Beyond auditing

Tapping the full potential of labour standards promotion

by Alastair Usher and Kirsten Newitt, Ergon Associates
President Obama recently said that there are only two kinds of car companies: those that sell hybrid cars and those that will sell hybrid cars in the near future. The same is true for sustainability in supply chains. There are companies that source and sell more sustainable products and there are those that will do so in the near future. With a world soon populated by nine billion people and over two billion new middle-class citizens, traditional sourcing and selling will simply be a no. You are either on the pathway to sustainable development or you are out of business.

The challenge of sustainability is reshaping the relationship between business and society. Industry needs to better manage natural resources and significantly lower its global ecological footprint. And companies need to engage much better with suppliers and workers in the emerging and developing economies.

The mission of the Dutch Sustainable Trade Initiative (IDH) is to upscale and accelerate the mainstreaming of sustainability in international commodity chains. IDH joins the forces of business, non-governmental organisations, labour unions and governments. We bring diverse stakeholders together in focused and result-oriented sectoral coalitions that implement ambitious improvement programmes. These programmes tackle social, ecological and economical bottlenecks in the countries of origin of raw materials, while at the same time creating value for more sustainable products in developed countries.

IDH acts as a knowledge broker, capturing and sharing best practices in sustainable business. This will help frontrunners to move even faster, while supporting others to overcome thresholds. To mark its first-year anniversary, IDH is publishing a series of six booklets on current practices in sustainability in mainstream business:

- **Sustainable Marketing:** The positioning of sustainable products in mainstream markets, with cases of Lipton (tea), FSC (timber) and Nespresso (coffee).
- **Sustainable Sourcing:** Advanced strategies and cutting-edge practices in sustainable procurement, with case studies of AkzoNobel (chemicals), Mars (cocoa) and IKEA (cotton).
- **Sustainable Trading:** Why and how traders have become key agents for sustainability in the coffee supply chain and how this is being replicated in cocoa, with case studies of Ecom (coffee) and Olam (cocoa).
- **Sustainable SMEs:** Best practices in sustainable sourcing among small and medium-sized enterprises, with case studies of Wijma (timber), Fair Wear Foundation (garments), and RMP Grafmonumenten (natural stone).
- **Sustainable Retail:** Why and how retailers incorporate sustainability into their business strategy, with case studies of Ahold, Asda/Wal-Mart, and Carrefour.
- **Labour Standards beyond Auditing:** Best practices in going beyond auditing to achieve genuine social impact, and the business case for doing so, with a dozen cases in the garments, electronics, and sportswear industries.

We hope you enjoy reading these booklets and that they may inspire you with actionable ideas to further embed sustainability within your own organisation.

*Joost Oorthuizen, Director IDH*

*Andre Veneman, President IDH / Director Sustainability AkzoNobel*
‘We need to move beyond auditing and go for initiatives that address issues at a deeper, more fundamental level.’

Pam Batty, Global Code of Practice Manager, Next PLC

There are many reasons for this, not least the need to reduce reputational risks related to adverse publicity from labour standards abuse, the prospect of improved productivity and efficiency in the supply chain, better security of supply and improved access to capital and markets. Within workplaces themselves, there are business gains to be made by promoting and respecting labour standards.

However these gains are best derived from achieving real change, rather than simply measuring what’s wrong. Consequently, there is increasing disquiet about basing work on supply chain labour standards solely on audits.

The growing consensus is that, while monitoring of labour standards is a vital component, companies must also move ‘beyond audit’ to develop credible programmes that create sustainable improvements in working conditions for direct workforces, contractors’ staff and within supply chains. There is a whole range of complementary activities that can be developed, often in addition to an audit or monitoring programme. These include the promotion of mature systems of industrial relations; enhancing suppliers’ capacity to manage their human resources; developing tools to deal with the economic downturn and job losses; reviewing purchasing practices; worker training; harmonisation initiatives; engagement on public policy issues; and working collectively with other companies and stakeholders.

Businesses are increasingly seeking to monitor and improve labour standards and working conditions through their supply chains. There are real business gains to be made by promoting workers’ welfare.

This note outlines how most effectively to deploy audit alongside the range of other activities with the aim of achieving responsible competitiveness.

About this briefing
This briefing is intended for companies and other organisations with an interest in promoting labour standards and worker welfare in direct workforces, contractor workforces and supply chains. However, much of this briefing refers to labour standards in global supply chains. This is in large part because it is in global supply chains – and clothing and export horticulture supply chains in particular – that most experience has been gained by private sector and voluntary initiatives.

It is hoped, however, that much of this briefing will be of interest, and of use, to actors addressing a broader range of employment scenarios and leverage points, from investors and financiers, to companies looking at sub-contractors’ employment practices, and companies seeking to meet the requirements of what is increasingly becoming part of basic terms of international business: enabling workers to participate and benefit fully from their work – productively, safely and with dignity.
Chapter 2
The business case for addressing labour standards

‘By taking an active approach to managing compliance with labour rights, companies can assert their values and positively influence their reputations.’

A company’s assets include intangibles such as its reputation, employee commitment and skills, customer loyalty and societal acceptance. As Sustainable Asset Management (2009) note, the average ratio of book value to overall market value has increased significantly over the past couple of decades.

This implies that a firm’s ability to improve its earnings increasingly depends on the quality of its intangible assets, and its ability to manage and leverage them. In turn, many of the factors below contribute strongly to the creation and development of intangible assets.

2.1 Reputational and legal risk management

Consumers, media and civil society are more prepared than ever to hold companies accountable for their actions, including their respect for labour rights. By taking an active approach to managing labour rights compliance, companies can assert their values and positively influence their reputations. Core labour standards are internally-recognised human rights; employment rights under national laws are an obligation, not an option. By managing these issues effectively, companies also manage the potential risk of legal liability.

2.2 Human capital returns

The fundamentals of human resource management are true the world over: better managed people work better. Leading organisations have recognised that many breaches of labour standards are the result of inadequate human resource management, and they have taken a proactive lead in promoting improved management processes among their suppliers. This not only mitigates the risk of labour abuses, but also contributes to improved productivity and competitiveness. Additionally, for those employees working within brands and retailers, evidence suggests that people want to work for an organisation they can be proud of; in one important perspective, staff motivation and retention is influenced by a company’s commitment to social values and the common good, including labour standards.

“We can see that corporate social responsibility (CSR) has become really important for our employees; they are proud to work for a responsible company. We are expanding quickly and we need to attract the best talents for the future. CSR has become more and more important when young professionals are choosing an employer.”

Rolf Eriksen, CEO, H&M
Business models that rely on a low-cost supply base require a secure supply of high volume goods. Under-investment in supplier working conditions has been increasingly associated with lower productivity, particularly as factories require higher skills. Poor conditions may fuel employee dissatisfaction, increasing the risk of work stoppages or higher attrition rates.

Addressing supply chain labour standards in partnership with suppliers can – directly and indirectly – contribute to more effective ways of doing business, through an increased understanding of the supply chain, closer relationships with suppliers, increased mutual trust, and less disruption in the supply chain. It may also stimulate re-thinking of supply chain strategies which had been piecemeal and viewed in isolation, including innovations in buying practices, and the development of new markets and communications.

In addition to the Core Labour Standards, other standards are commonly recognised as being of special importance, because they address serious problems, or because they concern problems that many workers encounter. While these issues are commonly regulated by national law, many codes of practice have sought to harmonise standards and definitions relating to these issues, which include:
- the right to a healthy and safe workplace
- wages, including the payment of a living wage
- the elimination of excessive overtime
- the provision of regular employment where possible
- the elimination of harsh or inhumane treatment

Investors are increasingly looking for assurance that labour rights risks are being managed. Responsible investment approaches that include respect for labour standards are becoming mainstreamed among institutional investors, and lenders increasingly operate policies that require compliance with labour rights, such as the Equator Principles for project finance.
Chapter 3
Auditing for ‘social compliance’

‘The appearance of codes of conduct has often been a response to the fact that the national labour law in many supplier countries is inadequately enforced, even if it is sufficient on paper.’

Essentially, social auditing is a tool used to support the implementation of the voluntary codes of conduct – or codes of labour practice – which companies have adopted over the past twenty years in response to allegations of labour abuses. The appearance of codes of conduct has often been a response to the fact that the national labour law in many developing countries is inadequately enforced, even if it is sufficient on paper, so brands and off-takers must take responsibility for communicating and improving standards among their suppliers. In order to enforce their codes of conduct, companies have developed their own ‘monitoring’ mechanisms. These mechanisms usually involve social auditing either by specialist third-party auditors or by internal staff, who visit suppliers and check for compliance against the customer’s code.

Alongside individual company codes of conduct, there are a variety of multi-stakeholder initiatives (MSIs) such as the Fair Wear Foundation (FWF), Ethical Trading Initiative (ETI) and Social Accountability International (SAI), as well as industry-led platforms such as the Business Social Compliance Initiative (BSCI) and the Global Social Compliance Programme (GSCP). All are based around a code of practice which corporate members implement through identifying labour rights breaches in supply chains, establishing time-bound remediation plans, and following up on these plans.

Today, social auditing is the most widespread means used by businesses to address labour standards within supply chains.

Box 3. Some terms explained

Code of labour practice
Increasingly used as an umbrella term to describe the panoply of company, industry and multi-stakeholder initiatives’ (MSI) codes of conduct for labour practices in direct and supply chain workforces. Codes of labour practice are typically based on the international standards in the ILO conventions.

MSI
Multi-stakeholder initiatives are characterised by a broad membership comprising private sector companies, trade unions and non-governmental organisations.

(Social) Audit
Refers to the thorough formal examination of the labour practices of a particular workplace or company, based on corroborated evidence. The audit aims to check these practices against a defined standard, such as a code of labour practice.
A social audit can take different forms and be conducted by various bodies:

- **First Party**: where a (supplier/subcontractor) company undertakes an assessment of itself; this is also referred to as ‘self-assessment’
- **Second Party**: where a company audits one of its suppliers (or an agent/supplier audits one of its suppliers); in the former case, this is also referred to as an ‘in-house’ audit
- **Third Party**: where a company is audited by an external body. Fees may be covered by the buyer or the supplier being audited, commonly the latter.
- **Multi-stakeholder**: where monitoring is undertaken by a mixed group, commonly composed of buyer representatives or commercial auditors, local and/or global trade unions, and civil society representatives, with the aim of producing a fuller and more accurate picture of labour practices within a facility.

A number of standards for social auditing have been developed, but the most pre-eminent is SA8000. This standard itself has changed and developed, with the most recent iteration being substantially focused on assessing management systems and capacity for compliance, rather than certifying specific outcomes in particular workplaces.

Additionally, there are several platforms where supplier social audits can be shared by buyers and brands in order to minimise ‘audit fatigue’. These include Sedex and the Fair Factories Clearing house.

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1 SA8000 is a global social accountability standard for decent working conditions, developed and overseen Social Accountability International (SAI, www.sa-intl.org).
‘Leading companies are seeking to move beyond the audit-compliance approach to one which is more effective in terms of outcomes for workers and more efficient in delivering business benefits.’

From a brand perspective, experience to date suggests that, where performed competently and comprehensively, social audit can have an important diagnostic role. However, there are increasing criticisms of a pure audit approach and an emerging understanding of where the limitations of auditing lie.

4.1 Benefits of auditing

Effective and appropriate auditing can meet a series of needs, including:

- Establishing baseline information on working conditions, in individual workplaces and in the broader supply base
- Providing quantifiable performance indicators that enable measurement of improvements over time
- Screening new or potential suppliers to identify whether they meet the buying company’s minimum labour standards as a basis for approving or rejecting the supplier
- Establishing a starting point for discussion with suppliers about labour problems, and determining necessary and appropriate corrective actions.
- Monitoring progress over time – regular and consistent audits are a way of checking whether improvements are made over time.

Box 4. Characteristics of effective audit practice

- Audit teams need to have relevant local expertise, and have the trust of all stakeholders (management, workers, supervisors)
- Open-ended questioning techniques need to be used
- Off-site, confidential worker interviews should be considered
- All types of workers – including contract, migrant and female workers – should be interviewed
- All code items should be covered, including special attention to freedom of association and discrimination
- Comprehensive feedback on audit findings needs to be given to management and workers
- Robust corrective action plans need to be agreed and followed up

Ethical Trading Initiative (UK, 2006) – Getting smarter at auditing
There are many reasons for the perceived shortcoming in an audit-based approach:

- **Focus:** audits are better at identifying physical or material breaches, such as occupational health and safety or shortcomings in documentation, and less able to pick up more complex and persistent issues such as freedom of association and discrimination
- **Scope:** auditing may be conducted in ways that do not effectively identify or address ‘atypical’ forms of work – i.e. casual labour, home-working, migrant workers – where women commonly constitute the majority
- **Worker view:** workers’ views may not be adequately captured by audits since standard compliance-based approaches are carried out from the perspective of management, with little cross-checking with workers’ organisations, local labour authorities and community-based organisations
- **Inconsistency:** brands and retailers attest to highly variable quality of third-party auditors, attributable in some part to an absence of specialist and local knowledge and training
- **Potential for falsification:** there is ample evidence that supplier-employers ‘coach’ workers on how to respond to auditors, and that ‘audit fraud’ is a real problem, with some suppliers adopting a raft of fraudulent practices, including double-bookkeeping.
- **Duplication of efforts:** a lack of coordination between different private codes and auditing systems among companies using the same suppliers or within the same sector, can cause duplication and ‘audit fatigue’
- **Cost effectiveness:** UK ETI (2006) reports that member companies typically spend around three-quarters of their Social Compliance budget on audits, while ‘achieving little impact where it counts, i.e. in improving conditions for workers’
- **Agency:** audits can be a useful tool for identifying problems but do necessarily create the change necessary to ensure sustainable improvement to employment practices (sustainable compliance)
- **Time-lag:** at best, audits identify problems after they have happened, but seldom serves to create preventative safeguards
- **‘Interference’ in employment relationship:** trade unions and workers’ organisations have expressed disquiet that private auditing may undermine, or seek to replace, their role in promoting workers’ rights and may exacerbate tensions in industrial relations
- **Relevance to downsizing:** audit – and the codes of labour practice to which audits are performed – are the result of an approach to labour rights predicated on job creation; the audit model cannot easily respond to the shifting landscape of responsible restructuring (downsizing) in the current climate

In recognition of these increasingly well-documented shortcomings, more and more leading companies are seeking to move beyond the audit-compliance approach to one which is more effective in terms of outcomes for workers, and more efficient in delivering business benefits.
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Box 7. Next PLC and ‘Autopilot’—brave steps beyond audit

Next PLC, a UK fashion retailer member of the UK Ethical Trading Initiative (ETI), with annual sales of some 3.8 billion euros, has been working in close consultation with suppliers, trade unions and key NGOs, to develop a project to replace auditing by placing responsibility for code compliance back in the supplier workplace — Autopilot: promoting better workplaces.

The central strand involves moving on completely from the audit-based ‘policing’ approach which, in the company’s unqualified terms, ‘does not deliver social compliance’. The overriding objective of Autopilot is therefore to develop a way of working that relies instead on sound management systems. For Next, this requires mature systems of industrial relations to be in place.

The other ‘strands’ incorporated in the new approach include work on freedom of association undertaken with the ITGLWF global trade union, as well as work on reviewing the impact of purchasing practices.

Two factories in India have been selected to pilot the Autopilot project. Phase One of the pilot is scheduled to start in October 2009. Before the pilot stage of this work begins, there is a significant piece of tripartite preparatory work already underway including groundwork and relationship building with local trade unions, identifying and agreeing the impacts and success criteria (aside from code compliance) that will be assessed — including productivity, labour turnover and quality measures, mapping potential local partners, developing training materials.

Systems Assurance

Next acknowledges that there is still a requirement for ongoing monitoring of working conditions in supplier facilities. The move away from compliance auditing poses substantial challenges for assurance, and will require significant work. Ultimately, Next’s aim is to develop an assurance system that is worker and management-driven.

Source: Next PLC Ethical Trading Team

The project overviews includes:

Phase 1 - Laying foundations

In order that workers participate as full partners, the project will commence with briefings at all levels of the factory, moving into focused work with management and workers — separately and together — to identify shortfalls in the workplace benchmarked to relevant labour laws, codes of labour practice and ILO conventions.

Phase 2 - Linking the shortfalls from Phase One into factory management systems

This phase focuses on building management systems. Next will work with suppliers to embed effective management systems through clear communication of policies, procedures and responsibilities, building understanding and ownership of both workers and management.

Phase 3 - Implementation of management systems

In this stage, the objective is to support the content of management systems by providing further training to management and workers, and ultimately embedding social compliance standards into a functioning system.

The gains of moving beyond audit

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• Development of adequate labour engagement and management strategies, through training of workers and management
• More capable in-house people management, able to respond to change
• Fewer fines related to labour rights breaches
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Source: Next PLC Ethical Trading Team

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Chapter 5
What can be done better and how?

‘The aim is for the factories to create conditions in which the workers can themselves affect their working situation.’

H&M, Sweden

A number of experienced leading companies and collaborative initiatives are increasingly focusing on a two-track process, integrating the important diagnostic aspect of audit with a growing emphasis on enabling and supporting change at local level, with one process informing the other on an ongoing basis.

There are a variety of new approaches that can contribute to creating the conditions for sustainable change.

5.1 Promoting ownership of standards by suppliers

Commitment to labour standards is more likely to become embedded within supplier companies where there is genuine internal commitment to labour standards compliance, as opposed to where outside programmes and solutions are mechanically adopted in response to external demand.

Buyers need to explain their requirements and promote the mutual benefits of compliance. Consequently, working with suppliers to promote ownership means:

- talking frankly with suppliers about the costs and benefits of social responsibility
- building supplier management capacity to track and analyse the business benefits of compliance
- delivering training to raise awareness of the growing emphasis on supply chains with higher performance on labour standards
- working to develop stronger partnerships with suppliers for example, through reducing audits, preferential order placement and building longer-term trading relationships

“We believe that empowering our factories to take greater ownership and accountability for their operations will make this work more sustainable.”

Deanna Robinson, Gap Inc

Box 8. Capacity building in the ICT sector in China: learning from challenges

A project of Business for Social Responsibility (BSR), with other partners sought to build capacity within the ICT sector in China to meet social and environmental requirements. Four in-factory pilot projects aimed to improve management systems and worker-management communication, while providing tools for measuring the costs and benefits. Each pilot project tested the impact of different CSR objectives over a six month period in 2007-2008: customer-supplier mentorship; a worker hotline; worker training; and the creation of a worker environment, safety and health committee.

Supplier ownership was found to be a critical element in the success or failure of each project. Support from senior management was flagged as a crucial starting point, particularly in Asia’s more hierarchical business culture.

Building better people management systems

Breaches of labour standards are often attributable to poor management systems and miscommunication, rather than wilful non-compliance. Part of the new approach involves strengthening suppliers’ workplace structures and systems to help them become better business partners. Improving people management systems can also help suppliers to make savings by boosting productivity and reducing worker turnover.

Suppliers need to have the right systems in place and they need to be supported by competent and trained management.

Successful capacity building for suppliers on people management systems can involve:
• reviewing and/or developing human resource policies and procedures; for example, policies on overtime, health and safety or retrenchment;
• providing basic management training for middle managers and supervisors to ensure better understanding of policies, procedures, people skills and communication;
• introducing positive incentives and reward structures for stronger employee performance, such as production bonuses;
• eliminating penalty systems, such as fines and warnings, to punish workers for mistakes or low productivity;
• building technical expertise so that managers know how to make the most efficient use of their workers and equipment;
• providing induction training and opportunities for ongoing skills training for workers;
• establishing mechanisms for workers and management to communicate on working conditions.

Box 9. Boosting productivity through improved HR management systems: New Look

In 2007, UK-based fashion retailer New Look began working with one of its suppliers in Bangladesh to explore ways of reducing overtime while increasing pay and improving the ongoing viability of the business. In the first year of the project, one of the strategies was to improve human resource management systems to stimulate higher levels of productivity, such as through introducing production bonuses to encourage workers to produce more in less time. Other tactics included: consulting with workers; developing a worker representation system; improving worker welfare; and developing industrial engineering and planning systems. New Look also worked with its supplier to develop more supportive buying practices; for example, by providing more information on future orders to enable better planning.

The project is still in progress, but tangible benefits for workers and the business have already been reported. By July 2008, the lowest paid workers had increased their take-home pay by 24%, while working 46% fewer overtime hours. A flow-on effect has been a clear reduction in worker turnover relative to Bangladeshi and global sector averages.

A number of factors have been identified as important to the project’s success to date:
• strong technical inputs on productivity and human resource management
• consultation with workers and responding to their concerns
• development of a strong partnership between the factory and the purchaser
• focus on purchasing practices

Source: New Look; www.newlook.co.uk/images/New_Look/Images/Static_content/Ethical_Trade.pdf

Box 10. Better Work: using soap operas to train workers in Vietnam

The Better Work programme, a partnership between the ILO and IFC, has just made available the first two episodes of its worker training soap opera, to be used as a training tool in garment factories in Vietnam. Better Work is aiming to produce six episodes, each starring well-known Vietnamese actors and addressing a different issue faced by workers: grievance handling; dispute resolution and procedures for legal strikes; health and safety; overtime; stealing; and underage workers.

The soap operas represent a fresh approach to training workers on their rights and responsibilities, and are designed to provide a relaxed learning experience for audiences with low literacy levels and a high proportion of women. At the end of the session, workers are handed comic book summaries of the episode that they can read on their own and share with other workers who did not attend. Typically, the sessions are designed to target large groups of 200-500 workers and can be conducted in a canteen over a lunch break.


Training workers

Workers need to know and understand their rights in order to realise them. As such, the Netherlands-based Fair Wear Foundation (FWF) explains its emphasis on worker training on the grounds that it makes code implementation efforts more sustainable, helps to decrease the amount of labour disputes and wildcat strikes, helps decrease labour turnover, and can potentially strengthen the buyer’s relationship with the supplier.

FWF offers the following valuable lessons gained from its experience of training in the garment sector:
• focus on preferred suppliers
• ensure a strong dialogue with the supplier and secure brand support
• make sure that trainers know how to relate to workers
• use the space provided by national legislation and local trade unions
• use existing training mechanisms as a platform for improvement
• be aware that NGOs that conduct training cannot ‘represent’ workers
• have a binding and motivating element for participants
• involve local stakeholders to secure sustainability of the programme
Labour standards are about workers. Workers therefore need to be involved in compliance programmes that make judgments about, or seek to improve, their working conditions. At a workplace level, this means providing workers with a mechanism to raise issues with management on working conditions, and making sure that management listens to workers to develop their understanding of workers’ needs and opinions.

Although codes commonly include requirements on worker representation and freedom of association, many companies’ experience of working with suppliers indicates that communication between management and workers is often very poor. This is also an area where problems remain undetected by auditing.

Encouraging better communication between workers and management can involve a spectrum of different approaches, including:

• engaging directly with trade unions
• providing support and training for worker representatives
• providing support and training for management on how to communicate and negotiate with worker representatives
• ensuring that appropriate grievance mechanisms are in place for workers to speak up about problems

Whilst requirements for grievance mechanisms have not traditionally been included in codes of conduct, they represent an important channel of communication and can assist in focusing efforts toward risk. In the financial sector, for example, institutions such as the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) - as well as commercial banks which are signatories to the Equator Principles (www.equator-principles.com) - have clear requirements bearing on their clients to establish appropriate grievance mechanisms for both direct and indirect employees.

Box 11. Partnering with trade unions: Inditex and ITGWLF

Spanish fashion retailer Inditex has made its partnership with global trade union ITGWLF a cornerstone of its strategy for implementing its code of conduct and addressing labour standards issues in the supply chain. In a first for the garment industry, Inditex signed a Global Framework Agreement (GFA) with ITGWLF in 2007, establishing a formal framework for dialogue and cooperation.

Part of the initial impetus for this relationship was a common belief in the limitations of social auditing. While Inditex continues to audit its factories, the partnership with ITGWLF enables Inditex to take a more preventative approach to worker issues, rather than a solely reactive approach, by responding to problems before they have been flagged by auditors or escalated into a dispute. When conflict does arise, problems can be addressed earlier and managed more effectively if the groundwork has already been done to build communication between workers and management.

Inditex has worked with ITGWLF, its affiliate unions and other partners on the following initiatives to build a ‘mature system of industrial relations’ in its supply chain:

• Training programmes for worker representatives
• Information kits for worker representatives
• Grievance mechanisms
• Training in core labour standards

The GFA also states that Inditex and ITGWLF will work together to verify the right to freedom of association in the supply chain and, where problems are found, cooperate in finding solutions. This has already been put successfully to the test in Cambodia.


Box 12. The ‘scorecard’ approach: Hewlett Packard

Hewlett Packard (HP), the largest technology company in the world, is committed to implementing CSR in its supply chain through pro-active interventions, using the Electronic Industry Code of Conduct (EICC) as a foundation. One way that HP integrates CSR into its purchasing decisions is through its High Performance Supplier Score Card, which evaluates and improves supplier performance in a range of weighted categories. The Score Card’s performance categories include social and environmental responsibility (SER) as an element of the business category, alongside criteria on cost, quality, supply and technology. As well as assessing social and environmental performance, the scorecard rating system also ranks a supplier’s management capacity, another factor which determines compliance with the EICC. The weighting of the SER criteria is increased to 10% where risk on these issues is considered to be greater, such as for procurement of product materials, components, and manufacturing and distribution services.

Hewlett Packard also uses a ‘Supplier Reverse Score Card’ that operates in conjunction with the Supplier Score Card. This allows suppliers to provide feedback to HP on its supplier management process and whether its practices are affecting how suppliers meet their contractual obligations. This provides a mechanism by which suppliers could potentially raise an issue regarding HP actions that are impacting on their CSR performance.


Purchasing practices and trading relationships

Buyer behaviour has a pivotal influence on workplace conditions in the supply chain and, if not synchronised with efforts to promote decent working conditions, can potentially undermine the latter. For example, unexpected peaks caused by last minute orders or short delivery times may mean that suppliers place increased pressure on workers to work overtime; alternatively, driving down prices may mean that factories try to cut overheads by not paying the minimum wage or by engaging workers through precarious employment arrangements.

Conversely, reviewing buying practices can lead to potential commercial gains, as inefficient or indiscriminate procurement practices that have a negative effect on working conditions in supplier facilities may also impact on quality, delivery times and cost. Closer alignment between commercial objectives and efforts to promote acceptable labour standards may be achieved through a variety of approaches:

• improving working relationships between buying team and CSR/labour standards team
• working with buyers to raise awareness of the consequences of buying decisions for working conditions in the supply chain, for instance through training and sharing audit reports
• creating buyer incentives to meet sustainability objectives, including rewards and/or penalties
• improving critical path management and production scheduling
• considering sustainability issues – including supplier labour standards – as an integral part of strategic business planning
• opening up dialogue with suppliers on how buyer practices affect suppliers’ ability to deliver improvements in labour conditions
• establishing longer-term relationships with suppliers where possible to enable longer-term progress on labour standards
• developing systems to incorporate social responsibility factors into purchasing decisions

Box 13. Purchasing from the top: SAP

SAP, the leading provider of enterprise software solutions, has worked with the SA80 Foundation to develop a measurement tool that allows buyers to assess a supplier’s adherence to the SA80 standard. SAP’s Purchasing Practices Scorecard weighs various factors that make up a supplier’s overall performance – as measured by SA80 auditors – against company expectations. This enables SAP to ascertain whether suppliers are meeting its requirements, and which factors need to be improved. SAP’s notion of using the scorecard as an industry standard and not just a company tool is a novel response to the growing awareness of the importance of CSR in the supply chain.
5.6 Addressing labour rights in the economic downturn

The recent economic downturn has highlighted the limitations of auditing methodologies to address labour standards issues in relation to company restructuring - in terms both of preventing the erosion of labour rights in the process of downsizing, as well as the provision of forms of social protection responsive to the needs of affected workers.

In the garment sector alone, some 12 million jobs have been lost over the past year, according to global union ITGLWF, with another three million at risk. Many of the affected workers are from highly vulnerable groups, such as unskilled young women or migrant workers. However, most codes of conduct do not include standards for responsibly managing collective redundancies, despite the fact that these situations raise significant issues for workers’ rights, such as payment of back-pay, pension and severance packages and the establishment of non-discriminatory selection criteria.

5.7 Working collectively – initiatives on specific issues

Individual companies cannot effect systemic change on particularly difficult issues on their own; experience shows that, by working together, companies can achieve much greater leverage to effect change on entrenched labour standards issues focusing sector-wide at a country or regional level. Ideally, collective initiatives also involve working in partnership with governments, trade unions, experts and NGOs in order to tackle challenging issues from different angles, and share knowledge and experiences.

There are a number of examples of how working collectively can help companies to make headway on seemingly intractable issues, including:

- Ethical Tea Partnership (www.ethicalteapartnership.org) – this alliance of international tea-packers has worked with tea producers on several industry-wide initiatives, including addressing informal employment in Kenyan tea estates.
- Syngenta and the Fair Labor Association (FLA) (http://dev.fairlabor.org/syngenta) – working with the FLA has enabled Syngenta to take a more holistic approach to issues of bonded child labour in its seed supply chain in India, including risk mapping, engaging with local stakeholders, introducing incentive schemes, raising awareness of Syngenta’s code of conduct and drafting model employment contracts for growers.
- Project Kaleidoscope (www.asyou sow.org/human_rights/labor_projectk.shtml) – McDonalds Corporation, Walt Disney Company and other organisations collectively participated in a successful pilot to test a systems-based approach to long-term sustained code compliance in Chinese supplier factories.

As Royal Ahold explains about the Business Social Compliance Initiative approach:

The two pillars of the BSCI system are auditing and capacity building. Audits provide a picture of the compliance level against the BSCI Code of Conduct. They are necessary to assess the implementation of the BSCI requirements and measure improvement. Additionally, we focus increasingly on capacity building to raise the awareness of suppliers, try to empower workers and ensure sustainable change in the factory and/or on farm.

Karin Bogaers, Coordinator – Social Compliance, Royal Ahold

Box 13. Sustainable Apparel and Footwear Initiative (SAFI)

In the face of these pressing issues, the MFA Forum – a multi-stakeholder platform created to address the social impacts of the phase-out of the multi-fibre arrangement – launched the Sustainable Apparel and Footwear Initiative (SAFI) in May 2009, providing a coordinated remedial response to the challenges posed by the global financial crisis. Importantly, it represents a collaborative approach between the private sector, trade unions, government, international institutions and non-government actors. As well as providing short-term responses, it also uses the context of the global recession as an opportunity to set a course for sustainable solutions with long-term positive impacts.

Source: SAFI: www.mfa-forum.net/initiative/

Box 14. The Ethical Trading Initiative: collective action on homeworkers

The UK Ethical Trading Initiative (ETI) brings corporate, trade union and NGO members together to work collectively on challenging labour standards issues that would be resource-intensive for individual companies to address on their own.

One example of this approach is the ETI Homeworkers Project, which was created in 2002 to address the conditions of homeworkers. The Project produced the Homeworker Guidelines which provide practical advice to retailers, suppliers, trade unions and NGOs and include tools to assist, such as policies, questionnaires and action points for different stakeholders. The Homeworkers Project also helped to set up the Indian National Homeworkers Group in 2006, the first national multi-stakeholder initiative on homeworkers’ conditions.

Now in its second phase, membership of the Homeworkers Project is growing and the group is focusing on implementing the guidelines in member companies’ supply chains. A second version of the Homeworker Guidelines will be issued in 2010.

Source: ETI Homeworker Project (www.ethicaltrade.org/in-action/projects/homeworkers-project) and Guidelines (www.ethicaltrade.org/resources/key-eti-resources/eti-homeworker-guidelines)
Box 15. Sustainable compliance: Developments in public labour inspection in Brazil
Recent findings from Brazil suggest that state labour inspectors have been able to promote ‘sustainable compliance’ through seeking longer-term ‘win-win’ solutions to labour law breaches, without harming the competitiveness of the enterprise.
Inspectors bring firms into compliance with the law by finding legal and/or technical solutions that create positive incentives for firms to improve working conditions and remain in compliance. In the cases that resulted in sustainable compliance, inspectors devised new forms of employment contract and hiring arrangements, as well as technical solutions that made production processes safer and more efficient.

Source: International Labour Review: http://ponpo.som.yale.edu/seminar_docs/Pres_article.pdf

There is, therefore, a strong case to explore the lessons which can be learnt from either side of the enforcement divide: public and private. This approach has been effectively pursued by the ILO-IFC Better Work Programme, supported by the Dutch Government (See Box 16 below). Strengthening state labour inspection may also be a productive topic for public policy engagement by private sector companies, recognising the challenges of these organisations directly supporting public structures.

Box 16. Better Work programme
The ILO-IFC Better Work programme, launched in 2007, aims to improve labour standards and competitiveness in global supply chains, through developing global tools and country-level projects that include monitoring and capacity-building elements. The Better Work approach addresses the expense and inefficiency that results from multinational companies using different codes of conduct to audit working conditions in their supply chains. According to World Bank research, parallel audits in the Vietnamese garment industry cost approximately US$50 per worker per year, while Better Work plans to target by lowering the cost to approximately US$2 per worker per year.

The Better Work approach combines independent enterprise assessments with enterprise advisory and training services to support practical improvements through workplace co-operation. Through the use of the Better Work Information Management System (IMS) enterprises can share factory information with their buyers. This allows buyers to reduce their own auditing and redirect resources to fixing problems and sustainable solutions. The key to success is the support and co-operation of the relevant employers’ and workers’ organizations, the national government and international buyers.

Better Work is currently working in Cambodia, Jordan, Lesotho and Vietnam and the ILO and IFC are working on a strategy to increase the number of projects active in different countries and sectors.

Source: Better Work: www.betterwork.org
This title is part of the Best Practices Series, published by IDH in October 2009.

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• Sustainable trading
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