Trying to secure decent working conditions

Do corporate social responsibility audits improve risk management in global garment supply chains?

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This licentiate thesis consists of an introduction and the following papers:

**Paper I**  

**Paper II**  

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Abstract

Most consumer goods, such as garments, toys, and electronics, are now produced in global supply chains. This outsourcing of manufacturing to regions with lower production costs has raised concerns over labor rights violations. Retailers and brands have responded to this by introducing policies, so-called codes of conduct, outlining minimum requirements for working conditions at their suppliers.

The widespread use of codes of conduct as a voluntary means of managing the risk of labor abuse in global supply chains has led to intensive debates about the impact of such codes at the point of production. Has companies’ work with codes of conduct within the voluntary corporate social responsibility (CSR) framework managed to secure good working conditions, and if not, to drive improvements at the factory level?

This thesis examines the question empirically by analyzing 288 code of conduct audits of garment factories conducted between 2004 and 2012 by Fair Wear Foundation (FWF), an independent non-profit multi-stakeholder organization. The data consist of audits of 229 sewing factories in Asia, Eastern Europe, and North Africa that supply European garment brands.

Paper I analyses the non-compliances listed in the audit reports and whether factories audited several times by FWF improve over time. The results show that even rigorous multi-stakeholder audits seldom identify violations of freedom of association and harassment of workers, thus demonstrating the difficulty of present audit methodology to capture these violations. Improvement over time could be seen when analyzing the 43 garment factories where more than one audit was conducted by FWF. However, these improvements were moderate, i.e. compliance increased by only 7–15% between audits.

Paper II examines one specific aspect of code of conduct compliance, i.e. chemical safety for workers, that the literature finds is an area where improvements are likely to be seen. By examining this area in detail, we hope to identify what characteristics correlate with compliant factories and what improvements can be seen over time. The results show that 43% of the suppliers received remarks on chemical safety at the first audit. A binary logistic model was constructed including the number of previous audits, characteristics of the suppliers, and characteristics of the relationship between the brands and suppliers thought to be associated with better compliance. The only statistically significant finding from this was that only among factories audited ten or more times was there a clear increase in the number of factories receiving no remarks on chemical safety.
In conclusion, the two papers showed a high degree of non-compliance in the supply chain of European garment brands and that audits seemed to underestimate levels of non-compliance for some types of code violations. Improvements could be seen, but these were moderate and in some cases only evident after what is often viewed by companies and their suppliers as excessive auditing. In this sample of European garment brands, characteristics of the factory and of the relationship with the buying company could not predict levels of compliance.

Given companies’ extensive investments in private regulation of working conditions, the findings have important implications for scholars, corporate managers, CSR practitioners, labor rights campaigners, as well as governments wishing to improve working conditions in global supply chains. Recommendations to companies include: i) invest more effort in finding compliant factories when sourcing new suppliers as improvements are not easily achieved; ii) focus more efforts and resources on implementing corrective action plans at the supplier level than on re-auditing; and iii) actively seek, develop and apply new methods to achieve factory-level improvements to complement the conventional audit methodology. Regarding the last recommendation, recent developments in CSR practices have shown that brands and multi-stakeholder initiatives are now moving in this direction.

**Keywords:** Corporate social responsibility, CSR, Code of conduct, Audit
Svensk sammanfattning


Den numera utbredda användningen av uppförandekoder för att hantera människorättsrisken i globala produktionssedlar har väckt frågan om vilken effekt dessa policies har på fabriksgolv. Har företags frivilliga åtaganden inom corporate social responsibility (CSR) säkerställt anständiga arbetsförhållanden eller åtminstone hjälpt till att förbättra situationen för de som tillverkar våra kläder?


Den första artikeln i avhandlingen undersöker dels vilka problem som identifierats i fabriksrevisionerna och dessutom de fabriker som FWF kontrollerat genomfört de föreskrivna förbättringarna. Inspektionsprotokollen visade på utbredda överträdelser av uppförandekoden och lokal lagstiftning. Resultaten visar dessutom att trots rigorösa flerartsinspektioner utförda av lokala experter så identifierades få överträdelser gällande organisationsfrihet (fackliga rättigheter) och trakasserier av anställda, vilket tyder på att dessa överträdelser är svåra att fånga upp med nuvarande metoder. Bland de fabriker där FWF genomförde mer än en revision kunde vi se att arbetsförhållandena förbättrades mellan revisionerna, men att förbättringarna endast var på 7 till 15 procent.

Den andra artikeln tittar närmare på efterlevnaden av uppförandekoder genom att undersöka kemikaliehantering på fabriken. Genom att undersöka kemikaliesäkerhet, som enligt tidigare forskning ska vara lätt identifierad i revisioner, undersökte vi vilka faktorer som sammanfaller med bättre
arbetsförhållanden och snabbare förbättringstakt efter en revision. Vi testade om egenskaper hos fabriken, produktionslandet eller förhållandet med den Europeiska köparen leder till förbättrade arbetsförhållanden i form av färre anmärkningar på kemikaliesäkerhet. Vi undersökte också om tidigare revisioner av arbetsförhållanden påverkar kemikaliesäkerheten i fabrikerna. Det enda statistiskt signifikanta faktorn som hittades i vår studie var att fabriker som reviderats tio eller fler gånger i större utsträckning var fria från anmärkningar på kemikaliesäkerhet.

Sammanfattningsvis ger våra undersökningar en bild av låg efterlevnad av uppförandekoderna hos leverantörer till Europeiska klädföretag. Dessutom verkar de kontroller som görs underskatta andelen överträdelser. Vi kunde se att förbättringar på fabrikerna genomfördes efter revisionerna, men dessa var mättliga eller skedde först efter att fabriken genomgått ett flertal kontroller. I gruppen av undersökta fabriker kunde vi inte heller se något tydligt samband mellan efterlevnad av uppförandekoden och fabrikens egenskaper, samarbetet med köparen, eller förhållandena i produktionslandet.

Med tanke på att företag sätter stor tilltro till revisioner som ett verktyg för att hantera risken för kränkningar av arbetares rättigheter, så borde resultatet vara av vikt för företag, så väl som organisationer och myndigheter som försöker förbättra arbetsförhållandena i globala produktionsled. Recommandationer till företag baserade på studien är: i) fokusera på att hitta fabriker med bra arbetsförhållanden, det är svårt att åstadkomma förbättringar hos leverantörer med nuvarande arbetsmetoder, ii) satsa hellre resurser på att åstadkomma förbättringar än att genomföra på fabriksnivå än att genomföra ytterligare kontroller, iii) delta aktivt tillsammans med relevanta intressenter i arbetet med att utveckla nya metoder för att både kontrollera och förbättra arbetsförhållanden hos leverantörer.
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Fair Wear Foundation has kindly made audit reports available for me to examine in this thesis. Without this kind of openness, critical examination of the impact of corporate social responsibility would not be possible.

I have read and looked through many licentiate theses published at KTH and all of them have a rather short acknowledgements section. Trying to keep with that tradition makes it impossible to do justice to the support of my partner, friends and family. You all know who you are, and I hope you all know no words in this acknowledgement could do justice to how important you are for me. If anyone would not know, please contact me in person, and I will try to clarify.

Conflict of interest

During 2009 to 2010 I worked as International Verification Coordinator for Fair Wear Foundation. Fair Wear Foundation has provided data for this research, but has not contributed with any funding.
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>CSR</td>
<td>Corporate social responsibility</td>
</tr>
<tr>
<td>CMT</td>
<td>Cut-make-trim</td>
</tr>
<tr>
<td>FWF</td>
<td>Fair Wear Foundation</td>
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<tr>
<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>NGO</td>
<td>Nongovernmental organization</td>
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### Paper I


### Paper II

1. Introduction

1.1 Aims of this thesis

This licentiate thesis concerns how companies’ voluntary actions within the corporate social responsibility (CSR) framework manage risk in complex supply chains. The overall research goal is to examine how effective auditing of code of conduct compliance is at managing the risk of labor right violations in global garment supply chains. For risk management to be effective, it should have the ability to identify unwanted situations (i.e. violations of labor rights) and have effective means of managing and mitigating such unwanted outcomes. In the case of investigating auditing in global garment supply chains, this licentiate thesis therefore needs to answer two research questions:

• How effective are companies’ voluntary assessment methods, i.e. code of conduct audits, in identifying violations of labor rights in the supply chain?

• To what extent, and under what conditions, are the identified violations remediated, i.e. in what contexts do these voluntary assessment methods have an impact on working conditions?

By addressing these questions, the aim is also to see how code of conduct audits could be improved or complemented, and to identify what further research is needed to find effective ways of implementing codes of conduct.

This can hopefully help companies develop and improve their methods for risk management in garment supply chains, provide authorities with knowledge to help them develop and improve legislation, and provide nongovernmental organizations (NGOs) campaigning on labor rights with better insight into the strengths and weaknesses of current CSR practices.

1.2 Definitions

In this thesis, the term “brand” refers to companies ordering the garment production, that is, “brand” is used synonymously with “buyer.” The terms “factory” and “supplier” are used interchangeably to refer to production locations where garments are sewn.

Corporate social responsibility (CSR) has been defined in different ways in the scientific literature, by public authorities, and by other stakeholders, but the core dimensions of these definitions remain similar (Dahlsrud, 2008). In this thesis, the
2001 definition by the Commission of the European Communities is used, which states that CSR is “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”

This thesis looks at how brands try to manage the risk of labor rights violations in the supply chain, which puts supply chain risk management at the core of the investigation. Supply chain risk management is here taken to mean measures implemented to identify, manage, and mitigate risk in the supply chain (Freise & Seuring, 2015). This comes close to how the ILO and OECD explained risk management in garment supply chains during their roundtable session Responsible Supply Chains in the Textile and Garment Sector: “Risk assessment and management includes the process of identifying and assessing risks in the supply chain in addition to designing and implementing a strategy to respond to identified risks and impacts” (ILO & OECD, 2014).

There is no universal definition of the term “risk” (Hansson, 2005). Among brands and CSR practitioners working on supply chain management, risk is usually taken to mean “an unwanted event which may or may not occur.” Using this definition, an unwanted event within the scope of this thesis is that workers in the supply chain are exposed to unsafe working conditions or that their rights as workers are violated in some other way. The more technical usage of the word risk, often defined as “the statistical expectation value of an unwanted event which may or may not occur,” is not commonly used in these discussions. This is likely because such expectation values (probabilities) are inherently difficult to calculate in this field and have not been the focus of the debate on CSR. Another and more important reason for the definition of risk chosen in this thesis is that, in this context, it involves the rights of individuals. Trying to calculate the probability that the rights of workers in the supply chain are being violated, and comparing this probability with the severity of the violations and the total benefits that the brand accrues, is neither ethical nor desirable, as the rights of the individual are considered absolute.
2. Background

2.1 The global production of garments: labor rights violations and complex supply chains

Since the mid 20th century, the production of consumer goods, such as garments and textiles, has gradually been outsourced to low- and middle-income countries. Manufacturing is now increasingly conducted in global supply chains. The companies marketing and selling products to consumers order the production of their goods from geographically dispersed suppliers through these networks. This has especially been the case within the garment and textile sector. Brand name companies such as Nike and Levi Strauss, as well as retailers such as H&M and GAP, do not own the production units where their goods are manufactured. Instead, they have taken the role of lead companies in the global supply chains manufacturing their products. In these supply chains, they exert control without retaining formal ownership. This development has led to the fragmentation and geographical dispersion of production, typically in low- or middle-income countries (Locke et al., 2013).

Working conditions in the manufacturing of consumer products, such as clothes, have received considerable attention from the media as well as from unions and nongovernmental organizations (NGOs) since the 1990s. The resulting reports and campaigns have highlighted issues ranging from child labor to starvation wages, union busting, and excessive overtime in factories producing garments for European and North American brands. Reoccurring tragedies, such as the Rana Plaza disaster of 2013 where more than 1100 workers were killed in a factory building collapse, keep these issues in the attention of both authorities and the public. At the same time, this trade has had positive effects in the production countries. The outsourcing of labor-intensive work has generated export incomes and work opportunities, often for marginalized groups in low- and middle-income countries (Barrientos et al., 2011). However, neither consumers, campaigners, the public, and international authorities nor indeed the brands themselves seem to think that such macroeconomic effects have lessened the responsibility of the brands to secure decent working conditions. Today, brands in the garment and toy sectors are the most likely to have adopted voluntary codes of conduct to secure labor rights in their supply chains (Keller, 2008).

To better understand the challenges of managing risks related to labor rights and environmental impacts in the global production of garments, it is worth looking closer at how production is organized in these supply chains. The production chain
of a cotton garment from cotton field to retail can schematically be summarized in eight steps: fiber production (the growing and harvesting of cotton), spinning (making the yarn), weaving/knitting (making the fabric), wet treatment (coloring and other treatments), sewing (the making of the garment, often referred to as the cut-make-trim stage), transport, distribution, and retail (Figure 1). Each of the eight steps can also represent a separate company, i.e. the chain can consist of eight separate legal entities in different geographical locations. In practice the chain often consists of more than eight companies as some production stages might be undertaken by several companies. Fiber production is one such stage, as cotton is likely to come from several farms as this farming is often small scale. The opposite can also be true as spinning, weaving, and wet treatments, for example, can be done in the same factory. This schematic of a supply chain excludes the production of trimmings, such as labels and buttons, and of other material used in the production of garments.

**Figure 1.** Example of production steps for a cotton garment from cotton field to retail (Allwood et al., 2006; Kogg, 2009).

The garment brands are the parties initiating production by placing orders at the factory making the garment, the cut-make-trim (CMT) unit. The production units upstream from the CMT unit in the supply chain are often unknown to the brand (NCP France, 2013). The only contractual obligation of the brand is with the CMT unit. If the order is placed at an agent or other intermediary between the CMT unit and the brand, this intermediary can then be responsible for the brand’s contact with the CMT unit, making the supply chain even longer.

Thus, for the lead company, the production is seldom as simple as outlined in the figure above, as each product might give rise to one or more of these supply chains. In Figure 2, the complexity of the fashion retailer H&M’s supply chain is visualized, illustrating a time when the company had 500 suppliers and an unknown number of units upstream in the supply chain (Kogg, 2009).
2.2 CSR: how companies manage the risk of labor rights violations

Since the beginning of the 1990s, codes of conduct have come to be the dominant means for companies to handle the risk of labor abuse in their supply chains (Mamic, 2005). These codes were adopted by brands as a response to activist anti-sweatshop campaigning (Bartley, 2007; Seuring & Müller, 2008) and stipulated the minimum requirements for working conditions in their supply chains. The brands’ tier-one suppliers were required to sign agreements that working conditions should, at a minimum, live up to the requirements in the brand’s code of conduct. Companies tried to verify compliance by auditing the factories. Brands and campaigners to a large extent agreed that a “cut-and-run” approach in which non-
compliant factories were abandoned would not benefit the workers that the codes were meant to protect. Instead, the idea was that suppliers would be given the opportunity to improve over time.

The codes of conduct adopted are usually based on internationally agreed conventions and contain a requirement that the local legislation in the country of production should be followed (Kaptein, 2004; World Bank, 2003). The international treaties most commonly referred to are the Universal Declaration of Human Rights, the Convention on the Rights of the Child, and relevant International Labour Organization (ILO) conventions. The issues range from health and safety, wages, and working hours, to those covered in the ILO core conventions regarding freedom of association, discrimination, child labor, and forced labor (Kaptein, 2004). As an example of a code of conduct, the Fair Wear Foundation (FWF) code of labor practices is presented below, as this thesis analyses audits that have used this code as a reference.

### The Fair Wear Foundation Code of Labour Practices

The Code of Labour Practices is based on the conventions of the International Labour Organisation (ILO) and the Universal Declaration on Human Rights. In the text below, references are made to specific conventions. Where clarifications of ILO Conventions are required, FWF follows ILO Recommendations and existing jurisprudence.

**Employment is freely chosen**

There shall be no use of forced, including bonded or prison, labour (ILO Conventions 29 and 105).

**There is no discrimination in employment**

Recruitment, wage policy, admittance to training programmes, employee promotion policy, policies of employment termination, retirement, and any other aspect of the employment relationship shall be based on the principle of equal opportunities, regardless of race, colour, sex, religion, political affiliation, union membership, nationality, social origin, deficiencies or handicaps (ILO Conventions 100 and 111).

**No exploitation of child labour**

There shall be no use of child labour. The age for admission to employment shall not be less than the age of completion of compulsory schooling and, in any case, not less than 15 years.” (ILO Convention 138) “There shall be no forms of slavery or practices similar to slavery, such as the sale and trafficking of children, debt bondage and serfdom and forced or compulsory labour. […]"
Children [in the age of 15-18] shall not perform work which, by its nature or the circumstances in which it is carried out, is likely to harm their health, safety or morals.” (ILO Convention 182).

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

The right of all workers to form and join trade unions and bargain collectively shall be recognised. (ILO Conventions 87 and 98) The company shall, in those situations in which the right to freedom of association and collective bargaining are restricted under law, facilitate parallel means of independent and free association and bargaining for all workers. Workers' representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to carry out their representation functions. (ILO Convention 135 and Recommendation 143).

**Payment of a living wage**

Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income. (ILO Conventions 26 and 131). Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted. Deductions shall never constitute an amount that will lead the employee to receive less than the minimum wage. Employees shall be adequately and clearly informed about the specifications of their wages including wage rates and pay period.

**No excessive working hours**

Hours of work shall comply with applicable laws and industry standards. In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every seven-day period. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate. (ILO Convention 1).

**Safe and healthy working conditions**

A safe and hygienic working environment shall be provided, and best occupational health and safety practice shall be promoted, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Appropriate attention shall be paid to occupational hazards specific to this branch of the industry and assure that a safe and hygienic work environment is provided for. Effective regulations shall be implemented to prevent accidents and minimise health risks as much as possible (following ILO Convention 155).
abuse, threats of physical abuse, unusual punishments or discipline, sexual and other harassment, and intimidation by the employer is strictly prohibited.

_Legally-binding employment relationship_
Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment. Younger workers shall be given the opportunity to participate in education and training programmes.

The main tool for verifying compliance as well as trying to achieve improvements in working conditions has so far been factory audits (Egels-Zandén, 2015). Although an audit can be arranged, executed, and followed up in different ways, the core of the audit methodology remains similar: auditors visit the factory to inspect the physical working environment, review documents, and interview management and workers. The inspection results in a report that includes a corrective action plan outlining what the factory needs to improve in order to be compliant with the code. There is great variety in the quality of both the inspections and how the corrective action plans are written and communicated. The audit itself can be anything from a “tick box” inspection lasting a few hours to a team effort by several local experts in which the factory audit is combined with stakeholder engagement and off-site worker interviews. The resulting corrective action plan can range from a simple prescriptive to-do list to a comprehensive explanation of what actions need to be taken, how this should be done in a way that ensures continued compliance over time, what managers could gain from doing so, and detailed references to the local legislation regulating this.

After the supplier has received the corrective action plan, the brand will check that improvements are being made as prescribed. This follow-up might not be conducted until the time of the next scheduled audit, which will usually occur within one to three years. But many companies also actively follow up progress in between audits by correspondence, visiting, or providing support to their suppliers so that they can realize the improvements. This management process of _audit–corrective action plan–follow-up audit_ is thought to create continuous improvements as long as there is a business relationship between the brand and supplier (Locke et al., 2009).

**2.3 Scientific evaluation of code of conduct work**
After more than three decades of companies working with codes of conduct, the jury is still out when it comes to evaluating their impact on the factory-floor level.
Within the business and NGO communities, there are numerous reports and case studies outlining both the shortcomings and success stories of private regulation in the supply chain. Turning to the scientific community for an answer confirms that the impact of codes of conduct is a highly disputed area.

In the infancy of codes, research focused on the contents of codes and how the contents of different codes differed from each other. The scholarly debate was more theoretical: Can codes ever deliver on labor rights? Some scholars had high hopes of this (Pearson & Seyfang, 2001; Ruggie, 2004; Zadek, 2004), while others argued that companies’ CSR work was fundamentally flawed and would not deliver on labor rights (Blowfield & Dolan, 2008; Frundt, 2004).

Over time, the interest has shifted to studying the impact of codes of conduct on working conditions. The first studies of the actual impacts of CSR at the factory level were mostly case studies (Barrientos & Smith, 2007; Chan & Siu, 2010; Egels-Zandén, 2007). In recent years, however, these have been complemented by quantitative studies on the impact of private regulation in the supply chain (Anner, 2012; Chikako, 2009; Distelhorst et al., 2015; Locke et al., 2007a, 2007b, 2013; Oka, 2010; Toffel et al., 2015). Both studies with a case study approach and quantitative studies have identified widespread violations of companies’ codes of conduct. Researchers as well as labor rights organizations have also pointed to many audits’ inability to detect labor violations when they do occur (Barrientos & Smith, 2007; Egels-Zandén, 2007; O’Rourke, 2002; Pruett, 2005). The highlighted weaknesses range from the inability of audits to detect violations of freedom of association (Anner, 2012) to weak audit methodology (Pruett, 2005) and the inability of audits to detect audit fraud (Egels-Zandén, 2007). This could mean that studies that largely rely on audit data actually underestimate the number of labor rights violations.

Given that widespread labor rights violations have been found, an important question is whether codes of conduct actually improve working conditions. One of the first studies on the impact of codes was an evaluation of the Ethical Trading Initiative, which looked at 11 member companies and 23 of their suppliers (Barrientos & Smith, 2007). The results showed that codes had an impact on outcome standards such as health and safety, whereas little change had been achieved regarding process rights, i.e. enabling rights such as freedom of association. Although based on observations of a limited number of suppliers, this study has been highly influential and later studies have lent support to the idea that the impacts of codes at the factory level vary between labor standards (Bartley & Egels-Zandén, 2015).
The first quantitative study of code impacts examined the results of Nike’s audits at 800 suppliers (Locke et al., 2007a, 2007b). This analysis showed that only 20% of audited suppliers improved while 36% actually decreased in performance when observed over multiple audits. A more positive picture emerges from a more recent study of 484 audit reports from Hewlett Packard, which showed that even though suppliers were not compliant with the code, 12 out of 20 audit items showed improvements over time (Distelhorst et al., 2015).

However, as most studies rely on data from suppliers subjected to codes of conduct, only a few studies have been able to compare factories subjected to codes and those that are not, i.e. most code of conduct studies lack a control group. A study on workshops in Nepal demonstrated that child labor is not as prevalent in workplaces that have undergone social labeling as in those that have not (Chakrabarty & Grote, 2009). Similarly, a study of unionized Indonesian factories showed that factories subjected to codes perform better in several areas including health and safety than do factories not exposed to codes (Bartley & Egels-Zandén, 2015).

ILO’s Better Work program in Vietnam and Better Factory program in Cambodia have also provided data for more quantitative studies of the conditions under which factory-level improvements can be achieved. Results indicate that both programs have generated factory-level improvements (Brown et al., 2013). Although not all experience of these ILO-initiated programs can be directly applied to conventional code compliance work, it can provide information about the circumstances that produce the largest improvements. For example, the projects have shown that close cooperation between brands and suppliers, reputation-sensitive brands, and long-term cooperation correlate with the most improvements (Oka, 2010). It was also shown that the threat of public exposure of factory non-compliance increased the rate of improvements at the factory level (Ang et al., 2012).

Several studies conclude that the effects of codes of conduct depend on the local context in which they are applied. For example, an examination of 44,383 audits conducted by a private auditing company in 47 countries showed that codes are most effective when the producing companies are located in countries with developed labor legislation and high press freedom and when the buying companies are based in countries with affluent and socially conscious consumers (Toffel et al., 2015). Research on Hewlett Packard’s suppliers similarly demonstrates that codes are most effective when they complement local regulation, i.e. the local context is instrumental for the outcome of code work (Distelhorst et al., 2015).
3. Research material and methodology

The research on the effects of code of conduct audits summarized above has had some methodological limitations. Most studies have been based on audits that have been shown to be unreliable for two reasons: first, the audits were not conducted independently from the factories or the brands and, second, the audits did not uncover all non-compliances (Anner, 2012; Egels-Zandén, 2007). To answer the outlined research questions and to tackle some of the methodological challenges in this field, quantitative analyses of factory audits obtained from Fair Wear Foundation (FWF) were conducted. The raw material consisted of 288 audits conducted by FWF’s local audit teams at 229 garment factories in 14 countries between 2004 and 2012.

FWF is a multi-stakeholder organization set up by trade unions, human rights NGOs, and business organizations to perform independent verifications of working conditions in the supply chains of European clothing brands. The brands affiliated to FWF during the period when the analyzed audits were conducted consisted of 80 small to medium-sized European companies within the fashion, work wear, and outdoor sectors. These member companies have agreed to implement the FWF code of conduct at their suppliers and to allow FWF access to their supply chains to conduct independent verification of working conditions. The approach of these members to implementing the code of conduct followed the general pattern described in previous sections.

The majority of the 229 factories in this study are situated in China (56%), with India (9%) and Turkey (8%) coming in second and third place. The rest of the factories are located in Vietnam, Macedonia, Bangladesh, Tunisia, Romania, Poland, Bulgaria, Ukraine, Thailand, Laos, and Moldavia. The size of the audited factories varied between small workshops of four workers to factories of five thousand workers, with the average factory having around 400 workers. Of the factories studied, 156 (68%) had been audited one or more times by other organizations or companies when FWF audited them the first time.

The previously mentioned methodological challenges have in this research been addressed though the nature of the research material used. Regarding the first challenge, the risk of undue corporate influence or bias, this was minimized as the audits were conducted by an independent non-profit multi-stakeholder organization over which individual brands have no influence (Anner, 2012). The governance of FWF is shared between trade unions, human rights NGOs, and business organizations, and no individual brand or company is allowed to sit on the board. This means that the audits studied have not been conducted or controlled by the brands or the factories, but instead by an independent organization.
The second challenge concerns audits’ alleged inability to identify all non-compliances during conventional factory audits. Stakeholders have ascribed this to faulty audit methodology, which includes using non-local or under-qualified auditors, spending too little time on site, not conducting on- and off-site interviews with workers, and not consulting local stakeholders (Pruett, 2005). The FWF audit methodology addresses the major shortcomings by using teams consisting of three local experts, spending on average 4.5 person-days at the factory for each audit, engaging stakeholders, and conducting off-site interviews with workers (Fair Wear Foundation, 2005). The stakeholder interviews included in each audit report also give an overview of what sort of non-compliances local authorities, trade unions, NGOs, and business organizations expect to be found in the industry.

Further aspects of this material made it suitable for studying audit influence on how code of conduct compliance changes over time. Most existing studies rely on audit outcomes collected at a single point in time, making it difficult to follow how working conditions develop at a specific factory. At 43 of the 229 factories analyzed in this thesis, FWF has conducted multiple audits, making it possible to follow development between audits. The previously mentioned studies of Nike’s suppliers did use more than one measuring point, but analyzed the performance of the suppliers only in the aggregate (Locke et al., 2007a, 2007b), making it impossible to see whether the low levels of improvement were because factories did not make the required improvements or because new non-compliances occurred. The FWF audit reports contain detailed information on non-compliances, the individual factories, and their relationships with the buyers, making more detailed analysis possible.

Taken together, the material permits one of the first quantitative analyses based on credible auditing data. However, as in most other studies based on audit data, one challenge is the lack of a control group, i.e. factories that have not been subjected to codes of conduct at all. In the available material, it is possible to compare factories that have never been audited before with factories that have been audited one or more times, but there is no comparison group of factories that have not signed a code of conduct. This means that comparison can only be made between the group of factories that have signed a code and been audited and the group that has signed a code and not been audited.

There is also a risk of a bias in the selection of brands and factories, as they are the ones covered by the FWF audits. The audits examined in this study are from a time when most FWF member companies were smaller brands based in the Netherlands, many of which did not then have a structured CSR program. Several of these brands have since terminated their FWF memberships. A consequence of this might be that
the studied factories and brands are not representative of the European clothing industry as a whole at the time. The data are now also more than four years old, making it difficult to generalize about the present CSR work of European brands and FWF. A further risk of bias is that the brands that joined FWF may have been those that were open to monitoring by an independent organization, which could mean that the brands covered are more ambitious, or at least more transparent, than the industry as a whole.

Although the 288 audits can be used to test several hypotheses pertaining to the supply chain field, there is a risk of type II errors when analyzing certain aspects of the material. This is particularly the case in the detailed analysis of improvements between the first and second audits in Paper I, as very few factories received any remarks at all in the areas of forced labor and freedom of association. In Paper II, some values of the independent variables thought to be associated with higher code of conduct compliance have a low distribution of outcomes (e.g. only a small number of factories were ISO certified). These methodological issues are taken into account in the discussion as well as in the formulation of conclusions and recommendations.
4. Preview of papers

4.1 Paper I
The first part of Paper I analyzed the overall results of the audits at the 229 factories. The results showed that non-compliance with the code of conduct was widespread. All factories received remarks on health and safety, 88% on working time, and 81% on wages. However, in three areas a low proportion of the audit reports listed non-compliances: only 4% had remarks on freedom of association, 2% on harassment of workers, and 12% on gender discrimination. This is in stark contrast to the expected findings from the stakeholder interviews included in the audit protocols. According to these interviews, the local stakeholders expected that infringements of union rights, harassment, and gender discrimination would be frequently found in factories. The low level of detection of violations of these rights indicates that even a thorough audit, such as that of FWF, might not identify violations of these rights.

In the second part of Paper I, a detailed analysis was made of the 43 garment factories where FWF conducted two or more audits. In this subset of the data, there were two measurement points when the same audit methodology was used. This allowed us to analyze how code of conduct compliance changed from the first to the second audit. Three different ways of scoring the audit outcomes were used: in the first scoring system, each non-compliance was counted; in the second system, grades were assigned depending on severity of the non-compliance; and in the third system, only severe violations were analyzed. This was done in order not to miss aspects of progress that could be overlooked when coding the descriptive audit reports. All three ways of grading audits showed that the factories had improved between audits one and two. These improvements ranged from 7% to 15% depending on the grading system used. The grading system that compared number of remarks at the first and the second audits showed the greatest improvements, with factories receiving on average 19 remarks at the second audit compared with 22 at the first. With an average of two years and four months between audits, between nine and 20 years would be needed to reach 50% improvement, assuming an equal rate of improvements over time.

In the analyzed audits, the greatest improvements could be seen in the health and safety area in two out of the three scoring systems, while in the third scoring system, the employment relationship showed the biggest improvements. The top three areas of improvement according to all scoring systems were health and safety, employment relationship, and discrimination and child labor. Working time was the area in which the lowest level of improvement could be seen.
Ten percent of the suppliers audited two or more times decreased their performance between the first and the second audits. This decrease was the highest within the areas of wages and of health and safety. These results show that even though an audit can make a factory improve in certain areas, there is no guarantee that these improvements will be sustained over time. This also helps explain how practitioners, such as auditors and CSR managers, could overestimate the improvements made by factories by focusing on ticking off items on a corrective action plan. For example, if a brand confirms that a factory has installed a fire extinguisher as prescribed in the corrective action plan, it has a clear indication that fire safety has improved and it can tick off that item on the corrective action plan. However, if the same factory at the second audit receives a new remark on fire safety, for example, for having a blocked fire exit, it is questionable whether fire safety has really improved: one problem has been fixed, but another has arisen.

4.2 Paper II
Paper II focuses on examining one specific aspect of the code of conduct: chemical risk management at sewing factories. Previous studies have identified health and safety as central to CSR as well as being easy to audit and an area where improvements are likely to be seen. By detailed examination of audit outcomes regarding chemical health and safety, the aim was to test assumptions about the conditions under which factories perform well. The following three research questions were addressed: i) How does supplier performance in terms of chemical risk management comply with buyers’ codes of conduct? ii) Can different levels of compliance be explained by supplier characteristics, buyer–supplier relationships, and the characteristics of countries where production is located? iii) Does code of conduct auditing improve chemical risk management at suppliers over time?

The results show that 43% of the supplier factories received remarks on chemical safety at the first audit. The three most common areas of non-compliance were: chemicals not being properly labeled or safety information missing, unsafe storage of chemicals, and missing or unsuitable personal protective equipment.

To test the second research question, seven factors commonly thought to be associated with code of conduct compliance were identified from the literature on code compliance. The identified variables included factory characteristics (i.e. size of the factory measured as number of employees, ISO certification, and years of operation at time of audit), characteristics of the supplier’s relationship with the brand (i.e. supplier tier and length of relationship with brand), characteristics of the production country (i.e. rule of law index and GDP), and number of previous audits.
(i.e. all code of conduct audits whether conducted by FWF audit teams or any other auditor).

When correlation was tested against compliance in a binary logistic model containing all seven independent variables, the only significant correlation found was between factories audited ten or more times and those that had no remarks on chemical risk management. The correlation between the number of times a factory had been audited and chemical risk management was not significant when factories had undergone fewer than ten audits. A closer look at the factories audited two times by FWF showed that 30% had improved at the time of the second audit, while 19% had actually received more remarks on chemical handling at the second audit and 5% showed no improvements. This meant that between the first and second audits, 24% had not improved or had actually deteriorated. Thus, even when looking at an issue considered relatively easy to comply with, we could only see clear improvements after several audits.

These findings led to the conclusion that compliance with chemical safety requirements in garment supply chains is low and suggest that auditing only has an impact after ten or more audits. Variables associated with higher levels of compliance in previous studies were not able to predict whether or not factories performed well in the audits analyzed in this study.
5. Discussion

The thesis set out to investigate whether code of conduct audits could effectively manage the risk of labor rights violations in the supply chain. The answer to this hinges on the empirical question of whether this CSR practice can identify, manage, and mitigate these violations. In the public and scholarly debate on this, the parties involved often refer to contradictory research results. The most cited quantitative study in the field, the investigation of Nike’s suppliers, showed that a larger share of the audited factories actually decreased, rather than improved, their code compliance (Locke et al., 2007a, 2007b). In contrast to this, both papers in this licentiate thesis found that audits do increase code compliance over time, but that the improvement rate is slow. Paper I showed overall improvements of suppliers’ code of conduct compliance between the first and the second audits ranging from 7% to 15% over a period averaging two years and four months. The results in Paper II suggest that chemical health and safety was better in factories audited more than ten times. In neither case were the improvements substantial, although they were statistically significant, and in the second case, improvements were evident only after the factories had undergone multiple audits. Within industry and among stakeholders, the fact that factories undergo multiple code of conduct audits from different buyers is often referred to as “excessive auditing” (BSR & FIAS, 2007) and viewed as a problem in the industry as it duplicates work (Ethical Trading Initiative, 2006) and drains resources from the suppliers leading to “audit fatigue” (Mckinnon, 2012).

Other research published in recent years on how factory compliance changes over time has also shown compliance improvements correlating with factories being audited. This includes the analysis of garment factories in the ILO program in Cambodia (Ang et al., 2012; Oka, 2009, 2010), as well as studies of Fair Labor Association audits of garment suppliers (Anner, 2012), a study of Indonesian clothing/textile, footwear, and electronics factories (Bartley & Egels-Zandén, 2015), and a study of Hewlett Packard suppliers (Distelhorst et al., 2015). The discrepancy between the early studies of code compliance and these later studies could be explained by the fact that code of conduct audits of working conditions are a relatively new phenomenon. The study of Nike audits used data from 1998 to 2005, while the two papers in this thesis were based on data from 2004 to 2012. Companies have had the opportunity to improve both their auditing and follow-up methodology continuously since the late 1990s when codes of conduct began to be used more widely. The growing number of brands requiring code of conduct compliance has also built a critical mass that might have increased suppliers’ willingness to follow corrective action plans. If we were to accept this line of
reasoning, could we conclude that code of conduct auditing is now sufficient to meet the challenges at hand?

Researchers and other stakeholders have questioned the relevance of the improvements found in recent research on two counts. First, the code of conduct approach fails to solve the most important issues regarding health and safety (Brown, 2011) and, second, the approach does not properly address issues regarding freedom of association (Anner, 2012). Both these critiques of code of conduct audits are consistent with the findings of this thesis, as they point to essential issues not being addressed or detected by these audits.

The first objection regarding health and safety has been highlighted by recent disasters such as the Rana Plaza collapse and the catastrophic factory fires in Bangladesh and Pakistan. Improvements in areas such as the use of personal protective equipment and workplace ergonomics are put in perspective when these CSR measures fail to protect workers from lethal accidents such as fires and the collapse of buildings. Critics claim that code implementation drives comparatively less costly improvements such as installing missing fire exit signs and needle guards on sewing machines, while more expensive changes are undermined by the buying companies’ own pressure on the suppliers to provide competitive prices (Brown, 2009). This line of argument is supported by research showing that audits lead to implementation of the least costly improvements required in the corrective action plans (Bartley & Egels-Zandén, 2015). Paper I also lends some support to this as two areas not considered costly, namely, health and safety and employment relationship, showed the biggest improvements, while working time, an area where corrective actions will lead to increased costs or loss of production, showed the least improvements according to two of the scoring systems used. That codes have a comparatively bigger impact on health and safety and employment relationship is also supported by a study of clothing/textile, footwear, and electronics factories in Indonesia (Bartley & Egels-Zandén, 2015).

The second argument made against the dominant CSR approach is the systematic failure to address freedom of association in the supply chain (Anner, 2012; Lund-Thomsen & Coe, 2015). The results in Paper I confirm this by showing that audits are unlikely to detect violations of freedom of association. This indicates that even with the stringent audits analyzed in this thesis, some parts of the code, and especially freedom of association, fall outside the scope of the conventional code of conduct methodology.

It seems that the conclusion from research is that code of conduct audits do not provide companies with an effective risk management tool. Auditing leads to moderate improvements in working conditions over time and fails to find or
remediate some important aspects of the codes of conduct. However, can research provide guidance regarding the practical implications from a risk-management perspective, i.e. how companies and stakeholders can deal with potential labor rights violations in existing supply chains? From the perspective of the brands, this is one of the most important questions, as auditing is often the tool they have at hand and, in many cases, the only tool immediately available (Egels-Zandén, 2015).

Many academic studies of code impact, including Paper II in this thesis, compare how the compliance of factories correlates with external factors. For example, the study of Cambodian garment factories in the ILO program shows that larger factories that have been in operation for a longer time perform better than do smaller and newly established factories (Oka, 2010). This finding could be translated into advice to look for bigger factories that have been in operation for a long time when sourcing from Cambodia. However, this is of little help when a brand is trying to improve its present Cambodian suppliers. This is not an insignificant point, as both organizations such as FWF and stakeholders require that brands not abandon problematic suppliers, but instead maintain cooperation in order to achieve improvements. Research would need to look further into these correlations to find out what factors make larger factories likely to perform better than smaller ones and whether this knowledge could be applied when trying to improve the latter.

Furthermore, it is questionable whether these differences in compliance between different types of suppliers are robust enough to aid sourcing decisions. None of the previously mentioned differences could be seen in Paper II and would hence have been of little, if any, use in practice for a company trying to find a compliant factory.

As little concrete guidance can be extrapolated from the present research, it is interesting to look at how CSR practices have evolved in recent years in response to the challenges outlined above. Several multi-stakeholder initiatives and brands have acknowledged these shortcomings and are moving outside the normal code of conduct approach. Looking at the two major shortcomings, the inability to resolve major health and safety as well as freedom of association issues, both FWF and the industry are trying to break new ground.

Regarding the first challenge, health and safety, we are now seeing initiatives such as the Accord on Fire and Building Safety in Bangladesh (The Bangladesh Accord) being developed by industry and stakeholders. The Bangladesh Accord was developed after the audits examined in this thesis and is now also supported by FWF. It is an agreement between brands, factory owners, trade unions, and NGOs trying to tackle the safety situation in garment factories in Bangladesh and it
includes fire, electrical, and structural safety audits (Brown, 2015). This means that the core of the code of conduct approach is being used, i.e. the factory audit, but complemented by a contractual multi-stakeholder structure in which brands have a responsibility to finance improvements and not abandon suppliers due to the changes required. Hence, both proponents of the prevailing code of conduct approach and its opponents can argue that this is in line with their position.

Regarding the second challenge, freedom of association, the way FWF and its member brands tried to meet this challenge during the studied period was mainly through having complaint systems in place that could be used by workers subjected to anti-union activities or other labor rights violations. However, as this was a reactive approach, unions and stakeholders have stressed the importance of trainings and of directly engaging with employers and unions in the production countries. Since then, FWF has initiated projects such as factory trainings through a social dialogue project at Turkish suppliers and through other programs directly targeting workers. The factories studied in this thesis, however, had not undergone such trainings or programs, so it is impossible within the scope of this thesis to examine the impact of such efforts. Other examples of more proactive approaches include H&M’s recent signing of a framework agreement with the international union federation IndustriALL Global Union.

It is interesting to note that both the Bangladesh Accord and the above framework agreement signed with IndustriALL Global Union are steps taken away from the voluntary approach, as both are supposed to be contractually binding. Although the core of the definition of CSR is that it is voluntary, companies that are trying to meet CSR challenges in these ways are in part doing this by limiting the voluntary aspect of their CSR work.

If the research done so far can provide little guidance on how to improve current CSR work, it is important to see how research could play a role in improving methods used by companies today. One such possibility would be to conduct more detailed analyses of the differences between auditing and follow-up methods, as well as to identify how to measure different levels of commitment to code of conduct implementation at both the brand and factory levels. This could entail comparing what audit methods give the most accurate picture of working conditions and lead to the most improvements. For example, are off-site interviews with workers essential, are unannounced audits more effective, and does involvement of staff from the brand during auditing increase improvement rates? The data investigated in this thesis do not provide answers to these important questions, as the studied audits were all conducted using the same methodology. Furthermore, from the data at hand, it was impossible to compare how the brands, i.e. the
individual FWF member companies, chose to follow up the audits. Previous research has indicated that the suppliers of reputation-conscious buyers, i.e. companies actively working on risk management in relation to their supply chains, perform better. This indicates that the qualities of the follow-ups conducted by the brands do influence compliance at the factory level, but without specifying what specific actions of the brands cause this difference (Oka, 2010). Such studies would need to be followed up by further research to enable a more precise picture of what these reputation-conscious buyers do.

A further aspect meriting investigation is whether the new best practices identified would be acceptable for companies to implement throughout their supply chains. Companies already consider auditing too costly to apply to their entire supply chains (Egels-Zandén, 2015), which raises the question of the feasibility of further and additional actions to complement or improve code of conduct audits. There are already examples of such additional programs, and case studies have shown that the introduction of new management techniques could be a successful way to create improvements (Locke & Romis, 2010). However, given the complexity of the garment supply chains discussed in the introduction (see figure 2), brands are unlikely to see the introduction of such measures throughout the supply chain as feasible in terms of the time and resources required. In addition, the studies discussed in this thesis almost exclusively focus on tier-one suppliers, as this is where brands focus their CSR efforts, making it even less likely that more comprehensive programs will be implemented in a more substantial share of the supply chain.

Returning to the original question, whether the CSR practice of auditing code of conduct compliance is an adequate tool for risk management in the supply chain, this thesis paints a negative picture. Although improvements have been realized, the rate is slow and the audits cannot reliably detect several aspects of codes of conduct compliance—that is, the method is not reliable when it comes to identifying the risks and is insufficiently effective in remediating them. The practice of code of conduct auditing can be complemented to meet this challenge, as is now happening in several areas, but given that companies find auditing alone too resource demanding, the question is whether this is a feasible solution within the voluntary CSR agenda.

Another issue that is beyond the scope of this thesis is whether the attention paid to auditing is distracting governments and legislators from taking legally binding action in this area (Lebaron & Lister, 2015). If indeed CSR is unable to achieve relevant improvements on a large scale, perhaps efforts should instead focus on
finding effective regulatory measures to secure decent working conditions in the supply chains.
6. Conclusions and recommendations

Based on the results of Papers I and II, the four main conclusions are as follows:

(1) Working conditions at the suppliers of European garment brands do not meet the standards set out in their codes of conduct.

(2) Code of conduct audits are unreliable when it comes to identifying, and hence properly addressing, violations concerning freedom of association, harassment, and discrimination, issues highlighted by stakeholders as highly relevant in the garment industry.

(3) Factories exposed to code of conduct audits show significant, but not substantial, improvements, and within the area of chemical health and safety, improvements are only clearly detectable after what is often considered excessive auditing.

(4) Codes are unable to ensure that compliant factories remain compliant over time, as ten percent of factories that had undergone more than one FWF audit actually decreased their performance.

The three main recommendations to companies are as follows:

(1) Companies should invest more effort in finding compliant factories when sourcing new suppliers, as this research shows that suppliers are not easily improved through the presently used audit methodology.

(2) Companies should focus efforts and resources on implementing corrective action plans at the supplier level, as leaving a supplier with a corrective action plan in the form of a to-do list apparently ensures neither substantial improvements nor that achieved improvements are sustained over time.

(3) As code of conduct audits are not a reliable tool for identifying all types of labor violations, companies need to seek and engage in new methods to achieve factory-level improvements to complement the conventional audit methodology. This should preferably be done through contact with and, where appropriate, in cooperation with concerned stakeholders.

The three areas for legislators and authorities to consider are as follows:
(1) Governments in low- and middle-income countries should not decrease their enforcement of labor rights legislation, for example, through labor inspections, in the hope that transnational private regulation in the form of codes of conduct and audits will secure decent working conditions.

(2) As this research points to the unreliability of code of conduct audits as a means to secure decent working conditions, governments in countries where the clothing brands are based should investigate the possibility of regulating compliance with international norms requiring that buyers exercise due diligence in securing human rights in their supply chains.

(3) Organizations and institutions obliged to follow EU laws on public procurement in buying goods while securing decent working conditions in the supply chain could require compliance with the ILO’s core conventions. As freedom of association is central to ILO’s core conventions, different or complementary methods other than conventional audits should be used to ensure that public procurement contracts are being followed.

Four areas for future research within the field of code of conduct audits have been identified as follows:

(1) Identify what audit practices are most likely to correctly detect code of conduct violations at the factory level.

(2) Evaluate to what extent new measures, such as global framework agreements with trade unions and multi-stakeholder agreements such as the Bangladesh Accord, manage to resolve the issues that conventional code of conduct follow-ups seem unable to address.

(3) Develop methods to quantify and compare different measures of brand commitment and different efforts to follow up corrective action plans in order to identify to what extent and how these affect improvement at the factory level.

(4) How feasible from a corporate perspective are the required measures to improve suppliers throughout a supply chain? How much time and resources would implementing a best practice program across all suppliers cost, and would companies (and consumers) be willing to pay this price?
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