employed) or the elimination (for new employees) of the seniority bonus which only existed in some stores.

Source: *Les Echos* (Paris), 1 Apr. 1999, p. 21.

A survey of about 5,000 retail workers in the United Kingdom suggests that a majority of Sunday workers in the retail sector see no disadvantages to working on Sunday. Most choose to do so for financial reasons and about 70 per cent receive at least one and a half the normal pay rates for working that day. This, at least, was partly the case for the food segment of the market; however, fewer Sunday workers in do-it-yourself (DIY) stores received premium payments -- or received lower premiums. A substantial proportion (34 per cent) of these workers were on part-term contracts of less than ten hours a week, suggesting that they only worked on Sundays. A follow-up study showed that managers of these stores were more dissatisfied with Sunday working than most of the other categories of workers. For managers, Sunday opening often meant extra work, most working one in three Sundays. Many managers felt "forced" to work on Sunday under contract or career pressures.

In the United States where regulations concerning licences or opening hours do not restrict the operation of stores, more than one-half of all cashiers are on part-time schedules. Hours of work often vary depending on the needs of the employer. Generally, cashiers are expected to work weekends, evenings, and holidays to accommodate customers' needs. However, because of this, many employers offer flexible schedules. For example, full-time workers who work on weekends may receive time off during the week. Because the holiday season is the busiest time for most retailers, many employers restrict the use of vacation time from Thanksgiving until the beginning of January. Most of the working conditions of the cashiers apply also to retail sales workers.

## **4. Improving the efficiency of the supply chain through information technology**

### **4.1. Recent trends**

#### **4.1.1. From producer-driven to consumer-driven distribution**

The distribution system has shifted 180 degrees from being producer-driven to consumer-driven. It is now the retailers who hold the power because they are the first to receive information about consumer preferences and can compete with other retailers, negotiate

with vendors and respond to consumer needs. This information, which is reluctantly shared, is handed on directly to manufacturers and other vendors in an efficient consumer response system. This induces at least two other fundamental changes in the system. It builds stronger alliances between retailers and vendors who have traditionally been adversaries. It also changes the objective function for firms up and down the distribution chain from that of maximizing revenue to maximizing return on assets (profits).

#### 4.1.2. Efficient consumer response

All producers, manufacturers, wholesalers and retailers try to develop programmes which improve production, distribution, and marketing efficiency. One major approach which has been adopted by some industries in a number of countries, Efficient Consumer Response (ECR), sets out to streamline and automate the distribution system from the production to the checkout line. The aim of ECR is that suppliers and retailers should work closely together to bring better value to the customer, maximizing consumer satisfaction and minimizing costs.

ECR usually concentrates on three core areas:

- merchandising and marketing. By restructuring promotional deals, ECR proponents hope to reduce the forward buying of stock and the diverting of products (i.e., buying in low-priced areas, and transporting and reselling in high-priced markets). Improved shelf-space and variety management could reduce warehouse and store costs. Better account management, customized promotions, account profitability analyses, and multi-functional selling teams may also improve system efficiency;
- replenishment, logistics, and product flow. By coordinating and integrating the approaches used by manufacturers and retailers to speed delivery, ECR attempts to reduce unnecessary handling, and thus lower costs. Recommended industry changes include joint management of stock to minimize warehouse costs, cross-docking operations (i.e., transporting goods directly from the manufacturer to trucks without first storing them in a warehouse) and improvements in packaging to reduce product damage;
- changes in administration and technology. Standardized bar coding of cartons and pallets would help improve efficiency. A new system of bar codes for variable-weight and date-coded products called UCC/EAN-128 has been developed. Use of electronic data interchange (EDI), electronic funds transfer (EFT), and computer-assisted ordering (CAO) may help reduce order errors and billing costs.

ECR has adopted four major strategies: efficient store assortment, making optimum use of shelf-space; efficient replenishment, by moving the "right product, to the right place, at the right time, in the right quantity, and in the most efficient manner possible"; efficient promotion, by simplifying trade promotion deals, offering alternative deals to meet distributor needs, managing consumer and store advertising, etc; and efficient product development, by obtaining better information on consumer preferences and on product attributes.

The cost savings from ECR would affect all distribution channels. A few firms have expressed some reservations because many of the programmes would initially reduce profit margins as initial costs are high and most of the benefits are long term. Others are concerned about inequities between those who bear the costs and those who reap the benefits.

#### 4.1.3. Changes in IT drive the structural change in the supply chain

One of the main reasons why productivity has grown faster in the wholesale and retail trades than in the service sector at large in the United States since the early 1970s is that wholesalers and large retail chains have invested heavily in information technology (IT). Since 1960, IT investment per worker in the United States has increased more quickly in wholesaling and retailing than in other major sectors. IT investments also comprise a larger share of total equipment spending in wholesale/retail than in other major sectors, except communications.

During the 1970s and 1980s, changes in IT initiated a new round of structural changes in the supply chain. One important development was the introduction of scanning technology and the Uniform Product Code in the 1970s. At the store level, this brought noticeable changes for consumers at the checkout line.

Equally important, however, was the fact that these technologies transformed the ordering process, enabling electronic data interchange (EDI) of orders to wholesalers and manufacturers. At the same time, the emergence of industry-supported mechanisms for sharing scanner data began to give firms in all segments of the supply chain access to timely, accurate, highly detailed data on product movement. This made it possible to schedule production and manage inventories more efficiently, and provided the raw data resources for more sophisticated analyses of consumer preferences and buying patterns.

IT-based changes in manufacturing technology also helped bring about change by lowering set-up and changeover costs, making it less expensive to schedule shorter production runs of a larger number of products and product sizes. Advances in IT also led to improvements in warehousing and logistics that lowered supply costs and dramatically shortened the time between receipt of an order and delivery to a retail store.

Rapid horizontal communication helps decision-makers at all levels make good merchandising decisions faster. For retailers, "going horizontal" means relying heavily on technology to assist in the communication of important business information. In fact, certain technologies are so widely used that they have virtually become requirements for effective competition. For example, many high-performing retailers now use satellite systems to upload point-of-sale data captured via scanners at store registers. This allows real-time communication between the stores and the head office.

Finally, the era of network-centric computing will markedly improve the management of global business -- both within a single organization and among the extending community of major business partners. In the network-centric age, the information superhighway will

lead to a vast system of information interstates, with powerful, large-scale networks devoted to transferring complex corporate data at fast speeds, and smaller paths for small businesses and consumers whose information needs are less demanding.

#### 4.1.4. Three forms of distribution channels have emerged

An industry body, the ECR Performance Measures Operating Committee, has identified three primary product distribution channels: wholesaler supplied; self-distributing retailer; and manufacturer direct store delivery (DSD).

In the wholesaler supplied channel, the three fundamental processes in the system -- manufacturing, distribution and retailing -- are performed by separate firms. Products flow from manufacturers to distribution centres operated by a wholesaler, and then on to retail stores.

In the self-distributing channel, distribution and retailing -- and sometimes manufacturing -- are under the control of the same firm. Products flow from manufacturers, or the company's own factories, directly into distribution systems owned and operated by the retailer.

Finally, in the DSD channel, manufacturing and distribution are under the control of the same firm. Products flow to retailers through distribution systems owned and operated by manufacturers.

Information technology and new business practices can help make the products most in demand flow faster through the entire chain and reduce stocks at all levels of the system; however, the benefits derived from these advances may best be realized through a comprehensive, integrated redesign of information systems and business processes. Such a change is difficult to achieve in an industry with many participants and a complex structure.

#### 4.1.5. Vertical integration puts pressure on the wholesalers

Vertical integration of the distribution chain puts pressure on the traditional role of wholesale companies while creating new opportunities for other operators, especially specialized logistics services companies.

Vertical integration implies that a number of retailers and manufacturers seek to take control of distribution activities formerly carried out by wholesalers and subsequently outsource the physical components of these activities to suppliers of logistics services.

The internationalization and expansion of the larger retailers and manufacturers substantially complicate wholesalers' distribution and sourcing methods. Manufacturers and retailers greatly value flexible, cheap and high-quality distribution and it is generally felt that wholesalers are incapable of meeting these stringent standards. Consequently, wholesalers are being dropped from the distribution chain or are taken over by

manufacturers and retailers. This allows the latter to absorb the profits that wholesalers typically derive from centralized purchasing, inventory management and so on.

Wholesalers are strongly dependent upon small, independent retailers. The case of household appliance wholesalers in the Netherlands illustrates well the situation. The overall market share of household appliance wholesalers in this country has been declining systematically, because many independent appliance stores have either been taken over by chains or have associated themselves with buying groups or franchisers (see table 4.1).

**Table 4.1. Market share of wholesalers per distribution channel, Netherlands, 1991**

Distribution channel	Percentage of business within this distribution channel involving national wholesalers
Appliance store chains	0
Appliance stores organized in buying groups and franchised appliance stores	22
Independent appliance stores	48
Other outlets (department stores, hypermarkets, photo stores, etc.)	0
All distribution channels	17

Source: Coopers & Lybrand.

This erosion of the commercial, buying power function of wholesalers is also accompanied by a threat to their physical distribution function. The increasing capability of suppliers of logistics services to execute and manage complex physical distribution provides manufacturers and retailers with a simple and cost-effective way of dealing with the complex physical issues of modern distribution logistics. This removes a barrier to vertical integration.

The shift away from wholesalers is illustrated in the way in which total distribution costs are divided between the various distributors in France. The market shares for retailers and manufacturers have changed only slightly, but figures for the wholesalers and logistics companies have changed radically (see table 4.2).

**Table 4.2. Consumer goods distribution in France: Distribution of market shares in 1985 and 1992 (in percentages)**

	1985	1992
Manufacturers	25.5	24.1
Wholesalers	43.0	31.1
Retailers	25.5	27.2
Logistics services suppliers	6.0	17.6
Total	100	100

Source: Coopers and Lybrand.

In theory this shift could be caused by an increased tendency of wholesalers to outsource their logistics. However, this seems unlikely. Logistics is a core business for most wholesalers, and consequently these companies are often reluctant to outsource it.

#### 4.1.6. Wholesalers are bought by manufacturers

Another indicator of the vertical integration of retailers and manufacturers may be obtained by observing the mergers and acquisitions in which wholesalers are involved. For this purpose Coopers & Lybrand developed a database combining information on 10,000 mergers and acquisitions involving wholesalers in the European Union for the 1981-95 period. From the information gathered, it is apparent that, in the majority of cases, wholesalers were bought by manufacturers and retailers who were far more active than wholesalers themselves or other (general) companies (see table 4.3). Logistics services companies played a marginal role in food and drink only. Furthermore, there was a marked variation across subsectors. While manufacturers acquired the highest share of wholesalers in all subsectors, food and drink retailers were the predominant players among retailer acquirers (table 4.3).

**Table 4.3. Who bought the European wholesalers in 1981-95? (in percentages)**

	Food and drink	Clothing	Furniture	Household appliances
Wholesalers	11	8	11	17
Manufacturers	38	62	60	57
Retailers	33	17	15	19
Suppliers of logistics services	3	-	-	-

Other	15	13	14	7
Total	100	100	100	100

Source: Coopers & Lybrand.

Finally, a detailed analysis of the acquiring companies shows that generally the larger companies are involved in acquiring wholesalers. They are often the ones that are operating on a European scale or have greatly expanded their European operations in the years following the adoption of the Single European Act. This confirms the close link between internationalization and consolidation.

#### 4.1.7. IT enables personalized direct marketing

The low costs of direct marketing have created a huge and fast-growing industry -- made up of direct mail, telemarketing, database marketing, the Internet and free-phone, TV, radio and print advertisements. In its biggest market, the United States, the industry was worth \$163 billion in 1998, when it grew by 7 per cent to almost three-fifths of the country's total spending on advertising. The industry expects 7 per cent annual growth to 2002, exceeding the 5.5 per cent forecast for advertising spending.

Direct marketing is growing even faster in places where junk mail is new enough still to be welcome. According to Robert Wientzen, president of America's Direct Marketing Association, in the Russian Federation and the Czech Republic most junk mail is opened and read -- indeed the average item is pored over by more than one person.

Yet, most direct marketing is still clumsy. Smart companies are trying to circumvent this by gathering information first-hand from customers. *Tesco*, a British supermarket, analyses electronic point-of-sale information as people shop, making it possible to change prices at different times of day or to tailor selections to suit local customers.

Direct marketing is now poised to take a new direction. It is aiming to change relations between customers and businesses so that each customer is treated differently. The key to this approach is to set up a "learning relationship" with the best customers. This improves with every transaction, defining the customer's needs and tastes in increasing detail. Computers and databases provide foolproof memory for this -- every preference can be registered.

*Levi Strauss* is introducing Web-linked kiosks in its stores, where customers can design their own pair of jeans, choosing from a number of styles, colours, shapes and sizes. The information is instantly relayed to its Tennessee factory, where the jeans are cut individually. To improve quality and reduce errors, each pair of jeans is made from start to finish by a single group of workers. Another example is Japan's *National Bicycle Company*, which turns out bikes in any size, colour or style without any increase in costs or delivery time.

Direct, personalized marketing also raises doubts about brands. As mass customization becomes feasible, each customer becomes, in effect, his or her own brand.

#### 4.1.8. Electronic commerce aims at "frictionless market"

The Ernst & Young's "Second Annual Internet Shopping Study" revealed a dramatic rise in consumer shopping over the Internet in 1998, showing that online shoppers that year purchased more frequently and spent more than in the previous year. More than half (51 per cent) of online shoppers purchased something online on at least five occasions, up from only 17 per cent in 1997. In addition, more than a third (35 per cent) said they spent \$300 or more, up from 26 per cent the year before.

The percentage of retailers participating in the Ernst & Young study who reported that their companies were either selling or planning to sell through the Web more than doubled: to 76 per cent from 36 per cent in 1997. The study recommended that retailers should concentrate on several key areas to help attract consumers and make them feel comfortable shopping online, which included credit card security, website navigation and branding. Of the consumers participating in the study who had not purchased anything online, 97 per cent expressed concern about sending their credit card information over the Web as a principal reason for not buying.

There have been many claims that the Internet represents a new "frictionless market" in which transaction costs are nearly zero, barriers to entry disappear, and markets clear instantly.

A number of recent studies shows that the cost reduction benefits of electronic commerce are revolutionary. For instance, an OECD study explores the key areas of cost reduction when a sale is carried out via electronic commerce rather than in a traditional "bricks and mortar" store (cost savings in physical establishment, order placement/execution, customer support and after-sales service), and when the structure of the value added chain is changed (disintermediation of wholesaler and retailers located between the producer of tangible goods and the consumer, and displacement of intermediary products).

There are also a number of studies on the impact of electronic commerce on prices. A number of them have come to the conclusion that prices are somewhat higher -- and others that prices are lower. Obviously, one reason for this is the substantial price dispersion, as pointed out by Michael Smith and Erik Brynjolfsson in a study comparing Internet and conventional retailers. The study revealed that prices for books and CDs could differ by as much as 47 per cent across Internet retailers at any one time and the dispersion of posted prices on the Internet was equal to or greater than comparable measures of dispersion across conventional retailers. It analysed empirically the characteristics of the Internet as a channel for two categories of homogeneous products -- books and CDs -- using a data set of over 4,500 price observations collected over a period of nine months. The study also compared pricing behaviour at 37 Internet and conventional retail outlets. Smith and Brynjolfsson found support for the hypothesis of increased efficiency in Internet channels in several areas. Prices on the Internet were 8-15

per cent lower than prices in conventional outlets, depending on whether taxes, shipping and shopping costs were included. In addition they found that Internet retailers' price adjustments over time were up to 100 times less than conventional retailers' price adjustments -- presumably reflecting lower menu costs in Internet channels.

## 4.2. Impact on employment and working conditions

### 4.2.1. IT personnel grows and its benefits increase

Within the commerce sector, IT personnel form a privileged group enjoying better pay and working conditions. Pay premiums, hiring bonuses, retention incentives, casual dress and flexitime are among the perks now routinely dangled in front of potential IT employees in an effort to reel them in.

The United States Bureau of Labor Statistics (BLS) data reveal vast differences in wages within commerce sector occupations. In 1997, the average hourly wage of a cashier was \$6.96; retail sales staff earned somewhat more -- \$8.64. Wholesale and retail buyers earned already twice as much as retail salespersons. Database administrators, computer programmers, systems analysts and electronic data processors all earned more than \$23 (see table 4.4).

**Table 4.4. Employment and average hourly and annual wages of some occupations, United States, 1997**

	Employment	Average hourly wages	Average annual wages
Cashiers	3 122 490	6.96	14 480
Salespersons, retail	3 842 730	8.64	17 970
Order fillers, wholesale and retail sales	235 720	9.40	19 560
Stock clerks -- stockroom, warehouse or storage yard	803 560	9.66	20 090
Order clerks, materials, merchandise and service	357 040	10.60	22 040
Salespersons, parts	293 940	11.51	23 930
Computer programmer aides	63 240	14.83	30 840
Wholesale and retail buyers, except farm products	99 820	16.72	34 780
Computer support specialists	406 230	18.71	38 920
Database administrators	82 600	23.06	47 960

Computer programmers	501 390	24.27	50 490
Systems analysts, electronic data processing	530 420	24.69	51 360

Source: BLS: *Occupational employment and wages 1997*. This publication includes data over 770 detailed occupations.

#### 4.2.2. Biggest job increases at the top and at the bottom of income distribution

According to a case study published in *Fortune Magazine* in 1995, the biggest job increases were at the top and at the bottom of income distribution at that time, while in the middle-income category, only a few jobs were created. The BLS *1998-99 Occupational Outlook Handbook* projected that this trend would continue in the United States in the period up to 2006. Service and retail trade industries will account for 14.8 million out of a total projected growth of 17.5 million wage and salary jobs.

Almost two-thirds of the projected growth will be in occupations that require less than a college degree. However, these positions generally offer the lowest pay and benefits. Jobs requiring the least education and training -- those that can be learned on the job -- will provide two out of every three openings due to growth and replacement needs; three out of every four openings will be in occupations that generally require less than a bachelor's degree. Cashiers and retail salespersons belong to these occupations.

The 25 occupations with the largest and fastest growth in employment, as well as higher than average pay and lower than average unemployment, will account for 5 million new jobs, or 27 per cent of all job growth.

The fastest growing occupations reflect, among others, growth in computer technology. Computer engineers' and systems analysts' jobs are expected to increase rapidly in order to satisfy expanding needs of scientific research and applications of computer technology. The three fastest growing occupations are in computer-related fields.

Compared to Canada, Japan and European countries, the United States wholesale and retail sector is exceptional in that it also creates many jobs in the low-income, low-skill categories. In other countries, the proportion of high-skill occupational categories is higher and has increased since the 1980s (see table 4.5).

**Table 4.5. Share of high-skill occupational categories in wholesale and retail trade in selected countries**

Share (%) of high-skill occupational categories  
(1+2+3 of the ISCO-88) in total employment

	1980s	1990s
United States	12.6	11.8
Canada	11.4	12.3
Finland	24.4	31.9
France	38.4	40.8
Japan	15.8	18.9

Source: OECD.

#### 4.2.3. E-commerce and employment

While electronic commerce may lead to expanded employment in traditional retailing in the near term, as retailers maintain a presence in both physical and cyber channels, disintermediation and the changes in the value added chain are expected to have a negative impact on employment in this sector.

According to a study commissioned jointly by Euro-FIET, EuroCommerce and co-financed by the European Commission, and published in September 1998, there is no certainty at this time as to what impact electronic commerce will have on employment. It is generally agreed that electronic commerce will have a negative effect on jobs, mostly because of the inadequacy of existing skills in enterprises. However, as the electronic market expands, new jobs will be generated in start-up companies, in multimedia, Intranet networking and new communication products, and new professions will be in demand (hotliner, webmaster, security manager, information net manager, project and operations manager, lawyer specialized in electronic commerce, etc.).

In view of the fact that electronic commerce still has to make an impact on mass markets, only tentative estimates can be made at this point as to its overall impact on jobs:

- It has been estimated that the design and development of Europe's 150,000 commercial websites (not including the work of maintenance) has created around 3,000 new jobs. Jobs are also being created in small companies specializing in web-related services. In the United States, where the Internet has made a much wider impact, it is estimated that 760,000 jobs have been created by the Internet.
- In Germany recent estimates show that 200,000 new jobs will have been created in communication services between 1995 and 2005 -- of which over half in new electronic commerce services.
- In Belgium it is estimated that only one in ten vacancies for specialists who can implement electronic commerce solutions can be filled at present.

- In the United Kingdom it is estimated that the web design market alone is currently worth over £100 million and it is expected to grow by 40 per cent per year, with a similar growth in the number of jobs for web designers.

Furthermore, according to a study also commissioned by the European Commission and carried out by Gemini Consulting, e-commerce could generate the creation of 500,000 jobs in the European Union (EU) by 2005. It should be recalled that some 22 million people in the EU work in the commerce sector -- almost 16 per cent of total EU employment -- and that between 1982 and 1992 commerce created about 2.3 million jobs in the 15 Member States of the EU, a growth of 12 per cent.

By and large, e-commerce shops require far fewer, but high-skilled, employees. In the United States, *Amazon.com*, the e-commerce books merchant, has only 614 employees (for sales of \$148 million), while *Barnes & Noble*, the largest physical United States bookstore, has 27,200 (for sales of \$2.8 billion). While these numbers are not strictly comparable, they give a rough idea of the difference in employment levels and sales per employee (\$267,000 per *Amazon.com* employee versus \$103,000 for *Barnes & Noble*).

A comparison of *NECX*, a catalogue turned e-commerce seller of PCs, and *CompUSA*, the largest retailer of PCs in the United States, provides some idea of the impact on skill requirements. In 1996, *CompUSA* had 106 stores, each of which generated on average \$38.4 million in revenues and employed 103 persons, the majority of whom were cashiers, salespersons, and stockers/warehouse workers. *NECX* generated \$50 million from its website in 1997, but employed only 38 people, half of whom provided skilled, technical support (webmaster, Unix administrator, junior-level support person, four EDI support persons, and 12 programmers) to the site.

*Federal Express* reports that their online customer service system has represented a savings of 20,000 new recruitments (about 14 per cent of their total labour force). *Cisco* reports that, thanks to its e-commerce website, they did not have to hire 1,000 new staff for their sales/support group (out of a total of 4,500 sales and marketing employees and 11,000 total staff).

#### Box 4.1

##### ***UPS* courier service turns to e-commerce**

The present trend of mergers and acquisitions in the postal services and among express mail and parcel delivery firms may be attributed in part to the potential for expansion provided by electronic commerce. In the United States, for instance, UPS is so influential that the traditional role of logistics and transport is being reversed. UPS no longer goes to its clients; its clients go to UPS. IBM, Compaq and other major computer companies have opened warehouses in Kentucky (resulting in the creation of thousands of jobs) to be near the airport of Louisville -- one of UPS's major hubs -- which transits 500,000 parcels a night brought in and out by hundreds of aeroplanes. For major carriers such as UPS, the market linked to e-commerce is potentially enormous, despite the fact that the development of Internet actually reduces the number of documents transported. Indeed, the carrying of documents accounts for 38 per cent of UPS's activities throughout the world (and 57 per cent in the United States). This prompted UPS to launch an on-

line delivery service in 1998, guaranteeing the transfer of documents by checking the identity of the sender and recipient, and ensuring the confidentiality of the transaction. However, at an average of \$5 a mailing, as opposed to more than double that for a dispatch of actual documents, electronic delivery represents a potential to be reckoned with -- and neither the postal services nor parcel delivery companies know the likely repercussions.

Source: *Le Monde* (Paris), 6 Oct. 1998.

According to a WTO study on electronic commerce, published in 1998: "developing countries have a lot to gain from electronic commerce and the Internet but fundamental challenges relating to access and education must be addressed ... A number of countries already benefit from new export opportunities including data entry, software development, claims and forms processing and accounting ... The Internet will make it easier for producers in poor countries to become part of an international bidding and supply process from which they were largely excluded in the past".

However, new commercial circuits do not develop at the same pace throughout the world. According to the Bangladesh Employers' Federation, little or no modern distribution circuits have evolved in Bangladesh and the traditional commercial structures continue to prevail. Despite government policy to encourage electronic commerce, there is limited or no access to communication facilities. There is also popular pressure on the Government to adopt appropriate policies to avert the unwelcome social effects of electronic commerce.

#### 4.2.4. E-commerce and skill requirements

The Euro-FIET/EuroCommerce study on electronic commerce points out that employees involved in e-commerce gradually acquire higher skill levels as they are spared routine and repetitive tasks and have a far richer information basis upon which to work. Electronic promotion of goods, particularly through the Internet, will lead to a new type of position -- that of the web promoter. The opportunities provided by electronic sales will encourage some of the existing personnel to turn to electronic selling. The job of the accounting officer in commerce will change significantly as electronic commerce will transform the exchange of information and the management of payments made and received. In general, new task arrangements for employees in an electronic commerce environment are expected to place emphasis on three types of activities: managing production, promotion, marketing and monitoring of competitors; managing the communication between the enterprise and its customers and suppliers; and managing the information and communication technology infrastructure.

As with other forms of IT-enabled business change, flexible enskilling and responsible autonomy are necessary ingredients to realize the potential of electronic commerce. Enskilling through electronic commerce seems to have more leverage where jobs are integrated and less segregated as is the case with employees of small firms.

There is a high percentage of young prospective employees with the minimum IT literacy requirements; hence these developments create employment opportunities for these groups of individuals. Another prospective employee is the IT professional with a vertical specialization in a particular commerce sector. For instance, food retailing is a sector, among others, in which the traditional merchandising process is being transformed through the automation offered by ECR techniques -- thus creating employment for such individuals.

Furthermore, the set-up and management of electronic commerce applications will require the transfer of knowledge on product features, effective selling and promotion strategies, efficient logistics functions and existing financial management procedures. Employees conversant with these aspects of work, particularly through experience gained in the target work environment, will find themselves better poised to ensure employment within the transformed business context. Moreover, the maintenance of the electronic commerce infrastructure requires a continuous re-evaluation of the content and processes embedded in the electronic transaction media. Therefore, the ability of the employees to translate enterprise, competition and market-related developments into requirements for updating and expansion of the firm's electronic commerce infrastructure will also be important.

#### 4.2.5. Working conditions: The potential of e-commerce

According to the same Euro-FIET/EuroCommerce study, technology in general -- and electronic commerce in particular -- require a redefinition of regulations to ensure sustainability and stability of employment. The concept of *flexisecurity* of work might help define working conditions when employee flexibility would not be counterproductive for firms -- acting as a brake on investment in human capital -- while ensuring that the required flexibility in work did not become a destabilizing source of insecurity.

##### *Working time*

Electronic commerce will require flexible work arrangements for a number of reasons. Customer services will operate on a 24-hour basis, necessitating a redistribution of jobs. There may also be cases in which the time frame of the work will be increased as the new requirements of electronic commerce weigh on existing personnel, thus creating an additional workload.

Commerce will probably witness work migration trends similar to those observed in large centralized enterprises, first for workers in manufacturing during the Industrial Revolution, and later for white-collar staff in mass office complexes. As electronic commerce is among those technology phenomena that challenge the idea of the normal working week, it may allow workers to have more control over their working lives; they may, for instance, choose to work in the early mornings, during evenings or at weekends, in order to tailor their work preferences more closely to their personal lives and family commitments. Flexibility in working space and time, if carefully organized, can create

jobs -- not only through job-sharing but also through new forms of demand for services generated by greater freedom to manage personal lives.

The main challenge for changes to working space introduced by electronic commerce is the possibilities the technology offers for teleworking. From an employee's perspective, teleworking is expected to have negative as well as positive aspects. The negative ones concern the lack of social interaction, the mixing of "professional" and "family" activities, the tendency to work longer hours, the interruption of work for domestic chores, the difficulty to perform teamwork, and to maintain a company culture. On the other hand, the positive aspects of teleworking include flexibility in selecting the time and place to work, time saved from commuting, and reduced operating costs for enterprises.

### *Wages*

The earnings landscape in the commerce sector will be reshaped through the impact of electronic commerce as this will demand a new type of worker, who will be higher skilled and thus better paid. It is expected that employers will need to reward high knowledge of the technological infrastructure of electronic commerce, as well as logistics, sales and promotion techniques focused on particular product and market characteristics. An example of this is the situation in the grocery market where employees with experience in efficient consumer response methods (electronic commerce through EDI) are highly paid due to the market's current shortage of such skilled personnel.

#### 4.2.6. The distribution of jobs is going to change

Much recent research has focused on data at the enterprise level to investigate the relationship between technology and employment in a number of OECD countries. As a general rule, these studies find a positive relationship between technology adoption and employment at the enterprise level. The impact of technology on employment at the industry level, however, is dependent on the nature of the jobs created, the extent to which they replace other jobs, and the effect on rival firms in that industry as well as in other industries or countries.

At the present stage, it is impossible to quantify the overall employment effects of information and communication technologies on wholesale and retail trade. Obviously the wholesalers and retailers of hardware, various electronic devices and communications equipment have grown and profited from the developments. But job creation in this segment is not necessarily at the expense of some other segments, although these technology products have radically reduced labour costs and/or improved customer service and productivity.

The "Internet industry" itself is going to create jobs. Basically, in 2005, the Internet is expected to contribute 50 per cent of jobs created in the United States telecommunications sector. Additional jobs created in the Internet/Intranet scenarios do not emerge from Web usage per se, but come almost exclusively from the production of

Web-related hardware-software content (see box 4.2). Also, it is evident that vertical integration, direct marketing through Internet and e-commerce are going to increase jobs in transport and logistics in general. However, it is unclear to what extent these services are going to be externalized from wholesale and/or retail trade. As discussed earlier in the report, there is some evidence that a number of retailers and manufacturers seek to take control of distribution activities formerly carried out by wholesalers, and subsequently outsource the physical components of these activities to suppliers of logistics services.

#### Box 4.2

##### **Job opportunities in e-commerce-related industries**

The convergence of media, telecommunication and computing technologies is creating a new integrated supply chain for the production and delivery of multimedia and information content. Most of the employment related to electronic commerce evolves around the content industries and communications infrastructure such as the Internet. Both in political circles and in mass media, these industries often raise great hopes for job creation.

The computer software, motion picture, audiovisual and publishing industries have been defined as the "copyright industry" (*Economist Incorporated*, 1996). In the United States, the industry's employment share grew from 1.60 per cent in 1977 to 3.08 per cent in 1996 and is forecast to generate 1.4 million new jobs in the period 1996-2006. The industry is quite diversified, with software services a fast-growing component; employment in the advertising and publishing industries is forecast to lose its relative share in employment.

In Europe, there seem to be no consistent source of data to estimate employment for this industry. Adding estimates of the publishing, audiovisual and software industry, Databank Consulting (1997) obtained an estimate of around 5 million people (i.e. 3 per cent of overall employment). The main difficulty is estimating software programming and computing services in Europe. The Community Labour Force Survey reports an estimate of about 1 million employed in software companies in 1995 (excluding software personnel in hardware manufacturers and user companies). Another survey reports 2 million employees for the same year and for a wider definition. A third survey reports an estimate of 1.5 million employees only for Germany, France and Italy (Databank Consulting, 1997).

Japan carries out a special survey on information services; for 1996, it gave a total of 417,087 employees. In addition, employment in the publishing industry and the audiovisual sector is estimated at 2 million for the year 1996 (i.e. 3 per cent of total employment). Employment growth in the content industry is driven by information services, and particularly by professional computer services (which represent 58 per cent of information services in the United States), data processing and network services (28 per cent in the United States), and electronic information services (14 per cent in the United States). While the number of jobs differs greatly among countries, employment in this fast-growing industry represents only about 1 per cent of overall employment across countries.

Quantifying the impact of electronic commerce on job creation in the software sector is very difficult. According to the estimates presented above, United States Internet-related companies in the computer services sector employ more than 42,000 full-time employees. According to the European Commission's Panorama of EU Industry (1997), Western Europe has more than 16,000 software and services companies with over 300,000 employees. In terms of employment evolving from software and services in the context of Internet and multimedia applications, however, most of these companies have less than 20 employees, and several not more than five. Databank Consulting estimates, on the basis of case studies, that Internet activities such as the implementation of websites only created about 6,000 work-years of additional work in

Europe (Databank Consulting, 1997).

Source: OECD: *The economic and social impact of electronic commerce*, Ch. 4: Electronic commerce, jobs and skills, pp. 131-132.

Another factor which makes it hard to estimate the likely impact of technology on wholesale and retail trade -- and therefore its employment effects -- is that consumers rarely behave as expected. Printed books have sold extremely well, partly thanks to the Internet and the availability of books in electronic format. The best-known retailer on the Web, *Amazon.com*, has sold old-fashioned bound pages to over 4.5 million people. Others have pioneered the paradoxical art of selling books by giving them away. *Rough Guides*, a British travel-book company, has seen sales soar since it started putting some guides free on the Web. The Starr report, available free on dozens of websites, went straight to number one on the bestseller lists of both *Amazon.com* and its main rival, *Barnes & Noble*. Everyone who paid for the report from these bookshops already had access to its entire contents for nothing.

---

## 5. The changing consumer and retail formats

### 5.1. Recent trends

Changes in demographic trends, labour force participation rates and income distribution have all an impact on the retail trade. In recent years, the retail trade has had to contend with: slower economic growth rates; an ageing population; greater ethnic diversity; an increased participation of women in the labour force; and a slower growth in income and widening disparity in income distribution.

As a result of these trends, two specific consumer groups have emerged, in particular in the industrialized countries: the first may be termed as a "convenience-oriented group", and the second, a "price-conscious group".

#### 5.1.1. Time-saving formats for the convenience-oriented group

The rise of the convenience-oriented economy may be mainly attributed to the increased labour force participation of women -- and this trend is nowhere more apparent than in the food business. Many consumers do not have the time to prepare traditional meals and increasingly even lack the knowledge of how to cook. The substitute -- "take-away food" -- combines value added services (cooking) with the freshness and variety of products and the comfort of eating at home. However, per capita spending on "food away from home" is constantly on the increase and, consequently, new kinds of competitors that combine the services of a food store and a restaurant have started to enter the market. Indeed, traditional stores and restaurants are facing serious new competition from "home meal replacement" providers.

Cutting the time required for food preparation is another form of convenience. It is not therefore surprising that the sale of semi-finished products -- pre-washed and pre-prepared vegetables, packages of various assortments of salad ingredients, spiced portions of meat, fish etc. -- has grown rapidly. This has had a major impact on store design. Remodelled stores look like a group of stores under the same roof. The prepared foods/deli counters are expanding into a "food court" where the customer is able to walk directly to departments such as dairy and deli. In the middle of the court there is usually an area where customers can sit down and relax -- maybe even have something to eat or drink.

Another form of convenience for the shopper is to be able to carry out a number of tasks on a single shopping trip or in a single store. To improve their "one-stop shopping" appeal, stores have been adding new services, such as banks, florists, video rental, and pharmacies, even though the proportion of shoppers who use these specialty department stores remains limited.

The ultimate convenience is home shopping when consumers give their order by phone or fax or even use their home computer after looking at a catalogue or visiting a website. This consumer need has created a new retail format: the provider of interactive shopping services. Instead of selling their own goods, these service providers take orders from customers and then send their employees to the designated stores to fill the orders and transport the purchased goods to the customer.

### 5.1.2. Money-saving formats for the price-conscious group

Over the past five to ten years, the earnings of the lowest paid (first decile) and the highest paid (ninth decile) have developed in a very different way. According to an OECD study, the earnings at the top have risen much faster than those at the bottom. The only exceptions are Finland, Germany and Japan among the OECD countries. In a number of countries real wages for low-paid workers have fallen substantially (Italy, Sweden, United States and New Zealand). These income trends also mirror a division in the workforce. The proportion of those working over 50 hours a week and the proportion of those working part time, part of a year, or rarely, have increased. This overall trend has resulted in the emergence of money-saving formats:

#### *(a) Hypermarkets cut the operating expenses*

As discount merchandisers learned how to cut distribution costs, they built larger stores. Such major retailers as *Carrefour*, *Wal-Mart*, *Meijer*, *K-Mart*, *Fred Meyer* and *Target* developed supercentres/hypermarkets, combining full-size discount stores with full-size supermarkets. The supercentre/hypermarket format is the most rapidly growing large-scale retailing concept in the world, and one that is hurtling toward global consolidation.

Traditional stores and even supermarkets are very concerned about the level of efficiency and, hence, price competition that the so-called supercentres/hypermarkets bring to the business. The major idea behind the "efficient consumer response" (ECR) initiative is to

prepare retailers to compete with these new competitors. For instance, the average grocery retailer has operating expenses equal to 21.8 per cent of sales, whereas *Wal-Mart's* operating costs are only 17.5 per cent. Even after full implementation of ECR, operating costs for the average grocery retailer are estimated to be 19.3 per cent.

In Europe, the hypermarket was founded by *Carrefour*, still the international leader in this format. In the United States, *Wal-Mart* was the leader in converting purchasing and distribution cost advantages into lower prices.

*(b) Low prices highlighted*

Supercentres/hypermarkets have selected a number of formats to highlight their low prices. The EDLP (Every Day Low Price) format is one of the most popular. Private labels, house brands and generic products are not new inventions but, in the past, their popularity increased during economic downturns and declined during recoveries. Private labels or "own brands" are flourishing in many industrialized countries. They account for over half of all sales in some categories, are often cheaper than national brands and tend to provide greater margins for retailers. Most worryingly for national brand managers, many private labels are now competing on quality. Own brands also tend to be between 10 and 30 per cent cheaper than comparable national brands. Private labels seem to have performed better in some European countries and Canada than in the United States. Table 5.1 provides a breakdown of store-brand penetration by country (17 OECD member States).

Whereas customers may once have sought quality with little regard for price, or low prices at the expense of quality -- thus enabling national brands to focus on quality and private labels on price -- they now seem to want high quality at an affordable price. This poses a challenge for manufacturers and retailers alike.

*(c) Global homogenization of hypermarkets*

A major derivative effect of the growing global hypermarket war, or "race for space", is that it is forcing rapid changes among local operators in each market, in some cases encouraging them to sell to a large-scale international partner or open their own hypermarkets. The acceleration of hypermarket activity has led to local hypermarkets and supermarkets working rapidly to improve their merchandising and logistical competitiveness. This, in turn, has led to a phenomenon that could be called the global homogenization of hypermarket retailing.

All *Carrefour* hypermarkets, for instance, are built around three key components -- one-stop shopping, ample free parking and a discount pricing strategy. And the concept, values, systems and synergies are largely the same across *Carrefour's* extensive global network.

**Table 5.1. Private label penetration by country**

Country	Private label share (% units)	Population/km <sup>2</sup>	% large stores ( $\geq 3,000$ m <sup>2</sup> )	Top retailers' market share (%)
Switzerland	41.2	155	36	80
United Kingdom	37.1	228	70	45
Germany	21.8	225	40	47
Canada	21.0	3	50	25
Belgium	19.8	325	56	58
United States	17.6	25	70	17
France	16.4	103	76	38
Netherlands	16.3	363	31	47
Denmark	15.1	118	37	77
Sweden	10.7	19	38	95
Finland	8.0	148	27	75
Spain	7.7	77	35	20
Italy	6.8	190	26	11
Austria	6.3	91	26	56
Norway	5.0	13	19	86
Ireland	3.6	50	53	43
Portugal	2.3	113	43	41

Source: Financial Times (London), 26 Oct. 1998.

*(d) Membership club stores challenge hypermarkets*

In addition to supercentres/hypermarkets, other retail formats are growing to meet the demands of the price-conscious group of consumers. Membership club stores are considered a major competitive threat to supermarkets as they sell items in large unit sizes. Some manufacturers consider these stores to be a different class of trade because many of their sales are to other businesses. *Sam's Club* and *PriceCostco* are the two largest chains in this retail segment. In the United States, the number of club stores is expected to rise from 856 in 1997 to 975 in 2001, but their sales are expected to grow at a slower rate than those of the supercentres.

*(e) Small shopkeepers defend themselves by associating together*

In the face of competition from large distribution undertakings, many small and medium-sized undertakings have defended their market shares by associating together in a

network which grants them access to efficient logistics structures and enables them to acquire the necessary critical mass and economies of scale. These network associations of independent businesses are primarily structured in the form of consumer or retailer cooperatives, purchasing groups, voluntary chains between a wholesaler and many retailers, or even franchises.

Franchising, which appeared on the scene more recently than the other networks, is developing rapidly, particularly in non-food sectors as manufacturers endeavour to influence their distribution networks. It is most developed in France, accounting for approximately 6 per cent of total retailing turnover in 1997. The primary advantage of franchising over the other network formats is its greater emphasis on transfer of business know-how and the marketing of a more unified image. In grouping together under a common trade name independent undertakings of different sizes, these network formats offer small and medium-sized undertakings the possibility of competing more efficiently with large distribution undertakings.

*(f) And the losers of the race are ...*

Identifying those who will lose most sales to supercentres/hypermarkets and club stores is difficult. But a number of estimates agree that the losers are going to be traditional (independent) supermarkets, convenience stores, warehouse stores and limited assortment stores (small stores).

According to Euromonitor, in Western Europe supermarket numbers will grow by 5 per cent to over 40,000 by 2002, with the greatest growth in France, Ireland and the United Kingdom. In all three countries, planning restraints will prevent the over-expansion of hypermarkets and benefit supermarkets. In the United Kingdom, many of the new supermarkets will be in town centres, as major grocery multiples take up supermarket formats for city centres once again.

However, hypermarkets, which have shaped the whole market for food shopping over the last decade, increased their market share very rapidly in Western Europe and Scandinavia between 1993 and 1997 and are now expanding in Southern Europe as well. The format is likely to become very important in Eastern Europe, with major Western European businesses investing in the region.

Yet, the market share of large-scale outlets varies considerably among European countries. In 1995, hypermarkets accounted for 49 per cent of the grocery market in France, but for only 5 per cent in Greece (see table 5.2). In the Czech Republic, the number of retail stores per 10,000 inhabitants is twice as high as the European average (see box 5.1).

**Table 5.2. Grocery market shares of the principal retail formats in Europe, 1995**

---

	Hypermarkets <sup>1</sup>	Supermarkets <sup>2</sup>	Hard discount stores <sup>3</sup>	Small self-service outlets
France	49	39	5	7
Germany	22	26	22	30
Great Britain	39	36	5	20
Italy	5	48	2	45
Spain	24	36	6	34
Portugal	25	16	5	54
Netherlands	4	55	6	35
Belgium	16	53	13	18
Greece	5	28	0	68

<sup>1</sup> Hypermarkets and supercentres: retail self-service establishment offering a broad range of food and non-food products with car parking facilities and a floor space of 2,500 m<sup>2</sup> or more in Belgium, Denmark, France, Luxembourg, the Netherlands, Portugal and Spain; 1,500 m<sup>2</sup> or more in Germany; 2,323 m<sup>2</sup> or more in Great Britain and Ireland. <sup>2</sup> Supermarkets: retail self-service shop selling predominantly food but also increasingly non-food products, with a floor space of 400-2,500 m<sup>2</sup> in Belgium, Denmark, France, Italy, Luxembourg and Spain; 400-1,000 m<sup>2</sup> in Germany; up to 2,323 m<sup>2</sup> in Great Britain and Ireland; average of 300 m<sup>2</sup> in the Netherlands; 200 m<sup>2</sup> or more in Greece and Portugal. <sup>3</sup> Discount store: retailing establishment selling a range of rapid turnover, cut-price goods and with virtually no floor service at all. Source: European Commission.

### Box 5.1

#### Emerging formats in the Czech Republic

The Czech Republic provides a good example of changing consumer trends and their effect on store formats.

Although small, specialized stores and markets still dominate, the trend during the past few years has been toward bigger stores with a wider range of products. Czech shoppers have responded positively to the opportunity for one-stop shopping, and traditional habits, such as buying daily in small quantities, are changing.

Currently in the Czech Republic, there are about 220 retail stores for every 10,000 inhabitants. The number has doubled in the last nine years and is now more than twice the European average of 90 stores/10,000.

In the past, women traditionally did the grocery shopping daily and only bought as much as they could carry. Now, 20 per cent of families use a car and this percentage is increasing. Food is still commonly purchased in small shops or groceries near customers' homes (1991: 59 per cent of families; 1997: 51 per cent). However, a segment of customers that has grown in recent years includes those who buy food only once a week in large stores (over 400 m<sup>2</sup>). These customers have a higher income and education than average. In 1991, these weekly shoppers accounted for only 19 per cent, but by 1997 they had grown to 26

per cent.

Although statistics show that in the last four years Czech shoppers have begun to buy recognized brands, price still plays a decisive role. Many chains have already started to sell common products with their own brand name (e.g. *Delvita*, *Julius Meinl*, *Mana*), which are usually cheaper than similar well-known brands. Current consumer product retail stores provide a wide choice of foreign and domestic products. Do-it-yourself products (such as building materials, home repairs) are increasingly being offered in specialized superstores in big cities, such as *Baumax* (Austrian), *Obi and Gotzen* (German) and large department stores, such as *Tesco* (United Kingdom).

The transformation from a state economy to a market economy witnessed an increase in larger stores with more staff. The proportion of all sales in large retail stores (with more than 100 employees) increased from 22.6 to 25.8 per cent between 1996 and 1997, suggesting a successful expansion of supermarkets and hypermarkets in the Czech Republic.

Supermarkets (stores of 400-2,500 m<sup>2</sup>) only appeared in the Czech Republic after 1990, but they already account for 32 per cent of sales. Companies include: the *Interkontakt group* (120 supermarkets *Sama*); *Euronova* (62 supermarkets *Mana*); *Delvita* (30 supermarkets *Delvita*); and *Julius Meinl* (61 supermarkets *Julius Meinl*). Discount stores such as *Penny Market (Rewe)* and *Rema 1000 (Interkontakt and Reithan)* started in 1997, but have already opened dozens of supermarkets. An additional 70 to 80 supermarkets were built in 1998. The first two hypermarkets opened in 1996, five opened in 1997 (*Makro*, *Interspar*, *Globus*), and others (*Tesco*, *Kaufland*, *Carrefour*) are being built.

The first hypermarkets easily attracted customers by offering a wide range of food and consumer products in a friendly environment. These large stores are located in the largest Czech cities such as Prague and Brno. The number of hypermarkets doubled in 1998.

Recent surveys by *Incoma Praha* (market research company) show that shoppers are generally satisfied with opening hours, the variety and freshness of products, services, cleanliness, and even prices, although this category had the lowest rate of satisfaction (66 per cent).

Source: Helena Vagnerova: *Changes in the Czech retail network*, The Central and Eastern Europe Business Information Centre, May 1998.

## **5.2. Impact of globalization and restructuring on training**

There is a marked tendency in some areas of commerce to replace low-skilled jobs by jobs requiring a higher level of education. If the sector is to continue offering career prospects to its current workers, it must provide for additional education and training. At the same time, new areas of work are bound to emerge which will be attractive to persons with a higher education. In this instance, existing employees, through additional education and training schemes, should also be given a chance to acquire the requisite skills for these new jobs.

There is a universal consensus that education and training are an important long-term response to the challenges of globalization. Globalization makes national policies related to the development of human resources more important than ever. In a context of ever-changing economic conditions, an open economy requires a high degree of professional mobility. Education and training have a strong bearing on the ability to innovate, develop

new technologies and improve product marketing. Furthermore, technological change has simplified a number of tasks and raised the demand for skilled labour. Finally, the issue of equality of opportunity, notably in access to high-quality education, is a crucial one from the point of view of social equity and also contains a political economy dimension: when social inequalities widen and feelings of insecurity grow, there is a possibility that a large segment of the population might oppose economic reforms in general and trade liberalization in particular, even though these may not be the main factors at work. In the presence of unequal education opportunities, this danger is understandably highly significant.

### 5.2.1. The self-employed require more training to modernize their business

Although their relative share is constantly decreasing, self-employed workers still account for some 20 per cent of employment in retail trade in the European Union. In the southern Member States, their share is much above this average.

In the past, these small shopkeepers had little access to training activities. But this is beginning to change. Small shopkeepers need many new skills in order to survive. First, they need to develop a "differentiation strategy" to compete with the new business formats. This implies that they must try to distinguish their products and services from those of their competitors. Second, once they have distinguished these products, this needs to be visible to the targeted groups of customers -- and this requires marketing skills. Third, small shopkeepers need networking, for instance by belonging to voluntary chains. Training may thus be an important factor of group cohesion in this respect. It may act as a means to achieve more homogeneity and efficiency, through joint definition and application of homogenous procedures, organization principles, selling concepts and management methods.

Nevertheless, many of the owners of small shops feel that they cannot spare any time for training -- or do not see the need for it. To make matters more complicated, there are few studies on the qualification and training needs of small shopkeepers.

In 1997, the European Centre for the Development of Vocational Training (CEDEFOP) carried out a study on the qualifications required by 20 micro-enterprises in the retail sector in Greece, Ireland, the Netherlands and Portugal to deal with the modernization process against a background of changing work organization. Fifteen of these enterprises had a maximum of ten persons.

Concerning work organization, these case studies revealed among other things that:

- there were important differences in the previous experience of persons starting their first business. All of them had substantial work experience as employees and most of them also had experience at management level in the same kind of firm they were starting. Failures in decision-making, concerning for example the assortment to be displayed, could often be attributed to inadequate preparation;

- in many cases, the entrepreneur was very motivated in serving his customers, but less attracted to the managerial aspects of running a business. Some explicitly stated that they could not or would not delegate tasks;
- the entrepreneur held a very central position that seemed to protect his exclusive domain against external influences. This attitude restrained even the growth of the business;
- there was no clear division of work in a horizontal sense;
- most of the modernization in these micro-enterprises took the form of specific projects, involving an overhaul of or change in existing premises. These were initiated and carried out by the entrepreneur with the support of external help. In a few shops, the staff played a more important role and external help was nearly totally absent. The personnel played a crucial role in collecting client information and in communicating this information within the enterprise, but even in these cases, the process seldom had a structural basis (keeping diaries on customers' wishes for example).

Concerning qualifications, the main finding of the study was that successful modernization was linked to enhanced qualifications requirements. It concluded that, in the area of management of the modernization process, entrepreneurs and the staff of micro-enterprises needed education and training in order to be able to:

- envisage the objectives, results and chances of a modernization process;
- budget time to devote to this strategic approach;
- subdivide the modernization process into various partial projects and to take stock of their success or failure;
- provide funds or to acquire and invest them adequately;
- motivate all parties involved in the modernization process, implying that all people should work as partners and agents;
- integrate additional personnel in the case of an expansion, taking into consideration their different initial situations and interests;
- convey the message of modernization positively to former and potential customers; and
- find partners outside the business capable of providing adequate back-up to the modernization process through consultation and services (associations, cooperatives, trade chains, individual providers of services, networking).

As regards the organization of labour, the study felt that education and training were required to enable entrepreneurs and their staff to:

- redefine the role and tasks of the owner;
- reassign tasks to the various parties involved;
- organize work under aspects of time economy;
- assume their new roles and the new division of work, and to accept responsibilities;
- create a climate of mutual trust and acknowledgement of performance without ignoring the various existing interests;

- pursue the development of labour organization towards "teamwork";
- understand that the support of changes in the organization of labour requires vocational qualification and/or training;
- describe existing qualifications as well as qualifications required in the near and far future;
- define qualification requirements and translate them into a realistic concept of training;
- find training facilities with adequate offers and come to an agreement with them;
- utilize everyday working routines and the communication requirements involved therein for continuing vocational training and combine work and training;
- pursue effective and comprehensive quality maintenance and improvement; and
- carry out increasingly cost-efficient work.

Given that customer orientation and market positioning are a constant concern, the study also concluded that entrepreneurs and staff should be able to:

- develop personal relations with customers;
- communicate with the customer about the assortment of merchandise and, if necessary, modify the offer of merchandise to meet customer demands (as an element of market research);
- offer customers adequate services at the right time, e.g. provide home delivery, meet customers' wishes which cannot be satisfied by existing stock as quickly as possible, accept telephone orders, be ready to compromise as to terms of payment, etc.;
- make visiting the shop a pleasant experience for the customer;
- establish an adequate and attractive relation between quality, service and price for the customers and achieve a high quality standard of service and products -- above all, in the sensitive field of perishable goods in foodstuff retail trade;
- supply customers with expert information about the goods, their special features, range of use and possible alternatives;
- understand the necessity of a permanent market survey and analysis and draw conclusions from it (methodological ability);
- recognize and interpret changes in the competition landscape and legal provisions;
- observe, interpret and, if necessary, react to the changing market strategies of the most important competitors;
- recognize, interpret and react to changing demographic structures, especially in view of possible changes in the structure of buyers;
- pursue a self-critical verification of their own market positioning, the location of the shop and the assortment in view of a possible loss of acceptance; and
- interpret index figures concerning potential risk constellations.

In addition to all these qualification requirements, the study felt that entrepreneurs and their staff should be equipped to deal with the modernization process by receiving instruction in the following areas: design of façades; interior decoration; advertising; cost accounting; introduction and maintenance of information technology; and legal problems.

In view of all these needs, the study found that the prerequisites for adequate education and training were largely missing in many countries. The fact that regulated vocational training in the retail trade differed from country to country already placed micro-enterprises in a different position. But even in countries with regulated vocational training, the majority of persons working in micro-enterprises had not completed this training.

### 5.2.2. Improved training of the sales staff becomes crucial

Another CEDEFOP survey of 55 national and multinational retail companies operating in the EU Member States revealed that the segmentation of customers and improvements in the quality of customer service created fresh needs and new in-company training policies. In a strategy of competitiveness and quality, people who are in direct contact with the customers become a strategically important group because they convey the image of the enterprise and its concepts to customers through their own behaviour and knowledge.

This implies a radical change in the target groups of the training policy. Training is no longer exclusively devoted to internal promotion. On the contrary, the goal is to train those employees who are in direct contact with customers. In this way, the sales staff and cashiers become the main target groups of training in retailing. Furthermore, part-time workers become an important target group for in-house training, because they are nearly always in direct contact with customers, usually at critical moments or under great pressure.

The CEDEFOP survey showed that in 80 per cent of the companies, continuing training existed for shop assistants. Training of shop assistants was more common in non-food outlets (88 per cent) than in food outlets (68 per cent). It was less prevalent in super/hypermarkets where the number of shop assistants was not so high. Surprisingly, the smallest companies -- up to 100 employees -- involved all their shop assistants in training, while the largest only involved half. Continuous training of cashiers was much less common. Only 26.6 per cent of the companies provided continuous training for cashiers. Stock employees received even less continuous training. Indeed, this category of employee was most frequently left out of any type of training.

Concerning the continuous training of part-time workers, results varied considerably. In some companies, their training was considered to be as important as that of the full-timers, whereas in other companies, they were treated as a marginal group. Part-time workers were catered more for in department stores and very large firms. However, when it came to training to promote careers within the firm, part-time workers did not fare so well. All in all, 31.1 per cent of the companies provided continuing training for part-time workers.

The convenience-oriented customer group has also had an impact on the content of training. The survey showed that it was becoming current practice to devote training to the improvement of product knowledge and language skills, and to place special

emphasis on the attitudes and behaviour of staff in order to enhance the envisaged company image.

According to the survey, some of the most advanced companies had taken steps to integrate training into their overall strategies and to take a more global view of their human resources. An increase in training with regard to the company's culture and organization was observed. Furthermore some companies were extending their training to more general subjects such as costs, margins and benefits. In many cases, a major training objective has been the adjustment to new commercial policies and the promotion of the new company image.

The survey also showed that pedagogical methods were following the general trend in training. There was little classroom and face-to-face training and much on-the-job training. The survey identified five types of pedagogical methods:

- self-learning through correspondence courses, textbooks or audiovisual materials;
- simulation of situations at the workplace;
- sandwich courses with longer periods of practical experience with the help of tutors;
- short meetings to discuss common interest matters in the work environment;
- delaying the opening of the store for half an hour every week to provide a training and information session for all the staff.

### 5.2.3. More resources are needed for in-house training

The role of in-house training provided by the employer is vital in retailing, because -- and this trend is common throughout the world -- the level of education and initial training in the retail sector is on average much lower than in other sectors. Shop assistants and cashiers usually start work without direct job-related qualifications. This situation makes the modernization process especially hard for small retailers. In small shops, in-house training usually means on-the-job training conducted by the owner without any systematic concept (see box 5.2).

#### Box 5.2

#### **In-house training in European micro-enterprises**

*Stationer, Greece*

Most workers in the retail sector in Greece are secondary-school graduates who are basically trained in-house during their work. This was the case in the enterprise in question. According to management data, it was estimated that six to eight months were required for the total training of any new employee.

The management concluded that there was no training centre for retail sales employees where horizontal knowledge of the sector could be acquired. The ideal profile of new employees would be: knowledge of English to be able to read product literature; computer literacy; and good communications skills for better personal contact with clients.

Together with technical knowledge, these are the basic requirements for an employee's training. Continuing vocational training is not organized in the enterprise. Every fortnight the owner devotes time to training the

employees himself.

*Supermarket, Ireland*

None of the staff had any prior formal training in retailing and the majority of staff in the shop had been trained by the owner himself. He has now trained a number of his staff to be able to train new staff in a variety of new jobs. Several of the staff have participated in training courses run by *Spar* and they have also participated in training sessions led by the owner himself using *Spar* training videos. When he last organized an in-house training session and asked participating staff members to fill out an assessment of the course, one staff member indicated that she "needed no more training".

*Supermarket, Portugal*

Any new member of staff had to undergo vocational training. In addition to the training carried out by the owners at the workplace, he or she had to attend a vocational training course entitled "How to sell more and better" run by the Business Association to which the owner had belonged for more than 30 years. With the automatization of the cashier's duties (PLU) and the introduction of the point of payment (POP) all the staff had to be trained in order to learn how to operate this new equipment. Some training has already been given in this area by the appropriate company. A new training plan is currently being drawn up.

*Mini market, Greece*

The staff had mainly completed compulsory schooling or finished their secondary education without any further training. They had to have had previous experience in a supermarket or a grocery store, even a small one, as well as be young -- a fact that serves various needs (a pleasant appearance, ability to carry and place products, etc.). There was no systematic training apart from that provided by suppliers of mechanical equipment (e.g. calculators, computers in the storeroom). The owners were willing to send their staff for training for a few hours in the context of systematic sectoral vocational training if the occasion arose. The employees had a disadvantage vis-à-vis their other colleagues working in larger supermarkets and department stores where in-business vocational training was organized on various issues.

Source: CEDEFOP.

A number of studies show that employers in the retail sector provide more training than those in many other sectors. A survey conducted by the Centre for Training Policy Studies at the University of Sheffield revealed marked differences among the various sectors of the economy. Sectors in which the highest proportion of enterprises offered training were found among financial and related services (banking and insurance was the highest at 87 per cent), the public utilities (whether in public or private ownership) and in sectors providing retailing and repair services to the public. The survey was based on elaborate questionnaires and interviews with the managers of 50,000 European enterprises in the then 12 EU Member States in 1994. The initial results were first presented at European level in 1997 (see table 5.3).

**Table 5.3. Enterprises of different industries offering training in 12 Member States of the EU, 1993**

---

Sector	Number of enterprises ('000s)	Proportion offering training (%)
--------	----------------------------------	-------------------------------------

---

Banking and insurance	15.1	87
Electricity, gas and water	3.0	81
Other financial services	4.1	79
Sale and repair of vehicles	42.5	78
Real estate, renting and services for enterprises	118.9	72
Post and telecommunications	1.6	66
Retail trade and repairs (excl. vehicles)	75.4	64
Manufacture of machinery	48.1	62
Manufacture of metals and metal products	58.4	59
Paper, publishing and printing	28.9	59
Hotels and restaurants	65.7	58
Manufacture of non-metallic products	42.1	57
Wholesale trade (excl. vehicles)	89.2	57
Manufacture of transport equipment	8.7	56
Construction	127.2	51
Food, beverages and tobacco	35.9	49
Transport and storage	38.0	46
Mining and quarrying	6.2	43
Other manufacturing (incl. furniture)	33.3	41
Textiles, clothing and leather	56.4	26
Total	898.7	57

Source: Centre for Training Policy Studies in the University of Sheffield.

---

The study revealed a great disparity between the distribution of employment by gender and distribution in the participation rates in the courses by gender. Female proportion of the employment was 64 per cent, but female participation rate in the courses was only 25.8 per cent, almost the same as the participation rate of male employees (see table 5.4).

**Table 5.4. Distribution of employment and participation rates in courses by gender, in 12 Member States of the EU, 1993**

---

Sector	Distribution of employment (%)	Participation rates in courses (%)
--------	--------------------------------	------------------------------------

	Males	Females	Males	Females
Mining and quarrying	87	13	33.0	31.7
Manufacture of:				
Food, beverages, tobacco	63	37	24.5	21.9
Textiles, clothing, leather	37	63	10.7	6.0
Paper, publishing, printing	69	31	21.0	20.1
Non-metallic products	74	26	37.7	28.8
Metals, metallic products	82	18	19.2	20.1
Machinery, electrical equipment	75	25	30.7	28.4
Transport equipment	85	15	34.3	24.1
Other types of manufacture	73	27	10.3	9.0
Electricity, gas and water	79	21	47.5	52.2
Construction	89	11	14.7	18.2
Wholesale, retail, repair:				
Sale and repair of vehicles	80	20	29.9	24.9
Wholesale trade	67	33	22.1	18.1
Retail trade and repairs	36	64	29.5	25.8
Hotels and restaurants	45	55	23.5	24.0
Transport and communication:				
Transport and storage	80	20	29.5	31.9
Post and telecommunications	67	33	57.2	47.5
Financial intermediation:				
Banking and insurance	52	48	59.6	51.9
Auxiliary activities	54	46	37.9	39.0
Services for enterprises, renting and real estate	56	44	34.0	31.5
Total	66	34	29.0	27.2

Source: Centre for Training Policy Studies in the University of Sheffield.

## 6. Labour-management relations in the context of globalization of distribution circuits

In the commerce sector, concerns over wages, working conditions and the autonomy of industrial relations actors have mostly increased in buyer-driven production chains -- i.e. controlled by the buyer, in other words the retail trade. These chains are often found in labour-intensive, low-skilled industries, such as garments, toys and footwear, where labour costs can play a predominant -- albeit fleeting -- role in comparative advantage. Barriers to entry are also low in these labour-intensive industries, as the capital

investment and equipment requirements to enter the market are minimal and the relocation of production in buyer-driven chains, such as garments, has been far greater than in capital-intensive industries which have demonstrated considerable locational stability. In their approach to buyer-driven chains, both governments and unions may be left with less room to manoeuvre, given that labour costs are such a vital factor, than when dealing with activities which comply with a more balanced array of considerations. Furthermore, the contracting firm's dependence on the buyer may make matters more sensitive and pose obstacles to trade union organization.

### **6.1. Unionization in the commerce sector**

Trade union membership levels are traditionally lower in sectors in which small enterprises prevail; there is a large proportion of female employees; there are high labour turnover rates and a high proportion of employees in employment relationships that are neither full time nor permanent. The commerce sector has all these features. In addition, there are country-specific characteristics in industrial relations systems that contribute to low unionization rates -- especially in the commerce sector.

Retail and wholesale trade are among the least unionized industries in many countries. However, trade union membership rates vary considerably from country to country. In Scandinavian countries, which are the most unionized, trade union membership rates are high in the retail and wholesale trade. Indeed around 70 per cent of commerce sector employees are unionized. If the unemployed are included, the membership level is even higher. In Finland, for instance, the unionization level in the commerce sector was 81.9 per cent when the unemployed were included, but only 70.6 per cent when they were excluded.

Among OECD countries, the other extreme is the United States. In 1998, a mere 13.9 per cent of wage and salary workers were union members. In the wholesale trade they accounted for 5.8 per cent and in the retail trade for 5.2 per cent. In Japan, France and the United Kingdom, unionization rates are not much higher. As a general rule, unions have been steadily losing members for a number of years in these countries.

Offshore contracting has clearly contributed towards the decline of unionization rates in the garments industry (see also box 6.1 on unionization in clothing retail) in both the United States and other countries. International subcontracting has thus affected union membership in labour-intensive, low-skilled production jobs in high-wage countries.

#### **Box 6.1**

#### **Unions in the clothing retail sector in the United States**

Clothing retailing in the United States has always ranked among the least unionized sectors of the economy and rates of unionization have been falling since at least the 1970s. In 1983 only 4.4 per cent of apparel

sales workers were covered by collective bargaining agreements while rates of union membership were even lower (3.5 per cent). By 1996 these rates had fallen further to 2.4 per cent and 1.7 per cent, respectively. Collective bargaining coverage is highest in department stores (4.6 per cent), compared to 3.2 per cent in specialty stores and 1.2 per cent in variety stores.

In 1972, the Retail Clerks International Association (RCIA), with an overall membership of 633,000, was the largest union in clothing retailing and the seventh largest union in the country. A second union, the Retail, Wholesale, and Department Store Union (RWDSU), had 198,000 members, and two food retailing unions (the Amalgamated Meat Cutters and Butcher Workmen and the United Food and Confectionery Workers Union) had some members in clothing retailing, as did the Teamsters and the Amalgamated Clothing Workers Union.

As union membership declined in clothing retailing, a number of these unions merged and the RCIA joined with the Butcher Workmen of North America in 1979 to become the United Food and Commercial Workers Union (UFCWU). The United Retail Workers joined the UFCWU in 1994, bringing the combined UFCWU membership to 983,000 (1995). The Retail, Wholesale, and Department Store Union has another 76,000 members, but these figures include workers in food retailing and other services, as well as clothing retailing.

#### *Union organizing*

Changes in the economic structure, technology, demography and geography of retailing have presented obstacles to unionization. Mergers and downsizing have cut potential membership; unionization has been resisted by the rapidly growing mass merchandisers; the prevalence of young and part-time workers with weak attachment to the industry has made organizing drives and winning elections more difficult; the dispersal of retail activity from central cities to suburban malls has weakened traditional organizing tactics; and electronic sales technologies have made it easier to replace sales clerks and lessened the threat of strikes.

Public policy has not helped union organizing in the face of these changes. The time-lags in conducting elections and responding to unfair labour practices by employers always disadvantage unions in industries with high labour turnover. In addition, unions have recently been banned from organizing activities in public areas.

Unions have, however, made some gains in organizing retail distribution centres. The Union of Needle Trades, Industrial, and Textile Employees (UNITE), for example, organized a 700-employee *Marshall's* distribution centre in Georgia in 1997, following up on a similar organizing drive at *T.J. Maxx's* distribution centres the preceding year. Organizing by UNITE has been further extended to distribution centres in Massachusetts, North Carolina, Indiana, Virginia, and Nevada in 1998.

Data on union wage effects are not available for clothing retailing. However, unionized workers in the overall wholesale and retail sector earn on average 11 per cent more than non-union workers. The absence of controls for worker and employer characteristics makes this an imprecise estimate of the pure union wage effect.

Source: Peter P. Doeringer. *Ringin' it up: Labor and human resources in the clothing distribution channel* (Boston University, 1999).

## **6.2. Collective bargaining developments and international agreements between the social partners**

The accelerating pace of structural changes in the commerce sector has also had an impact on the rules and practices which regulate relations between employers and workers, including collective bargaining and, more generally, on social dialogue.

A number of global, social and economic trends are also affecting the bargaining process in the commerce sector. These include: the rapid expansion of information and communication technologies, the progress made in regional and global integration and the development of tertiary and part-time employment.

The changing structures in the United States retail sector and their impact on labour issues and labour relations provide an example of these developments.

As lean retailing allows large retailers to reduce their inventories, they become more dependent on supply chain logistics -- the smooth movement of merchandise from rapid-response suppliers to the sales floor. Distribution centres are the critical logistics link in rapidly moving replenishment products from suppliers to individual stores. The quicker the rate of replenishment supply and the lower the average level of buffer inventories at the retail level, the more important become the distribution centres.

Compared to the decentralized retail outlets of large chains which are often located in shopping malls that limit union organizing, distribution centres in the United States are less numerous, relatively centralized, and are more accessible to union-organizing drives. Several unions, such as UNITE and the Teamsters, have successfully organized distribution centres in recent years.

For instance, the increasing concentration in clothing retailing not only facilitates public regulation of wages and working conditions in the industry but also has the potential to strengthen regulation through collective bargaining. Moreover, the growing integration of lean clothing retailing with apparel manufacturing provides new opportunities for extending union leverage throughout the supply chain.

Union organizing and collective bargaining in clothing distribution centres have implications for union activity throughout the apparel production channel. The more successful lean retailing becomes in reducing inventories, the more vulnerable retail chains become to disruptions in distribution centres' logistics resulting from union organizing and bargaining tactics. Distribution centres, therefore, can become the base for extending bargaining forward into clothing retailing. Similarly, their critical position in the supply chain could be a springboard for upstream union organization of clothing manufacturers.

Nevertheless, the major retail unions have not made significant organizational attempts in distribution centres; nor have the unions that are organizing such centres used their leverage to extend bargaining either up- or downstream. Using distribution centres to extend collective bargaining throughout the apparel production channel must await a new vision of union organizing and bargaining in the apparel channel and may imply new

forms of coordination or additional mergers among the unions currently representing different parts of the channel.

A review of recent collective bargaining contracts in the United States suggests that retail clothing unions are concentrating mainly on core economic issues – wage increases, improved health care benefits and job security. However, the low skills and the competitive structure of clothing retailing suggest that the demand for retail labour is a relatively elastic demand so that the economic impact of unions and collective bargaining is unlikely to be very widespread.

Since the establishment of their Social Dialogue in 1985, the European social partners for commerce have been working closely together on employment policy matters; this has resulted in the signing of a Memorandum on vocational training in retail trade and a Joint opinion by EuroCommerce and Euro-FIET on employment. In recent years, the social partners in commerce have focused their attention on future developments in employment structure, backed up by a number of joint research projects. In the context of the enlargement of the European Union to the East, EuroCommerce and Euro-FIET have been working with the social partners for commerce in the applicant countries in promoting industrial relations through a series of round- table meetings. To date, two round tables have taken place in Estonia and Hungary, respectively, and this process will continue throughout 1999.

Both EuroCommerce and Euro-FIET have expressed their will to continue the ongoing work on job-creating initiatives and endeavour to translate their priorities into concrete actions, particularly in the following fields:

- analysis of the workforce, job profiles, education and continuing training;
- improving skills of mature workers in commerce;
- analysis of the impact of competition and IT development on the structure of the workforce;
- framework for distance working;
- analysis of training opportunities for small and medium-sized enterprises.

The Afro-FIET Trade Section of Commercial Workers has indicated that its objective is to assist African commercial workers in their endeavours to build strong, free and independent trade unions in Africa. According to Afro-FIET, the following issues should be given special priority in the activities of African commercial workers' unions:

- a continuous and unwavering fight for human and trade union rights for all commercial workers in Africa and in the world;
- a decisive struggle against unemployment and for better employment security;
- decisive action to secure reasonable wages for commercial workers, defined in collective agreements between trade unions and employers or their organizations;
- renewed efforts to bring unorganized workers in commerce into union membership by the development of attractive recruitment strategies;

- strong efforts to protect and develop national education systems, which guarantee a solid and free basic education and a broad vocational training on an equal basis for all people, boys and girls, men and women, including full access to adult education;
- continuous attention to the promotion of healthy and good working conditions and the elimination of health and safety hazards from the work process and working environment;
- determined pressure on governments and employers to attain shorter working hours, reasonable shop opening hours, longer holidays and the right to economically and socially secured retirement;
- efficient work to secure basic social security protection on an equal basis for male and female commercial workers and their families, in all parts of commerce, including necessary social and health services and social insurance provisions for unemployment, illness and retirement.

### **6.3. A number of "framework agreements" arising from the European Works Council Directive**

Various "framework agreements" have been concluded in the commerce sector. These are agreements between workers (and/or workers' representatives) and companies arising out of the European Council Directive 94/45/EC on the establishment of a European Works Council. The directive calls on companies with more than 150 employees operating in two or more countries of the European Union to establish works councils to discuss information and consultation arrangements. As a result various "framework agreements" have been established. The term "framework agreement" has also been used to describe various joint worker/company negotiated agreements by the ICFTU.

Euro-FIET, for instance, established European Works Councils with *Carrefour* and *Promodes* in 1996, with *Kapp-Ahl* in 1997 and with *Hennes & Maurtiz* in 1998. Another example of a "framework agreement" in the commerce sector is the agreement between Euro-FIET Commerce and *Metro's* management in February 1999 which expanded the European Works Council to include countries outside the European Union, including Turkey. Since agreements concluded outside the scope of the Works Council Directive cannot be considered "framework agreements" as referred to in that document, the ILO has grouped such agreements as a category of private sector voluntary initiatives.

### **6.4. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy**

In the context of activities of multinational enterprises (MNEs) in the commerce sector, it should be recalled that the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, adopted by the Governing Body at its 204th Session in 1977, sets out principles and guidelines in the fields of employment, training, conditions of work and life and industrial relations which governments, employers' and workers' organizations and multinational enterprises are recommended to observe on a voluntary basis. Besides the OECD guidelines for multinational enterprises, the ILO Tripartite

Declaration is still the most universal and comprehensive international code of conduct for multinationals.

The principles laid down in the Tripartite Declaration reflect good practice for all; however, the Declaration is particularly relevant to the commerce sector since it defines multinational enterprises to include enterprises, whether they are of public, mixed or private ownership, which own or control production, distribution, services or other facilities outside the country in which they are based. Significantly, the Tripartite Declaration urges countries which may not yet have ratified basic ILO Conventions (Conventions Nos. 87, 98, 111 and 122) to apply the principles embodied in them, and in cases where governments may not comply with them, the other parties to the Tripartite Declaration (employers, workers, MNEs) are urged to refer to these Conventions and Recommendations for guidance. In addition, it addresses a number of key issues which are important for industrial relations in a globalized economy. For example, paragraph 52 states that: "Multinational enterprises, in the context of bona fide negotiations with the workers' representative on conditions of employment, or while workers are exercising the right to organize, should not threaten to utilize a capacity to transfer the whole or part of an operating unit from the country concerned in order to influence unfairly those negotiations or to hinder the exercise of the right to organize." With regard to governments which may offer special incentives to attract foreign investment, they are reminded that such incentives should not include any limitation of the workers' freedom of association or the right to organize and bargain collectively.

Although the Tripartite Declaration encourages MNEs to enter into subcontracting arrangements with national companies for the manufacture of parts, equipment and the progressive promotion of the local processing of raw materials in order to promote employment in developing countries, it cautions that such arrangements should not be used by multinationals to avoid the responsibilities embodied in the other principles of the Tripartite Declaration (paragraph 20). The wages, benefits and conditions of work provided by MNEs should be the best possible (paragraph 34) and, in any event, not less favourable than those provided by comparable local employers (paragraph 33).

### **6.5. Globalization as a potential source of tensions in multinational enterprises**

A number of multinationals operating in developing and transition countries have concluded agreements with the trade unions operating in the commerce sector. A case in point is the Czech Republic where, according to the FIET-affiliated commerce trade union OSPO a stability agreement was concluded, for the 1994-98 period, between several multinationals such as *Tesco*, *EURONOVA*, *CAMIF* and *Douwe Egberts* and the employees' representatives. This initiative led to the conclusion of collective agreements and, according to the same source, optimum working conditions were agreed upon. These included: bonuses; overtime; work limits; obligatory and voluntary premiums; the elimination of discrimination of all kinds; the settlement of disputes and grievances; improved communication and cooperation between both parties; occupational safety and health projects; and the establishment of a social programme for employees. Similar

agreements are at present being negotiated with other companies (*Penny Market, Kaufland, Makro* and *Spar*). According to the same source, however, a number of multinational companies operating in the country refuse any kind of social dialogue and forbid, though indirectly, the membership of their employees in trade unions. OSPO, in cooperation with international trade union secretariats and the trade unions in the home countries of the multinationals, is trying to reverse this situation; certain results had been achieved with the assistance of FIET. Besides the Czech Republic, FIET has recently tackled this problem in Argentina, Brazil and the Republic of Korea.

The liberalization of trade and capital movements -- and especially the emergence of the export processing zones (EPZs) associated with this liberalization -- has made it easier for multinationals to hamper the unionization of workers in both industrialized and developing countries.

A study prepared by Cornell University and submitted to the Secretariat of the North American Commission for Labor Cooperation in December 1996 revealed that 62 per cent of employers in the warehouse/distribution sector had threatened to shut down and/or move their operations in response to union organizing campaigns. Threats were significantly lower in the retail trade because retail outlets tended, by their very nature, to be less mobile.

The Cornell study involved an in-depth examination of the role played by plant closings and threats of plant closings in private sector union organizing campaigns over a three-year period from 1 January 1993 to 31 December 1995. Through surveys, personal interviews, documentary evidence, and the use of electronic databases, the Cornell researchers were able to collect detailed data on the extent and nature of plant closings and plant closing threats in more than 500 organizing campaigns.

According to the study, the majority of private sector employers had threatened a full or partial shutdown of their facilities during organizing campaigns, and a significant minority had actually proceeded to shut down the facility after the union had won the election.

A number of studies and reports, particularly regarding the United States, have alleged infringements of workers' rights by contractors of multinational retailers (*Wal-Mart, K-mart, J.C. Penney, May Department Stores, Esprit, Nike* and *Guess*). Allegations have focused on low wages, forced overtime and strip-searches.

In January 1999, United States lawyers charged 18 major United States apparel manufacturers and retailers with using indentured labour under sweatshop conditions to produce clothing on the island of Saipan in the United States Commonwealth of the Northern Mariana Islands in the South Pacific. The lawsuits were filed on behalf of more than 50,000 workers from Bangladesh, China, the Philippines and Thailand who had been allegedly lured to Saipan with promises of a better life in the United States. Instead, they found themselves working up to 12 hours a day, seven days a week without overtime pay in unsafe, unsanitary and abusive conditions. The case of Saipan is complicated by the

fact that the island is not bound by all United States labour legislation and can therefore legally offer investors certain exemptions. The United States Department of Labor has since reinforced its inspectorate on the island to make certain that employers respect the labour laws.

## **6.6. Industrial relations in the informal commerce sector**

In many developing countries, the vast scale and rate of growth of the informal sector -- much of which is comprised of commerce activities, as mentioned in Chapter 1 -- presents a dilemma and a challenge for industrial relations processes and institutions. It is a dilemma because, by definition, the informal sector encompasses employment situations and labour relations which not only differ from those in the formal sector, but often infringe upon established rules and laws.

Informal commercial units may encompass the self-employed working alone or with the aid of unpaid family members, as well as "micro-enterprises" employing occasional workers. The informal commerce sector which employs many women, children and ethnic minorities is also characterized by a wide variety of employment conditions and labour relationships. A factor preventing informal commerce sector workers from trying to improve their working conditions through organizations is that family, networks or ethnic loyalties often count more than working-class solidarity.

Given that national labour codes have generally proved extremely difficult to apply to the informal sector, the trade union movement has deployed efforts at the national and international levels towards the establishment of codes of conduct and framework agreements with multinational enterprises to ensure that products from subcontractors are manufactured in accordance with the provisions of fundamental labour standards. A case in point is the use of child workers in Pakistan to manufacture balls for the football World Cup, which has since been the subject of discussions and agreement between FIFA and the international trade union movement with a view to remedy the situation. The background paper for the ILO International Symposium on Trade Unions and the Informal Sector to be held in Geneva from 18 to 22 October 1999, "Trade unions and the informal sector: Towards a comprehensive strategy", suggests approaches to extending labour code protections to workers in the informal sector.

### **Box 6.2**

#### **The informal sector retail workers in Caracas seek international recognition**

In Caracas, Venezuela, the Coordinating Body of Informal Sector Retail Workers (CONIVE) -- an umbrella organization comprising various associations of informal sector retail traders -- has sought to strengthen its bargaining position vis-à-vis local authorities by seeking international recognition. In particular, CONIVE resorted to and obtained the legal advice and political endorsement of two regional trade unions, namely the Latin American Central of Workers (CLAT) and the Latin American Federation of Retail Workers (FETRALCOS). This is a very interesting case: a number of small retail traders, street

vendors and allied workers of the capital city decided to create trade associations which, eventually, joined together as a federation (CONIVE). Since 1989, the latter has been trying to negotiate with the municipal authorities to persuade them to allocate an area for a market where small retail traders might operate. More recently, CONIVE, together with CLAT and FETRALCOS, have requested the municipal authorities to withdraw a draft municipal order banning the use of the city streets by street vendors (it is estimated that more than 7,000 informal sector vendors are at present operating in the area in question). CONIVE's main argument against such an order is that it does not envisage alternative employment solutions for those potentially affected, and that street vendors have the right to work. As a counter-measure, CONIVE submitted, for the consideration of the local authorities, a set of guidelines and proposals to address the chaotic and steady growth of informal retail trade in Caracas. The lack of a public policy on the matter is deemed to be the main cause for this state of affairs.

Source: ILO: *World Labour Report 1997-98* (Geneva, 1997), pp. 205-206.

## **7. Voluntary initiatives in the commerce sector and the ILO's involvement**

Broad overviews of global developments and ILO activities concerning codes of conduct and other voluntary initiatives were submitted to the Working Party on the Social Dimensions of the Liberalization of International Trade of the Governing Body at its 273rd Session (November 1998) and at its 274th Session (March 1999).

This chapter is mainly based on the documents discussed by this Working Party on these issues.

Voluntary initiatives such as codes of conduct and social labelling usually operate at the enterprise, sectoral or cross-sectoral level. These can complement, but do not replace, enforcement of national legislation and international labour standards.

The commerce sector with its rapid internationalization gives voluntary initiatives a natural ground for expansion. While in the past unethical behaviour by a company might have been kept quiet through skilled public relations, there is now a greater likelihood that employees from within a company will alert relevant pressure groups. It is also more likely now than in earlier days that the pressure groups will be successful in generating significant publicity about an incident or similar practices. These trends may be attributed in part to globalization and restructuring in commerce because, as the report has shown, the development of new, international distribution circuits can enhance consumer power and global social awareness. However, it should be recalled that while consumer power arising from voluntary initiatives can be real enough inasmuch as consumers are in a position to exercise choice, this becomes somewhat irrelevant in stagnating or collapsing economies where consumers are impoverished and have little choice.

### **7.1. Codes of conduct**

Codes of conduct that address labour practices have become a key element in the debate over improving the conditions of workers worldwide. Modern codes of conduct

originated in the early twentieth century, with model codes on advertising and marketing practices developed by the International Chamber of Commerce in the late 1930s.

The late 1980s and 1990s have seen a rapid proliferation in the use of codes of conduct with several new trends. First, the application of traditional, and typically MNE, codes to headquarters only or, at most, to wholly owned foreign subsidiaries, has expanded. As public pressure for enterprise accountability increases, enterprises feel more vulnerable to the labour practices of their business partners in the commodity or service chain. The "self-applied" model has been replaced by the development or application of codes in a growing variety of business partnerships involving more than a single enterprise. Codes now apply to joint ventures, licensees, and other contractual relationships resulting from the chain of transactions necessary for the products and services purchased through foreign direct investment. Concomitantly, an increasing number of actors are participating in code initiatives with enterprise, including in particular workers' organizations, industry associations, NGOs and other private groups.

Codes of conduct with labour-related provisions are known to exist in nearly all 22 ILO sectors of activity. Sectoral participation in codes, however, varies widely. Sectors that deal directly in consumer products, including textiles, clothing, leather and footwear (TCF), commerce (retailers and home manufacturers of consumer products), food and beverage, and the chemical and toy industries, appear more conducive to their development.

Two general types of codes exist. *Operational codes* apply directly as commitments to specific conduct within enterprises or their partners, or through subscription systems sponsored by third parties (typically enterprise associations or coalitions of enterprise, trade union, and/or NGOs) to which enterprises commit themselves, either on their own behalf and/or for their business partners. "Subscription codes" may involve monitoring and/or reporting commitments to be performed by subscribers or by the external code sponsors themselves. *Model codes* are issued by enterprise associations, trade unions, NGOs, and/or governments for others to use as a basis in developing their own codes. Although model codes do not operate directly within enterprise or through enterprise subscriptions, model codes may be reflected, in whole or in part, in codes adopted by enterprise.

Furthermore, in a trend that appears to be increasing, workers' organizations are joining with enterprises and enterprise associations, to negotiate and implement *joint codes of conduct* with labour provisions. In general, codes that have developed with worker participation incorporate international labour standards in a more consistent pattern than do other types of codes reviewed. Available information suggests that joint codes have been negotiated by workers' organizations in internationalized consultations between international trade secretariats (presumably in consultation with local trade unions) and MNE headquarters management. Evidence on what effect, if any, these "code agreements" have on local collective bargaining agreement is as yet unavailable.

The NGO community has also been working in partnership with industry to develop initiatives such as the Apparel Industry Partnership in the United States and the Clean Clothes Campaign in Europe.

#### Box 7.1

### **The Apparel Industry Partnership and the Fair Labor Association**

The Apparel Industry Partnership (AIP) was formed in August 1996 by President Clinton and included United States apparel MNEs, trade unions, human rights organizations and consumer groups. The participants who first participated in the partnership included MNEs: Karen Kane, Liz Claiborne, L.L. Bean, Nicole Miller, Nike, Patagonia, Philips-Van Heusen, Reebok, Tweeds; trade unions: The Retail Wholesale, Department Stores Union, UNITE; NGOs: Business for Social Responsibility, The Interfaith Center on Corporate Responsibility, The International Labor Rights Fund, Lawyers Committee for Human Rights, RFK Memorial Center for Human Rights; consumer organizations: National Consumers League. In April 1997 the partnership issued a report which included the "Workplace Code of Conduct" as well as a set of principles for monitoring. The Code covers nine areas: forced labour, child labour, harassment or abuse, non-discrimination, health and safety, freedom of association and collective bargaining, wages and benefits, hours of work, and overtime compensation. However, unlike other hybrid initiatives in the apparel industry and other industries the Code makes no reference to ILO Conventions or Recommendations.

In November 1998 members of the AIP agreed on the creation of a Fair Labor Association (FLA) which would be the basis for developing a certification/accreditation scheme. This agreement was reached after over a year of negotiations between social actors and MNEs and has been the subject of a great deal of criticism.

Criticism is directed at standards, monitoring and the operations of the association. Critics (trade unions and some NGOs) are for instance concerned about wage provisions which do not require companies to pay a sustainable "living wage", but only to meet national law and industry standards. They also argue that the FLA would do little to protect the rights of workers to organize.

The FLA will create a "service mark" that a company certified to be in compliance may choose to use in its advertising, at the stores where purchases are made or on the apparel or footwear sold.

The AIP is an initiative which has implications for the commerce sector since many of the companies involved produce products for commerce companies. The AIP and FLA could have a positive effect on enterprises in the commerce sector if they use them as a means to ensure the products they sell are produced in accordance with certain labour standards. However, confusion may also result if commerce companies adopt different codes and policies which may confuse suppliers in developing countries.

Fundamentally, the effectiveness of a code of conduct depends on its credibility: the extent to which it is taken seriously by industry, unions, consumers and governments. Credibility, in turn, depends on monitoring, enforcement and transparency: the extent to which foreign contractors and subcontractors, workers, the public, non-governmental organizations and governments are aware of the code's existence and meaning.

#### Box 7.2

## **The Clean Clothes Campaign**

The Clean Clothes Campaign was launched in the Netherlands in October 1990 to improve labour practices in apparel and sportswear supply chains.

The campaign is a coalition of consumers' organizations, NGOs, trade unions and researchers who inform consumers of working conditions in the garment industry and pressure retailers as well as producers to take responsibility for these conditions. The campaigning network has grown considerably as it involves today more than 200 NGOs and is operational in 11 European countries and in South-East Asia, Eastern Europe and the United States.

The aim of the initiative is to certify that suppliers of retailers and manufacturers of clothing abide by minimum labour standards.

The campaign introduced two codes in 1997: the Code of Labour Practices for Apparel Industry Including Sportswear and the Fair Trade Charter for Garments. These codes are designed to combat the oppression, exploitation and abuse of workers in the apparel and sportswear industries (most of whom are women) by advancing concerns of consumers who purchase products made and sold by these industries. The codes are addressed to retailers, manufacturers, and to all companies positioned in between them.

The codes are based on the ILO's core labour standards (on freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation). But the codes also include provisions on wages, working hours, the employment relationship, and working conditions.

## **7.2. Social labelling**

The documents submitted to the Working Party of the Governing Body also contain an overview of global developments regarding social labelling which are relevant in the context of globalization and restructuring in commerce.

The term "social labelling" has come to connote a means of communicating information through a physical label about the social conditions surrounding the production of a product or rendering of a service. Social labels may be affixed to products or their packaging or displayed on shelving or shop windows at the retail site. Some labels are assigned to enterprises, usually producers or manufacturers. They are aimed at consumers and/or potential business partners. Social labelling programmes are considered to be voluntary responses to market incentives (including the demands of business partners) rather than to public law or regulation.

Civil society processes, including campaigns and public demands, create the perceived market for social labels and represent a key influence in the development of social labelling programmes. Labels which operate independently of any one enterprise (independent labels) have been developed and administered by NGOs, workers' organizations (union labels), industry and trade unions or other enterprise associations, or hybrid partnerships of one or more of those sectors. Single enterprises engaged in production, export or retail sales, or enterprise/government partnerships, have also

developed independent social labels. Social labelling programmes run by NGOs or hybrid partnerships tend to be dominated by organizations in developed countries, particularly in the initial phases; those led by enterprise associations or public/private partnerships have included coalitions in developing countries, such as Abrinq in Brazil and Kaleen in India.

Complex market relationships exist among social labels, codes of conduct, company names, licensing agreements, and other private voluntary initiatives. In some cases, small- and medium- scale enterprises, or enterprises in industries with little brand loyalty, have shared the costs and higher visibility of a common independent social label, usually administered by an enterprise association or hybrid partnership on the basis of a commonly accepted code of conduct. In such situations, the label may be affixed to the product as, for example, with RUGMARK, or may consist of a trade name used by certified companies, as for example, Responsible Care. On the other hand, an enterprise which has a good reputation established on the basis of a well-known code of conduct may find that its company name acquires, over time, the status of a *brand name label* (e.g. *Gap*). In some cases, retailers or private label manufacturers license the use of their logos or trade names to contractors which meet preset standards, often found in the code of conduct developed by the retailer or manufacturer. In such cases, the logo or trade name operates as a means of reporting code compliance to buyers and vendors along the chain of production as well as to the general public and consumers. Recent licensing examples include procurement policies of United States-based Duke University and Notre Dame University, FIFA soccer balls used in the World Cup and athletic equipment procured for the Sydney Olympics. Some programmes which start as multi-stakeholder subscription codes may eventually adopt a certification label as, for example, the Clean Clothes Campaign mentioned earlier in the text.

Social labels influence labour practices in a selective manner. Rooted in concerns of consumers, media and civil society campaigns, many social labelling programmes target consumers in developed countries and producers in developing countries. The programmes appear primarily in export markets involving retail trade, and with market "niche" products, affluent consumers and eye-catching circumstances. Products vary in adaptability to social labelling depending on the price sensitivity of the sector, the role of brand recognition, and concern of consumers respecting social issues in the supply chain involved. Some labels apply only to highly specific sectors such as hand-knotted rugs, soccer balls or cut flowers; more general labels cover various products in the clothing industry or selected agricultural products. Labels may be more likely to develop with products bought and consumed publicly or associated with social identity (such as clothing, footwear, food and luxury goods) or discrete production processes (such as tea).

As with codes of conduct, social labels may be single issue (child labour, freedom of association) or multiple issue, containing a set of labour standards or a set of standards including labour as well as other issues like fair trade or forest conservation. Like codes, roughly one-third of the labelling programmes include some reference to international labour standards.

Experience to date suggests that social labelling programmes bring direct and indirect effects, both helpful and adverse. On the helpful side, labelling programmes may improve working conditions and raise funds for educational and rehabilitation programmes for former child workers. They may also build consensus among industry groups, NGOs, international organizations and governments about labour practices to be addressed. Responses may take the form of more conscientious compliance or enforcement of labour laws or enterprise adoption of codes of conduct to forestall use of the label. Social labelling programmes may also bring adverse effects, including financial difficulty among participating enterprises and consequent loss of jobs. Higher prices of labelled products may result in lower penetration of the market. Some child labour labelling programmes have been criticized for driving child workers into less formal sectors where the elimination of exploitation is more difficult. Legal risks also exist, including issues of inconsistency with national anti-competition or truth in advertising laws and international trade law.

Social labelling programmes share some of the potential benefits and drawbacks applicable to codes of conduct generally. On the positive side, labelling programmes appear to stimulate social concern among enterprise and consumers and provide a market-based financial (rather than regulatory) incentive to improve labour conditions. However, this benefit applies selectively, both to the labour issues involved in the criteria and to specific sectors of enterprise concerned. On the negative side, labelling programmes tend to lack transparency and methods for independent verification of the claims behind the labels, promote "outside" intervention in national standard setting, and discriminate against producers in developing countries who face undue costs or other constraints in the process of certification of conformity assessment.

As with other private initiatives, social labelling programmes may prove more effective and more equitable when combined with other programmes to form a comprehensive, transparent and reliable social policy. In addition, international trade rules, and in particular the Code of Good Practice of the Technical Barriers to Trade (TBT) Agreement of the World Trade Organization, offer guidelines on how voluntary standards can be developed and implemented in ways that prevent unjustifiable non-tariff barriers. This Code encourages transparency and cooperation in the development of standards at local, central and regional levels and, in the long run, equivalence, mutual recognition and harmonization of public or private standards on "as wide a basis as possible" by reference to international standards. ILO standards on "working conditions and environment, occupational safety and health, equality of treatment between men and women, non-discrimination, rights of tribal and indigenous peoples and employment are recognized as relevant to the interpretation of the TBT Agreement and its annexes.

\* \* \*

At the World Economic Forum in January 1999, the United Nations Secretary-General noted that "the spread of markets far outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take". He called on multinational investors, employers and producers to "uphold human rights and decent

labour and environmental standards directly, by your own conduct of your own business" by promoting universal values in their dealings. In explicit references to the ILO Declaration on Fundamental Principles and Rights at Work and its content, he urged the world's economic leaders "[not to] wait for every country to introduce laws protecting freedom of association and the right to collective bargaining".

The Secretary-General declared that "... the ILO stand[s] ready to assist you, if you need help, in incorporating these agreed values and principles into your mission statements and corporate practices".

Global outsourcing has enabled companies, including distributors, to order products from overseas manufacturers without ownership or running of these factories. But companies insisting on rigorously high standards in their overseas operations can be placed at short-term disadvantage against competitors that do not comply with international fundamental labour standards. James Wolfensohn, President of the World Bank, told a recent Prince of Wales Business Leaders Forum meeting that companies did not have a choice over whether to become involved in social developments in countries where they established operations. A company investing in a country intuitively and immediately became part of it, and involvement was essential to protect its investment and markets. Like Mr. Annan, Mr. Wolfensohn stressed that business needed to give a lead not only for moral reasons, but in the interests of stable markets.

In his address to the 87th Session of the International Labour Conference in June 1999, the President of the United States indicated that he had asked Congress for financial support to build on his anti-sweatshop initiative to encourage the many innovative programmes that are being developed "to eliminate sweatshops and raise consumer awareness of the conditions in which the clothes they wear and the toys they buy for their children are made".

The ILO participated as an observer in the European Union/United States Symposium on Codes of Conduct, which was attended by some 150 officials, including representatives of United States and European business, employers' and workers' organizations, ministries of labour, NGOs and auditing firms. Widespread agreement was expressed by business and workers' representatives, with significant support from NGOs and governments, that the ILO should serve as the primary forum for addressing the labour issues implicated by voluntary codes. Many supported the view that any such code developed should reflect the aims underlying the fundamental principles and rights enshrined in the 1998 ILO Declaration on Fundamental Principles and Rights at Work, while some business representatives insisted that the choice should be left to the discretion of each company.

In his oral report to the Working Party on the Social Dimensions of the Liberalization of International Trade at the 274th Session of the Governing Body of the ILO, the Chairperson of the Working Party, Mr. Lyne, stressed first that the ILO could interact with voluntary initiatives by giving an appropriate response to requests made to the Organization on matters lying clearly within the ILO's terms of reference. He stated that

the view was expressed in this regard that the provision of this assistance should be in the form of information and advice and should not in any way put the ILO in a position of accepting or rejecting particular company initiatives. To fail to respond would damage the credibility of the Organization.

Secondly, the Chairperson noted that concerns were expressed by some speakers that codes of conduct might be developed into what was termed "soft law"; or that moves might be made through the aegis of the ILO to impose a single, uniform code of conduct. In summing up, the Chairperson therefore emphasized that there was no question of the ILO imposing any code. The process under discussion was an entirely voluntary process: there was no proposal before the Working Party for the development of a uniform code. Indeed, as many speakers had stressed, the adoption and content of codes has been a matter for individual enterprises. While the 1998 International Labour Conference had adopted the Declaration on Fundamental Principles and Rights at Work, implementation of the Declaration was under separate consideration and was not a question for this Working Party.

The Chairperson added that against the general background, it was widely agreed that further research should be pursued, both in the new areas presented in the document and in further areas. Speakers emphasized various priorities for research, including the effects of codes on ILO objectives, such as improved labour practices and job creation, the use of codes by suppliers and the problems posed by the diversity of such codes, the experience and views of constituents worldwide on these phenomena; and the impact of codes on fair market competition, especially in developing countries. The need for coordination within the Office on the various aspects of research was made very clear.

To conclude, it was agreed that future activity would be enriched by further Office research and experience in supportive services in this area. One option would be to convene meetings with a broad range of interested constituents. As was intended, the meeting of the Working Party had now provided the Director-General with extensive guidance. He, for his part, has made clear his intention to act in close consultation with the tripartite membership in moving forward in this area.

In his Report to the 87th Session of the International Labour Conference (June 1999), the Director-General of the ILO indicated that voluntary codes could use ILO standards as points of reference and as sources of inspiration. This could include developing manuals for use with such codes, incorporating information on various Conventions, on the 1998 Declaration and on the 1977 Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. Voluntary codes could then become complementary opportunities for the ILO to disseminate its principles and values.

In concluding, reference is made to the same Report of the Director-General of the ILO, which contains a statement that seems particularly relevant in the context of globalization and restructuring in commerce:

Business is facing intensified social pressures for good corporate practices, which have a direct bearing on consumer demand and corporate reputations through the media. While communications technology has greatly enhanced the value of brand names and corporate image, it has also greatly increased their vulnerability to public opinion. The larger corporations are concerned about these pressures not merely in terms of their own markets, but because they may be a political threat to existing trade and regulatory regimes. These social pressures also come at a time when the markets within which the corporation operates are no longer easy to define or control. Many enterprises have adopted their own codes of conduct, but business is facing its own problems of monitoring and supervision because of the growth of supply chains and subcontracting practices. Under these conditions, markets could easily become minefields. The essence of the problem is to combine the need of enterprises for a recognized external source of reference, with international measures which provide a consistent framework to benchmark individual initiatives. The ILO has a unique expertise to move forward in this area, while remaining attentive to existing legal obligations and to business sensitivities.

---

## **Suggested points for discussion**

1. Restructuring and globalization in the commerce sector are driven by various economic and technological factors. Behind these factors are consumer demands for greater convenience and lower-priced products, as well as businesses' need to maximize profits. What advantages have new shop formats and distribution circuits brought in this regard as compared to the traditional forms of wholesale and retail trade? How are restructuring and globalization affecting enterprise productivity and economic performance?
2. What has been the role and extent of the commerce sector in job creation? What is the likely impact of globalization and restructuring on the employment prospects for men and women in commerce? What conditions are required for globalization and restructuring to reap positive benefits for enterprises and for the quality employment of both men and women? What measures can be taken to mitigate any negative effects on particular categories of workers?
3. Electronic commerce is a new and growing marketing and distribution tool. What are its likely effects on jobs and occupational categories in traditional forms of commerce, and more especially on men's and women's employment in the sector?
4. How should human resources development policies and programmes, including training and retraining as well as career development plans, be adapted to enable men and women workers to prepare for and positively respond to changes in the commerce sector? What should be the respective roles of governments and the social partners in the planning and monitoring of initial training and continuing training?

5. How has restructuring affected the working conditions of commerce workers? What measures have the social partners taken -- or plan to take -- to improve working conditions? To what extent have the quality of employment and working conditions (e.g. shop opening hours) in the sector been influenced by the decisions of public authorities?
  6. How should the employers' need for labour flexibility and increased productivity in a highly competitive global market-place be balanced with workers' concerns for job security and decent working conditions? How should the negative effects of restructuring in commerce, including rising labour turnover rates, be remedied?
  7. To respond satisfactorily to the rising competitiveness of an integrating global market requires increased mobility and expatriation of a growing number of professional and managerial personnel of a successful commerce enterprise. What does this entail for such workers and their families, and how should the negative effects of greater mobility and expatriation be addressed?
  8. How are globalization and restructuring in the commerce sector affecting labour relations? What measures should be implemented to promote social dialogue and safeguard sound labour relations in the restructuring process?
  9. What is the impact of restructuring and globalization in the commerce sector on equal opportunity in employment and gender issues in the workplace, such as occupational segregation, remuneration, working-time arrangements, work and family responsibilities, maternity protection, and the participation of women in management? What kind of responses have there been to these issues, and what further measures need to be taken?
  10. An expansion in informal sector commerce seems, in some instance, to closely parallel increased globalization. What should the ILO and its constituents do to safeguard and promote minimum labour standards in the face of this expansion, without at the same time obstructing the potential of this sector to generate employment?
  11. To what extent have international labour standards and voluntary initiatives, such as codes of conduct or social labelling, contributed to the improvement of workers' situations and to the protection of workers' rights during globalization and restructuring?
  12. To what action(s) should the ILO give priority in order to assist its constituents in successfully initiating and adapting to the changes described in the report?
- 

## Bibliography

P.B. Doeringer: *Labour and human resources in the clothing distribution channels* (Department of Economics, Boston University, 1999).

CEDEFOP: *Training in the retail sector* (Berlin, 1994).

*The Economist* (London): "Whispering reform" (11 Jan. 1997).

--: "Commerce and contestability" (3 Oct. 1998).

--: "Price fixing -- Culture clash" (16 Jan. 1999).

--: "Expensive" (6 Feb. 1999).

--: "Parallel imports -- Hardly the Full Monty" (27 Feb. 1999).

European Commission: *Green Paper on vertical restraints in EC competition policy* (Brussels, 1997).

FIET: *The impact of the development of electronic commerce on the employment situation in European commerce*, a report prepared by Athens University, Euro-FIET, EuroCommerce and co-financed by the European Commission (Geneva, 1998).

ILO: *World Employment 1996-97* (Geneva, 1997).

--: *Decent work*, Report of the Director-General, International Labour Conference, 87th Session (Geneva, 1999).

--: Governing Body Working Party on the Social Dimensions of the Liberalization of International Trade (GB documents: GB.273/WP/SDL/1 and GB.274/WP/SDL/1, 273rd and 274th Sessions, Geneva, 1998 and 1999).

J. Kinsey; B. Senauer; R.P. King; P.F. Phumpiu: *Changes in retail food delivery: Signals for producers, processors and distributors* (Department of Applied Economics, University of Minnesota, 1996).

R. Larson: *Key developments in the food distribution system* (Department of Applied Economics, University of Minnesota, 1997).

W.W. Lewis; R. Limacher; M.D. Longman: "Why employment performance differs", in *McKinsey Quarterly* (New York, 1994), No. 4.

OECD: *Employment Outlook 1997* (Paris, 1997).

D. Pilat: *Labour productivity levels in OECD countries: Estimates for manufacturing and selected service sectors*, Economic Working Paper No. 169 (OECD, Paris, 1996).

UNCTAD: *World Investment Report 1998* (Geneva, 1998).

UNDP: *Overview of HDR 1998* (New York, 1998).

WTO: *Distribution services, background note by the Secretariat* (Geneva, 1998).