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# STRENGTHENING IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY IN GLOBAL SUPPLY CHAINS

October 2003

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# Acronyms and Abbreviations

<b>AVE</b>	Foreign Trade Association of the German Retail Trade
<b>BSR</b>	Business for Social Responsibility
<b>CCC</b>	Clean Clothes Campaign
<b>CSR</b>	Corporate Social Responsibility
<b>DIHR</b>	Danish Institute for Human Rights
<b>ETI</b>	Ethical Training Initiative
<b>EU</b>	European Union
<b>FLA</b>	Fair Labor Association
<b>FWF</b>	Fairwear Foundation
<b>GRI</b>	Global Reporting Initiative
<b>ICTI</b>	International Council of Toy Industries
<b>ILO</b>	International Labour Organisation
<b>KFC</b>	Kenya Flower Council
<b>NGO</b>	Nongovernmental Organization
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PwC</b>	PricewaterhouseCoopers
<b>SAI</b>	Social Accountability International
<b>SASA</b>	Social Accountability in Sustainable Agriculture
<b>SME</b>	Small and Medium-size Enterprises
<b>UNDP</b>	United Nations Development Programme
<b>UNEP</b>	United Nations Environment Programme
<b>WRC</b>	Worker Rights Consortium
<b>WTO</b>	World Trade Organization



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# Executive Summary

**A**midst the ongoing debate on how best to achieve good social and environmental practices in global supply chains, the World Bank Group commissioned a study on barriers to the achievement of better social and environmental performance in suppliers, and also on the options that hold the greatest promise for overcoming those barriers and enabling future improvement.

Specifically, in the words of the Bank Group, the overall objective of the study is to “. . . contribute to a broader goal of removing unnecessary barriers to CSR compliance at the supplier level in global supply chains, enabling more suppliers to implement CSR standards more easily.”<sup>1</sup>

The specific objectives of this study are to:

- Identify the key barriers to improved implementation of codes of conduct at the level of suppliers.
- Identify and prioritize viable options for addressing these barriers.

## BACKGROUND AND PROCESS

This report is based on the perspectives collected in consultations with close to 400 individuals, including almost 200 workers and 200 representatives of organizations and companies, and the subsequent analysis of the project consortium on the feedback received.

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<sup>1</sup> The Bank Group’s CSR Practice has chosen to define corporate social responsibility (CSR) as “The commitment of business to contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development.” When employing the term CSR in connection with codes of conduct in global supply chains, we use a more narrow interpretation in referring to social and environmental practices and standards.

The study focuses attention on the apparel and agriculture sectors, and draws upon consultations in China, Honduras, India, Kenya, the United States, and Europe. The project consortium met with a diverse range of parties in these locations, including suppliers, stakeholders (nongovernmental organizations [NGOs], trade unions, multistakeholder initiatives, business networks and public officials), buyers (multinational companies), and workers. Consultations were conducted during a 10-week period between May and July 2003.

The identification of key barriers to improved implementation of codes of conduct departed from the testing of a select group of key barriers (key challenges and underpinning assumptions) identified by the World Bank in its Terms of Reference for the study. The three key challenges put forward by the Bank are:

1. *“The plethora of individual buyer CSR codes is now generating inefficiencies and confusion.”* The statement suggests the need to readjust and fine-tune the present system of implementation. It accepts the view that codes of conduct are an essential tool in the pursuit of better social and environmental conditions, and therefore does not question the trajectory, but rather implicitly calls for a need to adjust it and make it work more efficiently, possibly by promoting increased standardization of existing principles.
2. *“An increasing number of buyers are recognizing that traditional top-down CSR strategies are not achieving improved CSR implementation.”* In contrast to the first, this second statement does question the established implementation process. It casts doubt on whether the present system, being driven by buyers from a distance, will ever be able to generate the desired out-

comes in terms of sustainable compliance and improved working conditions. Is fine-tuning required, or an entirely new approach?

3. “[Suppliers] have an insufficient understanding of the business benefits associated with making the required investments in CSR.” This statement addresses a key premise for any business activity, that is, the need for a perceived business case.

This report assesses the validity and importance of these barriers, as well as others raised by participants during consultations. It also presents options for future progress. Options are presented with reference to the barriers, as well as to broader problem areas identified through the consultations and resulting assessment.

## SUMMARY OF FINDINGS

Consultations revealed numerous commonalities among the many consultation groups’ analyses of the barriers to improved implementation of CSR practices. However, when identifying ways forward, the consensus was less pronounced except for the nearly unanimous call for more responsible local government action.

Consultations also showed that environmental issues, although placed on equal footing with labor issues in the Terms of Reference, went largely ignored during the consultations. There remains less awareness, concern, and external pressure to address environmental matters than labor issues. Furthermore, virtually no attention was given to human rights issues other than labor rights, even though the overall human rights climate in many locations is a critical factor determining whether, or how, labor rights are respected.

Although suppliers in different national and industrial settings seem to face many of the same challenges, important local and industrial specificities need to be taken into account when designing ways forward. Partly for this reason, the study advocates an approach that emphasises local ownership and industry-specific initiatives.

Overall, the consultations, and subsequent analysis, indicate that while meaningful progress has been made in apparel, and to a lesser degree in agriculture, the existing “system” of implementation may be reaching its limits in terms of its abil-

ity to deliver further sustainable improvements in social and environmental workplace standards. This in some ways is natural when one considers that current approaches are not the result of a systematic effort to marshal the forces of the public and private sectors, trade unions and NGOs, and workers. Instead, it is clear from the consultations that current efforts are the result of a series of steps often taken through ad hoc and isolated decisions.

The way forward will lead to a greater degree of success if future decisions are made with fuller regard for collaboration and systemic approaches. All parties involved must employ other means of implementation, including capacity building and worker empowerment, to ensure improved workplace standards.

## THE KEY CHALLENGES

In terms of the first key challenge suggested by the Bank, the vast majority of participants questioned the degree to which the growing number of codes presents a significant barrier to CSR implementation. Although there is broad dissatisfaction with the growing number of codes, most participants cautioned against overstating the resulting impact. The main concern expressed by participants is that, while codes themselves have in many ways converged in content and form, inconsistent interpretation and application of the provisions presents the greatest source of confusion and inefficiency. Most participants believed that the imperfections and inconsistencies of the present system should be addressed, and that doing so could result in some improvements. They did not, however, express great enthusiasm for concerted work on a single, harmonized base code.

In terms of the top-down approach, identified in the second key challenge, participants noted that although this approach had probably been essential in beginning to raise awareness and achieve progress, it nonetheless was insufficient and even inefficient in achieving further real and sustained improvements. Participants broadly agreed that such improvements required the implementation of capacity building and worker empowerment programs, although many acknowledged the difficulty of such embarking on such projects given the current absence of a comprehensive and account-

able means of engaging workers as well as their unions. At the same time, participants recognized that pressure from the top down would remain a necessary catalyzing feature of efforts to address CSR in supply chains for some time. Indeed, workers consulted for the study confirmed this perception by noting that top-down pressure was necessary to enable the implementation of worker empowerment.

On the third key challenge, participants agreed that the business case—or how it is perceived and understood—plays an important role in determining the willingness and motivation of both suppliers and buyers to undertake investments in CSR practices. While this challenge therefore would seem to be a significant barrier to further adoption of CSR practices by suppliers, there are mixed perceptions of the degree to which the business case actually exists.

## ADDITIONAL CHALLENGES

In addition to the three key challenges identified by the Bank, many participants pointed to structural barriers to CSR implementation relating to the overall business environment. In particular, several representatives from each consultation group pointed to the very structure of the buyer–supplier relationships in the apparel and agriculture industries, distinguished by complex, shifting, and “anonymous” supply chains, as presenting a barrier to implementation of social and environmental standards.

Some of the barriers articulated by participants in the study took the form of *inaction*, rather than affirmative steps that do not further the process. Virtually all participants noted that the absence of action by local governments presented a significant barrier; not only as a barrier to the achievement of good practice generally, but also as a barrier to the implementation of codes of conduct and other critical steps taken by nonstate actors. The consensus on this point was so overwhelming that it was taken into consideration despite the fact that the focus of the present study, as formulated in the Bank’s Terms of Reference, was intended to be on the private sector rather than on the public sector.

Finally, it is important to note that some stakeholders do not accept the basic premise at the core of this

study—that codes of conduct are a useful mechanism for addressing the social and environmental issues. Trade unions in particular contend that public enforcement of laws, and collective bargaining agreements, are a far more effective and accountable system for ensuring that labor principles, and to some degree environmental principles, are honored. It is, in fact, possible to extrapolate from this view that *codes themselves are a barrier*—an important countervailing opinion that is worth considering as options for future progress are developed.

## OPTIONS FOR GOING FORWARD

When considering options for strengthening CSR implementation in supply chains, it is essential to remember that individual initiatives are more likely to be successful if undertaken with full regard for other steps than if they are undertaken in isolation. Under the best circumstances, a coherent framework would blend a broad range of public and private efforts: those taken by business alone with those involving partnership between sectors, and those that look both at social and environmental issues. Such an approach would reflect a necessary and natural maturation process as the first generation of efforts to address CSR in supply chains comes to an end, and would likely lead to the more sustainable progress that all parties to this debate are seeking.

The study also has revealed characteristics of successful approaches that should be considered to help ensure the success of future efforts. These include collaboration between interested parties, local “ownership,” an effort to balance the ongoing need for innovation and experimentation with the desire to achieve scalability, and a renewed effort to identify ways that private and civil society efforts draw upon or take note of the potential for government involvement.

It should be noted that no single solution emerged from the study. Unlike the early to mid-1990s, when numerous parties coalesced around monitoring as the primary means of addressing labor issues, the next generation of efforts is likely to draw on a variety of approaches that, taken together, can make a substantial contribution toward the goals at the heart of this study.

The options presented in the report are arranged around six categories; a brief summary of each is given below. In chapter 3 the suggested options are addressed to six categories of actors: suppliers, buyers, host governments, home governments, international organizations, and civil society.

- **Public Sector Engagement:** Although public sector options were not the focus of the surveys conducted for this project, participants almost unanimously called on the public sector, especially host country governments, to enhance their contribution to upholding social and environmental standards in supply chains. Real, systemic progress will not happen unless governments get involved more vitally, and this was perhaps the area of greatest agreement among those consulted. A greater commitment to the enforcement of existing standards, to the degree they are consistent with international norms, is viewed widely as having value in itself, and in supporting the efforts of private sector actors and civil society to promote better social and environmental practices. Note that the Bank has anticipated from the start of this project that it would sponsor subsequent research concerning the roles of the public sector.
- **Standards and Harmonization:** This issue received significant attention in the course of consultations. While some, especially a number of suppliers, assert their desire for a universally applicable base code of conduct, the investment needed to refine the relatively small differences present in today's codes may prove too costly. Efforts to reach agreement on a single global framework risk getting bogged down in extensive technical and political questions. Instead, more successful and impactful steps toward harmonization can be taken through initiatives to develop comprehensive approaches at the national and industry level. The mechanisms for achieving this may vary; however, the development or enhancement of national, multistakeholder initiatives focusing on specific industries appears to hold particular promise, as do the adaptation or replication of certain existing pilot models, although the scalability of some of these efforts remains in question. In addition, there is a need to expand attention paid to environmental issues in existing and future codes.
- **Capacity Building:** In the view of most, local capacity building remains a critical ingredient in making both current and future steps more effective, particularly capacity building focusing on workers, suppliers, civil society, and social auditors. The options suggest a focus on social infrastructure that will deliver value, not only in terms of better performance on the more immediate labor and environmental principles, but also on supporting and contributing to broader development goals.
- **Worker Empowerment:** Further progress will be made by providing more and better education to workers concerning their rights, and strengthening mechanisms through which they can protect those rights—whether through access to public systems for redress of problems, participation in representative trade unions, dialog with local civil society organizations, or participation in private efforts to implement codes of conduct.
- **Research:** Research leading to enhanced knowledge and understanding of CSR can also contribute to progress. Initial focus should be placed on whether the business case for CSR exists, and if so, how it can be strengthened. In addition, the consultations illustrated the need to build greater understanding of how to achieve worker empowerment in the multiple operating environments to which apparel and agriculture supply chains extend, with due concern for the types of workers involved.
- **Removing Economic Barriers to CSR:** To be successful, the options presented will need to address, or at least take note of, structural economic barriers to the wider adoption of CSR. These barriers include (a) the very nature of supply chains themselves, which, especially in the apparel industry, may contain inherent disincentives to the adoption of good practices; (b) the lack of a level playing field, which means that companies at both the buyer and supplier level face de facto penalties for adopting practices that transcend significantly those undertaken by competitors; and (c) the mixed messages and incentives buyers sometimes send to suppliers, who are faced with dueling demands from compliance staff requiring good conditions, along with merchandisers who often demand lower prices, faster deliveries, and shorter lead times.

## ADDITIONAL OBSERVATIONS GOING FORWARD

The following overall observations about the study and its findings are noteworthy and should be kept in mind when going forward:

- Much more attention was given to issues in the apparel industry than in agriculture. In addition, the input received concerning agriculture highlights the fact that it is not a single industry but rather a collection of several commodity-driven industries that have distinct structures and supply chains. Reaching generalized solutions across subindustries with diverse economic and social structures may not be easily achieved.
- Monitoring of codes of conduct, a subject that has received intense attention in recent years, was not at the center of the discussions. Instead, participants focused on other issues, or noted that monitoring should evolve to concentrate more on education and less on policing. Although few parties suggested that private monitoring would disappear, there was an understanding—at least on an implicit level—that monitoring should and would be deemphasized in the near term.
- The numerous multistakeholder initiatives in place received relatively little attention, although they were considered by some (mostly buyers and many Northern stakeholders) to be an important part of future solutions, in particular in the area of harmonization and standardization of codes of conduct.
- The identified need to expand attention to environmental issues, especially in the apparel industry, is important. Unlike on labor issues, there are few broadly recognized international environmental standards; therefore, a different approach may be needed to address this.
- Perspectives varied by location, in part because of the considerable differences in economy, culture, and economics. While the implicit goal of this project and many efforts in the field is to develop options that can be adopted globally, these solutions will need to take local factors into account if they are to have the desired impact.
- Some observers worried that the move toward strengthened social and environmental requirements would disadvantage the small and medium enterprises (SMEs) that are needed to generate greater economic growth in the developing economies.
- There remains a lack of critical mass of buyers strongly engaged in CSR issues. Consultations tended to involve a self-selected group of the more active buyers, some of whom cautioned against the adoption of guidelines and options that could raise the cost of entry for newly active parties, thereby missing the opportunity to engage more companies in CSR practices.

As noted above, the study broadly confirms the underlying assumption of the Bank Group that the present system of implementation of codes of conduct is insufficient and even inefficient in achieving further real and sustained improvements in social and environmental standards in global supply chains. It identifies a number of barriers as well as points to ways forward for overcoming those barriers, most notably by emphasizing the need for local ownership and collaborative, national and industry-specific multistakeholder initiatives. It is noteworthy that, with the exception of a small number of consulted organizations, participants generally welcomed change as well as the opportunity to work with parties across institutional and geographic borders.



# Overview

Since the early 1990s multinational corporations have increasingly addressed social and environmental issues arising in their global supply chains. This development has been driven by, inter alia, a growing concern among consumers and other key stakeholders as well as business itself about social and environmental conditions in the production of consumer products for export from developing countries.

A number of multinational corporations have responded to this concern by developing codes of conduct that stipulate social, environmental, human rights, and ethical requirements with which suppliers are obliged to comply.<sup>2</sup> In general, codes are intended to complement local legislation by implementing those standards and, often, internationally accepted principles such as ILO Conventions where applicable laws are inconsistent with international principles.

To date, codes have been applied most widely in the apparel, footwear, and toy industries, and to some degree in agriculture. Increasingly, however, codes are being implemented in other manufacturing industries, including household goods, electronics, and automobiles.

The overwhelming majority of codes of conduct focus on labor issues, including health and safety issues, and to a lesser extent include provisions on the environment. Codes have been implemented primarily through a system of monitoring by multi-

national companies, commercial service providers, and in some cases civil society organizations.

## 1.1 BACKGROUND OF THE STUDY

The present, informal voluntary “system” of code implementation has been in operation for a little less than a decade. Although full agreement has yet to be established on the achievements of codes of conduct, many observers believe that codes make some contribution to the enjoyment of labor rights and, to a lesser degree, good environmental practice.

In addition, and as noted in the World Bank Group Terms of Reference for the present study, it may be argued that such efforts also have implications for governance generally, and in the best case can help to deliver a public good beyond those individual firms involved directly.

At the same time, many also believe that current approaches may not be sustainable, and that other methods of achieving these goals are needed to augment the impact of codes and to address issues that the codes have not.

This study seeks in large part to make a broad assessment of the types of barriers present in the current system that might prevent achievement of better social and environmental performance on the part of suppliers, and also the options that hold the greatest promise for future improvement.

This project was undertaken with a deeply held appreciation for the progress made on these issues in recent years, and with admiration for the grass roots development of a broad-based global community that has committed itself to finding ways to ensure that business is conducted in a manner that

<sup>2</sup> The term “codes of conduct” is often used to mean different things. For the purposes of this study, the term is defined to mean a mechanism by which multinational companies establish social and environmental guidelines for their suppliers. Codes that deal with issues such as corruption, fair competition, and customer service are not addressed here.

contributes to the wider enjoyment of human rights, the extension of the economic benefits of globalization, and the achievement of environmental improvements.

Indeed, this study could not and would not have occurred 10 years ago, and many positive changes have taken place in this time: businesses (both suppliers and buyers) now have functions dedicated to addressing human rights, labor, and environmental issues; many civil society organizations globally have staff focused on achieving better business performance on human rights, labor, and environmental issues; and in some cases, new institutions—especially those with multistakeholder characteristics—have been developed and have deeply enriched the debate and contributed to real improvements.

Many participants in the consultations undertaken for this study—buyers, suppliers, and stakeholders alike—shared this observation, noting that the timing of the study was well chosen. In addition, this study can provide particular value to the ongoing debate on implementation of social and environmental standards in global supply chains in that it explores and brings together the views and perspectives of a wider community of companies, organizations, and workers involved with implementation of CSR in global supply chains, including the often nonvocal actors such as suppliers and workers.<sup>3</sup>

The participants consulted in the course of this study contributed a wealth of valuable and pertinent information and perspectives that will hopefully stimulate the debate and provide additional impetus to developing options for strengthening of CSR implementation among suppliers in global supply chains.<sup>4</sup>

<sup>3</sup> A number of Southern and Northern stakeholders, as well as some suppliers and buyers, however, expressed a certain degree of skepticism with reference to the Bank Group and the Bank's policies in other development areas, including structural adjustment programs.

<sup>4</sup> The study was undertaken by a consortium consisting of Business for Social Responsibility (BSR), the Danish Institute for Human Rights (DIHR), and PricewaterhouseCoopers Denmark (PwC-Denmark).

## 1.2 STRUCTURE OF THE REPORT

This chapter describes the background of the research, its scope, methodology, and the sources of information relied upon for the research.

Chapter 2 pertains to barriers to the implementation of social and environmental standards in global supply chains. The three main barriers, which were presented by the Bank Group at the outset of the study, and which were subsequently used as the basis for further consultation in the research, are dealt with in three separate sections. Each section attempts to discuss the originally defined barrier in more detail, exploring how the various parties consulted during this study perceived each barrier: Did they think the problem was defined too narrowly or broadly? Was it merely a symptom of a larger problem? Or, indeed, was it not a barrier at all? Another section discusses additional barriers that were identified in the course of the consultation process. These additional barriers are given the same consideration as the three original ones, and form an equal part in the analysis and the subsequent consideration of options in the remainder of the study.

Chapter 3 covers the various options that could help contribute to further and more sustainable implementation of CSR in supply chains. The options are presented in six broad categories: public sector action, harmonization and standardization of private sector approaches, capacity building, worker education and empowerment, research, and removing economic barriers to CSR.

Annex A lists the three key challenges and their associated assumptions that were presented by the Bank Group at the outset of the research. These were the result of an earlier brief round of informal consultations conducted by the Bank with a select group of suppliers and stakeholders. Through the subsequent research and formal consultation process conducted by the consortium, the barriers were later refined and expanded.

Annex B provides the names of the organizations that took part in the consultation process. Participants are divided into categories based on their country and organization type.

Annex C contains a glossary of terms used throughout the report.



A further four annexes D-G report on the findings of the consultation processes for the various groups of participants. These are not included in the printed version of the report, but can be found in the version available on the World Bank's website. Annex D covers suppliers, annex E presents buyers' views, annex F represents what was heard from stakeholders (including NGOs, intergovernmental organizations, unions, and multistakeholder initiatives), and annex G relates the views of workers. In each, the emphasis is on reporting, in clear, straightforward terms, what was heard from the various groups consulted, without adding the views of the consortium. The analysis and interpretation of the consultants is restricted to the main body of the report.

### 1.3 ABOUT THE STUDY

The overall objective of the present study is to “. . . contribute to a broader goal of removing unnecessary barriers to CSR compliance at the supplier level in global supply chains, enabling more suppliers to implement CSR standards more easily.”<sup>5</sup>

The specific objectives of this study are:

- To identify the key barriers to improved implementation of codes of conduct at the level of suppliers.
- To identify and prioritize viable options for addressing these barriers.

The study was thus initiated under the premise that real and sustained implementation of codes of conduct will help ensure an effective compliance regime, which, in turn, will contribute to improving the working conditions of laborers at the level of suppliers and possibly beyond to the communities that support them.

The study was undertaken mainly through a consultative process focusing on the apparel and agriculture

industries. During the course of three months, consultations were undertaken with 194 individuals representing 164 institutions, as well as 199 workers, in four exporting countries: China, Honduras, India, and Kenya, as well as in Europe and the United States. Consultations focused on suppliers, buyers, stakeholder groups (NGOs, trade unions, international institutions, multistakeholder initiatives), workers, and a small number of public officials.

The project consortium reviewed the input and presents this report on the basis of those consultations, as well as the consortium's analysis of those discussions. Annexes D-G (only available on the website version of this report) contain summaries of the views expressed by suppliers, stakeholders, workers, and buyers.

The reliance on in-person consultations yielded unique perspectives that in many cases depended on the location and experiences of those consulted. This approach necessitated a qualitative assessment of the issues discussed, whereas a more formal approach might have produced more easily quantifiable commentary on the issues at hand. As a result, the report seeks wherever possible to indicate the degree to which the various parties consulted for the survey held common views, rather than a precise numerical assessment of opinion.

#### 1.3.1 Barriers/Key Challenges

The identification of key barriers to improved implementation of codes of conduct was undertaken by testing a select group of key barriers (and underpinning assumptions) already identified by the Bank Group in the Terms of Reference to the present engagement.

In the view of the Bank Group, these key barriers (key challenges) are reasonably well documented and constitute an emerging consensus about areas that prevent progress from being furthered. As such, the study started by testing these challenges/barriers—and the assumptions that underpin them—with the organizations participating in the consultation process. Based on the findings of the consultations, the challenges and underpinning assumptions were revised and added to, and finally, options (solutions) for addressing the challenges were identified, as described in further detail below.

<sup>5</sup> The Bank Group's CSR Practice has chosen to define corporate social responsibility (CSR) as “The commitment of business to contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development.” When employing the term CSR in connection with codes of conduct in global supply chains, we use a more narrow interpretation in referring to social and environmental standards.

The three key challenges, which are outlined in detail in annex A, are:

1. The plethora of individual buyer CSR codes is now generating **inefficiencies** and **confusion**.
  - **Inefficiencies** have emerged as a result of the overlap and repetition among buyers' CSR programs. Suppliers assert that this imposes unnecessary burdens both on buyers and suppliers. The challenge is to minimize these inefficiencies, in ways that make sense for buyers and suppliers and that bring desired benefits to all, notably to workers.
  - **Confusion** refers to supplier claims that the diversity of CSR requirements among buyers serves as a barrier to entry to suppliers who do not know which route to follow to demonstrate their commitment. Furthermore, confusion resulting from discrepancies and inconsistencies in the details of CSR implementation can undermine consistent CSR practice in the workplace. Here, too, the challenge is to minimize this confusion with a view to mutual benefit.<sup>6</sup>
2. An increasing number of buyers are recognizing that traditional **top-down CSR strategies are not achieving improved CSR implementation**. The challenge is to adapt strategies in light of current supplier-level experiments that acknowledge the importance of participation, empowerment, and capacity building targeting a variety of stakeholders.
3. The reticence of some suppliers to undertake CSR compliance reflects a view that there is **insufficient understanding of the business benefits** associated with making the required investments, including a failure on the part of suppliers to understand standards as a part of the contractual relationship, rather than a debate over Western values. The challenge is to be clear about the business benefits at the sup-

<sup>6</sup>“CSR implementation” refers to the specific practices of a code of conduct expected of suppliers by buyers; these practices are frequently communicated through detailed guidelines that accompany codes of conduct, and by company monitors who conduct site visits and work with suppliers on remediation plans.

plier level, and to develop business practices that maximize those benefits.<sup>7</sup>

Although the study remains focused on addressing this set of barriers and challenges, other barriers and challenges brought up by participants during consultations have been reviewed and analyzed, and are summarized in the report.

### 1.3.2 Development of Options

The consultations conducted in the course of the study also focused attention on the development of options to address the key challenges outlined by the Bank and others noted in the course of the consultations.

In particular, the Bank requested that options be explored with the following considerations in mind:

- Business needs of the buyer (including organizational structures, risk management, reputational assurance), and whether these needs make the adoption of the option more or less likely.
- Risk of the option contributing to a lowering of standards.
- Costs, in terms of time and money, required to implement the option, and whether or not the different stakeholders would be willing to make the required investment.
- Feasibility of implementation of the option, and in particular, what roles are required of particular institutional actors, and are the actors willing to undertake such roles.
- Implications for public sector roles, including those of industrial country donors and developing country governments.

In addition to the five criteria established by the Bank, the consortium also considered the impact of the options, as well as the degree to which the options would reinforce the success of other initiatives, when assessing the value of the suggested options.

<sup>7</sup>In the Terms of Reference, the Bank Group notes: “It should be clear that by promoting the business case, this is not an attempt to absolve companies of their obligation to comply with legal obligations, but merely a mechanism for improving compliance.”

In contrast to the more structured consideration of the key challenges, the consultations exploring various options were kept relatively open. The reasoning for the more open exploration was two-fold:

- The consortium was asked to consider options on several levels, ranging from narrow options that addressed only one or two problem areas of code implementation, to options that attempted to present more comprehensive solutions to the problem as a whole.
- The consultations on the key barriers revealed that most stakeholders believed that the problem was too narrowly defined, and that solutions/options at a wider level were required to tackle the issue properly.

### 1.3.3 Study Scope

As mentioned above, the study was undertaken as an extensive and comprehensive consultation process engaging a wide range of companies and organizations in two industries, apparel and agriculture, in China, Honduras, India, Kenya, the United States, and Europe.

The **two industries** were selected on the basis of their relevance to the issues addressed in this study. The apparel sector was one of the first industries to work with codes of conduct, and therefore it represents an abundance of experience and perspective. The inclusion of agriculture reflects the view of the Bank and the project consortium that relevant social and environmental issues are present in that sector's supply chains. In addition, the nonindustrial mode of much agricultural extraction means that the findings may be sufficiently different so as to enrich the results of the study. Finally, our selection of industries was guided by the preferences expressed by the Bank Group.<sup>8</sup>

The **four exporting countries** involved in the study were selected on the basis of their relevance to the industries involved in the study, geographic diversity, and their interest to various stakeholders as well as the Bank Group.<sup>9</sup> Consultations were

<sup>8</sup> In the request for proposal, the Bank Group required the inclusion of the apparel sector as well as encouraged the inclusion of agriculture.

<sup>9</sup> In the request for proposal, the Bank Group requested a minimum of three countries representing distinct regions, including China.

carried out in the United States and Europe because of the disproportionate presence in those two locations of buyers with codes of conduct, stakeholder groups, and international institutions active on CSR issues.

The following categories of institutions were consulted during the course of the study:

- Workers in the agriculture and apparel industries.
- Suppliers in the agricultural and apparel industries in the four exporting countries.
- Local NGOs in the four exporting countries.
- International NGOs in the United States and Europe.
- Local trade unions in the four exporting countries.
- International trade unions in the United States and Europe.
- Industry organizations in the four exporting countries and in the United States and Europe.
- Multinational companies' representatives in China, India, the United States, and Europe.

In addition to these key groups we consulted a number of representatives from each of the following groups: government and intergovernmental organizations, multilateral development institutions, multistakeholder initiatives, research institutions, and professional services companies.

In table 1.1 we provide an overview of the consultations with the various stakeholder groups in the respective industries and countries.

### 1.3.4 Consultation Methodology

The consortium consulted a substantial number of suppliers, workers, trade unions, and NGOs in the four developing countries and buyers' representatives in China and India, as well as in the United States and Europe. Group consultations (workshops) with workers, suppliers, buyers, and stakeholders were the primary means of consultation. Annex B contains a complete list of consulted organizations and companies.

The group consultation form allowed the study to harness the perspectives of a critical mass of participants and generally yielded highly interactive discussions, as participants responded to perspectives and opinion held by others. However, we

**Table 1.1 Consultation Figures**

	<i>Hong Kong, China</i>	<i>Honduras</i>	<i>India</i>	<i>Kenya</i>	<i>United States</i>	<i>Europe</i>	<i>Total</i>
Buyers AP	24		7		20	9	60
Buyers AG					3	5	8
Suppliers AP	8	10	10				28
Suppliers AG		2	7	5			14
Stakeholders	6	4	8	13	17	36	84
Workers	58	60	21	60			199

AP, apparel sector; AG, agricultural sector.

Note: Annex B contains a complete list of consulted organizations and companies.

acknowledged that some participants may have felt uncomfortable about offering their views in such a setting. To reduce the potential that such concerns could limit the participation of some parties, we established a secure website as an alternative means for participants to express their views confidentially and anonymously. In a few cases, where it was believed that participants would not be able to speak freely in a group setting, the consortium conducted individual interviews. Individual interviews were also conducted in situations in which the participants were believed to hold a unique or highly specialized perspective, or when scheduling conflicts prevented participation in group meetings. Of the 194 individuals<sup>10</sup> consulted for the purpose of this study, 43 people representing 40 institutions were interviewed individually, and the remaining 151 individuals representing 122 institutions were consulted in group sessions.

In advance of each consultation, participants were briefed on the purpose of the study, the objectives of the consultations, and the agenda for the meetings, via a letter of invitation and/or a telephone call. In addition, all participants received a one-page description of the study, a brief narrative of the key challenges and, upon request, the full description of the key challenges.

Workshops were facilitated by a minimum of two project staff with at least one person being a local national. Except in the United States and Kenya, a

minimum of two of the institutions represented in the project consortium was present at all convenings.<sup>11</sup> Workshops were conducted in the local language (Cantonese, Mandarin, Spanish, or English, as appropriate). All staff involved throughout the study have extensive experience with the issues at the heart of the study as well as experience in conducting workshops. All facilitators and note-takers were provided with a detailed facilitator's guide, a report format, and an analytical framework to be used for preparing the final report.

In general, consultations focused on (1) input and perspectives on the key challenges and assumptions outlined in the Terms of Reference, (2) the opportunities present for improving the implementation of CSR in global supply chains, and the development of concepts and options (solutions) that could lead to more effective and sustainable solutions to the issues that form the core of the study.

### 1.3.5 Worker Methodology

A separate methodology was developed for consultations with workers. The consultations with workers were conducted by locally based representatives of civil society organizations: the Institute for Contemporary Observation in China, the Equipaje de Monitoreo Independiente—Honduras in Honduras, a former staff member of the Global Alliance for Workers and Communities in India, and the Kenyan Human Rights Commission in Kenya.

<sup>10</sup>This figure excludes the consultations with workers, which involved 199 individuals.

<sup>11</sup>PwC's Kenyan and South African offices conducted the consultations in Kenya, and BSR conducted the consultations in the United States.

The methodology for worker consultations specified one or more focus group meetings depending on whether, for example, gender issues or relations between casual workers and regulars were better dealt with in separate groups. In addition, a limited number of individual interviews were conducted to solicit the input of vulnerable groups, such as women and migrant workers. We consulted a total of 199 workers. The objective was not to make an in-depth quantitative survey based on structured interviews with many informants, but rather to get an overall impression of benefits, constraints, and processes of implementation and monitoring from the point of view of workers on the floor.

### 1.3.6 Identification of Participants

Participants were identified through the consortium's existing international and local networks.<sup>12</sup>

The following criteria guided the selection of participants:

- Knowledge of the subject matter.
- Interest in the development of more effective and sustainable solutions for addressing CSR in global supply chains.
- Willingness to engage in a consultative, collaborative process.
- Credibility in the field of CSR.
- Ability to engage within the timeline of the project.

The study consulted first-tier suppliers. While the implementation of codes of conduct in the supply chain has implications beyond that of the first supplier level, to date only a limited number of multinational corporations are effectively implementing codes of conduct at the level of sub-suppliers and beyond.

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<sup>12</sup> Some companies and organizations declined to participate in the consultations. Most indicated a problem either with the narrow time frame for participation, or that they had taken part recently in studies of a similar nature.



# Barriers and Key Challenges

**C**odes of conduct establishing guidelines for global supply chain partners of multinational enterprises have existed for approximately a decade, generally emerging as one response to concerns about social and environmental practices. During this time, the application of codes of conduct has contributed in varying degrees toward wider and deeper implementation of social—and to a lesser extent environmental—standards, mainly in developing countries.

The implementation of social and environmental standards through codes of conduct has relied on a fairly rudimentary and straightforward system of code development, implementation, monitoring, and remediation. The system relies heavily on private monitoring of code compliance as the principal means of ensuring compliance with the code provisions. These approaches have not been the result of systematic analysis, with the result that the whole system does not appear to exceed the sum of its parts.

During this decade, the principal policies, strategies, and procedures related to codes have evolved: many codes have become more consistent with internationally agreed principles; implementation guidelines for broad principles stated in codes have in many cases been established; auditing and monitoring procedures have increased in quantity, and to some degree in quality; and there has been increasing engagement between the private sector and civil society. At the same time, many observers believe that fundamental conditions remain in need of substantial improvement.

Much of the original impetus for codes of conduct came from the United States and Europe, with multinational corporations and civil society organizations in these regions being more involved

than institutions in exporting countries. Companies' efforts are widely viewed as reflecting a mixed motive of seeking to protect the rights of workers and environmental concerns, while also seeking to protect their reputations and brand equity.

In the mid- to late 1990s several collaborative initiatives involving other stakeholders emerged, bringing together a number of companies and stakeholders around common codes and implementation measures. These efforts, referred to in the report as “multistakeholder initiatives,” developed for a number of different reasons. In general, these initiatives have sought to develop and reflect a wider consensus around code content and implementation mechanisms, engage knowledgeable and credible parties from civil society, provide a means for greater coordination and collaboration, and share costs of implementation. Although these multistakeholder initiatives and industry-wide efforts can be seen as an enhancement of the initial generation of codes developed by individual companies, they are nonetheless part of the same trajectory that has guided the implementation of social and environmental standards so far.

## 2.1 TIME FOR A CHANGE?

As implied in the Terms of Reference for this study, there is now an emerging consensus by many observers of this approach that, while recognizing the advances made under the present system, there is a need to approach these questions differently to achieve better working and environmental conditions in global supply chains.

As noted earlier, the World Bank identified three key challenges to be considered as possible barriers

ers to the attainment of better social and environmental conditions. While the three key challenges address distinct problems, they are also closely interrelated. Taken together, the three key challenges suggest that the present system of implementation needs to be reconfigured.

Thus, the first key challenge, *“the plethora of individual buyer CSR codes is now generating inefficiencies and confusion”*, suggests the need to readjust and fine-tune the present system of implementation. It accepts the view that codes of conduct are an essential tool in the pursuit of better social and environmental conditions, and therefore does not question the premise, but rather implicitly calls for a need to adjust it and make it work more efficiently, possibly by promoting increased standardization of existing principles.

The second key challenge, *“an increasing number of buyers are recognizing that traditional top-down CSR strategies are not achieving improved CSR implementation,”* instead questions the established implementation process. It reasons that the present system, being driven by buyers from a distance, will not in itself be able to generate the desired outcomes in terms of sustainable compliance and improved working conditions, even if fine-tuned to the greatest extent possible.

The third key challenge, *“[suppliers] have an insufficient understanding of the business benefits associated with making the required investment”*, addresses a key premise for any business activity, that is, the need for a perceived business case.

In addition, the consultations conducted for this study also revealed additional challenges, which in some cases were considered more important than the three key challenges identified here.

The following sections reference how participants consulted throughout the study commented on the key challenges outlined by the Bank, present additional challenges raised by the parties consulted, and provide an analysis of these perspectives.

## 2.2 OVERALL OBSERVATIONS

By and large, participants in the consultations confirmed the underlying assumption of the study, that while the present system of implementation

has resulted in some improvements, some of them substantial, it possibly has reached its limits, and may not be positioned to bring about further real and sustainable improvements in social and environmental workplace standards in developing countries without meaningful adjustments.

In terms of the first key challenge suggested by the Bank, most participants questioned the degree to which the plethora of codes presents a significant challenge. For the most part, participants pointed not to the basic provisions of codes, which they view as having largely converged to a significant degree. Instead, there is a widespread impression among those working in the field that the inconsistent interpretation and application of codes presents the greatest confusion and inefficiency. Accordingly, many questioned whether efforts to achieve code harmonization would yield real and sustained improvements in social and environmental workplace conditions. Nonetheless, most participants believed that the imperfections and inconsistencies of the present system should be addressed, and that doing so could result in some improvements.

In terms of the top down approach also identified as a potentially significant barrier, participants noted that although this approach had probably been essential in the beginning to raise awareness and achieve progress, the present top-down approach was insufficient and even inefficient in achieving further real and sustained improvements. It is important to note, however, the widely held view that the top-down approach remains important in many circumstances, and that engagement from buyers and other institutions in the North would continue to be part of the picture, and could reinforce needed bottom-up strategies for capacity building, worker empowerment, and government enforcement of laws. Indeed, workers consulted for the study confirmed this perception by noting that top-down pressure was necessary to enable the implementation of worker empowerment.

On the third key challenge, participants agreed that the business case—or how it is perceived and understood—plays an important role in determining the willingness and motivation of both suppliers and buyers to undertake investments in CSR practices. The business case was described



alternately as related to obtaining or losing orders on the basis of CSR, as well as the inherent business value of implementing social and environmental practices. While this challenge would seem to be a significant barrier to further adoption of CSR practices by suppliers, there are mixed perceptions of the degree to which the business case exists. Many participants, including suppliers, buyers, and NGOs, appear to hold the view that implementation of social and environmental standards in many instances tends to generate costs and provides a relatively low return on investment.

In addition, many participants pointed to structural barriers to implementation relating to the overall business environment. In particular, several representatives from all consultation groups pointed to the very structure of the buyer–supplier relationships in the apparel and agriculture industries, including complex, shifting, and anonymous supply chains, as presenting a structural barrier to implementation of social and environmental standards.

Several other barriers were raised in addition to the three key challenges in the Terms of Reference. Some of the barriers articulated by participants in the study took the form of *inaction*, rather than affirmative steps that do not further the process.

Virtually all participants noted that the absence of action by local governments presented a significant barrier. It is essential to note that government inaction was viewed not only as a barrier to the achievement of good practice generally, but also as a barrier to the implementation of codes of conduct and other critical steps taken by nonstate actors.

In a similar way, consultations also showed that environmental concerns beyond those related to occupational health and safety have yet to enter fully the agenda of most groups consulted in the study, including buyers, NGOs, and trade unions. An exception to this is in the agricultural sector, where the consulted workers stated that codes had reduced the environmental (health and safety) risks in working with pesticides and other chemicals.

Finally, it is important to note that some stakeholders do not accept the basic premise that codes of conduct are a useful mechanism for addressing the social and environmental issues at the core of this study. Trade unions in particular contend that public enforcement of laws, and collective bar-

gaining agreements, are a far more effective and accountable system for ensuring that labor principles, and to some degree environmental principles, are honored. It is, in fact, possible to extrapolate from this view that *codes themselves are a barrier*, and this view provides an important countervailing opinion that is worth considering as options for future progress are developed.

## 2.3 KEY CHALLENGE 1

### The Plethora of Individual Buyer Codes Is Now Generating Inefficiencies and Confusion

In the Terms of Reference, the Bank Group estimates that 1,000 buyer codes exist today.<sup>13</sup> The Bank suggests that the increasing number of codes, and the variety of standards they contain, is a source of inefficiency and confusion that may limit their effectiveness. In addition, it is unclear to what extent the 1,000 codes identified by the Bank are supported by the substantial implementation systems that are required to provide reasonable assurance that the standards are met.

In the Terms of Reference, this proliferation of codes is argued to have two distinct sets of consequences:

- First, the duplication of codes disrupts or even prevents full implementation of social and environmental standards at the level of the individual supplier.
  - The individual supplier becomes too preoccupied with meeting the different requirements of his/her buyers to be able to offer time and resources to address real implementation.
  - The duplicative requirements of buyers put unnecessary financial and managerial burdens on suppliers.
  - Suppliers “get caught” by buyers’ different and, at times, conflicting requirements, thus remaining in a “compliance limbo.”

<sup>13</sup> The term “code of conduct” is often used to mean different things. In this report the term is used to refer to guidelines established by buyers to establish social and environmental performance for their suppliers. It is not certain whether the Bank’s estimate of the number of codes of conduct applies this definition and, if not, what impact it would have on the estimated figure.

- Second, to the degree that duplicative and inconsistent codes create barriers to entry for suppliers aspiring to produce for international companies, this could have implications for national economies because such issues have the potential to interrupt the development of local participants in the benefits of global trade. In citing this potential factor, there is no suggestion that those implementing codes intend this result.

In addition, the duplication of codes may present a case of industrial suboptimization since the same (or better) end result (that is, compliance with social and environmental requirements) could be achieved with fewer resources through greater coordination and cooperation between buyers

This means that all concerned, including buyers, suppliers, and workers stand to lose: buyers because they are not given the level of assurance sought; suppliers (and buyers) because they waste resources and are not able to harness the potential benefits of CSR; and workers because they do not benefit from improved working conditions.

### 2.3.1 Overall Observations

With the exception of suppliers, who have mixed views, participants overall expressed skepticism about whether the plethora of codes in itself was a source of real inefficiency and confusion, although they did agree that the duplication of codes did cause some additional burdens to suppliers. On the whole, participants pointed instead to inconsistent application of codes as presenting a significant barrier to the implementation of CSR practices in global supply chains. This view was widely shared across the different participating groups, although dissenting voices came out in almost all groups, most notably among suppliers, some of whom did see the number of codes as a problem in itself. One of the main reasons cited for contesting the notion that the explosion of codes presented a problem was the general observation that most codes have the practical impact of restating local laws, and that codes adopted by the most visible buyers reflect a strong and growing convergence around core International Labour Organisation (ILO) conventions, and also frequently reference the principles

embraced in the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

Thus, while participants believed that the inconsistent application of codes was a problem, including duplicative and inconsistent monitoring efforts, many of those consulted also directly and indirectly cautioned against an overdramatization of the scale and scope of the challenge. A number of suppliers also seemed to acknowledge implicitly that many of the difficulties could be overcome relatively easily. Some stakeholders asserted the fact that the implementation of codes is no different from the implementation of other standards, such as quality control or new management systems.

Furthermore, the vast majority of participants did not believe that the proliferation of codes acted as a barrier to entry for suppliers aspiring to produce for buyers focused on CSR performance, hence rejecting part of the rationale for citing this as a challenge.

Although several anecdotes are raised frequently to illustrate an overburdened system of duplicative monitoring visits, there is currently no way to determine whether this is the exception or the rule. Most parties to the discussion, however, generally acknowledge that the current system is not coordinated to achieve a planned result and that unnecessary duplicative monitoring should be dealt with.

### 2.3.2 Inefficiencies and Confusion

As noted, consultations revealed that participants broadly questioned whether the plethora of codes in itself was a source of real inefficiencies and confusion, pointing instead to the application of codes as the source of the problem. Specifically, participants in the consultation pointed to the following:

- **Multiple Auditing:** Some suppliers report having been subjected to more than 30 to 50 audits per year, and sometimes having been monitored by the same auditing company on behalf of different buyers. Suppliers state that audits divert management time and resources, disrupt workflow, and challenge planning processes. Most participants agreed that multiple

auditing was inefficient, although some Western and local NGOs and buyers argued that this problem was overstated and that the potential benefits of multiple auditing (maximizing pressure, better total monitoring, and so forth) outweighed the actual costs. It was also noted that the overall reliance on monitoring created a system in which the suppliers' main objective is to pass the audit, rather than address the substantive issues that are the focus of the audit. Many workers believed that better and more uniform monitoring procedures would facilitate implementation of codes.

- **Auditing Procedures:** Some suppliers claimed that different auditing procedures are a source of inefficiency. Often, auditors are left to determine methodologies, such as the use of documentation, visual observation, and interview, and these may vary substantially between and within institutions. Also, some suppliers (and Western stakeholders) believed that the quality of auditing varied greatly among auditing organizations, and even within such organizations. These issues are perceived to apply to a range of monitoring organizations, regardless of whether buyers' personnel, commercial third parties, or civil society organizations perform monitoring functions.
- **Supplier Implementation:** Different codes often are backed by different implementation requirements, through which suppliers are asked to demonstrate how they manage and implement the standards contained in codes. Some of these requirements relate to management systems; some relate to performance, and many combine the two.
- **Supplier Performance Requirements:** Many buyers in recent years have responded to their own concerns and those expressed externally by developing more detailed guidance on the specific meaning of code provisions. This should generally be considered an important step toward the implementation of code provisions. At the same time, suppliers in particular note that these implementation guidelines may often have different provisions on particular issues, such as details of health and safety provisions (for example, the location of the first aid box and fire extinguishers), compensation of piece-rate workers, and so forth. Such variations can raise the risk that one buyer could consider a supplier in compliance on one day, and the same supplier could be determined noncompliant by another buyer on the next day. It is worth noting that although many parties raise the oft-cited example of the supplier that is required to move fire extinguishers a few centimeters higher or lower depending on the buyer and the auditor, others have challenged the degree to which such "requirements" actually are enforced and determinative of outcomes, or whether they are used to exaggerate the weaknesses in the system.
- **Supplier Management Requirements:** In addition, suppliers are sometimes required to maintain different types of documentation of their performance, and processes for implementing good environmental and social performance. Indeed, as some buyers seek to shift from the top-down to a bottom-up approach, more of these process requirements may be established. There is a similar risk, cited again by suppliers, that inconsistencies in process requirements will distort the investments made in ensuring good conditions toward administrative requirements which, if inconsistent, will retard rather than promote improvements. This was a particular problem for SMEs lacking the necessary management systems and capacities, although also a source of added costs for larger suppliers.
- **Remediation:** Buyers often have very different approaches to remediation. This too is possibly less a consequence of the absolute number of codes than of differing means of applying codes. Given that the ultimate goal of codes and other labor and environmental requirements is to achieve performance improvements, the question of remediation (that is, what must be done to address shortcomings in performance) should be given prioritized attention in future efforts to improve the impact of codes. It should be noted that many buyers raised the issue of their institutional need to make final decisions on whether and on what terms they would work with a particular supplier based on remediation efforts, and that these decisions tend to be highly individualized.

The question remains about the extent to which the identified inefficiencies and confusion cause real

obstacles to implementation of CSR, as well as the extent to which this places unreasonable burdens on suppliers. Not surprisingly, this is an issue on which perspectives tend to vary between suppliers and buyers in particular. As such, a summary of views from each is presented below.

### Suppliers' Perspectives

The assertion of suppliers that multiple codes are a source of inefficiency and confusion would to a large degree stem from the overall context in which social and environmental requirements have been developed, that is, from the fact that codes in their view have been imposed on them with little or no consultation. Given that different participation groups expressed somewhat different perspectives on these issues, an examination of some of these views may reveal valuable additional nuances to the discussion:

- Comments suggested that most suppliers are yet to embrace fully the objective of implementing social and environmental standards. Apparel suppliers in India acknowledged this, noting that a change of mindset was needed to see a more proactive attitude toward CSR, which indicates that additional costs stemming from code implementation also would be seen as unwanted. Some apparel suppliers confessed that they skillfully had developed the art of seeming to be in compliance without making changes. For example, prior to announced audits they would instruct employees to wear required protective equipment, the factory would be swept clean, and so on.
- Many suppliers are still finding it hard to deal with the “new” social and environmental requirements contained in the codes of conduct. For instance, according to apparel suppliers in China and India, the overriding challenge is still how to deal with compliance provisions on overtime, and in many cases they also have to address inconsistent application of code interpretations of overtime requirements. On the other hand, buyers’ assertions that the “multiple codes argument” is being used as a pretext for evading compliance may have some merit, noting that some apparel suppliers confessed that “compliance, except for overtime and compensation, was not a problem; it is only that we are not paid for it.”

The above observations should not, however, invalidate the assertion made by suppliers that the implementation of multiple codes does cause real inefficiency and confusion. On the contrary, these inefficiencies are real, stemming at times from multiple audits, different requirements concerning management systems, the time and resources devoted to comply with various requirements, and other issues. It is unclear whether the magnitude is of central importance in itself, or whether they are the source of additional frictions in an already strained relationship.

### Buyers' Perspectives

While many buyers also acknowledged the inefficiencies arising from multiple codes, they did not see this as a problem of the magnitude that suppliers did. Indeed, some buyers felt that duplicative monitoring served the beneficial purpose of reinforcing the message that suppliers needed to attend to these issues more carefully. Not surprisingly, buyers see a different set of inefficiencies in the system than do suppliers:

- Buyers consulted in the course of the study generally acknowledged that the costs of monitoring are becoming increasingly high and in the long run are not sustainable. This is particularly true as some buyers have started to look beyond the first tier of suppliers, opening up the possibility of monitoring many more suppliers. Accordingly, buyers are looking to solutions that would allow cost sharing, especially in this area, which is seen as noncompetitive.<sup>14</sup> Moreover, a number of buyers would like to avoid duplication as much as suppliers, and in many cases have either helped to launch or have expressed interest in monitoring “cooperatives.” This is already taking place not only via some of the multistakeholder initiatives but also on a more informal basis between groups of buyers.
- Increasingly, buyers are recognizing that the traditional approach to compliance is not generating the desired results in terms of improved

<sup>14</sup> One European buyer did note that while field staff assert frequently and convincingly that buyers in practice are aware of each others’ suppliers, many headquarters staff continue to believe that sharing factory information risks the surrender of business sensitive information, and is therefore too risky. This clash of perceptions could present a barrier to further sharing of monitoring information.

social and environmental standards. For obvious reasons, buyers are looking to solutions that will give a better return on the investment.

- Some buyers also note that the external pressure they face to protect their brands leads them to interpret code guidelines individually, with the potential idiosyncrasies that result.

Accordingly, while buyers by and large share suppliers' concern that the application of codes of conduct may generate some inefficiency and confusion, buyers have a slightly different focus, preferring to look for ways to achieve similar or increased results through greater coordination of effort and investment. A number of buyers, however, did argue that the suppliers' claim that the duplication of codes caused inconsistent implementation practices often was a pretext to evade compliance.

### Stakeholders' Perspectives

The stakeholders surveyed in the study are a diverse group with different levels of experience, perspectives, and interests.

Taken as a whole, however, stakeholders agreed that the inconsistent application of codes of conduct was a source of inefficiency and confusion, although many NGOs remained skeptical about the degree to which this was as real a problem as professed by suppliers and buyers. For instance, stakeholders in the United States, including NGOs, trade unions, and representatives of multistakeholder initiatives, asserted that this challenge was "a bit of a red herring put forth by suppliers and major brands." This group believed that the focus on this issue (unfortunately) tended to distract attention from the more critical issues faced by workers, such as hazardous conditions and discriminatory treatment. Likewise, a representative of one of the European multistakeholder initiatives thought that the burdens caused by multiple audits were exaggerated.

However, stakeholders did acknowledge that the proliferation of codes could be a significant problem for SMEs, which often have such poor management systems in place that it proves more costly and difficult for them to comply with codes. In this way, codes could act as a barrier to entry.

As to the question of confusion, stakeholders overall agreed that suppliers are generally not confused,

but know perfectly well how to demonstrate compliance. Confusion, in the few cases where it does exist, is not so much a result of the actual number of codes, but rather stems from the fact that the provisions in many codes are simply too vague.

### Workers' Perspectives

Workers generally did not express strong opinions on the extent to which multiple codes and their (inconsistent) application was a source of inefficiencies and confusion. Given that the consultations with workers demonstrated an overall lack of awareness of codes and their impact, this is perhaps not surprising. However, many workers believed that implementation of codes of conduct would be facilitated by the development of more uniform and improved monitoring practices. Some workers also noted that management seemed at times too preoccupied with accommodating the different requirements of buyers.

### 2.3.3 Code Content Convergence

In the eyes of most participants, the labor content of most codes restates the provisions of applicable local laws or, if higher, the principles stated in relevant ILO conventions. Many participants, including buyers, suppliers, and NGOs, dismissed the discussion of duplicative code content referencing "the fact that most codes today are built upon the ILO conventions."<sup>15</sup>

A notable exception to this prevailing view was an intergovernmental organization well positioned to comment on this issue. Referencing its own research, it claimed that although code content was overlapping and most often did refer to ILO conventions, the coverage was insufficient and often failed to take into account core labor standards such as freedom of association and the right to collective bargaining.<sup>16</sup>

<sup>15</sup> Research recently undertaken by the Bank Group will be released shortly, and will address the question of whether a majority of codes converge around the core ILO conventions.

<sup>16</sup> According to representatives of multistakeholder initiatives, recently initiated discussions have indicated that the content of a common code is not a source of contention. It is argued that a common code could be defined easily. Noting that the multistakeholder initiative codes generally aspire to high standards, this would not necessarily suggest that nonmembers of the multistakeholder initiatives would agree to such a code.

In the eyes of participants, code convergence would not in itself guarantee greater uniformity or effectiveness, since implementation practices today vary even among companies using identical codes. The fact that the major multistakeholder initiatives have yet to mutually recognize each others' systems would seem to support the view that "the devil is in the detail," that is, in the implementation and interpretation of code provisions.

It should be noted also that some participants, notably those in India and China, reported that local laws are not always interpreted consistently even by government officials, and that local laws are considered in some cases to be "archaic" and in need of an overhaul.<sup>17</sup>

### 2.3.4 Code Convergence in the Field of Human Rights and Environment

In the Terms of Reference to this study, the Bank Group presents the assumption that if code convergence in labor content does take place, referencing ILO conventions, this would hold implications for convergence in the field of human rights and the environment; that is, code convergence should be achieved by referencing international standards.

As noted elsewhere, consultations showed that provisions relating to the environment and human rights beyond that of labor rights appear not to receive much attention in codes of conduct in the two sectors surveyed. However, according to some workers, certain environmental issues are addressed in the agricultural sector, such as use of pesticides. Similarly, human rights issues, apart from labor rights, are generally not part of codes of conduct for suppliers.

The observation that environmental issues went largely ignored throughout consultations might reflect that so far there is less awareness, concern, and external pressure to address environmental matters than labor issues in global supply chains. However, this may also reflect particular industry characteristics, since environmental issues feature more prominently in the supply chains of other industries, including the automotive industry.

Convergence on *environmental* principles in codes for suppliers does not appear to be feasible, largely because of the lack of relevant international standards designed to apply globally. The level of detail and specificity agreed in the ILO conventions cannot be found in any relevant environmental convention or declaration. The principles cited in the United Nation (UN) Global Compact do not constitute a sufficient basis for designing enforceable standards, even though they may provide overall guidance. None of the consulted participants expressing a view on the subject believed that it would be possible to develop an environmental code on a broader global level; they noted that environmental provisions would be company-specific or, at the very least, industry-specific. Indeed a number of buyers—but also suppliers—believed that if environmental codes could be developed it should be on an industrywide basis allowing for a substantial degree of local customization. However, most participants did not feel qualified to comment on this issue.

In the field of *human rights*, the situation should in principle be similar to that of labor, given the existence of the Universal Declaration of Human Rights (UDHR) and numerous human rights conventions, which provide an adequate and relevant basis for such principles. However, consultations uncovered a lack of knowledge of and interest in human rights issues related to supply chain apart from labor rights issues. Participants did not anticipate that human rights, beyond those of labor rights, would achieve a more prominent position in codes of conduct in global supply chains.

## 2.4 KEY CHALLENGE 2

### An Increasing Number of Buyers Are Recognizing That Traditional Top-Down CSR Strategies Are Not Achieving Improved CSR Implementation

As noted in the previous section, most participants believed that if real implementation of CSR standards was to be achieved it would require new approaches to implementation that were "outside" the present system of enforcing codes of conduct. In that light, an important initial qualification of the phrasing of Key Challenge 2 would seem to be that not only buyers, but also suppliers, NGOs,

<sup>17</sup> These comments appeared to argue for a lowering of legal requirements in aspects of Chinese and Indian labor laws.

trade unions, and other stakeholders are seeing a need for alternative and complementary approaches to CSR implementation.

### 2.4.1 Bottom-Up and Shared Ownership

In the Terms of Reference, the Bank Group referred to assertions by buyers that the so-called top-down approach to CSR implementation in global supply chains is not achieving improved CSR implementation. In using the term “top-down” the Bank Group implies that new approaches to CSR implementation would have to move in the direction of bottom up, that is, implementation strategies that to a greater extent rely on the positive engagement of suppliers, workers, and local stakeholders through shared ownership.

In the Terms of Reference, the Bank Group points to three basic types of strategies that have been employed by some buyers to promote improved implementation:

- A focus on clarifying the business rationale to generate bottom-up demand for CSR implementation. This would appear to be based on an assumption that CSR implementation drives business benefits.
- A focus on capacity building at the supplier level, for management, workers, and stakeholders alike. This presupposes that suppliers, including their workers and stakeholders, do not possess the skills and knowledge necessary to secure implementation of social and environmental standards.
- A focus on the role of workers or other key stakeholders as guarantors of CSR implementation, presuming that more fully empowered workers are key to ensuring implementation of CSR standards.

The above proposed alternative and complementary approaches to CSR implementation in global supply chains seem to rest on some important assumptions. In the course of testing this overall challenge, Key Challenge 2, we emphasized clarification of the following:

- Do participants overall agree that the so-called top-down approach is not generating the desired outcomes?
- In a similar way, it seems important to test whether participants agree that suppliers broadly

speaking are lacking important skills that hinder the implementation of social and environmental standards? And, if so, what kinds of skills are missing?

- Do participants agree that more fully empowered workers are critical to the implementation of CSR standards?

### 2.4.2 Overall Observations

Overall, participants from various perspectives agreed that, whatever the historical or present benefits of a top-down approach, there were real limits to the value this approach would generate going forward. However, consultations also broadly showed that in spite of the present concerns about the top-down implementation model, it would and should remain an element in the overall process of improving CSR workplace practices in developing countries.

As noted above, a primary impetus for action to address conditions in global supply chains was a series of episodes given great attention in the United States and Europe in the 1990s, and the resulting concern expressed by buyers, stakeholders, consumers, and the media. There was no similar outcry in many of the exporting countries. Some participants also pointed to the unwillingness or lack of capacity of governments in exporting countries to address issues, and that the tenuous existence of civil society in several developing countries also limited the development of locally based solutions. Therefore, there was greater initial energy both from commercial and noncommercial entities from the North, with the top-down approach being an outgrowth of this situation.

Notwithstanding the reasons the situation developed as it did, several parties now see the top-down dynamic as having various negative features. Suppliers tend to see the top-down approach as problematic because it does not involve them sufficiently in the development and implementation of codes. Buyers pointed to the fact that a top-down approach cannot and will not be sustainable over time. Workers noted that they were not aware of or involved in efforts to achieve better labor and environmental practices. And stakeholders have come to lament the lack of indigenous roots for the solutions. In all cases, it should be noted that there are often fundamental differences in perceptions

between buyers and stakeholders depending on whether they are based in the North or the South.

Apart from these real barriers to implementation of bottom-up approaches, many participants also pointed to other structural barriers, such as the actual business models including the transient nature of sourcing in the apparel sector, and the reticence of suppliers to embrace social and environmental compliance. In addition, some participants, including buyers, emphasised the possible lack of commitment to CSR among many buyers as a challenge, noting that the implementation of bottom-up approaches required the commitment of both financial and managerial resources as well as a commitment to developing more long-term relationships. Many workers expressed skepticism of the motives of buyers and management, noting that implementation often was done without commitment and conviction.

Overall, there is a broad-based consensus that implementation efforts other than top-down efforts have to be pursued; however, most participants seem still to be in the process of considering viable, scalable, and sustainable approaches. There appeared to be a strong desire to move away from top-down approaches, and continued questioning about whether and how to do so.

### **Are Top-Down CSR Strategies Achieving Sufficiently Improved CSR Implementation?**

The vast majority of participants recognized that the present system of enforcing codes of conduct is not generating the desired level of implementation of CSR standards at the level of suppliers.

The above conclusion should, however, be interpreted carefully. The substantial majority of buyers, and also most of the NGOs and other civil society organizations consulted, believed that the present top-down system had achieved improved CSR implementation, but that further real and sustainable improvements required new approaches. As one buyer put it: “The question is not whether or not the top-down approach has achieved improved CSR standards but whether it has done so efficiently.” While suppliers were less ready to attribute credit to the present system—although they did not discredit it—one Indian apparel supplier echoed by others professed that buyers’ efforts in this area had achieved more in a few

years than the Indian labor inspectorates had in 30 years. A number of suppliers in both India and Honduras acknowledged the buyer perspective by noting that the supplier mindset had to change fundamentally, seeing this as potentially the greatest barrier to the enactment of bottom-up, shared ownership-driven approaches. In the words of a Honduran supplier: “Suppliers lack a culture of compliance.”

There is also the question of whether codes insert standards from the outside, or from the top down.

While many suppliers did believe that codes were imposed on them, they did not perceive codes as Western-centric, noting that codes most often merely restated local laws. Nor did suppliers perceive codes as a new barrier to trade, given that sourcing—irrespective of individual suppliers’ CSR performance—would take place with other suppliers in the same country or region. However, some suppliers in both apparel and agriculture did believe that buyers were not sufficiently sensitive to local realities in their application of codes. Apparel suppliers in China and India, referencing the challenge of overtime, frequently mentioned this latter point. Stakeholders from the exporting countries expressed similar concerns, and the Kenyan stakeholders specifically cited the “unreasonable” child labor standards in many codes as an example.

### **Is Top-Down Necessary?**

While noting that this was the prevailing view, participants still had mixed views of the relevance and appropriateness of the top-down approach.<sup>18</sup>

Suppliers in particular, and some NGOs and trade unions from sourcing countries, expressed the greatest concerns about the top-down approach. A number of suppliers and some stakeholders from sourcing countries complained that codes were being imposed, that insufficient consultation had taken place, and that the buyer-supplier relationship was characterized by a lack of equity. Some believed that codes should be negotiated bottom up, noting that this was the only way to secure a

<sup>18</sup> One intergovernmental organization believed that a great many ongoing activities contradicted the generalized description of the top-down approach. Other participants, who in general did not reference ongoing activities beyond that of small pilot projects, however, did not confirm this observation.



sense of shared ownership. Unions, international as well as local, believed that a bottom-up approach, characterized by genuine freedom of association that allows workers to organize and bargain collectively, is the only way to improve working conditions.

Many of these complaints by suppliers appeared to stem from an overall sense of powerlessness that is underpinned by a perception that suppliers are asked to shoulder the costs of compliance, whereas buyers receive the benefits. First, there is a general sense from most suppliers that they lack trust in the motives of buyers for implementing CSR standards in their supply chains. Second, code-of-conduct requirements have been developed at the same time that suppliers have faced substantially increased pressures to lower their prices and speed their delivery of goods.<sup>19</sup> This is closely linked to the observation by all suppliers (and acknowledged also by a substantial number of buyers' representatives and many NGOs) that buyers send mixed messages about the importance of CSR vis-à-vis other buying requirements such as price and delivery. This latter issue is further explored in the discussion of Key Challenge 3, as well as chapter 3 of this report. In addition, given that supplier-buyer relationships often shift substantially, and that many buyers have not yet embraced CSR in a serious manner, suppliers' unwillingness to embrace CSR fully themselves can be seen as a response to the fact that the market does not yet send a consistent message about the importance of CSR.

The majority of buyers and NGOs tended to take a more balanced view, asserting that the top-down approach had been necessary, and would remain so for some period of time, while they also express strong interest in devolving responsibility and authority for addressing social and environmental issues to suppliers themselves. This general observation was justified by referring to the fact that CSR compliance was driven by buyers as a response to their own buyers' pressure (that is, consumers and retailers), and because most suppliers still did not embrace social and environmental standards, and many were operating in violation of applicable laws, change would not likely ensue

without top-down pressure. Indeed, some buyers noted that so long as their codes mainly reflected and restated local laws, they would not engage in consultations on the codes' content.

Workers generally believed that some top-down pressure was necessary to ensure implementation of codes, while noting that implementation would be much more efficient if it involved more workers and workers' perspectives and experiences.

The views expressed by most participants would seem to confirm that the top-down approach has been important in making initial progress, and yet is unsustainable in the long run as a stand-alone strategy for implementation of social and environmental standards. Indeed, this is an area in which buyers, suppliers, and stakeholders are in agreement, wanting to see local approaches elevated to greater importance in coming years. However, it is unrealistic to assume that suppliers, in particular in industries such as apparel that are characterized by short-term, shifting relationships, would take the initiative to implement CSR standards on their own. The fact that this has not occurred yet lends weight to this argument. The top-down approach will remain a prominent feature even in the years to come, and even as most parties to this debate seek more bottom-up solutions.

### **2.4.3 Lack of Local Capacity as a Barrier**

Many buyers and NGOs contended that the reason for top-down approaches is the lack of capacity or will to adopt solutions locally. More importantly, however, few suppliers acknowledged the need for capacity building at the level of management and middle management. They did not see (managerial) skill deficits as a barrier to implementation, but rather turned the attention to the need for capacity building at the level of local government. Suppliers in fact opined that the lack of direct communication/consultation with buyers was a barrier to implementation, noting specifically that the use of third-party monitors risked externalizing part of the buyer-supplier relationship. In general, the fact that few parties came forward with details about how to increase capacity may reflect a barrier in itself. Buyers also expressed concerns about the degree to which they could be directly involved in capacity building across their entire supply chains.

<sup>19</sup> In consultations in China and Hong Kong, commercial parties noted that prices have been falling in absolute terms in recent years in the apparel industry, and numerous agricultural commodities have faced similar deflationary pressures.

### Limitations to the Bottom-up Approach

Although consultations showed a general consensus on the need for a combined approach to implementation, they also evidenced two questionable assumptions of a structural nature inherent in this thinking.

Echoing the view of many buyers and Western NGOs, one international organization argued that the top-down approach was inevitable in industries or supply chains with short-term, shifting relationships. In these industries it was impossible to expect buyers to commit to more shared-ownership-type approaches.

In addition, greater involvement of buyers in bottom-up approaches would also seem to rely on the questionable assumption that buyers are truly committed to implementing sustainable CSR practices in global supply chains, even though such approaches may be more costly and time-consuming. This point is worth considering given that the study involved a disproportionately high number of CSR-receptive buyers, and the general community of buyers may not adopt such approaches as readily.

Others noted the lack of incentives that currently exist for local governments to enforce local laws. As the system currently works, governments may perceive an advantage in lax enforcement because this allows them to attract foreign investment from both companies that do and do not care about these issues; relying on those companies that do care to enforce provisions on their own.

Finally, as noted in the Terms of Reference, one of the factors inhibiting local approaches is the general dearth of service providers from civil society, the commercial sector, academia, and public institutions at the local level.

### Worker Education and Empowerment

Many participants in the survey noted that workers, and workers representatives, had not been part of the solutions, and that this was one important aspect of the top-down barrier. This question has many dimensions: (1) many codes were developed with little involvement by workers; (2) trade unions often operate in environments in which their actions are sharply curbed by government and business; (3) the roles of NGOs and trade unions with respect to workers are frequently sub-

jected to different and often irreconcilable views; and (4) in an increasingly feminized and informal work force, questions are sometimes raised about the unions' ability to represent workers fully and fairly. In addition, some participants, from both buyers and stakeholders, noted the substantial costs of worker education, at least as it has been undertaken to date in pilot projects and through multistakeholder initiatives.

Some buyers, suppliers, and stakeholders also noted barriers in specific contexts: the oversupply of labor and reliance on migrant labor in China, and the presence of migrant labor and the importance of the informal sector in India.

Most unions strongly emphasised that codes should not become a substitute for collective bargaining, noting that codes were welcomed only if they promoted union rights including creating a space for local consultation. The majority of unions were firmly opposed to seeing NGOs in the role of training and empowerment of workers; even in situations where local unions were unable to do their job. Although some international union federations acknowledged that local unions did not always represent vulnerable groups, such as women workers and migrant workers, the alternative was not to bypass unions but rather to work with unions to make them better.

NGOs, on the other hand, remained skeptical about the ability of some local unions to take on the responsibility of training and engaging with companies, noting that some unions were caught up in political strife or corruption. Both NGOs and unions agreed that commercial service providers should not carry out these activities nor should multinational companies sponsor their activities in this field.

Workers, for their part, presented mixed perspectives on the role of unions; some showed a lack of faith in unions, noting that they were too politicized or corrupt. Others saw the right to form unions and engage in collective bargaining as a central aspect of codes, second only to provisions on health and safety. As noted elsewhere, consultations with workers showed a general lack of knowledge of codes, reinforcing the view expressed by buyers and stakeholders that workers' needs and potential are not adequately addressed.

## 2.5 KEY CHALLENGE 3

### Insufficient Understanding of the Business Case

The business case for CSR in general is and will continue to be widely debated. This also holds true for implementation of good social and environmental practices in global supply chains.

As phrased, Key Challenge 3 and its underpinning assumptions imply that implementation of good social and environmental practice by suppliers does generate business benefits. The basic business case is generally understood to have two main elements:

- Compliance with social and environmental standards will help suppliers maintain existing business and secure new business. Suppliers risk losing business if they show an unwillingness to move toward compliance.
- Compliance with social and environmental standards generates business benefits through, *inter alia*, lower rates of absenteeism, higher productivity, and more satisfied workers.

However, the essence of Key Challenge 3 is whether suppliers acknowledge that the business case exists. This is the question that formed the basis for consultations on this barrier.

#### 2.5.1 Overall Observations

Consultations revealed considerable skepticism among suppliers about whether the business case actually exists. Furthermore, given that some buyers themselves do not unequivocally recognize the existence of the business case (for suppliers), suppliers may not acknowledge or act upon the business case for CSR for some time to come. Therefore, the most that can be concluded is that the business case remains unproved rather than disproved.

Accordingly, Key Challenge 3 would seem to be a significant barrier to further adoption of CSR practices by suppliers.

All participants agree that the business rationale—and how it is perceived and understood—plays an important role in determining the willingness and motivation of suppliers to undertake investments in CSR practices. This came out explicitly when discussing Key Challenge 3 as well as implicitly when

discussing, not least with suppliers, other key challenges. Stakeholders in general held the view that this challenge was the most important of the three identified by the Bank Group.

Suppliers, buyers, and stakeholders alike believe that the business case for investing in CSR is not a simple one-size-fits-all question. Indeed, most participants seem to agree that investing in certain elements of CSR does translate into (long-term) business benefits, whereas investments in other CSR aspects offer a negative or at best a neutral return on investment. Participants also held mixed views on whether good CSR performance helped suppliers maintain or secure business. Suppliers in particular did not see a direct link between CSR performance and obtaining or keeping contracts, except in a handful of cases in which buyers were genuinely involved with CSR practices of suppliers.

Many participants also pointed to the nature of supply chains as a factor that sometimes sharply limits the realization of business benefits from investments in social and environmental performance. In the apparel industry, the most frequent model is of buyers shifting orders between numerous suppliers, often maintaining only short-term relationships. Although some buyers contested this view, noting that supply chains were not as transient as frequently claimed, there is substantial evidence that many suppliers do not see the advantage in such investments when they have no guarantee of ongoing business from buyers. Similarly, in agriculture, the fact that much sourcing takes place via auctions or wholesalers also tended to make the business case less apparent to the individual supplier.

#### 2.5.2 The Business Case for CSR Implementation

Overall, participants questioned the phrasing of Key Challenge 3, although most agreed that the business case played an important role in determining the willingness and motivation of suppliers to undertake CSR investments. Some suppliers in China and Honduras believed that the phrasing was somewhat patronizing, whereas others implicitly noted that not only suppliers, but also others (including buyers), failed to understand the possible business case for CSR.

### **Does CSR Implementation Generate Business Benefits?**

Consultations did not reveal a clear picture of the possible business benefits associated with CSR practices.

Among suppliers, views varied substantially concerning the existence of the business case. The views presented by the suppliers consulted demonstrate the range of opinions on this subject. The majority of apparel suppliers in Honduras and China rejected the idea that CSR implementation would produce any business benefits. They argued that if business benefits were present, they would already have implemented such standards. Indian apparel suppliers took a more balanced view, noting that selected aspects of CSR practices, most notably health and safety practices, held the potential for business benefit. Agricultural suppliers in Kenya and India noted that good working conditions were essential to retaining the work force as well as its productivity. Nonetheless, this group saw codes of conduct as placing requirements much beyond what could generate any business benefits.

Buyers also had mixed opinions on whether the benefits of addressing CSR were either present or well understood. Opinions ranged from not seeing any implications for business, to seeing them mostly through anecdotal evidence and pilot projects, to seeing growing acceptance by some suppliers that benefits do exist. Some buyers, however, professed that CSR actually could make suppliers less competitive, because of costs incurred in improving social and environmental performance. Many buyers' representatives noted that there was no existing methodology for demonstrating the business case in a comprehensive and methodologically rigorous manner, and many questioned whether such a framework could be developed and made useful.

Stakeholders took a mixed position, with the division of opinion not following any clear geographic or institutional pattern. Approximately half of the stakeholders believed that suppliers (and buyers) have insufficient understanding of the business rationale and believed that greater clarification would increase the willingness to undertake the required investments. Some added that given tight margins many suppliers did not have the opportu-

nity to explore the potential benefits. The other half of stakeholders questioned whether the cost of investment outweighed the benefits, noting the issue was less one of awareness and more the lack of actual incentives. In general, stakeholders did see some business benefits associated with certain issues, such as health and safety and reasonable working hours (higher productivity, fewer products returned, less absenteeism, and so on), whereas it was much more questionable if compliance with other social and environmental standards translated into business benefits.

### **Do Buyers Reward CSR Compliance?**

Although the vast majority of participants accepted that CSR had become part of the contractual relationship between buyers and sellers, much less agreement existed on whether suppliers' good CSR performance translated into new or more stable business. The majority of participants, including most buyers, acknowledged that unresolved tensions among price, quality, and delivery time on the one hand, and CSR requirements on the other risked undermining the credibility of the business case.

In general, suppliers argued that their CSR performance did not have a significant impact on their relationships with buyers. In their view, compliance and good CSR performance did not result in longer or more committed buyer relationships, nor did it provide any real advantage in the process of securing additional business. This was further exacerbated by the unresolved tensions between product requirements and CSR requirements, which all suppliers saw as a pertinent issue.

The perspective of buyers was less clear on this issue, although for obvious reasons buyers argue that CSR performance is an important element of the contractual relationship. Nonetheless, many buyers acknowledged that their organizations send mixed messages about the balance between commercial and CSR requirements. Headquarters representatives in the United States and Europe most often voiced this view, whereas several local buyers' representatives in China and India often believed that suppliers used this argument as a pretext for evading CSR compliance. Many buyers consulted also claimed that the vast number of buyers not committed to CSR further undermined

the business case for CSR and their own efforts to demonstrate the benefits.

Stakeholders generally agreed that buyers send mixed message about the importance of CSR versus commercial requirements. However, many stakeholders drew attention to the inherent barriers in the present business model in the apparel industry that relies heavily on shifting supply chains and short-term shareholder returns. Constant demand for lower prices and new product lines keeps pressure on production and distracts from social and environmental concerns. Stakeholders noted that CSR investments were long term, whereas the present business model forced suppliers to think short term. Buyers acknowledged this conflict between long-term benefits and short-term thinking although they saw the short-term management of suppliers less as a result of the business model and more as a consequence of suppliers' inability to plan long term.

All participants agreed that buyers should work to overcome the unresolved tensions, for example, by integrating CSR within sourcing practices and business policies. Many stakeholders, however, were skeptical that this would be sufficient to address the tension, in light of the larger structural flaws in the existing business model.

## 2.6 OTHER KEY CHALLENGES

Throughout the consultations, participants raised a number of other issues and challenges that they believed should form part of the overall analysis of key barriers to improved implementation of CSR practices at the level of suppliers.

Stakeholders most frequently raised other challenges to be addressed. However, buyers—and to a lesser extent suppliers—also pointed to key challenges outside the Terms of Reference. As noted elsewhere, many NGOs agreed that the three key challenges identified by the Bank represent the main barriers to implementation when considered in a more immediate perspective of the buyer–supplier relationship. However, when turning to the wider and longer perspective, the NGOs believed other issues had to be addressed within a broader framework.

In general, many participants made the observation that real and sustained implementation of CSR

practices in global supply chains requires actions beyond those taken at the micro business level. In particular, a number of participants, including buyers and stakeholders, pointed to broader issues, such as the international trading regime, the international financial system, the behavior of consumers, and the present business model in many industries. Some of these issues are further explored below, although we note that a good number of them are discussed at only a superficial level and they remain outside the scope of the present study.

### 2.6.1 Other Key Challenges at the Micro Level

#### Lack of Buyer Commitment

Many stakeholders expressed the view that one fundamental barrier is the lack of serious commitment to CSR practices from the business community. The lack of commitment was exposed in two marked ways.

- First and foremost, many multinational corporations were considered by stakeholders to be negotiating with government and local authority with a view to be (partly) exempted from government regulation in several areas, including taxation, the environment, and labor standards. Unions in particular argued that many multinational corporations refuse to take part in employer organizations and do not participate in the normal tripartite structures, thereby undermining these organizations' credibility and effectiveness.
- Second, a number of stakeholders—and also buyers—noted that the problem of free riders was a serious issue, pointing to the vast number of companies that still did not embrace CSR. This further contributes to the syndrome of sending mixed signals to suppliers, undermines the efforts of CSR-progressive buyers, and renders the entire business community vulnerable to criticism. Interestingly, a number of buyers observed that some peers were directly undermining the credibility of the more committed part of the business community by not “walking the talk.” However, negative peer pressure is not only an issue among buyers. Several NGOs drew attention to the similar dynamic, which they believe persists among suppliers, particularly in export processing zones.

## Reliance on Monitoring

Suppliers in particular believed that the use of third-party monitors acted as barrier between buyers and suppliers, leaving suppliers no opportunity for engaging with buyers on more difficult compliance issues. Throughout the consultations, reference was made to the overall reliance on monitoring as a mechanism for achieving change. Concerns were expressed about:

- The proficiency and credibility of monitoring.
- The degree of resources invested in what is sometimes no more than a “cat and mouse” game that inserts or reinforces suspicion between buyers and suppliers.
- The failure of monitoring to address qualitative labor issues or achieve effective means of engaging in dialogue with workers.
- The “excuse” monitoring provides for governments not to invest in enforcement efforts.

Although most participants also recognized the value of monitoring, there was a broad view that monitoring as currently implemented does not make a sufficient contribution to improved social and environmental conditions.

## Stakeholder Responsibility

A number of stakeholders, including representatives of unions and intergovernmental organizations, argued that some NGOs reinforce some of the less useful aspects of the current system. In particular, by not being sensitive to the long-term nature of CSR, stakeholder campaigns have sometimes led companies to cut ties with noncompliant suppliers, resulting in negative consequences for workers and communities. In recent years the intent of such campaigns has tended away from the severing of commercial relationships for precisely this reason.

In addition, some stakeholders as well as buyers expressed the view that NGOs should devote less attention to the small group of high-profile buyers who are making great efforts to implement CSR and yet remain at the center of NGO criticism. It was suggested that a better focus of energy and attention would be on the vast of number of companies that are less active. A number of buyers noted that the continued criticism of what were generally considered “leading” CSR companies could have the unintended effect of discouraging other buyers from addressing CSR practices in their supply chains.

## Code Coverage

This study only addresses implementation of CSR practices at the level of first-tier suppliers in global supply chains. However, a number of stakeholders noted that the study should go beyond the first level to include subcontractors as well as home workers. This issue was also raised in consultations with buyers, who professed that this was an almost insurmountable challenge, and that looking too far down supply chains could itself create a barrier to implementation of CSR.<sup>20</sup>

Stakeholders also noted the challenge of extending the coverage of codes to include the informal sector, the principal economic dynamic in many developing countries. Finally, stakeholders emphasised the need to make CSR more accessible to SMEs that have more limited capacities and narrower profit margins than other suppliers.

## 2.6.2 Other Key Challenges at the Macro Level

As noted above, throughout consultations many participants pointed to broader and more long-term challenges related to the overall environment in which CSR practices are implemented. Some of these are outlined below.

### Lack of Consumer Commitment

A vast number of participants, buyers, stakeholders, and suppliers alike pointed to the lack of consumer commitment to CSR as a key barrier to implementation. There is widespread mistrust of polling data suggesting that consumers will pay extra for products created in accordance with good social and environmental practices. This is further corroborated by the price pressure many buyers feel coming from low-cost retailers, whom they criticize for failing to address CSR practices as fully among their suppliers. The lack of faith many have in the commitment of consumers helps to undermine the business case.

<sup>20</sup> Many buyer codes of conduct cover subcontractors and home workers typically by requiring suppliers to ensure that subcontractors are compliant with code provisions. Relatively few buyers, however, have started to enforce codes beyond the first level of suppliers through, for example, monitoring.

### **The International Trade Regime**

A number of stakeholders observed that the present international trade regime acts as an important barrier to implementation of social and environmental standards in global supply chains. In the eyes of some stakeholders, World Trade Organization (WTO) rules are inconsistent in that they allow focus on the impact of products on consumers, but not at the point of production. This makes it eventually more difficult to implement public procurement policies that favor products and services manufactured and delivered in a socially and environmentally responsible manner.

### **The Present Business Model**

In most consultations the question of the present business model in supply chains was raised as a key issue; however, not all agreed that the analysis was black and white.

As noted previously, the business model of the apparel sector, with short-term, shifting buyer–supplier relationships, was perceived as a major barrier to improved implementation of CSR practices. A number of stakeholders, suppliers, and buyers explicitly and implicitly noted that the business model did not provide sufficient incentives and structures to allow for a commitment to CSR beyond the existing implementation system (monitoring). Whereas CSR implementation generally is seen as long term, business relationships often are short term, margins are small, and suppliers too small (and financially squeezed) to take up CSR seriously. Many saw these structural characteristics of the apparel sector as being further reinforced by the advent of Internet-based auctions, the increased pressure on brand retailers to launch multiple collections every year, and the competition from low-cost retailers.

However, a small number of buyers did not agree fully with this analysis, noting in particular that they did not see their prevailing business relationships relying on short-term supplier links. Thus, in the apparel sector the overall buyer–supplier relationship may develop simultaneously in several different directions, possibly with an overall emphasis on transient relationships.

Other buyers noted that although the above description may generally fit the apparel sector—and

possibly parts of the agricultural sector—the same pattern was not evident in other industries such as the shoe industry and similarly specialized industries. In these industries buyers and suppliers were often linked over the long run, becoming mutually dependent. This provided greater incentives and opportunities for addressing CSR through the relationship.

The above observations were also made in respect of the agricultural sector, noting that often buyers and suppliers interacted only via auctions or wholesalers. This tends to make implementation of CSR practices more difficult. Exceptions do exist, however. A number of buyers in certain subsectors, such as tea and coffee, have developed relationships directly with the larger plantations and even smaller growers.

NGOs, particularly those involved in campaigning, put the question of the business model in a wider perspective, noting that the business case tends to apply more to companies concerned with brand image. In contrast, those producing products directly for other companies rather than the public (which represents the vast majority of business) have less motivation and are less susceptible to NGO pressure.

In sum, while anecdotal evidence and much management literature today would seem to suggest an overall trend toward buyers reducing their supply base and developing longer-term relations with a smaller number of suppliers, the other picture, that of more transient relationships, also holds true. In view of the results of these consultations, there is no doubt that the business model does indeed play a major role in providing a structural framework for addressing CSR; however, it may be an enabling as well as an inhibiting progress.

### **Barriers to Local Public Action**

Some also cited a complex mix of perceptions concerning the role of local governments, often focusing on whether and how they could and should engage in collaborative work with buyers and other institutions outside their borders. Consultations revealed mixed perceptions of the appropriateness of certain forms of public–private partnerships.

Suppliers rejected outright the idea that buyers and monitors working on their behalf should work more

closely with local labor inspectorates, arguing that the latter in most instances were both inefficient and corrupt. In addition, some suppliers in Honduras saw such collaboration as “imperialistic” in that local government could be perceived as “working for” foreign companies. Ironically, however, some suppliers argued that if only buyers exerted as much pressure on governments as they exerted on suppliers, implementation of CSR practices would proceed more efficiently.

Likewise, many stakeholders challenged the idea of buyers working with or supporting local gov-

ernment, asserting that governments should focus on enforcing their own public laws rather than spending resources on the development and enforcement of private law.

Buyers, for their part, did not make a strong call for working with government; indeed, some buyers saw a need for shifting the buyer–supplier relationship in the field of CSR to a supplier–government relationship, maintaining that the ultimate responsibility for promoting (and enforcing) CSR practices in the workplace belonged to government.



# Options for Future Progress

This chapter outlines potential options that would help contribute to the achievement of greater social and environmental performance in global supply chains.

The options presented here have been developed on the basis of the input received from the participants in the consultations described above. They also have been based on review and analysis by the project team, taking into account the various ideas presented by those who were consulted during the study, the project team's assessment of developments in the field, and consideration of the assessment criteria established in the Terms of Reference and assessment criteria that arose in the course of the consultations. As requested in the Terms of Reference, these options are presented in light of the barriers described in the previous chapter. They also address issues not explicitly raised through the three key challenges, in recognition of the views of some participants that the barriers outlined in the Terms of Reference did not address the most critical issues in the field.

In all project consultations, participants were asked what changes they would recommend to achieve the commonly held goal of improving conditions for promoting CSR in global supply chains. It is important to note that in many cases participants presented suggestions that called on other parties to adjust their approaches to social and environmental issues in supply chains (for example, buyers looked to suppliers, suppliers to buyers, stakeholders to buyers...), rather than suggesting changes to their own approaches.<sup>21</sup> The

overall results of the survey indicate, however, that for truly sustainable progress to be made all parties will need to adjust their approaches and reconsider perspectives that in some cases are strongly held. In addition, the steps outlined below seek to insert a greater appreciation of the need to develop approaches in the context of the overall set of efforts, rather than replicating the often-isolated decisionmaking and policy development that has marked the first 10 years or so of work in this area.

These options are presented below with recognition and respect for the steps taken in recent years, and also reflecting the widely held view that the system for addressing social and environmental issues in supply chains may well have reached the limits of its effectiveness. If implemented, the options presented have the potential to contribute both to a deepening of the progress made to date, as well as to the establishment of new frameworks that will make existing work more effective and sustainable, and new initiatives that will build upon the experience gained in recent years.

## 3.1 SUMMARY OF OPTIONS

In presenting these broad categories of options, it is essential to note that each of the initiatives suggested is likely to be more successful if undertaken with full regard for other steps than if they are undertaken in isolation. Under the best circumstances, there would be a coherent framework that involves efforts to blend:

<sup>21</sup> Two notable exceptions to this were buyers, many of whom acknowledged the inherent tension and mixed messages sometimes sent concerning commercial, social, and environmental concerns, and Northern stakeholders, many of whom

acknowledged that the strategy of focusing most attention on the same small number of companies, which are also among the most active in this work, may be proving counterproductive in some ways.

- Public sector commitment to create an environment in which local laws are effectively and fairly enforced.
- Buyers' efforts to clearly and consistently work in partnership with suppliers to achieve better performance against social and environmental principles.
- Engagement with civil society organizations, including trade unions, to seek practical solutions consistent with international principles.
- Dialogue with and engagement of workers and their representatives in pursuit of these goals.

Such an approach would reflect a necessary and natural maturation process as the first generation of efforts, often unconnected or inconsistent to address a complex set of global issues, evolves toward a more systematic approach.

The study also has revealed characteristics of successful approaches that should be considered to help ensure the success of future efforts, including:

- Collaboration between interested parties, or local "ownership."
- An effort to balance the ongoing need for innovation and experimentation with the desire to achieve scalability.
- A renewed effort to identify ways that private and civil society efforts draw upon the potential for government involvement.

It is striking that, in the course of the study, substantially less time was focused on activities that have been at the forefront of efforts to date, especially monitoring. Given that many of the most knowledgeable observers of the issues now acknowledge that the next generation of efforts should move "beyond monitoring," one could conclude that currently 80 percent of time, resources, and thought are devoted to a subject that may reflect only 20 percent of the potential for progress. While few of those who participated in the consultations predicted or advocated the end of monitoring, there appears to be a rough consensus that monitoring needs to evolve and that other activities may hold the greatest potential for progress.

The options are arranged around the following broad categories, which are presented below with a brief initial summary:

- **Public Sector Engagement:** Real, systemic progress will not happen unless governments get involved more vitally. Virtually all the parties consulted, including companies, NGOs, and trade unions, called on governments to enforce their laws more widely and effectively. A greater commitment to the enforcement of existing standards, to the degree they are consistent with international norms, is viewed widely as having value in itself. In addition it would support the efforts of private sector actors and non-commercial organizations to promote better social and environmental practices. The options make note of broader policy questions that, while beyond the scope of this particular study, were identified by many who were consulted as having meaningful impact on the issues at the core of the study.
- **Standards and Harmonization:** This issue received significant attention in the course of consultations, and participants generally viewed harmonization as a critically important goal. While some, especially suppliers, asserted their desire for a universally applicable base code of conduct, the investment needed to refine the relatively small differences present in today's codes may prove unwise. An effort to create a single global framework risks getting bogged down in extensive technical and political questions. Instead, more effective steps toward harmonization can be taken through initiatives to promote comprehensive approaches at the national and industry level. To the degree that opportunities also exist for the harmonization and improvement of approaches to implementation of codes and of social and environmental monitoring and verification, these may present the potential for substantial progress, because these are the areas where the multiplicity of approaches seems to create the greatest tension and confusion. A different challenge emerges concerning environmental issues, where establishment of broadly agreed principles is needed, as opposed to the harmonization of existing standards concerning labor.
- **Capacity Building:** The options presented reflect the broadly held view that capacity building remains a critical ingredient in making both current and future steps more effective. In particular, we present options that focus on the needs

and opportunities related to capacity building for workers, suppliers, civil society, and social auditors. The options suggest a focus on social infrastructure that will deliver value not only in terms of better performance on social and environmental principles, but also in terms of building social infrastructure that is better able to support and contribute to development goals.

- **Worker Education and Empowerment:** Further progress will be made by providing more and better education to workers concerning their rights, and strengthening the protection of those rights. This should take place through such means as access to public mechanisms for redress of problems, participation in representative trade unions, dialogue with local civil society organizations, and participation in private efforts to implement codes of conduct.
- **Research:** There appear to be discrete areas in which additional research would make a substantial contribution toward future progress. As noted above, there is a lack of consensus, and even a lack of common reference points, about whether the “business case” for CSR in supply chains exists. Additional research about the costs and benefits of attending to social and environmental principles more fully would help illuminate this oft-cited but poorly understood aspect of the broader debate. Any such research should take care to distinguish between the business rationale for suppliers and buyers, which diverges in some significant ways. Research in this area would be most valuable, especially to the extent it looks at the business case from the suppliers’ perspective in exporting countries, to ensure maximum relevance and uptake of the findings. In addition, the consultations illustrated the need to build greater understanding of how to achieve worker empowerment in the multiple operating environments to which apparel and agriculture supply chains extend. In conducting such research, it would be valuable to more fully illuminate the specific problems faced by different types of workers (for example, seasonal, migrant, and home workers) so that all parties to this issue can take action consistent with the experiences and perspectives of these different groups. Finally, research may be able to help promote greater inclusion of environmental and human rights issues into CSR

efforts in global supply chains, because the level of understanding and commitment is currently relatively low.

- **Removing Economic Barriers to CSR:** In some cases, note was taken of structural economic barriers to the wider adoption of CSR in supply chains. To be successful, the options presented will need to address, or at least be developed with some regard for, these structural barriers. Some cited the very nature of supply chains themselves, which, especially in the apparel industry, may contain inherent disincentives to the adoption of good practice. Numerous parties cited the lack of a level playing field, which means that companies at both the buyer and supplier level face de facto penalties for adopting practices that transcend significantly those undertaken by competitors. In addition, buyers should address the mixed messages and incentives they send to suppliers, who respond to compliance staff promoting adoption of good labor conditions, and also merchandisers who often demand lower prices, faster deliveries, and shorter lead times.

### 3.2 OVERALL OBSERVATIONS

In presenting these options for consideration, several overarching points provide valuable context, including the following:

- No single “answer” emerged from the study, the perspectives received, or the subsequent analysis. Unlike the early to mid-1990s, when numerous parties coalesced around monitoring as the primary means of addressing labor issues, the next generation of initiatives is likely to draw on a variety of efforts that, taken together, can make a substantial contribution toward the goals at the heart of this study.
- Environmental issues, although placed on equal footing with labor and social issues in the Terms of Reference, went largely ignored during the consultations. There remains less awareness, concern, and external pressure to address environmental matters than there is to address labor issues. Greater parity between these issues is needed. Furthermore, virtually no attention was given to human rights issues other than labor rights, even though the overall human rights

climate in many locations is a critical factor determining whether and how labor rights are respected.

- Similarly, significantly greater attention was given to issues in the apparel industry, as opposed to the agriculture industry. In addition, the input received concerning the agriculture industry also points to the fact that agriculture is not a single industry but rather a collection of several commodity-driven industries that have distinct structures and supply chains. Achieving generalized solutions across such subindustries with diverse economic and social structures may not be easily done.
- Monitoring of codes of conduct, a subject that has received intense attention in recent years, was not at the center of our discussions. Instead, participants tended to focus on other issues, which they believed to hold the key to future progress. When monitoring was discussed, the focus was more on education and less on policing. Although few parties suggested that private monitoring would disappear, there was an understanding—at least on an implicit level—that monitoring should and would be deemphasized in the near term.
- The numerous multistakeholder initiatives in place received relatively little attention, although they were considered by some to be an important part of future solutions, in particular in the area of harmonization and standardisation.
- The question of whether and how diffuse supply chains themselves influence the achievement of CSR goals is central to the question of barriers and options.
- The perspectives of those who were consulted varied by location. There are considerable differences in the relative positions of the public sector, the private sector, and stakeholders in each of the countries involved in the survey. While the implicit goal of this project and many efforts in the field is to develop options that can be developed globally, these solutions will need to take local factors into account if they are to have the desired impact. In some cases, specific challenges also vary from location to location, and addressing these issues might bring these views into greater harmony.
- Some observers worried that the move toward strengthened social and environmental requirements would disadvantage the SMEs that are

needed to generate greater economic growth in the developing economies.

- A small number of those consulted, especially trade unions, retain considerable skepticism about whether codes of conduct themselves are a useful framework for furthering good social and environmental practice in global supply chains. In their view, strengthening worker representation, and removing public and private sector barriers to the exercise of freedom of association and collective bargaining, can make greater progress.
- It is important to note that there is still something less than a critical mass of buyers who are strongly engaged in these issues. Our consultations involved a selected group of the more active buyers, some of whom cautioned against the adoption of guidelines and options that could raise the cost of entry for newly active parties, thereby missing the opportunity to engage more companies in CSR practices.
- Few buyers appear to see efforts on these issues as areas where competitive concerns present significant barriers to forward action. Indeed, many buyers noted that commercial concerns might now be driving them more forcefully toward collaboration, as the costs and benefits of acting in isolation are becoming clearer.

### 3.3 PROPOSED OPTIONS

In presenting potential options, it is critical to clarify the question that is being presented by this study. If the question were presented simply as “How can codes of conduct be made to work better?” this would lead to a certain set of answers. The more relevant question is that which the Bank presented: “How can CSR (that is, labor, human rights, and environmental principles) be more fully implemented in global supply chains?”

This question is more comprehensive, and incorporates the opinion of many who were consulted for this study, who expressed the view that codes of conduct are a means to the end of achieving good social and environmental practice, not an end in itself. Based on this question, it is hoped that the options address ways to make codes of conduct more effective, and also identify other possibilities to maximize and coordinate the respective contributions of government, the pri-

vate sector, workers and their representatives, and civil society, on the basis of the unique contributions each is best able to make. Codes of conduct, and efforts to monitor and verify performance against codes, remain important. The study, however, suggests that greater priority should be placed on the development of coherent frameworks, with local ownership, that facilitate the application of codes of conduct. It should do so in the context of public sector engagement, worker education and empowerment, engagement with civil society organizations, and other means of achieving progress.

Although the goal of maximizing compliance remains critical, it is also worth considering the value of developmental approaches suggested by some, notably stakeholder groups. Indeed, some organizations and individuals consulted for this project questioned the very notion that “compliance” was the proper framework for addressing the social and environmental questions presented here. Some are of the opinion that the creation of a binary model of “pass/fail compliance” distorts efforts to develop better practice over time. It does not appear to be feasible or desirable to remove altogether the compliance dimension, especially where core labor rights are currently unenforced. However, the options presented here seek to reflect a consistent and deliberate shift away from a compliance-only model, and toward alternative models that may have greater and more sustainable potential, such as that undertaken in partnership via the International Cocoa Initiative, or through the Global Alliance for Workers and Communities.

### 3.3.1 The Assessment Criteria

The options were developed in light of the criteria presented by the Bank, and those developed through the course of conducting the study. The criteria were as follows:

- The likelihood of adoption and possible constraints that could inhibit adoption of the proposed option.
- The risk of lowered standards.
- The feasibility of necessary investments, and likelihood that different stakeholders would make needed investments of time and resources.

- The feasibility of implementation, including the roles that would be required of relevant stakeholders.
- Possible implications for public sector roles, including industrial country donors and developing country governments.

In the course of the discussions, additional criteria were developed both by the project team and those who were consulted. The first, the impact of proposed solutions, is arguably implicit in the other criteria; however, several people who were consulted noted that it should be made explicit. In addition, the degree to which proposed options reinforce other initiatives is also important. For example, government initiatives have the benefit not only of their own independent impact, but also in the creation of a context in which other initiatives undertaken by civil society and the private sector can flourish.

These criteria have not been applied mechanically, but have instead been used to make a qualitative assessment of the degree to which the options could and would be implemented widely, and the degree to which they would achieve intended results. In some cases, it appears that further study is needed to determine the practicability of implementing various options.

## 3.4 PUBLIC SECTOR ENGAGEMENT

The Terms of Reference of this study did not seek input on the role of governments, because the Bank had envisaged that to be the focus of a later research project. Notwithstanding, the parties consulted felt compelled to voice their opinions on the subject. Their statements reflected strong agreement for the basic principle that governments should enforce local laws concerning social and environmental matters more fully and effectively. While it is likely that different groups have differing motivations for the common assertion that governments can usefully enhance their role in these issues, the fact that the view is so widely shared has great significance. It is also noteworthy that many parties believed that their own individual efforts would be more effective in an environment in which governments took a more active and visible role.

In addition to the support by suppliers, buyers, and stakeholders, the fact that workers interviewed for

this project did not seem familiar with codes of conduct suggests that a renewed focus on the enforcement of local laws could engage workers more fully in the process. While some of those consulted for the survey expressed skepticism that the public sector in some locations would act more forcefully to enforce existing standards, this was viewed as a hurdle to address rather than a reason not to seek an expanded role for the public sector.

The question of *how* governments can engage more fully was not discussed extensively in most convenings, again because of recognition that this will be the subject of subsequent work. In general terms, most parties simply focused on the need to ensure that local laws were enforced more fully. More attention was given to the need to interpret laws consistently than to the need to change laws, with the exception of the sentiment expressed among some buyers based in exporting countries, as well as some suppliers, who argued for the reduction of “unrealistic” legal obligations. In addition, it is important to note that it may be counterproductive to ask governments to assume responsibilities that are more naturally and efficiently carried out by commercial actors.

The Bank has developed a framework including four different types of actions within the sphere of government as it relates to issues such as those that are the subject of this study (that is, mandating, endorsing, partnering, and facilitating). This framework provides a useful way to analyze options for state action.<sup>22</sup>

Accordingly, while additional work is needed to develop an approach to this question, it is clear that this is a high priority for the broad range of parties consulted for this project.<sup>23</sup>

<sup>22</sup> This framework is elaborated in the report “Public Sector Roles in Strengthening Corporate Social Responsibility—A Baseline Study,” developed for the Bank Group by the International Institute for Environment and Development, October 2002.

<sup>23</sup> In calling on governments to play a more active role, there was little suggestion that any of the other parties should disregard or reduce their efforts to address the questions involved in this study. On the contrary, public sector action is widely viewed as a predicate for effective action by others.

### 3.4.1 Host Government Actions

The following steps could be taken to enhance the influence of host country governments’ attention to CSR issues:

- Host country governments may promote trade and investment—especially sustainable trade and investment—by the more thorough implementation of their laws.
- Reconsideration of provisions that allow export processing zones to operate without application of legal obligations applicable elsewhere. Without reviewing or conducting economic analyses of whether such zones contribute to economic development, the broadly stated desire to maintain consistent standards suggests that the maintenance of production zones where basic labor and environmental standards do not apply is contrary to this goal.
- As noted below, host country governments can make a substantial contribution to the goals outlined here by helping to catalyze local multi-stakeholder initiatives.
- Host country governments, in seeking to allocate available resources to the enforcement of their laws, can create tools and incentives for private actors to increase their commitment to enforcing applicable standards. Governments can combine increased efforts to monitor legal compliance with programs similar to those created by the U.S. Occupational Safety and Health Administration to promote business’ own implementation of such efforts. This program is noteworthy in that it also makes available the same information to civil society organizations, trade unions, workers, and community groups to facilitate community policing. Other efforts that provide technical assistance to employers, workers, and others to self-police allow governments to allocate enforcement resources to the worksites where they are most needed.
- Establishment of dispute resolution mechanisms, such as that undertaken by the Costa Rican government, which has established a tribunal to hear environmental disputes. It was suggested by some stakeholder groups that this model illustrates how public and private efforts can reinforce one another. Some noted that such exercises serve the dual purposes of solving problems and also creating political will to prevent disputes. It

is also noted that these mediation systems are present in many countries, and that they do not always function effectively or efficiently. A review of how to make existing systems function better may also be a useful investment.

### 3.4.2 Home Country Governments

In addition, the following steps could be taken by or with home country governments to enhance the effectiveness of codes of conduct and other efforts to ensure implementation of social and environmental practices. These steps have been developed with consideration of the four elements of public sector action on CSR developed by the Bank Group:

- Governments have in recent years played a critical role in the establishment of multistakeholder processes, and this catalyzing role could be replicated and applied to other efforts. Both the Fair Labor Association (FLA) and the Ethical Training Initiative (ETI) resulted from government initiatives in the United States and United Kingdom, respectively, and the European Commission also has sought to support similar efforts financially. Governments could similarly play a role in launching or supporting the multistakeholder national initiatives described above.
- Capacity building by international institutions (for example, the ILO) and home country governments of buyers (for example, OECD nations) to strengthen and create incentives for local enforcement of laws (as discussed above).
- Governments also have the opportunity to influence the debate by incorporating social and environmental provisions in public procurement practices. There have been some initial efforts in this regard, in UN agencies and in various jurisdictions in the United States and European Union (EU).
- As noted below, bilateral and other trade agreements involving home country governments have incorporated provisions related to labor and environmental issues that can help to promote good practice. Such an approach, however, may have other consequences.
- OECD member states have used the platform of national contact points to facilitate dialogue concerning a range of social and environmental issues, among others, with the private sector, and this could be extended.

### 3.4.3 Broader Policy Issues

Several participants in the consultations raised policy questions related to the study topics. While these questions were not included in the Terms of Reference, they reflect the policy questions or concerns of some—especially Northern stakeholder groups—who provided input through the consultations.

- Several participants stated the need to have social and environmental provisions included in multilateral trade agreements and more widely included in bilateral agreements. At the very least, those supporting this approach sought the removal of trade agreements that consider such provisions to be anticompetitive, and the further inclusion of social and environmental considerations in multilateral funding and lending practices.
- It was also suggested that local governments could undertake more vigorous and consistent review of facilities' export licenses, tied to exporters' compliance with national laws. This would be one step to create market incentives and penalties promoting greater compliance with environmental and social standards.
- Some focused attention for binding international provisions on corporate accountability, citing specifically the Draft UN Norms on Human Rights Principles and Responsibilities for Transnational Corporations and Other Business Enterprises, which were seen as a mechanism for the possible harmonization of standards.
- It was suggested by some buyers that home country legal provisions requiring that imports meet existing social and environmental standards would help to create a level playing field among buyers. It could prevent or severely restrict the "free rider" syndrome in which a relatively small number of higher-profile companies undertake substantial efforts and other companies escape scrutiny and cost. Asia-based representatives of buyers' firms, among others, proposed this.

In addition, the general view meets most of the criteria against which options are being assessed. Government action has the benefit of rationalizing market forces by creating a "level playing field"; it spreads costs across the breadth of society, provides a formal and public means of recourse when

standards are not met, creates an environment in which other initiatives can be tried and can succeed, and should avoid the lowering of standards.

### 3.5 STANDARDS AND HARMONIZATION

One of the main areas of focus for this study was whether substantial confusion and barriers had been created by the proliferation of codes of conduct in the past 10 years. While differing views were expressed on this question, the prevailing view appears to be that the greatest differences exist in the *application* of codes as opposed to the basic content of the codes themselves. Among the diverse range of parties consulted in the course of this project, there was a rough consensus around the idea that most codes embraced applicable laws, with ILO conventions being applied where applicable laws were inconsistent with ILO conventions.<sup>24</sup>

#### 3.5.1 A Universal Base Code?

The proposal by some that a universal base code should be established is not included in the options presented. The broadly held opinion among those consulted for this study is that the number or content of standards is far less critical to further progress than is the consistent enforcement of existing standards. It was not clear either from the direct comments received from study participants, or subsequent analysis, that the substantial investment needed to develop a common base code would result in corresponding benefits.

Many of those consulted took note of the efforts of multistakeholder initiatives to harmonize their approaches to standard setting and enforcement. Specifically, there have been discussions in the past several months among the Clean Clothes Campaign (CCC), ETI, FLA, Fairwear Foundation (FWF), Social Accountability International (SAI), and the Worker Rights Consortium (WRC) to consider how their various initiatives might collaborate. Similarly, in the field of agriculture, there have been efforts under the auspices of Social Accountability in Sustainable Agriculture (SASA)

to develop guidelines for social auditing and standard setting in sustainable agriculture; examine the impact on and responsibilities of supply chain actors with respect to certification of social justice issues in agriculture; address the particular needs of small-holder producers in the development of social guidelines for sustainable agriculture; and explore the possibilities of mutual promotion of complementary systems. These efforts may well yield valuable results, and yet the broad consensus in the consultations appeared to be that while this work should continue and be supported, additional efforts to achieve greater harmonization or progress through other means also would add substantial value.

Several views presented in the consultations point in this direction, in addition to the finding presented above that the proliferation of codes in itself has not led to great confusion, or that the confusion presented is not the primary barrier to progress. This is for several reasons:

- First, while many suppliers who were consulted expressed the desire to see greater harmonization of standards and the application of standards, some buyers believed that this was a “red herring,” and believed that any duplication of effort would fade away quickly once suppliers demonstrated a greater willingness and ability to comply with local legal standards.
- Second, even with a common base code, the overwhelming likelihood that national law (wherever consistent with ILO conventions) would remain the prevailing standard, means that without greater clarity on the meaning of local law, substantial interpretation would remain necessary.
- Third, neither the consultations nor the subsequent analysis suggested that there is a likely basis for addressing environmental issues in a base code.
- Fourth, as stated above, the process of developing a global base code that would earn the support of all relevant parties would likely be extremely time intensive. Experience to date of the time needed to develop multistakeholder codes with broad applicability reinforces this view. It may be more productive to focus time, energy, and resources on other efforts less tied to codes and monitoring.
- Fifth, if application is the primary question, it would be advantageous to focus attention on

<sup>24</sup> While frequent note was taken of the fact that freedom of association and collective bargaining were not possible in China, harmonization of codes was not seen as the most effective means to address this issue.



industry-specific guidelines, to ensure that variations in work force, industrial process, and supply chains are taken into account fully.

- Finally, many participants, especially those in the stakeholder community, expressed the view that the broadest possible efforts to harmonize standards would achieve this goal only at the expense of reaching a lowest common denominator standard, which would be directly inconsistent with one of the assessment criteria presented by the Bank.

For these reasons, the options presented propose a greater focus on the development of more effective and sustainable means of ensuring application of existing standards, rather than a major investment in the development of a single code.

### 3.5.2 Harmonizing and Strengthening the Application of Standards

While a common base code does not appear to be the highest priority for action, there is substantial interest in finding other ways to harmonize approaches, as well as significant opportunities to achieve more substantial results through harmonization and collaboration.

There are opportunities for coordinated efforts to address a range of fundamental needs in the field, including:

- Implementation guidelines.
- Training and education of suppliers.
- Monitoring procedures.
- Information sharing.
- Improvements.

Each of these categories will be familiar to those who have followed the debate over CSR in supply chains in recent years. This section of the report focuses on how to blend the ingredients of the existing system to develop more sustainable and meaningful solutions. To accomplish these goals, it is proposed that collaborative initiatives be undertaken at the national level, the industry level, and the pilot level over the next three years. These steps do not depend on a “grand master agreement” being developed; however, it is likely that they could feed the learning on collaboration needed to make such progress possible in future years.

### 3.5.3 Environmental Standards and Practices

The relative inattention to environmental standards by many of the most active participants in the debate concerning supply chain practices merits attention. The challenge here is not to harmonize existing principles, but rather to generate additional action on the subject. Steps that are of value include: (1) companies could and should include environment more explicitly in their codes of conduct and begin to monitor against these provisions; (2) multistakeholder initiatives should also add environmental provisions and begin to engage with environmental organizations as part of their coalitions; (3) home governments, which already engage in substantial funding of environmental improvements in aid packages, should target consumer product supply chains for this work; (4) workers should be educated in environmental risks, about which they may be even less aware than labor issues, and (5) identification of environmental issues that could be addressed more effectively in industry-specific contexts.

### 3.5.4 National Initiatives

In terms of harmonization, the practitioners and observers consulted for the project spoke loudly and frequently about the value of **greater clarity of standards as applied**. Several buyers, suppliers, and stakeholders alike noted that standards are applied within the context of specific industries and specific jurisdictions, rather than through global arrangements.

As a result, pilot projects to establish implementation guidelines in distinct locations, for example, in specific country contexts, appear to hold considerable promise. Such efforts have the advantage of (1) engaging local stakeholders (not least local public officials) working within a common legal framework; (2) reducing the time and effort needed to establish agreement concerning base standards; (3) creating a level playing field for suppliers; and (4) creating business advantage by building a favorable climate for inward investment based on greater assurance that social and environmental concerns important to consumers and others in the North are being addressed seriously.

While the precise shape of such initiatives might vary, the basic contours would involve the estab-

lishment of local multistakeholder processes to establish and implement a comprehensive local effort to enable the achievement of good social and environmental practices in factories exporting from the given country. As one Hong Kong–based stakeholder group noted in the convening for this project, the best solutions in this area to date have been the result of “localized actions and negotiations.”

Participants in such an initiative likely would include local government officials, notably labor and environment ministries; suppliers, possibly represented through employers’ organizations; relevant trade unions or confederations; and knowledgeable NGOs. In addition, it would be important to ensure connection to the export markets that are critical to the development of the industries in question.

This role could be supported by home country governments and the main multistakeholder initiatives that have developed in Europe and the United States in recent years.<sup>25</sup> In particular, the engagement of the multistakeholder initiatives in such pilots could help to facilitate the ultimate development of broader global solutions and harmonization of their work. In addition, it would be valuable to engage buyers in some way with such initiatives, in an effort to ensure that commercial opportunities result from the investments made in such initiatives.

The selection of countries for such an initiative would depend on the willingness and availability of the types of parties described above to participate. It is anticipated that up to four countries, focusing on an individual industry of relevance to that country, could pilot such a process over a two-year period, and that the lessons learned from such pilots would then be applied to a process with wider application.

The basic elements of such an initiative could include the following:

- **Implementation Guidelines:** A national initiative would begin to develop what would amount to a “user’s guide” to local labor and environmental laws. This would accomplish two goals.

- First, a formal process would reduce, if not eliminate, questions concerning the interpretation of local legal provisions. In consultations for this project, several participants noted that there was considerable confusion over the meaning of local laws, and this needs to be addressed regardless of the options ultimately pursued.
- Second, the process of engaging different stakeholders in this process would establish a recognized “roadmap” for all parties wishing to see these principles applied more fully and consistently. This proposal is made in full recognition of the fact that such a process may be contentious, time consuming, and that it will not lead to clear resolution of all issues. Regardless, if all parties needing to understand the basis for social and environmental practice achieve substantially greater clarity as a result, performance would almost certainly improve.

- **Training and Education of Suppliers:** As a result of the process of clarifying implementation guidelines, suppliers could be provided with training and education with significantly greater definition than has been provided to date. Training efforts to date occur in a highly decentralized manner, involving trade associations, monitoring organizations, buyers’ compliance staff, NGOs, and others. One of the organizations in the project consortium has been informed numerous times by suppliers that they are willing to apply standards as defined, but that they do not receive sufficient guidance on what such standards are. Ideally, the development of such training would occur simultaneously with the development and delivery of technical assistance to suppliers, to assist them in the process of implementing people, process, and environmental management procedures.
- **Monitoring and Verification Procedures:** This should help to build local capacity for law enforcement, with this being the ultimate objective over time, with self-policing, government enforcement, and verification by companies, commercial providers workers’ representatives, and NGOs. This process also would have the benefit of establishing common frameworks for monitoring and verification of compliance with existing standards. The virtue of engaging the

<sup>25</sup> For illustrative purposes, these include the ETI, FLA, and SAI, as each are characterized by broad involvement of businesses and various stakeholder groups.

public sector in such a process is that it could lead to an enhanced role for public sector enforcement of local laws, consistent with the nearly universal call for such steps during project consultations. In addition, a process that leads to more consistent understanding of how private monitoring (whether performed by buyers, commercial service providers, or civil society organizations) should be undertaken would address one of the concerns stated forcefully and often by suppliers consulted: that such monitors are one of the sources of confusion because of the inconsistent procedures and interpretations applied in their work.

- **Information Sharing:** A country pilot could have the further advantage of providing a common information network with data about suppliers' performance. Such a mechanism would respond to essential needs stated during the consultation process by both suppliers and buyers. For suppliers, a data network that made available information on the frequency and result of monitoring and verification activities would decrease the likelihood that they would be subjected to unnecessary monitoring visits. For buyers, this would create a more transparent process that would allow them to deploy their resources more carefully and usefully, and reward suppliers that achieve good practice. Buyers, who would receive the benefit of information gathered by others, and who also would benefit from the reduction in duplicative factory visits, could support such a system financially, at least in part.<sup>26</sup>
- **Improvements:** Based on consultations conducted for this study, there is also a desire on the part of suppliers to harmonize the approach taken to achieving improvements identified as necessary through the monitoring process. Many suppliers identified the remediation process as one part of the process where buyers and monitors often send inconsistent messages. The development of implementation guidelines either could include remediation guidelines, or be used as a mechanism for clarifying expectations about

how to address particular shortcomings. The focus of making improvements should be on efforts to build capacity to maintain good working and environmental conditions, and could draw upon emerging local networks to support such efforts, as well as of multiple buyers working with shared suppliers.

There is ample evidence from existing and nascent projects that such an approach can be effective. During the course of the project, several examples were cited of useful country-level projects with some or all of the attributes suggested here, including:

- **Cambodia:** Several observers have cited the benefits to the local apparel industry—and to apparel industry workers—of the bilateral trade agreement between the United States and Cambodia that has included training and education, and also monitoring of workplace conditions, under the auspices of the ILO.
- **Vietnam:** SAI has recently undertaken a pilot project to train export factories with a view to their achieving performance consistent with local laws and the international provisions reflected in the SA8000 code of conduct. This project is also being operated on a multistakeholder basis, with a Vietnam advisory board, and involves a research function as well.
- **Morocco:** Employers have consolidated various codes of conduct into an “ethical charter” thereby strengthening local ownership of code implementation. This effort, cited by an international organization, was seen to have certain weaknesses, namely the lack of reference to freedom of association. Currently, consideration is being given to involving local NGOs in the process as well, and to broadening out reference to include freedom of association and all issues typically contained in codes.
- **Sri Lanka:** The ILO Management and Corporate Citizenship Programme has established a multisupplier training program for the development of local managers' capacity in the areas covered by the ILO Declaration on Fundamental Principles and Rights at Work as well as quality and productivity—supporting the business case for good labor practices at the factory level. The program has involved 10 to 12 factories for a six-month training and factory-level consulting/improvement program.

<sup>26</sup>In proposing information sharing, it is important to note that some such efforts have been considered and developed in recent years, and that there may be legal and competitive issues to address in making any such system work effectively.

The creation of a small number of national initiatives would make a major contribution not only to the achievement of CSR in the factories and farms of suppliers in the countries involved in such efforts, but also to the global understanding about how best to make progress. To the degree that one accepts the principle that the ultimate creation of a single approach to this set of issues will result from the coming together of separate streams, it is important to seed the creation of comprehensive demonstration projects that can be replicated or brought to scale. The national initiatives described here are believed to hold that potential.

### 3.5.5 Industry-Specific Initiatives

The research conducted as part of this study also points in the direction of supporting industry-specific initiatives.

The features of such approaches may be quite similar—possibly identical—to those described in the section above concerning national initiatives, and therefore these are not repeated here. It is likely that industry groups that cut across national lines can take these initiatives. Note also that “industry initiatives” need to involve not only industry associations, and indeed some of the examples cited below are multistakeholder initiatives. It is also hoped that the industry approaches currently being taken can to a greater extent evolve to include local industry groups more fully, as opposed to the current situation, in which Northern buyers drive many of these initiatives. Indeed, this report makes the basic argument that for wider national and industry initiatives to become truly successful and sustainable they need to rely to a great extent on local capacities and resources in the exporting country.

The opportunities presented by industry approaches include:

- A degree of focus unavailable through other means.
- The ability to address the business case through the achievement of common standards and practices.
- The ability to engage in a coherent way with public sector, civil society, and workers’ representatives.
- The ability to fully integrate social and environmental concerns into business operations.

The risks associated with industry initiatives include the potential for not engaging with civil society; the lack of credibility possibly associated with industry-led initiatives, and the track record of some industry initiatives of not fully embracing international standards on all issues, notably freedom of association and collective bargaining. Given that nearly any sort of initiative presents risks and opportunities, these issues are best applied as important considerations rather than barriers to action.

In considering possible new industry initiatives, it should be noted that in the time since the first codes of conduct were developed, several new initiatives have been launched, and these newer initiatives may well provide useful models or learning experiences that should be reviewed carefully. Various examples, including the Global Reporting Initiative (GRI), the Kimberley Process on conflict diamonds, the Voluntary Principles on security and human rights in the energy industry, the Equator Principles concerning lending practices’ impact in social and environmental performance, and others, have come about since many of the individual and multistakeholder initiatives on supply chain were begun, and the next generation of supply chain efforts would almost certainly be enhanced by a review of subsequent developments. These initiatives take a range of approaches, including reporting; certification, and collaborative learning, and elements of these initiatives and others may well be useful platforms to consider.

In reviewing existing industry initiatives and considering potential new industry initiatives, the following characteristics appear to be important in ensuring the success of such efforts.

- Critical mass is important to ensure that there is no “free rider” problem and that no economic advantage accrues to those who do not participate.
- Collaborative industry efforts to address social and environmental issues that involve a stakeholder dimension would seem to be more effective and credible than those that do not.
- There must be adherence to prevailing standards consistent with international principles. Any initiative that is viewed as having the purpose or impact of lowering standards will be neither effective nor credible.

- In addition, industry initiatives, to be fully effective, will include a capacity-building element. The reason for this is that evolution toward “local ownership” of any and all initiatives is essential for long-term success.

In the past year, several industry initiatives have been developed that have varying degrees of promise, and which might serve as useful models if developed further themselves or adapted by different groups. The following is a short, illustrative list<sup>27</sup> of industry initiatives that are instructive in terms of possible steps forward in this area:

- **Better Banana Project:** This initiative, operated by the Rainforest Alliance and its partners in the Sustainable Agriculture Network, develops guidelines through a transparent and participatory process that involves numerous stakeholders, including scientists, conservationists, community leaders, industry members, government agencies, research institutions, consumers, and farmers themselves. The Rainforest Alliance certifies coffee, banana, cocoa, orange, and cut flower and fern farms according to environmental and social standards. As of 2002, 474 farms and cooperatives in Brazil, Costa Rica, Colombia, Ecuador, El Salvador, Guatemala, Hawaii, Honduras, Mexico, Nicaragua, Panama, and the Philippines have been certified. This initiative is one of the few cited in this report that includes substantial elements both of social and environmental criteria.
- **Foreign Trade Association of the German Retail Trade (AVE):** This system is based on the SA8000 code and relies upon monitors certified by SAI. This initiative is unique in that in addition to addressing labor issues, it also includes attention to a set of environmental factors, something that is often excluded from the initiatives described here. The AVE initiative is further unique in its dimension of providing development assistance to suppliers judged to need such help. This assistance is supported in large part through the German Ministry of Economic Cooperation and Development (BMZ), working with a stakeholder council and seeking

to build local, broad-based technical support networks. This combination of both a compliance and development approach is consistent with the approach suggested in this report.

- **French Retailers (FCD) [Federation des Entreprises du Commerce et de la Distribution] Initiative:** Twelve major French retailers have instigated a process through which factory audit results can be shared through a database that all participating companies can access. This too presents a model that is straightforward in its operation and which offers enhanced possibility of reducing duplication; enhancing the business case for suppliers because multiple clients or potential clients will see the results of the audits of their factories. It is also a process that could lead over time to the development of a common approach to the definition of standards, as described above in the national initiatives section.
- **International Cocoa Initiative:** This initiative brings together several industry associations with NGOs and the international trade union IUF [International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Association] to (1) support field projects and act as a clearinghouse for best practices that help eliminate abusive child and forced labor in the growing of cocoa; (2) develop a joint action program of research, information exchange, and action against abusive child and forced labor practices through the enforcement of internationally recognized standards in the growing of cocoa; and (3) help determine the most appropriate, practical, and independent means of monitoring and public reporting in compliance with these labor standards. The ILO serves as an adviser to this project.
- **International Council of Toy Industries (ICTI):** In 2003 this industry group has launched an effort to create a common monitoring protocol for factories in China producing toys for export. This initiative is based on the notion that consistent monitoring processes will help to drive greater consistency in performance and assessment. One Hong Kong-based stakeholder cited this as a “potentially positive” example because the harmonization of monitoring will “mean fewer auditors have to be hired and that will reduce the involvement of the monitoring industry.”

<sup>27</sup> As noted elsewhere, this list is for illustrative purposes only, and is not intended to constitute an endorsement, or to diminish the value of other initiatives.

■ **Kenya Flower Council (KFC):** This initiative has developed a strong code of practice that includes rigorous environmental provisions. The KFC has noted in its website its view of the benefits of undertaking locally based industry codes, making the following points: “(1) Indigenous codes such as that developed by KFC not only audit against ethical and environmental criteria but also spread best procedural and managerial practices and help producers reduce costs; (2) Growers, supermarkets and consumers would gain nothing if a price increase designed to compensate growers for their compliance costs caused a substantial decline in sales; (3) It may be counterproductive if codes quantify wage levels: KFC’s stipulation that its members should merely pay workers above the legal minimum wage has led workers to earn three times the national minimum, and (4) It is not right or just that buyers in the UK should bear no costs associated with code of practice compliance.”

These examples are not cited as models that are without the need to expand, adapt, or improve. They do, however, illustrate several of the advantages of industry initiatives, and some of the ways that they can evolve, as each of these efforts is different. In some cases, the very laws themselves differ according to industrial sector—in several jurisdictions, different laws sometimes govern agricultural work and factory-based work. In addition, the application of standards is often quite different depending on the production processes in place; this is true between the apparel, toy, and agriculture sectors and, in many cases, this is true even within these sectors. The nature of the work forces present in these industries also can be quite different, with agriculture relying more often on a migrant or seasonal work force than other industries. In some industries, there is great dependence on certain locations for sourcing, as is the case with toys and China, while other industries, such as apparel, are more dispersed geographically. One of the signal advantages, therefore, of industry-specific approaches, is that they can be tailored to the prevailing work force, standards, and locations.

To achieve the goal of broad-based, locally managed industry initiatives, it is likely that support from donor agencies will be needed. At the same

time, it is important that these and other initiatives demonstrate their financial viability over a reasonable period of time.

### 3.5.6 Discrete Initiatives

While the focus in the convenings and subsequent analysis was on systemic changes and improvements, there are also several discrete steps that could be taken to improve social and environmental performance in supply chains. Some of these steps involve actions that have not become part of the fabric of efforts to influence supply chains, and some involve the adaptation and replication of efforts undertaken in limited circumstances.

In overall terms, there is a clear need to consider environmental issues more fully. In the apparel and agriculture industries, various chemicals may present risks to workers and communities; water quality and availability also are affected, and migration patterns tied to apparel and agricultural employment also impact environmental quality. These topics received little or no attention in the convenings for this study, and are generally understood not to receive the same attention as labor issues. To achieve the goals stated in the Terms of Reference, increased attention to these issues is needed.

In addition to the proposed examples of comprehensive national and industry initiatives described above, the consultations for this study revealed numerous illustrations of good practice that could be referenced, adapted, or adopted by others seeking to identify improved ways to achieve CSR performance in their supply chains. While an exhaustive survey is beyond the scope of this study and report, we cite selected examples below to help build an understanding of the kinds of steps that can contribute to the objectives stated by the Bank.<sup>28</sup> Most of the examples cited below have in common the involvement of multiple stakeholder groups, and do not rely solely on a compliance model, but rather seek to adopt some combination of skill building and verification of performance.

■ **Global Alliance:** This partnership between companies and NGOs has undertaken widespread

<sup>28</sup> In citing these examples, the authors of this study do not intend to suggest any endorsement of such efforts. Nor do the authors intend to diminish the accomplishments associated with other initiatives not mentioned here.

interviews of workers to develop needs assessments. As described by the Global Alliance, the first step in that process is to ask workers themselves about their needs and aspirations—through a process of in-depth interviews, focus groups, and surveys. The Global Alliance selects independent, in-country, and university-based organizations to conduct these needs assessments. The findings of that assessment process are then used to design and deliver programs and expanded opportunities that respond to workers' needs.

- **FLA in Central America:** This multistakeholder initiative seeks to respond to widespread reports of systematic discrimination and blacklisting in Central American factories. In cooperation with FLA participating companies, NGOs, and universities, the FLA will work with suppliers to improve their capacity to institute good practice regarding hiring, firing, discipline, and grievance procedures in El Salvador, Guatemala, and Honduras.
- **Union Election in China:** Reebok helped to facilitate a free election for union representatives, with independent observers, in a Chinese factory producing its products under contract with a supplier.
- **Impactt Work Hours Study:** A group of buyers in cooperation with local Chinese organizations has initiated a pilot project to improve working conditions in a handful of apparel factories in China. The project focuses on working hours as a key issue and has provided productivity consultancy, human resources training, and communication workshops to improve performance.
- **Collaboration between Buyers through Informal Networks:** In China and India in particular, note was taken in the consultations of free form buyers' networks that have served to spur collaboration.
- **IKEA and Transportation Chain:** Ikea has begun work to extend its definition of supply chain to include the transport of products from point of manufacture to point of sale. This effort represents one of the first expansions of the definition of supply chain in recent years.

### 3.6 CAPACITY BUILDING

Consistent with the view that all parties involved in supply chains have the opportunity and obligation

to promote the wider application of CSR, many participants noted the need for capacity building on an across-the-board basis. It should be noted that suppliers did not widely recognize the need for skill development, although the desire to enhance the skills of suppliers to address these issues effectively was widely raised by other participants in the dialogues. The need for capacity building is thoroughly understandable given that what is called for in this report is a more complete approach to the implementation of social and environmental standards on the part of suppliers, the majority of which are SMEs in developing economies.

In outlining possible areas of action to promote capacity building, there remains the need to conduct a thorough analysis of needs—areas where there is the greatest receptiveness to capacity building and identification of appropriate and available resources—and then a subsequent matching of needs and resources to achieve better social, environmental, and economic performance.

Based on the perspectives presented, and the subsequent analysis, the following efforts appear likely to make the greatest difference:

- **Host Country Governments:** Consistent with the broadly stated desire to see governments play a more forceful role in enforcing their own laws, technical assistance from public and international organizations to host country governments to build greater capacity for enforcement of labor and environmental principles in a manner that is tied to increased foreign investment is critically needed. The ILO may have a particular role to play in this regard with respect to labor issues, given both its tripartite nature and the fact that it can access those with knowledge of public labor law enforcement. Governments of countries importing significant apparel and agriculture products and commodities can play a role in providing not only technical assistance, but also in influencing policy to create an environment in which enforcement of social and environmental provisions is at the core of development strategies.
- **Workers:** Awareness raising and skill development is needed to strengthen workers' ability to defend their interests and seek redress where their rights are not respected. This work should be carried out through workers' representatives,

civil society organizations, tripartite institutions, and multistakeholder initiatives. In addition, there is an increasing desire among some to see additional collaboration between companies and workers' representatives. This has been stated most strongly by trade unions, but has also been noted by some of the buyers consulted during the project. (See additional comments below specifically about the education and empowerment of workers.)

- **Suppliers:** Suppliers would benefit from additional training in human resource and environmental management. It was noted throughout the consultations that capacity building is especially needed at the line manager or floor supervisor level. Development agencies, academic institutions, business organizations, and stakeholder groups are well positioned to provide this assistance. In addition, there would be value in establishing local "centers of excellence" in managing social and environmental practices for SMEs engaged in production for export. Such centers would be locally based and draw on a broad range of institutions able to deliver training, tools, and education in a manner that could be implemented in local environments. There is a substantial need for local resources that can aid these enterprises in the development of management practices that raise awareness and expertise devoted to the creation of increased economic performance tied to positive impacts on labor and the environment. At the same time, there may be an advantage to exploring skill transfer in areas such as human resource management and environmental management, two areas where substantial resources are present in buyers, other multinational companies, the public and independent sectors, and academic institutions in the industrial economies.

There may also be opportunities for direct cooperation between groups of buyers and suppliers in this area, although this would probably require fairly long-term relationships. One major European buyer has recently initiated a comprehensive process to identify other buyers with whom it shares suppliers with a view to initiating cooperation in the area of capacity building.

- **Social Auditors/Verifiers:** Although many of the parties consulted for this project were in

agreement that worksite monitoring should be deemphasized in coming years, there remains a consensus that some form of monitoring will be a significant part of the equation in the near term. Monitors, as noted above, would benefit from the development and refinement of additional skills, notably in the areas of reviewing performance against qualitative social indicators, on issues such as freedom of association and collective bargaining, nondiscrimination, and disciplinary practices. A variety of means may be available to support such efforts. The public sector can contribute in light of its role as the ultimate enforcement agency, and international institutions, notably the ILO, may have a substantial role to play in the development of a more robust core of social auditors and verifiers. In addition, the need to incorporate social concerns more fully into this process suggests a strong role for civil society organizations focused on this area. Finally, a more complete understanding of the ways that trade unions can be factored into the process of monitoring and verification also would be valuable.

### 3.7 WORKER EDUCATION, EMPOWERMENT, AND REPRESENTATION

Many of those consulted in the course of the study noted that workers have not been placed at the center of efforts to ensure good practice, even on—particularly on—labor issues. The worker interviews conducted in the course of this project generally supported this view, although there was some evidence that, in a limited way, workers were aware of and positive about the results of codes or related activities. The results of the interviews with almost 200 workers in four countries suggest, however, that additional means of educating and enabling workers are needed to make the next generation of efforts to promote CSR in supply chains more effective, and this conclusion is also supported by consultations with buyers and stakeholder groups.

In addressing the education and empowerment of workers in a global study such as this, it is also important to ensure that generalized definitions of "the work force" are not allowed to erase important local and industry differences that have a substantial impact on the terms and conditions of



employment. The consultations performed for this study, especially the worker interviews, underscored the degree to which the apparel and agriculture industries employ a large number of casual workers, domestic and foreign migrant workers, and workers employed in export processing zones. In many of these circumstances, workers do not have the same legal protections, experience de facto limits on their rights, or elect not to pursue legal and practical steps pursued by workers employed in more traditional contexts.

Whereas stakeholders generally agreed that efforts had to focus on workers, they were much less in agreement on how this should take place. Worker empowerment was key to the improvement of standards as it would enable workers to improve standards on their own, working with their representatives where such relationships exist. In the long run such an approach was considered more effective in raising standards than codes themselves.

Several people who were consulted for the project also noted broad social and cultural characteristics, such as the caste system in India, widespread global discrimination against women, and the generally weak nature of civil society in China, as having significant influence on whether and how workers are engaged on their own behalf, or whether workers' representatives were able to vindicate workers' rights effectively. Quite obviously, efforts to address the needs of workers should be tailored to the particular context in which they work and live, and this is a further reason why options tailored to particular geographic regions or industries appear to hold distinct promise.

To further workers' ability to engage on their own behalf, additional efforts to educate workers in export factories and agricultural production about their rights, with a focus on local laws, are critical to the further effectiveness of current and future efforts to ensure good social and environmental practices. Such efforts have the greatest impact when provided in a manner consistent with workers' educational levels, and with a focus on providing workers with information about how they can seek additional information and redress for concerns they might have about violations of their rights, whether through dispute resolution processes at the worksite level, including their workers' representatives and

worker advocates in the community, or public dispute resolution processes.

In addition to the medium of communication with workers, choosing which parties engage in this education is also important. Relying on a mix of civil society organizations, trade unions, government officials, and possibly academic institutions would be most beneficial. As noted by several participants in the consultations, donor institutions have an important role to play in providing the resources needed to undertake a broad-based effort to educate workers in export industries, as this effort would help to cement the role that increased export production plays in skill and knowledge transfer to those working in such industries.

While such noncommercial institutions are critical to effective educational efforts, suppliers and buyers also have a critical role to play in helping to create an environment in which worker education and empowerment is respected and translated into better workplace communication. It is not assumed that workers currently enjoy a workplace environment in which they would be able to act upon a greater understanding of their rights relating to labor, environmental, and other issues.

This can be addressed in part by replicating the efforts of some buyers to reorient their monitoring away from a model often referred to as "policing" workplace conditions, and more toward a model that supports education. To support a transition to systems that focus more attention on direct dialogue and engagement with workers, monitoring and verification processes could focus increased attention on how well informed workers are about prevailing workplace standards and practices. A well-informed work force, combined with evidence of a functioning worker-management communication system that results in workplace improvements, constitutes a strong indicator of a healthy workplace, and should be given greater priority in monitoring and verification efforts. This step would help to address the view of many of the workers consulted in the study that monitoring practices are currently tilted toward the perspective of management, and would create an environment in which workers are placed more at the center of these processes. In addition, buyers have an important role to play in that they are considered by many—including some buyers' representatives—

as having the ability to communicate to governments about their own desire to see workers' rights better protected.

Buyer consultations showed an increasing interest in addressing workers, although China-based representatives of buyers did not share the enthusiasm for this concept, concluding that the vast oversupply of labor, and the predominance of migrant labor in China will counteract any effort to empower workers, since workers will conclude that the risks of acting on their rights will be too great. One agricultural buyer that adhered to the SA8000 concept believed that empowerment of workers was very important, having successfully pursued this concept in some countries, but also recognized that this required substantial investments and long-term efforts involving local unions and representatives of local communities. Overall, many buyers recognized the role of unions in empowering workers, although many also noted the difficulties of working with local unions that at times lacked necessary capacities or a cooperative attitude.

### 3.7.1 Worker Representation and Trade Unions

The question of worker education is intimately linked to worker representation, and freely chosen trade unions play a critical role in educating and empowering workers. In determining how to strengthen worker representation, there is at times a divide between the views of observers in industrial and developing countries. In consultations for the study, there was substantial support, especially among stakeholders in the North, for a strengthened role for trade unions, while numerous parties based in the South expressed greater skepticism about how well this goal could be reached.

Discussions with local parties, that is, workers and suppliers, revealed views that ranged from support to ambivalence to outright opposition to trade union representation. Numerous observers noted formal and informal barriers to the formation of independent trade unions on the part of local governments. In this light, the most effective means of promoting greater respect for freedom of association and collective bargaining would be a legal environment in which local authorities uphold and protect these

principles, such that employees wishing to exercise these rights have the full ability to do so.

One participant in the study consultations, representing an international institution, observed that: "To support greater worker empowerment, institutional changes are needed at several levels: (a) changes in the workers' organizations themselves, (b) changes in the company attitudes towards unions, and (c) changes in local legislation (strengthening freedom of association)." This view probably reflects most carefully the range of opinions expressed, and presents a useful framework for addressing this question.

## 3.8 RESEARCH

While research per se did not arise directly out of the consultations conducted as part of the project, it appears likely that several issues discussed in the course of the study could be advanced through more, or more rigorous, research. This should be evident given that global efforts to ensure good social and environmental practice in supply chains are still relatively young. Much of the learning that has occurred in the field has resulted from trial and error or, in the words of the ETI, "Learning by Doing."

While these practical steps have great value, there is likely a need to test some of the assumptions expressed by practitioners through more rigorous analysis, which was beyond the scope of this study. This view is reinforced by the fact that many of the people consulted for the project tended to present deeply held views that often appeared to be tied to their institutional positions. It appears that all parties in this debate would benefit from formal assessment and analysis, and that such work would enrich efforts to identify and implement sustainable solutions. This report does not present detailed research plans, but rather identifies four broad areas in which the collection, analysis, and transmission of information would be helpful, and in many cases tie directly into the capacity building agenda described above.

### 3.8.1 The Business Case

In particular, the barriers associated with a lack of understanding of the business case for CSR would

benefit from further research. Several of those consulted noted that they were able to point only to anecdotal or isolated cases of business benefit, apart from the widely cited example of the threat that suppliers could lose customers and business if they did not comply with social and environmental standards. As one stakeholder in the United States noted, “telling someone to do something or they lose business is not the same as demonstrating benefit.”

However, some noted that there had been insufficient benchmarking to allow for comparisons to be made. While noting that some efforts are currently under way to assess the impact of codes of conduct, such as one sponsored by the ETI and another recently completed for the World Bank,<sup>29</sup> additional research should be conducted to identify whether the costs of achieving broadly agreed labor and environmental goals are financially advantageous to suppliers. In making this suggestion, it is worth noting that several of those consulted for this project rejected the need to make economic arguments to convince suppliers to move into compliance, stating in essence that there should be no need to convince businesses to comply with applicable laws. Regardless, there is a rough consensus that resolving the question of whether and how the business case exists is of critical importance.

### 3.8.2 Worker Empowerment

A second area in which additional research could be valuable is in the area of worker empowerment. In particular, there appears to be a knowledge gap concerning the nature and interests of various groups of workers, and without a clear sense of the context in which workers are employed, efforts to enhance their understanding of their rights may not be as successful as possible. There is wide disparity of understanding of these distinctions, and more than likely this translates into insufficient tailoring of efforts to address workplace issues. Migrant workers both foreign and domestic, seasonal workers, and home-based workers all comprise significant percentages of the work force in apparel and agriculture, and greater understanding of their needs is needed. The

<sup>29</sup> The Global Alliance—Benefit-cost framework and application, Centre for International Economics, Canberra & Sydney, May 2003.

surveying work performed by the Global Alliance for Workers and Communities is a useful example of applied research that could be expanded.

### 3.8.3 Environmental Standards

Additional transmission of research illustrating how to make environmental improvements also would be beneficial. This set of issues reflects an area in which existing information should be more widely disseminated to raise awareness and capacity. There is an information gap in many supply chains concerning ways to ensure that chemicals are used, stored, transported, and disposed of properly. Similarly, there is a need to engage suppliers, local governments, and others in building awareness of the impact of water use in the apparel and agriculture industries. There is an opportunity to weave the understanding of environmental issues into research on the business case, given that other industries have in many cases been able to link resource management into both environmental protection and cost savings. Noting the existence of a number of internationally recognized process standards such as the ISO 14000 series, this should be an area where progress can be made. And, as noted above, the development of broadly applicable environmental standards, given the lack of provisions analogous to ILO conventions, likely will require further study, although the OECD Guidelines for Multinational Enterprises do contain broad principles that could be applied in the development of stronger approaches to environmental management of supply chain practices

### 3.8.4 Consumers

Several participants in the study consultations rejected the widely cited research showing that consumers are willing to pay a premium for products made under decent conditions, arguing that such data reflect sentiments not actions. Given the importance of the business case, and wide skepticism concerning the existing reservoir of research, this area would benefit from further study as well.

## 3.9 REMOVING ECONOMIC BARRIERS TO CSR

Although this study did not attempt either a macro- or microeconomic analysis of supply chains, it was

clear that several strong economic currents are inhibiting the uptake of CSR in supply chains.

At the macroeconomic level, some nations are reluctant to support CSR strongly for fear that this will adversely impact investment. For multinational enterprises, price pressure has grown more intense in recent years, notably in the apparel and agriculture industries, where prices consumers pay for some items have fallen in real terms. These price pressures are widely agreed to have been passed along to suppliers, many of whom are SMEs operating in developing economies, with little ability to control the ways that this occurs. Finally, and importantly, workers themselves—especially in labor-intensive industries where little formal education is required for employment—are often least able to shape economic outcomes.

One economic issue arose with some frequency: the question of the “mixed messages” many believe buyers deliver as they push for improved supplier performance on commercial issues, while at the same time they are also seeking improved social and environmental performance. Many of those consulted for this project stated that buyers need to come to terms with the sometimes-conflicting imperatives that they place on suppliers. There was wide recognition, *including by some buyers’ representatives themselves*, that some of their staff reinforce the message about social and environmental practices, while other staff create economic pressures related to price, quality, and delivery deadlines that are mutually inconsistent. Note that local buyers in India and China were not in full agreement with this.

There appears to be no single “solution” for this issue, although broad recognition and discussion will help, as will clarification of the value of the business case.

Viewed from the perspective of buyers, the public pressure to create “independent” labor compliance offices has perhaps had the unintended effect of decoupling social and environmental concerns from commercial issues. The fullest possible integration of commercial, social, and environmental concerns likely will lead to the greatest progress, and arguably reduce some of the confusion buyers propound and suppliers experience.

From the perspective of suppliers consulted through this project, there is a substantial need to create a level playing field, based on their view that suppliers that fail to invest in CSR now have an unfair economic advantage over those who do. In addition, many suppliers expressed the view, heard frequently also by consortium members outside the scope of this project, that suppliers would be far more willing to invest in CSR if they had greater certainty that they would maintain their business with buyers over an extended period of time. One of the chief advantages of looking at these issues in a bottom-up manner is that the impact of shifting supply chains diminishes, since a single supplier can be assured that its performance would meet the concerns of all buyers.

Buyers likely would create greater incentives for suppliers to act if they sought to create a smaller and more stable set of suppliers. Some buyers have already implemented this, to some degree. As was reported in the convening with Chinese suppliers, *“Participants complained that achieving compliance does not create any loyalty on the part of most buyers/brands. Even if a facility were to be in compliance, participants said that most brands would move orders elsewhere if they could find a better price.”* However, this could also lead to the unintended consequences of reducing the SMEs engaged in CSR efforts, and the risk of creating a two-tiered set of producers, with some focused on domestic markets with poor standards, and a small number of companies producing under decent conditions for the export markets.

### 3.10 OPTIONS FOR ACTION

This report proposes a wide range of options to be considered in the quest for improving social and environmental standards in global supply chains.

While the report notes the critical importance of collaborative action, a number of proposed actions are specifically addressed to, *inter alia*, buyers, suppliers, and host governments. Some of these steps can be acted upon in conjunction with initiatives by other actors; others can be pursued in isolation.

The following provides a summary of the proposed options and how they relate to different groups of actors: suppliers, buyers, host governments, home governments, civil society organiza-

tions (NGOs and trade unions), and international organizations. The proposed options are categorized according to the principle of who should take responsibility for initiating each action, bearing in mind that many actions require cooperation and joint implementation by at least two different sets of actors.

### 3.10.1 Suppliers

Real and sustainable implementation of good social and environmental practices in global supply chains will not take place unless embraced and supported in full by suppliers' owners, managers, and supervisors. In the end, only suppliers can ensure the proper implementation of CSR practices in line with local law and international standards. In addition, business organizations representing suppliers should also actively promote good social and environmental practices.

In particular, individual suppliers can:

- Accept social and environmental requirements as part of the contractual relationship with buyers.
- Adopt good social and environmental practices in the workplace and engage more fully with workers, and their representatives and organizations, when implementing these practices.
- Ensure that their staffs have the requisite knowledge and support to implement policy and practice consistent with social and environmental principles.
- Seek to engage buyers in a dialogue on how to develop processes and procedures that ensure compliance.
- Participate in local employers' organizations and tripartite structures.

The business organizations that represent suppliers can:

- Actively promote social and environmental practices by adopting relevant policy statements, business guidelines, and so on.
- Develop relevant training modules in the application of local law, human resource management, environment, and health and safety management systems. Such services can be developed in partnership with local labor inspectorates. Training-of-trainers programs can also be developed.
- Establish industry-specific forums for learning and exchange of information in the area of imple-

mentation of social and environmental practices.

- Engage governments with a view to promote better enforcement of local law and other steps governments can take to facilitate and support improved performance.
- Engage in multistakeholder national initiatives for harmonizing and strengthening the application of standards.
- Engage in constructive dialogue with trade unions and NGOs to build greater understanding of the issues, and to build a greater foundation for implementing options.

### 3.10.2 Buyers

Buyers are increasingly acknowledging the need for new approaches to implementation of codes of conduct in order to secure real and sustainable CSR practices in their global supply chains. There was a strong desire expressed by buyers for the development of "sustainable" solutions to supply chain issues, and collaborative efforts to achieve this goal. Buyers can adopt a wide range of measures some of which can be pursued individually, although the likelihood of sustainable impacts is greatly enhanced through collective action with other buyers.

In particular, the individual buyer can:

- Ensure that a uniform message is presented to its suppliers and stakeholders. This could take place by, inter alia, integrating CSR requirements in procurements policies, including training of procurement officers in CSR issues, and adjusting possible reward systems to include CSR aspects.
- Work to reorient monitoring away from a policing model toward one that supports education and capacity building.
- Address environmental issues more fully in its codes of conduct and the implementation thereof.
- Engage more fully with workers and their representatives, as well as local and international NGOs working knowledgeably to promote good practice.
- Communicate to governments and local business organizations the desire to see social and environmental practices improved.
- Contribute to the building of greater capacity among supply chain partners to implement social and environmental principles.
- Critically assess the present business model (especially in apparel) with a view to developing

a business model that better facilitates the proper implementation of social and environmental standards.

- Participate in local employers' organizations and tripartite structures in order to strengthen cooperation with local governments and trade unions.

Collectively, buyers can:

- Coordinate and harmonize implementation, monitoring, and remediation when sharing individual suppliers.
- Work to harmonize codes of conduct and associated implementation mechanisms through, inter alia, participation in multistakeholder initiatives.
- Work to promote collective (cross-border) industry initiatives based on a common code of conduct, shared monitoring, implementation, and remediation. Such initiatives should conform with the guidelines outlined in the preceding section, including in particular the need for building local capacities and ownership through local partnerships.
- Identify environmental issues on an industry-wide basis to be addressed in supply chains.
- Agree on viewing CSR as a noncompetitive aspect of business development.
- Develop standards for CSR-sensitive procurement policies, including industrywide training programs for procurement officers.
- Encourage their suppliers to participate in local employers' organizations and tripartite structures.

### 3.10.3 Host Governments

As noted previously, consultation participants were nearly unanimous in wishing to see governments enforce local laws concerning social and environmental matters more fully and effectively. In addition, proposals were made for governments to undertake additional initiatives with a particular view to facilitating the implementation of social and environmental practices.

Broadly speaking, the role of government falls into four categories: mandating, facilitating, partnering, and endorsing.<sup>30</sup> While noting that the role of

the public sector is likely to be the subject of a separate study commissioned by the World Bank, this report nonetheless attempts to flag a number of options falling in particular within the categories of facilitating and partnering.

In terms of **mandating**, host governments should ensure that local laws are consistently interpreted, implemented, and corroborated by proper enforcement. Such efforts could be complemented by the development of local dispute resolution mechanisms, the development of implementation guidelines, and so forth. Governments are also encouraged to reconsider policies that, *de jure* or *de facto*, allow export processing zones to operate without the legal obligations that are applicable elsewhere as well as provisions that deprive particular labor groups of certain rights and levels of protection, including in particular migrant labor. Host governments also can ensure that applicable laws are consistent with internationally accepted principles in cases where they currently are not, and provide substantially more definitive guidance on the application of laws, which currently are considered by many to be interpreted inconsistently.

In its role as **facilitator**, the host government should develop penalties and incentives that provide a proper framework for compliance with labor and environmental legislations. Such mechanisms could be linked to relevant export licensees, export credit schemes, and so forth. Governments can also act as the principal convener and facilitator of multi-stakeholder national initiative processes mentioned earlier as well as facilitate (and possibly provide initial capital to finance) the development of local industry initiatives. Host governments could provide financial resources to general awareness programs directed at suppliers as well as workers to inform these groups of their rights and obligations in the area of CSR. Such programs should be implemented by civil society organizations. Host governments could also include CSR considerations in public procurement purchasing criteria. Host governments should also work actively to strengthen local tripartite structures as a means to facilitate cooperation among the most fundamental stakeholders, namely the representatives of workers and businesses, as well as strengthen local dispute resolution mechanisms.

<sup>30</sup>This framework is elaborated in the report "Public Sector Roles in Strengthening Corporate Social Responsibility—A Baseline Study," developed for the Bank Group by the International Institute for Environment and Development, October 2002.

Host governments should engage in various **partnerships** with the private sector, civil society, and international organizations. In particular, governments could work with bilateral and multilateral donors as well as civil society to build capacity for standard setting, enforcement, and technical assistance programs in local labor inspectorates. Likewise, host governments could form partnerships with donors and the private sector to set up programs that train suppliers in environmental management and management of health and safety practices. Host governments also should develop partnerships with the private sector and civil society in the process of implementing multistakeholder national initiatives.

The host government can **endorse** local business initiatives that seek to promote better social and environmental practices in the workplace. Host governments could consider endorsing certain codes of conduct and implementation steps, which would allow companies using officially sanctioned schemes to be reviewed less frequently by government enforcement staffs.

### 3.10.4 Home Governments

Developed country governments may employ a number of measures to stimulate better workplace practices at the supplier level in developing countries. Some of these will impact through buyers; others will be directed at the supplier level.

In its **mandating role**, home governments can consider the pros and cons of introducing social and environmental clauses in their trade policies. They may also promote the consistent application of internationally agreed-upon social and environmental legally binding instruments.

Home governments may **facilitate** better social and environmental practices at the supplier level by means of linking CSR supply chain performance to public procurement purchasing criteria, export credits, and other international financing credits (including investment guarantee programs and joint capital for investment projects in developing countries), and by explicitly addressing CSR issues in bilateral development assistance programs. Home governments have in a number of countries played a crucial role in facilitating national multistakeholder initiatives (that is, the ETI, AVE, and FLA processes),

and these could be replicated in other industrial countries. Likewise, home governments may facilitate and act as partner to the development of buyer industry initiatives (see above under buyers). The national contact points for the OECD Guidelines for Multinational Enterprises may act as an appropriate channel for public–private discussion and debate on responsible supply chain practices.

The role as facilitator often requires a complementary role of **partner**. The report proposes a number of partnership roles for home governments. These include the role as partner for host government through bilateral development assistance programs that focus on capacity building in enforcement and the provision of technical expertise in labor inspectorates. Home governments may also act as an important partner for groups of buyers, for example, as in the Cocoa initiative or the German AVE initiative, which seek to promote good social and environmental practices in global supply chains.

Home governments can **endorse** efforts made by industries or individual companies to promote CSR practices in global supply chains. In a similar vein, home governments can promote international standards and guidelines such as the OECD Guidelines for Multinational Enterprises, the UN Global Compact, the ILO core conventions, and relevant international conventions and declarations. Finally, home governments can play an important role in stimulating socially responsible consumer behavior, for example through the development, refinement, and harmonization of social labels.

### 3.10.5 Civil Society Organisations (NGOs, trade unions, and multistakeholder initiatives)

Civil society organizations can be pivotal in the process of strengthening implementation of CSR in global supply chains. In particular, NGOs and international and local trade unions are central actors; but in addition, the multistakeholder initiatives, which are the uniquely placed agents between civil society, government, and business, have a key role to play. The multistakeholder initiatives should be encouraged in their recently initiated efforts to find common ground on the content, implementation, and monitoring of CSR standards. Despite the general observation among

the research participants that a common base code should not be the first, nor the primary, step toward improving CSR standards, it was nonetheless recognized that such a code would likely serve as an important benchmark for the further development of more focused and applicable industry-specific and country-specific standards.

Trade unions, another pivotal actor in civil society on the CSR issue, could:

- Take a lead role in the process of training and empowering workers.
- Build capacity to train workers and engage with business in the process of implementation of codes of conduct.
- Engage in multistakeholder national initiatives.
- Engage in industrywide initiatives such as the German AVE initiative.

NGOs, for their part, could:

- Engage in multistakeholder national initiatives.
- Undertake research to clarify the nature and extent of the public expectations of corporate social responsibility.
- Engage in public awareness campaigns to raise consumer interest in CSR issues.
- Assist in the training and empowerment of workers, particularly in areas where trade unions and other forms of worker representation are outlawed.
- Campaign to pressure governments, businesses, and other actors to play a role in strengthening the implementation of CSR.

### 3.10.6 International Organisations

Although this study was not designed to identify particular roles for international organizations, these institutions nonetheless have important roles to play in the process of strengthening implementation of CSR in global supply chains. As with governments, international organizations can mandate, facilitate, partner, and endorse vari-

ous initiatives and efforts. Some of the most important would seem to be:

- Develop pro-CSR procurement policies as well as incorporate CSR requirements in other policies and programs, including export credits, loan guarantee programs, investment credits, as well as social labels with a wider geographical application, and so forth. This would apply to all international organizations, not least the World Bank Group, the UN system, and the EU.
- Develop multilateral development assistance programs that support capacity building in enforcement of local laws, including the pivotal role played by local courts, the provision of technical assistance, and standard setting. Such programs could also focus on the strengthening of local tripartite structures. The UN agencies and the World Bank Group would be appropriate actors.
- Facilitate and provide cofinancing for multistakeholder national initiatives. The UN Global Compact, the United Nations Development Programme (UNDP), and the EU may have particular roles to play here.
- Initiate and finance research and development that focuses on how to address environmental issues more fully in global supply chains, including developing appropriate guidelines for industry-specific environmental codes of conduct. The multistakeholder process resulting in the GRI guidelines could be replicated, giving in particular the United Nations Environment Programme (UNEP) an important role to play.
- Develop guidelines and tools that help companies address labor and human rights issues in global supply chains in line with internationally agreed principles such as the core ILO conventions and the Universal Declaration of Human Rights. The ILO, the UN Global Compact, and the Office of the United Nations High Commissioner for Human Rights, among others, would be relevant organizations.



# The Key Challenges and Underpinning Assumptions

This annex outlines in detail the key challenges and their underpinning assumptions as they were identified and phrased by the Bank Group in the Terms of Reference to the present study.

## KEY CHALLENGE 1

The plethora of individual buyer CSR codes is generating inefficiencies and confusion. The challenge is to minimize inefficiencies and confusion in ways that make sense for buyers, suppliers, the work force, and other key stakeholders.

- Inefficiencies have emerged partially as a result of industry structures frequently characterized by (a) shifting contractual relationships among suppliers and buyers with a lack of long-term business relationships and (b) suppliers with multiple buyers. Increasingly, each buyer has its own code of conduct, CSR training requirements, buyer monitoring, and external verification audits. The result is significant overlap and repetition; suppliers assert that this imposes unnecessary burdens on buyers who have to allocate time to address an overlapping stream of CSR-related activities.
- **Confusion** results from the variation in CSR requirements among buyers and CSR initiatives and poses two separate challenges for suppliers. First, it serves as a barrier to entry for suppliers wishing to be proactive in addressing CSR as a means of attracting or retaining clients: it is not sufficiently clear to suppliers how they can best demonstrate compliance to a range of potential CSR-sensitive buyers. Second, confusion can undermine CSR implementation: despite increasing convergence in the content of codes of conduct (particularly in labor content), significant discrepancies in the details of imple-

mentation remain, revealed through variation in the quality and content of monitoring and auditing processes and personnel and remedial action.

## Assumptions Underpinning Key Challenge 1

**1a)** The multistakeholder code initiatives have already started a process to improve practical collaboration and to consider coordination; this study is unlikely to add much value to that process, other than encouraging the participants in their endeavors. Instead, this study is likely to be most useful by focusing on the much larger number of individual buyer codes. It is also likely that some of the findings regarding implementation consistency may contribute to the separate discussion taking place among multistakeholder code initiatives.

**1b)** Labor content of codes (multistakeholder codes plus leading individual buyer codes) is slowly converging around ILO core conventions. It is likely that this convergence will facilitate solutions to the challenge of inefficiencies and confusion, as well as the third challenge of capacity building.

**1c)** If assumption 1b) about labor content of codes is correct, it is likely that this has implications for the utility of content convergence in other content areas, such as environmental standards and human rights. It further implies that content convergence should derive from internationally agreed standards such as those represented by the ILO conventions, international declarations, or agreements of UN agencies or the OECD.

**1d)** It is likely that the presence of multistakeholder initiatives have had a significant indirect influence in shaping firm decisions about the con-

tent of their codes, even among firms that are not members of these initiatives. This may have implications for the role that multistakeholder initiatives can play, both directly and indirectly, with regard to addressing the three key challenges listed in the Terms of Reference.

**1e)** The area where the majority of confusion exists is in the activities associated with the implementation of standards, that is, differences in the quality and specifics of monitoring, auditing, and remediation efforts. There appears to be significant inconsistency at the basic level of CSR implementation, that is, how standards are to be interpreted into everyday business practices and subsequently monitored. This is said to be true at all levels: within companies, across companies, within multistakeholder initiatives, and across multistakeholder initiatives and other factory certification programs. It is likely that removing unnecessary inefficiencies in this area will not stifle innovation or ongoing development of CSR initiatives. Efforts to standardize or harmonize elements of these initiatives should be quite straightforward: as one executive of a major apparel company put it, fake books are fake books.

**1f)** There is a risk that consolidation of individual buyer code content may lead downwards to the lowest common denominator, but this need not be the case, especially if content is derived from internationally agreed standards.<sup>31</sup> There is a related assumption that CSR can be made more accessible or economically viable to SMEs without lowering standards, for example, through increased capacity building. It is possible, however, that in some industry sectors, CSR combines with other buyer demands to the advantage of larger enterprises.

**1g)** It is likely that businesses have concerns about explicitly adopting internationally agreed standards that have prevented them from doing so. Possibilities include fears of legal liability, desire to use individual CSR policies as a branding element, and a desire to maintain flexibility in terms of CSR commitments.

**1h)** It is likely that governments, especially host country governments, have a key role to play in

clarifying expectations and helping reduce confusion and inefficiencies, but it is important to identify where the private sector may willingly play this role and where it may have a comparative advantage to do so.

## KEY CHALLENGE 2

Buyers are recognizing that traditional top-down CSR strategies are not achieving improved CSR implementation. The challenge is to identify best practice from the many pilot initiatives that acknowledge the importance of stakeholder participation, empowerment, and capacity building.

The evidence seems clear that a top-down policing approach to CSR compliance is insufficient or even inappropriate: a supplier who is only implementing CSR standards because of buyer insistence can find ways to evade compliance without too much fear of detection. A number of buyers have concluded that this implies a need to address the challenge of achieving shared ownership for the implementation of CSR standards throughout the supply chain. New strategies have included:

- A focus on clarifying the business rationale to generate bottom-up demand for CSR implementation, including development, dissemination, and promotion of frameworks to analyze the costs and benefits of implementing CSR (revealing productivity and quality gains and potential increased market share).
- Capacity-building support at the supplier level, for management, workers, and stakeholders alike. Many suppliers lack the management expertise to address challenges associated with bringing their workplace into compliance with CSR codes of conduct. These skills include operations management, knowledge of environmental practices, human resource management/industrial relations, health and safety, and knowledge of other systems that ensure sustainable production through a fundamental change in business systems.
- An emphasis on the role of workers or other key stakeholders as guarantors of CSR implementation. Trade unions have long argued that empowered workers are key to ensuring implementation of CSR standards because of their continuous presence at the worksite and their stake in the outcome. Similar arguments have been made about local communities and envi-

<sup>31</sup> A possible model for modularization could be seen in IKEA's four-step ladder approach to compliance with labor, social, and environmental issues.

ronmental protection. A small number of buyers and suppliers are undertaking experiments to increase the involvement of workers in their CSR implementation strategies. Some focus on NGO-style participatory techniques as a means of improved communication. Less common, but important, experiments include supporting an active role for trade unions.<sup>32</sup>

## Assumptions Underpinning Key Challenge 2

**2a)** The top-down approach to CSR code implementation has been buttressed by the growth of externally provided inspection and audit services, on a commercial basis. It is likely that a capacity-building approach to CSR code implementation will require the growth of equivalent quality CSR support services, for example, such as those provided by properly trained auditors, empowered workers, well functioning and independent trade unions, and multistakeholder organizations. These are not currently available beyond relatively small-scale experimentation, and it is likely that the lack of widespread availability results in relatively high market prices and inconsistent implementation.

**2b)** It is likely that the organizations best positioned to lead implementation of empowerment strategies, capacity building, and training services would be unions (for labor issues) or multistakeholder organizations using participatory techniques. It is also likely that such activities would be better situated to offer complex or shared financing arrangements involving contributions from a variety of stakeholders and thereby altering the unit cost of CSR implementation and therefore the financial viability of participation for some companies such as SMEs (cost-benefit outcome). Similarly, it seems likely that the role of host governments will be significant in endorsing and enforcing standards, providing social services, and supporting worker empowerment.

**2c)** Despite the growing practice of consultancy (capacity building) services by some commercial CSR auditing agencies, which currently consti-

tute a large portion of the small community of private sector experts experienced in CSR management systems, this is likely to present a conflict of interest with their external verification and auditing services.

**2d)** It is likely that public–private collaboration over the capacity-building challenge would be made easier if mechanisms for collaboration with relevant public sector inspectorates were in place, for example, if the results of buyer audits or remediation plans could be shared with labor inspectorates, although clear disincentives currently exist in this regard.

**2e)** It is likely that coordination among buyers sourcing from shared suppliers would increase compliance by suppliers through the creation of a united front and, ideally, a consistent message regarding implementation guidelines.

**2f)** It is likely that “initiative fatigue”—which describes the saturation of involvement in a variety of CSR initiatives by leading companies in this field—may serve as an obstacle to their engagement in the options presented by this study. It is also likely that additional ambivalence may stem from institutional constraints, such as a vested interest in existing organizational structures and policies.

## KEY CHALLENGE 3

The reticence of some suppliers to undertake CSR compliance reflects a view that there is insufficient understanding of the business rationale for making the required investments. The challenge is to be clear about the business benefit at the supplier level and to develop business practices that maximize those benefits.

An associated challenge is the likelihood that for some suppliers, the business case does not exist, that is, in the absence of legal enforcement, the risk of market sanction and the benefits of CSR implementation are not sufficient to motivate suppliers to engage in CSR.<sup>33</sup>

<sup>32</sup> The Global Alliance for Workers and Communities and CARE/Timberland have implemented projects to empower workers using participatory techniques. Reebok has facilitated trade union elections in two factories in China.

<sup>33</sup> Many suppliers operate on extremely thin margins and short-term business horizons. This is partially because of the nature of the industry (margins are slim), low barriers to entry in many labor-intensive industries leading to overcapacity in the supply chain, and underdeveloped capacity of management to operate profitable businesses.

- There are unresolved tensions between the delivery **time and price and the CSR requirements** of CSR-sensitive buyers. Suppliers, who are often less skilled in the area of contract negotiation, claim that unrealistic contract requirements drive them to make tradeoffs between accepting profit losses and violating CSR compliance obligations.<sup>34</sup>
- A misunderstanding of codes as a nontariff trade barrier rather than the contractual obligation of the business relationship may focus suppliers unnecessarily on their perception of the content of the codes rather than the challenges of implementation.

### Assumptions Underpinning Key Challenge 3

**3a)** It is likely that clarity on the apparent conflict between price and delivery, on the one hand, and CSR on the other, will be the primary contribution of this study, permitting individual buyers to make more informed choices about the tradeoffs involved.

**3b)** It seems likely that other tensions may be resolved, or decreased, through improved integration of CSR policies within individual buyers firms. For example, coordination of design and purchasing departments enabling longer lead time may decrease likelihood of overtime violations.

**3c)** It is likely that a primary obstacle to greater awareness of the business rationale for engaging in CSR is the absence of a simple and credible frame-

work for analyzing the business case, and therefore a lack of quantifiable evidence of the costs and benefits of CSR to suppliers, despite significant anecdotal evidence indicating a positive business case.<sup>35</sup>

**3d)** Increased transparency around CSR, driven by a system of improved and credible reporting, can be a key determinant of some categories of business benefit, creating a mechanism through which free riders are exposed and CSR-sensitive buyers and suppliers are increasingly likely to be rewarded by CSR-sensitive clients and consumers. It is likely that various stakeholders, including the public sector, can take steps to influence the business case for CSR by influencing the potential benefits and costs.

**3e)** There is both a lack of critical mass of buyers with serious interest in CSR and limited engagement on the part of many buyers in living up to the commitment implied in their codes. This sends mixed messages to suppliers and appears to limit the ability of buyers who are serious about CSR to more successfully engage suppliers on CSR.

**3f)** Because most codes of conduct have been created in industrial countries by multinational firms and frequently represent the culmination of an effort by industrial country civil society activists to increase implementation of standards, the standards are often perceived as Western-centric. It is likely that the perception of these standards as foreign may be influencing local acceptance and implementation of codes by suppliers.

<sup>34</sup> This may be a function of a market constrained by a variety of issues: CSR-sensitive buyers competing with non-CSR-sensitive buyers; overcapacity in the industry driving prices down to unsustainable levels; or lack of awareness and coordination among the CSR and sourcing departments within individual firms.

<sup>35</sup> The Bank Group is currently testing a framework for evaluating the cost and benefits of CSR programs in a number of factories where programs supported by the Global Alliance for Workers and Communities are being implemented.

# List of Participants Consulted in the Study

	<i>Group</i>	<i>Interview</i>	<i>No. of Participants</i>
<b>Stakeholders</b>			
<b><i>U.S. Stakeholders</i></b>			
AFL-CIO Solidarity Center	x		1
As You Sow Foundation	x		1
Global Alliance	x		1
Human Rights Watch	x		1
International Labor Rights Fund	x		1
Investor Responsibility Research Center	x		1
Lawyers Committee for Human Rights		x	1
Maquila Health & Safety Network	x		1
National Consumers League	x		1
OXFAM US	x		1
SAI - Social Accountability Limited	x		1
The Natural Step	x		1
Trillium Investment	x		1
U.S. Agency for International Development		x	1
U.S. State Department		x	1
WRAP - Worldwide Responsible Apparel Production	x		1
WRC - Worker Rights Consortium	x		1
<b><i>European Stakeholders</i></b>			
ACV Textura, Belgium		x	1
Amnesty International	x		1
Banana Link	x		1
CARE Honduras	x		1
Care International	x		1
Central American Women's Network	x		1
Clean Clothes Campaign	x		1
Deloitte Touche Denmark		x	1
EFFAT	x		1
ETI - Ethical Trading Initiative		x	1
European Commission, Development Directorate General		x	1
European Commission, Employment and Social Affairs Directorate General		x	1
Fair Wear Foundation	x		1
GRI - Global Reporting Initiative	x		3
ICFTU - International Confederation of Free Trade Unions		x	1
ILO		x	4
International Business Leaders Forum	x		1
IOE - International Organisation of Employers		x	1

	<i>Group</i>	<i>Interview</i>	<i>No. of Participants</i>
<b><i>European Stakeholders (continued)</i></b>			
ITGLWF - International Textile, Garment & Leather Workers' Federation		x	1
IUF	x		1
New Academy of Business	x		2
OECD		x	1
Office of the High Commissioner for Human Rights		x	1
Oxfam	x		1
SOMO Centre for Research on Multinational Corporations	x		2
WBCSD - World Business Council for Sustainable Development		x	1
WCL	x		2
WWF International		x	1
<b><i>Stakeholders in India</i></b>			
Action for Food Production	x		2
ASK Association for Stimulating Knowhow	x		1
Centre for Education and Research	x		1
CLEAR Centre for Labour Education and Social Research	x		1
Global Alliance for Workers and Communities	x		1
INTUC – Indian National Trade Union Congress	x		1
UNICEF	x		1
<b><i>Stakeholders in Hong Kong, China</i></b>			
AMRC	x		1
China Labor Bulletin	x		1
CIC	x		1
City University	x		1
CTU	x		2
<b><i>Stakeholders in Kenya</i></b>			
Africa Now	x		1
Business Partnership Programme - DFID	x		1
Centre for Corporate Governance	x		1
Federation of Kenya Employers	x		1
Institute of Economic Affairs	x		2
Kenya Women Workers Organisation	x		1
Ministry of Labor	x		1
Standing Commission on Human Rights	x		1
Tea Board of Kenya	x		1
Ufadhili Trust	x		2
UNDP	x		1
<b><i>Stakeholders in Honduras</i></b>			
Comité General Menonita	x		1
Equipo de Monitoreo Independiente	x		1
Honduran Ministry of Labor		x	1
Union of Banana and Agro-Industrial Workers of Honduras		x	1

	<i>Group</i>	<i>Interview</i>	<i>No. of Participants</i>
<b>Buyers</b>			
<b><i>Buyers in the United States</i></b>			
Cutter & Buck	x		1
Disney	x		1
Eddie Bauer	x		1
Gap	x		2
Global Social Compliance		x	1
Jones Apparel	x		1
Levi Strauss & Company	x		2
Liz Claiborne	x		1
L.L. Bean	x		1
Mattel	x		1
McDonald's		x	1
NIKE	x		2
Nordstrom		x	1
Phillips Van Heusen	x		1
Polo Ralph Lauren	x		1
Proctor & Gamble	x		1
Reebok	x		1
Starbucks		x	1
Wal-Mart		x	1
Wolverine Worldwide	x		1
<b><i>Buyers in Europe</i></b>			
adidas-Salomon		x	1
Chiquita	x		1
Coop Denmark		x	1
H&M Hennes & Mauritz		x	1
IKEA International		x	1
John Lewis - Waitrose	x		1
Karstadt Quelle		x	1
Littlewoods	x		1
New Look	x		1
PPR Group		x	1
Safeway	x		1
Somerfield	x		1
Tetley	x		1
Unilever	x		1
<b><i>Buyers in India</i></b>			
Gap	x		2
H&M Hennes & Mauritz	x		1
Li & Fung	x		2
Triburg Sportswear	x		1
Wal-mart	x		1

	<i>Group</i>	<i>Interview</i>	<i>No. of Participants</i>
<b>Buyers in Hong Kong</b>			
Adidas-Salomon	x		1
Colbys	x		1
Debenhams	x		1
Disney	x		2
Eddie Bauer	x		2
Hallmark	x		2
IPS	x		2
Levi Strauss	x		1
Li & Fung	x		3
Mattel	x		1
Narrowgate	x		1
NIKE	x		1
Pentland	x		1
Sears	x		1
Target	x		1
W.E. Connor	x		3
<b>Suppliers</b>			
<b>Suppliers in Honduras</b>			
Asociacion Hondureña de Maquiladores	ap		1
Garan Buena Vista	ap		1
Garan San Jose	ap		1
Grupo Compañía Azucarera Hondureña	ag		1
Han-Soll Honduras	ap		1
Hugger Group	ap		1
ICX	ag		1
Jerzees Choloma	ap		1
King Star Garment	ap		2
Liberty de Honduras	ap		1
Skips de Honduras	ap		1
<b>Suppliers in India</b>			
Aksahy Apparels	ap		1
Assam Frontier Tea	ag		1
Curious Crafts	ap		1
Empire Tea Company	ag		1
Eveready Industries India Ltd.	ag		1
Federation of India Export Organisations	ag	x	1
Gupta Exim	ap		1
Jorehaut Tea Company	ag		1
Moran Tea Co.	ag		1
Neetee	ap		1
Orient Craft	ap		1
Rangi International	ap		1
Rossel Tea Limited	ag		1
Singlo Tea Company	ag		1
SPL Industries	ap		1
Super Fashion	ap		2



	<i>Group</i>	<i>Interview</i>	<i>No. of Participants</i>
<b>Suppliers in Kenya</b>			
Karirana Tea Estates		ag	1
KTDA Kenyan Tea Development Agency		ag	1
Linton Park Plc.		ag	1
Socfinaf Company Ltd.		ag	1
Williamson Tea Kenya Ltd.		ag	1
<b>Suppliers in China</b>			
Apache	ap		1
Mansum Group (Zhong Shan) Fty.	ap		2
Starite	ap		2
XC	ap		1
YY	ap		2
<b>164 organizations</b>			<b>individuals 194</b>

(In the table above, 'ag' stands for agriculture and 'ap' stands for apparel).

**Table F1 Summary Figures of Consultations**

	<i>Hong Kong, China</i>	<i>Honduras</i>	<i>India</i>	<i>Kenya</i>	<i>United States</i>	<i>Europe</i>	<i>Totals</i>
Buyers AP	24 (49)		7 (10)		20 (50)	9 (35)	60 (144)
Buyers AG					3 (19)	5 (15)	8 (34)
Suppliers AP	8 (50)	10 (59)	10 (15)				28 (124)
Suppliers AG		2 (24)	7 (14)	5 (15)			14 (53)
Stakeholders	6 (9)	4 (24)	8 (17)	13 (15)	17 (35)	36 (45)	84 (145)
Workers	58	60	21	60			199

AP, apparel; AG, agriculture. The number in parentheses indicates the number of invited participants in each category. We consulted a total of 194 individuals representing 164 organizations and companies. Of these, 43 individuals representing 40 organizations were interviewed either in-person or telephonically. The remaining 151 individuals representing 122 organizations were consulted in group sessions with two or more participants. Participants were consulted in 11 locations in 9 countries on 5 continents.

**Table F2 Buyer Consultations**

	<i>San Francisco</i>	<i>New York</i>	<i>London</i>	<i>Hong Kong, China</i>	<i>New Delhi</i>
Group	8 (25)	7 (25)	8 (50)	24 (49)	7 (10)
Interview		5	6		

The consortium invited approximately 160 buyers to participate in the consultation process; of these 68 were consulted in course of the study. The number of agricultural and apparel buyers was 8 and 60, respectively.

**Table F3 Stakeholder Consultations**

	<i>China</i>	<i>Honduras</i>	<i>India</i>	<i>Kenya</i>	<i>United States</i>	<i>Europe</i>
Group	6 (9)	2 (24)	8 (15)	13 (15)	14 (35)	23 (45)
Interview		2	(2)		3	13

In the United States, stakeholder group consultations were held in San Francisco and Washington D.C. In Europe, stakeholder groups consultations were held in Amsterdam, Brussels, Geneva, and London. The consortium invited approximately 143 stakeholders to participate in the consultation process; of these, 84 were consulted, the vast majority being NGOs and trade unions. The remainder makes up a diverse group, including a number of government officials, representatives of international organizations, and commercial service providers.

**Table F4 Supplier Consultations**

	<i>China</i>	<i>Honduras</i>	<i>India</i>	<i>Kenya</i>
Group	8 (50)	12 (83)	11 (29)	
Interview			6	5 (15)

A total 177 suppliers were invited to participate in consultation; of these, 42 suppliers were consulted, of which 14 were agricultural suppliers and the remaining apparel suppliers.



# Glossary

**Buyers:** the term used for international companies that purchase goods from independently owned suppliers for sale in retail outlets. Many buyers represent prominent brand names or retail outlets, and are subject to various forms of pressure from investors, consumers, and civil society activists to protect workers, the environment, and human rights throughout their supply chains.

**Multistakeholder Initiatives:** Multistakeholder initiatives are efforts that bring diverse stakeholders together around a set of agreed principles in the area of labor, human rights, or the environment. These initiatives vary in their mission, some focusing on shared learning around best practice and others with more focused monitoring or certification programs. Examples include the Ethical Trading Initiative (ETI), Social Accountability International (SAI),

the Clean Clothes Campaign (CCC), and the Forest Stewardship Council (FSC).

**Stakeholders:** the term used for nonstate, non-business organizations, such as nongovernmental organizations and trade unions, which make up the overwhelming majority of stakeholders consulted, but also international organizations such as the United Nations Children’s Fund (UNICEF). The term covers international, national, and local organizations in industrial and developing countries.

**Suppliers:** refers to the suppliers that produce for buyers or their subcontractors and intermediaries. In the apparel sector, suppliers are predominantly first-tier suppliers, whereas suppliers in agricultural sector supply either directly to buyers or via commodity auctions.



# Summary of Supplier Consultations

This annex provides a summary of perspectives and opinions offered by suppliers consulted in the process of implementing this study and, as such, were not subjected to analysis by the consortium that was responsible for preparing the report. The organization of the annex follows the structure of the key challenges and their underpinning assumptions as defined by the Bank Group in the Terms of Reference; please refer to these in annex A. The structure is designed to allow the reader to see how the participants related to each of the outlined challenges and underpinning assumptions.

## OVERVIEW OF CONSULTATIONS

### The Numbers

The consortium consulted suppliers in two industry sectors, apparel and agriculture, within four countries: China, Honduras, India, and Kenya.

In the **apparel industry sector**, participants were made up of small and medium-sized suppliers. All suppliers could be considered first-tier suppliers directly interfacing with buyers. Most suppliers had experience implementing multiple codes for a number of years. In general, those suppliers that were consulted were located in the proximity of the capitals of the respective countries. A total of 28 apparel suppliers were consulted, 8 in China, and 10 each in Honduras and India.

In the **agriculture industry sector**, participants were made up of small and medium-sized, as well

as large, international supplier companies. For example, one participant employed more than 20,000 employees within a particular agricultural industry. Suppliers were predominantly tea suppliers; however, the group also includes suppliers of coffee and sugar. Most suppliers were relatively inexperienced in working with codes. The consulted suppliers were in general located in the proximity of the capitals of the respective countries. A total of 14 agriculture suppliers were consulted, 2 in Honduras, 7 in India, and 5 in Kenya.

The table shows the number of participants in the various locations.

In general, suppliers were consulted by means of a dedicated workshop that lasted four to six hours. The number of participants in each workshop ranged from two to nine individuals. In Kenya, the consortium carried out consultations as individual in-person interviews at the premises of the suppliers. This turned out as the only viable consultation mechanism. Also, in India, a number of tea suppliers were consulted in-person in an effort to increase the number of participants. Some suppliers took advantage of the opportunity to provide additional information through the secured web page at [www.worldbankstudy.dk](http://www.worldbankstudy.dk), dedicated to the study and maintained by the consortium.

The main report provides a general description of the methodology employed to carry out the consultations, as well as the means of identification of participants. It should nonetheless be stressed here

**Table A.1 Supplier Consultations**

	<i>China</i>	<i>Honduras</i>	<i>India</i>	<i>Kenya</i>
Group	8	12 (2)	11 (2)	
Interview			6 (5)	(5)

A total of 177 suppliers were invited to participate in consultations. The number in parentheses is the number of agricultural suppliers consulted in the individual countries.

that the consortium made a particular effort to provide a setting that allowed participants to speak freely and confidentially.

## Overall Comments on Consultations

Overall, consultations took place in a **frank and engaging atmosphere** in which suppliers provided valuable input to the discussion on barriers and key challenges.

The consultations demonstrated that the familiarity with the issues at the heart of the study varied greatly between the industry sectors and little within the sectors. In general, suppliers in the apparel sector were quite experienced working with codes of conduct, whereas participants in the agricultural sector were much less experienced. While this has obviously impacted the quality of input provided from each of the consultation groups, it is probably also quite reflective of the situation in the respective industries, where codes are often seen as more problematic in the agricultural sector because of the predominance of small producers

Supplier consultations also showed that **suppliers are finding it difficult to develop practical solutions to the challenges they are facing**. This observation applies equally to both industry sectors. While they acknowledged codes of conduct had become part of the business relationship they also tended to see codes of conduct as an additional buyer requirement that just added to the already unbalanced business relationship. This means, in turn, that suppliers are seldom involved in setting an agenda that shapes their own business environment, which potentially has a great effect on their future business opportunities. In addition, and similar to many of the other consultation groups, suppliers' options and solutions to overcome the identified key challenges and barriers in general implied efforts on the part of the other stakeholder groups.

As suggested by the table above, overall, **the number of participants turned out to be fewer than anticipated**. This is somewhat disappointing and even surprising given that the approach of the study gave suppliers a pivotal role in influencing the outcome of the study. However, the consortium did appreciate an overall feeling of survey

fatigue among many of the targeted participant groups. This latter explanation would seem particularly relevant for the apparel sector, which, indeed, has been the subject of numerous surveys, research studies, and workshops over the past couple of years.

In the **agricultural sector**, the low turnout may be attributed to a number of different reasons, including (1) the lack of experience with codes of conduct, (2) the inability of the consortium to reimburse participants' costs of transportation and accommodation, (3) the often uneasy relationship between buyers and suppliers in that sector,<sup>36</sup> and (4) the present depressed economic situation in several agricultural industries.

In sum, despite the lower than anticipated number of suppliers in the study and many suppliers' general difficulty in developing practical solutions to the challenges they face, supplier consultations did provide input of great value to the study.

## KEY CHALLENGES

Overall, suppliers agreed to the key challenges identified by the Bank. However, throughout consultations, it remained difficult to ascertain the degree to which these challenges were considered serious to business development. Although a certain feeling of powerlessness could be discerned among suppliers, this may be attributable to the general business climate and the overall nature of the buyer–supplier relationship than from the direct burdens imposed by codes of conduct.

In general, suppliers appeared more frustrated and irritated than concerned with the new requirements made by buyers. The increased use of codes of conduct comes at a time when the surveyed industries, apparel and agriculture, experience increasingly difficult business conditions stemming in part from overcapacity and depressed prices. As such, the requirements resulting from implementation of codes of conduct—and the resulting costs—are seen as yet another set of difficulties.

It is also noteworthy that only a few of the suppliers fully embraced the objective of implementing

<sup>36</sup> In Kenya, this reason was offered for not wanting to speak in a workshop setting.

codes of conduct, although many of them welcomed most of the code provisions and even claimed they would have complied with these without pressure from buyers. This may, of course, be a function of the above as well as the present implementation mechanisms of codes of conduct. However, most suppliers remained skeptical about the real motives of buyers, seeing codes of conduct as a tool of reputation management rather than as tool for improving labor conditions.

### Key Challenge 1: What Suppliers Said

Overall, suppliers agreed that Key Challenge 1 was a barrier to improved implementation of codes of conduct. The barrier was overall considered the most important of the three challenges outlined by the Bank. Nonetheless, in general, suppliers did not perceive the barrier to be a significant challenge. The multiplication of codes and the resulting multiple auditing was a source of friction and irritation as well as a source of increased costs. However, the key issue appeared to be that of multiple codes generating unnecessary costs and burdens rather than the scale of costs and burdens themselves.

Agricultural suppliers were less well positioned to comment on the challenge since the consulted suppliers in general only worked with one or two codes.

#### Inefficiencies and Confusion

- **Inefficiencies** were recognized by all suppliers, in both apparel and agriculture. Inefficiencies emerged as a result of multiple auditing, costs related to documentation, inconsistent documentation requirements, management resources allocated to audits, documentation, and so forth. These costs were in general considered unnecessary and unproductive.
- The source of inefficiencies was not necessarily a result of **the number of codes**—which generally were perceived to be converging with regard to the content—but rather the inconsistent implementation practices associated with codes. A common code would not sufficiently reduce inefficiencies as long as individual buyers defined implementation practices.
- **Confusion** was recognized by all suppliers, although suppliers **didn't believe that the multiplication of codes acted as a barrier to entry**

for suppliers wishing to be proactive in addressing CSR as a means of attracting or retaining buyers.<sup>37</sup>

- Suppliers, however, agreed that **confusion did arise as a result of the different implementation practices of buyers**. This was particularly notable in the apparel industry where suppliers often had to deal with varying, and at times conflicting, implementation practices of more or less identical code provisions. While aspiring to the highest standard often could solve the problem of inconsistency, this wasn't always the case. In addition, some apparel suppliers argued that implementation practices varied according to the company and even the auditing individual conducting the auditing.
- The inconsistent implementation practices were a source of **concern in particular when implementation practices were conflicting**. In these situations, suppliers were at loss as to what solution to pursue. Although suppliers acknowledged that the examples offered may be minor and insignificant (the location of fire extinguishers and first aid boxes were the most frequently mentioned examples), suppliers were nonetheless required to address the issue, including dealing with the ensuing follow-up audits, “red marks” in auditors' reports, and so on. Apart from the frustrations, confusion, and inefficiencies this gave rise to, the greatest problem was that suppliers risked being in non-compliance—and thus risked damaging the business relationship.
- Confusion may not seem to be the proper concept for describing the challenges emerging as a result of inconsistent implementation practices, since it implicitly “blames” suppliers for the present situation. Inconsistent implementation practices would appear to be a more appropriate term.

#### Underpinning Assumptions

**1a) Multistakeholder Initiatives:** Overall, suppliers did not offer any particular perspectives relevant to the process of collaboration between the multistakeholder initiatives. In general, suppliers were not familiar with these initiatives, with the

<sup>37</sup> It should be noted that all suppliers consulted had been working with one or more codes for more than a year, and frequently several years in the apparel sector.

exception of Kenyan agriculture suppliers, who were familiar with the ETI.

**1b) Code Convergence:** With the exception of Honduran apparel suppliers, suppliers in general agreed that (labor) codes were very similar in content. They also agreed that **convergence was taking place**, and that differences in code content were insignificant. Suppliers were in general not in a position to equate labor codes with the provision of relevant ILO conventions. Based on the experiences of suppliers and opinions offered, **it cannot be assumed that code convergence in itself will have any significant impact on the experienced inefficiencies and confusion.**

**1c) Human Rights and Environment:** In general, suppliers had few if any experiences with environmental or human rights provisions in codes. Few opinions were offered on the subject; however, those who did comment found it difficult to see how an environmental code could be developed.

**1d)** Not applicable.

**1e) Standardization of Implementation Practices:** Across the board, suppliers believed that standardization of implementation practices was possible. Standardization would have to be compliant with local laws and traditions. Suppliers generally favored a common code compliant with local law. This would seem to suggest that standardization would have to be localized, although it may be based on some common standards and principles.

**1f) Risk of Lowest Common Denominator:** Suppliers didn't fear that consolidation and harmonization of codes would lead downwards to the lowest common denominator. In China and India, suppliers believed that the local laws in many instances offered a higher protection than that of ILO conventions. Moreover, suppliers believed that buyers would not allow this to happen out of reputation and risk management concerns. However, many suppliers did favor a modular approach to compliance, starting out with basic requirements. The present "system" does not allow for different levels of compliance: "Either you are compliant or not" (Indian apparel supplier). Suppliers, however, were not able to suggest what would be the starting point of a modular system nor did they offer perspectives on how to gradually

move up the ladder. Nonetheless, suppliers would like a more long-term, modular-based approach to compliance.

**1g) Business Risk Concerns:** Not applicable.

**1h) Role of Government:** All suppliers agreed that the government had a key role to play; however, in all countries local authorities were viewed as inefficient and corrupt. In particular, agricultural suppliers in Kenya and India believed that government should assume responsibilities that were believed to be undue burdens on companies; these included the provision of healthcare services, school facilities, maintenance of physical infrastructure such as roads, and so forth.

### Industry and Country Characteristics

The consultations showed that overall suppliers are facing the same challenges, although country-specific and industry-specific issues did exist.

In general, on the basis of greater experience, apparel suppliers were better positioned to contribute to the discussion of the key challenge. It was also evident that the two industries are facing different implementation difficulties. For instance, in the apparel industries in China and India, the overriding implementation difficulty is that of overtime and compensation. In the agricultural industries in India and Kenya (tea and coffee), one of the greatest challenges is that of the provision of various services for employees, including maintenance of infrastructure.

While many challenges cross-cut industries and countries, it was nonetheless a shared view of most suppliers that any approach toward greater harmonization and consolidation had to take into account the local context, including local laws.

### Key Challenge 2: What Suppliers Said

Overall, suppliers agree with Key Challenge 2; however, though they attribute less significance to it than Key Challenge 1. This may in part stem from the fact that Key Challenge 2 implicitly suggests that suppliers lack the skills necessary to come into compliance. Few, if any, suppliers agreed that there was a supplier skill deficit that had to be dealt with. Compliance was in general viewed as a cost issue, and possibly an awareness issue.



In addition, suppliers questioned the motives of buyers, arguing that buyers at the end of the day were mostly concerned with their own reputation risks than with seeing actual changes take place on the ground. Most suppliers believed that codes were being imposed, that insufficient consultation took place, and that the business relationship lacked equity. Some apparel suppliers bluntly confessed that compliance was perceived as a game of evasion in which suppliers would prepare for announced audits by cleaning up the factory place, instruct workers to wear protection equipment, and so on. Although suppliers generally believed codes to be fair, few if any of them embraced codes. Many others echoed a comment by one Indian apparel supplier: “If buyers would pay an additional three cents per piece I’ll be in compliance tomorrow.”

Suppliers had mixed feelings about the involvement of unions and NGOs, although most agreed that empowerment of workers was an objective worth pursuing.

### **The Bottom-Up Approach, Capacity Building, and Worker Empowerment**

■ **Top-Down versus Bottom-Up Approach:** Overall, suppliers believed that codes of conduct had been thrust upon them without any prior consultation. This was a source of discontent. In addition, many suppliers expressed frustration about codes being altered without consultation or even proper notification of suppliers. One Indian apparel supplier claimed that he only became aware of changes to a code once auditors informed him he was noncompliant. In a similar vein, suppliers complained about an overall lack of equity, and that buyers were not sufficiently sensitive to the ground realities.

Most suppliers requested a real, in-person consultation between buyer and supplier. As of now, a lot of the communication takes place through compliance reports and auditors acting as intermediaries. This was frustrating, because it doesn’t allow suppliers to present their views to the buyer. Few if any suppliers made requests beyond this. A regular consultation with the buyer would also form the basis for reaching agreement on the setting on objectives for compliance. In addition, it was suggested that suppliers could convene to form a committee that would negotiate with buyers.

The comments by many suppliers seemed to echo an overall feeling of powerlessness. This would probably have to be seen in a broader context reflecting the overall buyer–supplier relationship.

- **Capacity Building:** Few if any suppliers recognized a need for capacity building. While some agreed that training of workers could be beneficial, this was not a theme that was picked up by the majority. Suppliers chose instead to focus on the need for capacity building at the government and local authority’s level, including local labor inspectorates. Inspectorates were in general not perceived to be well trained in labor law and social/environmental regulations.
- **Worker Empowerment:** Suppliers recognized that efforts had to focus on workers. Apparel suppliers overall agreed that the general compliance awareness among workers needed improvement. Awareness campaigns could address issues such as rights and information on the need for wearing protective equipment and other means related to health and safety. However, one agricultural supplier argued that training should not be overemphasized, as this would make it inherently more difficult to retain the work force.

In general, suppliers did not believe that NGOs had any particular role to play, whereas opinions were more mixed about the role of unions. For instance, unions were perceived to hold a key role in the Indian agricultural sector, whereas unions were not considered important in the unorganized apparel sector; it should be noted that only approximately 5 percent of the Indian work force is organized. In Honduras the role of unions was perceived with some ambiguity by both apparel and agricultural suppliers.

### **Underpinning Assumptions**

**2a) Lack of Services to Support a Bottom-Up Approach:** Since suppliers didn’t recognize a particular need for new services or services related to capacity building, the possible absence of such services was not recognized. One exception to this general observation was Indian apparel suppliers’ recognition of the need to develop and share best practices among suppliers; suppliers believed commercial service providers or industry federations should carry this out.

**2b) Organizations Best Positioned to Lead on Capacity Building and Empowerment Strategies:** Some suppliers (apparel and agriculture) believed that unions could and should play a role in training of workers; however, the role suppliers wanted to afford unions did vary somewhat among the different countries with Honduran suppliers being the most negative about involving unions. Likewise, suppliers believed strongly that government had a key role in endorsing and not least enforcing standards as well as providing various social services. This was a sentiment shared among all suppliers with apparel suppliers emphasizing the enforcement aspect and agriculture suppliers emphasizing provision of social (and educational) services.

**2c) Commercial Service Providers Shouldn't Provide Capacity-Building Services:** Suppliers didn't have any views on this except that they were convinced that any certification scheme had to be executed by commercial service providers.

**2d) Public-Private Collaboration:** Suppliers did not welcome the idea that auditing reports should be shared with local labor inspectorates. The latter was generally seen as corrupt and inefficient, and suppliers feared that access to auditing reports could be misused by labor inspectorates. However, most suppliers agreed that local authorities had a key role to play in enforcing standards—a role that is grossly neglected at present.

**2e) Coordination Among Buyers Would Increase the Level of Compliance:** Suppliers did not explicitly reflect on this; however, all suppliers welcomed increased coordination among buyers in the process of code implementation. This should indicate that suppliers also believed that increased coordination would increase the level of compliance since a number of inefficiencies and confusion would be reduced or potentially cease to exist.

**2f) Initiative Fatigue:** Only a few suppliers explicitly referred to initiative fatigue. While a handful of suppliers had participated in various workshops on codes of conduct, few of them participated in pilot projects or new initiatives. The lack of engagement in developing options to overcome the barriers identified would seem not to stem from initiative fatigue, but, rather, to a general sense of powerlessness and inability to move forward.

### Key Challenge 3: What Suppliers Said

The business case remains a disputed challenge among suppliers. It goes without saying that all suppliers recognized the business of compliance in that it increasingly was a sine qua non for maintaining and securing business, although many suppliers did not believe that investments in CSR compliance translated into new contracts. However, suppliers did not agree on whether compliance with codes of conduct in itself was a source of business benefits, for example, via higher productivity, lower costs, fewer accidents, and so forth. The general picture would, however, seem to be one in which suppliers overall reject the idea that CSR compliance in itself is good for business, except for isolated aspects of compliance.

Overall, Indian suppliers—in both apparel and agriculture—believed in the business case of compliance with codes of conduct; however, they generally believed that the business benefits were selective, related to particular aspects of compliance. For instance, they were convinced that compliance with local law on overtime was destructive to business rather than beneficial to business, whereas they recognized some potential benefits associated with elements of health and safety regulations. Still, most apparel suppliers justified non-compliance on cost considerations.

Meanwhile, Honduran apparel suppliers did not believe compliance created any business benefits. Similarly, Chinese apparel suppliers were skeptical about benefits associated with compliance. Agricultural suppliers in Kenya and India believed that good working conditions were essential to maintaining the work force as well as to the productivity of the work force; however, compliance with codes of conduct went beyond this standard, requiring suppliers to provide a number of costly services to workers and communities.

#### Unresolved Tensions between Buyers' Requirements and Codes as Trade Barriers

- **Unresolved Tensions between Delivery Time and Price and the CSR Requirements of Buyers.** Most suppliers agreed this was the case, some stressing it as a serious challenge. According to suppliers, the tensions were a result of lack of coordination between the different depart-

ments of buyers. Some suppliers also suggested that tensions were a result of buyers' lack of real commitment to CSR.

- **Codes of Conduct As a Nontariff Trade barrier.** Few if any of the consulted suppliers perceived CSR codes of conduct as a nontariff trade barrier. In general, most suppliers saw codes of conduct as a restatement of local law. Most suppliers recognized codes of conduct as a contractual obligation, although a few did question the seriousness with which some buyers approached the issue.

### Underpinning Assumptions

**3a) Not applicable.**

**3b) Tensions May be Resolved through Improved Integration of CSR within Sourcing Practices and Business Policies:** Not applicable.

**3c) A Credible framework for Analyzing Costs and Benefits of CSR:** Without justifying this position in detail, suppliers remained skeptical overall that it would be possible to develop a framework to analyze the costs and benefits of CSR implementation. Some suppliers suggested that the costs and benefits were circumstantial and company specific.

**3d) Increased Transparency May Support Business Benefits:** Suppliers did not provide input to the question of transparency. Asked directly, suppliers did support the idea that public procurement should use CSR criteria. Since compliance was generally seen as legal compliance, suppliers were not convinced that government could set up incentive schemes.

**3e) Lack of Critical Mass and Commitment Among Buyers:** Several suppliers argued that buyers were not always committed to their codes. Few if any suppliers had experienced loss of business because of noncompliance. An Indian agricultural supplier argued that only a minority of sales went to CSR-sensitive buyers in the West. Hence, suppliers could afford to lose these particular markets. Some suppliers did recognize that an increased number of CSR-sensitive buyers would push for compliance; however, they were not convinced this would translate into improved implementation of codes.

**3f) Western-Centric Codes:** The point was rarely made that codes were Western-centric or that they

were insensitive to local traditions. However, some suppliers did believe that codes were not being implemented with due regard for local realities (however not local traditions or cultures). As mentioned, codes were in general perceived as restating local laws.

### Other Key Challenges

In general, suppliers in both industries did not point to additional key challenges that should be addressed within the framework of the present study.

One notable exception to this observation would be agricultural suppliers' insistence that full compliance would remain illusory unless government and local authorities assumed a greater responsibility for providing basic social services to workers and communities.

### Conclusions

Overall, the consulted suppliers agreed with the three key challenges. The following points should be highlighted:

- Apparel suppliers believed that the multiplication of codes, and in particular the inconsistent application of codes, acted as barriers to improved implementation. Suppliers argued that the present proliferation of codes of conduct and the resulting duplicative auditing were both inefficient and confusing. On the basis of observations made by suppliers there is no doubt that greater coordination among buyers or even consolidation and standardization of codes of conduct would reduce the level of confusion and eliminate many of the experienced inefficiencies. It would appear, however, that suppliers would support coordination, consolidation, and standardization less out of a desire to see labor conditions improve and more out of a wish to see costs related to CSR compliance come down. This would seem to indicate that unless the business case is firmly established and accepted by suppliers, suppliers would still far from embrace implementation of codes of conduct.
- Agricultural suppliers were as yet inexperienced in working with codes, yet alone multiple codes. However, all suppliers envisioned increased costs and friction if they had to work with multiple codes.

- Suppliers did not see the number of codes of conduct as the real problem. The real problem was inconsistent implementation of codes that often left suppliers in situations with conflicting obligations. There is undoubtedly merit to these conclusions; however, the extent to which the inconsistent implementation of codes is a source of real challenge may be questioned. The examples offered by suppliers—location of first aid box and fire extinguishers—would seem to indicate that the nature of the problems is surmountable even in the short run. However, it cannot be underestimated that the inconsistent implementation practices add to the increased level of frustration experienced by suppliers as well as serve to ridicule the requirements made by buyers.
- Suppliers generally perceived codes of conduct as something that had been thrust upon them without any prior consultation. Many suppliers resented the top-down approach by buyers; however, suppliers didn't recognize the underlying assumption that noncompliance and inadequate implementation of codes were partly caused by skill deficits on the part of suppliers. Rather, suppliers believed that the top-down approach had to be supplemented by direct consultations between suppliers and buyers rather than working with auditors as intermediaries. This would seem to indicate that suppliers don't see noncompliance as an issue that has to be tackled through changed work practices, new management techniques, and so forth. Rather, (non)compliance is viewed as a cost issue. According to suppliers, the challenge of the top-down approach within the overall business relationship is the domination of buyers. The use of the concept of "equity" would seem to support this observation.
- In general, suppliers remained mixed about the business benefits of CSR compliance, arguing that certain, selective elements of CSR compliance did generate business benefits. However, attitudes and comments by suppliers tended to support a view of CSR compliance as a factor that had to be added to the cost side with little left on the benefit side.
- Suppliers agreed that buyers were not successful in coordinating their CSR-requirements with requirements on delivery time and price.

This remained a challenge that buyers had to work with.

## OPTIONS AND SOLUTIONS

### Overall Comments

Overall, suppliers did not contribute greatly to the development of options and solutions to the identified barriers and key challenges. This was particularly true with Key Challenges 2 and 3. This may be explained by a number of factors:

- Many suppliers are caught by a feeling of powerlessness that makes a poor starting point for engaging in constructive discussion on devising ways forward.
- Most suppliers tend to see the identified barriers and key challenges as being caused by the behavior and practices of buyers (and government); hence, it is up to buyers (and government) to identify and implement solutions.
- Many suppliers work on (such) narrow margins that don't leave much room for engaging in discussions on finding solutions. Moreover, suppliers are generally not used to working with other stakeholders or engaging in public policy matters.
- Finally, suppliers remain skeptical about working with competitors, thus depriving themselves of the opportunity to engage with like-minded suppliers facing similar challenges.

This being said, suppliers, in particular apparel suppliers, did propose ways forward to several of the identified key challenges and barriers. The relative inexperience of agricultural suppliers may in large part explain why this group didn't contribute in any substantial way to the discussion on options and solutions.

### Key Challenge 1

In respect to Key Challenge 1, many suppliers in the apparel sector welcomed the idea of a **common code**. Most suppliers initially believed that a common code should be aligned with, although not similar to, the local legislation. Along these lines, many suppliers believed that a code should leave room for multiple levels of compliance (that is, a modular approach); however, they did not comment on how this would comply with a code based on legal requirements.

The concept of a **base code** (or framework code) was put on the table a couple of times, without, however, any concrete suggestions as to what should make up the base. The UN and the ILO conventions were suggested as a source for a base code. Most suppliers rejected the idea of a comprehensive universal code although they could envision a universal base code based on relevant UN conventions.

Apparel and agricultural suppliers in India proposed **certification** as a way forward. This group was unfamiliar with the SA8000 and as such was unable to relate to the merits of that particular scheme. Frequent references were made to ISO standards, and suppliers believed commercial service providers should carry out that certification.

Apparel suppliers generally stressed that the implementation of codes should be standardized, that is, **implementation guidelines** should be standardized. In addition, some suppliers also believed that **monitoring procedures** and the qualifications of monitors had to be harmonized.

Buyers should accept each other's audit reports—and even share audit reports on a systematic basis.

### Key Challenge 2

Few solutions were tabled in reference to the challenges identified in respect to Key Challenge 2. Many suppliers were frustrated that they were not able to communicate directly with buyers; hence, suppliers proposed to establish more **direct lines of communication** between buyers and suppliers on CSR issues. Buyers should employ a partnership approach.

Some suppliers recognized the need for a more cooperative approach among suppliers. Suppliers lacked a forum to discuss CSR issues, and suppliers should work together on addressing some of the challenges posed by CSR requirements. **Local fora** could be established. This could also help suppliers address certain laws considered obsolete or irrelevant.

Suppliers generally wanted **longer-term business relations** as well as compensation for investments in CSR, for example, via more orders, more stable orders, and so on.

Some suppliers believe they should be **financially compensated** for investments resulting from buyer requirements.

Indian apparel suppliers acknowledged the need for raising **awareness among workers** and fellow suppliers. Unions, governments, and suppliers should undertake this jointly. Buyers and donors could contribute financially to these activities.

Capacity building was required on part of government and local authorities; however, suppliers weren't explicit about the nature of capacity-building activities required. In addition, buyers should work with governments.

### Key Challenge 3

Buyers should improve their **intracompany coordination** to balance sourcing and CSR requirements.



# Summary of Buyer Consultations

This annex provides a summary of perspectives and opinions offered by buyers consulted in the process of implementing this study and, as such, were not subjected to analysis by the consortium that was responsible for preparing the report. The organization of the annex follows the structure of the key challenges and their underpinning assumptions as defined by the Bank Group in the Terms of Reference; please refer to these. The structure is designed to allow the reader to see how the participants related to each of the outlined challenges and underpinning assumptions.

## OVERVIEW OF CONSULTATIONS

### The Numbers

The consortium consulted buyers in two industry sectors, apparel and agriculture, in several locations: Hong Kong, China; Delhi, India; London, United Kingdom; and New York and San Francisco, United States. In addition, the consortium conducted individual interviews with buyers based in Europe and the United States in instances where scheduling conflicts prevented invitees from attending group consultations. Consultations took place in May to July 2003.

The table below shows the number of participants in the various locations.

In general, buyers were consulted by means of a dedicated workshop that lasted four to six hours. The

number of participants in each workshop ranged from 7 to 23.

A general description of the methodology employed to carry out consultations as well as the means of identification of participants are provided in the main report.

### Overall Comments on Consultations

Overall, consultations took place in an open and honest setting in which buyers expressed their views fully. Many buyers expressed or supported the view that “the time was right” for this study, and that they wished to see changes made to the architecture in which efforts to integrate CSR into supply chain relations took place. Many expressed the desire to understand more fully what the Bank’s goals were with respect to these issues.

As in other areas of the consultations, experience with buyers’ consultations revealed greater familiarity in the apparel industry than in agriculture with the issues at the heart of the study. With the exception of the London convening, the meetings were better attended by apparel buyers than by agricultural buyers. The consortium believes that this is because of greater familiarity, greater attention to the issues, and a longer track record of addressing the issues in the apparel sector. In general, suppliers in the apparel sector were quite experienced in working with codes of conduct, whereas participants in the agricultural sector

**Table B1 Buyer Consultations**

	<i>San Francisco</i>	<i>New York</i>	<i>London</i>	<i>Hong Kong, China</i>	<i>New Delhi</i>
Group	8	7	8	24	7
Interview		5	6		

The consortium invited approximately 160 buyers to participate in the consultation process; of these 60 apparel buyers and 8 agricultural buyers were consulted in course of the study.

appeared much less experienced. While this has obviously impacted the quality of input provided from each of the consultation groups, it is probably also quite reflective of the discussions ongoing in the respective industries. In addition, the decentralized nature of apparel sourcing means that buyers are more attuned to the need for developing broad solutions, given that many of them have come to understand directly the inherent limitations of individual approaches.

The distribution of buyers consulted through this process both does and does not represent an accurate cross-section of buyers. First, we noted a self-selection process through which the buyers that are most engaged in addressing the issues involved in the study were the most likely to step forward. This resulted in a filtering out of those buyers that are not yet engaged or uninterested in addressing the issues at hand. Second, more companies based in the United States and the United Kingdom were willing and able to step forward to participate. Third, the buyers consulted represented participants in most or all of the major multistakeholder initiatives (for example, SA8000, ETI, FLA), as well as numerous companies that have chosen not to participate in any of these initiatives.<sup>38</sup>

In the consortium's opinion, buyers' views reflected a **changed perspective** from that which many voiced a few years ago. There was broad acceptance of the value of partnering with civil society organizations; a broadly stated interest in grass roots solutions, such as greater "ownership" of CSR by suppliers; acceptance and eagerness to identify ways to empower workers; and recognition of the need to have greater local government enforcement of local laws.

There also was a **divergence of views between buyers' representatives at headquarters and the local level**. The experience of implementing buyers' compliance policies at the local level led local staff to somewhat different perspectives from those of their colleagues at headquarters. Indeed, the strong presence of extensive local staff dedicated to CSR work reflects a fundamental change

in approach by apparel buyers in recent years, and there are vibrant networks of such staffs in Hong Kong, China and India. No such development is evident in the agriculture sector.

In summary, the general feeling of the consortium is that buyers, especially those in the apparel sector, are prepared to adjust their approach to CSR in supply chains to achieve greater, more cost-effective, and more sustainable improvements.

## KEY CHALLENGES

Overall, buyers agreed with many, but not all, of the points raised in the key challenges articulated by the Bank, and did so to widely varying degrees. In general terms, buyers did not agree that the proliferation of different codes themselves presented the most significant barrier to implementation, instead stating that the variances in implementation were the real duplication and inconsistency problem. Still, many buyers were not convinced that these problems were real barriers to implementation of social and environmental standards at the supplier level.

Buyers did conclude that the top-down approach was a problem that needed to be addressed, pointing in general to the need for capacity building at the level of suppliers and local government, worker empowerment, and more collaborative efforts involving civil society, including trade unions. Buyers generally observed that the present system of implementation had been stretched to its limits, not holding much promise for further improvements in implementation of codes of conduct. Some buyers, however, noted that they had been forced to take this approach because of suppliers' unwillingness to acknowledge social issues as being important. More than one buyer expressed frustration at having to encourage or require their suppliers simply to comply with local laws.

In terms of the business benefits of addressing CSR, opinions varied. Many buyers noted the mixed messages sent by their own companies, with CSR staff sending clear messages about the importance of compliance, while their own colleagues from merchandising often emphasizing purely commercial considerations in selecting suppliers. Many buyers' representatives acknowledged that this makes it more difficult for suppliers

<sup>38</sup> A number of buyers declined to participate in the study referencing their participation in several other ongoing studies and surveys.



to perceive business benefits resulting from a vigorous approach to CSR. In addition, a number of buyers were themselves skeptical about the potential business benefits associated with the implementation of good CSR practices. Other buyers, however, felt that the basic principle of conducting business lawfully should be sufficient incentive for suppliers.

## Key Challenge 1: What Buyers Said

Buyers did not in general view the number of differing codes to be a substantial problem, instead viewing the variations in interpretation and application to be the most significant issue. In fact, some of the buyers consulted actually took the contrary view, and noted that the duplication of effort was beneficial, in that repeated efforts were necessary to sensitize suppliers to the importance of addressing code-related issues. At bottom, however, buyers expressed the view that in the majority of cases, codes had the main practical impact of restating the need to comply with applicable local laws. Buyers did acknowledge, however, that because of the messages provided by monitors in particular, suppliers might view this issue differently.

Agriculture buyers were less engaged in this discussion because the number of codes in that sector is lower than in apparel.

### Inefficiencies and Confusion

- There was some recognition of inefficiencies, including duplication of monitoring, but for the most part buyers did not view this as being the primary source of difficulty in enforcing applicable provisions.
- Confusion was, however, acknowledged, particularly in the realm of implementation practices. This arose in terms of differing implementation guidelines established by buyers, differing approaches to local law, and different approaches and interpretations by monitors.
- In Hong Kong, China, one participant estimated that codes were 80 percent the same as stated by buyers, but that monitors might apply them in such a way as to make suppliers see only 50 percent similarity. More than one buyer also opined that suppliers might seek to exploit relatively small differences to avoid the broader question of full compliance.

## Underpinning Assumptions

**1a) Multistakeholder Initiatives:** Overall, buyers did not frequently reference the multistakeholder initiatives, even though many of the buyers consulted were participating in one or more of these efforts. When referenced, they were generally of the opinion that these initiatives could contribute to greater harmonization; however, this was not a substantial theme of the discussions. Those who did express views on the subject encouraged the notion that the multistakeholder initiatives could and should contribute to harmonization/convergence. Some buyers expressed the view that industry-specific codes contribute to this goal. Note also that some buyers expressed the concern that harmonization could contribute to the unintended consequence of lower standards.

**1b) Code Convergence around ILO Conventions:** Those buyers who expressed an opinion on this topic noted that most codes were already based on ILO conventions and local laws. It was not clear from the consultations that buyers saw further work in this direction as being a high priority.

**1c) Human Rights and Environment:** Few buyers saw additional human rights principles (apart from labor rights) as being a likely area of future development of codes. Similarly, few opinions were expressed on environmental standards, likely owing to lower levels of experience with such subjects among those consulted.

**1d) Effect of Multistakeholder Initiatives:** As noted above, these did not factor into the discussion to the degree that might have been expected. It should be noted that, along with the older and more widely known initiatives, three industry sector initiatives, the FCD-France, AVE-Germany, and International Council of Toy Industries initiatives received some mention, generally positive, from buyers' firms participating in them. These are not multistakeholder initiatives in that they involve primarily industry participants.

**1e) Standardization of Implementation Practices:** The assumption that divergences multiply within and between companies was supported by the consultations with buyers. There was no consensus about whether this would be desirable or meaningful. Some noted that even harmonization of implementation would not lead to desired results because if compa-

nies continued to respond to monitoring findings differently, that would perpetuate a de facto difference in approach. That said, buyers remained interested in further attempts at harmonization, which is addressed in the section on emerging options.

**1f) Risk of Lowest Common Denominator:**

Concerns about this issue were raised in several cases, although the prevailing view was that ILO and local legal provisions would remain the basic benchmarks. Buyers' representatives working in China and India noted the strong view that local laws were unrealistic and very difficult to apply as written. In India, the laws were viewed by many as anachronistic, and in China they are widely viewed as being completely out of step with existing practice.

**1g) Business Risk Concerns:** Buyers stated their willingness—and in some cases a strong desire—to see further consolidation, although some noted ongoing concerns that sharing responsibility for application of codes could not be implemented to the degree that brand protection was entirely outsourced to others. Buyers also expressed a lack of confidence in monitors, such that this could undermine confidence in a shared responsibility system. One buyer suggested that his company would be interested in a system in which buyers jointly sourced an audit, but would not accept a system based on blind sharing of monitoring results.

**1h) Role of Government:** Buyers generally favored a stronger imprint by governments. Several years after buyers have undertaken to address code-related issues, there is a general fatigue among many buyers, and a sense that they have gone as far as they can without a more vibrant public sector role in enforcing labor laws. Many “brands” (see explanation below) noted that they could be effective only where government is playing its proper role. As was noted in the summary of the London buyers' convening: *“All participants believed that lack of government capacity in enforcement, training and capacity building was the key source of codes of conduct; and it remained the key barrier to improved implementation. Codes of conduct could not in the long run accomplish that which was the responsibility of government. Government was ultimately the key player. Some participants believed that this should*

*mean greater focus on compliance with local legislation as a first step.”*

**Industry and Country Particularities**

As noted above, apparel buyers were more engaged in the debate than agricultural suppliers, and buyers' local staffs tended to look more tactically at issues, while headquarters-based staff tended more often to look for structural solutions.

In addition, there is a divide in some cases between mass retailers and “brands,” representing a smaller number of product lines. Retailers appeared in some cases to look at a broader system that could provide a clear framework for action, while brands tended to think more about innovative models to improve current systems. Another critical variable is the size of the sourcing base for a given buyer, because the nature of the relationship with suppliers, and the degree of resources needed to make progress, will vary substantially according to such questions.

**Key Challenge 2: What Buyers Said**

Buyers generally agreed that a top-down approach had characterized efforts to date, although India-based buyers' representatives did not agree with this statement. Those viewing the system as being top down believe that opposition to change by suppliers had necessitated this approach. Most—but not all—buyers expressed the desire to see the top-down approach change, stating the oft-expressed view that “the current system is not sustainable,” and some buyers described current efforts to do just that. Some noted that until “the hearts and minds” of suppliers changed, this goal would not be fully realized.

In summary, buyers agreed with the statement of the challenge as articulated by the Bank, but wished to add that the top-down approach may have been necessary at one point, even if its limitations are now more widely recognized.

In at least one buyers' convening, the view was expressed that the very concept of a top-down approach makes incorrect assumptions, in that it assumes a two-way relationship, between buyer and supplier, when in fact the most progress can be made through a more multidimensional web of relationships, involving government, workers and

their representatives, civil society, and others in addition to buyers and suppliers. It is also worth noting, however, that in another convening the consensus view was that the best approach is not to remove the top-down approach, but instead to shift it, from buyer–supplier to government–supplier.

One important caveat in this section is that China and India-based buyers' representatives tended to reflect very different views, and greater skepticism about this issue than did their colleagues at headquarters level. In India, buyers' representatives did not accept fully the view that compliance had been a top-down matter, while in China there was little confidence that an alternative to a top-down approach would work.

### **The Bottom-up Approach, Capacity Building, and Worker Empowerment**

- **The Top-Down Approach Has Been Buttressed by Monitoring:** The opinions expressed on this issue tended to concur with this point. Most participants from the various buyers' convenings noted that too many suppliers take the view that their primary goal is to pass audits, and that what happens in between audits is of less importance. It is noteworthy that buyers, which established this system, have acknowledged the shortcomings of the approach. As the consortium has noted throughout the project, most constituencies have not tended to focus on their own role in creating systems and approaches that have not worked to maximum effect.
- **Achieving Empowerment Strategies:** Buyers often noted the value in developing new approaches that would involve a wider array of parties. This principle was stated in the U.S. and European buyer consultations, and honored in the breach by the recognition in the Hong Kong, China, convening that weaknesses in civil society and free trade unions in China could hamper such efforts there.
- **Conflicts of Interests by Monitoring Firms:** While concerns about an overreliance on monitoring were stated frequently, few addressed the question of whether commercial monitoring firms could or should offer capacity-building services, and whether this would create a conflict of interest.
- **Creating Public–Private Partnerships:** This subject did not arise frequently in the convenings

either. While there was strong interest in getting local governments more engaged, the notion of sharing information with public sector entities, as suggested in the assumptions of the Terms of Reference, generally was not addressed explicitly.

- **Coordination among Buyers:** This topic arose frequently and positively, although more often in the discussion of emerging options than key challenges. We will therefore address this topic in greater detail in that part of the report.
- **Initiative Fatigue:** While not addressed explicitly, the consortium received the sense that this is a factor in the thinking of buyers. Concerns expressed about the speed with which the multi-stakeholder initiatives might proceed reflect the sense that individual institutions might have internal constraints that could limit the implementation of approaches proposed through this study.
- **Generating Support for the Bottom-Up Approach:** At the outset, it should be noted that not all buyers agree that this is the proper goal. Perhaps because of this, there was little discussion about how to generate additional support for the bottom-up approach, often referred to as “ownership” by suppliers and workers for interest in addressing CSR. The discussion that did ensue took note of the widespread supplier dissatisfaction with the current system. In this discussion, the divide between top management of suppliers and middle, or line management, was noted as a barrier. Many buyers have come to believe that the owners of suppliers' businesses understand the imperative to address CSR, but that this message does not get communicated effectively to line management, where both the greatest problems and opportunities exist.

It should also be noted that China-based buyers' representatives did not see a top-down approach as being problematic. Instead, there was a widespread view that the top-down approach should shift its emphasis from buyers to the government in enforcing standards.

- **Capacity Building:** Many of the buyers' representatives view capacity building as an important part of the solution going forward, and some have engaged in such efforts. There is a desire to see capacity strengthened in a variety of institutions and constituencies, with workers, govern-

ment, and factories' line management receiving the most frequent mention.

- **Worker Empowerment:** This issue is of increasing interest to brand representatives at headquarters. China-based buyers' representatives did not share the enthusiasm for this concept, concluding that the vast oversupply of labor, and the predominance of migrant labor, in China will counteract any effort to empower workers, since the workers will conclude that the risks of acting on their rights will be too great.

### Key Challenge 3: What Buyers Said

Buyers' representatives had extremely mixed opinions on whether business benefits of addressing CSR were (a) present, and (b) well understood. Opinions ranged from not seeing business benefits to seeing them mostly through anecdotal evidence and pilot projects, to seeing growing acceptance by suppliers that they exist. Many buyers' representatives noted that there was no extant methodology for answering this question in a comprehensive and methodologically rigorous manner. Some buyers' representatives volunteered the view that CSR actually could make suppliers less competitive because of the costs incurred.

It was fairly widely agreed that maintaining business with buyers was a primary business benefit, though many in referring to this benefit concluded that it was not sufficient to change suppliers' perspectives to be more proactive.

Buyers also acknowledged that price pressures and a lack of long-term commitment by buyers to maintain business with their suppliers could undermine the business case for CSR.

Some buyers' representatives noted that "short-termism" affected the decisionmaking of many suppliers, and that this presented a challenge to demonstrating the business benefits of CSR, given that the costs are often incurred at the outset, and the benefits delivered later. This view was expressed in both buyers' convenings in exporting countries (that is, China and India).

- **Tensions between CSR and Purely Commercial Criteria:** Buyers widely agreed with the assertion that their companies sometimes send mixed messages to suppliers about the relative

importance of CSR and traditional criteria for measuring supplier performance (price, quality, timely delivery, and so forth). At least one buyers' representative noted that some suppliers "go shopping for the answer they want," suggesting that suppliers manipulate the mixed messages they receive from buyers to justify their actions and shift responsibility to buyers. Whatever the result, all buyers' representatives touching on this issue agreed that the mixed messages were a problem. The discussions with buyers' representatives did not support the view that a disparity in sophistication somehow led suppliers to accept terms of trade that they did not understand. Rather, buyers are often of the opinion that suppliers will accept orders and then determine whether they can fulfil them in a manner consistent with codes and applicable laws.

- **Codes As Nontariff Trade Barriers:** This issue did not arise directly in the dialogue. However, from the perspective of buyers' representatives consulted, this view does not seem likely to play a critical role in the debate. Most buyers' representatives stated the view that codes essentially applied local laws, and any criticism of standards was directed by India and China-based buyers' representatives, who found **local laws to be unrealistic**. The link to global trade was not generally made, with the exception of discussion of the impact of the planned phasing out in 2005 of the quotas associated with the Multi-Fibre Agreement.
- **Transparency Supporting Recognition of the Business Case:** This idea was not raised in the consultations, and it is possible to infer opposition to this assertion given the skepticism of whether, and to what degree, the business case exists from the perspective of suppliers.
- **Lack of Critical Mass of Buyers:** This view was widely supported in the buyers' consultations. It is another element of the mixed messages suppliers receive from the market.
- **Perception That Codes Are "Western-centric":** This did not arise frequently in buyers' consultations; however, this may be understandable as the participants in these dialogues represent Northern organizations that established the codes. While not coming out in precisely this language, some wondered whether the standards are always beneficial to workers. The case of overtime was cited: many workers

seek overtime to help them make ends meet. Also cited were basic needs issues for workers, which are not sufficiently addressed in these challenges. When faced with lack of drinking water or sufficient housing, how important is the implementation of seemingly unrelated policies to a worker?

## Other Key Challenges

In addition to the challenges and underlying assumptions established in advance of the project by the Bank, buyers' representatives raised other issues in the course of the consultations. These additional barriers included:

- **Global Governance:** In addition to the question of local government action, some noted the lack of institutional accountability for dealing with the root causes of these issues, including the WTO, Wall Street, the U.S. government, and multilateral organizations.
- **Consumers:** Some participants questioned the degree to which consumers are willing to pay for compliance, despite polling evidence that they will. The influx of low-cost, discount retailers pushed competition and forced other retailers to become more cost sensitive. Consumers were responsible for this development.
- **Lack of Benchmarking Information:** Some participants cited the absence of credible data and methodology to evaluate and track trends of compliance.
- **Supply Chain Management:** Some participants also cited the complexity of their supply chains as hampering efforts to ensure good practice. A number of participants believed that the sheer challenge of improving labor conditions in the entire supply chain was a barrier in itself, in particular when discussions focused on subcontractors and home-workers. In addition to this, participants pointed to the present difficult economic business climate and the costs of working with auditing and monitoring, and so forth.
- **Inconsistent External Pressure:** The view also was expressed that the uneven and inconsistent nature of external pressure led to a disparity in the way a company or industry felt they needed to act. For example, in the United States, agricultural companies have felt relatively less public pressure, creating less internal incentive for

action. In addition, it was noted that to the degree there is a correlation between participation in initiatives and their perception of increased public risk, this is a disincentive for action.

## OPTIONS AND SOLUTIONS

### Overall Comments

The buyers' representatives participating in the consultations proposed a broad range of options. Some of these options were presented in direct response to one of the key challenges described, but most of them developed out of the comprehensive sense of the issues as understood by participants. A summary of the most frequently cited options presented in the buyers' consultations is as follows.

- **Affecting Local Government:** Most of the participants advocated the strengthening of local governments' willingness and ability to play a constructive role. Details about how this would happen were not widely forthcoming in the discussions, but there was wide agreement that the goal was worthy. Some suggested that progress could be made, including in China, via "state-to-state pressure" or multilateral agencies that could advocate for better enforcement and engagement.
- **Legislation in Buyers' Home Countries:** This is needed to hold companies responsible for where and how they source. (Earlier comments were made about "free riders," or companies that do not pursue CSR because they are less scrutinized by the public.) Deterrents at the consumer end, such as a consumer act for responsible sourcing are as important for CSR implementation as deterrents at the sourcing end.
- **Assessment and Allocation of Costs:** Further study of the true costs and benefits of adopting a robust approach to CSR would greatly benefit this effort, given the lack of reliable information available currently. In addition, the costs of CSR implementation should be divided among all actors involved: buyers, suppliers, and government.
- **Intangibles—An Environment of Trust:** Create an environment of trust that allows balancing CSR with commercial business requirements.
- **Worker Awareness:** Efforts should try to create more worker awareness and conditions for them to express or demand their rights.

- **Supplier Capacity Building:** Efforts to further support the development of supplier expertise and commitment to achieving better performance on CSR are essential.
- **Harmonization:** Buyers' representatives presented differing views on the wisdom of seeking to harmonize standards. Some saw this as an essential part of the solution, while others questioned the utility of such a step, noting again the implementation challenges. Strong interest was expressed in this potential solution in some locations where we conducted consultations, and in India for example, the suggestion of seeking local cooperation, rather than comprehensive solutions at headquarters level, was strongly supported.
- **Approaches Other Than Compliance:** As many participants identified the compliance mindset as one of the barriers to progress, some suggested ways to transcend compliance as the model for obtaining progress. For example, it was suggested in India that progress benchmarks could be developed, as part of a developmental approach.
- **Educating Suppliers:** Some suggested the need to provide additional education and training about good CSR practices.
- **Deeper Into the Supply Chain:** A future goal would be to impact more factories throughout the supply chain, although many buyers backed away from taking on this challenge, noting the sheer scale and scope of the challenge and the efforts required.
- **Environmental Issues/Legal Liability:** Buyers need to also consider environmental impacts. For example, just as happened in the United States and Europe, there might be unanticipated liability and the costs of cleanup might go to the company with the "deepest pockets," which in some cases might be the brand rather than factory.

# Summary of Stakeholder Consultations

This annex provides a summary of perspectives and opinions offered by stakeholders consulted in the process of implementing this study and, as such, were not subjected to analysis by the consortium that was responsible for preparing the report. The organization of the annex follows the structure of the key challenges and their underpinning assumptions as defined by the World Bank in the Terms of Reference; please refer to these in annex A. The structure is designed to allow the reader to see how the participants related to each of the outlined challenges and underpinning assumptions.

## OVERVIEW OF CONSULTATIONS

### The Numbers

The consortium consulted stakeholders in Europe and the United States, as well as in four exporting countries: China, Honduras, India, and Kenya. Four categories of stakeholders took part:

- 1) Intergovernmental organizations
- 2) Multistakeholder initiatives
- 3) Local and international trade unions
- 4) Local and international NGOs, representing human rights, labor, and environmental interests

The table below shows the number of participants in the various locations.

Stakeholders were consulted by means of workshops as well as in-person interviews.<sup>39</sup> Where like-minded groups could be assembled, and where it

was clear that dialogue would be enhanced rather than hindered by their common perspective, the stakeholder consultations were conducted in workshops of four to six hours, ranging from 2 to 11 participants. Individual interviews were conducted in situations where the stakeholders were believed to hold a unique and highly specialized perspective, or where it was believed that the stakeholders would not be able to speak freely in a group setting. Interviews ranged from 1.5 to 3 hours. In particular, representatives from all participating intergovernmental organizations were interviewed individually. Several representatives of international trade union federations were also consulted on an individual basis. Consultations with NGOs and multi-stakeholder initiatives were typically conducted in group workshops.

With the exception of Honduras, the overall number of stakeholders participating in the study was extremely good, possibly reflecting the interest that wider civil society holds in the issue of CSR implementation. In Honduras 24 stakeholders were invited, but only 2 attended.

### Overall Comments on Consultations

All stakeholders were engaged and open in discussing their views, and the dialogues in workshops as well as interviews flowed naturally. As such, we believe the views of each stakeholder group were fairly and accurately represented.

Some participants clearly had more experience in working with companies (both buyers and suppliers) on the development and implementation of codes of conduct and were able to immediately enter into the discussion of the key challenges posed by the study. Others, who were not as familiar with these issues, tended to focus more on the

<sup>39</sup> The methodology for selecting the stakeholder participants and for conducting the individual interviews and group workshops is explained in chapter 1 of the report.

**Table C1 Stakeholder Consultations**

		<i>United States</i>	<i>Europe</i>	<i>Honduras</i>	<i>Kenya</i>	<i>China</i>	<i>India</i>
Intergovernmental organizations	Group interviews		1		1		1
	Individual interviews		7				
Multistakeholder Initiatives	Group interviews	3	5				
	Individual interviews		1				
Local and international unions	Group interviews	1				2	1
	Individual interviews		7	1			
Local and international NGOs	Group interviews	10	13	2	9	4	6
	Individual interviews	1					
Other organizations	Group interviews				3		
	Individual interviews	2	2	1			
<b>Total number</b>		<b>17</b>	<b>36</b>	<b>4</b>	<b>13</b>	<b>6</b>	<b>8</b>

In the United States, stakeholder group consultations were held in San Francisco and Washington, D.C. In Europe, stakeholder group consultations were held in Amsterdam, Brussels, Geneva, and London. The consortium invited approximately 143 stakeholders to participate in the consultation process; of these 84 were consulted in the course of the study.

larger economic and societal factors that set the context for any initiative to improve worker welfare. Although the latter group of stakeholders were less knowledgeable about codes of conduct and the intricacies of the buyer–supplier relationship, they nonetheless offered a fresh and valuable perspective on the key challenges and the assumptions underpinning them, as well as the broader issues of the study.

In a few cases, most international trade unions disagreed so profoundly with what they saw as the basic premise of the study, namely that codes of conduct could be an instrument to improve working conditions, that it proved impossible to initiate a focused discussion on the key challenges and options for overcoming them. The discussion in these cases tended to focus on the role that government should play in strengthening rights protection under national law and on the flaws inherent in the international economic system as a whole.

The consultations demonstrated that stakeholders had difficulties in developing practical and novel solutions to strengthen CSR implementation in global supply chains. On the whole, participants

were less inclined to discuss options, and when facilitators attempted to steer the discussion in that direction, participants tended to raise new problem areas, or barriers, rather than solutions. Therefore, it proved difficult to use the dynamic of the workshop setting to assess the feasibility and viability of the options presented. No single set of “agreed-upon” options could be said to have emerged from any of the stakeholder workshops, although widespread agreement existed across institutional and geographic lines in the analysis of many issues.

The explanation for this paucity of options is difficult to ascertain, but it should probably be ascribed to a combination of the following reasons:

The lack of options for overcoming the first challenge is undoubtedly a reflection of the fact that many stakeholders did not agree to this challenge. In addition, it is mainly buyers and suppliers that feel the alleged burdens stemming from the proliferation of codes. For that reason, stakeholders, with the possible exception of some multistakeholder initiatives and unions, lack the practical experience necessary to explore possible solutions



to this barrier. In addition, many of the consulted NGOs are advocacy oriented and, as such, have less experience in working with companies, including suppliers, to develop practical solutions to the problems at hand.

More generally, some of the unwillingness to explore options probably stems from the fact that many of the stakeholders believed the study was too focused on narrow technical solutions anchored in codes, while the situation could only be improved if some of the more fundamental problems at the systemic level are addressed.

## KEY CHALLENGES

With the exception of the first challenge, stakeholders overall agreed with the key challenges outlined by the Bank. However, not all challenges were considered equally important.

That being said, the majority of the stakeholders believed that the barriers identified by the Bank were too narrow. While they accurately described some of the key challenges, they did not go far enough. The general feeling was that the Terms of Reference for the study were too focused on corporate action, implying that technical solutions focused on codes would remedy the situation. However, a narrow definition of the problems would necessarily produce narrow solutions. In short, stakeholders believed the study gave insufficient attention to the overarching economic and social factors contributing to the problem of poor working conditions in developing countries.

Moreover, the majority of stakeholders questioned what, in their view, was the most basic assumption of the study, namely that codes of conduct are the way forward. Codes are no substitute for government regulation. Yet, some of the stakeholders, in particular NGOs but also a few trade unions, recognized that while the promotion of good governance in the developing world is the ideal way forward, codes are probably a good interim solution. In addition, codes could, in fact, be used to promote the rule of law. Other stakeholders, most notably (and forcefully) trade unions, simply argued that codes could never become an instrument to improve working conditions.

This division among the stakeholders did not follow any clear institutional or geographical pattern.

All the unions, however, were skeptical of codes because in their view companies sometimes use them as a substitute for engagement with the workers. Nonetheless, some of the unions believed that codes could be helpful if they promoted collective bargaining and freedom of association. Other unions argued that codes could never be an answer to the two fundamental problems at hand, namely weak unions and the lack of enforcement of labor laws in many countries.

## Key Challenge 1: What Stakeholders Said

### General Comments

Stakeholders disagreed among themselves on the accuracy and importance of the first challenge. These differences of opinion did not follow any clear pattern. Stakeholders agreed that any problems stemming from the plethora of codes are not associated with the content of codes, but rather with the implementation, including differences in the quality and specifics of monitoring, auditing, and remediation.

Approximately half of the stakeholders agreed with the challenge, although they noted that the proliferation of codes is only a significant problem to SMEs. The other half of the stakeholders believed that the problems stemming from the plethora of codes are exaggerated and mainly used as an excuse on the part of suppliers and buyers for not complying. This group questioned the assumption that all suppliers want to comply, but are simply hindered by technical issues. The group agreed that codes often have different requirements with regard to implementation, but at the same time stressed that the implementation of codes is no different from the implementation of other standards, such as quality control or new management systems. As one participant put it, “CSR should simply be part of the cost of doing business.” Stakeholders in Kenya noted that the problems vary from sector to sector. While the tea sector has only one code, an increasing number of codes are being applied in the horticultural sector, potentially giving rise to inefficiencies and confusion.

Overall, stakeholders did not seem to believe that the challenge was very important; either it was not a problem at all, or it was only a minor problem.

## Inefficiencies and Confusion

- Stakeholders did not provide any clear-cut quantification on the scope of the burdens associated with the proliferation of codes. According to one participant, some large suppliers in the developing world spend as much as 180 days a year hosting auditors. Another participant claimed that some large suppliers are subjected to 60 audits per year. However, several of the multistakeholder groups argued that suppliers do not necessarily mind social audits because they are often conducted simultaneously with quality inspections.
- Another negative side effect of the multitude of audits, according to one stakeholder group, mostly NGOs, is that the quality of the audits suffers. Instead of pooling resources into a few high-quality audits, the standards of companies vary, providing little consistency in the results of the audits. Other stakeholders noted that SMEs often have such poor management systems in place that it has proved costly and almost impossible for them to comply with the codes.
- Finally, several unions argued that the proliferation of codes is not only a burden to suppliers, but also to the unions. Thus, when asked to participate in the verification of codes, unions have to do so at the expense of traditional union work. Moreover, the different requirements of the various codes make it difficult to standardize the training of workers.
- Overall, stakeholders agreed that suppliers are not confused, but know perfectly well how to demonstrate compliance. Several stakeholders argued that in the majority of cases, suppliers would be able to comply with all the codes by simply adhering to the highest standard. In fact, the plethora of codes should make suppliers more proactive in developing practices that meet the highest standards, as this would solve most of the problems.
- However, a few qualifications to this general argument were offered. Representatives from an intergovernmental organization argued that it is not the proliferation of the codes itself that is the source of confusion. The confusion is mainly a result of the fact that many codes are too vague in their provisions and often do not include any implementation guidelines. Some of the Kenyan

stakeholders, meanwhile, believed that the confusion stems from the fact that codes are based on Western standards and do not take into consideration the traditions of the Kenyan people. The “unreasonable” child labor standards in many codes were cited as an example. Finally, some NGOs argued that while the plethora of codes might not be confusing to suppliers, they are definitely confusing to consumers who are unable to distinguish between good codes and codes that are no more than window dressing.

## Underpinning Assumptions

**1a) Multistakeholder Initiatives:** Few stakeholders offered any opinions on this set of assumptions. However, representatives of unions and intergovernmental organizations noted that while the vast majority of individual buyer codes are useless, the well-established multistakeholder codes have an adequate coverage of ILO core labor standards. Therefore, private codes should converge around the multistakeholder codes.

The multistakeholders described the dialogue that is currently taking place among themselves (with the participation of SAI, ETI, FLA, CCC, FWF, and WRC) on the possibilities of coordination and cooperation. The end result would probably not be a single code (although this was generally considered less of a challenge to actually accomplish), but rather a set of best practice guidelines with regard to content as well as implementation of codes of conduct. According to the multistakeholders, this initiative would hopefully lead to greater convergence, not only among multistakeholder codes, but also among the much larger number of individual buyer codes.

**1b) Code Convergence:** In general, stakeholders agreed that most codes overlap, although the content is not necessarily modeled on ILO standards. The representatives of the intergovernmental organizations agreed to some convergence around ILO standards, but underscored that many private codes continue to give poor coverage to core labor issues. Even when all the important issues are covered, the coverage itself is inadequate. In addition, many codes focus on issues with a certain consumer interest, such as child labor, while other issues, such as freedom of association, are generally left out. A model code needs to address all the important issues.

The majority of the multistakeholders, on the other hand, claimed that codes were generally converging around ILO standards on labor issues. However, it remained unclear whether the multistakeholders actually had an overview of the large number of individual buyer codes, or whether they were merely extrapolating from their own experiences.

Stakeholders disagreed among themselves on the possibilities of code convergence. Some Northern stakeholders, particularly the multistakeholder initiatives, were optimistic that codes will converge. According to them, buyers are willing to harmonize. Some of the Southern stakeholders, meanwhile, expressed skepticism that codes could be harmonized. The Hong Kong stakeholders cited the unified toy industry code as a positive example, but were otherwise skeptical of code convergence, as certain interests were already “locked in.” The Kenyan stakeholders argued that the best way to ensure convergence would be to have individual country codes, such as the agricultural code in Zimbabwe. Moreover, such codes would allow countries to compete on a transparent basis.

**1c) Human Rights and Environment:** Overall, stakeholders agreed that environmental and human rights issues do not converge around a set of core standards.

Several reasons were offered to explain why codes vary so much in the environmental area. According to the multistakeholders, provisions with regard to the environment vary because companies were faced with different environmental issues depending on their activities. Some of the international unions argued that the problem is that there are no standards corresponding to the ILO conventions within the environmental field. The NGOs also drew attention to what they saw as an overemphasis on labor in existing codes, and argued that this stems from the fact that the debate on the environment has already taken place. However, the NGOs were skeptical of any positive spillover effects from the environmental debate into other areas. The problem is that many environmental issues attach themselves directly to the product and thus become an issue of consumer safety. Labor issues, however, tend to “stay at home” in the country of production.

As to human rights, the majority of stakeholders, with the exception of organizations working directly

within this field, seemed to believe that human rights and labor rights are one and the same thing. If that interpretation is representative, it could probably explain the overall lack of attention given to human rights in most codes of conduct.

**1d) Indirect Influence of Multistakeholder Initiatives:** See 1a).

**1e) Standardization of Implementation Practices:** Stakeholders agreed that standardization, or at least coordination, among buyers of implementation practices was desirable. However, few stakeholder groups offered any views on the possibilities of standardization.

According to the multistakeholder initiatives, buyers are increasingly willing to share information about audits. In the past, the sharing of such information had been seen as a competitive issue, but this is no longer the case. Thus, multistakeholder initiatives in Europe as well as the United States noted that brands increasingly collaborate informally to share information about factory conditions at specific locations. This allows others to discern whether a particular factory is worth doing business with as well as helps focus the monitoring and remediation efforts on critical areas.

As to monitoring, some of the Southern stakeholders expressed severe criticism of commercial third-party monitoring. According to these stakeholders, it is very problematic that these auditors are not subject to either professional standards or legal liability in conducting inspections.

**1f) Risk of Lowest Common Denominator:** Some stakeholders, particularly those from developing countries, were worried that the convergence of codes would lead to a lowering of standards. Thus, the Hong Kong stakeholders argued that the purpose of code convergence should not be to reduce inefficiencies, but to set a minimum floor for codes. This would stop the present race to the bottom.

**1g) Businesses Concerned About Adopting International Standards:** Not applicable.

**1h) Role of governments:** Stakeholders disagreed among themselves on whether the public sector had a role to play in clarifying expectations and helping reduce confusion and inefficiencies. Some stakeholders, in particular the NGOs and some of

the Southern stakeholders, argued that the role of the public sector is clear: governments should enforce the laws rather than waste time on strengthening the implementation of codes of conduct.

The representatives of international organizations believed that governments and international organizations could play a key role in helping reduce confusion and inefficiencies. International organizations could facilitate a consensus process at the regional level on the content and implementation of codes of conduct. Governments and international organizations could also play a role in educating public authorities and consumers on social purchasing. Furthermore, public authorities could play a role in defining skills for social auditors, possibly through certification schemes. Finally, international organizations could screen and certify codes in accordance with internationally agreed-upon standards.

Southern stakeholders disagreed among themselves on the proper role of the public sector. The Honduran and Kenyan stakeholders stressed the need for governments to play a greater role in the enforcement of codes. Hitherto, governments have neglected their responsibilities; for example, by waiving some of their labor laws in export processing zones. The Hong Kong stakeholders argued that the focus of governments should be on enforcing labor laws rather than codes. With the exception of Kenya, Southern stakeholders were pessimistic about the capacity of governments to undertake any role in relation to codes. Public authorities were seen as suffering from corruption and lacking the necessary skills; therefore, capacity building would be needed before governments could play a constructive role.

## Key Challenge 2: What Stakeholders Said

### General Comments

Stakeholders agreed overall that the top-down, buyer-driven approach to codes of conduct often fails to bring about commitment on the part of suppliers and hinders the involvement of local stakeholders, including workers, unions, and NGOs. However, stakeholders' perspectives covered a wider range on the questions of how to achieve shared ownership of codes, and on the effectiveness and appropriateness of the top-down versus other approaches to CSR implementation.

Although stakeholders in general agreed with the challenge, two important qualifications were made: Representatives from an intergovernmental organization cautioned against an overly generalized characterization of codes being implemented top down. According to them, companies are currently undergoing a steep learning curve, and there is a lot of grassroots work within and outside companies that contradicts the above-mentioned characterization.

The Honduran and Indian stakeholders noted that a more fundamental problem of attitude had to be addressed before suppliers would become willing partners in the process of CSR implementation. In Honduras, suppliers not only try to escape complying with codes of conduct, but also with the local laws. "Suppliers lack a culture of compliance," as one participant put it.

### Bottom-Up Approach, Capacity Building, and Worker Empowerment

■ **Top-Down versus Bottom-Up Approach:** Stakeholders had mixed views on this point. All stakeholders recognized the need to bring suppliers and local stakeholders on board in the implementation of codes. However, many stakeholders added that the system has to be top down to some extent, reflecting the buyers' ultimate responsibility for the way their products are produced. Therefore, the buyer-driven approach is not necessarily inappropriate. The ideal is some combination of a top-down and a bottom-up approach. Other stakeholders, particularly the unions, believed that a bottom-up approach, characterized as genuine freedom of association that allows workers to organize to ensure rights, is the only way to improve working conditions.

As to the first position, it was argued that the top-down approach is justified for at least three reasons. First, working with buyers is the only possible way to push the CSR process forward quickly. Second, workers and local stakeholders often do not know their rights and what they want. Consequently, sufficient demand would never come from the bottom. Third, CSR is about brand reputation and, as such, is driven by Western consumers. Therefore, codes have to be introduced top down and will, by definition, entail some imposition of the customers' values, but this is the reality of a market determined by supply and demand.

Unions, meanwhile, expressed skepticism of codes that are not negotiated bottom up. Unilaterally adopted codes are flawed in the sense that there is no shared ownership of the process. Sometimes, unions are consulted after a code has been drafted. While this is better than nothing, codes should be negotiated bottom up because the process itself is very important. Even if the end result would be the same, the participation of suppliers and local stakeholders in the drafting of codes facilitates implementation. Workers should never feel that standards are imposed. And while negotiations should always depart from international standards, it is important that codes are kept simple so that workers on the ground are able to understand them.

Unions also argued that the weakness of the monitoring industry is that it does not maintain a constant presence at the workplace. Therefore, unions should be involved in the ongoing monitoring process, whereas periodic audits can be performed by outside independent parties. In addition, unions should be able to give advice on how to improve the situation, if problems are detected during an audit of a factory.

The Southern stakeholders stressed that buyers often do not have enough knowledge about local industry conditions, and that codes usually do not take into account the local culture. In their view, there is no global “best solution,” but rather a number of local ones. Companies, workers, and NGOs should be involved in a process of national consultation so that codes and their implementation could be developed through consensus, instead of being imposed from buyers. According to several stakeholders, individual country codes for specific industry sectors would be the best way forward. It was also argued that codes often unnecessarily displace local procedures and capacity. Therefore, buyers should, to the extent possible, build on existing capacity in implementing their codes.

Finally, several stakeholders drew attention to the problem that many buyers have extensive supply chains, which may hinder shared ownership in practice. Developing long-term, equitable relationships may work for more high-skilled, capital-intensive industries, but for “transient sourcing,” typical in the apparel sector, it is not realistic. It is equally difficult for agricultural companies that buy many of their products on commodities mar-

kets, which results in an inability to identify the original source.

- **Capacity Building:** Stakeholders recognized the need for capacity building, but generally offered few comments on the specific capacities needed to achieve shared ownership of codes of conduct.

Stakeholders believed that capacity building at the management level of suppliers is important, as many suppliers do not even understand local labor law, and much less codes. Several stakeholders added that this problem is particularly relevant for SMEs. A representative from an intergovernmental organization stressed that the general approach to capacity building must be “total responsibility management,” a system in which everyone in the company is involved in creating good labor practices. The training and technical assistance programs of the ILO, which help build managerial competencies and at the same time explain to suppliers what ILO standards mean in concrete terms, were cited as a good example of capacity building.

As for unions and workers, it was pointed out that while local unions have a fairly good understanding of labor standards, participation in implementation of codes of conduct requires a much broader understanding, for example of corporate pricing and procurement principles. Several NGOs underscored the need for training of women workers, as the work force in many developing countries is becoming increasingly feminized. Moreover, the methodology of capacity-building approaches should also be suitable for women’s needs.

- **Worker Empowerment:** Stakeholders agreed that efforts had to focus on workers and unions. Today, workers do not know their rights: they do not know the local laws, they do not know international human rights law, and they do not know the content of the codes that apply to them. To substantiate this claim, one stakeholder cited a recent survey of 12,000 workers, conducted by the Global Alliance for Workers and Communities, which concluded that the vast majority of workers do not know their rights. The challenge is to raise awareness among workers and to empower them. Then workers could improve standards for themselves. In the long run, it was believed that this would be more effective than codes of conduct.

As to the role of codes, unions strongly emphasized that codes should not become a substitute for collective bargaining. According to the unions, codes of conduct are only appropriate if they promote freedom of association and thereby help workers to help themselves. In other words, codes should create the space for local consultation and agreement. For that reason, codes should not be too detailed, but merely outline the fundamental labor rights enshrined in the ILO conventions. Other workplace issues should be settled through collective bargaining.

As to the possibility of NGOs playing a role in empowering workers, the majority of unions were firmly opposed to NGOs taking on what they saw as the role of unions, even if the local unions are unable to do their job. Although some of the international union federations recognized that local unions do not always represent vulnerable groups, such as women workers, the alternative, in their view, is not to bypass the unions, but instead to work with them to make them better. At the end of the day, unions are the only sustainable solution to the problems.

The Indian stakeholders stressed that empowerment activities should not just focus on the organized sector, but also the informal sector that constitutes the overwhelming majority of the Indian labor force.

### **Underpinning Assumptions**

**2a) Lack of Services to Support a Bottom-Up Approach:** None of the stakeholders related to this assumption.

**2b, c) Organizations Best Positioned to Lead on Capacity Building and Empowerment Strategies:** The unions argued that they are best positioned to take the lead on capacity building and empowerment of workers. International unions could play an important role when local unions are weak or nonexistent.

Other stakeholders agreed that unions have an important role to play in training and educating workers. However, some NGOs and representatives of multistakeholder initiatives emphasized that the challenge to the international unions is to persuade their local affiliates that this is the way forward, noting that some unions in developing

countries are caught up in internal strife, or sidetracked in promoting political programs. Therefore, as argued by the Kenyan stakeholders, unions need to become more democratic and transparent in order to fulfill their potential.

The Kenyan stakeholders further suggested the establishment of an association of shop stewards to undertake monitoring and assist in the implementation of codes. This would increase overall monitoring and strengthen ownership of the process among key stakeholders.

The NGOs and the multistakeholder initiatives believed that in the absence of effective unions, multistakeholder initiatives or skilled NGOs should take the lead on capacity building and empowerment strategies. As to the financing of such initiatives, stakeholders agreed that companies should not directly finance the work of NGOs, or multistakeholder groups, as this would undermine the credibility of these organizations.

All stakeholders agreed that commercial auditors or consultancies should not play a role in capacity building or empowerment of workers and other stakeholders at the local level. There was also some skepticism expressed by NGOs and unions regarding the appropriateness of commercial auditors in the monitoring and auditing of codes. It was believed that the “business/client” relationship could result in a biased and partial assessment of the company’s CSR performance.

**2d) Public–Private Cooperation:** Some NGOs suggested that buyers and MNCs [Multinational Corporations] could assist local governments in upholding the law. Other stakeholders challenged this idea, arguing that companies usually did the exact opposite, such as demanding exemptions from certain labor laws as a precondition for investing in a particular country.

From the “Southern” side of the table, the Honduran stakeholders also found public–private collaboration inappropriate. Buyers sharing information with local labor inspectorates might be seen as imperialistic, in that local governments could be perceived as “working for” foreign companies.

Overall, stakeholders expressed considerable skepticism of the public sector’s capacity to cooperate with private actors in strengthening the

implementation of codes of conduct. In addition, many stakeholders believed that governments should focus on enforcing the law rather than spending resources on the development and enforcement of a private law.

**2e) Coordination Among Buyers Would Increase Level of Compliance:** Not many stakeholders related specifically to this assumption. However, stakeholders clearly believed that suppliers would increase compliance if they received a consistent message from the buyers. One of the multistakeholder initiatives gave examples of buyers that cooperated, for example through common guidelines for implementation of codes, in dealing with shared suppliers, resulting in definite improvements.

**2f) Initiative Fatigue:** Stakeholders did not seem to believe that companies suffer from initiative fatigue. In fact, one group of stakeholders argued that the problem is not fatigue, but rather a lack of real incentives to engage in efforts to strengthen CSR implementation. Another group of stakeholders argued that the commercial monitoring industry has vested interests in the existing system, which could be a barrier to new initiatives.

### Key Challenge 3: What Stakeholders Said

#### General Comments

All stakeholders agreed that the business rationale—or how it is perceived—plays a fundamental role in determining the willingness and motivation of suppliers and buyers to undertake CSR investments. Moreover, stakeholders agreed that the third challenge is by far the most important of the three key challenges outlined by the World Bank Group.

However, stakeholders had mixed views on whether greater clarification of the business rationale would promote CSR implementation. The division of opinion did not follow any clear geographic or institutional pattern.

Approximately half of the stakeholders believed that suppliers (and buyers) have insufficient understanding of the business rationale and believed that greater clarification would increase the willingness to make the required investments. Some stakeholders added that suppliers do not see the business rationale because they operate on such tight mar-

gins that they do not have the luxury to explore the potential benefits.

The other half of the stakeholders surveyed believed that the problem lies more with the absence of incentives rather than lack of awareness. Often, the business case for making CSR investments does not exist in the sense that the benefits simply do not outweigh the costs.

A few stakeholders, including the Hong Kong stakeholders, mentioned that even if suppliers were given the right incentives, they would not necessarily comply. Some factory owners will not implement practices that are cost-effective and good for the workers because they do not think that workers should “rise above their station.”

Finally, the majority of stakeholders underscored that good labor practices should be followed regardless of the business case. Ensuring decent working conditions is a legal and moral responsibility, not something that should be dependent on the potential business benefits.

#### Business Rationale and Unresolved Tensions between Buyers’ Requirements

**The Business Rationale for CSR Implementation:** Stakeholders related to this issue not only from the perspective of suppliers, but also from the perspective of buyers. In addition, stakeholders commented on the more fundamental problems of the existing business model. As a general point, they noted that the business rationale for undertaking CSR investments depends very much on the industry sector, and where companies are positioned in the supply chain.

Stakeholders outlined a number of benefits that suppliers could realize, if they would undertake CSR investments. However, it was recognized that the business case is not equally obvious for all labor and human rights issues. Compliance with provisions on reasonable working hours and health and safety will automatically translate into less absenteeism and higher productivity, while the benefits of respecting freedom of association is less clear-cut. Several stakeholders underscored the need for examples and role models to raise awareness of the benefits of CSR implementation, as well as a medium through which these examples can be exposed to all concerned.

While many stakeholders acknowledged that suppliers could benefit from increased productivity and less employee turnover by implementing CSR, many were skeptical that these benefits are sufficient. Numerous stakeholders argued that the business case is most directly made through auditing and the ultimate threat that contracts are tied to CSR performance. On the negative side, several stakeholders noted that suppliers are also under pressure from their peers not to raise standards. This made it more difficult to persuade hesitant suppliers to comply with CSR requirements.

With regard to the buyers, stakeholders recognized that brand-sensitive firms have a clear incentive to invest in CSR, while companies engaged in business-to-business, service, or small parts trades have less incentive, because CSR benefits are mainly of a reputational character. The main problem, according to several stakeholders, is that “good” companies do not obtain a substantial advantage in the marketplace. While the “good” companies experience difficulties in translating their resource-demanding ethical policies into tangible business benefits, the “bad” companies are not doing too badly. Another problem, mentioned by one NGO stakeholder, is that buyers can only be 99 percent in compliance with their own codes. Nonetheless, the remaining 1 percent will often explode and cause reputational damage to the company. Therefore, NGOs should adopt a more realistic approach that takes into account that there will always be something wrong somewhere. More generally, “good” companies should be given more credit for their efforts; otherwise, the critics of CSR in the “good” companies will gain the upper hand.

As to the pressure of buyers down the supply chain, some stakeholders underscored the need for industrywide solutions. It is not sufficient that buyers put pressure on one supplier. Instead, entire industries should work together to find solutions. It was further suggested that national trade and industry associations and employers’ confederations could take the lead.

Many Northern stakeholders emphasized that the ultimate problem rested with the consumers at the top of the supply chain. Until consumers signal willingness to buy socially sustainable products, the present situation will continue. For that reason,

NGOs could play an important role in educating consumers.

Finally, many stakeholders drew attention to what they considered to be serious flaws in the existing business model. The business benefits of CSR implementation are long term. However, the existing business model relies too heavily on shifting supply chains and short-term shareholder returns. Therefore, suppliers often do not have the luxury to run their operations with long-term goals in sight. Price variations lead buyers to move quickly, keeping pressure on suppliers to move quickly. In addition, consolidation among buyers has put pressure on prices, which again has provoked a race to the bottom. The only successful model, according to several stakeholders, is the footwear industry where the business case exists owing to a combination of influential buyers, long-term relationships, and many functions that cannot be subcontracted because the machinery is too expensive and specialized. Other industries, however, do not have the same conditions. Moreover, trends in purchasing through reverse auctions and Internet bidding work against further advances on the CSR front. Other stakeholders argued that the problems of managing a large supply base should not be overstated. If buyers are able to manage quality control standards across a multitude of suppliers, then CSR should be no different.

**Unresolved Tensions between Buyers’ Requirements:** All stakeholders agreed with the existence of unresolved tensions between the delivery time and price and the CSR requirements of buyers. Buyers are simultaneously promoting compliance while insisting that prices should be lower, deliveries faster, and lead time shorter. So far, “there has been too much focus on nasty suppliers and too little focus on the responsibility of buyers,” as one participant put it.

According to the stakeholders, buyers should accept shared responsibilities in CSR implementation by making sure that codes are taken into account in their purchasing decisions. Specifically, buyers should not impose unrealistic delivery times on suppliers. Additionally, the cost of improving labor standards should be part of the price suppliers charge buyers for their products, recognizing that being a good employer costs money.



According to the stakeholders, these tensions stem from the flaws in the overall business model, as described above. Changes in the business model should not just come from the buyers. Consumers and retailers must also understand that they cannot have it both ways. Retailers, acting on consumers' demand for cheaper products, are driving prices down, squeezing factory profits, and ultimately narrowing the margin available for CSR investments at the supplier level.

### Underpinning Assumptions

**3a) Greater Awareness of Tensions Will Permit Individual Buyers to Make More Informed Choices:** The majority of the stakeholders did not seem to believe that greater awareness of the tensions between delivery time and price and CSR requirements would lead buyers to make more realistic purchasing decisions. Ultimately, buyers are judged on low prices and quality, not CSR compliance.

**3b) Tensions May Be Resolved through Improved Integration of CSR within Sourcing Practices and Business Policies:** Stakeholders agreed that buyers should do more to coordinate the demands of their buying teams with the demands of the CSR departments. At present, there is often no coordination between the CSR departments and the purchasing departments of companies. Some stakeholders added that CSR people rarely have a business background, making it more difficult to communicate with their colleagues in purchasing. As a possible solution, one group of stakeholders suggested the establishment of professional standards for purchasing officers to take CSR into account.

In the end, however, stakeholders remained skeptical that the tensions could be overcome by increasing the coordination between the CSR departments and the purchasing departments. The problems are intimately linked to the flaws in the existing business model.

**3c) A Credible Framework for Analysing Costs and Benefits of CSR:** Stakeholders had mixed views on the need for a credible framework for analyzing costs and benefits of CSR. Some believed that it would be helpful to develop an analytical framework that could quantify the business case for CSR implementation. It was further suggested that academics could play an important role

in establishing such a tool. Others argued that clarity is not the problem, nor the mechanism for solution. According to these stakeholders, there are already credible ways to measure the impact of codes. The real problem, again, is that the benefits do not exist.

**3d) Increased Transparency May Support Business Benefits:** Many stakeholders emphasized that the only way to make the business case to suppliers is to increase visibility in the supply chain through more information and certification. In that way, good suppliers will be rewarded, and bad ones punished. At present, investors, consumers, and even prospective employees are unable to distinguish between the CSR performances of companies.

Several stakeholders also argued that governments could play an enabling role by penalizing bad practices and supporting good ones. Governments could give tax deductions for CSR investments, or put pressure on suppliers and merchandisers through their own procurement policies. Belgium, for example, has recently adopted a plan for integrating social considerations into public procurement.

**3e) Lack of Critical Mass and Commitment among Buyers:** Stakeholders overall agreed that buyers presently send mixed signals to suppliers. It is difficult to make the business case to suppliers when so many buyers do not care. Several stakeholders argued that the only way forward would be to get an agreement at the international, or at least European level, on the responsibilities of buyers with regard to CSR. This would level the playing field and prevent competition over social standards.

**3f) Western-Centric Codes and Codes As Non-tariff Barriers:** With the exception of those in Kenya, the stakeholders surveyed did not believe that cultural imperialism is a real issue. Although this argument is sometimes heard from suppliers, it is only an excuse for not complying with the codes. Stakeholders, Northern as well as Southern, underscored that the majority of codes are based on international standards, such as the ILO conventions, which have been agreed upon in a legitimate international forum, and as such are binding on all states. The Kenyan stakeholders did not fundamentally disagree with the above-mentioned arguments, but nevertheless stressed that codes often do not take into account the local culture.

## Other Key Challenges

Stakeholders drew attention to a number of additional key challenges to successful CSR implementation in global supply chains, as listed below. A good number of stakeholders agreed that the three key challenges, as outlined by the World Bank, accurately represent the main barriers to CSR implementation when considered from the more immediate perspective of the buyer–supplier relationship. Others believed, however, that such an approach was too narrow, resulting in a number of important external barriers being downplayed in the study.

- Stakeholders agreed that the ultimate barrier to improved implementation of existing CSR schemes is the fact that consumers are not demonstrating a commitment to these issues with their purchasing power.
- Nearly all stakeholders believed that one major barrier to CSR implementation in global supply chains, as well as to improved working conditions in general, is the lack of government capacity and willingness to enforce the laws. Corruption is a major problem. In addition, governments are unwilling to take responsibility for enforcing existing laws, and often lower standards to attract investment. They sometimes hide behind foreign company codes. Finally, many governments in the developing world were said to lack the resources to enforce the laws. In this context, a number of stakeholders noted that the World Bank should be more discerning with policies calling for liberalization of the public sector in developing countries.
- A number of stakeholders argued that the international trade regime acts as an important barrier to strengthening CSR implementation in global supply chains. The WTO allows discrimination against a product if it has a health impact at the consumer end, but not if the impact is located at the producer end. In short, the WTO hinders the development of positive public purchasing policies and national import policies that could strengthen the case for CSR investments at the supplier level.
- Many stakeholders believed that the lack of serious commitment from the business community is a crucial barrier to improved CSR implementation. MNCs often enter into agreements with

governments on investments, requiring that the latter not impose “constraints,” such as higher labor standards, during a specified period. Alternatively, MNCs simply ask for exemptions from various social regulations as a precondition for investing in a particular country. Moreover, some of the international unions noted that MNCs often refuse to take part in employer organizations, and do not participate in the normal tripartite structures of countries. This undermines these organizations and structures, as governments do not take employer organizations seriously when the big players are missing.

- A number of stakeholders, including representatives of unions and intergovernmental organizations, argued that some NGOs are behaving irresponsibly. They do not understand that CSR is a long-term process, but want it all done overnight. Moreover, when they force companies to cut their relations with noncompliant suppliers, it has disastrous consequences for the workers. Finally, NGOs are alienating the companies and making them hold back on CSR. It was suggested that NGOs should adopt codes of conduct outlining their responsibilities in the same way companies do.
- Finally, several stakeholders believed that the study did not address important micro-questions surrounding codes of conduct in general, such as (a) how far down the supply chain should codes be applied? (b) Can a “one-size-fits-all” solution take into account the more limited capacities and narrower profit margins of SMEs? (c) Can a one-size-fits-all solution take into account the differences between the needs of exporting versus domestic industries? (d) Can codes be made to cover the informal sector, where most of the new jobs in the developing world are created? Indeed, would such a code actually have the reverse effect, and disempower some workers by forcing them from the home into more formalized work structures?

## Conclusions

With the exception of some dissenting opinion of the first key challenge, the consulted stakeholders overall agreed with the three challenges. In sum:

- Stakeholders disagreed among themselves on the accuracy and importance of the first chal-

lenge. In general, however, stakeholders did not seem to believe that the challenge was very important; either the inefficiencies and confusion stemming from the proliferation of codes are virtually nonexistent, or they only constitute a minor problem, expect perhaps for the SMEs.

- Stakeholders agreed with the second challenge. However, many stakeholders, in particular NGOs in the North, recognized that the alternative to a top-down approach is not necessarily a bottom-up approach. The ideal is some combination of the two. All stakeholders recognized the need for worker empowerment and capacity building at the level of suppliers, including training of managers, supervisors, unions, and outside stakeholders.
- Stakeholders agreed to the third challenge. However, many stakeholders believed the problem has more to do with the lack of a business case altogether rather than lack of awareness of the possible benefits. The business case therefore has to be made more straightforward and tangible if suppliers are to be convinced of the merits of CSR.

## OPTIONS AND SOLUTIONS

### Key Challenge 1

#### Harmonization of Codes

The majority of stakeholders agreed that an effort to reach agreement on a single baseline code at the international level is not the answer. It would be of little use, since it would necessarily have to be vague to cover so many different industry sectors and countries. An effective code, it was stressed, has to be adapted to the individual business situation and focus on implementation.

Some of the unions, as well as representatives of intergovernmental organizations, argued that a useful model might be that of framework agreements negotiated between employers and global union federations. Such agreements tend to cover basic labor issues such as freedom of association and minimum wage better than codes, and the very process of negotiating a framework agreement promotes constructive dialogue between the employer and workers' representatives.

Several stakeholders, including some of the Southern stakeholders, suggested that the solution to

overcome the plethora of codes is to set up a government department to undertake monitoring at a national level, and then have one country code for each industrial sector.

#### Implementation of Codes

Regarding the problem that provisions for implementation often vary among codes, one of the multistakeholder initiatives noted that some of their companies share one supplier manual, which gives guidance for suppliers on how to comply with codes.

As to the problem of overlapping audits, the same multistakeholder initiative had developed a database that allows members to see how suppliers perform in terms of CSR compliance. Suppliers publish information about audits conducted at their facilities. This allows buyers to make a proper risk assessment before they place their orders. Interestingly, the companies that had performed the audits are not anonymous in the database, and according to the representative of the multistakeholder initiative, this had not presented a problem.

#### Monitoring of Codes

As an example of best practice, one of the international unions drew attention to an agreement that has been negotiated between a textile union and a number of employers in Belgium. The agreement envisages the establishment of a fund to pay some of the monitoring costs, if companies do not have the means themselves. Employers are thus given incentive to implement and monitor the code in accordance with the standards laid down in the agreement. In the past, the costs of monitoring have been used as an excuse for not complying.

As to the need for independent monitoring, some stakeholders suggested that companies could pay into a fund to ensure that there is no direct relationship between monitors and buyers.

Finally, some stakeholders noted that many companies source from so many suppliers that in-depth monitoring is practically impossible. It was suggested that the solution might be to carry out one-day inspections. This approach is not perfect and cannot serve as verification, but it is still useful as a risk assessment. One of the multistakeholder initiatives had developed rules for such one-day inspections, which involve human rights groups

and labor unions shadowing and commenting on the people performing the inspections.

### **Role of Governments**

Stakeholders, particularly the representatives of intergovernmental organizations, offered a number of suggestions on how governments and other public and international authorities could help reduce confusion and inefficiencies stemming from the plethora of codes.

First, governments and international organizations, such as the EU, could level the playing field by sanctioning codes of conduct as being in accordance with the international standards.

Second, governments and international organizations, including the EU, could play an important role in defining and clarifying to consumers and public authorities what social purchasing meant. At the moment, consumers are confused and lack adequate information. One way to do this would be for public authorities to recognize or establish social labels. In addition, stakeholders recognized the need to level the playing field with regard to social labels. At the moment, some of the labels are based on self-evaluation and, as such, lack sufficient credibility. As an option to overcome this problem, governments and international authorities, such as the European Commission, could forbid or limit the use of codes by companies as a marketing tool. The recent Nike case was mentioned as an example.

Finally, public authorities could play an important role in defining the skills needed to become a social auditor. Governments could issue such certifications and thus recognize, for example, certain auditing firms, multistakeholder groups, or NGOs as qualified auditors.

## **Key Challenge 2**

### **Capacity Building At the Worker Level**

Several stakeholders underscored that shop stewards should be included in the education and awareness-raising process. It was further suggested to set up associations for shop stewards to monitor what is happening both inside and outside the company.

With regard to the funding of workers' education, it was suggested to establish a central fund, to

which companies could donate, and which would then assume the responsibility. In that way, the companies did not directly fund the organizations that provided the education.

Some participants suggested that the World Bank could help support workers' aid organizations to provide a forum for workers to become better educated about their rights. The Bank could also fund the identification and capacity building of civil society groups to develop them into effective independent monitors.

### **Capacity Building At the Management Level**

Several stakeholders stressed that the solution lies in employers' organizations and governments working together to provide management training for suppliers. At the international level, the training and technical assistance programs of the ILO, which help build managerial competencies and at the same time explain to suppliers what ILO standards mean in concrete terms, were cited as good examples of capacity building.

It was also suggested to initiate pilot projects in factories so that factory management would be encouraged to take them over when they realized that it was not too difficult or costly. One stakeholder cited the example of a health clinic that an NGO had started in a factory, which was gradually taken over by the factory management when they realized that it was a valid need that could be fulfilled with relatively little effort and expense on their part. This option would seem to present avenues for buyers as well, and could be successful in bringing ownership of compliance-oriented activities without extensive investments on the part of the buyer.

### **Complaint-Based Systems**

Many stakeholders supported complaint-based investigations as a means to improving labor conditions. Procedures, where workers could go to court or take other measures to enforce good practices in companies, are the best way to help workers help themselves.

Some stakeholders suggested that the World Bank should encourage the development of such systems, including looking at best practices in terms of complaint procedures in national legislation.

Several participants, particularly the unions, stressed that it is important to use existing systems, such as trade unions, for complaints, and to build on their capacity, rather than creating new mechanisms.

Stakeholders also drew attention to the need for multiple channels of information. At present, information about working conditions is top down. Additional information channels could be opened by allowing unions, NGOs, or governments to enter workplaces and run labor law talks on the factory floor, and providing an outlet for complaints. As noted elsewhere, however, unions were generally opposed to seeing NGOs do what was considered union work.

### **Step-by-Step Approaches**

A good number of stakeholders underscored that labor standards could not be improved overnight and that there is a need for step-by-step approaches. The feeling was that this is the only way to achieve sustainable, shared ownership of CSR initiatives. One of the international unions cited the International Cocoa Initiative as an example of best practice. While the purpose of the initiative is to abolish child labor in cocoa production, it is also recognized that this is impossible to achieve within a short time span. Therefore, buyers and international trade unions have begun to certify the process instead of the impact. The important thing is that companies have processes in place to get rid of child labor in the long run.

Another suggestion was to adopt an approach, whereby buyers and suppliers would agree on a few core issues that would be considered zero tolerance and would need to be achieved right away, with the rest of the issues in the code being covered over a longer time frame. This approach would call for a longer-term relationship between buyers and suppliers and possibly increased exposure on the part of the buyers during the longer time frame.

## **Key Challenge 3**

### **Incentives for Suppliers**

With regard to clarifying the business rationale of CSR to suppliers, the training and technical assistance programs of the ILO were cited as examples of best practice. The programs help build manage-

rial competencies and at the same time demonstrate to the suppliers that CSR would in fact improve their productivity as well as the working atmosphere in the companies, and that it need not be expensive.

Several stakeholders argued that buyers should make a public commitment to good suppliers. A commitment of ongoing business for good suppliers would provide the needed incentive for suppliers to comply with standards. If that commitment were made publicly, suppliers would likely market themselves as socially responsible in order to guarantee continued business. It would also demonstrate to other suppliers that companies are willing to create long-term business partnerships, and signal the importance of CSR in their choice of suppliers.

Finally, some stakeholders argued that in order to create more business benefits for socially responsible suppliers, buyers should reduce the quantity of suppliers and develop more committed relationships to suppliers that meet their standards. In the agriculture sector, for example, it would require companies to move away from commodity markets and buy directly from farms. Other stakeholders did not believe that shorter supply chains are the way forward. The worst abuses take place in domestic industries. Therefore, more suppliers, including SMEs, should be invited into the exporting industries.

### **Tensions between Delivery Time and Price and CSR Requirements**

Several NGOs argued that the language of codes needs to be changed so that it is not just about monitoring suppliers, but also addresses the responsibility of buyers for their purchasing practices. 360-degree audits, where the suppliers could audit the buyers, so that the buyers could see the impact of their tight delivery times, might be a possibility. Another option would be to put a minimum limit on delivery lead time, so that buyers' purchasing agents are unable to make rush orders without justification. Finally, as suggested by one NGO, company purchasing agents should be given an internal incentive for taking CSR into account. At present, their performance is evaluated only on their ability to achieve the lowest price within the shortest delivery time.

### **Incentives for Buyers**

Stakeholders agreed that the incentives for CSR implementation should be strengthened, not only at the supplier level, but also at the level of buyers and MNCs.

Some of the Northern NGOs suggested that companies should be subjected to peer pressure from ETI-types of initiatives. Thus, companies would learn both the incentives and the “how-to” aspects from others. In addition, NGOs and unions involved in the multistakeholder initiatives could put additional pressure on companies. It was further suggested that the World Bank should only provide funding to companies—through the Multilateral Investment Guarantee Agency and the International Finance Corporation—that have signed up to multistakeholder initiatives.

One of the international unions described its practice of working with shop stewards in Western companies. The idea is to make shop stewards interested in the working conditions at the level of subcontractors in developing countries. They would then serve as a source of internal pressure, asking their employers to demand suppliers’ compliance with international labor standards.

### **Consumer Pressure**

The majority of stakeholders agreed that the incentive for suppliers and buyers to invest in CSR ultimately has to come from consumers. The most important problem with regard to consumers is information; consumers simply do not know where to start. Stakeholders presented a number of suggestions to overcome this problem.

A representative from an intergovernmental organization drew attention to a Belgian consumer organization that ranked, for example, sports shoes according to CSR standards, which made it relatively easy for consumers to decide. Today, labels are too simple: “pass” or “fail.” Labels should have a more graduated ranking in the same way as washing machines, for example, which are ranked on a scale according to energy performance.

It was further argued that if all companies reported according to the GRI scale, a database on the Internet could be established that would allow for systematic comparisons among companies and their products. Consumers would then be able to see if

Adidas is better than Nike, for example. This approach would be more effective than the traditional labels.

Meanwhile, some stakeholders expressed skepticism that social labeling would be the universal remedy. A lot of products are hard to label. How could a car or a personal computer ever be labeled, when such products consist of so many different parts? As a possible solution, one stakeholder suggested that a company such as Renault should be labeled for the products under its control. In that way, the labels would resemble the ones found in organic food where one can say that a product is 85 percent organic.

Finally, one of the NGOs advocated more focus on consumer education campaigns. An advertising company could be commissioned to survey the public about its priorities, and then devise a campaign to educate consumers about the complexities of corporate responsibility.

### **Role of Governments**

Many stakeholders suggested that government procurement policies should be made more sensitive to CSR concerns. Belgium, which has recently adopted a plan for integrating social considerations into public procurement, was cited as an example of best practice.

Some of the multistakeholder initiatives suggested that governments could provide technical support to suppliers that want to implement codes of conduct, including measures for increasing productivity along with CSR compliance. It was further suggested that government could bring together buyers and “good” suppliers in forums marketed as low-risk strategy for buyers.

### **Inclusion of Labor Components into Trade Agreements**

Many stakeholders argued that labor components should be included in trade agreements. One stakeholder suggested that this should be piloted with bilateral agreements, such as the work currently being done in Cambodia and Vietnam.

Some of the NGOs believed that companies should be encouraged to work only in countries with good labor and human rights practices. Thus, they argue that international trade agreements

should be revised to allow for some discrimination against products made in countries that do not have good labor and human rights practices.

Competition policy is another issue. A few NGOs suggested that there should be international regulation making it illegal for buyers to knowingly purchase a product for a price that is cheaper than the production costs.

### **Other Suggestions**

Stakeholders generally believed that increased transparency and public accountability is the key way of raising standards. Some emphasized the need for disclosing factory names, so that unions can be aware of locations and begin organizing local campaigns. Others expressed concerns that

such transparency could kill the business of a local supplier attempting to make changes, but needing more time. A possible solution could be to delay disclosing factory problems while allowing time for a factory to remediate within a given time frame.

The Kenyan stakeholders suggested the establishment of a shareholders' association that would be involved in CSR implementation. In addition, the board of directors in companies should be educated in CSR issues to act as a check on management and to increase management's accountability.

Finally, one stakeholder argued that there is a need to raise CSR interest in local markets. Local pressure could be used to bring the business case home to hesitant suppliers.





# Summary of Worker Consultations

The structure of the report below follows a somewhat different pattern than the other consultation summaries provided in annexes D–F in the report because the consultation process with workers took place according to different Terms of Reference.

## INTRODUCTION

This summary is based on consultations with workers in China, Honduras, India, and Kenya. Interviews with workers in addition to the reports were undertaken from mid-June until the beginning of August 2003. Local consultants or NGOs undertook the interviews on behalf of the Danish Institute of Human Rights according to the Terms of Reference for worker consultations defined by the World Bank and the consortium consisting of PricewaterhouseCoopers, Business for Social Responsibility, and the Danish Institute of Human Rights.

The purpose of the worker consultations was to solicit workers' views on the benefits, constraints, and performance of CSR codes in operation in supplier companies.

The methodology for the worker consultations defined focus groups and individual interviews to be the main mediums through which information was obtained. Shop stewards and management representatives were also interviewed. The workers participating in interviews were selected either randomly from company rosters or according to certain social characteristics (gender, occupational experience in company, employment category as regular or casual worker) or according to job description. The Danish Institute of Human Rights had prepared an interview guide, but the local consultants were specifically asked to adapt the guide to the local context.

The methodology specified one or more focus group meetings depending on whether for example, gender issues or relations between casual and regular workers were better dealt with in separate groups. The methodology also outlined that individual interviews could be kept at a number below 10. Only five days were allowed for the work. Hence, the objective was not to make an in-depth, quantitative survey based on structured interviews with many informants, but rather to get a first impression of benefits, constraints, and processes of implementation and monitoring from the point of view of the workers on the factory floor.

The methodology also outlined that the consultations only had to take place with workers from one supplier company. The companies were selected with the assistance of either PricewaterhouseCoopers' local representatives or in cooperation with local representatives of Business for Social Responsibility.

## COUNTRY REPORTS

In Kenya, interviews were conducted in the agricultural sector (horticulture, coffee, and tea), while in China, India, and Honduras the majority of interviews took place in the apparel sector. In China, garment, shoe, and sportswear factories were selected, while in India, garment factories were selected. In Honduras, textile factories were selected.

Some of the local consultants, while conducting focus group interviews, also decided to conduct more individual interviews with workers and companies than originally planned. Thus, in China as well as in Kenya and Honduras, altogether 60 individuals participated in either group or individual

interviews. In all of these cases, the local consultant interviewed workers from three companies.

In India, the local consultant interviewed one group of 10 workers selected from the company roster. Two of the 10 selected were women. From this group five were chosen for individual interviews, including the two women who had remained silent during the group interview. In India, the local consultant also decided to interview one group of 11 workers from the apparel sector *outside* the company chosen in order to learn more about conditions in smaller garment export factories.

In China, 23 workers were selected for individual interviews, 16 of whom were women. Most of the participants in the three group discussions in China were women. In India, 2 informants of 10 in the main factory were women (the factory has a 5 percent female employment rate), while 7 of 11 interviewed in the residential area were women.

In Honduras, 57 workers participated in six focus group interviews with workers from two factories. Of the 57 informants in the focus groups, 39 were women and 18 were men. In addition, a few individual interviews were conducted.

All four consultants reported seeing no child labor in the factories, and the issue of child labor did not constitute a problem in the interviews. In India, the company dentist in the main company where interviews took place was used to certify that employees were over 18 years old.

In China and in Kenya, the interviews were conducted outside the company premises. In India, interviews in the main company were held at the company premises in a conference room allocated by the company, while additional interviews were undertaken outside the premises in a residential area where the garment workers lived. In Honduras, the focus group interviews took place within the com-

pany, while the individual interviews were undertaken outside the company confines.

What types of workers were interviewed? In Kenya, workers were mostly from plantations, working in planting, crop husbandry, harvest or picking, or grading and packing. In China, most of the workers were women, 90 percent of whom were from rural areas. Living conditions in China were crowded with 12 workers living in 16-square-meter rooms. In India, most of the workers were recruited by casual labor contractors in poor states such as Bihar, Uttar Pradesh, and Orissa. In India, working hours were regulated according to a fixed schedule in the main factory where interviews took place, but this was not the general situation in other, smaller garment factories. In Kenya, working hours during peak seasons could also be described as elastic with some peculiar interpretations of overtime. In Honduras, young women constituted the main work force in the companies. In one company, 90 percent of the work force was made up of women, while in another 85 percent were women. About a quarter of employees in the textile industries are migrants from rural areas.

The tables below show the number of workers in the various locations.

### KNOWLEDGE, AWARENESS, AND OWNERSHIP

In all of the four country cases, workers' knowledge and awareness of the codes of conduct were limited. The best way to describe the situation is to say that workers have a vague sense of what codes of conduct mean. In China, where monitoring takes place regularly, workers knew about the inspectors or auditors who come to the factory to examine human rights and other issues, but they had difficulties in distinguishing between CSR inspections and quality of goods inspections of buyers.

**Table D1 Worker Consultations**

	<i>China</i>	<i>Honduras</i>	<i>India</i>	<i>Kenya</i>
Group interviews	35	57	21	NA
Individual interviews	23	3	5	NA
Total	58	60	21	60

NA, not applicable.

**Table D2 Gender Distribution**

	<i>China</i>	<i>Honduras</i>	<i>India</i>	<i>Kenya</i>
Male	17	21	9	NA
Female	41	39	12	NA

NA, not applicable.

In India, the workers did not know about the concept of the codes of conduct, but they knew about some components of the codes related to operations through the human resource manager of the main factory.

In Honduras, the majority of workers had no, or only a vague, sense of what the codes meant. Some of the workers had seen the codes posted on the wall of the factory. In one American-owned company, however, the codes were taken so seriously that some workers had been informed about the codes through engineers or supervisors. Even tests had been conducted. In this factory, workers were most familiar with Nike's code. However, in another company in Honduras, the awareness among workers about the codes was very limited.

Posters with the codes of conduct had been posted by management in India and in China in English and in the local language. Literacy capacity and educational backgrounds, however, would seem to make such a method of dissemination insufficient.

In Kenya, in the geographically dispersed agricultural sector, knowledge about CSR was found to be even more lacking among workers. Workers heard about the codes when they were mobilized during periods of auditing. Casual workers knew the least about the codes.

Workers in Kenya certified that the codes belonged to the company, not to them. The workers saw the codes as a management instrument that would facilitate market access and that would satisfy consumer demands. Ownership sentiment was therefore low in Kenya. The situation in China and India was similar. In Honduras, workers were more inclined to see CSR as a workers' tool. They were unanimous that workers would lose the most if the codes were abandoned, but they also agreed that management benefited in an unspecific way.

## **BENEFITS DERIVED AND TRADEOFFS: THE PROCESS OF IMPLEMENTATION**

Workers in China were explicit in attributing improvements in working conditions to the existence of CSR. As a result of buyers' inspections, they saw improvements in welfare and working conditions as related to their living quarters, the sanitation status in factories with hot water installation, and dining room facilities. They also emphasized the importance of codes in protecting workers' rights. The human rights codes ensured better wages and decreased daily overtime work, including days of rest.

In Kenya, the workers ranked health and safety regulation as the most important item in the codes in operation. This was because of the environmental risks involved in working with pesticides and fertilizers in the agricultural sector. The regular workers reported that they had benefited from environmental regulations, such as Milieu Programme Sierteelt, and the more specific environmental regulations for horticulture and the flower industry. They had received more protection against, and information on, the chemicals that they work with as a result of these codes. Generally, however, the workers agreed that the regular workers benefited more than the casual ones. This was also the view of the managers of the farms and plantations. The majority of workers held the view that the codes were "good documents with no benefits."

In India, workers in the factory selected for interviews clearly benefited from a modern human resource management policy of the company. The workers knew too little about the codes to verify whether improvements in working hour administration, safety norms, welfare policies (including maternity benefits), free transport, and sports facilities were the result of code implementation or of a general policy of the company. Among the code regulations ranked by workers, health and safety regulations were most appreciated followed by

overtime and discrimination regulations. Workers in the garment factories in the same area outside this particular factory reported that only a few of the benefits of the codes accrued to the casual laborers.

In Honduras, workers emphasized salary regulations as the most important component of the CSR codes. They also stressed that they had benefited from better security and health regulations in the company. Workers perceived that a strong implementation of regulations under CSR would contribute to reduce the propensity to strike. The codes would even make unions redundant, according to some workers.

In Kenya, some workers regretted the overtime restrictions introduced as a result of the codes, but generally workers did not report on particular tradeoffs of the processes of code implementation.

## THE ROLE OF TRADE UNIONS

Conflicts or disputes were generally muted or suppressed in at least three of the countries. Dispute regulation only seemed to be institutionalized in the Indian company where a grievances committee was operating. In India, the human resource manager in the selected company was in regular contact with workers, and responded quickly to demands raised in meetings. This was said to take place because of the company's policy to avoid the formation of a trade union. Workers, on their side, did not have too much faith in trade unions.

In Kenya, the trade unions were reported to be weak. They clearly did not play important roles in the implementation of the codes, or in any handling of disputes, according to the study. Workers nevertheless ranked freedom of association and the right of collective bargaining as the second most important item of the codes, surpassed only by health and safety regulations.

In China, two of three companies tried to suppress trade unions, and in the third, the company management appointed the chairman of the union. Workers did not have any channels of redress that they could use, and the companies had done little to engage workers in code implementation.

Unions also seemed weak in the Honduran factories. They do not seem to have played any major

role in the code implementation or disseminating information about code regulations. Management perceived code implementation in Honduras to be a way to escape conflicts. With regard to tradeoffs, some workers in Honduras suffered from the restriction on overtime, but this was not a consistent complaint.

## MONITORING AND THE PROCESSES OF IMPLEMENTATION

One important point stressed in all the country studies is the crucial role played by the monitoring and auditing of company implementation of the codes. It is through this kind of external review process that enforcement becomes either real or just "eye-wash" (or cosmetic, as it was translated literally from Chinese in the report).

Regular buyer monitoring and auditing was only done with some consistency in the Chinese companies, with the result that the codes were given force in some areas. Despite this, some of the Chinese workers believed that monitoring was superficial and that issues, such as wage levels, overtime, and the protection of pregnant workers were not dealt with. Chinese workers also believed that auditors bypassed workers' opinions when visiting the companies.

In India, regular monitoring did not take place, according to the study. The enforcement of codes was especially weak in the smaller export companies in the apparel sector.

In Kenya, auditing systems were in place, and company committees were being established under the respective codes with a monitoring role. However, workers distrusted auditors strongly and saw them as representatives of management. Auditing was seen as a measure of publicity, and the committees established did not have clear terms of reference. The committees were unable to perform any effective monitoring because of lack of knowledge. Worker involvement in monitoring therefore remained weak. The codes were seen as top-down measures in China as well as in Kenya.

Not all workers in Honduras trusted auditors, but some workers claimed that the auditors could be trusted and that they were not in the pockets of the company. Others saw them as foreign representative who did not speak the language. Consistent

with the other countries, workers in Honduras preferred that their own representatives became involved in monitoring.

Management in Kenya and China complained about the plethora of codes in existence. The different types of regulation, and in China satisfying different audit procedures, were clearly a burden on the companies.

## CONCLUSIONS AND WORKER PERSPECTIVES OF POSSIBILITIES FOR CHANGE

In summary, the worker consultations showed low awareness among workers on what codes of conduct meant. They had little specific knowledge, and did not feel ownership of the codes in operation. Workers were scarcely involved in the implementation of the codes and in monitoring and audit. Management saw participatory measures or the involvement of unions more as a problem than an opportunity and, in some cases, the workers themselves felt no trust in the unions.

Despite these shortcomings, some workers reported that the codes had provided benefits in terms of health and safety measures, welfare, and overtime regulation. Workers in Honduras appreciated guidelines on salary level the most. Workers in India also ranked the regulation on discrimination measures as important. Generally, however, workers emphasized that regular workers rather than casual laborers benefited. With respect to gender issues, where female workers constituted a high proportion of the employees as in China or where the company made an effort to implement welfare benefits, female workers were targeted with relevant measures, though not in all cases in China. Child labor was nowhere found to be a problem. Women highlighted improvements in relation to a former practice of hiring heavily preg-

nant women in Honduras. In the Indian case, the company took particular precautions to avoid the employment of children.

In addressing prospects for improving the codes of conduct, workers emphasized the following items in particular:

- Better and more wholehearted monitoring and auditing procedures are needed. This included buyers as well as management of the companies who were seen to be either indifferent to the proper implementation of the codes or who used them mainly as publicity and marketing measures. Insufficient motivation of management and of buyers was clearly seen as a major barrier of implementation among the workers. Better monitoring and auditing was linked to the streamlining of codes so that management groups were left with less cumbersome tasks of code implementation and regulation.
- Enhanced involvement of workers in the monitoring processes was emphasized as an important measure of strengthening code implementation in all of the studies, possibly as part of a tripartite process, but unions would not be the right choice of representation in all cases.
- Better information and dissemination of the contents of specific regulations of the codes to the workers was emphasized as a means of strengthening code implementation and reinforcement; this latter dimension could include training of workers. The current method of dissemination in use in most companies of posting information on the codes in posters on the factory walls was insufficient, not least because this method was built on an assumption that all workers had literacy skills to understand the text.
- Differences between benefits for casual and regular workers prompted workers in the consultations to reflect about the general practices of some employers to mainly rely on casual laborers.





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