

**Improving Workplace Conditions through the Supply
Chain**

*“Bridging the Gap between Public and Private
Initiatives”*

Samantha Swietlikowski

Geneva, Switzerland

May 2008

Introduction

Globalization has redefined what it means to manufacture products. The rigid boundaries that used to define local and national markets have been replaced with fluid movement between corporations, buyers and suppliers. Corporations are no longer forced to rely on domestic workers to ensure production. Instead, multinationals expand out of their home base and push work into less regulated countries. Once there, they are not required to improve working conditions to maintain acceptable production levels. This trend is pervasive in industries across the globe. Suppliers in these countries are commonly subjected to substandard working conditions that violate both national laws and international standards. Historically, government employed labour inspectors have been given the role of promoting compliance with national law and standards; however, recent trends are moving away from relying solely on public inspectors towards starting private initiatives.

Due mainly to a lack of resources, state labour inspectors are often seen as inefficient and unreliable. In many cases labour inspectors are understaffed, underpaid and under qualified. In effect corporations that operate on an international level cannot rely on labour inspectors. Pressure from consumers concerning labour conditions, along with hope of increasing productivity, has sparked an interest in improving conditions through the supply chain. These initiatives can be split into three main categories; employer lead implementation, framework agreements and multi-stakeholder initiatives. This paper aims to discuss the private initiatives currently being made to improve conditions in the supply chain and discuss how both private initiatives and public inspection could benefit from working cooperatively.

Employer Lead Implementation

Codes of Conduct

Codes of conduct are the most prevalent type of corporate initiative. They represent the first step most multinational enterprises take to improve working conditions. A "corporate code of conduct" is a companies' policy statement that defines ethical standards for their conduct.¹ Codes of conduct vary from company to company. They are completely voluntary and are usually drafted by management. Credibility, thus, depends on monitoring, implementation and transparency. The problems with codes of conduct come from their unilateral nature. Some of the issues with codes of conduct are exemplified by an ILO survey of 251 Canadian companies. Results showed that in 78% of the responding companies there was no formal policy to protect employees. Employees have no procedure to report non-compliance with the law or with company policies.²

Corporations using codes of conduct make no agreement with workers or the government; therefore, the implementation is solely up to management. Many small companies use a senior-level manager whose role specifically includes the implementation, monitoring, or assurance of the code. Workers in turn are unlikely to trust internal management with qualms or violations in fear of losing their jobs.³ Thus, instead of training an internal monitor, most large companies hire private external auditors to monitor their suppliers. Although also an extension of management, private auditors aim to act independently to ensure compliance with codes of conduct down the supply chain.

Private Auditors

These independent monitoring services, also known as social auditing services, have become an increasingly popular way to demonstrate compliance with internationally accepted labour standards. The top names in the industry are PriceWaterhouseCoopers (PwC) and Cal Safety Compliance Corporation (CSCC). PwC performs over 6,000 factory audits on an annual basis to corporations such as

¹ "Corporate Codes of Conduct" [International Labour Organization: Bureau for Employers Activities. http://www.ilo.org/actrav/actravenglish/telearn/global/ilo/code/main.htm#The%20Concept](http://www.ilo.org/actrav/actravenglish/telearn/global/ilo/code/main.htm#The%20Concept)

² "Corporate Codes of Conduct"

³ "Corporate Codes of Conduct"

Nike, Disney, Wal-Mart, the Gap, etc.⁴ CSCC monitors suppliers through various techniques. Interviews with employees, consultation with management, and document review (payroll, licensing, and employee birth certificates) are all used to compile an assessment.⁵ These organizations are private profit-based firms employed by managers and CEOs of the enterprises being audited.

Thus, private monitoring services tend to have a bias towards employers. Although they are an increasingly popular and important means of code implementation it is critical to examine their possible inefficiencies in order to understand how they can be improved. In report called “Monitoring the Monitors” PwC auditors were scrutinized to examine their effectiveness. The findings showed that PwC auditors gathered information primarily from managers rather than workers. When workers were interviewed managers knew who they were, for how long and on what issues.⁶ In general, the auditors were said to have disregarded the right of freedom of association. In two particular factories they overlooked the use of benzene (a carcinogenic chemical), disregarded misuse of protective equipment and failed to validate falsified time cards. In most cases the monitors were unfamiliar with the national laws.⁷ They primarily relied on general checklists that did not account for national guidelines. Moreover, in many cases multinational enterprises send in their own private auditor to monitor compliance with their respective code. This leads to a waste of resources spent on multiple audits in the same factory and a misuse of the supplier’s time.

Industry Partnerships

A better approach to improving working conditions is the utilization of industry-based initiatives. Instead of each multinational enterprise sending in their own auditor, groups form within various industries to work together at promoting a common code of conduct. Their common code of conduct is meant to streamline the auditing procedure. Only one auditor is sent into a factory on behalf of many corporations. Models of this are found in the wine industry (Wine and Agricultural

⁴ O'Rourke, Dara. "Monitoring The Monitors: A Critique of PriceWaterhouseCoopers Labour Monitoring." 28 09 2000 1-15. 01 04 2000 <http://www.cleanclothes.org/ftp/pwc.pdf>

⁵ Cal Safety Compliance Corporation. 14 Apr 2008 <http://www.cscconline.com/>

⁶ O'Rourke

⁷ O'Rourke

Ethical Trade Association), coffee industry (Common Code for the Coffee Community), tea industry (Ethical Tea Partnership), pharmaceutical industry (Pharmaceutical Supply Chain Initiative) and electronic industry (Electronic Industry Code of Conduct).⁸

The Pharmaceutical Supply Chain Initiative is comprised of different multinationals that agree to adhere to “The Principles.” These address standards for their suppliers on ethics, labour, health and safety, environment and related management systems. For example, Bristol-Myers Squibb sends out questionnaires to their suppliers and may send in private auditors to conduct on-site evaluations based on the responses.⁹ The electronic industry has started the Electronic Industry Citizenship Coalition (EEIC). The coalition now includes 31 companies, such as HP, Apple, Microsoft, Sony and Dell. The EEIC implements their code of conduct through three phases; a risk assessment tool, a self assessment questionnaire and third party private audits.¹⁰

Industry partnerships are an excellent initiative; however, their effectiveness could be amplified by increasing ties with their respective trade unions. WIETA (Wine and Agricultural Ethical Trade Association) for example works with three major trade unions in the wine industry: the FAWU, Independent Trade Union Federation, and NUFBWSAW to draft codes of conduct.¹¹ Yet partnerships like the EEIC are still lacking any association to trade unions. Working in conjunction with trade unions could help promote code implementation and make workers more open to sharing their problems with private monitors. Moreover, if an industry partnership signed an agreement with a global union their synergies could catalyze change through the supply chain where it is needed most.

⁸ Murray, Sarah. "Responsible Buisness." The Financial Times Limited Financial Times 28 11 2005

⁹ Pharmaceutical Suply Chain Initative. 14 Apr 2008 <http://www.pharmaceuticalsupplychain.org>

¹⁰ Electronic Industry Citizenship Coalition. <http://www.eicc.info/>

¹¹ Wine and Agricultural Ethical Trade Association. <http://www.wieta.org.za/>

International Framework Agreements

Since the 1970s there has been a rapid decline of unionization. As multinationals overwhelm the economy the tightly-knit bands of brotherhood have begun to unravel. Workers that once pushed management towards improved workplace rights are losing their leverage. National unions are now competing with non-unionized foreign workers. In spite of the perceived suffocation of collective bargaining agreements a refreshing strategy has emerged. This strategy aims to negotiate collective agreements on the international level. It essentially targets improved working conditions throughout the supply chain, thus revamping unionization. Global agreements or international framework agreements (IFA) offer an alternative perspective on supply chain management. Instead of enforcing codes through auditing and reporting, IFAs use trade union grievance machinery.¹² Therefore, in order for IFAs to work effectively local unions must be established that workers can rely on. Complaints must be filed through union representatives and then brought to arbitration. It is important to note that IFAs are meant to complement national bargaining agreements, not act as a substitute. IFAs aim to fill in the communication gaps between local unions that are employed within the same industry.¹³

The main function of an IFA is to establish a basis for a formal relationship between the multinational and the global union. IFAs differ from codes of conduct because they are negotiated by two parties and are not unilateral. These agreements are distinctive from other initiatives because they currently do not rely on auditors or monitors. They are based on standards that have been agreed upon by both trade unions and employers hence; implementation becomes less important than in a unilaterally adopted code. They typically include the core ILO conventions; freedom of association, prohibition of forced labour, anti-discrimination and putting an end to child labour.¹⁴

¹² Industrial Social Dialogue and Industrial Relations. International Confederation of Free Trade Unions. 14 Apr 2008 <http://www.icftu.org/pubs/globalisation/EN/9.pdf>

¹³ Rudikoff, Lisa P. International Framework Agreements: A Collaborative Paradigm for Labour Relations http://www.nyulawglobal.org/workingpapers/GLWP0105Rudikoff_000.rtf

¹⁴ Rudikoff

Although not completely comprehensive, IFAs hold a great deal of possibilities for improving conditions within the supply chain. Arguably, their best asset is the social networking possibilities they hold. The ties made with NGOs and the boundary transcending connections with local unions is invaluable. Furthering the social ties to include Ministries of Labour, and in particular, the labour inspectorate could have beneficial results for both parties. Where unions face difficulties with private auditors due to their allegiance to management public inspectors could offer a more neutral ground. If unions used their power to lobby governments to increase funding for Ministries of Labour there would be means to enforce national laws and penalize noncompliant employers. Although labour inspectors would not be enforcing specific IFAs they would be targeting worker's basic rights that are outlined in national labour laws.

International Metalworkers Federation

The International Metalworkers Federation (IMF) produced a report delineating the major problems with global agreements. The IMF is a global union that has signed 15 IFAs with corporations like DaimlerChrysler, Volkswagen, LEONI, BMW and Arcelor.¹⁵ Their experience with IFAs proves that implementation of these agreements is the biggest hurdle to overcome. It is essential to make not only immediate employees aware of the agreement but subcontractors and suppliers as well.

Even where companies are willing to sign agreements there are rarely means to implement them. Resources are often not available through the global union funds to reach the suppliers. IFAs must be looked at on an individual basis in order to judge their effectiveness. Agreements are negotiated on such a broad level therefore, it is crucial to examine the situation of the specific suppliers. The ILO core conventions provide a strong basis; however, there needs to be a more direct link between those and the agreements of local unions.

¹⁵ Holdcroft, Jenny. "International Framework Agreements: A Progress Report." *IMF Special Report* 11 03 2006. http://www.imfmetal.org/main/files/06091210511779/WEB_sp_report_3-06.pdf

Some global unions have taken steps to build international networks and to develop action plans in order to ensure compliance.¹⁶ A critical step towards communication is ensuring that the worker representatives have a full list of supplier companies. A network can then begin forming to funnel information through. Union representatives can contact workers in other countries and aid them in unionization as well as code implementation. For example, the IMF holds workshops that bring together representatives from IFA, companies and their suppliers. After meeting together they come up with plans to help suppliers organize. This exemplifies how IFAs can stimulate unionization at the local level and ensure formal rights against reprisal or obstacles.

Chiquita Agreement

Global agreements can serve as a platform for unions and NGOs to work together for labour equality. In 1993 an IFA was negotiated as a result of a public awareness campaign waged by several NGOs and the Union COLISBA against Chiquita during the banana industry crisis in Latin America. The EU made a decision to favour bananas produced in Africa, the Pacific and the Caribbean rather than in Latin America. In turn, creating an over supply of bananas and a lowered bargaining position for producers. The Chiquita situation exemplifies how media and consumer pressure can aid in rectifying problems. With the help of NGOs, COLISBA held press conferences, launched website campaigns, and demonstrated in front of super markets. In 2001 Chiquita and COLISBA signed an IFA agreeing to improve workplace standards for suppliers that was based on the ILO core conventions.¹⁷ IFAs demonstrate the importance of social dialogue between multiple stakeholders. Recognizing this, the ILO has taken steps to create tripartite programs that bring governments, employers and unions together.

¹⁶ Holdcroft 3.

¹⁷ Rudikoff

Multi-Stakeholder Initiatives

Better Work

The Better Work Project¹⁸ is a multi-stakeholder initiative based on tripartite agreements and sponsored by the International Finance Corporation (IFC) and the ILO. The project is now operating in the supply chains of the garment, plantation, electronic, and light manufacturing industries in three pilot countries; Jordan, Vietnam and Lesotho.¹⁹ The project's two main goals are to improve labour standards and to improve competitiveness in the countries.

Better Work project coordinator, Ros Harvey, points to two main pillars to guarantee better working conditions; labour inspection/administration and collective bargaining power/freedom of association. However, in most developing countries these pillars are weak and thus need support. Labour inspectors are so poorly resourced companies cannot count on them to enforce laws or labour standards. Better Work aims to reach the ideal of better work through enterprise assessments, training, capacity building and sustainability.²⁰

To do this there are various steps involved. The ILO and the IFC work to develop tools such as training kits and electronic devices to prepare monitors. Monitors that are employed by the Better Work program are trained in both national labour laws and ILO core conventions. Although, when they are assessing a factory they do not play the same role as a labour inspector. They are assessing the overall compliance with these standards as well as the general effectiveness of the program. Monitors then go into factories and give an initial assessment of the problems in each workplace. The monitors create an action plan to implement recommendations. Factories are then given time to make the necessary changes and are re-evaluated.²¹

¹⁸ <http://www.betterwork.org/public/global>

¹⁹ Harvey, Ros. "Better Work: A fair globalization that works for all." International Labour Organization. Lecture hall, Geneva, Switzerland. 10 04 2008.

²⁰ See attached diagram

²¹ Galligan, Mary. Personal interview. 10 04 2008.

Similar to private monitors, Better Work monitors also make the reports available to buyers. However, unlike the private monitoring system where buyers pull out when they are given negative reports, factories are given a three year “grace period” where they can rectify their problems. Better Work has negotiated contracts with buyers that guarantee they will not pull out of factories automatically (unless there is a violation of the core conventions). This allows factories to open up to monitors, discuss their problems, and ask for advice rather than hiding them in fear of losing business.²²

The project requires the cooperation of three main participants, the government, the workers association and the employers. In the past private auditors were being sent in by each multinational which was not welcomed by any of the suppliers. In the Better Work system multinationals are linked together and send in only one monitor to each factory, this alleviates the burden of multiple audits. Governments appreciate that monitors are trained in national laws instead of various codes of conduct, thus public policy is not being misconstrued by private monitors. Unions are also more inclined to have a positive relationship with a third party auditor than a monitor working for the employers.

Better Work is a unique project that not only focuses on labour standards but also on improving competitiveness for firms. Giving the suppliers a three year “grace period” is an excellent incentive for factories to ask for monitors for advice rather than to hide faults. However, the project outlines the importance of the labour inspectorate and then fails to include them in the execution. Monitors should have a clear protocol that directs them to inform labour inspectors of any severe violations. Moreover, as the project expands into more countries it should include Ministries of Labour from the outset to create a sustainable structure. Aiding governments to train labour inspectors in effective enforcement of national and international standards is a key step to sustainability. As Better Work monitors pull out there needs to be strong national regulation to proliferate the project’s goals.

²² Galligan

***Improving safety and health in the supply chain –
VW/GTZ/ILO Private Public Partnership***

In 2004, a public-private partnership (PPP) was set up between the German donor GTZ, the ILO and Volkswagen (VW) Germany. The project has made use of the VW supply chain to improve occupational safety and health (OSH) amongst selected enterprises in Brazil, South Africa and Mexico. However, its overall goal is to establish and implement national safety and health action programmes as well as creating more of a prevention culture at enterprise levels.²³ Importantly, the project has pioneered a PPP between Ministries of Labour and labour inspectors and the private sector. The project is due to end in November 2008.

Once the partnership was set up, initial audits known as a Process Optimizing Consultations (POC) were undertaken to assess OSH in workplaces of participating suppliers. The POCs were conducted by a Process Optimizing Team (POT) in each country. These teams each comprised a national project coordinator, a representative from VW Germany, a national VW representative, a labour inspector and an ILO representative. The consultation consisted of two main factors; the inspection of the premises and the interview of suppliers, both representatives of management as well as unions and employees. The POTs then gave the suppliers their recommendations for action to improve OSH.²⁴ Four to six months after the initial consultation the POT re-evaluated the workplace based on their prior recommendations.

Unlike Better Work, the ILO/GTZ/VW project focuses on improving labour standards, specifically OSH, through strengthening labour inspection – hence ensuring greater sustainability of project results in the longer term. The project has so far been largely successful, bringing better working conditions for suppliers and enhancing capacity building for inspectors, and at the same time hopefully raising levels of productivity. However, the overall aim of establishing national programmes has not so far been achieved, probably because the project has been overly ambitious;

²³ Kristjansdottir, Maria. "Better Health and Safety for Suppliers." [A partnership between Volkswagen, ILO and GTZ](#) (2007) 6.

²⁴ Kristjansdottir 7

it takes much more time and effort to develop national programmes than the project resources allow. There were also some issues over the role of labour inspectors in such a PPP and the extent to which they could continue to use their enforcement powers. Such issues were resolved in South Africa and Mexico but were not so in Brazil, where the project ceased because labour inspectors withdrew from the PPP.

Marrying the Better Work goal of increased competitiveness for multinationals with the basic ideas of the GTZ-ILO-Volkswagen project could result in a manageable and more sustainable project. Multinationals could offer more funding to hire and train the necessary ILO personnel if they had the incentive of increasing competitiveness. Using the structure of the ILO/GTZ/VW project would help to ensure greater sustainability, so long as some way of including labour inspectors in such a PPP can be successfully negotiated.

Labour Inspection

Government labour inspection has traditionally been used to monitor compliance with occupational health and safety in the workplace. To date, 135 countries have ratified the Labour Inspection Convention 1947 (No. 81) which empowers labour inspectors to “secure the enforcement of the legal provisions relating to the conditions of work and the protection of workers while engaged in their work.”²⁵ However, labour inspectors are currently facing many resource constraints that impair their ability to meet these objectives. In developing countries in particular, they and their organisations are often under staffed, under equipped, under trained and generally under resourced.

For example, in most English speaking African countries Ministries of Labour receive no more than 1 percent of the annual budget. In Cambodia there is approximately only 1 inspector for every 400 000 workers or in Bangladesh 1 in 300 000.²⁶ This lack of resources may also enhance corruption within the system which affects inspection impartiality. Labour inspectors have a vital role to play in labour market governance around the world. They are the only official body that has the

²⁵ "Strategies and Practices for Labour Inspection." ILO Governing Body-November 2006 2.

²⁶ "Strategies and Practices for Labour Inspection." ILO Governing Body-November 2006 15.

authority to enforce sanctions on corrupt or substandard workplaces. Research indicates that there is a direct relationship between the likelihood of penalties and the likelihood of an employer to adhere to the law.²⁷ Therefore the role of labour inspectors should not be dismissed in the wake of private monitoring. Both have a valid role to play that should be reaffirmed to improve conditions in the workplace.

Recommendations and Conclusions

In 2006 the ILO Governing Body recommended that the ILO should “develop, evaluate and implement a strategy for the support of the modernization and reinvigoration of labour inspection” (Papers GB.297/ESP/3 and GB.297/14, November 2006). In order to reinvigorate the system it is crucial to look at the global trends in the private sector and work to bridge the gap between private and public monitoring. Although private monitoring systems cannot be a substitute for Government-led labour inspection systems, they can work together in partnership. The systems have the potential to expand the possibilities for promoting compliance and engage multiple actors through out the supply chain.

The main problem labour inspectors face is a lack of resources. If properly managed, funding can increase the number of inspectors, levels of training, and retention of quality inspectors. Corporations have the necessary resources and interests but currently keep it enclosed in the private sector by hiring social auditors. Private auditors help up to a point, but they are limited in scope as they have no enforcement mechanism and do not have links to the government or workers organizations.

A possible solution to this may lie in IFAs. When IFAs are signed unions should propose that if any serious violations are found such as forced labour, child labour, hazardous conditions, discrimination, or the right to freedom of association private auditors are obligated to inform the labour inspectorate. This would keep both parties in their respective roles and more importantly it would bring attention to

²⁷ Beate Andrees, Handbook on Forced Labour and Human Trafficking for Labour Inspectors (Geneva 2008).

critical areas. Labour inspectors could then use a more targeted approach to enforce sanctions in serious cases. Auditors would be helping to draw attention to severe violations and improve compliance. This would utilize auditor's resources and labour inspections enforcement mechanisms. Moreover, if a global union signed an IFA including this stipulation with an industry partnership it would expand the possibilities to a global level. As discussed, the Better Work project also holds the possibility to include labour inspectors in the same regard.

Another avenue may be for corporations interested in corporate social responsibility to give money to governments with the guidance of an organization such as the ILO to improve their labour inspection department. This could directly target the area that needs development in terms of staff numbers and training. Funding could also come from sources like the World Bank, the European Union or the United States. Funds could also be gathered through media campaigns that tie labour inspection closely with issues high on consumer's radar such as child labour or environmental issues. On the opposite side, media can also be used to give information to the public on health and safety prevention or informing workers of their labour rights. In less developed countries global unions could start programs to disseminate information on labour rights and networking procedures via radio or at community events.

The private sector is an increasingly present force in international labour markets. In many countries government enforcement structures are weak and cannot uphold labour standards alone. Therefore, the efforts being made by multinational enterprises to improve working conditions should be integrated with national labour administrations. Employer-lead implementation, framework agreements and multi-stakeholder initiatives are all significant steps towards eradicating substandard working conditions. Private initiatives should not be seen as a substitute for labour administration but rather as a complement. Although none are a panacea, incorporating the unique strengths of private initiatives with the knowledge and enforcement power of the public sector could catalyze improvements throughout supply chains. If left unregulated globalization will exploit deregulated markets and lead to substandard working conditions; however, if properly monitored it can also be a step closer to ensuring decent work for all.

References

Beate Andrees, Handbook on Forced Labour and Human Trafficking for Labour Inspectors (Geneva 2008).

Better Factories Cambodia. International Labour Organization.
<http://www.betterfactories.org/ILO/aboutBFC.aspx?z=2&c=1>

Cal Safety Compliance Corporation. <http://www.csc-online.com/>

“Corporate Codes of Conduct” International Labour Organization: Bureau for Employers Activities.
<http://wwwold.ilo.org/actrav/actravenglish/telearn/global/ilo/code/main.htm#The%20Concept>

Electronic Industry Citizenship Coalition. <http://www.eicc.info/>

Fair Labour Association. <http://www.fairlabor.org/participants/companies#A>

Galligan, Mary. Personal interview. 10 04 2008.

Gifford, Malcolm. Personal interview 15.04. 2008.

Harvey, Ros. "Better Work: A fair globalization that works for all." International Labour Organization. Lecture hall, Geneva, Switzerland. 10 04 2008.

Holdcroft, Jenny. "International Framework Agreements: A Progress Report." IMF Special Report 11 03 2006.
http://www.imfmetal.org/main/files/06091210511779/WEB_sp_report_3-06.pdf

ILO Governing Body. International Labour Organization. Employment and Social Policy. Geneva: 2007.

Industrial Social Dialogue and Industrial Relations. International Confederation of Free Trade Unions. 14 Apr 2008 <http://www.icftu.org/pubs/globalisation/EN/9.pdf>

Kristjansdottir, Maria. "Better Health and Safety for Suppliers." A partnership between Volkswagen, ILO and GTZ (2007)

Murray , Sarah. "Responsible Business." The Financial Times Limited Financial Times 28 11 2005

Organizing for Social Justice: Global Report on the Follow-Up to the ILO declaration on Fundamental Principles and rights at work.

O'Rourke, Dara. "Monitoring The Monitors: A Critique of PriceWaterhouseCoopers Labour Monitoring." 28 09 2000 1-15. 01 04 2000

<http://www.cleanclothes.org/ftp/pwc.pdf>

Pharmaceutical Supply Chain Initiative. <http://www.pharmaceuticalsupplychain.org>

Rudikoff, Lisa P.. International Framework Agreements: A Collaborative Paradigm for Labour Relations

http://www.nyulawglobal.org/workingpapers/GLWP0105Rudikoff_000.rtf

"Strategies and Practices for Labour Inspection ." ILO Governing Body-November 2006 1-15.

Wine and Agricultural Ethical Trade Association. <http://www.wieta.org.za/>

Worldwide Responsible Accredited Production.

<http://www.wrapapparel.org/modules.php?name=Content&pa=showpage&pid=25>

