

# Meaningful Change

Raising the Bar in Supply Chain Workplace Standards



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## **Corporate Social Responsibility Initiative**

The Corporate Social Responsibility Initiative at the Harvard Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors.

The views expressed in this paper are those of the author and do not imply endorsement by the Corporate Social Responsibility Initiative, the John F. Kennedy School of Government, or Harvard University.

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*Meaningful Change*

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# ***Meaningful Change***

## **Raising the Bar in Supply Chain Workplace Standards**

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### **EXECUTIVE SUMMARY**

An important dialogue is underway regarding the effectiveness and accountability of programs to monitor and correct human rights abuses in the workplace. Initiatives established to address these issues in factories along supply chains include company codes of conduct, workplace standards, industry initiatives, multi-stakeholder initiatives, accreditation programs, and advocacy campaigns for workers' rights. While these initiatives have been undertaken with the intent to identify, verify and remediate workers' rights abuses, current expectations have moved beyond compliance and remediation to aspirations for sustainable change and continuous improvement in supply chain management based on local and international law, established norms and standards, economic and social incentives, improved management systems, and market competitiveness.

Despite common goals, many initiatives to catalyze this change in workplace environments have significant differences in structure, participation, governance, and process. Most involve the interests and influence of numerous stakeholders including, but not limited to, workers, labor unions, factory owners and managers (suppliers), NGOs, international organizations (IOs), companies and brands (buyers), local and national governments, and local communities.

### **Alliances and Initiatives**

This report is written using industry and multi-stakeholder initiatives as a lens through which to consider the challenges and opportunities for sustainable change and continuous improvement in supply chains. It will focus on a limited group of related yet distinct initiatives in the apparel, footwear, toy and electronics industries, listed below in alphabetical order:

- Electronic Industry Code of Conduct (EICC)
- Ethical Trade Initiative (ETI) - *footwear and apparel elements*
- Fair Labor Association (FLA)
- International Council of Toy Industries (ICTI)
- Social Accountability International Standard and Verification System (SA 8000)
- Worldwide Responsible Apparel Production (WRAP)

EICC, ETI, FLA, ICTI, SA8000, and WRAP were chosen for review because they have emerged as key initiatives within and among these industries, because they offer insight into the priorities of the stakeholders involved, and because they demonstrate the differences in the structure and scope of these initiatives.

## **Stakeholder Engagement**

Each of the initiatives reviewed pursues its stated goals through the engagement, partnership and influence of different – but sometimes overlapping - stakeholder groups. The stakeholders within each initiative determine sources of pressure and influence, availability of resources, and complexity of structure and process. Much of the critical analysis of these and other initiatives has been based on the role and influence of stakeholders, particularly companies, and on the inclusion or lack thereof of other stakeholders, particularly trade unions.

With regard to stakeholder engagement and the structure of compliance-based initiatives, it is clear that there is no “one size fits all” solution to meet the broad range of interests and needs. However, the comparative advantages and potential synergies of likeminded yet different initiatives are being recognized. Collaborative efforts and partnerships are being launched in an attempt to leverage the expertise, core competencies, efficiencies and strengths of various stakeholder groups, to decrease duplicative efforts, and to increase the impact and sustainability of resulting change in the workplace.

## **Standards and Codes**

The codes of most corporate, industry and multi-stakeholder initiatives address the same core labor issues, but with some – sometimes significant – variations. All of the codes reviewed reference local law as well as ILO Core Labor Standards; some also reference the UN Declaration of Human Rights and other international declarations and conventions. The core issues addressed in almost all codes are forced labor, discrimination, child labor, freedom of association and collective bargaining, discipline (harassment and abuse), health and safety, working hours, and wages and benefits. SAI and ETI also explicitly address employment relationship and short-term contracts; SAI and EICC require implementation of management systems along with adherence to a code of conduct.

While a plethora of codes and compliance programs exist, most of the individuals consulted in this review explicitly voiced their hope and support for further harmonization and convergence of codes and processes, particularly in recognition of the burden that falls to the supply chain as a result of duplicity and inconsistencies. HP articulates this sentiment on its website, noting “HP is cognizant and sensitive to the increased demands being made on suppliers. It is not our intention to burden our supply base, but simply to remain competitive in the marketplace, protect our brand and contribute to the social and environmental progress of society.”<sup>1</sup>

## ***Compliance Programs: Addressing Specific Issues and Systemic Problems***

The stated objectives of most compliance programs include 1) identification of non-compliance and underlying causes 2) corrective action 3) continued engagement with facilities that comply with codes and local law, and aspire to meet international standards.

## **Monitoring and Verification**

While identification of non-compliance may seem to be a straightforward element in this process, not all human rights and labor rights – such as harassment, discrimination and

living wage - have consistent, easily identifiable metrics. For issues with well defined metrics, the indicators tracked do not always tell the story accurately or completely. Essential data may be overlooked or misrepresented. As one industry representative stated, “what is easy to measure is being measured, but what’s hard to measure isn’t.” Monitoring is a useful and productive tool, but a tool that is dynamic and imperfect.

Further to the challenges of metrics and measurement, disagreement exists between and among stakeholders about *how* this measurement and oversight should take place. The process, governance, transparency and accountability of compliance programs are much debated. Primary areas of disagreement deal with disclosure of non-compliant factory names; the role and influence of companies and brands; the comparative merits and legitimacy of internal vs. independent auditing; the comparative merits and legitimacy of different levels of certification (*i.e.* factory, brand or program certification); and the degree to which and ways in which compliance programs support or facilitate freedom of association.

### **Remediation and Capacity Development**

Most compliance programs require suppliers to develop and submit a plan for corrective action inclusive of specific benchmarks and time frames. If a supplier does not implement the plan or act in good faith to correct problems, the buyer-supplier relationship will likely be terminated; in some cases this translates to factories closing and jobs lost. The interruption or termination of buyer-supplier relationships is not the objective of compliance programs unless and until a supplier demonstrates an inability or unwillingness to address areas of non-compliance. If problems are not addressed the supplier is, in effect, defining the relationship as one of inherent risk and unacceptable terms of engagement.

Most company, industry, and multi-stakeholder codes of conduct include a stated commitment to continued engagement with factories – including remediation and capacity development - but the question of who bears the cost remains. Many buyers, brands, and industries agree that they must make an investment in the early stages of remediation to create momentum and to support the intentions and efforts of factories along the supply chain that lack the necessary financial and managerial resources to begin this process. There is further agreement, however, that assistance and investments in factory-based programs should be “seed funding” to “lift the tide.”

Capacity development programs are an investment to move the process forward and to build critical positive momentum, but they are a co-investment by buyers and suppliers. At a certain point it is the obligation of the suppliers to leverage external investments, to systematize processes, and to ensure sustainable improvement in their factories. The level to which a firm adopts and incorporates tools, systems and improved capacities will, assuming these incentives and rewards are consistent, establish their market competitiveness.

### **Emerging Good Practices**

Despite differences about the “best” process of monitoring and remediation, “good practices” are emerging. Many creative examples of identification, remediation and

correction of human and labor rights violations are appearing; most of these efforts focus on capacity development, increased communication in the workplace, improved systems, and increased local participation.

In Bangladesh, Reebok is piloting a program designed to improve the compliance process by creating “more robust communication vehicles.” This program includes partnership with a local organization that is authorized to be the “eyes and ears” of Reebok on the ground. Through this initiative Reebok is increasing the quality and effectiveness of communication within the factory environment, utilizing the expertise of a local organization that has legitimacy within the community, and establishing an improved mechanism for frequent and high quality feedback on compliance issues.

Others examples have referenced “hybrid models” of internal and external auditing programs, employing the expertise and credibility of independent third parties, while facilitating capacity and ownership internally within companies and factories. One hybrid idea is based on the IKEA model, in which the company hires a locally based expert who has both technical skill and legitimacy within the community. This company/brand staff member manages the internal auditing process and verification is provided by an independent third party. In this example the expertise is both local and internal to the company, thus promoting long term knowledge and commitment to continuous improvement over time; external verification adds necessary objectivity and legitimacy.

## **Participation**

External audits provide a snapshot of conditions at a specific point in time, offer objectivity and expertise, and can produce useful analysis of deficiencies, trends or practices, but, in general, they have not proven to be effective at getting to the root causes of non-compliance. Conversely, programs that engage greater local participation and expertise are more likely to highlight systemic conditions, trends, beliefs and practices that lead to meaningful change and continuous improvement.

Most agree that the limitations of monitoring will decrease as the auditing process increasingly involves members of the host community. This change will increase knowledge of and responsiveness to local circumstances, establish greater ownership by management and workers, engage important stakeholders who may otherwise be overlooked in the process, establish credibility within the local community, and push changing attitudes, practices and behaviors – and a general increased respect for human rights and rule of law - out from the factory and into the community. This integration will also support capacity development at a much broader level than the supply chain and the factory.

Meaningful improvements in workplace environments will only happen once a critical mass of participation is achieved – at both the buyer and supplier local level. It is not enough for leaders to embrace and promote best practices if other forces are undermining these efforts and offering conflicting incentives to suppliers. In order for systemic change to take root, more work must be done to harmonize and legitimize standards, and for all participants to understand and recognize these standards. More importantly, more work must be done by the broad group of stakeholders – including local and national



governments - to establish the business case for compliance and to promote and articulate these positive incentives for participation and compliance.

### ***Current State of Play and the Road Ahead***

It can be interpreted from the conversations and literature that supported this review that 1) we've not yet defined *the* core standard that can be agreed on by all but there are significant areas of agreement; 2) differences in interpretation of core standards exist, and will likely remain; 3) national law and international standards are the primary and most credible points of reference; 4) new forms of partnership and collaboration are driving learning and progress; 5) the process of monitoring, verification and remediation must include incentives, must respond to specific circumstances (industry, geography, workforce), and must be supported by systems in order to be sustainable; and 6) participation at the facility and community level will be a key factor in determining the degree and sustainability of progress achieved.

While monitoring is an essential and valuable tool, monitoring *alone* has not proven to cause positive change for workers at the factory level. Monitoring is a part of a larger compliance process which must be based on legitimate international law and standards and underlying principles, and which must include creative and effective remediation strategies. If long term change is expected, it must also be accompanied by real incentives, as well as new policies and processes, usually in the form of management and human resources systems. A conclusion suggested in this review is that a key to progress in labor rights and supply chain issues may lie in the *co-existence* and simultaneous implementation of targeted management systems and rigorous codes of conduct.

Meaningful change in supply chain environments is a challenging goal, but one that is aspired to by dedicated professionals from many sectors and industries. After years of focus on code creation, standard setting, and implementation of factory audits, most stakeholders agree that duplication and inefficiencies exists to the detriment of all. Likewise, most agree that duplication and contradictory standards, in some cases, contribute to the underlying causes of non-compliance at the factory level.

The current global environment is one of open trade, rapid flow of information, and dynamic change. Governments play a vital role in creating and enforcing laws and standards, but markets have increasing influence in social, economic and political realms. Companies, NGOs, trade unions, auditing firms, financial markets, auditing firms and consumers are all relevant stakeholders in this process, and will be most effective to the extent that they identify and articulate their core competencies in the compliance process, their areas of greatest influence, and opportunities for engagement with other stakeholders through leadership and cooperative action.

## INTRODUCTION

Multinational enterprises play an important part in the economies of most countries and in international economic relations. This is of increasing interest to governments as well as to employers and workers and their respective organizations. Through international direct investment and other means such enterprises can bring substantial benefits to home and host countries by contributing to the more efficient utilization of capital, technology and labour. Within the framework of development policies established by governments, they can also make an important contribution to the promotion of economic and social welfare; to the improvement of living standards and the satisfaction of basic needs; to the creation of employment opportunities, both directly and indirectly; and to the enjoyment of basic human rights, including freedom of association, throughout the world. On the other hand, the advances made by multinational enterprises in organizing their operations beyond the national framework may lead to abuse of concentrations of economic power and to conflicts with national policy objectives and with the interest of the workers. In addition, the complexity of multinational enterprises and the difficulty of clearly perceiving their diverse structures, operations and policies sometimes give rise to concern either in the home or in the host countries, or in both.

ILO MNE Declaration, 2000<sup>2</sup>

An important dialogue is underway regarding the effectiveness and accountability of programs to monitor and correct human rights abuses in the workplace. Initiatives established to address these issues in factories along supply chains include company codes of conduct, workplace standards, industry initiatives, multi-stakeholder initiatives, accreditation programs, and advocacy campaigns for workers' rights. While these initiatives have been undertaken with the intent to identify, verify and remediate workers' rights abuses, current expectations have moved beyond compliance and remediation to aspirations for sustainable change and continuous improvement in supply chain management based on local and international law, established norms and standards, economic and social incentives, improved management systems, and market competitiveness.

Despite common goals, many initiatives to catalyze this change in workplace environments have significant differences in structure, participation, governance, and process. Most involve the interests and influence of numerous stakeholders including, but not limited to, workers, labor unions, factory owners and managers (suppliers), NGOs, international organizations (IOs), companies and brands (buyers), local and national governments, and local communities.

## FRAMING THE DISCUSSION

There are many codes, standards, and systems that could be considered in this discussion. This report will focus only on a limited group of related yet distinct initiatives in the apparel, footwear, toy and electronics industries, listed below in alphabetical order:

- Electronic Industry Code of Conduct (EICC)
- Ethical Trade Initiative (ETI) - *footwear and apparel elements*
- Fair Labor Association (FLA)

- International Council of Toy Industries (ICTI)
- Social Accountability International Standard and Verification System (SA 8000)
- Worldwide Responsible Apparel Production (WRAP)

As we consider these initiatives and the impact of these industries on the lives of workers and communities, it is important to consider size and scope. Estimates suggest that 30 to 40 million workers are employed in the textile, clothing and footwear industries worldwide.<sup>3</sup> The textile and clothing industries alone represent an annual market of over \$400 billion, employing 24 million workers in some 200 countries.<sup>4</sup> At the company and brand level, the supply chain supporting Reebok’s annual production includes over 700 factories and over 500,000 workers<sup>5</sup>; for Nike the supply chain involves over 650,000 workers in over 1,000 facilities worldwide.<sup>6</sup> In the electronics industry, HP alone, driving “the IT industry’s largest and most complex supply chain,”<sup>7</sup> represented approximately 500 suppliers and a \$53 billion market in 2005. The toy industry, in aggregate, represents a \$38 billion annual global market, with roughly 70% of these goods produced in China. The US consumer market, representing 70% of this world market, fuels the labor of some 3 million workers in approximately 2,500 factories in China alone.<sup>8</sup>

This report is based on literature review, as well as consultations with individual representatives of companies, NGOs and multi-stakeholder initiatives. Most of the comments from these consultations are, by request, not specifically attributed; many of the comments offered during these consultations were consistent with one another, thus, references to interviews may reflect statements from more than one consultation.

### ***Alliances and Initiatives***

This report is written using industry and multi-stakeholder initiatives as a lens through which to consider the challenges, effectiveness and opportunities for sustainable change in supply chains in the apparel, footwear, electronics and toy industries. EICC, ETI, FLA, ICTI, SA8000, and WRAP were chosen for review because they have emerged as key initiatives within and among these industries, because they offer insight into the priorities of the stakeholders involved, and because they demonstrate the differences in the structure and scope of these efforts.

Both EICC and ICTI are industry initiatives, yet, while EICC’s governing body is comprised entirely of leaders from within the electronics industry (and held accountable by anti-trust law guidelines), ICTI’s governance structure explicitly requires that a majority of board members are from other sectors and industries. FLA and ETI are multi-stakeholder initiatives, yet they convene different groups of stakeholders, and have distinctly different operational objectives. Both engage businesses and NGOs; FLA also engages colleges and universities as active stakeholders, while ETI’s membership is balanced by trade unions. It should be noted that unions are not excluded from FLA, and were actively involved as founding members.

SA8000 is a certification and management system with multi-stakeholder governance, balanced equally between business and NGOs/trade associations; SAI is unique among this group as a service providing agency, actively engaged with entities at all levels of the

supply chain, including buyers, suppliers, and factories, as well as with other stakeholders. All of the initiatives reviewed in this paper involve, in some way, the participation of buyers and brands; some involve direct participation of NGO's, trade unions, and university licensees.

In preparation of this report attention was given to the individual companies, brands, institutions and organizations that comprise these initiatives, to the comparative value of company or industry programs and multi-stakeholder initiatives, and to the potential synergies of the collective group. Each initiative has different yet overlapping areas of expertise and leverage. Attention was also given to the similarities and differences that exist across sectors, and to the learning and best practices that have developed within, between and among the entities reviewed. Representatives of adidas, EICC, ETI, FLA, Hasbro, ICTI, Gap, HP, Nike, and Reebok, SAI, USC and WRAP were interviewed for this report; brand representatives offered perspectives on their own company compliance programs, but also spoke to the role of buyers and brands within industry and multi-stakeholder initiatives.

The Electronics Industry Code of Conduct, or *EICC*, was created in 2004 through the collaboration of eight electronics industry companies including Celestica, Dell, Flextronics, HP, IBM, Jabil, Sanmina SCI, and Solectron. The code was developed through the leadership of HP, and drew directly from existing codes, principles and standards, and from the example and lessons of the other industries – in particular the apparel and footwear industries - after an extensive benchmarking process. With the goal of a more harmonized approach to workplace standards, the EICC was created to ensure that working conditions in the electronics, information and communications technology supply chain are safe, that workers are treated with respect and dignity, and that manufacturing processes are environmentally responsible.

EICC is a voluntary code for members of the ICT industry; it does not involve certification of companies or factories, but engages companies as “participants” (requiring commitment to the code and use of management system throughout their supply chain), and as members of the EICC Implementation Group. The focus is on harmonization of quality standards and process based on a “continuous improvement” approach, not on certification. The code addresses performance in terms of ethics, labor standards, environmental impact, health and safety. The EICC Implementation Group is dedicated to creation of a comprehensive set of tools dealing with risk assessment, self-assessment, auditing, capacity development, and reporting to support successful implementation of the code.<sup>9</sup> Compliance is based on both internal and external audits. EICC actively collaborates with other initiatives in the technology sector, such as the Global eSustainability Initiative, and with likeminded leaders in other sectors through cross-industry partnerships and projects.

The Ethical Trade Initiative, or *ETI*, is a membership based alliance of companies, NGOs and trade organizations working together to identify and promote best practices in labor rights issues and implementation of codes of conduct across a broad range of industries. ETI has developed its own code of conduct; member companies commit to implementation of the code throughout their supply chains, with regular reporting and

independent verification as deemed necessary. ETI is committed to developing and promoting good practices; it does not accredit or certify factories, brands or companies.

ETI's distinguishing characteristic is the degree to which it engages members from various industries in working groups to tackle specific issues within the labor rights arena. ETI implements innovative pilot programs and in-depth research projects through the participation of members, shares knowledge and best practices through seminars, publications and other fora,<sup>10</sup> and actively participates in a number of collaborative initiatives, including the JO-IN project in Turkey which is discussed later in this paper.

The Fair Labor Association, better known as *FILA*, combines the resources and expertise of brands and companies, NGO's, and colleges and universities to promote adherence to international labor standards and improved working conditions worldwide. *FILA* accredits, selects and hires independent external monitors to conduct unannounced independent external monitoring visits in facilities around the globe. *FILA* works with companies ("participants") as well as with university licensing programs to certify their compliance programs. Participants and licensees agree to incorporate the *FILA* compliance program into company practices and to implement the *FILA* code of conduct throughout the supply chain. Companies are obligated to monitor supplier factories, and to submit these factories to (unannounced) external monitoring visits. The initial assessment period takes place over a three year time frame, and typically involves remediation to address findings of non-compliance. Once the assessment period is complete, assuming successful verification of compliance, the company/brand *compliance program* is accredited by the *FILA*.

The *FILA* publishes detailed analysis of the global compliance of each participating company program in its annual report and on its web site. In addition, the *FILA* publishes detailed findings of individual factory monitoring visits, including remediation efforts. *FILA* is best known for its training and accreditation of external monitors, for its detailed and well established process and guidelines for the monitoring process, including obligations of companies and monitors, and for its proven remediation methodology. *FILA* is active in many pilot projects and partnerships, including the JO-IN project in Turkey, exploring ways to systematically address endemic workplace problems.<sup>11</sup>

*ICTI*, the International Council of Toy Industries, and the *ICTI CARE Program* were created through a toy industry initiative; its current active membership includes 18 national toy associations from around the world. The *ICTI* consortium has been active for over 30 years, yet components such as the Code of Business Conduct and the *CARE* (Caring, Awareness, Responsibility and Ethics) Program were developed in recent years. The relationship between member associations has existed and evolved over time, establishing a basis for communication, consideration of shared issues of interest, common voice, and collective action. Like *EICC*, the *CARE* compliance program was established with the benefit of lessons learned from apparel and footwear industry initiatives.

Compliance with the *CARE* code is monitored externally by auditors certified by *ICTI*. Although the code makes reference to ILO standards, the primary point of reference in

the ICTI CARE code of compliance is local and national law. ICTI promotes adherence to the code among industry members, with the goal that compliance will eventually be a requirement by all toy industry buyers. ICTI accredits external monitors who work directly with factories; factories apply directly to ICTI for participation, and receive a “seal of compliance” (for an additional fee) once compliance is verified. Certification of compliance is good for one year.

**SA8000**, a standards and management system developed by Social Accountability International (SAI), differs considerably from the above initiatives. The focus is on capacity development within the supply chain, and on implementation and oversight of voluntary verifiable social accountability standards. SAI convenes key stakeholders from trade unions and the business and nonprofit sectors to develop these consensus-based voluntary standards. The SA8000 management system and workplace standard is well known, and used in approximately 50 countries around the globe.

SAI trains workers and management, accredits independent bodies to verify compliance, and promotes understanding and implementation of standards worldwide. SAI accredited auditors certify factories throughout supply chains based on both process and performance. At the company level, SAI engages buyers through the Corporate Engagement Program (CIP). CIP was created to increase the use of the SA8000 standards and system, and to help companies ensure good working conditions in their supplier base. The CIP program has two levels of engagement, and includes opportunities for performance and in-depth audits and process review at both the buyer and factory (supplier) levels. The system is based on third-party monitoring and verification, and incorporates management systems that are applicable across a broad spectrum of industries and issue areas, including ethical sourcing risk, worker efficiency, productivity, and communication.

SAI’s distinguishing characteristic is that it is a management system, and establishes systematic processes to drive implementation of codes of conduct to create long-term change at the supplier level. It is used to support compliance with the SAI standard, but the process and system can be used with any company or industry code. SAI participates in numerous partnerships and pilot programs including the JO-IN project in Turkey, and the International Social and Environmental Accreditation Labeling Alliance (ISEAL).

**WRAP**, or Worldwide Responsible Apparel Production, shares with FLA a focus on labor rights in the clothing and footwear industries; it also shares similarities with ICTI in its structure as an industry initiative. WRAP began through the initiative of the American and Apparel Footwear Association (AAFA). Members are garment industry associations from around the world. WRAP, too, has developed its own code of conduct, the WRAP Principles, and certifies factories against this code through independent, third party monitoring. WRAP accredits independent monitors, and approves factory applications, self-evaluations and audits. WRAP is currently focused only in the apparel and footwear industries, but is considering a broader scope for the future.

A number of other private and multi-stakeholder initiatives have been reviewed and discussed in preparation of this document. Among this list, a few stand out as worthy of mention. These include the Business Leaders' Initiative on Human Rights (BLIHR), the Business Social Compliance Initiative (BSCI), the Clean Clothes Campaign (CCC), China Social Compliance 9000 (CSC9000T), the Fair Wear Foundation (FWF), the International Social and Environmental Accreditation Labeling Alliance (ISEAL), the Play Fair Alliance, Project Kaleidoscope (discussed briefly later in this paper), the Workers Rights Consortium (WRC) and the World Federation of Sporting Goods Industries (WFSGI). In the interest of time and focus, this report will not examine these initiatives in detail, but recognizes that many initiatives such as these are actively engaging stakeholders in the area of supply chain issues, advocating related agendas, informing consumers, implementing pilot projects, developing best practices, pressuring other stakeholders, and working on issues related to workers rights, capacity development and voice at the factory level.

This objective of this paper is to consider the effectiveness and accountability of monitoring and verification systems as a vehicle of change at the factory level. It is worth noting that all of the initiatives reviewed were established, at least in part, to create consistency and harmonization of standards, to reduce duplication of effort, and, to establish or increase credibility of factory monitoring through adherence to established standards, and through endorsement by various constituencies.

### ***Stakeholder Engagement***

All of the codes of conduct reviewed share a common mission of improving workplace standards and reducing human and labor rights abuses in supply chains, yet each pursues their stated goals through the engagement, partnership and influence of different – but sometimes overlapping - stakeholder groups. The participants in each initiative determine sources of pressure and influence, availability of resources, and complexity of structure and process. Much of the critical analysis of these and other initiatives has been based on the role and influence of stakeholders, particularly companies, and on the inclusion or lack thereof of other stakeholders, particularly trade unions.

With regard to stakeholder engagement and the structure of compliance-based initiatives, it is clear that there is no “one size fits all” solution to meet the broad range of interests and needs. However, the comparative advantages and potential synergies of likeminded yet different initiatives are being recognized. Collaborative efforts and partnerships are being launched in an attempt to leverage the expertise, core competencies, efficiencies and strengths of various stakeholder groups, to decrease duplicative efforts, and to increase the impact and sustainability of resulting change in the workplace.

A summary of stakeholder engagement in the initiatives reviewed is presented below:

<b>STAKEHOLDER ENGAGEMENT:</b>	EICC	ETI	FLA	ICTI	SA8000	WRAP
NGOs	✓	✓	✓		✓	
Trade Unions		✓			✓	
Companies and Brands (Buyers)	✓	✓	✓	✓	✓	✓
Industry Groups	✓		✓	✓	✓	✓
Suppliers	✓		✓		✓	
Colleges & Universities	✓		✓			
Workers	✓		✓		✓	
International Organizations			✓		✓	
Other via Multi-Stakeholder Initiatives	Various	JO-IN, others	JO-IN, others		JO-IN, others	
Local Government	✓		✓		✓	
Buyer Government	✓	Observer	✓		✓	
Other	SRI				SRI, Academia	

## **Standards and Codes**

Standards for corporate responsibility and corporate codes of conduct were created in response to specific issues and conflicts. Examples of the first codes include the MacBride Principles, responding to religious discrimination in Northern Ireland and the Sullivan Principles, inspired by corporate conduct in apartheid South Africa.<sup>12</sup> These and other codes have evolved to a much broader application, responding to changing political and economic realities at the global level.

The codes of most corporate, industry and multi-stakeholder initiatives address the same core labor issues, but with some – sometimes significant – variations. All of the codes reviewed reference local law as well as ILO Core Labor Standards; some also reference the UN Declaration of Human Rights and other international declarations, conventions and standards. The core issues addressed in almost all codes are forced labor, discrimination, child labor, freedom of association and collective bargaining, discipline (harassment and abuse), health and safety, working hours, and wages and benefits. SAI and ETI also explicitly address employment relationship and short-term contracts; SAI and EICC require implementation of management systems along with adherence to a code of conduct. One conclusion suggested in this review of codes, programs and trends is that a key to sustainable progress in labor rights and supply chain issues may lie in the *co-existence* and simultaneous implementation of targeted management systems and rigorous codes of conduct.

The codes reviewed in this document provide varying degrees of specificity in defining **forced labor**, but most reference local law and ILO conventions prohibiting forced labor. All of the codes specifically forbid forced labor; EICC, ETI and SAI specify that workers cannot be required to submit identity documents or other “deposits.”

All codes with the exception of ICTI specifically forbid **discrimination**. WRAP bases discrimination simply on “personal characteristics or beliefs.” EICC, ETI, FLA, and SAI specify race, caste, national origin, religion, age, disability, gender, marital status, sexual



orientation, union membership or political affiliation. ETI goes further to forbid discrimination based on pregnancy, and forbids medical tests that might be used in a discriminatory way.

All codes forbid the use of *child labor*, defining this to be 14 or 15 years of age. Differences are based on the working age established by local law, and age of completion of primary school. EICC and ETI also prohibit work at night or in hazardous conditions for those under 18 years of age. ETI and SAI both call for companies to facilitate educational opportunities for youth who are found to be working in the supply chain. Some codes specifically reference the ILO Conventions on Minimum Age and Worst Forms of Child Labor.

*Freedom of association* is one of the areas of most divergence in codes, and an area of complexity due to limitations and contradictions in local and national law. FLA simply requires employers to recognize and respect the right to association and collective bargaining. ICTI and WRAP recognize workers rights to association and representation *as provided by law*. ETI uses more concrete language regarding rights to “join or form trade unions and... bargain collectively”, and compels factories to have an “open attitude” toward unions. Where these rights are restricted by law, ETI requires that the “employer facilitates, and does not hinder, the development of parallel means for independent and free association and bargaining” and that the employer not discriminate based on efforts to associate. Likewise, SAI requires facilitation of parallel means of “independent and free association and bargaining” and protection against discrimination based on association. EICC stresses facilitation of “direct engagement between workers and management... without fear of reprisal.”

The EICC code also provides a good example of divergence between company and industry or multi-stakeholder codes. HP, a founding member of EICC, established a supplement to EICC specifying additional requirements to ensure that opportunities for resolution of related association issues exist.

Broadly speaking, issues related to the right to associate, form and participate in trade unions and bargain collectively are a primary point of contention among the broadest group of stakeholders; lack of rigor in this area has drawn the criticism of labor rights groups and student associations - to FLA and WRAP in particular.

All codes explicitly prohibit *abuse or inhumane treatment* with the exception of ICTI; the ICTI code, however, uniquely specifies entitlement to sick leave and maternity leave as provided by law. WRAP specifically forbids corporal punishment; ETI, EICC and SAI forbid corporal punishment as well, but go further to explicitly forbid mental, physical, verbal and sexual coercion and abuse.

ICTI requires that *working hours* and *compensation* comply with law “or, in the absence of a law, address humane, safe and productive working conditions.” EICC, ETI and FLA limit working hours, including overtime, to 60 hours per week with one day off per week. WRAP requires that hours worked “shall not exceed the legal limitations” of the country, and one day off per week. All make exceptions for emergency or exceptional

circumstances, which opens up a window for interpretation and potential non-compliance. SAI also defers to local law, but includes similar limits as EICC, ETI, and FLA limiting the work week to 60 hours, including overtime, and one day off per seven days. SAI, in contrast, makes no exception for extraordinary circumstances on this rule unless agreement has been made as part of a collective bargaining agreement. ETI and SAI specify that overtime must be voluntary, and must be compensated at a premium rate. As noted in a recent World Bank study, there is an “emerging trend of a 48-hour regular work week, with a cap of 60 hours per week including overtime”, but the trend “is still far from the far more comprehensive rights espoused in the ILO recommendation.”<sup>13</sup>

**Wages and benefits** issues are somewhat complicated by differing norms between and among regions and countries. With regard to compensation, WRAP requires “at least the minimum total compensation required by local law” including benefits. FLA requires the legal minimum or the “prevailing industry wage, whichever is higher,” as well as premium pay for overtime. ETI and SAI references the higher of legal standards or industry benchmarks, but also require that this should be enough to “meet basic needs” and provide “discretionary income”, with understandable terms, regular pay periods and no deductions for disciplinary action. Similarly, EICC references local law, specifies premium pay for overtime, mandates regular pay with documentation, and forbids disciplinary deductions. All codes with the exception of SA8000 specifically reference legally mandated benefits as well as wages.

**Health and safety** are addressed in most codes, again, with various degrees of guidance and specificity. Some include precautionary guidelines to avoid accidents and injury as well as standards for facilities and training. FLA’s auditing guidelines include a specific checklist for health and safety elements; the EICC devotes an entire section of the code to health and safety issues, including occupational safety, emergency preparedness, injury and illness, industrial hygiene and physically demanding work.<sup>14</sup>

Explicit reference to existing international standards, declarations and conventions vary among these initiatives. ILO conventions are the most commonly cited; some codes mention the UN Declaration of Human Rights, OECD Guidelines, and the Global Compact Principles. Indeed, the EICC code provides an example of collaboration and cross-sector learning, referencing both SAI and ETI in their code.

A majority of the individuals consulted in this review explicitly voiced their hope and support of further harmonization of codes and processes, particularly in recognition of the burden that falls to the supply chain as a result of duplicity. HP articulates this sentiment on its website, noting incentives and consequences for both buyers and suppliers. “HP is cognizant and sensitive to the increased demands being made on suppliers. It is not our intention to burden our supply base, but simply to remain competitive in the marketplace, protect our brand and contribute to the social and environmental progress of society.” HP’s goal of greater efficiency in this process was, in large part, what inspired their leadership in creating the EICC, and what fuels their ongoing collaboration with industry partners.

<b>CORE ISSUES ADRESSED IN CODES</b>	<b>EICC</b>	<b>ETI</b>	<b>ICTI</b>	<b>FLA</b>	<b>SA8000</b>	<b>WRAP</b>
Forced Labor (freely chosen employment)	✓	✓	✓	✓	✓	✓
Discrimination	✓	✓		✓	✓	✓
Child Labor	✓	✓	✓	✓	✓	✓
Freedom of Association; Collective Bargaining	✓	✓	✓	✓	✓	✓
Discipline (harassment and abuse)	✓	✓		✓	✓	✓
Working Hours	✓	✓	✓	✓	✓	✓
Wages and Benefits	✓	✓		✓	✓	✓
Health and Safety	✓	✓	✓	✓	✓	✓
Employment Relationship	✓	✓		✓	✓	
Management Systems	✓				✓	

<b>WITH REFERENCE TO:</b>	<b>EICC</b>	<b>ETI</b>	<b>ICTI</b>	<b>FLA</b>	<b>SA8000</b>	<b>WRAP</b>
UN Declaration of Human Rights	✓				✓	
ILO Conventions	✓	✓	✓	✓	✓	✓
OECD Guidelines	✓					
Global Compact Principles	✓					
SA8000	✓					
Ethical Trading Initiative (ETI)	✓					

<b>INITIATED BY:</b>	<b>EICC</b>	<b>ETI</b>	<b>ICTI</b>	<b>FLA</b>	<b>SA8000</b>	<b>WRAP</b>
Government Initiative				✓		
Companies, Industry	✓	✓	✓		✓	✓
NGOs		✓			✓	
Trade Unions		✓			✓	
Multi-stakeholder Process		✓		✓	✓	

<b>COMPARISON OF STANDARDS</b>	<b>EICC</b>	<b>ETI</b>	<b>ICTI</b>	<b>FLA</b>	<b>SA8000</b>	<b>WRAP</b>
Core Labor Standards	✓	✓	✓	✓	✓	✓
Health and Safety Standards	✓	✓	✓		✓	✓
Management System Required	✓				✓	
Certification Given to Auditors			✓	✓	✓	✓
Basis for Compliance	EICC Code	ETI Base Code "min. standards"	ICTI Code of Business Practices	FLA Code	SA8000	WRAP Principles
Internal Monitoring; Self-Assessment	✓	✓	✓	✓	✓	✓
Independent External Monitoring/Verification	✓	✓	✓	✓	✓	✓
Environmental Standards/Performance	✓			✓		✓
Ethical Conduct	✓				✓	

### ***Current State of Play***

Despite widespread agreement that greater harmonization and convergence of codes is both needed and desired, as well as recognition that the proliferation and inconsistencies of codes places a burden on suppliers, a plethora of codes and compliance programs continue to exist. Furthermore, despite numerous monitoring, verification and remediation schemes, there is little evidence that monitoring efforts are leading to systemic change at the factory level.

It can be interpreted from the conversations and literature that supported this review that 1) we've not yet defined *the* core standard that can be agreed on by all but there are significant areas of agreement; 2) differences in interpretation of core standards exist, and will likely remain; 3) national law and international standards are the primary and most credible points of reference; 4) new forms of partnership and collaboration are driving learning and progress; 5) the process of monitoring, verification and remediation must include incentives, must respond to specific circumstances (industry, geography, workforce), and must be supported by systems in order to be sustainable; and 6) participation at the facility and community level will be a key factor in determining the degree and sustainability of progress achieved.

TIMELINE

- 1930** ILO Convention on Forced Labor
- ...
- 1948** Universal Declaration of Human Rights  
ILO Convention on Freedom of Association and Protection of the Right to Organize
- 1949** ILO Convention on Right to Organise and Collective Bargaining
- 1951** ILO Convention on Equal Remuneration
- ...
- 1957** ILO Convention on Abolition of Forced Labor
- 1958** ILO Convention on Discrimination (Employment and Occupation)
- ...
- 1973** ILO Convention on Minimum Age
- 1974** Multi-Fiber Agreement created
- 1975** **ICTI Established**
- 1977** ILO: Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)
- ...
- 1984** MacBride Principles created and introduced
- ...
- 1988** Reebok Establishes Human Rights Award Program
- 1990** global attention to factory issues, labor abuse, and "sweatshop scandals" increasing
- 1991** Levi Strauss announced "Terms of Engagement" (labor standards for business partners); first example of buyer code of conduct, with others following suit
- 1992** other buyers and brands follow suit developing codes of conduct and production standards
- ...
- 1995** **ICTI Code of Business Conduct adopted**
- ...
- 1997** media and consumer interest in supply chain issues increases; major brands targeted  
**SA8000 Accreditation System launched**  
Global Reporting Initiative Founded
- 1998** **Ethical Trading Initiative (ETI) established**  
Amnesty International "Human Rights Principles for Companies" created
- 1999** ILO Convention on Worst Forms of Child Labor  
ILO Report of the Director-General: Decent Work  
**Fair Labor Association (FLA) established**  
**SA8000 Corporate Involvement Program (CIP) launched**  
Global Sullivan Principles announced  
Global Alliance for Workers and Communities launched; multi-stakeholder initiative  
Fair Wear Foundation established in the Netherlands
- 2000** OECD Guidelines for Multinational Enterprises (revised)  
UN Global Compact Launched  
Global Reporting Initiative publication of first Guidelines  
**Worldwide Responsible Apparel Production launched (WRAP)**  
ILO Declaration on Fundamental Principles and Rights and Work and its Follow-up (Amendment to MNE Declaration)
- 2001** Global s-Sustainability Initiative launched by ICT companies, UNEP and ITU
- 2002** Global Reporting Initiative revised Guidelines and Governance  
HP Social and Environmental Responsibility (SER) Policy and Code of Conduct created
- 2003** UN Norms on Responsibilities of Transnational Corporations and Business Enterprises with Regard to Human Rights
- 2004** **Electronics Industry Code of Conduct (EICC) established; version 1.0 released**  
*End of the "Global Alliance for Workers and Communities" initiative*
- 2005** *End of the Multi-Fiber Agreement; competitive dynamics in garment and textiles industries change*  
Global Reporting Initiative Sector Supplements under development
- EICC Versions 1.1 and 2.0 released**

## **COMPLIANCE: ADDRESSING SPECIFIC ISSUES AND SYSTEMIC PROBLEMS**

The stated objectives of most compliance programs include 1) identification of non-compliance and underlying causes 2) corrective action 3) continued engagement with facilities that comply with standards of the code and local law, and aspire to meet international standards. Monitoring identifies instances of non-compliance, and ideally, identifies trends or systemic areas of non-compliance.

### ***Monitoring and Verification - Limitations and Criticisms***

While identification of non-compliance may seem to be a straightforward element in this process, not all human rights and labor rights – such as harassment, discrimination and living wage - have consistent, easily identifiable metrics. For issues with well defined metrics, the indicators tracked do not always tell the story accurately or completely. Essential data may be overlooked or misrepresented. As one industry representative stated, “what is easy to measure is being measured, but what’s hard to measure isn’t.” Monitoring is a useful and productive tool, but a tool that is dynamic and imperfect.

A primary criticism of “monitoring” is that of definition. Monitoring is an activity that provides feedback about specific circumstances at a specific point in time, but has been used as an umbrella term for a process that should include corrective action. Monitoring informs about conditions that exist, but it is not a vehicle for change.

Other criticisms of supply-chain monitoring programs have focused on inconsistent or flawed methodology in factory audits, and, in particular, in worker interviews. The location and circumstances of interviews may cause bias or limit the integrity of results. On-site interviews may be coached and contrived, with threats of reprisal for negative claims or incentive for false statements that cover-up abuses and compliance issues and favor factory management. Off-site interviews are challenging as well, posing problems with accessibility, logistics, willingness of employees, and threats of reprisal for participation.

The redundant and inefficient nature of monitoring programs has been cited as a key weakness, as well. Examples confirm that duplicative and contradictory codes and standards and repetitive factory audits contribute directly to lack of compliance. More importantly, these duplications often contribute to a lack of commitment to and ownership of the compliance process at the factory level. Suppliers must allocate both human and financial resources to an inefficient process and accommodate for conflicting regulations. The fire extinguisher example is offered time and time again, citing the different requirements of various codes relative to placement of a fire extinguisher on the wall. The nature of this check-list process leads some suppliers to focus on “passing” audits and meeting external requirements rather than taking ownership of goals and objectives, integrating process into management practices, and creating sustainable change. Despite the limited value of results, the cost of these external audits can be significant, as well, and may be a further negative incentive affecting commitment at the factory level.

Monitoring, verification and remediation activities decrease significantly as you move down through the supply chain. While most industry and multi-stakeholder codes aspire to improvement throughout the supply chain, and some state this explicitly, the onus of monitoring and remediation at the sub-contractor level falls to the primary supplier. The EICC specifically states: “For the Code to be successful, it is acknowledged that Participants should regard the

code as a total supply chain initiative. As a minimum, participants shall require its next tier suppliers to acknowledge and implement the Code.”<sup>15</sup> Despite intentions, none of the current industry or multi-stakeholder initiatives claim to effectively reach the sub-contractor or the informal (home-based) supplier level at this point; by definition, many of these workers remain unseen and out of reach. Progress at this level in the supply chain is contingent on commitment by and ability of first tier suppliers to enforce standards. It also relies on real change in knowledge, attitudes and behavior by factories, workers, governments and communities.

Regardless of the availability of data and methodology of collection, the results of monitoring are limited by the quality of data collected and its interpretation. Recent studies have highlighted the need to present monitoring data in more transparent ways that are meaningful and useful to a variety of stakeholders. While some – especially trade unions and advocacy groups – seek detailed and comparative data for analysis, other stakeholder groups – consumers, government agencies, the media and others in both buyer and supplier countries - may have different needs in terms of the level, sophistication and presentation of the monitoring data presented.

On its website, the FLA presents its factory tracking charts with an explanation that emphasizes the dynamic nature of workplace conditions, and the limited interpretation that should be given to monitoring reports. The introduction states that tracking charts are not a “pass or fail evaluation” of a factory. “The Tracking Charts do not certify whether or not factories are in compliance with the FLA Code. Monitoring is a measurement tool. The discovery of noncompliance issues is therefore not an indication that the participating company should withdraw from a factory. Instead, the results of monitoring visits are used to prioritize capacity building activities that will lead to sustainable improvements in the factory’s working conditions.”<sup>16</sup>

As suggested in interviews, there are “enormously more useful feedback systems” that are underutilized and undervalued in supply chain environments. These systems – including enhanced communication systems, empowered worker committees, or community based social auditing - encourage the flow and quality of information within the factory, improving communication between workers and management, creating systems and fora for grievance and negotiations. Other initiatives establish stronger communication with buyers or brands, and establish safeguards to compensate for break downs in other established systems. As suggested by a company representative “it should be in that order...” factories should raise and resolve issues to the greatest extent possible so companies and buyers can step back from the role of managing a workforce that doesn’t belong to them. Factory management is not a core competency of buyers.

Most agree that limitations of monitoring will decrease as the auditing process increasingly involves members of the host community. This change in participation will increase knowledge of and responsiveness to local circumstances, establish greater ownership by management and workers, engage important stakeholders who may otherwise be overlooked in the process, establish credibility within the local community, and push changing attitudes, practices and behaviors – and overall increased respect for human rights and rule of law - out from the factory and into the community. This integration will support capacity development at a much broader level than the supply chain and the factory.

The general conclusion is that monitoring is not, in isolation, an agent of change. If the process stops at “name and shame” workers lose. The goal is to raise the level of education and commitment, and to demonstrate seriousness of buyers and all stakeholders in developing a new

sourcing model that will make change sustainable. Furthermore, most stakeholders concede that the past decade has very much been a time of learning and adapting, and that best practices are slowly emerging. Monitoring is a snapshot, yet compliance is a process. Efforts to address gaps between performance, compliance and best practices must be based on a process and mutual commitments.

## ***Areas of Disagreement***

### *Disclosure*

A primary area of disagreement between some stakeholders involves transparency and disclosure – specifically, the practice of identifying factories that are non-compliant, or “naming and shaming.” FLA has been directly criticized by USAS for not identifying, by name, factories that have been cited for problems and are in the process of remediation. A detailed critique by USAS is posted on their affiliated website, “FLA Watch”<sup>17</sup>. Despite avid and vocal disagreement by student groups, most multi-stakeholder initiatives and NGOs (local and international) agree that this type of identification may lead directly to cancelled contracts and loss of jobs. The identification of poorly performing factories may, in effect, exacerbate issues of economic insecurity. “Publicly naming factories would increase the risk of existing buyers cutting their ties with the factory concerned and potential buyers steering clear of it.”<sup>18</sup>

Of note is that this issue is particularly divisive within one stakeholder group – that is, colleges and universities. USAS is a student-led initiative, while FLA is a multi-stakeholder initiative with active participation by colleges and universities as licensors. Some universities are affiliated with USAS and FLA, others are affiliated with one or the other; still others are affiliated with FLA, USAS, and/or the Workers Rights Consortium (WRC), a broad based affiliation of college and university student groups dedicated to the enforcement of workers rights. USAS explicitly discourages membership in FLA, disputing their credibility based on the participation (and perceived influence) of companies, their response to third party complaints and workplace violations, and their transparency on non-compliance issues. Alternatively, USAS advocates participation in the “Designated Suppliers Program,” a new initiative affiliated with WRC to provide independent monitoring and verification of workplace standards for university licensees.

FLA fully agrees in the value of disclosure, in the need for transparency, and in the importance of publicly reporting results of factory evaluations. In an effort to increase brand accountability and public awareness, improve workplace conditions and create a culture of compliance FLA publishes extensive monitoring reports on its web site. Reports provide specific reference to the buyer, but identify factories with a code number, thus providing data on the nature and prevalence of non-compliance without specifically identify factories where issues exist. FLA also provides extensive data on buyers and brands, emphasizing the obligations of buyers in factory performance issues.<sup>19</sup>

On this topic, each of the other initiatives deals with identification and remediation somewhat differently. ETI requires members to report results annually, based on assessment and independent verification. ETI does not publish aggregate data on factories, but the principles of implementation require companies to work with factories to form a plan for correction, to immediately cease abusive behavior, and to terminate contracts if and when factories do not make adequate efforts to correct problems. ETI’s focus is not identification of poor performers, but identification of trends, underlying causes, and best practices for replication. EICC is focused on “driving continuous improvement” through commitment to the standards and through creation of systems for corrective measures. Similarly, ICTI’s CARE Program calls for buyers to



establish a plan for remediation and to terminate contracts as a last resort if improvements are not made. SAI is an accreditation and service agency; they certify, convene and advocate, but are not a policing agency and do not identify problem factories.

Without question, the process of identification and remediation of human rights violations is complex, and requires good judgment and creative, deliberate effort if the goal is to effect positive change. It was suggested in an interview that, if these efforts are to be successful, the concept must change from a “gotcha” mentality to one that analyzes trends and uses instances of non-compliance to inform broader, industry wide response.

### *Role and Influence of Companies*

Another primary area of disagreement among stakeholders is participation by brands and companies. Student activist organizations such as USAS have publicly criticized FLA, WRAP and others because of the participation of buyers and brands, and a perceived conflict of interest, lack of integrity and lack of transparency in auditing results. Despite this criticism, others have specifically voiced the opinion that meaningful, sustainable progress on this front is not possible without having all of the voices at the table, and in particular, without having the participation of companies. In a written response to criticism by USAS, FLA President and CEO Aurret van Heerden stressed that “having the companies at the table is a source of strength and not a source of weakness... [the companies’] presence heightens both their cooperation and their accountability.”<sup>20</sup>

Further to this point, FLA (and many others) point out that the companies who are involved in FLA and similar efforts are, arguably those most engaged in labor rights issues, and those most committed to finding and enabling solutions. It is acknowledged that company influence must be kept in balance through effective governance structures, but engagement and collaboration holds more promise than exclusion and adversarial tension.

Companies and brands participate in different multi-stakeholder initiatives in different ways – some forms of engagement are more acceptable to certain stakeholders than others. In some initiatives, such as FLA, ETI, EICC buyers are participants and members, but are also represented on boards or advisory boards. In the case of SAI, companies are active on the board and are partners and consumers of services. In industry associations such as ICTI and WRAP, companies and brands are represented by industry affiliation, and as board members. The degree to which trade unions are involved in each of these initiatives directly correlates to the engagement and perceived influence of companies.

### *Internal vs. External Auditing*

Another area of primary disagreement is qualification and consistency of auditors, as well as auditor incentives, affiliation, and terms of engagement. Third party “independent” auditors and the organizations that authorize them claim credibility based on the auditor certification process, on their technical skills, and on their independence from companies. Others consider this “independence” to lessen credibility and rigor, claiming lack of consistency and commitment to both the supplier and the buyer. Some suggest that reliance on external monitoring is a flawed model, as it keeps lessons learned and expertise *outside* of the companies, facilities and communities; it also provides incentive for the auditors to do more monitoring, rather than to find and remediate underlying problems.

Programs that call for internal auditing and self assessment stress the importance of the buyer-supplier relationship, both in identifying underlying causes for non-compliance and in creating

and implementing plans for remediation. Critics of internal audits cite the “fox guarding the hen house” argument, questioning whether the possibility of objective monitoring exists when the auditor is paid by the buyer.

The Joint Initiative on Corporate Accountability and Workers Rights (JO-IN), a multi-stakeholder project involving six organizations including ETI, FLA, and SAI recently published a report on social auditing that illustrates the overall value of internal monitoring in comparison to third party auditors. “In general, there is a large discrepancy between the power and the influence that brand auditors have as opposed to independent (third party) auditors. Where brands have an opportunity to follow-up with the supplier company, monitor their progress and sometimes even provide training sessions, third party auditors are restricted to sending detailed reports of their findings to the brands that hired them. The follow-up, if there is any, is often done directly by the brand and in this way third party auditors are sometimes deprived of the opportunity to make a positive contribution to the raising of the standards within factories. Other issues, such as trust, communication and general openness are positively affected where there is a direct, long-term relationship between the auditor and the supplier company. Improvement plans for corrective actions (sometimes referred to as remediation) are quite common among the brands and usually have a six-month to one-year time frame.”<sup>21</sup>

As mentioned earlier in this paper, many of the lessons emerging indicate that a hybrid model is needed. Internal monitoring allows for the quality of relationships that is not possible with external monitoring, including in-depth knowledge of issues and problems and a long-term commitment to solutions. External, third party monitoring will always have a degree of objectivity and legitimacy. The combination the two will build stronger solutions, creating increased capacity at the company and community level as well as credibility through third party verification.

### Participation and Voice

The subject of worker representation, participation and voice is a significant area of concern, and is worthy of a separate study entirely. This paper does not include detailed analysis of trade unions or platforms for worker representation, but consideration of unions is part of the general discussion on representation and voice. This is an extraordinarily important element in both the causes of and the solutions to compliance issues.

As mentioned early in this paper, freedom of association is one of the most divisive issues among workers rights advocates. Some advocate unions as the only effective vehicle for workers' voice; others point out a negative connotation and perception of unions, and the stigma of terminology that can be counterproductive. Ineffectiveness and competition between unions have been cited as reasons to consider other alternatives for worker representation. In some environments, China being the easy example, unions are not supported by law, and therefore, not an option that allows for compliance with local law and engagement with local authorities.

In these scenarios, “parallel structures” are being introduced, emphasizing the possibility of supporting systems of communication and voice outside of the union model. These structures involve education, participation, creation of or improvement of grievance systems, and improved channels of communication. The goal is to establish systems that encourage communication at the factory level first, with safeguards for direct communication with third party groups and buyers.

Accurate measurement of worker participation has been criticized. Factory audits are not always capable of evaluating the existence, success or failure of these parallel structures if they do not take the form of union representation. Likewise, many unions do not recognize parallel structures or non-union representation of workers to qualify as true representation or voice. This remains a nuanced issue, and one that will require more communication and collaboration by all.

As discussed earlier in the paper, despite differences regarding association and collective bargaining, there is general agreement about the need for greater worker participation, and a move toward more community based monitoring methodology. One company representative suggested that brands should move more toward the role of facilitator, strengthening the process at the local level, “graduating” the factories that perform well and concentrating on those that need more assistance. “Ultimately, long term success lies within the four walls of the factory... there are thousands upon thousands of factories; we can only police so many. Good human resource management and good corporate responsibility contribute to the business value.”

The simple conclusion of interviews and literature is that voice matters, and that worker representation “at the table” is currently insufficient. There is disagreement when the discussion moves to what representation and voice “look like,” and the different forms that representation may take in different places due to geographic, cultural, social, and political influences.

### ***Remediation and Capacity Development***

As mentioned above, most compliance programs require suppliers to develop and submit a plan for corrective action inclusive of specific benchmarks and time frames. If a supplier does not implement the plan or act in good faith to correct problems, the buyer-supplier relationship will likely be terminated; in some cases this translates to factories closing and jobs lost. The interruption or termination of buyer-supplier relationships is not the objective of compliance programs unless and until a supplier demonstrates an inability or unwillingness to address areas of non-compliance. If problems are not addressed the supplier is, in effect, defining the relationship as one of inherent risk and unacceptable terms of engagement.

Most company, industry, and multi-stakeholder codes of conduct include a stated commitment to continued engagement with factories – including remediation and capacity development - but the question of who bears the cost remains. Many buyers, brands, and industries agree that they must make an investment in the early stages of remediation to create momentum and to support the intentions and efforts of factories along the supply chain that lack the necessary financial and managerial resources to begin this process. There is further agreement, however, that assistance and investments in factory-based programs should be “seed funding” to “lift the tide.”

Capacity development programs are an investment to move the process forward and to build critical positive momentum, but they are a co-investment by buyers and suppliers. At a certain point it is the obligation of the suppliers to leverage external investments, to systematize processes, and to ensure sustainable improvement in their factories. The level to which a firm adopts and incorporates tools, systems and improved capacities will, assuming these incentives and rewards are consistent, establish their market competitiveness.

The unintended consequences of compliance programs are worthy of consideration. If the process is not managed well, it may simply force a trade off between labor rights and other (social, economic, and cultural) rights.<sup>22</sup> If identification of non-compliance leads to lost contracts, the end result may be factory closures, unpaid labor, and lost jobs for a sizeable

workforce. If stakeholder pressures does not encourage and facilitate corrective measures, factory management may simply divert their resources and business to more forgiving and favorable buyer markets. If continued or increased business is not the result of corrective measures, suppliers will lose faith in the arguments promoting compliance and the possibility of a “win-win” outcome for investments in improved workplace standards. In most cases, when remediation efforts fail, those who are most vulnerable pay the greatest price.

In all cases, care and thought must be given to the bigger picture within which standards and codes are being enforced, and a dedicated effort must be made to offer a common voice and consistency in the requirements made on those striving to comply with good practice in the supply chain.

### **Identifying Underlying Causes**

*“Propelled by a free trade agreement with the United States, apparel manufacturing is booming in Jordan, its exports to America soaring twenty fold in the last five years. But some foreign workers in Jordanian factories that produce garments for Target, Wal-Mart and other American retailers are complaining of dismal conditions – of 20-hour days, of not being paid for months and of being hit by supervisors and jailed when they complain.”*

New York Times, May 3, 2006<sup>23</sup>

As highlighted by the recent news story above, an inherent tension exists between market pressures and improved workplace standards in factories along the supply chain. Despite stated intentions of companies and industries to recognize workers rights and improve conditions, the realities of trade agreements, lobbying efforts, free trade zones, and general market pressures to remain competitive in the global market present consistent challenges. These tensions are exacerbated by unrewarding tax systems, conflicting laws and regulations, unrealistic targets for speed and quality, and short term planning.

Dusty Kidd, Nike Vice President for Compliance, confirmed that Nike has prioritized scrutiny and analysis of its own business practices to answer the question “what are we doing as a company and a buyer that leads to non-compliance.” Nike created a task force, chaired by the CEO, which meets quarterly to consider findings on this topic and to suggest changes to be implemented throughout the company within all divisions and operational processes. The “overtime task force” found that, indeed, many instances of non-compliance were generated by Nike’s own business practices, primarily including placing late orders. Terms of the standard supply agreement generally specify that the factory pays air freight if the factory cannot make delivery by a certain date; when orders arrive late, factories will choose to work more hours rather than be burdened by the obligation to pay a costly air freight bill. The push to meet production goals within the time constraints directly lead to compliance issues and abuse of workforce rights.

Nike’s review suggests that as many as one of every two non-compliance issues can be traced back to the buyer. The task force has analyzed the many internal processes that incrementally feed into compliance issues, and is making changes to internal processes to further identify and reduce these causes. The benefits to the company are two-fold. First, when a problematic process is changed and the compliance issue is eliminated or reduced, it frees up monitors to concentrate on other issues. Second, with increased understanding of underlying causes, Nike

can integrate change across the company to create greater effectiveness and efficiency, allocating time, money and human resources more strategically.

To this end, Nike has adopted a scorecard-based performance evaluation system based on new metrics for both suppliers and internal performance. The supplier scorecard system rates on pricing, quality, on time delivery, and compliance; the internal score card looks at issues such as reduction in materials required season to season and placing orders on time. Overall, it measures how the business is performing in the global product process, and helps managers make judgments about how and where to link resources to compliance issues. It is a bottom line benefit to the company with more efficient processes at all levels and more benefits to workers.<sup>24</sup>

In another buyer example, Reebok offers detailed analysis of supply chain issues on its web site, including the findings of an NGO survey on the value and impact of supply chain compliance programs. This survey, conducted by Oxfam UK reviewed the working conditions in supply chains of over twenty companies based on the premise that, despite the existence of monitoring and compliance programs, working conditions in factories have remained largely unchanged.

Oxfam's study "revealed that current sourcing strategies—premised on flexibility and fast turnaround—combined with lowering of unit costs, are significantly contributing to suppliers using exploitative employment practices."<sup>25</sup> These practices refer to short-term contracts, piece-rate pricing basis, decreases in wages coinciding with falling unit costs, restrictions on freedom of association, and forced or excessive overtime. The study went on to conclude that a general failure to "address the disparities between code of conduct commitments on the one hand and sourcing priorities on the other has meant that working conditions remain, by and large, exploitative." The study noted, as well, that the commitments made by both the buyer and suppliers "are viewed as something that can be derogated from in the normal run of business", leading to instances where compliance staff rationalize issues of non-compliance as exceptions, or workers fake compliance simply to pass inspection.

Many underlying causes of non-compliance are market driven, and a high number of actors - not just the high profile buyers (who are also often the leaders of efforts to improve social performance) – are involved. Market competitiveness is defined by price, flexibility, speed to market, quality and availability of resources. The many stakeholders applying pressure and influence within the market – international, national and local governments, industry leaders and lobbyists, trade agreements, consumers – establish boundaries and influence the process and performance of individual firms. Furthermore, competing interests often exist within individual companies, i.e., between purchasing departments and compliance staff.

The comparatively weak negotiating position of suppliers is also a notable underlying cause of non-compliance. Factories cannot influence the terms of trade such as price, speed, quality, or buyer behavior. Given this inability to provide upward pressure, the compromises that suppliers make to keep or win contracts and to remain competitive are passed down to the workers in the form of unrealistic time frames, low wages, poor working conditions and abuse of workers' rights.

Lack of education and lack of knowledge of labor rights are also key underlying factors in workers' tolerance of poor workplace conditions and labor rights abuse. In a conversation with Alan Hassenfeld of Hasbro and board member of ICTI, he stressed "at the end of the day, it's not about monitoring, it's about education". Others stressed lack of participation as a key cause of labor rights abuse – a weakness that often links directly to lack of education and knowledge.

United Students Against Sweatshops (USAS), a student-led labor rights activist group, emphasizes that lack of voice and lack of participation – in setting standards, monitoring and remediation – is *the* key underlying cause which must change.

Dusty Kidd, of Nike agreed with this assessment of weakness in the existing system, stressing that multi-stakeholder initiatives must increase the presence of workers at the table during all phases of the process. In general, based on conversations and literature review, there is wide agreement that workers are not yet sufficiently involved in the process, and that greater involvement by workers and increased engagement at the community level will alleviate underlying problems and drive systemic, effective solutions. In the absence of education, knowledge, participation and positive alternatives, workers have no choice but to surrender human rights in favor of an economic imperative.

At the consumer level, the underlying causes of poor workplace standards relate to buying behavior and an increasingly “affordably affluent” consumer market. In a recent survey by the World Bank on the business case for suppliers and governments in Cambodia, the companies surveyed indicated that consumer behavior and stated preferences on this issue are inconsistent. The survey also indicated that consumers lack a consistent source of information from which they can make decisions and base their buying behavior. “When asked about consumer preferences, responses indicated that international labor standards are of ‘major’ or ‘moderate’ importance, but seemed to differ on how consumers know about or evaluate these issues. Answers indicated that this issue may be driven by media and/or public relations efforts.”<sup>26</sup>

In the apparel, footwear and toy industries, the labor market is flexible and mobile; sub-contractor relationships are common. The downward pressures described above – price, flexibility, unrealistic time frames and expectations of quality, coupled with lack of education, knowledge, voice and negotiating power – continue and often increase when passed down the supply chain. No consistent mechanisms exist to identify or correct labor rights violations at the informal levels.

In the electronics industry, there is a marked difference in the size of the workforce and in the degree of quality and performance required. Although it is still a large labor pool and many of the same market pressures described above exist, the supply chain for electronics industry buyers is more concentrated, more definable, more stable, and at a slightly higher level of sophistication, encouraging both buyers and suppliers to make longer term investments in areas of compliance. The electronics industry is also comparatively more “systems based”, thus, processes that support code compliance may be adapted more readily, and may be more likely to be passed down to lower levels in the supply chain.

### ***Emerging Good Practices***

Despite differences about the “best” process of monitoring and remediation, “good practices” are emerging. Many creative examples of identification, remediation and correction of human and labor rights violations are appearing, with a focus on capacity development, increased communication in the workplace, improved systems, and increased local participation.

In Bangladesh, Reebok is piloting a program designed to improve the compliance process by creating “more robust communication vehicles.” This program includes partnership with a local organization that is authorized to be the “eyes and ears” of Reebok on the ground. Through this initiative Reebok is increasing the quality and effectiveness of communication within the factory

environment, utilizing the expertise of a local organization that has legitimacy within the community, and establishing an improved mechanism for frequent and high quality feedback on compliance issues.

The role of the NGO as a social monitor at the community level is considered by Reebok to be a valuable part of the process, and a win-win option for all stakeholders. The NGO has established itself as a credible source of information. They have access to factories and the respect workers, thus communication is more frequent, more straightforward, more consistent and more reliable than that of a typical auditing scenario. The agreement between Reebok and the social auditor requires good faith, good communication, and performance on both sides; if that exists, the result will be a faster and more effective response by the company, and better conditions for workers.

Others examples have referenced “hybrid models” of internal and external auditing programs, employing the expertise and credibility of independent third parties, while facilitating capacity and ownership internally within companies and factories. One hybrid idea is based on the IKEA model, in which the company hires a locally based expert who has both technical skill and legitimacy within the community. This company/brand staff member manages the internal auditing process and verification is provided by an independent third party. In this example the expertise is both local and internal to the company, thus promoting long term knowledge and commitment to continuous improvement over time; external verification adds necessary objectivity and legitimacy. This example was specifically cited by HP in their analysis and benchmarking process.

Different industries may have significantly different needs and opportunities to find and rely on local expertise, but the general concept of local capacity is important to community buy-in as well as the long term sustainability of changes in workplace conditions and performance. References to positive examples of compliance programs suggested the need for consideration of local circumstances (cultural, economic, political and geographic realities), and meaningful participation – at an increasing level – by a knowledgeable and educated work force. External monitoring provides a snapshot of conditions at a point in time, and may provide information about general deficiencies, trends or practices, but it has not proven to be effective at getting to the root causes of non-compliance. Conversely, reliance on local participation is more likely to highlight systemic conditions, trends, beliefs and practices that lead to meaningful longer term change.

Another area of agreement in “good practices” is the value different actors and agencies play in the process. In some cases, “intermediary groups” have become invaluable as a bridge between other stakeholders. These groups – typically NGOs or human rights organizations – have the skill and ability to interpret and explain labor law and elements of the monitoring process. In instances where the workforce has limited education or limited knowledge about labor law, these groups have proven to be essential in facilitating the voice of the workers, and in providing essential training in local language and in culturally acceptable ways. Intermediary groups also help to communicate findings from the factory level back out to companies, international organizations or NGOs in consistent and transparent ways, and to allow for comparison of data by stakeholders – including media and the general public - by presenting findings in ways that are understandable and meaningful to those with differing needs, and differing capacities for analysis and interpretation.

## **Systemic Change**

A further area of agreement by representatives of all industries is that progress will only happen once a critical mass of participation is achieved. It is not enough for leaders to embrace and promote best practices if other forces are undermining these efforts and offering conflicting incentives and messages to suppliers. In order for the systemic change to take root, more work must be done to harmonize and legitimize standards, and to make more participants aware of these standards. More importantly, more work must be done by all stakeholders – including local and national governments - to establish the business case for compliance and to promote and articulate incentives for participation across industries and countries.

It is a challenge for compliance systems to remain effective and relevant over time in fast paced industries characterized by constant change and increasing flexibility. Most literature and conversations have concluded that as codes and compliance programs have evolved over the past decade a “maturation process” has occurred and leaders have emerged. The following excerpt from the Nike 2004 Corporate Responsibility Report illustrates this evolution:

Nike’s approach to labor conditions in our contract factories is evolving. We’ve evolved from a focus on our own Code of Conduct to advocating common standards across the industry. We’ve evolved from outsourcing labor monitoring to relying on a trained team of internal monitors and support for common monitoring platforms such as the Fair Labor Association. We are evolving from a focus on monitoring to a focus on capacity building. We are evolving from an exclusive focus on factory floor impact to an exploration of ways to help change the industry through transparency and multi-stakeholder collaborations.

These changes are driven by awareness that structural issues endemic to the global footwear, apparel and equipment industries affect an individual company’s ability to change conditions in particular factories.

Our monitoring processes provide us with clear issues arising inside factories. What they do not tell us, however, is how those issues are affected by events of external factors. For example, in trying to reduce excessive overtime, we can focus on more effective policing of factories to achieve compliance. But simply focusing on policing does not address the root cause and might take resources away from engaging in broader discussions about why workers in some cases want extra hours. Those are the discussions that may lead to greater and more lasting changes. This kind of root cause analysis requires active listening and engagement in the broader dialogue with civil society, institutions and businesses around supply chain working conditions.

Despite an evolution and maturation - from data collection to improved process and performance, including both buyers and suppliers - monitoring and verification mechanisms have continued to focus on laggards. For those who have made a bigger investment in this process, monitoring may have decreasing value. Monitoring has been described as “telling us what we already know”<sup>27</sup>, but it continues to be recognized as a necessary part of the bigger picture.

## **The Bottom Line: Local, National and International Law**

*Fundamental to adopting the Code is the understanding that a business, in all of its activities, must operate in full compliance with the laws, rules and regulations of the ‘countries in which it operates. The Code encourages Participants to go beyond legal compliance, drawing upon internationally recognized standards, in order to advance social and environmental responsibility.*

Electronics Industry Code of Conduct



Despite a focus on private and voluntary codes, local, national and international law establish the basis for workplace standards, and are a primary benchmark against which all suppliers' operations are measured.

A recent report by the World Bank on *Strengthening CSR in Global Supply Chains* questioned whether codes of conduct might be inherently ineffective, i.e. if it might be more productive to focus on laws and collective bargaining agreements instead of voluntary initiatives. This analysis questioned whether, in fact, codes might be serving as a barrier to sustainable change by driving attention away from rule of law and collective bargaining agreements, thus diminishing the role of governments and unions. The conclusions suggested that governments and law should play a more central role, but are not prepared to do so yet. Private initiatives are playing an important role defining and pushing this agenda forward in the absence of stronger and more coherent legal guidelines. As illustrated above, there is considerable agreement about barriers to compliance and commonalities of non-compliance, but, as indicated in this report, no agreement on solutions except for "a unanimous call for more responsible local government action."<sup>28</sup>

This absence of action by government exists in both buyer and supplier countries, and studies suggest that increased government attention will be most effective if it addresses overall respect for human rights, and not a limited sub-set of labor rights. In *Promoting International Worker Rights through Private Voluntary Initiatives: Public Relations or Public Policy*, Elliott Schrage notes that a stronger commitment to supply chain and labor rights issues can advance U.S. foreign policy by strengthening civic institutions, NGOs, and overall regard for human rights. Through partnerships with universities, private companies and governments, western governments can promote greater understanding of and respect for human rights, encourage stronger rule of law, and help create a forum and process for more effective dispute resolution.<sup>29</sup>

In buyer and supplier countries, government involvement should be integrated well beyond the department of labor, and in the case of donor countries, beyond foreign assistance. As is evident in comparison of the scope of development assistance and foreign direct investment, the real leverage is through trade, and through the institutions and agreements that establish and govern trade relationships. On the subject of trade, substantial progress is possible by simply incorporating more rigorous and consistent policies on government procurement – and abiding by existing regulations and agreements. This change, alone, by buyer governments (and in particular the United States) could push this agenda ahead through direct impact on markets and supply chains, and, indirectly, through example and precedent.

Governments have numerous roles, ranging from better and more consistent enforcement of rule of law, to creation of incentives (tax consideration, favored access, protection from litigation, etc.), to encouragement and reward of behavior by buyers, suppliers, and other stakeholders. Increased regulatory pressure, and adherence to existing regulation, such as 19 USC 1307 which prohibits import of goods produced with forced labor and authorizes US customs to bar entry<sup>30</sup>, are areas of important and appropriate government engagement. Governments are the primary representative of the workers. Increased government action and collaboration can and should be based on incentives for economic growth, especially over the long term, as well as on incentives for stronger rule of law.

The response of the Cambodian government to the end of the Multi-Fiber Agreement (MFA) in 2005 offers an excellent example of proactive collaboration by a national government for the purpose of promoting economic growth. The government saw a potential loss of revenue after the MFA expired, and requested help from the ILO in redesigning labor standards to fit a more

market-based strategy. The intent of this partnership was to create systematic changes that would make Cambodian suppliers more competitive in the global market, based on the belief that compliance was now an important criterion, along with price, quality and speed to market. The government of Cambodia looked at this as an opportunity to improve the reputation of Cambodian firms overall; the explicit goal was to improve compliance at the factory level, harmonize national standards with international law and best practices, establish Cambodia as a country with strong rule of law and respect for human rights in the workplace, and increase or stabilize the garment sector market base for Cambodian firms.

The following excerpt is from a World Bank report documenting the progress of the Cambodian Garment Project:

In the example of Cambodia, the IFC and World Bank conducted a survey of the 15 largest apparel buyers in Asia, whose overall procurement accounts for 45% of Cambodia's garment exports. The results indicated that labor standards were of significant importance in country-specific sourcing decisions. "Out of 12 items of consideration including corruption, political stability, tariff preferences, bureaucratic red tape and investment incentives, 'level of labor standards and practices' received the highest overall weighted average rating, and 'protecting the rights of workers to organize unions' was ranked 7.

In a similar question asking about factory-specific considerations comparing price and production costs, product quality, production capacity, workforce skills, and other factors, "level of health and safety practices" was ranked 2<sup>nd</sup> out of 9 factors, with price and production costs ranked 1<sup>st</sup>.

When asked about the impact of improved labor standards, most respondents thought it negatively impacted price and production costs, but positively impacted turnover, absenteeism, product quality, workforce productivity and number of accidents.

With regard to confidence in the findings of monitoring results, most trusted internal audits the most, followed by ILO audits or NGOs chosen by the buyer. Comments suggested low confidence in the qualification of external certification programs and national government inspectors, and the validity of these results.<sup>31</sup>

Aside from pursuit of opportunities in the global marketplace, governments are being asked to play larger role in public disclosure and information sharing to level the playing field and allow for greater scrutiny and transparency in compliance issues. In a report on *Opportunities and Obstacles for Corporate Social Responsible Reporting in Developing Countries*, Dara O'Rourke specifically discusses information asymmetry and the obligation of governments to make information available to the public in a way that is fair and useful. "A critical aspect of information asymmetry problems is that individuals (and particularly poor people) are less likely to have the resources to gather information on firm practices and impacts than firms themselves. There is thus a central role for governments to play in facilitating or mandating disclosure that provides equal information to all stakeholders."<sup>32</sup>

The problem of asymmetry can be dealt with by requirements for disclosure as opposed to the current trend of voluntary reporting. Governments can also facilitate this process by creating appropriate, consistent formats for reporting and disclosure to allow for comparative analysis and meaningful feedback by various stakeholders and members of the community.

## KEY LESSONS

### *Collaboration is Driving Change*

The word “experiment” came up numerous times in interviews and articles in preparation for this report, and seems to be a theme for those engaged in finding effective methods of collaboration. Some described the 90’s as the era of code development, and the current decade as the era of richer collaboration. Realizing that multiple models for monitoring and capacity building can be counterproductive, stakeholders are comparing processes and developing common systems with the expectation of improved efficiency, greater clarity, reduced costs, and better allocation of resources.

The counterpoint to the statement above is that the number of brands and companies actively engaged in multi-stakeholder partnerships is very small. Dusty Kidd of Nike estimates that the combined total revenue of the brands actively involved in multi-stakeholder initiatives makes up only 10% of the total for the apparel and footwear industries. For those involved, collaboration is very strong, and is redefining compliance practices, but significant change won’t happen until more players take part. The circle must expand.

In the electronics industry, engagement by top tier companies is strong, but the leadership of HP has been essential. Members from the electronics, apparel and footwear industries all noted the learning opportunity that was possible in development of the EICC based on early attempts to develop compliance programs in other industries and the willingness of the electronics industry to learn from these examples. Extensive benchmarking was done in creating EICC, and continued collaboration exists as the code is tested and implemented.

In the toy industry and the example of ICTI, the initiative itself is very narrowly focused on one industry, indeed on one industry and one country (China), engaging national associations from around the world, yet the leadership of ICTI explicitly seeks and includes representation (by charter) from a broad range of industries and sectors. As in the example of EICC, the recent development of the ICTI code and the CARE Process relied on lessons learned from the apparel and footwear sectors and the partnership of leaders in other sectors and industries.

Of the private and various multi-stakeholder initiatives reviewed, most brands have chosen to participate in only one. Gap, Inc. is a notable exception, as an active participant in both SA8000 and ETI. For most, the primary driver in the decision to join a multi-stakeholder initiative was the degree to which the initiative complemented the strengths or weakness of the company’s internal compliance program. For those looking for proven monitoring and compliance methodology and a road tested remediation process, FLA offers great value. For those looking for a program that can fill a management systems gap, SA8000 is an excellent choice. For those with a desire to do more in-depth analysis and pilot projects, and to increase exposure to the European market, ETI may be the best forum for engagement.

These initiatives all differ significantly in scope, benefits, requirements, and commitment, yet there is enough overlap that they are seen as “one or the other” options. Most companies expressed their intention to “reconsider” involvement in initiatives that they are not currently active in; at a minimum, all were respectful of the different value of each, and the choices of other companies to choose one over the other. Despite some overlap, the options seem to provide companies with the level and type of engagement that is right for them at the time – at least until

more coherent convergence and harmonization takes place. Cost is a definite consideration when choosing affiliation and membership; resources are limited and return on investment is an important part of the equation.

In interviews for this paper, FLA was described as “the most credible multi-stakeholder initiative that exists...” due to the inclusion of various stakeholders. It was also described as a “tremendous tool” that provided structure, systems, process and credibility. FLA is credited with the means to build capacity (driving up labor standards) and to address the adequacy of company compliance programs. FLA’s 3.0 version is expected to add yet another important dimension to this value by looking at trends (as opposed to specific circumstances of non-compliance), and by pushing the value added past the policing function to more meaningful capacity development. FLA 3.0 is expected to offer value to those who have achieved basic levels of success in compliance.

Other interviews suggested that “SA8000 is probably the most important workers' rights performance standard to emerge to date, and is clearly destined to evolve into the most widely accepted format for addressing company issues around its social performance....[it is] a response to the need for companies to have access to a common, standardized framework for good labor management and workplace environment questions, not only for company-owned facilities, but also latterly to help address labor and employment issues in developing-world factories....In many ways, SA8000 is both an international human resources standard and a verification tool...equally important, implementing the standard means adopting a management system that is designed to help companies enforce these rights and provide workers with education and training on modern management techniques...”<sup>33</sup>

SA8000 provides the essential tools necessary to develop stronger ownership at the supplier level. Brands facing recurring problems, and who want to transition from “policing” to a system-based approach to supply chain management have found SA8000 to be invaluable in helping to develop long-term solutions in areas that are not their core competencies, and to reduce repeat visits to factories to discover the same non-compliance issues.

Both FLA and SA8000 are actively exploring ways to link with other multi-stakeholder initiatives, and ways to complement the unique contributions of the other initiative. Brands and companies are finding ways to engage both of these initiatives at the level that is necessary and useful to them. The SA8000 “explorer” and “corporate engagement” programs are two examples that meet specific engagement needs. Likewise, FLA is involved in numerous programs and partnerships that increase collaboration and support creation of best practices.

ETI has been credited for its role as a convening organization, and for its ability to engage stakeholders in meaningful analysis and development of best practices. ETI is also clearly recognized as the stronger link to the European market, with the added value and perspective of this geographic focus and expertise. ETI is active across many industries as well, and draws from the contribution and exposure of members from a broad array of companies and influences.

EICC, though very young, is actively pursuing priority outcomes and has identified areas of learning and crossover with other sectors. EICC and HP are building sophisticated, web based tools to manage supply bases and increase transparency. This is the early phase of a process based on a “continuous improvement” model, with self monitoring as the ultimate goal. Other industries have expressed interest in participating.

ICTI and WRAP have a more narrowly defined focus. ICTI has had a dedicated focus on China, but once this base is established it will replicate the program and lessons in other key toy producing countries. Despite the narrow focus, ICTI is very open to collaboration and partnership with other initiatives, and shares a director with WRAP. Likewise, WRAP has a more narrow focus, but offers a forum for participation for companies who may not be ready for the level of engagement required in other initiatives. WRAP is currently limited to the apparel (sewn garment) industries, but plans to expand this focus in the near future.

The suggestion was made in various interviews that although formal initiatives are necessary and valuable, new and more informal collaborative projects are likely to increase, and are likely to be the real drivers of change. Companies and brands are seeing specific opportunities for partnership, cost sharing, information sharing, and increased effectiveness based on shared supplier bases, regional focus, etc. Examples of recent formal and informal initiatives worthy of specific mention follow:

1. **Joint Initiative on Corporate Accountability and Workers Rights (JO-IN)** is a collaborative project in Turkey that was launched to test a variety of code implementation strategies and approaches over a two-phase, 30 month period. The objectives are to improve working conditions and observance of international labor standards in participating garment factories in Turkey; to develop shared understanding of the ways in which codes contribute to this end; and to generate viable models for on-going cooperation between organizations. The project will test approaches, develop guidelines, and disseminate guidelines and learnings.

JO-IN is a collective project of six other initiatives. Participant organizations include CCC, ETI, FLA, FWF, SAI, and WRC. By all accounts, the process has been slow-moving and challenging, but a learning process for all involved. Members consider benefits of participation to include lessons learned regarding effective grievance systems at both the employer and brand level, expanded trust and understanding among members, potential for policy development, cross training opportunities, and synergistic value creation.

A recent example offers an unanticipated success story about by the collective voice of this group. A complaint was made about a large supplier in Turkey (not a JO-IN project supplier) and a freedom of association issue. Faced with this request and an existing mandate to provide leadership and common voice, JO-IN members agreed to take action. They responded quickly and decisively. Each initiative involved their member base in the response and sent letters to the supplier company. This pressure from industry leaders - including buyers and current or potential clients - responding with a common voice and a clear message about acceptable practices - ended the dispute and led to agreement by the supplier to return to the negotiating table with the trade union. The desired outcome was accomplished and an aggressive adversarial campaign against the supplier was averted.

This example shows the leverage of common voice on issues of agreement, the power of collective action in reaching a “tipping point”, and the agility and fast action that that is possible through informal, collaborative structures.

2. **A shared compliance program** was created as a result of the purchase of Reebok by adidas. The two brands had different yet complementary programs, and merged them to create one strategic compliance program. The new program evaluates performance against key indicators for compliance on six units of measure (commitment to a compliance plan;

systems for human resources and health, safety and environment; worker communications and industrial relations; delivery and effectiveness of training for factory staff; transparency in communication and reporting; compliance, response to non-compliance issues and remediation)<sup>34</sup>, *plus* the effectiveness of management systems. The program looks at gaps in process and performance, negotiates a timeline and plan, and assists in identifying a vehicle to make the change happen. The process utilizes an internal team of auditors as well as third party verification by FLA monitors. Adidas and Reebok will share this system with other brands, and will create the opportunity for brands to share the expertise of their internal teams and the verification of FLA monitors on a random basis – i.e. making the expertise of internal auditors available to other brands to create efficiencies when working with the same factories or working in the same geographic region. This collaboration is expected to build capacity, credibility and transparency, and to maximize core competencies and shared resources.

3. **The Global Monitoring Standards Initiative** is a recent effort that has been launched with the leadership of HP and the participation of numerous companies from a broad group of industries including Starbucks, Levi Strauss, Chiquita, Ford, Disney, McDonalds, and others. This initiative has been created to address the quality, consistency and qualification of auditors. Participating companies agreed that quality and consistency in auditing were a problem, noting also that there is no common training or career path for those engaged in this specialty profession.

This initiative will consider the essential knowledge, skills, personal and professional capacities that are necessary in the auditing process and develop a designated set of training components for multiple industries. The intent of this initiative is to identify entities that might be competent to certify auditors, and to cross-train professionals who are in related industries. The initiative will invite companies with experience in environment, health and safety to join, and intends to expand the field to include others with management system training. The end goal is increased quality of audits, increased qualification of auditors, and greater cost efficiency for the companies and industries involved.

4. **The Fair Factories Clearinghouse** is an initiative intended to help buyers share information on suppliers. This system is based on technology created by Reebok to record and share quality data about suppliers and factories. The basis of the system is mutual agreement to share data. This structure will lead to synergies as companies pick and choose other companies to share this data with. Because it is a “give and take” system, poor quality data will not be accepted by partners, and the dynamic process will drive up the quality of information.

The benefit of access to information represents a cost saving, as well as a source for collective, aggregate information that can be analyzed to discern trends and identify broader process and performance issues. Data from the system can be used to produce profiles for countries and regions. The system is described as presenting data in an “agnostic”, non-judgmental way. Rather, it uses a sophisticated technology-based tool to manage commonly measured data among companies who work with the same supply chain. This initiative will go live in the very near future, but requires a positive review by the U.S. Department of Justice to clear any question of anti-trust issues. Although this is currently a tool for the apparel and footwear sectors, it is not an industry specific tool, and could be easily replicated and used by others.

5. **Project Kaleidoscope** is a multi-stakeholder pilot project that began through the efforts and leadership of The Walt Disney Company and McDonald’s Corporation, with involvement by As You Sow Foundation, the Center for Reflection, Education and Action, Connecticut State Treasurer’s Office, Domini Social Investments LLC, General Board of Pension and Health Benefits of the United Methodist Church, Interfaith Center on Corporate Responsibility, and the Missionary Oblates of Mary Immaculate. This project is based in China, and is intended to integrate improved compliance practices into policy and action at the factory level. The program “recognizes that responsibility for compliance begins with factory ownership and on-site management”<sup>35</sup> and specifies defined roles for stakeholders. Project Kaleidoscope was founded on a “premise that a successfully implemented internal compliance system will enhance the ability of factories to correct problems as they occur, while also creating a culture of compliance.”<sup>36</sup> It is a systems-based approach with a goal of sustained compliance and replication in other industries and geographic areas.
  
6. **The Alliance for Continuous Improvement in the Central American Workplace (CIMCASW)** is an example of a more complex partnership including Development Alternatives, Inc., Gap, Inc., International Textile, Garment and Leather Workers’ Federation, SAI, Timberland, and the USAID Global Development Alliance. The goal of this partnership is to increase the competitiveness of Central America’s apparel and textile industry by combining the resources and expertise of business, government, and the NGO and consulting sectors. “The project’s continuous improvement model focuses on solving problems that prohibit full compliance with labor standards and integrating those solutions into factory management systems that will continue after the project ends.... The project will also work to improve local capacities for monitoring of workplace standards by strengthening the skills of local partner nongovernmental organizations (NGOs) and government inspectors.”<sup>37</sup>

This alliance will focus on ILO standards and national labor laws, rather than a single code – a “code neutral” approach which is intended to facilitate integration of labor standards into factory management systems, as well as local markets and laws.<sup>38</sup>

7. **Adidas** cited a similar partnership example in **El Salvador** involving a local factory, multiple brands, a local NGO, a key supplier, local government, the U.S. Embassy, U.S. Department of State, the Office of the U.S. Trade Representative, and others. This instance was a reaction to a situation that involved a factory closure and the loss of jobs by workers. It was a reaction, rather than a pro-active partnership. The collaborative solution involved U.S. government action under the umbrella of a trade agreement, noting the requirements to comply with labor laws. The result included three concessions by the factory and local government and collaborative assistance by local stakeholders, including medical coverage for unemployed workers, assistance to former workers as they sought new employment, and agreement to send a large group of newly hired government labor inspectors to an ILO FLA training on labor rights, which was developed as part of the FLA Central America Project.

Many other examples of successful formal and informal collaborative projects exist. General comments confirmed that core competencies are emerging “that if put together could be very powerful.” The difficulty in creating multi-stakeholder initiatives is that they require a certain loss of control, and quite possibly compromises on policies or practices that are important to individual stakeholders. The benefit of collaborative initiatives is that they often lead to better resource allocation, shared knowledge and best practices. The fact that new informal collaborations are increasing could indicate dissatisfaction with formal approaches, and a need

for less structured and less burdensome partnerships. These could also indicate simply that many levels and forms of collaboration are necessary and useful, and will augment the progress of other efforts. One participant suggested that these partnerships will increase at the local level, creating a “safe zone” for interaction and dialogue with suppliers.

The consensus, based on interviews, is that these initiatives require a significant commitment of time, energy, patience and good will, but in the end, are necessary and worth while. Participation requires respect of another way of looking at or approaching the same problem, but the collective has value, and stakeholders should continue to identify and take advantage of this value.

A related but distinct note is that the greatest progress will be made if the stakeholders focus on their own core competencies, engage others in areas that are not their core strengths, and cease trying to be all things to all people. There is value in the collective, but it is driven from the integrity and the focus of the individual participants.

### ***Incentives Matter***

A primary difference between early efforts at “monitoring” programs and more recent compliance programs is the decreased use of a stick and increased use of carrots. For suppliers, the implied promise of compliance is continued business with buyers. Some compliance codes, including FLA, explicitly include language on the expectation that buyers will continue to source from factories where good faith efforts are made and compliance is achieved. Beyond attraction or retention of contracts, compliance programs have increasingly focused on incentives that build long term capacity and increase supplier’s performance and capacity (primarily through management training programs and other skill-based training programs).

Readings and interviews suggest that many managers at the supplier level do not understand the benefits and business case incentives for improved compliance. In some cases, buying practices have not proven that renewed contracts are a reward for compliance. Others do not know or believe the correlation between treatment of workers and output, which indicated that costs for injuries, illness and training are higher in a workforce that is treated poorly. There is a need for better education for suppliers on the benefits of compliance and the long-term investments that they can take advantage of through a collaborative plan for remediation and corrective measures. One very practical incentive is a decreased burden of auditing based on the aforementioned collaborative monitoring approaches being developed by some buyers.

At the brand or buyer level, partnerships and initiatives are also incentive based. Companies have limited resources, and choose partnership opportunities based on opportunity to share resources, reduce costs, increase internal competencies, increase consistency within regions or industries, and make investments in supplier relationships that will prove valuable over the long-term.

At the government level, incentives have played a role both for buyers and for the government. As can be seen in the case of the Cambodian government at the conclusion of the Multi-Fiber Agreement, the government requested assistance by the ILO and others in re-designing a market based labor standards system because they perceived there to be incentive for buyers to source from a country where human and labor rights are respected. As can be seen in many cases of buyers sourcing from free trade zones (where restrictions relating to labor rights are typically waived or relaxed), tax and trade incentives matter, and they can serve as both positive and negative influences in the labor rights arena.



Attention has focused on common codes, harmonized standards and consistency with local law. There is agreement that the stick should be more consistently identified, but also that sufficient carrots should exist with clear, understandable value; a balance is needed. Supplier incentives will cause integration of process at the local level, which in turn will lead to long term sustainability. At both company and the supplier levels, any change that, in the end, is not incentive based will be a temporary solution threatened by more compelling and competing business-case arguments.

### ***Specific Circumstances Matter***

The FLA charter states:

“Implementation of some of the standards contained in the Workplace Code may be problematic in countries where the rights embodied in the standards are not fully recognized or enforced through law or practice. Despite these difficulties, one of the principal goals of the Association is to promote and encourage positive change in these countries so these standards become fully recognized, respected and enforced. When deemed necessary and appropriate by the Board, the Association shall provide Participating Companies with appropriate country guidelines to address such special problems...With regard to the standard on freedom of association and collective bargaining contained in the Workplace Code, the Association expects all Participating Companies to address this issue by taking steps to ensure that employees have the ability to exercise these rights without fear of discrimination or punishment. Such steps include contracting with factory owners that understand and recognize these rights and who shall not affirmatively seek the assistance of state authorities to prevent workers from exercising these rights. The resort to violence by either employers or employees shall be considered inconsistent with the right to freedom of association and collective bargaining, as provided by ILO Conventions 87 and 98.

As stated earlier in this paper, freedom of association is one of the most difficult standards for which to enforce compliance. In some cases association rights conflict directly with local or national law; in other instances, suppliers resist the formation of unions because of the perceived costs or threat posed to their business model. This is one of the most divisive issues among workers rights and labor rights groups. The text above is an example of FLA’s recognition that this element of code compliance may require specific guidance or accommodation, but it also shows clarity of intent, and a certain degree of flexibility in working towards a goal when significant obstacles (such as national law) prevent full compliance.

China is the easy example of conflict between freedom of association standards and national law. Some companies, such as HP, have chosen to move forward in China by investing in capacity development programs in cooperation and collaboration with local institutions and authorities. The focus is on training and education, not on certification or accreditation. Given the political climate and clearly stated restrictions on association, many stakeholders are turning the focus to capacity development, education on human rights, training, and communication. There are incentives for the Chinese government and other stakeholders to engage in programs that help build workforce capacity in ways that will offer market based rewards.

In contrast to the example of HP, SAI has faced bureaucratic obstacles in China. Although SA8000 certifications have been successfully ongoing since 2003, misinformation led to exaggerated accounts about the meaning and requirement for certification, and the impact of certification on international trade. Although the ministry for trade saw value in capacity development opportunities, other ministries considered certification to conflict with the authority of the government. Chinese law now calls for any supplier seeking certification and any

authorized agency seeking to provide factory certification to first apply to the Chinese government to pre-authorize the certification process.

In all countries there are various political, cultural and economic influences, and different points of leverage. Stakeholders consulted for this review repeatedly referenced the futility of a “one size fits all” approach; suggesting instead an assessment of local circumstances, stakeholders and points of influence. Leverage can come from workers and community, from local government, from international government and trade agreements, or from other stakeholders engaged in the process. The point is to require adherence to consistent standards and best practices, while adapting to local realities and encouraging local ownership of both the process and the goals of improved workplace environments and standards.

One example from China highlights the success of a local initiative dealing with labor rights issues. The Institute of Contemporary Observation (ICO), a well known labor rights organization, was one of ten organizations recently recognized with an award for Sustainable Development in China from Shell China and the Beijing Economic Observer. ICO engages in education and training for migrant workers, “with a focus on legal and technical aspects, and helping workers to improve communication with company management.”<sup>39</sup> ICO Director Dr. Liu Kaiming commented that this recognition is a sign of growing public concern about labour issues in China. ICO will continue this work, and plans to expand trainings to include health issues such as infectious diseases and HIV/AIDS.<sup>40</sup>

One interview suggested that most examples of unsuccessful remediation attempts stem from a lack of ability to create a business case using specific local circumstances. Without a business case that is culturally and socially acceptable, there may be compliance but there will not be long term sustainable change, nor will there be meaningful integration of standards and best practices.

A similar issue related to non-compliance is lack of understanding or problems with interpretation. In discussing the implementation of EICC, Bonnie Nixon-Gardiner commented that “the most prevalent finding for HP [in reviewing code implementation] is the lack of awareness at the factory level of our expectations. Since HP’s Code is only three years old, we envision that communicating our fundamental requirements will remain a priority for several years, complemented by the efforts of other EICC member companies.”<sup>41</sup>

### ***Participation Determines Sustainability***

In a study on *Opportunities and Obstacles for Corporate Social Responsibility Reporting in Developing Countries*, Dara O’Rourke posits that some countries are “privatizing regulation” while others are “trying to democratize regulation – bringing in new voices and new participants to make the dialogue more reflective of social values and bring about more socially grounded governance of global economic systems...”.<sup>42</sup> This description of democratization in many ways illustrates what others have said is key to establishing sustainable changes in workplace standards and compliance, i.e. greater voice and greater participation by the workers and the community, represented in various forms.

The presence of workers “at the table” determines accountability and ownership, and at the end of the day, determines the effectiveness of attempts to create change. Participation has been called for not only at the bargaining table, but in all phases of this process including policy creation, monitoring, articulation of grievances, remediation plans, and strategic plans for

capacity development. To this end, worker committees are becoming more common, and more effective in identifying and solving problems on the factory floor.

In one of O'Rourke's examples he writes about a "phenomenal transformation in accountability in these factories where young migrant workers, almost all women who literally came off the farm a year or two ago, are now negotiating in a serious way with foreign factory managers, after receiving training in capacity-building and participation. These women actually write tickets to the factory managers for problems they find, demanding resolution; and then the information they provide goes to the brands or external groups that support them."<sup>43</sup>

SAI is supporting worker councils and offering training in "parallel means of representation", based on the belief that "workers need to both monitor problems in the workplace and to play a larger role in the remediation. This elevates the position of the workers beyond a simple monitoring role, into the collective bargaining arena and all the way toward a connection with global framework agreements and global collective bargaining agreements – where multinational corporations and their supply chains are formally required to respect the rights of workers to freely associate, to collectively bargain, and to play a role in making decisions that affect their lives."<sup>44</sup>

Many programs are creating strategies that combine local and international representation and expertise. Core to these strategies is the acknowledgement that workers and communities need to be provided with adequate, accurate information on human rights, labor rights, workplace standards and health and safety issues. There is a parallel process of increased reliance and representation by local workers and experts, and increased capacity development at this level. Once workers are more aware of their rights, and have reasonable opportunity to recognize these rights, they will be effective as the first line of reporting and accountability. "They will hold their employers accountable, and communities will hold local firms accountable, as the economic livelihood of the communities is precariously balanced on the employment of these workers. As industry demands that basic standards are met, and competitiveness is determined, in part, by performance related to labor rights and workplace standards, it becomes a community based goal and management issue."<sup>45</sup>

## THE ROAD AHEAD

In *Promoting International Worker Rights through Private Voluntary Initiatives: Public Relations or Public Policy?*, Elliott Schrage describes the current monitoring and compliance environment to be characterized by the "convergence of three geopolitical trends..." including "the globalization of international human rights standards, the globalization of trade and investments (companies have greater impact than national governments), and the globalization of communication...", causing, among other things, a dramatic increase in the speed, rigor and impact of reporting about human rights abuse in the workplace.

In remarks on "*Community Monitoring and Corporate Accountability*," Dara O'Rourke identifies a similar scenario, recognizing "attempts to build new regulatory systems, to alter existing markets, and to change the way private actors operate in the market in the hopes of both uncovering the existing problems and creating strategies for solving such problems."<sup>46</sup>

O'Rourke identifies the trends that are fueling these new initiatives to include:

- Global outsourcing, or the internationalization of almost everything that is consumed in the global North, including products and services.

- The widespread perception that traditional state regulation has failed, or at least that these strategies are not working for global systems of production and consumption.
- The rise of branded, reputation-sensitive companies striving to correct problems in their global supply chains, which they do not own but for which increasingly they are being held accountable by the broader public and consumers.
- A broadening, deepening, and increasing awareness and concern among average citizens and consumers in both the global North and South about the issues of social, environmental, and economic development. One of the successes of the anti-sweatshop and environmental movements has been increasing public concern about these issues. Although few victories have been won, awareness of these problems has grown all around the world, and I think this leads to increasing demands for democratic accountability.<sup>47</sup>

The remarks above provide useful points of reference, illustrating the global context within which supply chain compliance issues exist. These remarks also indicate the opportunities and obstacles that are emerging. There is an inherent challenge for all stakeholders to better define obligations, strategies, strengths, and weaknesses in identifying problems and facilitating sustainable solutions. Likewise, individual stakeholders are challenged to identify their unique value within broader collaborative groups, recognizing the influence and roles of different actors, and the opportunities of collective action.

In another recent report on labor and compliance issues, World Bank analysts suggest that we are emerging from the first generation of an iterative process in pursuit of better workplace standards; there has been a maturation process. Monitoring is described as possibly a “first generation solution”, but it is now time to move forward, recognizing evolving circumstances and capacities.<sup>48</sup>

Many individuals interviewed for this paper agree with this assessment, commenting that the current array of codes are an “interim step” to build momentum, to level the playing field, and to change the dynamic of supply chain management. The end game will be harmonization of codes concurrent with stronger national and international law. “In the absence of an effective global enforcement structure, the answer must be a collective effort that draws from government and meaningful standards for industries and entities, supported through the participation and guidance of companies and brands, standard setting and enforcement agencies, trade and workers unions, NGOs, and collaborative initiatives”.<sup>49</sup>

One stakeholder optimistically endorsed a “thousand flowers blooming” theory, noting that no one method or standard has yet defined *the* “best practice”, but suggesting that the positive influence of many initiatives during this interim phase will move the process forward toward more harmonized standards, proven best practices, and sustainable change. The current array of initiatives, alliances, engagement opportunities and compliance programs allows for participation by a broad group of stakeholders – especially companies and brands - in ways that meet varied needs and interests.

Regardless of the compliance program, monitoring is clearly not the goal, but one of many means to an end. The *end* is sustainable improvement in workplace standards along supply chains. Towards this end, the monitoring process should successfully identify and put an end to acute labor and human rights violations, enable greater communication, lead to conclusions about trends, identify underlying causes of labor rights and human rights violations, inform stakeholders, guide investment in remediation and capacity development, and empower both workers and management.

Despite differing methods and standards, there is agreement that monitoring is, and will continue to be an informative and necessary part of supply chain compliance programs, but that it must be done with greater consistency and must produce quality, comparable, relevant data. Monitoring reports reflect conditions in a certain place at a certain time, and the feedback of specific stakeholders. The ideal, however, is to understand conditions over time, and to increase the value of monitoring results accordingly – i.e., to change the characteristics of this measurement tool from that of a “snapshot” to a dynamic, reliable, informative, comparable feedback system.

Improvements in the monitoring process at a broad level will require the efforts of many stakeholders, greater harmonization of standards and processes, and the meaningful involvement of workers and local communities. As a minimum standard, in the World Bank report cited above, O’Rourke suggests that any effective and accountable monitoring program “aspire to”:<sup>50</sup>

- 1) Be sector wide
- 2) Be transparent
- 3) Have a shared governance structure
- 4) Involve international buyers
- 5) Reduce inefficiencies (in monitoring), and
- 6) Measure productivity impacts

Likewise, he suggests that standardized metrics be:

- 1) Agreed upon by key stakeholders (representing what matters to them);
- 2) Factual, accurate and verifiable;
- 3) Reported at regular intervals in relatively simple language or data;
- 4) Comparable across locations, firms, and products;
- 5) Flexible/dynamic, so that metrics can change over time;
- 6) Usable by key stakeholders
- 7) Easily accessible

Even in the case of consistent, well implemented audits against well defined standards and indicators, monitoring results are still only data, not an agent of change. Meaningful change in workplace standards relies on the implementation of remediation plans, capacity development, and creation and implementation of new processes and policies. As Rick Locke of MIT commented at a recent gathering hosted by the Harvard CSR Initiative, measurement is not a theory of change, and does not magically lead to remediation. Monitoring and measurement are part of a non-linear learning process; we should be collecting and analyzing information through this process and adjusting goals, strategies and actions accordingly.<sup>51</sup>

As suggested in many examples, a key to sustainable change in workplace environments is the introduction of management systems along with remediation plans and corrective measures. An example of suggested structure and scope of a management system to be employed with a compliance program can be seen below. This management system developed by the EICC Implementation Group requires and details expectations for:<sup>52</sup>

- 1) Company Commitment
- 2) Management Accountability and Responsibility
- 3) Legal and Customer Requirements
- 4) Risk Assessment and Risk Management
- 5) Performance Objectives with Implementation Plan and Measures
- 6) Training
- 7) Communication
- 8) Worker Feedback and Participation
- 9) Audits and Assessments (periodic self-evaluations to ensure conformity to legal and regulatory requirements, the content of the Code and customer contractual requirements related to social and environmental responsibility.
- 10) Corrective Action Process
- 11) Documentation and Records

Finally, in addition to strong, coherent and consistent codes, and the coexistence of management systems, effective compliance programs rely on underlying principles of implementation that go beyond laws, standards and codes. In consideration of the intent that underpins most codes of conduct, and in consideration of the deliberative process that will accompany new, harmonized codes of conduct, the following *Principles of Implementation* from ETI offer a thorough and thoughtful example:

- ETI considers voluntary codes of labour practice as complementary and not an alternative to the proper enforcement of national and international labour laws, and believes that such codes should be implemented in ways that help, and not hinder, the application of law.
- ETI believes that codes of labour practice should be based on internationally agreed labour standards, and that the most relevant standards are those set out in the Conventions of the International Labour Organisation (ILO).
- ETI believes that the tripartite structure of the ILO, involving both employers' and workers' representatives as well as governments, together with the technical expertise of this organisation in all matters relating to the world of work, make the ILO the authoritative and legitimate source of international labour standards. The ETI Base Code is based on the principles underlying key ILO Conventions.
- However, ETI's experience also underlines the importance of involving local stakeholders – their perspectives, knowledge and concerns – in the implementation of the codes.
- ETI sees the adoption of a code as just a starting point. A true commitment to ethical sourcing also involves committing adequate resources, communicating the code throughout the sourcing company and the supply chain, ensuring that relevant staff have appropriate skills, monitoring your suppliers, helping suppliers make improvements, reporting on what you find in your supply chain, and supporting the verification of these findings.
- ETI believes that companies committed to ethical sourcing must require their suppliers to meet agreed standards within a reasonable timeframe, and that performance in this regard should ultimately be a pre-condition for further business.
- However, ETI recognises that the observance of some provisions in the ETI Base Code may not be immediately realisable in all cases. Some suppliers may be unable to meet all the terms within a short time or, in some cases, they may be constrained by national law. Therefore, reasonable timeframes and the existence of any constraints not controllable by the supplier may be taken into account.
- Nevertheless, ETI believes that failures to observe certain standards require rapid corrective actions if the sourcing company is to continue any business relationship with the supplier concerned. These include the use of forced, bonded or involuntary prison labour, as well as physical abuse or discipline, and extreme forms of intimidation.
- ETI also believes that code implementation – from the design of an ethical sourcing strategy and monitoring and verification procedures, to the agreement and implementation of corrective action plans – is strengthened by the involvement of stakeholders other than companies. Key stakeholders are those organisations who represent workers (trade union organisations), and other organisations who work to defend workers' rights and address workers' concerns (e.g. relevant NGOs).

## CONCLUSION

Meaningful change in supply chain environments is a challenging goal, but one that is aspired to by dedicated professionals from many sectors and industries. Over the past two decades, in an effort to identify and remediate labor rights issues, a multitude of compliance programs have developed in parallel and sometimes duplicative ways. While monitoring has been a primary component of these compliance programs, the process, standards, and accountability structures have varied greatly.

After years of focus on code creation, standard setting, and implementation of factory audits, most stakeholders agree that duplication and inefficiencies exists to the detriment of all involved.

Likewise, most agree that the burden of duplication and contradictory standards affects suppliers to the greatest extent; in some cases, this burden contributes to the underlying causes of non-compliance at the factory level.

While monitoring is an essential and valuable tool, monitoring *alone* has not proven to cause positive change for workers at the factory level. Monitoring is a part of a larger compliance process which must be based on legitimate international law and standards and underlying principles, and must include creative and effective remediation strategies. If long term change is expected, it must also be accompanied by real incentives, as well as new policies and processes, usually in the form of management and human resources systems.

The many stakeholders involved in supply chain compliance programs are driven and influenced by different and sometimes conflicting goals and objectives. Despite a competitive and adversarial environment, most stakeholders see both the need for and the value of greater cooperation and dialogue. These leaders from different sectors and industries are making genuine attempts to set aside individual agendas in favor of progress towards the common goals of greater harmonization of standards, best practices, and sustainable improvement of workplace environments and practices.

The current global environment is one of open trade, rapid flow of information, and dynamic change. Governments play a vital role in creating and enforcing laws and standards, but markets have increasing influence in social, economic and political realms. Companies, NGOs, trade unions, auditing firms, financial markets, auditing firms and consumers are all relevant stakeholders in this process, and will be most effective to the extent that they identify and articulate their core competencies in the compliance process, areas of greatest influence, and opportunities for engagement with other stakeholders through leadership and cooperative action.

## End notes

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<sup>1</sup> <http://www.hp.com/hpinfo/globalcitizenship/>

<sup>2</sup> <http://www.ilo.org/public/english/employment/multi/download/english.pdf>

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<sup>4</sup> Foreign Investment Advisory Service, (FIAS), Cambodia : corporate social responsibility in the apparel sector and potential implications for other industry sectors

<sup>5</sup> [http://www.reebok.com/Static/global/initiatives/rights/business/our\\_supply.html](http://www.reebok.com/Static/global/initiatives/rights/business/our_supply.html)

<sup>6</sup> Nike 2004 Corporate Responsibility Report 2004,

[http://www.nike.com/nikebiz/gc/r/fy04/docs/FY04\\_Nike\\_CR\\_report\\_full.pdf](http://www.nike.com/nikebiz/gc/r/fy04/docs/FY04_Nike_CR_report_full.pdf), and, FLA 2005 Annual Public Report, Nike,

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<sup>7</sup> HP Global Citizenship Report 2005,

<http://www.hp.com/hpinfo/globalcitizenship/gcreport/supplychain.html>

<sup>8</sup> Figures represent 2002 market level; World Bank 2003 report

<sup>9</sup> [www.eicc.info/](http://www.eicc.info/)

<sup>10</sup> <http://www.jo-in.org/pub/partic-eti.shtml>, accessed 4/17/2006

<sup>11</sup> <http://www.jo-in.org/pub/partic-fla.shtml>, accessed 4/17/2006

<sup>12</sup> Schrage, E., (2004) Promoting International Worker Rights through Private Voluntary Initiatives: Public Relations or Public Policy?, a report to the US Department of State on behalf of the University of Iowa Center for Human Rights, Iowa City, Iowa.

<sup>13</sup> G. Smith and D. Feldman (2003), Company Codes of Conduct and International Standards: An Analytical Comparison, Part I of II: Apparel, Footwear and Light Manufacturing , Agribusiness, Tourism, World Bank and IFC, 9.

<sup>14</sup> EICC, [www.eicc.info](http://www.eicc.info)

<sup>15</sup> EICC Code of Conduct, [www.eicc.info/](http://www.eicc.info/)

<sup>16</sup> [www.fairlabor.org](http://www.fairlabor.org)

<sup>17</sup> [www.flawatch.org](http://www.flawatch.org)

<sup>18</sup> Letter to the Leadership of USAS, March 16, 2006, referenced on [www.fairlabor.org](http://www.fairlabor.org)

<sup>19</sup> [www.fairlabor.org](http://www.fairlabor.org)

<sup>20</sup> Letter to the Leadership of USAS, March 16, 2006, referenced on [www.fairlabor.org](http://www.fairlabor.org)

<sup>21</sup> JO-IN, Report from Technical Meeting of Social Auditors Operating in Turkey, Ankara, 18 May, 2005, [www.jo-in.org](http://www.jo-in.org)

<sup>22</sup> Schrage, E., (2004) Promoting International Worker Rights through Private Voluntary Initiatives: Public Relations or Public Policy?, a report to the US Department of State on behalf of the University of Iowa Center for Human Rights, Iowa City, Iowa

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<sup>25</sup> S. Dhanarajan, A Non-Governmental Organization's Perspective, Oxfam,

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<sup>26</sup> FIAS (IFC and World Bank) Report on Corporate Social Responsibility & the Apparel Sector Buyer Survey Results, June 2004, [http://www.ifc.org/ifcext/economics.nsf/Content/CSR-CountryProjects#Cambodia\\_0](http://www.ifc.org/ifcext/economics.nsf/Content/CSR-CountryProjects#Cambodia_0)

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- <sup>38</sup> Ibid
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## **Attachment 1**

**SUMMARY OF KEY INTERNATIONAL DECLARATIONS AND CONVENTIONS**

## **Attachment 2**

**ILO CONVENTIONS: CORE LABOR STANDARDS**

## **Attachment 3**

**UNIVERSAL DECLARATION OF HUMAN RIGHTS (SELECTED ARTICLES)**

## **Attachment 4**

**SUMMARIES OF INDUSTRY AND MULTI-STAKEHOLDER INITIATIVES**

## **Attachment 5**

**CODES AND STANDARDS**

## **Attachment 6**

**KEY DOCUMENTS FOR REFERENCE**

# Attachment 1

## SUMMARY OF KEY INTERNATIONAL DECLARATIONS AND CONVENTIONS

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### 1. Universal Declaration of Human Rights, 1948:

Article 2. prohibits discrimination based on race, sex, color, national origin, or language

Article 3. the right to life; the right to liberty and freedom of movement

Article 4. prohibits slavery or involuntary servitude

Article 5. prohibits torture and inhuman or degrading treatment

Article 7. the right to equality before the law

Article 20. freedom of assembly and association

Article 23. the right to work, choose employment with favorable conditions, no  
Discrimination; right to form and join a trade union.

Article 24. reasonable limitation of working hours and holidays with pay.

Article 25. the right to reasonable standard of living; special protection with regard to pregnancy,  
child bearing and children.

<http://www.hrweb.org/legal/undocs.html#UDHR>

### 2. ILO Conventions:

Core Labor Standards: Adopted in 1998, the ILO Declaration on Fundamental Principles and Rights at Work is an expression of commitment by governments, employers' and workers' organizations to uphold basic human values - vital to our social and economic lives. The Declaration covers four areas:

#### **Freedom of association and the right to collective bargaining;**

87. Freedom of Association and Protection of the Right to Organise Convention, 1948

98. Right to Organise and Collective Bargaining Convention, 1949

#### **The elimination of forced and compulsory labour;**

29. Forced Labour Convention, 1930

105. Abolition of Forced Labour Convention, 1957

#### **The abolition of child labour, and;**

138. Minimum Age Convention, 1973

182. Worst Forms of Child Labour Convention, 1999

#### **The elimination of discrimination in the workplace.**

100. Equal Remuneration Convention, 1951

111. Discrimination (Employment and Occupation) Convention, 1958

[www.ilo.org](http://www.ilo.org)

### 3. Amnesty International Human Rights Principles for Companies, 1998:

A checklist for multinational companies of recommended policies on human rights principles based on core international human rights standards, declarations, conventions, codes and principles.

1. **Company policy on human rights.** explicit company policy on human rights which includes public support for the Universal Declaration of Human Rights.

2. **Security.** security arrangements protect human rights and are consistent with international standards for law enforcement.

3. **Community engagement.** reasonable steps to ensure that their operations do not have a negative impact on the enjoyment of human rights by the communities in which they operate.

4. **Freedom from discrimination.** policies and practices prevent discrimination based on ethnic origin, sex, colour, language, national or social origin, economic status, religion, political or other conscientiously held beliefs, birth or other status.
5. **Freedom from slavery.** policies and practices prohibit the use of chattel slaves, forced labour, bonded child labourers or coerced prison labour, including suppliers, partners or contractors.
6. **Health and safety.** policies and practices provide for safe and healthy working conditions and products.
7. **Freedom of association and the right to collective bargaining.** all employees are able to exercise their rights to freedom of expression, peaceful assembly and association, as well as a fair means of collective bargaining without discrimination, including the right to form trade unions and to strike.
8. **Fair working conditions.** just and favourable conditions of work, reasonable job security and fair and adequate remuneration and benefits.
9. **Monitoring human rights.** establish mechanisms to monitor effectively all their operations' compliance with codes of conduct and international human rights standards. Such mechanisms must be credible and all reports must periodically be independently verifiable in a similar way to the auditing of accounts or the quality of products and services. Other stakeholders such as members of local communities in which the company operates and voluntary organizations should have an opportunity to contribute in order to ensure transparency and credibility.

#### 4. ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, 1977, as amended in 2000

Guidance for Governments, Enterprises and Workers; Voluntary Compliance, including:

General Policies

Employment: *employment promotion, equality of opportunity and treatment, security of employment*

Training

Conditions of Work and Life: *wages, benefits and conditions of work, minimum age, safety and health*

Industrial Relations: *freedom of association and the right to organize, collective bargaining, consultation, examination of grievances, settlement of industrial disputes*

[www.ilo.org](http://www.ilo.org)

#### 5. Global Compact Principles, 2000:

An international, multi-stakeholder, purely voluntary initiative with two objectives:

- Mainstream the ten principles in business activities around the world
- Catalyse actions in support of UN goals

*Relevant Principles include:*

##### Human Rights

*Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights; and

*Principle 2:* make sure that they are not complicit in human rights abuses

##### Labour Standards

*Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

*Principle 4:* the elimination of all forms of forced and compulsory labour;

*Principle 5:* the effective abolition of child labour; and

*Principle 6:* the elimination of discrimination in respect of employment and occupation

<http://www.unglobalcompact.org/AboutTheGC/index.html>

#### 6. OECD Guidelines for Multinational Enterprises, 2000:

These voluntary principles and standards for responsible business conduct are recommended by governments to multinational enterprises, and are consistent with applicable laws. "The *Guidelines* aim to

ensure that the operations of these enterprises are in harmony with government policies, to strengthen the basis of mutual confidence between enterprises and the societies in which they operate, to help improve the foreign investment climate and to enhance the

contribution to sustainable development made by multinational enterprises.” OECD Guidelines offer specific guidance on:

- Disclosure
- Employment and Industrial Relations Environment
- Combating Bribery
- Consumer Interests
- Science and Technology
- Competition
- Taxation

<http://www.oecd.org/dataoecd/56/36/1922428.pdf>

## **7. UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights, 2003**

### A. General obligations

... Within their respective spheres of activity and influence, transnational corporations and other business enterprises have the obligation to promote, secure the fulfillment of, respect, ensure respect of and protect human rights recognized in international as well as national law, including the rights and interests of indigenous peoples and other vulnerable groups.

### B. Right to equal opportunity and non-discriminatory treatment

### C. Right to security of persons

### D. Rights of workers

- forced or compulsory labour
- rights of children to be protected from economic exploitation
- safe and healthy working environment  
remuneration that ensures an adequate standard of living for them and their families.  
freedom of association and effective recognition of the right to collective bargaining

### E. Respect for national sovereignty and human rights

- recognize and respect applicable norms of international law, national laws and regulations  
bribery and corruption
- activity which supports, solicits, or encourages States or any other entities to abuse human rights; ensuring that the goods and services they provide will not be used to abuse human rights  
respect economic, social and cultural rights as well as civil and political rights

### F. Obligations with regard to consumer protection

act in accordance with fair business, marketing and advertising practices and shall take all necessary steps to ensure the safety and quality of the goods and services they provide

### G. Obligations with regard to environmental protection

### H. General provisions of implementation

<http://www1.umn.edu/humanrts/links/norms-Aug2003.html>

## **Attachment 2**

### **ILO CONVENTIONS: CORE LABOR STANDARDS**

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#### **29. Forced Labour Convention, 1930**

*Date of adoption: June 28, 1930; Date of coming into force: May 1, 1932*  
*14<sup>th</sup> Session, Geneva*  
*Adopted by 94% of Member Countries (168 of 178)*

**87. Freedom of Association and Protection of the Right to Organise Convention, 1948**

*Date of adoption: July 9, 1948, Date of coming into force: July 4, 1950*  
*31<sup>st</sup> Session, San Francisco*  
*Ratified by 81% of member countries (145 of 178)*

**98. Right to Organise and Collective Bargaining Convention, 1949**

*Date of adoption: July 1, 1949, Date of coming into force: July 18, 1951*  
*32<sup>nd</sup> Session, Geneva*  
*Ratified by 87% of member countries (154 of 178)*

**100. Equal Remuneration Convention, 1951**

*Date of adoption: June 29, 1951; Date of coming into force: May 23, 1953*  
*34<sup>th</sup> Session, Geneva*  
*Ratified by 91% of member countries (162 of 178)*

**105. Abolition of Forced Labour Convention, 1957**

*Date of adoption: June 25, 1957; Date of coming into force: January 17, 1959*  
*40<sup>th</sup> Session, Geneva*  
*Ratified by 93% of member countries (165 of 178)*

**111. Discrimination (Employment and Occupation) Convention, 1958**

*Date of adoption: June 25, 1958; Date of coming into force: June 15, 1960*  
*42<sup>nd</sup> Session, Geneva*  
*Ratified by 92% of member countries (164 of 178)*

**138. Minimum Age Convention, 1973**

*Date of adoption: June 26, 1973; Date of coming into force: June 19, 1976*  
*58<sup>th</sup> Session, Geneva*  
*Ratified by 81% of member countries (144 of 178)*

**182. Worst Forms of Child Labour Convention, 1999**

*Date of adoption: June 17, 1999; Date of coming into force: November 19, 2000*  
*87<sup>th</sup> Session, Geneva*  
*Ratified by 90% of member countries (160 of 178)*

## **Attachment 3**

### **UNIVERSAL DECLARATION OF HUMAN RIGHTS (SELECTED ARTICLES)**

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**Article 2.** Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. Furthermore, no distinction shall be made on the basis of the

political, jurisdictional or international status of the country or territory to which a person belongs, whether it be independent, trust, non-self-governing, or under any other limitation of sovereignty.

**Article 3.** Everyone has the right to life, liberty, and security of person.

**Article 4.** No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.

**Article 5.** No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment.

**Article 7.** All are equal before the law and are entitled without any discrimination to equal protection of the law. All are entitled to equal protection against any discrimination in violation of this Declaration and against any incitement to such discrimination.

**Article 20.** Everyone has the right to freedom of peaceful assembly and association; no one may be compelled to belong to an association.

**Article 23.**

1. Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.
2. Everyone, without any discrimination, has the right to equal pay for equal work.
3. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
4. Everyone has the right to form and to join trade unions for the protection of his interests.

**Article 24.** Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

**Article 25.** Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, and old age or other lack of livelihood in circumstances beyond his control.

1. Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection.

Source: <http://www.hrweb.org/legal/undocs.html#UDHR>

## Attachment 4

### SUMMARIES OF INDUSTRY AND MULTI-STAKEHOLDER INITIATIVES

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#### Electronics Industry Code of Conduct EICC

Date of Inception: 2004

Type of Initiative: Industry Code of Conduct; company-led initiative



## Membership based Implementation Group

Participation by: Electronics Industry Companies

Structure: Voluntary adoption of code by electronics industry companies. Membership based Implementation Group, with numerous working groups. The work of the Implementation Group is overseen by a Steering Committee of up to 11, managed and facilitated by BSR. Steering Committee is comprised of member companies.

History: Developed by a group of companies engaged in the manufacture of electronics including: Celestica, Dell, Flextronics, HP, IBM, Jabil, Sanmina SCI, and Solectron. Version 1.0 released in 2004, Versions 1.1 and 2.0 released in 2005.

### Mission, Goals and Objectives:

The Code of Conduct was created by a group of industry representatives and leaders to develop and promote a common set of industry standards for socially responsible business practices across the global supply chain. Adoption to the code is voluntary, however, many of the companies actively involved and committed to the code are members of the EICC Implementation Group. The vision of this group is to create better social, economic and environmental outcomes for all those involved in the ICT supply chain through application of high industry standards. Specific objectives include:

- increased efficiency and productivity for companies and suppliers
- improved conditions for workers
- economic development
- a cleaner environment for local communities.

The Mission of the EICC Implementation Group is to deliver these benefits through a shared approach to code of conduct implementation that is based on the EICC. This approach is intended to reduce duplication, focus efforts on positive social and environmental change, build supply chain capacity and use a process that solicits feedback from stakeholders.

Standards Referenced: UNDHR, ILO Core Labor Standards, OECD Guidelines, Global Compact Principles, SA8000, ETI

### Activities and Services:

The EICC Implementation Group has committed to five primary deliverables which it will pursue in collaboration with other companies and initiatives with similar objectives including:

- A Risk Assessment Tool to prioritize suppliers for scrutiny, audits and capacity building.
- A Self Assessment Questionnaire and web-based system to share data among companies.
- A Common Auditing Approach such as auditor guidance, onsite audit checklists, audit report templates, identification and selection of qualified auditors.
- Capacity building, training and awareness programs for suppliers and auditors.
- A Common Reporting Framework for supply chain CSR performance.

Membership Cost: (for Implementation Group) \$15,000 to \$25,000

Source: [www.eicc.info](http://www.eicc.info)

Ethical Trading Initiative  
ETI

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Date of Inception: 1998

Type of Initiative: Multi-stakeholder Initiative

Participation by: Companies, NGOs, and Trade Unions

Structure: Membership by buyer companies, NGOs and Trade Unions  
Board includes equal representation by companies, NGOs, and unions  
Board members from each category are chosen only by their respective category members.  
UK Government is given observer status at board meetings.

History: Began as a multi-stakeholder initiative.

Mission, Goals and Objectives:

ETI aims to improve the lives of workers and their families in global supply chains by applying internationally-recognized labor standards – in particular fundamental human rights.

ETI's specific purpose is for members to work together to identify and promote good practice in the credible implementation of corporate codes of conduct, including identification and promotion of robust methods for monitoring and verifying that companies are observing labor codes. Members believe that this collaborative approach provides the opportunity for making significant progress in promoting the observance of internationally recognized labour standards, in particular, fundamental human rights throughout global supply chains.

ETI focuses only on development and promotion of good practice, and does not accredit or certify products, factories, brands or companies. This focus does include advocacy within the corporate arena, encouraging more companies to join the initiative and adopt ethical sourcing principles.

Standards Referenced: ILO Core Labor Standards

Activities and Services:

- Members work together to through working groups and through experimental projects to identify what constitutes “good practice” in code implementation, and to make codes meaningful and credible.
  - Promote and share this good practice by disseminating lessons learned.
  - Identification and dissemination of other best practices and research; dissemination through conferences, seminars research, publications and trainings.
  - Capacity development for organizations in supplier countries.
- 
- Encourages companies to adopt the ETI Base Code and implement it in their supply chains, thus influencing corporate behavior.
  - Participant in Joint Initiative on Corporate Accountability and Workers’ Rights (JO-IN)

Source: [www.ethicaltrade.org](http://www.ethicaltrade.org)

Fair Labor Association  
FLA

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Date of Inception: 1999

Type of Initiative: NGO, Multi-stakeholder Initiative

Participation by: Companies, Universities and Colleges, NGOs

Structure: Membership by buyer companies; various levels of affiliation for Licensees  
Board includes representation by industry/business (6), NGO/labor (6), and universities (3); NGO Advisory Board (local and international)

History: Began as the Apparel Industry Partnership, a multi-stakeholder partnership initiated in 1996 by the US Secretary of Labor.

Mission, Goals and Objectives:

To combine the efforts of industry, non-governmental organizations (NGOs), colleges and universities to promote adherence to international labor standards and improve working conditions worldwide....

- To accredit independent external monitors and ensure high professional standards in the conduct of independent external monitoring;
- To independently verify, evaluate and publicly account for the internal compliance programs of each Participating Company so as to serve as a source of information to consumers;
- To certify whether the Applicable Brands of each Participating Company are produced in Compliance with the Fair Labor Association Standards;
- To conduct programs that allow all licensees of College and University Affiliates to become Participating Companies or to enroll in other categories explicitly created for College and University Licensees;
- To work with agents and suppliers to facilitate programs that lead to greater and sustainable commitment and capacity of individual factories to respect labor rights and improve conditions of work;
- To continue to address questions critical to the elimination of unfair labor practices; and
- To serve as a source of information to the public about the Workplace Code and the Monitoring Principles.”

Standards Referenced: ILO Core Labor Standards

Activities and Services:

- Promotes adherence to international labor standards and improved working conditions worldwide.
- Accredits, selects and hires monitors to conduct unannounced independent external monitoring visits in factories around the world.
  
- Publishes annual overviews of company compliance efforts, as well as reports on factory monitoring findings and company remediation efforts
- Explores ways to systematically address endemic workplace problems through special projects and pilot studies.
- Participant in Joint Initiative on Corporate Accountability and Workers’ Rights (JO-IN)

Annual Assessment Fee: Company, \$5,000 minimum; A Licensees, \$1,000 min.; B Licensees, \$500 min.

Source: [www.fairlabor.org](http://www.fairlabor.org), [www.jo-in.org](http://www.jo-in.org)

## International Council of Toy Industries ICTI and CARE Monitoring Process

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Date of Inception:	1974
Type of Initiative:	Association of global associations Code of Business Practices (1995) CARE (caring, awareness, responsibility, ethics) Certification Program
Participation by:	Toy Trade Associations; 18 member countries
Structure:	ICTI is a membership of Toy Trade Associations, and created the Code of Business Practices and the CARE Process Factories pay an application fee and annual fees for membership in the CARE Process, and are required to abide by standards. ICTI accredits audit firms, and factories pay firms independently for audits. Expectation is that the CARE Foundation, an NGO independent from ICTI, will assume responsibility for the CARE Process.
History:	Began as a global association of national associations; evolved to create a code of business practices the CARE Monitoring Process.

### Mission, Goals and Objectives:

The CARE process was developed to promote ethical manufacturing with regard to labor treatment as well as employee health and safety. The intent is to provide a single, fair, thorough and consistent monitoring program for factories producing goods in the toy industry through compliance with ICTI's Code of Business Practices.

In the toy industry supply chain, 70% of worldwide manufacturing takes place in China, thus the program's initial focus is in China. Once the program has been more fully established in China, the ICTI CARE process will be implemented in other global markets. ICTI's CARE Process begins with the Code of Business Practices, which is both a monitoring protocol and guidance document. This is used to evaluate performance and to determine plans for corrective action.

ICTI's goal is to increase participation in the program, with members eventually sourcing only from ICTI certified factories. ICTI's objective is to impact the toy industry as a whole, gaining the commitment in word and action by the vast majority of buyers, and in turn, causing the core standards of operations in industry factory to adapt accordingly, ensuring a better workplace and stability for the industry.

Standards Referenced: ILO Core Labor Standards

### Activities and Services:

- Accreditation of auditors
- Registration of participants; evaluation and follow up on audit findings
- Review and follow up on plans for corrective action
- Encourages members to adopt and adhere to the Code and implement it in their supply chains, thus positively influencing workplace standards across the industry.

Factory Fees: Application, \$500, Seal of Compliance, \$350, Annual fee, tbd

Source: [www.icti-care.org](http://www.icti-care.org)

## Social Accountability International SA8000

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Date of Inception:	1997
Type of Entity:	NGO; international, multi-stakeholder organization
Participation by:	Companies/Brands, NGOs, Trade Unions, Socially Responsible Investing Organizations and Government
Structure:	Stakeholders are partners in collaborative efforts; SAI is a service providing agency which certifies auditors and offers training courses for workers, managers and auditors. SAI acts also as a convening agency among stakeholders.
Governance:	Advisory Board is balanced equally between business and non-business organizations (global representation)
History:	SAI is an international non-profit human rights organization. SA8000 is a management system developed by SAI to help businesses and supply chain facilities systematically improve social performance. SA8000 is designed to ensure compliance with ethical sourcing standards by integrating tools that serve the needs of workers and businesses.

### Mission, Goals and Objectives:

- To improve workplaces and communities by developing and implementing socially responsible workplace systems.
- To promote human rights for workers around the world by convening key stakeholders to develop consensus-based voluntary standards, conduct cost-benefit research, accredit auditors, provide training and technical assistance, and assist corporations in improving social performance in their supply chains.

Standards Referenced: ILO Core Labor Standards and UN Conventions

### Activities and Services:

- Developed SA8000 Management System for factory/workplace implementation
- Provides training in SA8000; trains workers, managers and auditors
- Accredits certification bodies who monitor and certify factories and other entities according to SA8000 and other codes

- Partners with trade unions, NGOs, multi-stakeholder initiatives, organic, fair trade, and environmental organizations, development and anti-corruption groups to carry out research, training and capacity-building programs, and to work towards harmonization of standards
- Participant in Joint Initiative on Corporate Accountability and Workers' Rights (JO-IN)
- SAI Corporate Involvement Program (CIP)
  - Explorer Level, helps companies with self assessments, participation in pilot programs, training, knowledge sharing and expertise
  - Signatory Level offers all of the above plus comprehensive multi-stakeholder assessment and recommendations.
- SAI Corporate Assessment Program (CAP)
  - Confidential in-depth review of a company's own compliance system.
  - Multi-stakeholder review and recommendations.

Source: [www.sa-intl.org](http://www.sa-intl.org)

## Worldwide Responsible Apparel Production WRAP

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Date of Inception:	2000
Type of Initiative:	Factory-based Certification Program Membership based Implementation Group
Participation by:	Apparel Industry Associations
Structure:	Certification of individual factories; application fee paid to WRAP by factories; Annual registration fee paid to WRAP by auditors Factory audit fees paid directly to third party auditor. Majority of Board is non-apparel industry
History:	Created by the American Apparel and Footwear Association, representing over 700 member companies, to develop common standards and monitoring process across the apparel and footwear industries.

### Mission, Goals and Objectives:

WRAP is a civil society organization dedicated to promoting humane, ethical, and lawful conditions and practices in manufacturing facilities worldwide. The organization achieves this through a certification of factories and through training programs.

The objective of the Apparel Certification Program is to independently monitor and certify compliance with the WRAP Principles, ensuring that a given factory produces sewn goods under lawful, humane, and ethical conditions. In addition to requiring that certified factories subscribe to these principles, WRAP monitors the factory for compliance with detailed practices and procedures.

WRAP's larger mission is to promote and certify lawful, humane and ethical manufacturing throughout the world.

The Program is a factory-based certification program. Facilities that participate in the Program voluntarily agree that an independent monitor will evaluate the facility for compliance with the Principles.

Standards Referenced: Local and national law

Activities and Services:

- reviews compliance reports
- approves independent monitors
- certifies facilities as complying with WRAP Principles
- provides training and education programs to workers, management and labor inspectors

Membership Cost: \$895 application fee per factory; certification good for one year  
Annual registration fee for auditors

Source: [www.wrapapparel.org](http://www.wrapapparel.org)

## **Attachment 5**

### **CODES AND STANDARDS**

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**Ethical Trading Initiative (ETI), [www.ethicaltrade.org](http://www.ethicaltrade.org)**

**Electronic Industry Code of Conduct (EICC), [www.eicc.info](http://www.eicc.info)**

**Fair Labor Association (FLA), [www.fairlabor.org](http://www.fairlabor.org)**

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**International Council of Toy Industries (ICTI CARE), [www.icti-care.org](http://www.icti-care.org)**

No Sweatshop Label, Retailers Ethical Clothing Code of Practice, [www.nosweatshoplabel.com](http://www.nosweatshoplabel.com)

OECD Guidelines for Multinational Enterprises, [www.oecd.org](http://www.oecd.org)

United Nations Global Compact, <http://www.unglobalcompact.org/>

Universal Declaration of Human Rights [www.un.org/Overview/rights.html](http://www.un.org/Overview/rights.html)

**Social Accountability International (SAI), [www.sa-intl.org](http://www.sa-intl.org)**

**Worldwide Responsible Apparel Production (WRAP), <http://www.wrapapparel.org>**

## **Attachment 6**

### **KEY DOCUMENTS FOR REFERENCE**

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