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Toward a Bipolar Apparel GVC? From the Perspective of First-Tier Suppliers*

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This case study of a Korea-based apparel first-tier supplier examined the evolution of Global Value Chains (GVCs) toward a bi-polar governance structure in the apparel industry, a stronghold of lead-firm dominant and uni-polar chain. It also hypothesized that strategic suppliers' emergence is a necessary condition for the governance transformation towards bipolarity. Company K provides a compelling case to corroborate this hypothesis as it fulfilled a wide array of value chain functions that encourage buyers to form collaborative relationships with them. Our single case study provides a multi-level analysis of how the bi-polarity has emerged (global, industry-level and organizational-level). Its unique contribution to the germane literature is the articulation of organizational strategies that these suppliers undertook to stay cost-competitive while building capability. Supplier upgrading tends to focus on capability building with less regard to how they manage their human resources and ways of working. In this study, we give due attention to organizational changes these first-tier suppliers undertake to secure and improve their positions within GVCs, which holds useful managerial insight for emerging MNEs hoping to do the same.

Keywords: *Apparel GVCs, Korea, First-tier supplier, Strategic supplier, GVC governance, Bi-polar governance structure*

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Introduction

Multinational corporations originating from emerging economies (from hereon, emerging MNCs) have made their mark globally over the past few decades (Coe and Yeung 2014; Gereffi 2014). Not only lead-firms in each industry but also first-tier suppliers (FTSs) are becoming more visible as emerging MNCs. This paper investigates an emerging FTS MNC that has successfully stepped up and is currently playing a strategic partner role in the apparel global value chain (GVC), a strong foothold of buyers with unipolar dominance. We aim to see if this company's upgrading as a strategic FTS also suggests the withering unipolar governance structure of the GVC.

The rise of emerging MNCs as strategic suppliers is not a rare phenomenon, as it has been found to be occurring in many GVCs, including electronics (Tabata 2021), mining (Chen 2021), and car manufacturing (Alvstam et al. 2019) chains. However, this phenomenon is particularly noteworthy in value chains known to be buyer-driven and unipolar, where lead firms have traditionally been a driving force behind chain configuration and coordination (Ponte and Sturgeon 2014). The apparel value chain is a flagship example (Appelbaum and Gereffi 1994; Gereffi 1999). Scholars (e.g., Azmeh and Nadvi 2014; Merk 2014) note that some suppliers from emerging economies have been taking responsibility for a large share of their lead firms' production orders and offering them high value-adding services such as research and development (R&D) and logistics. Suppose strategic suppliers are highly capable and becoming indispensable to their lead firms' success and survival. In that case, one could put the premise of the apparel chain's unipolarity to the test. To our knowledge, the potential emergence of bipolarity in the apparel value chain has not been documented in the GVC literature, and we aim to contribute to filling this gap. Our case study using one of the largest Korea-based first-tier apparel suppliers could help us hypothesize emergent bipolarization in apparel GVC governance.

This study can make the following contributions. First, a detailed look at strategic suppliers' operations contributes to the current GVC literature that focuses mainly on lead firm roles. It also extends the conceptual room to anticipate the evolution of chain polarity in apparel GVCs. Second, it is a multilevel inquiry investigating how global- and chain-level dynamics interact with within-organizational practices at the supplier level. We argue that this inquiry complements existing macrolevel studies of chain polarities (Coe and Yeung 2014). Finally, this study also offers practical insights for emerging MNCs pursuing upgrading strategies. Existing literature on upgrading tends to focus on supplier strategies to enhance the scale and the efficiency of production or acquire new value chain functions (Dindial et al. 2020), with little regard to managerial initiatives that supported such upgrading strategies. This study can make a unique contribution by detailing the case company's managerial initiatives, shedding light on the conditions that help sustain their status as a strategic supplier. Specifically, we explain organizational changes linked to the case company to stay cost-competitive while gaining new value chain functions.

Literature Review

Emerging MNCs have become increasingly prominent and visible in the global marketplace. So is the scholarly interest to understand how they operate and whether they function differently from more established MNCs from Western economies (Cuervo-Cazurra 2012; Gereffi 2014). On the one hand, a growing number of emerging MNCs have become new lead firms in various industries such as the mobile phone, telecom, and wind turbine industries, threatening the market dominance of existing lead firms from North America or Europe (BloombergNEF 2020; Dell'Oro group, n.d.; Mourdoukoutas 2018). Less noticeable to the public's attention is emerging MNCs' prominence as suppliers of Western lead firms. Many suppliers from emerging economies have been upgraded to become strategic partners to their lead firms over time. Many of these suppliers have also gone global, not merely following in the footsteps of their lead firms, but in making strategic locational choices. We refer to this sort of supplier as a strategic supplier.

As an empirically driven concept, a precise definition of strategic suppliers is still in the making. Azmeh and Nadvi (2014) adopted this term early on to refer to suppliers that fulfill a broader set of value chain functions beyond original equipment manufacturing (OEM), taking over higher value-added roles that used to be within the exclusive domain of lead firms, such as R&D and logistics. Coordinating a large portion of value chain functions devolved from their lead firms means that these suppliers can "orchestrate the flows of goods, components, capital, labor, and information throughout the circuits of the chain," which renders them as almost "co-leads" or "strategic and pivotal firms" (ibid. p. 709). This term resonates with "contract manufacturers" in electronics GVCs examined in Raj-Reichert (2020). Similarly, the consolidation of supplier bases and shedding of supply chain functions by lead firms allowed these manufacturers to grow and command their own global networks of second-tier manufacturing and component suppliers. In their study, the lead firms reportedly outsourced up to 80% of their production to a few key contract manufacturers, which enables their oligarchic presence in electronics GVCs (ibid.). Another related concept is tier-one suppliers, as discussed in Merk (2014) in the context of apparel GVCs. They note that in addition to their shared labor practice characteristics (e.g., substandard working conditions, anti-union attitudes, etc.), these suppliers have relatively stable sourcing relations with lead firms. They also operate production sites in multiple countries and achieve an advanced level of industrial upgrading to the point of being "total-service providers" (ibid., p. 265).

Based on the existing studies, we identify the following characteristics of typical strategic suppliers: 1) time-tested business relationships with major lead firms in respective GVCs, 2) increased control over upstream (sourcing of production inputs) and downstream (supply chain management) activities, and 3) signs of growing influence and leverage vis-à-vis lead firms. We reckon that the least likely and challenging environment, a buyer-driven and unipolar GVC, offers us the confirmation and the best understanding of the presence and the characteristics of strategic suppliers. In this chain, production activities are highly fragmented and distributed across many suppliers and geographies, which enable lead firms to play a dominant role in the chain configuration and maintain buyer-drivenness (Gereffi and Frederick 2010; Pananond et al. 2020; Ponte and Sturgeon 2014). The apparel value chain is a flagship example (Appelbaum and Gereffi 1994; Gereffi 1999). It exhibits high power asymmetries between lead firms and their suppliers.

In a typical relationship, the lead firms, namely buyers, monopolize high value-adding functions (e.g., the design, branding, and marketing of products), and suppliers fiercely compete for manufacturing outsourced by these lead firms (Gereffi and Frederick 2010). Buyers often form captive linkages with their suppliers (Gereffi et al. 2005), whereby the suppliers are confined to simple assembly activities and have to rely on their buyers for complementary inputs, ranging from raw material sourcing to product design. Also, lead firms have dominated the access to Western consumer markets with their branding and marketing power, and suppliers have not been successful in breaking into these markets on their own (Merk 2014). Thus, this captive linkage by and large does not amount to a reciprocal relationship. Rather, buyers are known to be free to depart the relationship when the suppliers fail to meet buyers' economic and social standards.

So far, governing apparel GVCs has been conceptualized as lead firms' driving or linking with suppliers. The latest theoretical update focuses on the "normalizing" aspect of GVC governance (Gibbon et al. 2008; Ponte and Sturgeon 2014). Normalizing refers to "re-aligning a given practice to be compatible with a standard or norm" (Ponte and Sturgeon 2014, p. 206), and this type of governance is undoubtedly happening in apparel GVCs. Lead firms have increasingly turned to private regulation of labor and environmental practices at the supplier level (Lund-Thomsen 2020; Nadvi 2008). The vast majority of lead firms create codes of conduct and specify desirable labor and environmental practices that suppliers must adhere to. Alternatively, lead firms adopt sustainability standards developed by multi-stakeholder initiatives and require their suppliers to comply with these standards to access the firms' supply chains. Suppliers cannot negotiate the contents of these codes which are aligned with comparable international standards (e.g., International Labour Organization's core conventions) (Bae et al. 2020). When suppliers repeatedly fail to show compliance or violate critical requirements (e.g., no child labor), lead firms may sever sourcing ties with them (Amengual et al. 2020).

The rise of strategic apparel suppliers requires us to revisit the assumption of the unipolar and buyer-driven nature of the apparel value chain. If these strategic suppliers have amassed sufficient capability and power to influence buyer-driven chain governance, the chain is perhaps becoming bipolar. In a bipolar chain, two actors, generally lead firms and their first-tier suppliers, are responsible for shaping the chain dynamics and governance (Ponte and Sturgeon 2014). For example, Fold (2002) details the bipolar structure of the chocolate industry led by cacao grinders and chocolate manufacturers. Consolidation among cacao grinders and manufacturers' outsourcing of additional chain functions to these grinders meant that this market segment is now dominated by a few large international cacao grinders such as ADM and Cargill. The manufacturers have been seeking a new relationship with medium-sized cacao grinders and international traders, intending to alleviate their dependence on the mega grinders' oligopolistic power. Some other sectoral chains, including electronics (cf. laptops in Kawakami 2011) and food sectors (cf. sustainable shrimp in Islam 2008; cashews in Tessmann 2018) have witnessed similar dynamics of bipolarity.

As Ponte & Sturgeon (2014) observes, the GVC literature can benefit from more empirical studies that understand how chain polarity evolves. The aforementioned studies and the study of multipolar biofuel chains (Ponte,

2014) examine this change at the industry level. To complement this macro level understanding, a small but growing number of scholars have been trying to document the evolution of chain polarity from the perspective of GVC actors (Lechner et al. 2020; Pananond 2016; Pananond et al. 2020). They focus on how these individual actors propelled, resisted, or adapted to changing power dynamics and the division of labor between lead firms and first-tier suppliers. For example, Pananond (2016) tracks the evolution of the Thai Union Group from a local tuna cannery to the world's third-largest seafood company by focusing on its organizational strategies that led to improved power positioning vis-à-vis lead firms. Lechner et al. (2020) analyzes the emergence of a possible bipolar chain in the sports footwear industry from a lead firm perspective. The study argues that lead firms' myopic attention on downstream activities is to blame for them being blindsided by the rise of powerful suppliers (that resemble strategic suppliers), some of them becoming lead firms and thus direct competitors to established lead firms (Humphrey and Navas-Alemán 2010). The conceptual paper by Pananond et al. (2020) proposes four types of global strategies (two lead-firm-centric and two supplier-centric) that concern governing value chains within and outside the firm.

These studies are a part of a welcome endeavor to unpack how chain polarity informs the roles and strategic actions of GVC actors and how these actions have been shaking and perhaps reorganizing the governance structure of a traditionally unipolar GVC (Coe and Yeung 2014; Lee and Gereffi 2021). Yet, there are only a few studies, all of which undertake retrospective analyses. As a result, company strategies and organizational initiatives are often portrayed as having implemented as planned and generated expected outcomes, and organizational-level struggles and the messy processes of implementation are hidden or underplayed. Taking stock of this literature review, we address how strategic suppliers in the apparel value chain have emerged and whether this development signals emergent bipolarity of the chain. We intend to distinguish our study by shedding light on the "ongoing" efforts and struggles from a strategic supplier perspective, in addition to a retrospective analysis on the rise of strategic suppliers and changes in the governance of apparel GVCs.

Data and Methodology

In pursuing this question, we opted for a single-case study of a Korean first-tier apparel manufacturer. Company K (anonymized by authors) is one of the larger Korean apparel manufacturers, with more than 500 employees in its headquarters and over 35,000 employees worldwide. It started its supplier business in 1982 and its growth hit its stride over the last two decades. According to their annual reports, its annual sales revenue surged almost tenfold over 15 years. Also, Company K has been active in expanding its footsteps globally during the same period. It runs 12 offshore Cut-Make-Trim (CMT) operations in six countries in Asia and Central America and three sales offices in the US. Knitted women's apparel is vital to their business, accounting for 4/5 of annual production in 2014. Clients (i.e., buyers) consist of US-based specialty store brands, mass-merchants, and department stores, including Gap, Walmart, JC Penny, Kohls, etc.

Information on Company K's share of production for each major buyer is not available and may vary year to year, but other information sources suggest a few things. First, more than 90% of their revenue came from the US, indicating a heavy reliance on American buyers. Second, the supply for specialty store brands and fast fashion brands accounted for 60% of its revenue in 2014.

We chose this case company for its representative and unique values (Yin 2003). We posit that its organizational capability and the scale and duration of working relationships with major buyers are representative of strategic suppliers in the apparel GVC. At the same time, the company is unique in that instead of having a centralized sales function, each sales team is organized to support a particular buyer, offering comprehensive service. Each team is responsible for communicating with its buyer, finding factories, and organizing garment production. Accounting is team-based, and when a team loses a buyer, it is disbanded and absorbed into other teams. This decentralized team-based organizational arrangement has facilitated speedy and tailored support to each buyer, while undercutting the company's ability to foster collaboration and pool resources across teams. From an academic standpoint, this company's internal organization makes it easier to track changing dynamics with buyers.

Our data consists of 16 interviews with Company K's senior and middle managers. We conducted these interviews at Korean headquarters, Vietnam subsidiaries, and an office in the United States between 2018 and 2020. Table 1 provides anonymized interviewee profiles. We chose this set of managers because their routine work involves coordinating work and communicating with colleagues and partners across borders. In doing so, they participate in and support the company's global operation as a strategic supplier in the apparel GVC. All interviews were conducted in Korean, a native language of authors and interviewees, and their lengths ranged from 45 minutes to 2 hours (on average, one and a half hours in length). All except one group interview was tape-recorded after seeking consent from interviewees and transcribed verbatim for our analyses. We complemented this interview data with various secondary information, such as the company website, apparel industry reports, and news articles concerning the case company, supply chain issues of its major buyers, and the global apparel industry. The data were pooled and organized using a qualitative data analysis software, NVivo 12.

Table 1
Anonymized interviewee profiles

I.D.	Interview Date	Location	Job Title
1	January 2018	Vietnam	Vice managing director
2			Deputy general manager
3			Deputy general manager
4			Team manager
5	March 2018	Headquarters (Seoul)	Managing director, Management support
6			Vice managing director, Production innovation
7			Managing director, Compliance
8	August 2018		Team manager, Human resources
9			Team manager, Sales A
10			Team manager, Sales B
11			Team manager, Overseas unit support
12			Team manager, Compliance and sustainability
13			Deputy general manager, Research & development
14	January & July 2019	United States	Managing director, Sales
15	April & July 2019		Team manager, Sales
16			Assistant team manager, Sales

The purpose of data analysis was to understand the current state of chain polarity in the apparel value chain through the experience of a strategic supplier, Company K, and to qualify whether the chain has become more bipolar. We undertook the constructive approach to coding (Charmaz 2006) characterized by constant comparison between prior knowledge and data-driven insights. Firstly, we engaged in open coding to identify emergent themes and patterns in the data. Then, informed and guided by our prior knowledge of the apparel value chain and unipolarity, we developed axial codes and higher conceptual categories by merging and reorganizing open codes we had previously created. At this stage, it became clearer to us that the lens of unipolarity could not fully explain Company K's experience as a strategic supplier as well as the buyer-supplier dynamics of the value chain in which it participated. In the next stage of axial coding, we focused on signs of emergent bipolarization in this chain as manifested in the changes and recent practices at the global (or industry) and organizational levels. Taking stock of these analyses, we articulated how bipolarity has emerged in a traditionally unipolar chain and shaped the organizational practices of the strategic supplier.

Findings

Foundations of a Buyer-driven and Unipolar Chain

Our case study confirmed that the apparel value chain in which Company K was embedded showed certain characteristics of a unipolar and buyer-driven chain. Firstly, interviewees noted the structural factor of buyer-drivenness, whereby a large number of suppliers competed with each other to work with lucrative buyers who were much fewer in number. Major North American and European buyers were highly coveted because they had access to promising export markets in advanced economies. The volume of their orders was sizable, allowing these suppliers to reap more significant profits and higher production efficiency.[1] According to interviewees, the upgrading of suppliers in other Asian countries (such as Bangladesh and India) intensified the competition at the supplier level. Not only could they produce more efficiently than before (process upgrading), but they have also amassed the organizational and operational capacity to fulfill higher value-added functions. Suppose these competitors operate in countries offering cheaper labor costs. In that case, all things being equal, that could still undermine the cost competitiveness of Company K. Thus, the pressure for cost reduction posed by lead-firms firmly remains.

> Let us say our company is a Sri Lankan company. At a fraction of the cost, that company can hire top talents, Seoul National University graduate equivalents of Sri Lanka, and operate with such workforce. No matter where you operate, buyers pay you the same. That means profit margin is better in countries like Sri Lanka. (Interviewee 11, August 2018)

We also learned that until recently, US buyers employed agents as middlemen between first-tier suppliers and themselves. Interviewees mentioned that in their earlier days, people working at the supplier company were not as fluent in English, hindering seamless communication with buyers. The buyers then hired intermediary agents whose employees were Korean to help resolve language and cultural issues when communicating and coordinating were required. Suppliers' insufficient experience in working directly with these US buyers delayed their capacity building, including coordination skills, and prolonged their power asymmetry. However, as the case company gained experience and know-how by working with key buyers and more suppliers became skilled in English communication, the intermediary agents became less useful, and their roles gradually withered away. Some felt that these agents at times acted like gatekeepers to buyers by sharing information only selectively.

> Agents [in Hong Kong] need to justify their work, so they do not completely open their communications with buyers to us. [When I was working with an agent], it was difficult to execute certain things without seeing a big picture or understanding why we should do this. It was also difficult to undertake a nuanced price negotiation with buyers through agents. The agents wanted to hear from the buyers that "the agents lowered the price," so they tended to be pushy with us on price. … Now that I work directly with my buyers, the process including setting a price is transparent. (Interviewee 15, April 2019)

Over the years, interviewees claimed that buyers required suppliers to comply with buyer-provided codes of conduct which impose desirable labor and environmental conditions for the production facilities. Compliance with

[1] Worker productivity at the factory increases over time and decreases when production items change frequently. Therefore, suppliers prefer receiving large orders from buyers that enable higher production efficiency.

these codes has been a non-negotiable requirement for the suppliers to gain and maintain their access to the supply chains. This top-down enforcement of ethical production practices has stemmed from and accentuated the chain's unipolar and buyer-driven nature. The premise of this enforcement is that buyers are relatively free to grant or withdraw chain access to suppliers based on ethical terms set by the buyers (Lund-Thomsen 2020; Nadvi 2008). When suppliers failed to comply with the code of conduct, their status in the chain became vulnerable, although they were often given another chance to rectify the identified problems and receive a follow-up audit.

Evolving from the Unipolar Foundations

While confirming the unipolar foundation of mass-market apparel value chains that Company K was a part of, our study also identified an evolving dynamic of the chain that allowed the company to amass capability and rise as a "strategic" supplier. First, we found enabling conditions at the global industry-level. Consumer demands in the North American and European markets dropped significantly after the 2008 global financial crisis and have not fully recovered, with greater uncertainty and fluctuations since then (Thomas and Hirsh 2018). Interviewees said that while competition has become fierce at the supplier level, their buyers have been up against steep competition amongst themselves as well. Buyers also started competing with online brands and retailers operating with much lower costs and greater flexibility by not owning brick-and-mortar stores (e.g., Amazon, US-based Everlane). These changes together put buyers under extreme pressure to cut costs. As these buyers are actively looking for cheaper ways of working, a lot has also changed at the supplier level. These buyer behaviors were directly linked to the cost pressure felt by Company K. However, buyers' attempts to make their organization as lean as possible through further functional disintegration indirectly and unconsciously gave suppliers opportunities to upgrade, should they be capable.

Meanwhile, there have been increasing demands from civil society and consumers in advanced economies that these buyers source ethically made garments. Western governments have legislated their national firms to disclose working conditions in their supply chains, with examples such as the United Kingdom's Modern Slavery Act and France's Corporate Duty of Vigilance Law (Knudsen 2018). This governmental move made it clear to international buyers selling their goods in these countries that holding their suppliers up to certain ethical standards has become non-negotiable.

This global market condition spurred organizational changes at the buyer level, as mentioned earlier. According to our interviewees, many buyers have been making their organizations leaner by cutting down on employee numbers (see the quote below). Consequently, they outsourced more functions to their suppliers, which allowed the case company to pick up higher value-adding ones—in particular, design and R&D—that used to be handled internally by lead firms. As another effort to make their organization lean, buyers began to bypass agents and work directly with suppliers. This led to the demise of agents in the chain and offered suppliers more room to negotiate contract details, not only prices but also production processes, including R&D.

> American buyers have been laying off their employees… Previously, my buyer counterpart used to have ten staff, but now there would be only five left. Seniors are no longer there, or the number of seniors has gone down to save cost. When there was a layoff at GBG (a group that manages multiple fashion brands), they laid off people whose salaries were the highest… Paradoxically, downsizing these experienced people has increased their level of reliance on us. (Interviewee 14, July 2019)

The increasing emphasis on decent working conditions in global supply chains has also encouraged global lead-firms to revisit their relationships with suppliers. Buyers, especially those with a worldwide presence, came to see the potential ethical risks of working with newer, cheaper suppliers. It takes time and much trial and error for suppliers, including Company K, to get it right in terms of complying with buyers' labor and environmental demands. From a buyer's perspective, less information about how well newer suppliers would live up to their ethical expectations means greater business risks. This has increased the incentive to work with the time-tested suppliers they have worked with for a longer time and verified their ability and commitment to ethical compliance, even if it may cost a little more.

Becoming a "Strategic" Supplier

These global- and buyer-level changes have loosened the existing unipolar foundations of the chain, allowing Company K to establish itself as a supplier with strategic values to its major buyers. First, the locational decisions that Company K has been making demonstrate an aspect of a strategic supplier. Buyers' pressure for cost reduction is one of the essential determinants of suppliers' location selection, but that is not the only factor. It appears obvious that Company K's locational diversification is also driven primarily by cost-cutting strategies, but this does not offer a satisfactory account for the company maintaining its Guatemalan operation as Nicaragua and Haiti should be much more attractive locations cost-wise. In the same vein, given the fact that labor costs have been rapidly increasing in Vietnam, it might be more sensible to relocate their factories to Asia's last resorts, such as Myanmar and Cambodia. Yet, Company K has neither stopped investing in Vietnam nor closed its Guatemalan factory. The latter case infers that a range of line workers' skills that facilitates order diversification can be an important consideration for this mass-market oriented, cost-sensitive business. For example, workers in Guatemala with a longer history of manufacturing sewn products can handle more complex products with details quickly and accurately. This might be associated with the fact that the factory runs a sample room. In addition, buyers' post-crisis strategy of supplier consolidation requires stability and certainty in supplier production to a greater degree. In this vein, the site portfolio in Vietnam implies that the company has built up a stronghold for both the scale and the scope of production.

Second, this company has accrued more diverse value chain roles other than simple manufacturing. Interviews and the company website confirm that the company was capable of product design, R&D, and fabric dyeing and processing; on its website, Company K states that "we have strived to go beyond OEM and enhanced its ODM (original design manufacturing) capability." In addition to this functional upgrading, the company has also invested in process upgrading. A new production management system was being rolled out to increase efficiency in warehouse storage, production lines, quality control, etc., pursuing lean manufacturing. The company recently signed a memorandum of understanding with a renowned college of textiles so that selected employees can benefit from their textile degree programs and both parties can collaborate on developing new fabrics and automation technologies.

In the past couple of years, prior to the COVID-19 pandemic, the company has taken bold steps to change its methods of managing people across borders. One of the most notable organizational changes was to offshore sales functions, the company's core competencies. With this initiative, which brought much organizational tension, the company intended to maximize the location-based advantages and contain the operating costs by reducing the number of costly HQ employees. This "localization" effort happened in two directions. Some sales teams have been relocated to Vietnam, a country where the company has the largest number of subsidiaries, local employees, and production capacity. This offshoring was expected to facilitate the work of sales teams as it became easier for them to communicate with or visit production facilities in person. Moreover, the transfer of sales managers to Vietnam has facilitated communication with buyers as many buyers have moved their Asian buying office from Hong Kong to Vietnam. Buyers tend to prefer to locate buying offices in Vietnam where they can cut operating costs to a great extent and take a closer look at more suppliers' factories rushing to Vietnam.

In the other direction, Company K established a sales office in Manhattan, New York to serve its essential US buyers in real time and face-to-face. This office had market research and design functions in-house. It also worked closely with its production subsidiaries in central America to export products to the US duty-free under the Central American Free Trade Agreement. In addition to the localization of HQ functions, some interviewees anticipated a greater degree of employee localization in the coming years. The top management sees that sending expatriates with parent country nationality to foreign subsidiaries is a costly choice and should be finally replaced with local employees who have been promoted to managerial positions. Interviewees note that the company's desire to reduce operating costs was the main motivating factor for this employee localization, though the process is expected to be gradual.[2]

> Top management, managing directors and above decided to move some functions overseas. Retaining all these functions at the Seoul headquarters has put us in a difficult place to secure profit margin, and we needed a breakthrough… Since 2017, tasks that are simple or amenable for standardization have been offshored, and our foreign subsidiaries have now created sales functions. (Interviewee 8, August 2018)

The organizational change at the supplier level takes further steps. The company has attempted new ways of working that promote process standardization and information sharing across teams and subsidiaries. As noted earlier, the company is different from other large Korean suppliers. Each sales team is responsible for one mega buyer (or a few smaller buyers) or a specific product segment of the buyer and manages the team's own

[2] These relocation initiatives have been halted since COVID-19 pandemic and we heard that they closed the New York Sales Office.

production and accounting. This decentralized way of working has a unique advantage as it facilitated these teams to offer more responsive and tailor-made buyer support. However, as interviewees mentioned, it hindered information sharing across teams and reduced the company's overall leverage when sourcing raw materials or dealing with buyers. Also, the current decentralized approach of asking each sales team to maximize their sales, be responsible for the process as a whole, and seek better team rewards could impede the company's globalization process. This decentralized approach might be at odds with the company's ongoing efforts to empower host country nationals to assume managerial positions in their subsidiaries. It takes time and effort to re-train and help local employees to assume more managerial roles in subsidiaries, which requires a company-wide support and understanding. However, in the current decentralized structure of operation, each sales team has a strong desire to hold on to a set of cumulated knowledge and already qualified team members. These teams would not like to have their ways of doing things disrupted because of this company-wide pursuit of employee localization.

This reckoning motivated the company to foster inter-team information sharing and provide centralized support to its subsidiaries. One interviewee was leading a new team that aimed to be a central, one-stop-shop for information regarding the company's factories and to collect and share best practices and lessons learned from subsidiaries.

> Each sales team draws their own production line schedules, and we have total of 1500 lines in 100 factories. We are trying to unify these schedules, such as their format. This is a part of the company effort to operate like one factory. Once the system is set up, a sad implication is that we will need only a small number of Korean managers. (Interviewee 11, August 2019)

This thought is extended to the company's collective efforts regarding risk management. An interviewee who manages the company's compliance department told us about the ongoing effort to develop an independent code of conduct for the company that could be used as a common standard for production subsidiaries to improve their labor practices so that they would be better prepared for buyer audits.

> Our managing director in compliance, together with the managing director in overseas unit support, introduced a scorecard. Key performance indicators in this scorecard have more than cost factors and include compliance, quality

> assurance, and timely delivery. They emphasized the importance of compliance (complying with buyer codes of conduct: authors add) to general managers of our overseas factories. Our team has communicated this message to managers in overseas factories responsible for ensuring compliance and offered more detailed training. We also used our own self-audit tool and audited factories ourselves. (Interviewee 12, August 2019)

Emerging Bipolarity in the Chain

In light of these findings, we argue that bipolarity has emerged in apparel GVCs led by US mass-market brands and retailers. We saw that buyers have increasingly relied on capable and strategic suppliers like Company K for a wide array of chain functions to the extent that their business success became enmeshed with that of their suppliers. This is not to say that buyers and strategic suppliers have an equal degree of power for co-determination. Company K's buyers were still influential in that they would retain brand power and access to Western consumer markets. Without these buyers, these suppliers would be limited to selling their products in domestic or regional markets. Of course, suppliers could develop and manage their own brands in the Western markets, but this path has proven to be difficult. A well-known case is the brand management and licensing business, Global Brands Group (GBG), that spun off from Hong Kong-based supply chain giant Li & Fung in 2014. GBG used to manage more than 350 fashion labels and licensed characters such as Angry Birds and Spiderman (Bloomberg 2014). But in 2018, they decided to sell their North American licensing business to reduce debt (Chen 2018). Seeing the struggle of other competitors, interviewees shared the view that it would be more strategic for Company K to focus on manufacturing excellence and what it was already doing well than venturing into new territory.

Despite being biased towards US clients, Company K has widened their stride to pursue European and American buyers for a diverse client base. A diversified portfolio of clients could allow this company to increase its bargaining power vis-à-vis existing buyers and to have contingency options should major buyers abruptly reduce or quit sourcing from them. Being able to select buyers would enable them to choose buyers that could maximize their strategic interests. This effort to diversify buyers evokes the study of a bipolar chocolate chain (Fold 2002), whereby chocolate manufacturers were sourcing from not only major international grinders but from smaller grinders and trading houses to reduce their reliance on the former.

However, according to multiple interviewees, finding a new buyer is easier said than done because it takes time to build trust and have a precise understanding of buyers' preferences and needs.

> Interviewer: Structural changes in the American retail market such as the rise of online shopping must have presented a challenge for your company.
> Interviewee: Indeed, and we met with buyers that sold online or via platforms like Amazon. We realized we could not accommodate their need for speed and small order quantity. Their production orders were too small to fill our production lines, and the pricing challenge was high. Even when such buyers wanted to work with us, we could not because we would be able to make a profit. (Interviewee 13, August 2018)

Earlier, we discussed how requiring suppliers to comply with buyer-given codes of conduct as a pre-condition to accessing supply chains has stemmed from and reinforced the buyer-driven nature of apparel GVCs. Buyers continue to call the shots in defining and enforcing ethical practices at supplier factories, but their legitimacy has come under question recently. This challenge came from non-corporate actors based on information and insight from suppliers. Through academic studies and NGO reports, suppliers shed light on the problems of buyer-driven regulation, most notable among which was the lack of alignment between buyers' demands for labor compliance and their purchasing practices (Dickson 2019; Esbenshade 2016). They stated that buyers' poor purchasing practices, such as unreasonable pricing and last-minute changes to production order, pressure suppliers to cut costs on factory facilities and worker welfare and force workers to work for excessive hours (Anner 2019; Lund-Thomsen 2020). Such problems are found in our case as well. As pointed by the interviewees of Company K, the fundamental problem was that while buyers demanded more services from the case company, they did not pay more and accordingly for their demand.

> Buyers have become more demanding, with more detailed demands such as asking us to uphold the highest human rights standards. Accommodating all these demands costs significantly, and I think buyers should pay more for these. Even in the absence of these demands, we bear the rising labor costs and water and electricity fees in production sites. But the buyers hardly understood and accommodated our situation. I wonder, these buyers are highly rational when making money, but why are they highly irrational with us? (Interviewee 10, August 2018)

With this reckoning, suppliers have been increasingly invited to and engaged in international forums (e.g., OECD MNE due diligence guidelines) and social initiatives aimed at improving the current buyer-led governance of labor conditions in global supply chains. For example, Company K has been completing supplier surveys administered by a US-based NGO, Better Buying; the organization aims to use this supplier input to critically assess buyers' purchasing practices and make recommendations. This company was also taking a proactive measure by developing its own code of conduct applicable to all production subsidiaries. The motivation being that this self-compliance measure could help their subsidiaries better prepared for buyers' labor audits and eventually substituting the requirement to comply with buyers' codes of conduct.

Conclusion

This case study of a Korea-based first-tier apparel supplier examined the evolution of GVCs toward a bipolar governance structure in the apparel industry, a stronghold of lead-firm dominant and unipolar chains. It also hypothesized that the emergence of strategic suppliers is a necessary condition for the governance transformation towards bipolarity. Company K provides a compelling case to corroborate this hypothesis as it fulfilled a wide array of value chain functions that encourage buyers to form collaborative partnership relationships with them.

Company K's rise as a strategic supplier has been a long and gradual process, but it has gained momentum since the global economic crisis following 2008. Both the added cost pressure and the transferred risks from the buyers were challenging, but the situation offered Company K the opportunity to be upgraded. Capable suppliers such as Company K benefited from buyers' post-crisis survival remedies of pursuing a much leaner organization by downsizing and disintegrating the high value-adding functions that previously consisted of buyers' core competence. Buyers' downsizing via sacking their highly experienced but expensive managers and removing brokerage agents as gatekeepers to suppliers have paradoxically but significantly increased buyers' reliance on capable suppliers and the direct communications between the two parties. Company K's continuing investment in R&D personnel, manufacturing excellence, and social compliance, which was accelerated after the crisis, has enabled the company to grow as a strategic supplier. It maintains a close collaborative relationship with its buyers for everyday production and new product development, including market research and design. The recent relocation of both buyers' regional buying offices and Company K's buyer-responding sales teams to Ho Chi Minh City, the hub of production, demonstrates the increasing need for direct communications and collaboration between the buyers and strategic suppliers. This spatial adjacency and functional interdependence between the two parties also supports our claim on the changing GVC governance structure towards bi-polarity.

What is more striking in this development is that it is embedded in the varieties of capitalism (VoC) dynamics. Lead firms' institutional embeddedness of the country of origin can be linked to their production paradigm and their GVC governance patterns (Lane and Probert 2009). The far-reaching vertical disintegration moving toward a full-service mode has characterized large retailers and brands in the US. According to Land and Probert (ibid.) such a full-service mode is not generalizable to other GVC networks, such as those led by German buyers who still deploy their own trainers and technicians as production controllers in supplier plants. GVC governance patterns are also considerably affected by supplier conditions, mainly the supply base's capabilities (Gereffi et al. 2005). Based on the capabilities it accumulated over the last two decades, Company K proactively responded to buyers' pressures for post-crisis change. The degree of a buyer's retention of product control implies how much leeway is permitted for FTSs to upgrade their operation (Lane and Probert 2009). In this vein, the pair of US buyers' extreme push for cost reduction via outsourcing with capable Korean FTSs from a country with a robust manufacturing foothold demonstrates the possibility of a shift toward bipolar governance in the garment GVC.

Despite our emphasis on the emergence of bipolar governance of the apparel GVC, we do not ignore the fact that the foundation of unipolar GVC governance remains significant. What we underline here is the reconfiguration of GVC governance due to the increasing mutual interdependence between strategic suppliers holding core production capabilities and buyers (especially US ones) still giving suppliers access to the market. However, we do not argue that there is an equal power balance in the GVC governance structure, which makes us cautious about declaring legitimate and full-blown bipolar governance in the apparel chains. Suppliers still cannot ignore buyers' extreme pressure for cost reduction which is hardly compatible with their costly and unpaid demands for social compliance (e.g., buyers' pressure to use ethically sourced and environmentally friendly grown cotton wool). Here, what is noteworthy is a recent interesting development: amplifying the concerns of strategic suppliers through various social and international bodies that demand buyers to improve purchasing practices. Company K has also taken part in this new development.

Our single case study provides a multilevel analysis of how bipolarity has emerged at global, industry, and organizational levels. Its unique contribution to the germane literature is the articulation of organizational strategies that these suppliers undertook to stay cost-competitive while building capability. Supplier upgrading tends to focus on capability building with less regard for how they manage their human resources and ways of working. In this study, we give due attention to the organizational changes these first-tier suppliers undertake to secure and improve their positions within GVCs, which holds useful managerial insight for emerging MNEs hoping to do the same.

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