Social Auditing in Bulgaria, Romania and Turkey

Results from survey and case study research

Sebastian van der Vegt
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Results from survey and case study research

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1. Introduction and context

Introduction

Over the last decade, auditing and certification systems for labour standards have developed alongside existing national inspection programmes. These audit and certification initiatives come under a range of names; including social auditing, external verification and independent monitoring. However, at their core is the issue of inspection of social standards in enterprises carried out by multinational enterprises (MNEs), Non-Governmental Organizations (NGOs), commercial auditing firms, academia and trade unions.

Companies, industry associations, NGOs and multi-stakeholder initiatives have developed these ‘social auditing and certification systems’ for a variety of reasons, including:
- Pressure by activist and consumers demanding so called ‘fair trade’ products made under the right conditions;
- Weakness in existing governmental inspection systems ensuring adequate conditions for workers;
- Reduction of brand liability, as part of corporate risk management strategies;
- Demand by supplier factories wishing to gain a competitive advantage over their peers.

These audit systems include company-based monitoring programmes, global corporate auditing services, industry-based initiatives, NGO programmes, and accreditation and certification systems. They are mainly active in industries such as garments and footwear, textiles, and agriculture, but similar initiatives also exist in forestry and are developing in the tourism and fishery industries. The most well known of these initiatives include Social Accountability International, AVE, the Fair Labour Association and the Worldwide Responsible Apparel Production Programme, but these organisations are only the tip of the iceberg. Companies like C&A, Reebok, Timberland, Nike, H&M and Adidas-Solomon have actively developed social compliance programmes in recent years, while NGOs like the Clean Clothes Campaign have engaged in workplace monitoring around the world.

Auditing and certification systems have been growing rapidly in developing countries, sometimes at their own initiative and sometimes at the behest of a ‘western’ multinational companies or NGOs. South Africa’s wine industry, for example, has established the Wine Industry Ethical Trade Association in cooperation with trade unions, employers, NGOs and the government. It carries out audits of local producers and certifies compliance with the Labour Code and international standards. In Kenya, the horticulture sector established the Kenya Flower Council, which provides certification and consulting services to member companies so they can meet the international standards demanded by their buyers. Thus, a rapid proliferation in private inspection is occurring and increasingly Ministries of Labour will need to examine and consider the implications of private inspection initiatives for their own activities.

As mentioned, auditing and certification systems have developed in part as a response to weaknesses in national regulation. At the same time, these systems have also developed within the larger framework of Corporate Social Responsibility (CSR), in this case responding to increasingly vocal demands for accountability on the part of large corporations. Companies such as those mentioned above have come under increasing pressure to improve labour standards in their respective global supply chains. One of the ways they have sought to do this is through the monitoring of code of conduct implementation. Yet the development of these monitoring programmes raises a number of important questions with regard to how workplaces are monitored and who is responsible for monitoring them. These questions naturally address governments, employers’ and workers’ organisations, as all three are involved in labour inspection initiatives to varying degrees.

Project objectives

From a developmental perspective, this project is intended to contribute to the debate about the roles and responsibilities of governments, businesses and their organizations and worker organizations vis-à-vis the implementation of international labour standards. The immediate objective of the project is to increase knowledge of social auditing and certification systems, in order to identify possible areas of involvement and aid the policy debate of both the ILO/EU and their constituents. More specifically, the immediate objectives are:
• To produce a body of high-quality research and analysis on auditing and certification initiatives across different industries in three different EU candidate countries. The precise coverage and extent of social auditing that is occurring is unknown, although there is much anecdotal evidence that it is becoming an important area of activity. For example, one initiative involving many retail companies in the United Kingdom conducted over 10,000 audits in 2001/2002 in their supplier companies all over the world. Other initiatives, on the other hand, have more limited coverage. An example is SA8000, which has certified 655 facilities to their standard as of March 31, 2005. The extent and coverage of these different initiatives is important to determine since a number of them are having a significant impact on particular regions and industries. The close proximity of Bulgaria, Romania and Turkey to each other and the large amount of outsourcing from western European firms -- particularly in the garment and textile industries where auditing is probably the most prevalent -- to these countries make them ideal locations to investigate auditing and certification initiatives.

• To better understand the costs and benefits associated with social auditing for the employers. Although there is much anecdotal evidence associated with the costs and benefits of certification and various auditing and certification systems, there is little hard data available.

In order to reach these objectives, it was envisioned to send 400 questionnaires to companies in different industries in Romania, Bulgaria, Hungary and Turkey, and to conduct at least five in-depth case studies of companies on the costs and benefits of social auditing. However, after initial consultations with national stakeholders in Hungary, it was made clear that social auditing is not prevalent there and that it would not be conducive to carry out this research. According to the stakeholders interviewed¹, there are three main reasons for this:

1. Relatively strict government legislation and inspection;
2. A declining textile and garment industry that has roughly halved in size since the mid-1990s. In the textile industry for example, more than half of the existing businesses in Hungary now have less than five employees;
3. The words ‘code of conduct’ and ‘social audits’ are vague concepts and do not have an exact equivalent in the Hungarian language. They are therefore likely to be misinterpreted by managers asked to fill out the questionnaire.

Given these facts, the ILO was advised that the questionnaire to companies would likely get a response rate lower than 20%, no matter the effort. Therefore, instead of surveying companies in Hungary, it was agreed with the European Union to hold a technical workshop for social auditors operating in Turkey, the country in which social auditing is most prevalent. Also, an in-depth survey of 20 companies in Bulgaria and Turkey was conducted to find out more detailed information from companies with regards to the methodologies and impact of the social audits.

The objective of the in-depth questionnaire was to gain a greater understanding on the length, methodology, impact and costs of social auditing to companies that had been audited at least once over the last two years. The objective of the seminar was to:

• Highlight the main issues, challenges and opportunities facing social auditors;
• Develop a better understanding of the methodologies employed in social auditing and monitoring.

A full report of both the workshop for social auditors and the in-depth questionnaire results follow later in this report.

Project link to EU Priorities

The European Union ‘Green Paper’² on CSR has recognized the complimentary relationship between legislation and ‘soft law’ measures such as codes of conduct and internal monitoring. From a policy perspective, it is important to understand the extent to which internal monitoring and codes of conduct are having an impact on the social situation in companies and EU candidate countries, particularly with regard to such issues as safety and health at work, social dialogue and adherence to local law. As is reported in the latest EU candidate country progress reports, all three countries face significant challenges in the area of social policy and employment:

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¹ The National Confederation of Hungarian Trade Unions, the Confederation of Hungarian Employers, the Association of Hungarian Light Industries and the Hungarian Foundation for a Market Economy were all consulted.

Turkey: “On social policy and employment, progress has been made since the last report, in particular as concerns health and safety at work. However, the main problematic areas remain gender equality, labour law, anti-discrimination, and social dialogue. Enforcement and full implementation of the legislation also appear as major challenges.”

Bulgaria: “On social policy and employment, progress has continued in alignment with the acquis. Further efforts for the effective implementation of the transposed legislation need to be undertaken in particular in the areas of labour law, occupational safety and health, public health, anti-discrimination as well as equal opportunities for women and men. Administrative capacity needs to be strengthened, inter alia with regard to ESF management and implementation.”

Romania: Transposition of the acquis on social policy and employment has continued. Future efforts should focus on completing legislative alignment in the area of labour law and on strengthening the Labour Inspectorate to ensure proper implementation in the area of health and safety at work. Due attention should be paid to the promotion of social dialogue and to the improvement of the health status of the population, which is well below the EU average. Administrative capacity with regards to ESF management should be strengthened as a matter of priority.

It is hoped that the results of this project will lead to a better understanding of the extent to which these ‘soft law’ measures are having an impact on companies by investigating the number of companies affected by industry and size. Also, through interviews with auditors and individual companies, this project is intended to facilitate an increase in the transparency of voluntary initiatives on labour practices, as well as aid the convergence of voluntary initiatives.

Project link to ILO priorities

The development of social auditing and monitoring programmes raises a number of important questions for the tripartite constituents of the ILO with regard to how workplaces are monitored and who is responsible for monitoring them. In 2002, a high-level commission was established by the ILO to study the social dimensions of globalisation. After two years, the commission proposed a series of coordinated measures to improve governance and accountability at both national and international levels. More specifically, the commission calls on the governance of globalisation to be based on universally shared values and respect for human rights. This, in turn, requires all the actors — including governments, business, trade unions and civil society — to assume their individual responsibilities.

The report notes that companies make an important contribution to the social dimension of globalisation. They shape the world of work and influence the social and economic environment in which people live. Enterprises are the primary source of employment and income creation and their values, practices and behaviour have a major impact on the attainment of social goals. The commission recommended a number of ways to strengthen companies’ voluntary initiatives in the world of work:

- Support for companies’ efforts to develop credible reporting mechanisms and performance measures both for global business and domestic suppliers, in line with internationally-accepted principles and standards;
- Improved methods of monitoring and verification, taking into account diverse situations and needs;
- More broad-based industry level partnerships;
- More research into the application and impact of codes of conduct to be undertaken and guides to good practice development.

This research is intended to specifically address the last point mentioned in the above paragraph; to understand better what the situation vis-à-vis social auditing is in countries, what actions and investments are being taken by companies and what impact it is having.

This project is also part of the broader efforts of the ILO to contribute to the knowledge and understanding of codes of conduct, social auditing and certification. In the fall of 2004, a book was published by the ILO on the implementation of codes of conduct. In many ways, the research presented here compliments this earlier effort as it examines the

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5- ILO
6- www.ilo.org
7- Mamic, I “Implementing Codes of Conduct” Greenleaf Publishing, 2004
number of companies affected across different industries. Specific lessons from this earlier publication, for example, how multinational enterprises often base their CSR or compliance department under the legal department, have been taken into account and addressed where appropriate. Also, while the earlier work is the result of an extensive four-year research project examining the management system applied in code of conduct implementation across different countries and industries, this research focuses more on the impact, costs and benefits to the suppliers across a limited region. The two works should therefore be seen as complimentary in nature.

The ILO is also currently conducting additional research into codes of conduct, and social auditing and certification.\(^8\) These areas of activity include:

- A conceptual paper outlining the development and nature of auditing and certification;
- Research papers on the inspection techniques of auditing and certification systems and their coverage of international labour standards. This will include freedom of association, collective bargaining, non-discrimination, child labour, forced labour, health and safety, wages and hours of work.
- Research on the governance and operation of auditing and certification systems including their criteria and methodologies for auditor certification, their procedures for accreditation and their involvement of ILO Social Partners.
- Survey research of enterprises to determine the extent of this phenomenon in terms of the number of workers affected, and the sectors and countries covered. Governments in relevant countries will also be surveyed on their experiences with auditing and certification systems.
- Cost/benefit analysis of certification programmes and auditing activities. Studies will be conducted in several countries to determine employers’ opinions and experiences vis-à-vis these initiatives.

While the aim of this research is to build a base of knowledge that will allow the ILO to monitor the development of auditing and certification initiatives, it is also hoped that it will contribute to the ILO taking a more prominent role in the debate about this phenomenon. Many groups are calling for the ILO to get involved in this debate, but there is currently no agreement between the constituents about the ILO’s position in relation to these systems. The ILO Governing Body, however, has supported the office’s continued research and analysis of corporate social responsibility, and auditing and certification systems are one aspect of this.

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\(^8\) For more information on any of these activities, please see www.ilo.org/multi
2. Country selection and overview

This project examined the occurrence and impact of auditing and certification initiatives in Romania, Bulgaria and Turkey. As mentioned, close proximity of these countries to each other and the large amount of outsourcing from western European firms to these countries as a result of inexpensive labour and their location in relation to European markets makes them ideal markets to investigate auditing and certification initiatives. These countries were also chosen because of their status as developing economies and the presence of textile and garment industries. The clothing, textile and footwear industries have, because of their global nature and level of subcontracted work, been particularly exposed to pressures calling for increased social responsibility. As a result, these industries have seen a proliferation of social auditing initiatives. Below follows a general overview of the economic situation and relative size of the industries surveyed in each country.

<table>
<thead>
<tr>
<th>Table 1 Country overview</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2004</strong></td>
</tr>
<tr>
<td><strong>Turkey</strong></td>
</tr>
<tr>
<td><strong>Romania</strong></td>
</tr>
<tr>
<td><strong>Bulgaria</strong></td>
</tr>
</tbody>
</table>

- Source CIA factbook, all figures US Dollars (http://www.cia.gov/cia/publications/factbook/)

**Turkey**

Last year, for the first time in more than three decades, Turkey’s economy grew by 8 percent and inflation dropped briefly into single digits. With Turkey scheduled to start European Union entry negotiations in October of 2005, many analysts expect the country to grow quickly during the next five years. Of the countries surveyed in the report, Turkey’s economy is by far the largest (see table above).

Turkey’s share in world clothing exports has risen from 0.3% in 1980 to around 4% today. According to WTO statistics, Turkey is currently the 4th biggest clothing supplier and 10th textile commodity supplier in the world (as of 2002). In 2004, the textile and garment sector had a share of 16.3% in industrial production and 18.7% in manufacturing. It accounts for 11% in total employment and 30% of industrial employment. However, since the informal economy is reportedly widespread in this sector, the total share of employment may be considerably higher than estimated. The textile and garment sector produces goods worth 30 billion USD annually. About 65% of Turkish textile and ready wear exports are exported to the European Union. 9

The Turkish State Institute of Statistics (DIE) indicates that in 2004 the textile and ready wear sector export had a share of 28% of the total export. The recent statistics show that between the 1st of January and the 14th of June 2005, textile exports increased by 12.2% and reached 2.5 billion USD, while the ready wear sector exports increased by 8.8% and reached 6.2 billion USD. During this period, the total export share for textile products was 7.8% and ready wear was 19.4%, for a total share of 27.2% (slightly down from the 28% a year earlier).

The performance of the footwear sector largely depends on exports; the total export value reached 205 million USD in 2004. The sector, which has a registered share of 0.37% in the total exports of Turkey, has an estimated share up to 10% if shuttle trade figures could be included. The sector employs about 300,000 workers; 20,000 of these are employed in the industry, the rest work in semi-mechanized and/or hand-made shoe workshops. Most of the

9- Goodman S. “Turkey’s evolving economy” Washington Post, 28-06-2005
12- Undersecretariat of the Prime Ministry for foreign trade, Turkey, written correspondence, 15-06-2005
13- Undersecretariat of the Prime Ministry for foreign trade, Turkey, www.foreigntrade.gov.tr
companies are concentrated in Istanbul and Izmir, where there are almost 40,000 to 50,000 shoemaking companies. Of the countries applying to join or are joining the European Union, the largest producer of footwear in 2002 was Turkey.14

According to the Turkish Exporters’ Assembly, export of leather and leather goods in 2004 rose by 2.3% compared to 2003, to 1.039 billion USD. However, the share of leather and leather goods as compared to the total export of Turkey declined. While the share of leather and leather goods was 2.1% in 2003, it fell to 1.6% in 2004. In the same way, the share of leather and leather goods in industrial products export declined to 2.4% in 2004 from 3.1% in 2003.

The wood and forestry product exports of Turkey in 2003-2004 is not as large as some of the other industries surveyed, but it still reached exports of about 1.7 billion USD in 2004, constituting a 38% increase over 2003.15

Bulgaria

Bulgaria is scheduled to join the European Union in 2007/2008. Of the countries surveyed in this report, it has both the smallest population and the smallest overall economy. Over the transition period from a state-controlled economy to a market economy, there has been steady economic growth in most years, except for 1996/1997. As in Turkey, the informal or non-registered economy is also a factor in industries in Bulgaria. This may explain data provided through official channels only reflect a provisional image that is not always the same when you look at data from trade unions, branch associations, or different official sources such as the National Statistics Institute (NSI), Ministry of Economy (ME), and National Social Security Institute (NSSI). For example, the difference in the number of operating garment producing companies in Bulgaria cited by various sources ranges between 3,000 and 15,000. This discrepancy can be partly explained by the presence of the non-registered economy and partly by the simple fact that some firms are registered in a different industry than the ones in which they are operating.

According to the NSI the share of light processing industry in the overall gross national product amounted to almost 20%. This includes:

- Textile Industry - 19.6%
- Garment Industry - 43.5%
- Leather and Footwear Industry - 7.2%
- Wood processing Industry - 14%
- Furniture - 7%
- Glass, china and faience industry - 8.7%

The official data from the WTO indicated that in 2003, the textile exports from Bulgaria was 243 million USD, or 3.2% of total exports.16 According to the National Statistics Institute, the share of the textile, footwear and garment industry constitute 24% of exports.17 Extrapolating this number to the total amount of exports from Bulgaria (see earlier chart), this means that the total industry accounts for somewhere in the neighbourhood of 2.2 billion USD annually. Although the impact on Bulgaria of the worldwide lifting of quotas in the textile and garment industry at the beginning of 2005 is still unknown, in the four years prior to this, the amount of sales (in terms of volume, at comparable prices) almost doubled in size.18 Currently nearly 70% of the foreign trade is with the EU 25.19

The official rate of employment in the textile and garment sector in Bulgaria is around 150,000 people, and the wages in this industry are lower than in the country on average, reflecting the nature of the industry which relies heavily on low-skilled, labour-intensive work. The table below gives an overview of the monthly wages in the industry.

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16- “Background statistical information with respect to trade in textiles and clothing”, World trade Organization, 20-09-2004
Table 2  Average monthly wage in Bulgaria 20

<table>
<thead>
<tr>
<th>Activity</th>
<th>Average monthly wage in euros 2002</th>
<th>Average monthly wage in euros 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total in the country</td>
<td>132.09</td>
<td>143.08</td>
</tr>
<tr>
<td>Industry in general</td>
<td>136.45</td>
<td>143.25</td>
</tr>
<tr>
<td>Including processing Ind.</td>
<td>121.20</td>
<td>127.46</td>
</tr>
<tr>
<td>Production of clothes, including leather</td>
<td>79.36</td>
<td>85.02</td>
</tr>
</tbody>
</table>

Romania

Romania, like Bulgaria, is expected to gain entry into the European Union in 2007 or 2008. Its economy also grew rapidly in 2004 in anticipation of its entry into the EU. As indicated by the official export statistics from the Romanian National Institute of Statistics, exports from Romania grew by 23.17 from 2003 to 2004 (imports over the same period grew by 24%). 21 The biggest destination for Romanian products was the European Union, accounting for 72.9% of total exports. Like Turkey and Bulgaria, the garment and textile industry makes up a significant part of the export industry; clothing articles made up 22.3% or around 4.2 billion euros in 2004 (approximately 5 billion USD)22

The footwear industry also plays a significant role in the Romanian economy, with total exports constituting 6.5% or about 1.2 billion euros in 2004. However, unlike the export in clothing articles, which grew around 6.6% from 2003 to 2004, the footwear industry exports declined by 2.8% during this same period. Of the eastern European countries that recently joined the EU or are in the process of doing so, Romania is the largest producer of footwear. 23

The number of enterprises, the average number of employees and the effect the largest 20 companies are having in each industry is given below.

Table 3  Enterprises in Romania 24

<table>
<thead>
<tr>
<th>Activity</th>
<th>Number of enterprises</th>
<th>Average number of employees</th>
<th>Cumulated in % of total turnover (top 20 firms)</th>
<th>Cumulated in % of total employees (top 20 firms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile products</td>
<td>2,211</td>
<td>96,869</td>
<td>18.9</td>
<td>24.9</td>
</tr>
<tr>
<td>Clothing articles</td>
<td>5,289</td>
<td>319,904</td>
<td>10.6</td>
<td>13.7</td>
</tr>
<tr>
<td>Leather goods and footwear</td>
<td>1,868</td>
<td>11,3696</td>
<td>14.4</td>
<td>21.5</td>
</tr>
<tr>
<td>Wood and wooden products manufacturing (except furniture)</td>
<td>5,931</td>
<td>86,540</td>
<td>15.1</td>
<td>20.3</td>
</tr>
<tr>
<td>Furniture and general manufacturing</td>
<td>3,548</td>
<td>114,306</td>
<td>21.9</td>
<td>25.7</td>
</tr>
</tbody>
</table>

Similar to figures from Bulgaria, the salary workers receive in the textile and processing industry is lower than in the industry overall. For example, according to official statistics, the average gross salary in November 2004 was 219 euros, while the average net salary was 157 euros, approximately 3% higher than the previous year. In comparison, the processing industry recorded a net salary of a 141 euros while workers in the textile manufacturing sector had an average net salary of 114 euros a month.25

22- Idem
23- Idem
24- Data compiled from Romanian National Institute of Statistics, Romanian Statistical Yearbook - 2003 and data provided by the Ministry of Economy and Commerce
Impact of quota system on the textile and garment industries

Any discussion of the size of the textile and garment industry in these countries must take into account the impact of the end of the Multi Fibre Agreement at the beginning of 2005. A full overview of the possible impact on the textile and garment industry companies surveyed is beyond the scope of this research report. However, managers often brought up this topic during the interviews, as they are worried about increased competition from low-cost countries. A common concern of suppliers in this regard was that while multinational brands are increasing their social auditing activities, at the same time the cost pressures were sometimes forcing them to cut corners in order to make a profit. For this reason, many companies that were interviewed actually favoured increased transparency in the social auditing process, including a common code of conduct for supplier companies all over the world and the open sharing of auditing results. This is discussed in greater detail in the ‘in-depth questionnaire’ section that follows later in this report.

Companies are responding to the new business environment in the textile and garment industries in different ways. Among others, the most notable actions by companies include:

- Developing their own brand or label;
- Offering integrated textile and garment solutions;
- Partnering with other companies to respond to shorter lead times demanded by buyers;
- Investing in machinery to cut labour costs.

Not all of the above listed options are open to companies, as some of them require a significant investment on the part of the buyers. For this reason, some of the supplier companies interviewed are making contingency plans to exit the textile and garment industry all together, should orders drop further in the future.

As mentioned, the impact of the elimination of quotas in the textile and garment industry on manufacturers in Bulgaria, Romania and Turkey is still unclear. Anecdotal evidence gathered during interviews with factory owners suggests that the majority of companies operating in this region will compete with low cost countries elsewhere in the world on the basis of their location, i.e. their close proximity to major EU markets. Already companies that were interviewed reported smaller orders and decreased lead times, indicating that they are in fact starting to fill the short lead time orders while the larger orders are going to low-cost countries.

Concern about the impact of the elimination of quotas and the rise of imports from China is also seen in the United States and in Europe. The European Union started an inquiry into nine product categories from China on the 24th of April 2005. An agreement was signed between the EU and China on the 10th of June 2005, which restricts export growth from China to the EU until 2008. The US, on the 6th of April 2005, started a new inquiry on the three categories of imports of garments from China and this inquiry was later broadened to four other categories. More recently, a quota decision was made by the US to limit the growth of exports from China in these three categories. Although the impact of these various import restrictions on Bulgaria, Romania and Turkey is unknown, it is thought that it will provide them with more time to respond and adapt to the increased competition from China. For example, the three export categories in which a quota was imposed constitute 51% of the ready-wear export total to the United States from Turkey, it is therefore thought that this decision will have a positive impact on Turkey. 26

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26- Undersecretariat of the Prime Ministry for foreign trade, Turkey, written correspondence, 15-06-2005
3. Methodology of factory survey

Significant anecdotal evidence that auditing and certification systems are prevalent in Turkey, Romania and Bulgaria exists. For example, a consortium of German buyers in the textile and clothing industry recently started roundtable discussions on social auditing with representatives from trade unions, employer organizations, export organizations and governments in each country. These roundtables were created through a public and private partnership with the German Development Agency (GTZ) and a consortium of buyers that created its own code of conduct (formerly AVE now BSCI, for more information see www.bsci.eu.org). In addition, six different social responsibility initiatives recently selected Turkey as a pilot country to work together with buyers and suppliers to create a common code of conduct. (See: www.jo-in.org for more information). It was therefore well known that social auditing existed in these countries, but the extent to which it is occurring had not been investigated thus far. Before the results of the research are discussed, the section that follows gives a brief overview of the methodology and limitations of the research.

Selection of companies

In each country where research was conducted, a list of approximately 1,000 companies from different industries was compiled from different sources (mostly databases) in order to get a representative sample of companies. Prior to the research, it was confirmed that with independent social auditing agencies that the majority of audits are being held in the textile and garment industries. Therefore, in order to get the most possible data on the costs and benefits of social audits, the number of companies surveyed was proportionally larger in the garment and textile sectors.

When choosing the databases to select companies, emphasis was placed on the most representative ones, as some voluntary, subscription only databases list only a limited number of companies. Other issues that were considered include information on the companies’ relative size, name and telephone number of contact person, and whether the list was up to date that was considered is the fact that in most databases, subscription by companies is voluntary. In all countries, relative care was given to choose companies from each major geographical area. In Turkey for example, while cities such as Izmir, Istanbul, Bursa and Denizli were well represented in the survey because of their relative concentration of factories, other less well-known cities throughout the country were also surveyed. In Bulgaria, special care was taken to include Turkish-owned factories mainly located in the east, as well as Greek-owned factories in the west and other foreign owned companies throughout the country. Similarly, in Romania, efforts were made to include factories representatively in the entire country.

Below is a brief overview of the sources for company information used in each different country.

Turkey
- Turkish Union of Chambers and Commodities Exchanges (TOBB);
- Turkish Exporter Assembly (TİM);
- Textile Workers Union (Tekstil-İş);
- Istanbul Chamber of Commerce (İSO)
- The Internet.

Bulgaria
- An Electronic database APIS (lists companies by sector, location and ownership);
- Internet sites; general commercial, national (both Bulgarian and foreign) and local branch organizations’, magazines, etc.;
- Bulgarian European Partnership Association (BEPA) database of companies;
- Personal contacts.

Romania
- Romanian Chamber of Commerce database;
- Database from the Romanian Textile Industry Association
- Internet: including infocompanies.com and other sources.
After compiling the lists of companies in each different country, we randomly selected a number of companies from each sector, focusing specifically on the textile and garment industries. Special consideration was given to randomly select companies from different geographical areas according to their presence in the region of the industries surveyed. Companies with less than 50 employees were not included in the survey because they were less likely to have been exposed to social audits. Also, larger companies were selected in Turkey specifically as their exposure to social audits may have been greater.

Below is an overview of the number of companies selected in each country by industry sector, equating to approximately 1000 companies in each country. The actual number of companies selected in each country was 400, and was close to the target number in each industry, although it did vary slightly from country to country. For example, in Romania the number of companies surveyed in the relatively large footwear sector was 50, and in the machinery sector in Bulgaria only five companies were surveyed because of the small size of this industry relative to the other industry sectors. Also in Bulgaria, the number of clothing manufacturers surveyed was considerably higher than the number of textile companies, reflecting the larger size of this industry sector. The results section later in this report indicates how many companies from each sector responded.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Selected companies</th>
<th>Target number of surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile</td>
<td>350</td>
<td>150</td>
</tr>
<tr>
<td>Garment</td>
<td>350</td>
<td>150</td>
</tr>
<tr>
<td>Footwear</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>Leather</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>General manufacturing</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>Wood processing</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1000</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

**Questionnaire and survey methodology**

After selecting the companies, we translated the questionnaire (presented in the box below) into the local language and sent them to 400 companies each in Bulgaria, Romania and Turkey. The questionnaire was sent along with a self-addressed envelope of the ILO in Turkey and the project partners in Romania and Bulgaria. Also included was a cover letter explaining the purpose and objectives of the project. Along with the written questionnaire, an email was sent with the questionnaire to those companies for whom an email address was available.

After the questionnaires were sent by both post and electronic mail, the researchers waited for two to three weeks for responses, after which companies that did not respond were phoned. When phoning the companies, they were told that the United Nations (ILO), together with the European Union, was conducting a research project on social auditing, and that if they could spare a few minutes of their time we would like to ask them a few questions. They often wanted to know what the project was about and if they could get the results afterwards. They also sought, and received anonymity in their responses and often asked that their company name not be used in the final results.

The questions in the questionnaire were chosen with the principal aim of finding out how many companies were affected by social audits. In order to increase the response rate and get a large number of companies to respond to the questions, the questionnaire was kept to one page. Even so, the vast majority of the answers presented below were obtained by telephone. The most effort to obtain written responses was made in Bulgaria, were roughly 85 responses were obtained by fax, mail and email. In Turkey, about 45 companies responded to the questionnaire by written mail, and none by email. In Romania, only a handful of companies responded to the questionnaire by mail and email, the other answers were all obtained by telephone.
### Questionnaire on Social Auditing (EU/ILC Project)

1. What industry does your company work in?
   - Textiles
   - Clothing
   - Footwear
   - Leather
   - Machinery
   - Wood products

2. How many workers does your company employ?  
   - Full time  
   - Part time

3. Does your company have a code of conduct covering labour issues?  
   - YES/NO  
   *If the answer is YES to the previous question, please continue. If NO, we thank you for your time and refer you to the last paragraph.*

4. Who requires your company to meet the terms of a code of conduct covering labour issues?
   - Buyers
   - Industry association
   - Decision of senior management
   - Other organization (please specify)

5. As part of this requirement, are you subject to social audits?  
   - YES/NO

6. How many times during the last year has your company been subject to social audits by each one of these entities?
   - **Number in 2004**
   - Buyer 1  
   - Buyer 2 (if applicable)  
   - Buyer 3 (if applicable)  
   - Private consultant(s)  
   - Non governmental organizations  
   - Internal audits by management  
   - Other, please specify

7. Have you noticed any benefits to your company resulting from your participation in social audits? (Check all that apply)
   - Improved employee morale
   - Improved product quality
   - Decline in absenteeism
   - Improved relations with employees or trade unions
   - Improved relationship with buyers
   - Increase in contracts
   - Increased market share

8. Who pays for these social audits?
   - Buyer
   - Your company
   - Other, please specify

9. What is the average cost of a social audit?  
   - (Estimate) USD

10. Do social audits interfere with the day to day functioning of your facility?
    - Yes, significantly
    - Somewhat interfere
    - Do not interfere at all

*Thank you for your time. As this survey is confidential, you are not required to send us your company name. However, should you want to know the results of the survey, please indicate your email address below.*
Limitations of research

Because companies were not required to identify themselves on the written form of the questionnaires, one obvious limitation of this approach was that some companies, who had not filled in their name, where asked the same questions twice. However, the number of companies that gave no name was not more than 3 percent of the total amount of companies. We double-checked the answers to see if any were exactly the same and, if they were, they were omitted from the final results.

Since most companies that get audited by multinational buyers require their suppliers to have a code of conduct, we started off by asking companies if they had a code of conduct. No cases of companies were found where companies did not have a code of conduct but were being audited on their adherence to labour standards. The questions on the questionnaire were checked by a number of different people to ensure ease of understanding. However, in retrospect, one question in particular caused some confusion on the part of companies and could have been phrased better. Question number nine, which asked 'what is the average cost of a social audit' caused some companies to state how much the corrections as a result of the social audit had been, and some companies to answer (as was originally intended) to answer how much they had paid (if any) to the social auditor. This question is discussed in greater detail in the results section below.

While the telephone responses greatly increased the overall response rate, getting the right answers to the questionnaire by telephone depended on speaking to the right person who had knowledge in whether or not the company had a code of conduct. The approach was to ask for a human resource manager, and if they didn’t have such a person to ask to speak to another manager. Usually, if this person was not available, two or three attempts were made to contact this person.

The margin of error for this type of research is around 6%, considering the total number of responses from factories (around 300 companies in each country). This margin may have been even larger in both Romania and Bulgaria because of the considerable difficulty in obtaining the results to the survey as compared to Turkey. Businesses were much more reluctant to respond to the survey and this forced the researchers to draw from a much larger pool of companies and replace the companies for which no answer was obtained. Also in Bulgaria, one researcher personally visited around 20 factories in one region of the country to get an increased response rate. Both in Bulgaria and Romania, quite a few companies’ headquarters were officially registered at private home addresses, registered in the wrong industry sector or simply had incorrect information. To an extent, the difficulties because of wrong addresses, phone numbers or non-existent factories occurred in all three countries where the research was conducted.
4. Overall results of factory survey

Table 5  Overview of results

<table>
<thead>
<tr>
<th></th>
<th>Turkey</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of factories surveyed</td>
<td>301</td>
<td>315</td>
<td>274</td>
</tr>
<tr>
<td>Number of factories that did not respond *</td>
<td>126</td>
<td>223</td>
<td>115</td>
</tr>
<tr>
<td>Textile *2</td>
<td>128</td>
<td>141</td>
<td>27</td>
</tr>
<tr>
<td>Garment *2</td>
<td>107</td>
<td>113</td>
<td>198</td>
</tr>
<tr>
<td>Footwear</td>
<td>21</td>
<td>35</td>
<td>14</td>
</tr>
<tr>
<td>Wood products</td>
<td>17</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Leather</td>
<td>15</td>
<td>15</td>
<td>6</td>
</tr>
<tr>
<td>Machinery / Other</td>
<td>23</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Total companies reporting to have a code of conduct</td>
<td>198</td>
<td>182</td>
<td>66</td>
</tr>
<tr>
<td>Percentage companies reporting to have a code of conduct</td>
<td>66%</td>
<td>57%</td>
<td>30%</td>
</tr>
<tr>
<td>Average size of companies surveyed</td>
<td>421</td>
<td>254</td>
<td>202</td>
</tr>
<tr>
<td>Percentage of companies reporting audits in 2004</td>
<td>52.8%</td>
<td>12.3%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Percentage of companies audited by buyers</td>
<td>39.2%</td>
<td>8.5%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Average number of times audited companies reported audits in 2004 (excluding internal audits)</td>
<td>6.3</td>
<td>1.3</td>
<td>1.9</td>
</tr>
<tr>
<td>Number of companies reported to have been audited by NGO’s</td>
<td>7</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Number of companies that reported to have own internal audits</td>
<td>50</td>
<td>8</td>
<td>12</td>
</tr>
</tbody>
</table>

* Either because of wrong number, refusal to answer, changed industry, out of business, etc.
*2 Not exclusive, some companies have integrated production systems

Analysis

The results above indicate that the number of social audits in Turkey is considerably larger than in either Romania or Bulgaria. In addition to companies in Turkey being audited more frequently, companies that are exposed to audits in Turkey also report getting audited more frequently during 2004. In total, the average number of times companies were audited in 2004 was 1.3 in Romania, in Turkey it was 6.3, and in Bulgaria it was 1.9. These numbers exclude audits conducted by internal management. When comparing the results in Romania with the results in Bulgaria, the total number of audits and the frequency with which companies get audited appears to be slightly higher in Bulgaria than in Romania. However, it is not possible to conclude this for sure, as the difference between the two countries fall within the margin of error (around 6%).

On average, the size of the factories surveyed in Turkey was larger, but even if an analysis is done of companies over 500 employees, one can see that there is still a difference. All the same, as the table below shows, the percentage difference is very large when looking at companies with 500 employees or less, and is much smaller when only looking at companies with more than 500 employees.

Table 6  Companies reporting social audits by size

<table>
<thead>
<tr>
<th>Companies 500+ employees</th>
<th>Turkey</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>65</td>
<td>38</td>
<td>22</td>
</tr>
<tr>
<td>Percentage audited (Number of companies)</td>
<td>71% (46)</td>
<td>37% (14)</td>
<td>45% (10)</td>
</tr>
<tr>
<td>Percentage audited by buyers (Number of companies)</td>
<td>57% (37)</td>
<td>37% (14)</td>
<td>32% (7)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Companies 500- employees</th>
<th>Turkey</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of companies</td>
<td>236</td>
<td>277</td>
<td>252</td>
</tr>
<tr>
<td>Percentage audited (Number of companies)</td>
<td>48% (114)</td>
<td>9% (25)</td>
<td>17% (44)</td>
</tr>
<tr>
<td>Percentage audited by buyers (Number of companies)</td>
<td>34% (81)</td>
<td>5% (14)</td>
<td>12% (30)</td>
</tr>
</tbody>
</table>
As the table above shows, the size of the factories surveyed only explains part of the story in the discrepancy between the countries where research was conducted. What other reasons are there for the number of audits being much larger in Turkey? One obvious reason is that Turkey is a larger supplier centre. Many multinationals have their regional headquarters in Istanbul and a lot of these in turn have full-time staff whose primary responsibility is check their suppliers’ social standards. Other possible reasons why social auditing is larger in Turkey than in Bulgaria or Romania include:

- The relative size of Turkish textile and garment industry, as well as the size of individual companies, is large in comparison;
- The recent transition from a state to market economy of both Bulgaria and Romania; Turkey has an economy with longer and deeper ties to the West.
- Well-documented cases of child labour have occurred in Turkey in the past. As a result, multinational companies may have seen Turkey as a greater liability and subsequently conducted a greater number of social audits there. It should be noted that significant progress has been made in Turkey regarding child labour issues by both the Turkish Government and ILO IPEC during the last 10 years, and that it is not the same problem as it used to be. Especially in big factories, it is now rare to find underage children working.

**Code of conduct**

After companies were asked whether they had a code of conduct, it was further inquired, “Who requires your company to meet the terms of a code of conduct covering labour issues?” The table below illustrates that the number of buyer required codes of conduct was again significantly higher in Turkey, with Romania and Bulgaria receiving the same number of responses to this question. Since multiple answers were allowed in this question, the numbers are not equal to the total number of companies reporting to have a code of conduct.

**Table 7 Who requires your company to meet the terms of a code of conduct?**

<table>
<thead>
<tr>
<th></th>
<th>Turkey</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyers</td>
<td>111</td>
<td>33</td>
<td>33</td>
</tr>
<tr>
<td>Industry association</td>
<td>9</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Decision of senior management</td>
<td>155</td>
<td>132</td>
<td>32</td>
</tr>
<tr>
<td>Other organization</td>
<td>18</td>
<td>13</td>
<td>2</td>
</tr>
</tbody>
</table>

**Textile and garment industry**

The textile and garment industry was by far the largest industry surveyed. Quite a number of firms have activities in both the textile and ready-made garment sector and the results below are therefore combined to reflect the industry as a whole. There does appear to be a slight difference between the clothing and textile industry in that companies in the clothing industry get audited more frequently than in the textile industry. For example 53% of Turkish garment companies reported being audited by buyers, whereas in the textile sector this was 44%. The totals for each country are presented below.

**Table 8 Audits in the textile and garment industry**

<table>
<thead>
<tr>
<th></th>
<th>Turkey</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of companies reporting audits taking place in the textile and garment industry</td>
<td>58.3%</td>
<td>15.0%</td>
<td>20.4%</td>
</tr>
<tr>
<td>Percentage of companies audited by buyers in textile and garment industries</td>
<td>48.5% (Textile 44% Garment 53%)</td>
<td>10.6% (Textile 9.5% Garment 11.5%)</td>
<td>15.1% (Textile 12% Garment 15.7%)</td>
</tr>
<tr>
<td>Average size of companies in textile and garment industries</td>
<td>547</td>
<td>280</td>
<td>224</td>
</tr>
</tbody>
</table>
Other industries

The sample size of the industries other than the textile and garment industry was significantly smaller. For this reason, it is not relevant to look at the differences in the number of times companies were audited in different industries segregated by countries. For example, the total number of surveyed companies that reported buyer audits in the footwear industry across all three countries was three. The table below therefore illustrates the occurrence of social auditing aggregated by industry rather than by country.

Table 9 Audits in other industries

<table>
<thead>
<tr>
<th>Number of factories surveyed</th>
<th>70</th>
<th>45</th>
<th>36</th>
<th>41</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average size of companies</td>
<td>147</td>
<td>125</td>
<td>157</td>
<td>322</td>
</tr>
<tr>
<td>Code of conduct?</td>
<td>57%</td>
<td>24%</td>
<td>30%</td>
<td>58%</td>
</tr>
<tr>
<td>Percentage audited</td>
<td>17%</td>
<td>18%</td>
<td>14%</td>
<td>36%</td>
</tr>
<tr>
<td>Percentage audited by buyers</td>
<td>4%</td>
<td>8%</td>
<td>6%</td>
<td>15%</td>
</tr>
</tbody>
</table>

The numbers indicate a similar pattern across different industries. A very small number of companies were audited by buyers in any of the industries listed above. The number of companies with a code of conduct was high in the footwear industry, something that was also found in the recent publication 'Implementing Codes of Conduct', which observed that codes of conduct are well developed in this industry. The higher percentage of companies having a code of conduct and experiencing audits in the machinery/other category is partly due to the fact that companies were larger in this industry and are therefore more likely to have a code of conduct. Follow-up questions with companies that experienced audits in the machinery sector indicated that these types of audits are generally different than in the textile and garment industry with social conditions simply being a part of a larger quality control audit.

Perceived benefits from social audits

The question was asked to supplier companies whether they had noticed any benefits to their company resulting from their participation in social audits. Multiple responses were allowed, and the answers below are given in percentages. Since the total number of audited companies included companies that had been audited by parties other than buyers, the responses below are grouped by those companies that had been audited by their buyers, and those that had experienced audits from ‘other’ auditors, such as consultants, NGO’s or internal management audits.

Table 10 Benefits from social audits

<table>
<thead>
<tr>
<th>Responses</th>
<th>Turkey Buyer</th>
<th>Turkey Other</th>
<th>Romania Buyer</th>
<th>Romania Other</th>
<th>Bulgaria Buyer</th>
<th>Bulgaria Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved employee morale</td>
<td>68%</td>
<td>74%</td>
<td>44%</td>
<td>53%</td>
<td>17%</td>
<td>11%</td>
</tr>
<tr>
<td>Improved product quality</td>
<td>75%</td>
<td>79%</td>
<td>31%</td>
<td>58%</td>
<td>29%</td>
<td>67%</td>
</tr>
<tr>
<td>Decline in absenteeism</td>
<td>24%</td>
<td>40%</td>
<td>19%</td>
<td>26%</td>
<td>21%</td>
<td>44%</td>
</tr>
<tr>
<td>Improved relations with employees</td>
<td>9%</td>
<td>9%</td>
<td>31%</td>
<td>42%</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>or trade unions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved relationship with buyers</td>
<td>94%</td>
<td>74%</td>
<td>56%</td>
<td>63%</td>
<td>71%</td>
<td>22%</td>
</tr>
<tr>
<td>Increase in contracts</td>
<td>54%</td>
<td>37%</td>
<td>44%</td>
<td>42%</td>
<td>38%</td>
<td>11%</td>
</tr>
<tr>
<td>Increased market share</td>
<td>66%</td>
<td>65%</td>
<td>25%</td>
<td>32%</td>
<td>4%</td>
<td>22%</td>
</tr>
<tr>
<td>Total number of responses</td>
<td>114</td>
<td>43</td>
<td>16</td>
<td>19</td>
<td>24</td>
<td>9</td>
</tr>
</tbody>
</table>

The table above illustrates that quite a number of companies see the audits useful as a way to improve their relationship with buyers and improve product quality. Not many companies, especially in Turkey, perceived the social audits to have improved their relationship with employees or trade unions.

**Who pays for the audits?**

This question was asked in order to determine the extent to which supplier companies have to pay for the social audits. As the graph below shows, there is no one answer to this question, as they both suppliers and the buying companies seem to share the costs about equally. In total, 222 companies across the three countries responded to this question.

**Table 11  Who pays for the social audits?**

<table>
<thead>
<tr>
<th>Who pays for the audits</th>
<th>Turkey</th>
<th>Romania</th>
<th>Bulgaria</th>
<th>All (weighted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyers</td>
<td>36%</td>
<td>53%</td>
<td>44%</td>
<td>40%</td>
</tr>
<tr>
<td>The supplier company</td>
<td>36%</td>
<td>47%</td>
<td>39%</td>
<td>38%</td>
</tr>
<tr>
<td>Both</td>
<td>28%</td>
<td>0</td>
<td>17%</td>
<td>22%</td>
</tr>
</tbody>
</table>

**How much do audits cost?**

The question was intended to ask how much the process of the social audit costs, in other words how much money was spent on the hiring the auditors to come to the factory to carry out the inspection. Some companies were reluctant to share this information or simply did not know the answers. As explained in the ‘limitations’ section above, this question was also sometimes misinterpreted by the supplier companies to mean how much the company spent on correcting the problems identified by the social auditors. As a result, the answers in this section ranged from 300 USD to 15,000 USD.

This question was further investigated in Turkey, where the data was reviewed and a number of companies were contacted again in an effort to try and clarify the findings. Recalculating the findings, the total average amount companies actually spent on the audits was around 850 USD for the auditors to come and inspect their factory. The average amount of investments in the factory made as a result of the audits was around 3,600 USD. In total, 82 companies responded to this question in Turkey. The sample size of answers to this question was quite small for both Romania and Bulgaria (8 and 12 respectively) and no conclusive answer could be gotten from the responses we received. The average response given to this question was 1,500 USD in Romania and 1,200 USD in Bulgaria.

**Do audits interfere?**

There is some anecdotal evidence that suggests social audits interfere with the day-to-day functioning of the facilities. In order to find out if audits do, in fact, interfere with the operations of the factories, the question was asked directly to the suppliers and the results are presented below. Where companies were audited by their buyers the percentage of suppliers responding that audits somewhat interfere with company operations was slightly higher (5%).

**Table 12  Do audits interfere?**

<table>
<thead>
<tr>
<th>Do audits interfere</th>
<th>Buyer audited</th>
<th>All audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes significantly</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Somewhat interfere</td>
<td>37%</td>
<td>32%</td>
</tr>
<tr>
<td>No</td>
<td>55%</td>
<td>60%</td>
</tr>
</tbody>
</table>
5. Follow up survey

Introduction and methodology

In preparation for the seminar of social auditors held on the 18th of May in Ankara, a follow-up survey of companies was conducted in Turkey. Twenty companies were selected on the basis of their frequent exposure to social audits. The same survey was also done in Bulgaria. In Romania, the total sample size of companies who had been exposed to audits was too small and therefore the survey was not done. The survey was carried out in Turkey between the 25th and the 28th of April 2005 and in Bulgaria between the 18th and the 31st of May 2005. All companies were contacted by telephone.

Twenty companies that have had experience with social audits in both Bulgaria and Turkey were asked the following questions:

1. How many times have you been audited in the last two years?
2. Regarding the people who audited you, whom did they work for consultants or other? If they work for a MNE please describe their relation (if known) and role within the MNE (are they connected with purchasing, CSR dept, or other);
3. How long and what is the typical procedure for an audit?
4. How would you rate the knowledge of the auditors (good/inexperienced … etc.)?
5. What are the auditors’ priorities?
6. Have there been any required changes in factory practice as a result of these audits (please describe)?
7. Any threatened or otherwise enforced sanctions if the changes are not made?
8. What happens if the requested changes are not made?
9. What is the average cost of required changes?
10. Any return gleaned by the factory as a result of these changes? (For example: decreased number of accidents, lower turnover, easier to gain contracts from MNE, etc.)
11. Do the workers enjoy any benefits as a result of these audits (whether they are aware of them or not)?
12. What did the auditors look for in terms of hours of work? (How is it measured? Is it a priority? … etc.)
13. Same as above for overtime;
14. Same as above for freedom of association;
15. Would you like to see the auditors/MNEs publicly disclose the results of the audit, if they did the same for all other companies they audited?

Perhaps noteworthy is that the number of companies contacted by telephone in Turkey to get the same number of results was considerably less than in Bulgaria (about 25 to get 20 answers as opposed to over 50 to get 20 answers in Bulgaria). This again raises questions addressed earlier about the general responsiveness and openness of the business culture in Bulgaria as opposed to Turkey. The more experienced the businesses are with social audits, the more responsive they seemed to be.

Limitations

Unlike the earlier questionnaire, these results do not represent a statistical overview. Moreover, as is the case with telephone interviews, one can only rely upon the actual answers given by companies over the telephone, which we can only presume to be accurate. Given the fact that the companies were assured anonymity, there is no reason to believe that they would not tell the truth. However, there was reluctance on the part of the companies to answer some of the more sensitive questions (For example: did your company ever get penalized for failing an audit? or How many improvements did you have to make?). Unfortunately, in order to get a complete picture of what is going on, one would have to interview the workers, factory owners and the auditors, something that was beyond the scope of this questionnaire. Nevertheless, the answers below do give a good indication of what is happening in the factories according to the managers interviewed.
Overview of the results by question

The overview and discussion of the responses is given by question number below. A table displaying the results of the survey for all 40 companies is attached at the end of this paper in Appendix 1.

Question 1: How many times the companies were audited the last two years:

Table 13 Overview of companies surveyed in follow up questionnaire

<table>
<thead>
<tr>
<th></th>
<th>Turkey</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average size of 20 companies</td>
<td>567</td>
<td>475</td>
</tr>
<tr>
<td>Average number of times audited</td>
<td>10 times (199 total)</td>
<td>2.35 times (47 total)</td>
</tr>
<tr>
<td>in the last 2 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of times by MNE or private consultant</td>
<td>Four only audited by buyers; 11 by buyers and private auditors; five only by private auditors</td>
<td>Four by buyers only; four by both buyers and private auditors, 12 only by private auditors</td>
</tr>
<tr>
<td>Sectors represented</td>
<td>19 companies textile and garment, one machinery sector</td>
<td>20 companies in textile (one) and garment sector (19)</td>
</tr>
<tr>
<td>Average length of audit</td>
<td>7.25 hours</td>
<td>18.56 hours</td>
</tr>
</tbody>
</table>

Companies the suppliers do business with:
Bulgaria: Tommy Hilfiger, CWF, Barbour, Marks & Spenser, Tribal, Federated, Levi’s, Puma, Nike, Crompton, Reebok.
*Please note that some supplier companies were reluctant to share this information, the list therefore may not be complete.

Question 2: Connection between departments in multinationals: This question was asked to determine the connection between the different departments at the multinational enterprise because of various complaints by suppliers that the social compliance department often has no direct links to the procurement/buying department. Unfortunately, the sample size was too small to draw any conclusions from this question. In Turkey 10 suppliers had no comment to this question, four suppliers thought that there was no connection, and six thought there was a connection. In Bulgaria, the majority of companies had no comment to this question, only one company complained about the lack of communication between the departments at the buyer company. This may have been because of the relative lack of experience and exposure the companies in Bulgaria had as opposed to Turkey.

Question 3: Average length and process of the social audits: As indicated above, the average length of the audit was twice as long in Bulgaria as it was in Turkey. One possible explanation for this is that because these companies have been audited less frequently in the past, the auditors need more time to check everything. The results of this survey seem to confirm this explanation as the average number of audits experienced by Turkish companies was significantly higher than in Bulgarian companies. Another explanation may be that most of the multinational auditors seem to have their regional offices in Istanbul; they may therefore have the opportunity to visit the companies in Turkey more often, spending less time at each factory. Almost all of the audits in both countries were announced ahead of time; only short site inspections are sometimes carried out unannounced. On average, these companies had been audited around 10 times during the previous two-year period (199 in total, see graph of results on the previous page).

The audit process is more or less the same, both in Bulgaria and Turkey:
1. Opening speech, meeting with management;
2. Walking around the factory, depending on the number and type of auditing team members, they may split. If not all, some take a look around the factory. Those in charge of book-keeping (accounting for payments, length of work time recording, etc.) start to review the factory’s documents;
3. Take the name of the workers (there are different criteria like 10% of the total workforce or 10-25 people. It depends on brand standards);
4. Checking of wage bills and card system documents;
5. Interview the workers. (This works differently for different companies. Sometimes they take workers as a group sometimes they take them one by one). This can be done either outside the factory or in a specially prepared room inside the factory;
6. Preparation of the audit report; sometimes they share the results with the management and after reaching a consensus they sign it. This is frequently in the local language. Afterwards the auditor prepares a report usually in English and sends it to the headquarters of the MNE. In most cases, they also send a copy to the supplier.

7. The reports normally have two main parts: recommendations and actions to be taken (corrective action plan). The company is asked to propose a deadline to take corrective actions. Often the companies only call the auditor to state that the prescribed action had been taken. In a few select cases there is a follow-up to verify the action has been taken.

**Question 4: Experience of the auditors:** Only two companies in Turkey and one company in Bulgaria complained that the auditors are sometimes not very experienced, the rest were happy with their level of experience. A difference noted was that only some auditors seem to be interested in details whereas others are not.

**Question 5: Priorities for auditors:** Although not all of these categories are mutually exclusive, one can distinguish between the following topics - in order of most cited.

**Table 14  Priorities for auditors**

<table>
<thead>
<tr>
<th>Turkey</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Factory conditions and general social standards (10)</td>
<td>1. Factory conditions (including organization of production - 2) and general social standards (13)</td>
</tr>
<tr>
<td>2. Working hours (6)</td>
<td>2. Health and Safety (13)</td>
</tr>
<tr>
<td>3. Child labour (5)</td>
<td>3. Working hours (9)</td>
</tr>
<tr>
<td>4. Health and Safety (5)</td>
<td>4. Overtime (7)</td>
</tr>
<tr>
<td>5. Payment of wages, social security (5)</td>
<td>5. Payment of wages, social security (5)</td>
</tr>
<tr>
<td>6. Overtime (4)</td>
<td>6. Child labour (4)</td>
</tr>
<tr>
<td>7. Communication between factory personnel (2)</td>
<td>7. Discrimination (4)</td>
</tr>
</tbody>
</table>

(Since this was an open-ended question, it is worth noting that there was no mention of subcontracting, although the auditors do state that subcontracting is a priority for them)

**Question 6: Required changes in factory practice as a result of these audits: Ranked in terms of most commonly to least commonly cited.**

**Table 15  Changes required in factories as a result of the social audits**

<table>
<thead>
<tr>
<th>Turkey</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Change in physical layout of the factory, including signs, exits, lamps and ventilation;</td>
<td>1. Decrease in labour accidents; changes in health and safety;</td>
</tr>
<tr>
<td>2. Fire prevention systems upgrade;</td>
<td>2. Improvements in recording system - introduction of card system;</td>
</tr>
<tr>
<td>3. Changes in health and safety facilities for employees (including eye shower, medical rooms, drinking water, etc.);</td>
<td>3. Better working conditions in general;</td>
</tr>
<tr>
<td>4. Changes in hours of work and overtime practices;</td>
<td>4. Fire and electricity shock warning signs;</td>
</tr>
<tr>
<td>5. Changes in record keeping;</td>
<td>5. Introduction of free transport and food for workers was requested;</td>
</tr>
</tbody>
</table>

In Bulgaria seven companies and in Turkey nine companies did not cite any major changes to the factory. At least for some of these factories this indicates that conditions were already quite good. For others, there appeared to be a direct correlation between the number of hours the audit takes and the changes that were needed, with short audits requiring small changes in this case. It is interesting to note that seven factories in Bulgaria said they did not see any improvement as a result of the external audits. In one of the factories they say all improvements were a result of internal audits only.

**Question 7/8: Any threatened sanctions; what happens when requested changes are not made?** Most of the factories are told either in their contract or by the auditors that if changes are not made that this will result in a cut in orders. However, it is significant to note that we know about only one company in Bulgaria that was interviewed which actually experienced this. Two factories in Turkey and one in Bulgaria cited that a delay in payment has been a result if standards
are not met. Most companies explained that only child labour violations lead to an immediate cancellation of the contract. All other issues, including overtime, working hours, time keeping, etc., are tolerable in the view of the multinationals these suppliers had experience with, although they do expect changes. It is relevant to point out here that we interviewed companies that both admitted complying fully with all wishes of the auditors and companies that did not. In the latter case, it was made clear that lack of changes were, in fact, tolerated by the auditors (i.e. they look the other way if most of the audit is acceptable).

In Bulgaria, many factories (8 out of 20) did not give an answer to this question; which could mean that they might have experienced some kind of sanction and were reluctant to share this information. Unfortunately, if so, it is difficult to judge how many of these companies had experienced this. It should also be taken into consideration that in Bulgaria, four companies were checked for freedom of association compliance, but in some of these they were asking also for works councils (see freedom of association section below). In any case, the absence of either works councils or independent unions did not lead to any sanctions.

**Question 9: Average cost of the required changes:** This question was asked in the earlier questionnaire: “How much does a social audit cost?” As discussed, there appeared to be some confusion on the part of the suppliers to the question. However, taking into account both the results from the earlier questionnaire and this in-depth questionnaire, one can make a reasonable estimate of how much the audits are costing factories. With this follow-up survey we asked suppliers what the costs of the required changes were as a result of the audits. While a lot of the people interviewed either did not know, were reluctant to disclose this information or described the investments as minimal (a few signs or fire extinguishers), it is clear that the initial costs of an audit can be as high as 30,000 USD in Turkey and 25,000 USD for companies in Bulgaria. These costs go even higher, some companies admit, if they previously did not report all the overtime worked and as a result did not pay any extra social security. This extra cost can be as much as 50,000 USD per year for a medium-size company. The average cost for companies for changes made as a result of the audits seems to be around 2 to 3,000 USD. Nevertheless, it is clear from companies that this figure decreases the more they get audited, as many of the auditors look for similar things.

The average cost of the audits themselves range from 500 and 2,000 USD per audit, depending on the size of the factory, its location and the length of the audit. A few large Bulgarian manufacturers have indicated that the audit cost them as much as 2,500 USD, but this does not appear to be the norm. Most of the time the costs for the private auditors appear to be paid for by the buyer, however, in some cases the contract they sign with the buyer stipulates that the supplier factory has to pay for the audits. In some cases, the buyers require the company to pay for a second audit if they fail the first one.

**Question 10: Commonly cited benefits to factories:** While some factories have indicated that there is no benefit to the company (as many as seven in Bulgaria), the majority of factories did cite some benefits. These responses can be narrowed down to three different categories (in order of most cited):

- Increase in orders;
- Decrease in work related accidents;
- Increase in motivation and productivity of the workforce.

Some of the companies that did not cite any benefits explained that they already had a good management system and practices in place prior to the social audits.

**Question 11: Commonly cited benefits for employees:** In rank of most to least cited (not mutually exclusive; three out of 20 companies in Turkey and two out of 20 in Bulgaria did not see any benefit to the workforce).

1. The working environment is improved;
2. Health and safety environment is improved;
3. Workers become more aware of their rights and receive training;
4. They feel more secure in their jobs;
5. Their job satisfaction, motivation and morale is improved;
6. The workers now have representatives who meet once a month with management;

**Questions 12, 13 and 14: Procedures on checking overtime, working hours and freedom of association:**

**Hours of work**

Hours of work are a priority for almost all auditors according to the companies interviewed. Usually the card system and wage bills are checked for the three months prior to the audit and sometimes workers are also interviewed and social security payments checked. In case there is no card system for employees, in most cases the buyers require the
introduction of such a system. In both Turkey and Bulgaria, the auditors are checking adherence to local legislation, however, an interesting exception seems that some multinationals require payment of minimum wage for interns (local legislation in Turkey, for example, calls for 1/3 of this amount as a minimum). In one particular instance, the factory interviewed stated that the auditors waited outside the factory hidden from view until the factory closed to see if the workers were in fact leaving on time.

Overtime
Any discussion of overtime must also involve hours of work, and the factories explained that the way they check overtime is very much the same as the way they check hours of work. Interestingly, some companies said that auditors did not care about overtime, while others check financial documents, wage bills and conduct worker interviews to make sure the company is complying with the law. A big concern for the majority of auditors in this respect is whether or not the companies pay the appropriate amount of social security payments to the government. Three different companies in Turkey informed that auditors do not give companies a hard time if they exceed the legal requirement on overtime, as long as they pay the worker. The problem in this instance is whether or not they did in fact pay the workers, as this work remains undocumented.

Freedom of association
All of companies informed us that freedom of association is not at all a concern or a priority for the social auditors. In Turkey, six of the companies indicated that the auditors asked management whether or not they are unionised and out of these six one company was asked by the auditors whether they inform the workers of this right. One auditor informed the workers of this right during the interview process and another auditor asked the company to select worker representatives. Although four of the companies interviewed were unionised, they indicated that this did not make any difference in the social audits. Two of these four companies did note that unionisation meant the auditors realized that the workers were generally treated well and were not under any heavy pressure from management.

In Bulgaria, three companies mentioned specifically that auditors checked freedom of association. Usually this is confined to the question of whether or not there is a trade union, but sometimes they try to establish why there are no trade unions, how many attempts have been made in the past and whether or not these efforts were successful. Some of the auditors who work for European MNEs also check for works councils, which has led to some confusion on the part of suppliers unfamiliar with this concept since it has no history in Bulgaria and is not mentioned in Bulgarian legislation.

Question 15: Public disclosure of social audit results: Companies were asked if they would like to see the auditors and/or multinational companies publicly disclose the results of the audits if they did the same for all companies. A commonly cited reason for not doing this on the part of the multinationals is that the supplier companies do not want this information disclosed. Interestingly, nine companies in Turkey and eight in Bulgaria favoured this approach, seeing it as a possible source of competitive advantage. In Bulgaria this number was close to the number of factories that said little or no changes were required as a result of the audit. A further three companies in Turkey and five companies in Bulgaria did not give a yes or no answer. These companies that did not give a clear answer usually responded that they need more information or that they were not ready yet. Two companies in Turkey had an interesting suggestion to share the information between the multinationals so that they could do business with them and another company suggesting that they could share the results with the government.

There were eight companies in Turkey and four companies in Bulgaria that did not want the audits disclosed under any circumstances. Although it is possible that this is related to a bad audit result, they also gave some of the following reasons:
1. The report is auditors’ personal views and a bad result may be because of auditor bias;
2. There is always risk of failing from one audit out of 10 buyer audits. So one small error might stop business with other buyers also;
3. Business-wise, it should stay confidential;
4. A small mistake may seem like a major error when documented;
5. The textile sector is in a very bad condition and competition is increasing everyday.

Machinery sector: Only one company was interviewed in-depth in this production sector; the human resource manager said that they have fixed procedure for an audit twice a year and that this audit differs considerably from the garment and textile industries. During the audits the auditor walks around the factory and analyse the process cycle of the machinery and only a small part of this audit is about social standards. They ask some questions to the manager concerning working hours and they check the card system. The information given by the manager is enough for the auditor. No interviews are ever held with the workers.

An overview of the answers to the follow up questionnaire is presented in Appendix 1.
6. Results of questionnaire to employer and worker organizations

Overview

Selected national and sectoral employer and worker organizations in Bulgaria, Romania and Turkey were sent a questionnaire on social auditing. At least one worker and one employer organization from each country responded to the survey; in total four different employer/exporter organizations and four different worker organizations responded. Of the four employer organizations that responded one was a national confederation, one was an exporter organization and the other two were sectoral garment and textile organizations. Similarly, of the unions that responded to the questionnaire, one was a national light industry trade union, while the other three were affiliated textile and garment sector branches of national unions.

As only open-ended questions were asked the responses varied widely. Moreover, it was clear from the answers given that not all organizations were equally familiar with the subject of social auditing. Consistent with the results of the survey of companies, the social partners in Turkey which have been most exposed to social auditing and codes of conduct implementation were also the most familiar with the subject. Nevertheless, all organizations that responded provided constructive information vis-à-vis their experiences and opinions on codes of conduct and social auditing.

Highlights of results

A series of questions was asked about codes of conduct and monitoring systems in member companies, the highlights of the answers are presented below:

- Estimates on how many of the member companies of these organizations had a code of conduct varied widely. For example, one trade union organization knew of only one company while another stated that all the trade union-represented companies had a code of conduct. Two different employer organizations estimated that 40% to 50% of exporting companies had a code of conduct in place;

- The source of the codes of conduct was almost universally reported to be multinational buyers, although in one case it was thought to be international standards;

- None of the organizations interviewed were aware of any conflict in codes of conduct of any of their members;

- Most of the worker and employer organizations interviewed believed that having a code of conduct makes a difference in labour standards in factories. However two of the trade unions gave qualified answers:
  - “While some buyers take their codes seriously, others are very flexible in monitoring their code, especially the ones that regard their code as an exercise in public relations”
  - “A unilateral code often makes no difference in the improvement of labour standards, codes of conduct agreed between management and unions make a real difference”

- Universally, both the worker and employer organizations believed that rigorous enforcement of a code of conduct makes companies stronger competitively. However, two worker organizations raised concerns; one about the informal economy benefiting indirectly and the other about the lack of uniform standards across different countries.

- A question was asked on the preferred methodology to monitor codes of conduct. Trade unions responded to this question saying that they should be consulted and involved in the process of monitoring codes of conduct. One trade union organization also suggested increasing the number of unannounced visits to factories, as a problem they often encounter is ‘coached workers’ who are told what to say during the auditor visit. On the other hand, employer organizations generally believed that the monitoring of the code of conduct should be left to the discretion of the buyer who is enforcing the code of conduct. (One worker organization also stated this). Also, one employer organization mentioned that monitoring should be voluntary and based on internationally accepted practices. Lastly, one small employer organization (the president of which is also a factory owner) called for a more transparent methodology and universal code that is consistent across different countries;

- The perceived positive and negative consequences for companies deciding to implement a code of conduct are presented below:
Negative
- Instability in orders forces producers to have a flexible informal working environment, contradicting the code of conduct
- Increase in costs, especially for companies not already complying with local legislation
- Having to share confidential information with buyers
- Encourages unfair competition from companies not complying to a code of conduct

Positive
- Easier to pass the audits once you have a code of and conduct in place
- Facilitates long-term planning, new ideas and common-sense solutions
- Adherence to strict CSR standards will become an advantage in the future
- May result in getting more orders / increases market share
- Improves the image of the company
- Increasing productivity
- Realise social dialogue and prevent conflict

- When asked what they prefer, third party or direct buyer monitoring of codes of conduct, all organizations responded that they prefer third party monitoring;
  - Both employer and worker organizations universally believed that third/second party monitoring make a real difference in the implementation of labour standards. As an example, one Turkish trade union pointed out that buyer monitoring helped in greatly reducing the problem of child labour in larger factories in Turkey during the last 7-10 years;
    - The question was asked to trade unions whether or not code of conduct implementation had helped them to organise factories. Of the two worker organizations in Turkey that responded to this question, one indicated that it had helped them change two collective work agreements, and the other responded that they started a collective agreement process in four companies and they are discussing the organization of five more factories;
  - Most employer organizations expressed frustration on behalf of their member companies with large numbers of audits based on different methodologies and codes of conduct;
  - The most challenging aspect of compliance to codes of conduct were (in order of most cited):
    ✓ Freedom of association (All trade unions and two employer organizations)
    ✓ Working conditions
    ✓ Overtime
    ✓ Bookkeeping requirements
    ✓ Discrimination (noted that this is not paid enough attention during social audits)
    ✓ Outsourcing in the informal economy
    ✓ Worker involvement and communication
  - The social partners in each country were familiar with the following organizations and initiatives

Table 16  Knowledge of organizations conducting social audits

<table>
<thead>
<tr>
<th>Turkey</th>
<th>Romania</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA 8000</td>
<td>SA 8000</td>
<td>AVE</td>
</tr>
<tr>
<td>Clean Clothes Campaign</td>
<td>Clean Clothes Campaign</td>
<td>Clean Clothes Campaign</td>
</tr>
<tr>
<td>Fair Wear Foundation</td>
<td>Fair Wear Foundation</td>
<td>OXFAM</td>
</tr>
<tr>
<td>Ethical Trading Initiative</td>
<td>Ethical Trading Initiative</td>
<td></td>
</tr>
<tr>
<td>AVE</td>
<td>AVE</td>
<td></td>
</tr>
<tr>
<td>Fair Labelling Organization</td>
<td>ISCSOS (Italy)</td>
<td></td>
</tr>
<tr>
<td>Fair Labour Association</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workers Rights Consortium</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
At the end of the questionnaire, a space was given for additional comments, suggestions or opinions concerning social auditing of labour standards, codes of conduct or private certification initiatives. Some selected comments are presented below.

Worker organizations

- “These initiatives do not substitute the legislation frame of collective bargaining at the sectoral and enterprise level”;
- “The EU should start enforcing a label of origin system”;
- “Enforcement should, above all, respect the legislative framework”;
- “The audits do not comprise the entire supplier chain in the textile sector. This is why the audit system does not function as intended. Often the suppliers have their subcontractor firms produce for multinationals. These subcontractors are mostly excluded from social audits.”
- “The informal economy is a big problem. It is estimated that there are 3 million people employed in the sector and only 580,000 are registered”;
- “If a company is violating the rules then there is no functional complaint mechanism”;
- “The social accountability of all producers is necessary, as well as the implementation of a single code of conduct (for example SA 8000) which can be monitored by the tripartite partners and coordinated by an international body.”

Employer organizations

- “There is need for accredited companies to perform social audits, monitor the rules, certification and make the organization. The group of services provided by these international origin firms’ agents put a financial burden on many producers. As they can not establish lasting service agreements, the work they’ve done is not long-term.”
- “There is a need to ease the burden of inspection on our member companies by creating one universal code, hereby ensuring that they do not get audited multiple times by different multinational companies that do not share their results”
- “In order to develop the social responsibility in our country we prepared a ‘Social Responsibility Developing Specifications’. This specification is built on the basis of ILO standards, Turkish Labour Law and some criteria of specific buyers. In order to implement this specification a cooperation agreement was signed with the Istanbul Chamber of Commerce and training and implementation activities have been held in some companies”
7. Report on technical meeting of social auditors in Turkey

As part of the project, a one-day workshop was held in Ankara on the 18th of May 2005 to get inputs from social auditors working for multinational brands and private auditing companies. The one-day workshop was a collaborative effort between the ILO and the ‘joint initiative on corporate accountability and workers rights’ (Jo-In, for more information see www.jo-in.org ). Jo-In was established to test the variety of code implementation strategies and develop common guidelines for the interpretation of workplace standards and implementation of codes of conduct.

The 28 social auditors that attended had a lot of experience between them, with some having conducted hundreds of audits over the past several years. The auditors confirmed the ILO’s findings that the vast majority of the factories that are being audited are in the clothing and textile sector. They also reported auditing in the footwear and leather industries and a small number of audits in the machinery sector.

It should be noted that the following does not represent a critique of the social conditions of factories in Turkey, as the majority of auditors present at the meeting have been conducting audits in a number of different countries. The vast majority of problems they cited below were endemic to the industry in general. Where Turkey is given as an example, it merely reflects that specific information is available that may or may not be available in other countries and should be regarded by the reader as a case study of problems that can occur anywhere in the industry. Furthermore, the opinions and figures expressed below are those of the auditors who participated in the seminar and do not necessarily reflect the opinions of either the ILO or the JO-IN initiative.

Group Discussions Overview

Following the introductory presentations by the ILO outlining the aims and objectives of the research on social auditing, the 30 participants were split up into four different groups. Each of the groups was asked to discuss the following topics in depth:

- Freedom of association and collective bargaining;
- Subcontracting;
- Hours of work, wages and overtime

The groups were asked to discuss what they are looking for when examining factories on a specific issue, how they find this information, what problems they usually encounter, and what, if any, remediation practices they employ. Some of the participants expressed concern about the sensitive nature of some of the methodologies employed by auditors, which may tip factory managers on how to pass social audits without making any necessary changes. The discussion that follows therefore does not provide any information on “sensitive” methodologies.

In general, there is a large discrepancy between the power and the influence that brand auditors have as opposed to independent (third party) auditors. Where brands have an opportunity to follow-up with the supplier company, monitor their progress and sometimes even provide training sessions, third party auditors are restricted to sending detailed reports of their findings to the brands that hired them. The follow-up, if there is any, is often done directly by the brand and in this way third party auditors are sometimes deprived of the opportunity to make a positive contribution to the raising of the standards within factories. Other issues, such as trust, communication and general openness are positively affected where there is a direct, long-term relationship between the auditor and the supplier company. Improvement plans for corrective actions are quite common among the brands and usually have a six-month to one-year time frame.

Freedom of association and collective bargaining

Overview

Although some mention is made of freedom of association in most corporate codes of conduct, a reliable estimate from the auditors (two of the groups independently reached the same conclusion) indicates that only about 10-15% of brands give real attention to this topic in social auditing. In most cases, even where attention is paid to the freedom of association, only the managers are asked whether or not they allow unions. However, it should be noted that some
auditors are very advanced in this area and conduct detailed interviews (and sometimes trainings) for employees and management on issues dealing with freedom of association. However, in general, the subject does not appear to be a priority for most auditors. It also is not a major factor in passing an audit. Auditors did report that factories that are unionised have greater stability than those who are not. The number of unionised factories they visit as a percentage of all factories is very small.

Despite the fact that freedom of association is not a priority for most auditors, it does sometimes become an issue for brands if they receive specific complaints from unions and/or employees about anti-union discrimination. A couple of brands reported pressuring the supplier company to hire back people who had been let go because of efforts to unionise the company.

With regards to collective bargaining, it is a non-issue for the majority of auditors. The only time they ask questions about collective bargaining agreements is when there is actually one in place. In this case, the response from the brands is different but usually it is checked against local law and the brands’ code of conduct. One brand recalled a story of how they had to drop a company from their supplier list in a country because the company penalized employees a half day’s pay who were a half hour late.

A lot of the brands look at the issue of freedom of association as a way to improve dialogue and communication between management and employees. They therefore check to see whether or not there are suggestion boxes, complaint mechanisms and/or worker representatives in the factory. Although they realize that this is in no way similar to having union representation (for example, it does not allow for collective bargaining or free and fair elections), they nevertheless see it as a step in the right direction to giving employees a voice and having a more effective workplace. The auditors indicated that some factories have expressed dismay over having worker representatives, because, in their opinion, it is the first step towards unionisation (see below).

**Methodology**

Questions that were asked varied widely. In most cases, because of the relatively limited number of unionised companies, the interviews focused on whether or not employees experienced any anti-union discrimination or had independently elected worker representatives. Even though employees were often found to have been coached in the last area, according to the auditors this is pretty easy to understand after they had interviewed a few different workers.

Examples of questions related to freedom of association:
- Is there a union?
- If there is a union, are workers free to opt in or out?
- Is there any history of unionisation in the factory?
- Has anyone ever tried to form a union?
- Have unions tried to contact workers in the factory?
- Have there been any conflicts, actions and or protests in the factory, if yes, how did management react?
- Are you being prevented from being a member of a union?

Examples of questions to see if the employees have a voice in decision-making:
- Is there a parallel structure for worker representation?
- Are worker representatives freely elected?
- What mechanisms are there to communicate with top management?
- Do you know who your worker representative is?
- Is there a suggestion box?

In addition to the questions above, the auditors often talk to recently dismissed workers and conduct more in-depth follow-up questions to find out whether or not employees have been coached by management to give a certain set of responses. Another tactic employed by some brand auditors is direct contact with the trade union, which often have additional information about the factory, although this may require considerably more effort on the part of auditors who at times find themselves having to sort out conflicting and contradictory information.

In case there is a collective bargaining agreement, this agreement is reviewed and its implementation is checked through employee interviews and job satisfaction surveys. The collective bargaining agreement is checked against the brands’ code and the local legislation.
Challenges

The auditors indicated a large number of problems in the area of freedom of association and collective bargaining. By all accounts, it is a very difficult subject to audit, as there are no consistent benchmarks for the auditors and they frequently receive contradictory information about this subject from management, employees and trade unions. Below are some of the most frequently cited additional problems:

- Management often perceives unions negatively. Some of the suppliers are also uncomfortable with the idea of worker representatives as they think that having representatives can lead to unionisation. The auditors also reported a perception among factories that unionisation means it should shut down;
- Lack of worker training on freedom of association. Sometimes employees are not even aware of what a union is, and even if they are they do not see the benefit of having a union;
- Labour unions are not seen as being effective;
- Brands claim they are neither for or against unions and where freedom of association is an issue, are often willing to accept worker representatives even though they may not be freely chosen or have only limited power;
- There is some competition between the unions to unionise the same factory;
- Auditors reported that workers who want unionisation are sometimes placed in a different section in the factory as punishment;
- Labour unions have made inappropriate approaches to workers in the past. In addition the auditors cited a problem with illegal unionisation, where new union members do not register or at least inform their employer that they are registered as a union member;
- Although courts generally rule in favour of the worker in the case of anti-union discrimination, workers do not want to risk their jobs or risk being looked upon negatively by management and fellow employees;
- Workers are sometimes enticed by management to refrain from forming a union by paying them more than the minimum wage.

Suggestions

The auditors at the workshop made a number of suggestions how to improve compliance with codes of conduct in the area of freedom of association and collective bargaining. Principle among suggestions is the notion that workers and their representatives, as well as employers should receive training on what this right means and what its potential benefits are. This training would serve to overcome some of the existing stereotypes associated with freedom of association and collective bargaining and would address many of the challenges listed in the previous section. It was suggested that this training could come from a variety of sources, including the brands themselves and national or international affiliates of employer and worker organizations. Other useful suggestions included:

- The introduction of dispute resolution centres;
- Broadening the responsibilities of health and safety committees -- in factories were there are no worker representatives -- which are often freely elected and in Turkey are required by law;
- Limiting illegal unionisation and increasing social dialogue at the company, sector and national level to increase collaboration and understanding;
- Increase and publication of research and best practice examples linking productivity increases to cooperation between workers and management.

Subcontracting

Overview

As with freedom of association and collective bargaining, there are numerous problems associated with auditing subcontractors. As a first step, the auditors must determine whether or not the supplier factory discloses all its subcontractors. Particularly in the clothing industry, subcontractors can be numerous, ranging from dye and fabric houses, to printers, embroideries and even home-workers. Also in the leather and footwear industries, the number of subcontractors is usually quite large. Because of these large numbers of different subcontractors in the industry and the reluctance of company managers to share all of them with the auditors, it is often difficult to find out all the subcontractors a company is dealing with. In general, auditors reported that conditions do worsen the further down the supply chain they go, especially with regards to health and safety and the employment of apprentices.
Depending on the requirements of the brands that hired them, private auditors sometimes do audit subcontractors and sometimes do not. Although the auditors gave no estimate during the workshop about how many times they audit subcontractors, auditors that audit on the basis of SA8000, for example, do audit all of the subcontractors -- including home-workers -- of the exporting company.

Most brands that audit their suppliers directly audit at least some of their subcontractors. The main difference between the brands is whether or not they audit all their subcontractors. For example, several brands indicated that they exclude dying and bleaching of the textiles while others indicated that they audit several dying and bleaching subcontractors and then tell suppliers which subcontractors they can work with. The majority of brands present at the meeting indicated that they audit all subcontractors who conduct sewing processes. All brands indicated that they hold subcontractors to the same standards as their principle suppliers. In such a case subcontractors are not disclosed a common policy is to cancel all the orders. In fact, most auditors at the seminar indicated that non-disclosure or lying about subcontractors is a more serious issue for the brands than non-compliance with social standards in the subcontractors.

Because of the recent trends in the textile and garment industry of smaller orders and shorter lead times, exporting companies are sometimes forced to increase the overtime for their employees (see next section) and to outsource some of the production work to other factories. Nevertheless, some of the brands present at the meeting reported greater compliance with regards to this issue in recent years.

The further down the supply chain these factories are, the more difficult they are to audit, particularly when it comes to work being done by employees at night from their homes or work in small apartments that have been converted to production facilities. In the case of Turkey, most auditors indicated that homework is not a significant problem but does occur in some of the big cities such as Istanbul.

Methodology

As is indicated in the previous section, it is very difficult to verify how many subcontractors a supplier is working with. Again, it is often easier for brands that work directly with their suppliers to have a long-term, transparent working relationship where all subcontractors are openly revealed, particularly as the penalty for not disclosing all the subcontractors is cutting the orders. The opportunities that come with having a long term relationship can help the supplier factories make significant changes over time, instead of the one off approach where auditing becomes more of a snap shot of current policies and may be interpreted by the factory owner as 'policing'.

There are a variety of methods that auditors use to see whether or not the company disclosed all of its subcontractors. These techniques include:
- Checking the invoices;
- Conducting employee interviews;
- Interviewing security and/or truck drivers;
- Checking capacity reports of factories;
- Checking dispatch lists and other warehouse records;
- Working together with auditors that control the quality of the product.

A particularly effective method of finding out if a supplier is employing an illegal subcontractor is to inform approved subcontractors that they have been approved. After having made investments to comply with all the standards imposed by the brands, these approved suppliers voluntarily report a drop in orders and tell the brands if their supplier is doing business with 'unapproved' subcontractors.

Challenges

As is indicated above, it is difficult to understand how many subcontractors the supplier companies really have. On the part of the auditor, identification of subcontractors requires very good observation and organization skills. Once an auditor has identified all subcontractors, how many of them can he or she realistically expect to audit? This becomes more and more difficult the further one goes down the supply chain. Also, a more fundamental problem may be to what extend these often small companies should be held to the same standards? Subcontractors are the ones with fewer
resources and are further removed from the brands. As such, do the brands have a responsibility -- let alone the capacity -- to audit them? These are questions that are beyond the scope of this report but nevertheless raise a very important issue that caused some considerable debate during the seminar.

As mentioned in the introduction to this section, auditors usually find a myriad of problems the further down the supply chain they go, no matter which country they are conducting their audits. Besides obvious issues regarding safety and health, other problems experienced by auditors include:

- Lack of social security payments;
- Lack of written records;
- Absence of proper overtime calculation (excessive regular working hours).

As the auditors pointed out, some of these problems may have arisen due to cost pressures on the subcontractor because a financial investment the big producers have in the subcontractor.

Apprenticeships are a problem throughout the industry but particularly with subcontractors. According to the law in Turkey, for example, apprentices are paid a lower wage, have a special contract and need a licensed supervisor. There are also limits on the number of apprenticeships allowed as a percentage of the workforce in a company. Auditors reported that the number of apprentices working for subcontractors frequently exceeds the legally allowed number and that they often work well over the legally allowed time limit.

**Suggestions**

One suggestion that was given quite frequently during the seminar was to increase the internal compliance by supplier companies of their subcontractors. Several multinational brands in attendance at the meeting reported having recently switched to a system where they now require their most important business partners to conduct the audits of their subcontractors. These brands in turn audit only a percentage of these subcontractors every year to ensure compliance. Any change in subcontractors also needs approval from the brands under this system.

Another suggestion mentioned earlier is to inform approved subcontractors that they are the ones who are authorized to supply the factory.

**Working time and compensation**

**Overview**

During the seminar the issues of overtime, free time and wage payments were all discussed together because of their direct relationship with each other. With regards to overtime and compensation, the most significant issue that auditors face is double bookkeeping, which auditors report encountering frequently in many different countries. Most auditors reported that the first time they enter a factory they are almost always shown the wrong books; some companies have as many sets of books as they have buyers. Multiple-bookkeeping is usually done by factories wishing to give the government and private inspectors written records that appear to be fully compliant with the law or, in case of the brand, a code of conduct. The auditors explained that it is a very serious issue for the brands and that they do not work with suppliers that do not pay social security or overtime.

One group of auditors that discussed the issue during the seminar drafted the following list to illustrate the myriad of reasons behind the keeping of multiple records:

1. Unjust distribution in tax system;
2. Inadequate planning;
3. Unwillingness to pay overtime;
4. Low equity capital;
5. Short lead-time to fill orders requiring the supplier factory to work overtime beyond legal limits;
6. Restrictions imposed on SMEs by public authorities.
It should be noted that there are many reasons for double bookkeeping, and that the above list is not exhaustive. Also, the reasons for keeping multiple sets of records are, according to some of the brand auditors, different in Turkey than in China, for example. Whereas in Turkey the intention of double bookkeeping is often to reduce labour costs by avoiding social security payments, in China auditors have at times encountered multiple sets of records because the intention is not to pay overtime or to cheat on the salary.

With regards to overtime, one of the root causes of double bookkeeping, the biggest issue for auditors is compliance with the code of conduct and local legislation. Overtime work must also be voluntary, although this is not always seen as a big problem because workers are compensated extra and need the extra money. According to some auditors, overtime is less of an issue in Turkey than in countries that depend on migrant labour. In Turkey most factories employ workers that live with their families, therefore working days exceeding 12 hours are rare. Nevertheless, local legislation limits the amount of overtime to 270 hours a year, a figure cited as unrealistic by the auditors in the workshop, who estimated that as many as 95% of factories exceed this amount. One auditor explained that 130 hours of overtime a month is quite common during the busy season.28

Wages are another issue that is almost always checked by the auditors. One of the biggest issues with regards to wages is legal deductions from the pay-slips (transport, food, etc), which are unacceptable to many brands, even if allowed by law. In addition, many brands require that minimum wage must be paid in cash. As some of the auditors at the seminar were certified by international accreditation agencies, which have introduced the concept of a ‘living wage’, this was also discussed in the groups. Some auditors when performing international certifications under a particular initiative stressed that the notion of a living wage was defined as the minimum wage plus social benefits. The term social benefits were allowed to include non-monetary payments such as transport and food provided by the company.

**Methodology**

The auditors pointed out at the workshop that there are many different ways in which the issue of working time and payments to employees is audited. Usually the auditors start by checking the last two months’ payrolls, the social security records and interview with the workers. In addition to private closed-door interviews, some auditors report that they conduct group interviews and randomly talk to a few people while they are walking through the factory.

To find out whether or not the factory is correctly reporting the working time of its employees, the auditors have the option to check a wide variety of things. They can:
- Check production reports;
- Check random sample of time cards;
- Check whether there is coaching-interview with the workers;
- Check the entrance records during weekends;
- Check the capacity and shipment reports;
- Check social security payments;
- Check the payments made to the catering services;
- Interview with the guards, drivers and company salesman;
- Check infirmary records;
- Check broken needle records;
- Interview workers outside the factories;
- Check where the workers went for their annual leave;
- Check the leave cards and payment while on leave;
- Check and compare peak season payroll vs. low season payroll;
- Cross check with production department of buyer (this method not open to private auditors);
- Talk to street sellers outside of factories

One of the most difficult points to check for auditors is to determine whether or not overtime is really voluntary. Generally this is done by asking the employees and the management whether permission is asked. However, this may still not mean it is really voluntary. For example, auditors reported seeing signed forms of written consent in fact these sometimes raise alarm bells as everyone may be asked to sign them as a condition of employment. Service buses coming at eight o’clock even though the day “ends” at six o’clock is viewed as forced overtime by some auditors.

28- The labour law in Turkey stipulates a 45 hour working week, with the normal working day of 11 hours at the maximum. So, only after working 11 hours a day, or after having worked 45 hours a week, OT starts.
Challenges

As in the previous sections, the challenges with auditing for overtime and wage practices are numerous. Some of the challenges are specific to the auditing process:
- Auditors must identify whether workers have been ‘coached’ by management to give a certain set of responses;
- They must identify ‘signed’ documents that are not necessarily valid as employees had signed a blank piece of paper;
- It is hard to establish whether overtime is truly voluntary;
- Auditors also sometimes have trouble getting straight answers from employees who may not be aware of everything that is listed on their pay stub.

Other challenges discussed during the seminar are industry specific, such as decreasing lead-time for orders, while others were country specific. For Turkey, one of the challenges is that overtime laws are seen as too restrictive, while the taxes for social security payments are among the highest in the OECD countries. When social costs are added to the taxes (payment for electricity, etc.), the average cost per employee is almost double the minimum wage.

The practice of double bookkeeping often eradicates trust and understanding between the buying brand and the supplier factory. For auditors, it means that they have to follow up with the companies to ensure that this practice is eliminated. If not eliminated, it can have a serious impact on the workers, and may lead to:
1. Less severance payments;
2. Reduced retirement benefits;
3. Less payment in case of a job disability caused by work accident;

One more challenge discussed during the seminar is with regards to discrimination against young workers. By law, their working hours are reduced in some countries, leading supplier companies to eliminate hiring them, in effect encouraging discrimination against the very group of workers the laws are designed to protect.29 One of the brands at the seminar noted that they asked all their suppliers to stop asking for ages of prospective employees in order to discourage discrimination.

Suggestions

The suggestions mentioned by the auditors in this section were numerous, ranging from the specific (running three shifts instead of two), to the general (better planning on the part of both the brands and the supplier companies, for example). A full list of the suggestions is listed below:
- Minimum wages should reflect differences in geographical areas. For example, minimum wages might even be too high in Anatolia, where they are not enough to survive in Istanbul. This is reflected in the fact that auditors note more instances of double bookkeeping in the bigger cities;
- Increased education on overtime standards and more involvement and training from the government;
- Working with factories to fix the problem of excessive overtime by giving more lead time;
- Suppliers must improve their target setting, planning practices and capacity management;
- For garment sector industry suppliers, the bottleneck is embroidery and press sections. The auditors suggested that companies should hire or train more multi-skilled workers to alleviate the problem of bottlenecks;
- Supplier companies should improve relations and communication with subcontractors to eliminate double bookkeeping in subcontracted companies;
- International certification agencies should put more emphasis on the disadvantages of the double bookkeeping;
- Supplier factories should think carefully about the place of the machines (circulation), the location of the workers with regards to the toilets, the cafeteria etc. to reduce downtime.

There was also a discussion about supplier companies which have eliminated double bookkeeping and found that they had actually saved money by focusing on ‘lean management’ to reduce overtime. However, since some of the suppliers lack the skills to calculate their capacities and introduce new systems of management, it was suggested that they should get professional assistance in dealing with issues such as excess stock, value stream mapping, waste

29- In Turkey, for example, apprentices may not work overtime and they have to get 30 days paid annual leave. There also has to be a supervisor with master license to tutor them and the total number of apprentices may not be more then 5-10% of the total number of employees.
management etc. Finally, as a best practice case, one brand observed that in one of their supplier factories, a new finance manager was recruited at a time when the company employed 600 people and double bookkeeping was standard practice. The new finance manager decided to perform a feasibility study and the result showed that double bookkeeping did not reduce the costs.

**Questionnaire for social auditors**

A questionnaire was distributed at the one-day workshop for auditors. Although only seven auditors replied both by email and by written mail, the answers are worth noting. The answers presented below are separated by Multinational Enterprises (MNE) and Independent Auditing Firms (IAF).

**Table 17  Overview of auditor responses**

<table>
<thead>
<tr>
<th>Questions</th>
<th>MNE A</th>
<th>MNE B</th>
<th>MNE C</th>
<th>IAF 1</th>
<th>IAF 2</th>
<th>IAF 3</th>
<th>IAF 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many audits in 2004 in Turkey?</td>
<td>70</td>
<td>450</td>
<td>23</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>35</td>
</tr>
<tr>
<td>How many audits in 2004 in Romania?</td>
<td>30</td>
<td>15</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>How many audits in 2004 in Bulgaria?</td>
<td>5</td>
<td>40</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Are you noticing an increase in audits?</td>
<td>Yes</td>
<td>Yes</td>
<td>No*</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>How long does the social audit last?</td>
<td>1 day</td>
<td>1 day</td>
<td>1-2 days</td>
<td>2 days</td>
<td>N/A</td>
<td>N/A</td>
<td>1.5 days</td>
</tr>
<tr>
<td>In 2004, with how many companies in Turkey did you terminate the contract with because of a failed social audit?</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>What are the major violations you are finding at the factory? Legend below *2</td>
<td>1,4,5</td>
<td>1,2,10</td>
<td>2,5,6,7,11</td>
<td>3,5</td>
<td>1,11</td>
<td>2,3,4</td>
<td>1,4,5</td>
</tr>
<tr>
<td>What issues are the most difficult for companies to comply with? *2</td>
<td>4</td>
<td>4,10</td>
<td>TR- 4,5,9 Ro/Bu- 6,11</td>
<td>3</td>
<td>2,3,9</td>
<td>2,3,4</td>
<td>2</td>
</tr>
<tr>
<td>What issues are the most difficult to audit? *2</td>
<td>4</td>
<td>8,9</td>
<td>2,6,8,9,11</td>
<td>8,9</td>
<td>9</td>
<td>2,8</td>
<td>N/A</td>
</tr>
<tr>
<td>Do you ever consult government labour inspectors?</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

* The company experienced an increase in the length and quality of audits, as they are focusing on problem factories.
*2 Legend: Double bookkeeping (1), Wages (2), Subcontractor (3), Overtime (4), Health and Safety Issues (5), Communication (6), Training (7), Discrimination (8), Freedom of Association (9), Social Security Payments (10), Recording and Management Systems (11).

As seen above, most of the auditors see an increase in the number of audits they are conducting. A notable exception was multinational C, which is now increasing its efforts to introduce ‘sustainable remedies’ to factories, primarily through training. The length of the audits depends on the factory size and employee number but most of the auditors stated that it takes one to two days to audit a factory, which is consistent with our earlier findings in the ‘in-depth questionnaire’ section.

The major violations that companies are finding at the factories very much depend what they looking for. Nevertheless, the issues of double bookkeeping, health and safety issues, wage payments and overtime compliance came up several times. The most difficult issues for companies to comply with were overtime, which was mentioned most, followed by subcontractor disclosure/compliance and wage payments. Interestingly, the issues of discrimination and freedom of association were among the most difficult to audit, even though they were largely excluded from the ‘violations’ and ‘compliance’ questions.

The auditors were given a space on the questionnaire to comment on what recommendations they would make. Most frequently cited here was increased cooperation with labour inspectors (which some are planning), NGOs and trade unions, along with an increased focus on rectifying and preventing rather than merely identification. Another issue that was frequently cited was a call from the auditors -- which was echoed by different factory owners -- to develop one common code of conduct, against which all companies can be audited. To achieve this, some of the auditors also called for increased cooperation between the brands and independent auditors.
8. Case studies

The pages that follow contain eight case studies of companies that have had experiences with social audits. They were not randomly selected because not all companies that were surveyed had experience with social audits and more importantly, were willing to openly discuss their experiences. In Turkey, 25 companies were contacted through email and telephone. A total of three companies out of these 25 agreed to a visit for an interview. Another two companies in Turkey were contacted because of personal connections and also agreed to an interview. In Bulgaria, a similar number of companies were contacted and only two agreed. In Romania, out of 25 companies that were contacted, none agreed to a case study. However, the consultant that was hired in Romania used his personal contacts to interview two companies that were not part of the initial questionnaire. All of these nine factories were visited on-site. The reason that only eight are included below is that in one of the companies the information received was very similar to another case study.

As shown by the earlier results of our survey, social audits are most prevalent in the textile and garment sector. The ILO purposely contacted companies in sectors other than textile and garment industries but unfortunately all the companies that were asked declined. Therefore, all eight case studies are of companies in the textile and garment industries. One possible explanation for this is that there seems to be a direct correlation between the experience with social auditing and the willingness of companies to share; that is the more they are familiar with the process, the greater the openness to share their experiences.

In order to get companies to share their experiences openly with the interviewer, complete anonymity was promised. Thus, the company names and their locations have not been disclosed. All companies were visited on-site at their factories and in the majority of cases the factory floor was visited. In one case study the manager also agreed to worker interviews.

Before the factory visits, a list of open-ended questions was prepared that the factory managers could elaborate upon. Most of the time the owner/manager met with the interviewer and, in the majority of cases, they had some comments and or concerns that were a direct result of the open-ended nature of the questions. For example, one company had a lot of suggestions on how to improve the auditing process, while others talked about the costs of social audits, and yet others focused on the apparent lack of benefits. Most interviews were between two and four hours, and in the majority of cases the companies read the case studies and gave their approval.

Initially, a detailed cost benefit analysis of the social audits had been proposed for each of the companies that were visited. However, the majority of companies estimated their costs and benefits to be relatively minor. Moreover they were often reluctant to disclose detailed financial information about their company. During the interviews, it became clear that the same methodology could not be followed in the write up for the companies, because of the different nature of the information received. The case studies that follow, therefore, vary somewhat in their information and style. However, all of them have important information about the nature of the auditing process and its impact on both the company and its employees.

The names of the companies, their buyers and location of the enterprises have been altered to protect them from any liability as a result of these case studies.
Company A

“In my point of view, there should be some type of ranking list or an announcement of results involved after these tests. The companies should be known and seen more after the evaluations and results need to show the difference(s) between companies’ working conditions all around the world...”
- Senior manager, company A

Brief history

Company A, located in Istanbul, is an integrated textile and garments company that was established over 50 years ago and currently employs over 1,700 people. The company offers its clients a broad range of products, which includes dyed yarn and dyed fiber fabrics, as well as a full range of finished apparel products. It produces some 25 million meters of fabric and 3 million pieces of fabric every year that are exported to European and North American markets.

The company was unionised by TEKSIF about 30 years ago and is one of only 19 companies in Turkey that are unionised in this sector. The union is a very important aspect of their corporate culture. All the workers are unionised and when the company recruits a worker for the first time initially they ask him/her is if they want to join the union.

Social Auditing

Company A produces clothes and textiles for six multinational companies and last year they were audited by four of them. These audits started five years ago. The multinationals that audit them have so far only been interested in auditing the confection part of their enterprise; they are not interested in auditing the part of their company that produces yarn. According to the human resources manager, they have no problems with the social audits, but as indicated above, they wish that the audits themselves would provide a more tangible benefit for the company. Nevertheless, the audits have proved helpful in identifying problems that otherwise go unnoticed.

The typical social audit takes about one day and they normally follow this procedure:

1. Opening session;
2. Observing the factory;
3. Observing the machines;
4. Interviewing the workers;
5. Analysing the files (child labour, overtime);
6. Closing session (in this session they normally underline any problems found);
7. Writing of the report.

The auditors that have visited their factory are especially interested in improving the physical conditions, such as lighting and fire exits. They also check minimum working hours, workers’ salaries and overtime, according to local legislation and the collective bargaining contract. Moreover, they check the union and examine their collective bargaining contract as well as the registered documents. In their estimate, 80% of the items checked by the multinational companies are always based on national legislation and therefore are the same. The other 20% is the prerogative of the multinational and is different depending on what is specified in their code of conduct.

Increasingly, the auditors that visit their factory work for private auditing companies. In the opinion of the sales manager this tactic is not beneficial to anyone: “These private companies send reports after the audits but nothing happens afterwards. There is no continuous monitoring system. There is no penalty. Only if you have a major problem are orders cut as a penalty, but we have never experienced this.” The buying multinationals usually give company A a two-month period in which to fix any problems identified during the audit. However, according to the factory manager, they often do not check if changes were actually made and typically they forget about the problems after five months.

“Once you comply with the standards then things start moving easily but there is always something for the auditors to check, so even if the audit is passed they come back after a year or so,” the factory manager explains. When the company was asked what changes they have made as a result of the audits, they responded that most of the changes were needed anyway and a lot of times it is a question of simply complying with legislation and providing decent...
working conditions. One of their buyers asked the company to buy an eye-washing machine for the workers, but most are only concerned with small physical changes. Nevertheless, when another buyer noticed this, they themselves thought it was a good idea and decided to make eye-washing equipment a requirement in their audits also.

When asked to identify the costs associated with the social audits, the company managers explained that both the costs and the benefits are negligible. In their estimate, the cost to the company in terms of education, documentation and investments needed to maintain their status as a good company is less than 0.5% of revenue. Last year this cost them around 75,000 USD, but only a small amount of this total can be attributed directly to social audits. As far as benefits are concerned, company A has yet to see any positive consequences of successful audits. They also stated that there are no benefits for the workers even though they are aware of the audits. However, after a few-second pause, the managers did admit that the audits could be a motivating factor for the workers, as they have improved the physical layout of the factory. Some auditors evaluate worker posture, well-being, focus and overall attitude during the audit and have given specific recommendations on the ergonomics of the workplace.

**Suggestions and comments**

According to the management of company A the audits should be conducted using the same standards all over the world. Currently, the buyers take the national law of the country as the only base. There is no form of international ranking and company A would like to see the entire process become more transparent. This, in their opinion, would result in increasing competition among supplier companies on social conditions.
Company B

“There is a large difference in the way multinational companies conduct their audits and the experience of the auditors. Sometimes the auditors are very knowledgeable and at other times it is very easy to deceive them …”

- Human resource manager who is also a labour lawyer and is responsible for dealing with social audits

Brief history

Company B was first established in the 1980’s as a small workshop. Since then it has grown rapidly by focusing mainly on the textile and garment industry. The company is now composed of six different companies that operate in different locations throughout Turkey. Recently, the company switched its business strategy to concentrate more on different industry sectors and this has led to a decrease in the number of workers at their flagship garment sector company. From a high of 1,500 workers three years ago, the company now only employs around 700 workers, with most of the decrease coming last year. The workers are paid at least minimum wage.

Social auditing

Company B is very experienced in dealing with social audits. Although the first social audit was only conducted as recently as 2001, since then most of the big brands operating in Turkey (multinationals based in Europe and North America) have at one time or another audited them. The human resource people interviewed graded the companies on their performance in the field of social auditing and told of the vast differences that exist in the way the audits are conducted. A sample of the differences is outlined in Appendix A to this case study, which compares the auditing practices and the impact of the audits of five different multinationals.

According to the human resource manager interviewed for this case study, some of the best social audits are conducted by MNE A, as the social auditor is very knowledgeable and an expert in her field. Generally the auditors are very young and are lacking in their knowledge of the subject area, especially in legal aspects. Therefore, it is sometimes easy for a supplier to manipulate these auditors, resulting in a loss of credibility and trust in the auditor.

If a problem arises during the social audit in the compliance with some of the standards, but if there is no problem with quality, production and timely delivery, then the buyer is likely to tolerate the problem and continue with the order. For instance, when company B prepares a very professional package prior to the audit that presents the company in a very positive light but nevertheless does not meet all the requirements of the buyers’ code of conduct, it is normally accepted without any further questioning.

Even though large differences exist in auditor requirements, the process of the audits is usually the same:

1. Opening session with management;
2. The auditor go for a walk around the factory;
3. Interview with some of the workers;
4. Checking the health and safety practices;
5. Analysing the documents (overtime, entrances and leave times, social security);
6. Closing session;

Company B also has its own internal audits based on the criteria asked by the buyers and this is seen as a preventative measure because the buyers sometimes visit the factory without prior announcement. The company does not comply with the local Turkish legislation, which limits the amount of overtime to 270 hours, but most buyers are tolerant of this.

While the company follows all the basic standards -- paying social security, having a no discrimination policy and respecting basic human rights -- they do admit that the owners are somewhat reluctant to invest more significantly in social standards. Not all the recommendations the middle managers make to senior management get approved. For example, last year the auditors requested that a respiratory system be put in place but this was not done. The main reasons that these changes are not made is that senior management is more concerned with investing in other industry sector holdings and also that there is resistance to change. This last point can be attributed to a lack of open communication channels and the fact that it is still a family business where the owners make all investment decisions.
In the opinion of the human resource management, the social audits do have an impact on the workers lives in the following ways:
- They are more aware of their rights; the codes of conducts of all of their major buyers are posted on the production floor;
- The number of work-related accidents at the main factory has decreased as a result of the code of conduct implementation. In each company there is now one person who is in charge of health and safety matters. This has benefited the employer as well as the employees as accidents are costly financially and non-financially;
- The social audits have resulted in increased dialogue between middle management and the workers at the factory.

Despite these benefits, the biggest concern for workers is wages, as explained by the manager.

Finally, the costs of the social audits to company B have not been significant. For example, last year when they prepared one of their sister companies for their first social audit they spent 2,000 USD. An average cost of the changes made after each of the audits is also reported in the table below.

Table 18 Comparison of buyer methodologies in conducting social audits in company B

<table>
<thead>
<tr>
<th>Question</th>
<th>MNE A</th>
<th>MNE B</th>
<th>MNE C</th>
<th>MNE D</th>
<th>MNE E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of times audited last two years</td>
<td>3 times</td>
<td>Only first audit</td>
<td>2 times</td>
<td>1 time</td>
<td>3 times</td>
</tr>
<tr>
<td>The people who audited you, who did they work for (consultants or other)?</td>
<td>They are working for independent auditing firm and connected with CSR department of the MNE</td>
<td>They are connected with purchasing department</td>
<td>They are working for MNE and connected with CSR department</td>
<td>They are connected with purchasing department</td>
<td>They are working for MNE and connected with CSR department</td>
</tr>
<tr>
<td>Average length of audit and typical procedure</td>
<td>One day</td>
<td>Only one day</td>
<td>For one or two days</td>
<td>One day</td>
<td>From one-three days</td>
</tr>
<tr>
<td>Knowledge of auditors (goot/nexperienced, etc)</td>
<td>Good</td>
<td>Not experienced</td>
<td>Average</td>
<td>Average</td>
<td>Average</td>
</tr>
<tr>
<td>Priorities for auditors (H&amp;S, discrimination, etc)</td>
<td>Everything</td>
<td>H&amp;S</td>
<td>H&amp;S</td>
<td>No priorities</td>
<td>H&amp;S</td>
</tr>
<tr>
<td>Any required changes in factory practice as a result of these audits (please describe)</td>
<td>- To form discrimination, harassment policy, - H&amp;S shape changes To increase compliance with local law</td>
<td>-H&amp;S shape changes</td>
<td>No</td>
<td>-Internal - H&amp;S shape changes</td>
<td></td>
</tr>
<tr>
<td>Any threatened or otherwise enforced sanctions if the changes are not made?</td>
<td>- Problems occur with the management - Loss in trust in the supplier because changes promised not carried out - Negotiation is preferred, no unexpected reactions, sanctions will be imposed as order deductions in the future</td>
<td>No</td>
<td>- Problems occur with the management Loss in trust in the supplier because of promises not held - Negotiation is preferred, no unexpected reactions, sanctions will be order deductions in the future Can cause order deductions in the future</td>
<td>No</td>
<td>- Problems occur with the management Loss in trust in the supplier because promises are not followed up on - Negotiation is preferred, no unexpected reactions, sanctions will be order deductions in the future Can cause order deductions in the future</td>
</tr>
<tr>
<td>What happens if the requested changes are not made?</td>
<td>Can cause order deductions in the future</td>
<td>Not specified</td>
<td>Not specified</td>
<td>Not specified</td>
<td>Can cause order deductions in the future</td>
</tr>
<tr>
<td>Average cost of required changes?</td>
<td>2,000 USD</td>
<td>N/A 1,500 USD</td>
<td>300 USD preparation costs</td>
<td>3,000 USD</td>
<td></td>
</tr>
<tr>
<td>Any benefits incurred to the factory as a result of these changes?</td>
<td>Decreased accidents</td>
<td>No</td>
<td>Increased accidents, Easier contracts from MNE</td>
<td>Decreased accidents</td>
<td></td>
</tr>
<tr>
<td>Any benefits to the workers as a result of the audits? (Whether they are aware of them or not)</td>
<td>They are much more aware of their rights Increased dialogue</td>
<td>No</td>
<td>They are better aware of their rights</td>
<td>No</td>
<td>They are much more aware of their rights</td>
</tr>
<tr>
<td>What did the auditors look for in terms of hours of work, overtime and freedom of association (How is it measured; is it a priority?)</td>
<td>Time cards record - Official documents</td>
<td>Time cards record - Official documents</td>
<td>Time cards record - Official documents</td>
<td>Time cards record - Official documents</td>
<td>Time cards record - Official documents</td>
</tr>
</tbody>
</table>

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Company C

“Complying with social audits can be a competitive advantage, especially if you make sure that the auditors document all the good things about your factory, even when they are not asked …”

- General Manager, company C

Brief history

Company C, a garment and textile company in one of Turkey’s largest cities, was founded in 1983. The company is currently a supplier to five multinational companies and produces about 1,200,000 pieces of garment a year on average. In anticipation of the elimination of quotas on Chinese textile exports in January of 2005, the company has invested heavily in automation. As a result, it lost 80% of its workforce, going from a high of 400 employees to only 80 employees today. The jobs lost were mainly in manufacturing, but the company also outsourced both its food and security services. “We cannot compete on the basis of labour costs, quite simply my labour costs are up to five-six times as high as other countries’ I am competing with,” explains its general manager. Having made the necessary changes, the general manager is optimistic about the future prospects of the company.

Company C currently has five different firms to which its subcontracts work. These companies, like company C, fill orders for multinational companies and get audited on their social conditions. They constitute about 20% of company C’s total turnover. As part of this case study, DEF textile, one of the main subcontractors to company C was also visited, and several of their workers were interviewed. DEF textile has 30 employees and gets contracts exclusively through its relations with company C and has since recently been supplying two multinational companies with garments.

This case study will look at the experiences of company C and DEF with regards to the social audits.

Social Issues at the Factory

By all accounts, the owner and general manager of company C believes in treating the employees well. He offers a gym, a cafeteria and health care check ups to his employees. In addition, his employees are allowed to take food home to their families and a nutritionist offers workers advice on daily food allowances and calorific intake. In the beginning of 2003, when 46% of the factory workers voted to become unionised, the company allowed the union to be established; although by law he was not required to do so (the legal threshold is 50%). “It is easier to have a union, before I had to deal with the individual concerns of all my employees but the union can take some of that away from me,” he explains. Nevertheless, with the number of employees diminishing in size, he explains that many people have opted out of the union, which currently has only 17 members out of the 80 full-time employees. “The majority of people did not see the benefit of being in the union, many of my employees that are left have been here for 15 to 20 years and they do not notice any significant difference.” He insists that when people were let go because of the necessary downsizing, an equal number of unionised and non-unionised personnel were laid off. He mentioned that he still has good relations with the national union in the textile industry, Textil İş. The subcontracted firm, DEF, is currently not unionised.

The biggest issue in both firms with regards to social conditions appears to be overtime and hours of work. By law, employees are not allowed to work more than 270 hours of overtime per year, but, as explained by management, the nature of the industry and the until-recently restrictive government policies on hiring part time workers makes it difficult to comply with this regulation. Especially during the peak times of the year -- summer and fall -- the workers were often asked, but never forced, to work overtime. Because of the extra income associated with the extra work, the workers were usually happy to comply. The general manager stated that the government inspectors understood this issue well and were usually lenient on this issue, however the social auditors were generally more rigid in their interpretation of the law, insisting that the company hold its employees to a maximum of 270 hours per year.

Social Auditing

Company C has been the subject of numerous social audits over the years, starting in 1989. On average, around five different social audits take place every year. Generally these audits are conducted by multinational companies or by independent auditors at the behest of buyers. These auditors initially conduct one or two visits to make sure their requirements are satisfied and after they visit once a year or once every two years to check up. They usually examine a wide variety of issues, mainly in the areas of physical working conditions, compensation and time worked for employees. According to the company, the audits do not cost a lot and in the past where the company has made investments to comply with the audits it has brought them benefits in the long run.

Company C is unique among audited firms in that they are also certified by some of their supplier companies to conduct audits themselves. In fact, the manager explained that he has asked two major multinational firms if he could come and audit the headquarters in their home country. “I inspected two multinationals and let me tell you, even they do not comply 100 percent with the standards they set for their subcontractors,” citing violations in factory ventilation as an example.

In the past, company C has never had a contract rejected because of a social audit, but it has received several threats from the social auditors that their contracts may be cancelled. However, in company C’s experience, these
threats have never led to sanctions. Usually, the buyers come in three stages, first, the procurement people visit the factory and they are very friendly. Second, the quality control people come to the factory and they are also friendly. Finally, the social auditors come and if they find something wrong they immediately take a more confrontational approach, threatening that they will cancel the orders if the company does not make the necessary changes right away. For the management of the company this is, in their eyes, the wrong approach, especially as the quality of the auditors is not always so good. “Sometimes I get young, inexperienced people tell me what to do and this is hard to take,” explains the general manager, continuing; “The law is made to protect people. Those people are looking at the law as a means of punishment and they recognize it in a mathematical manner. However, we need to look at law in terms of its reason.” In his opinion, rather than a confrontational approach, they should work together with the company to try and rectify the situation or make improvements. Yet, as was the case with the overtime issue described above, the company complains that the auditors care only about the letter of the rules, and not the intent. “The government inspectors understand that it is a necessary condition in the industry and they take into account the good working conditions, the relatively minor number of hours above the limit and they let it go, but the auditors always make a big issue out of this.”

The factory general manager believes compliance with social audits can be a competitive advantage. His advice for fellow factory owners is to always show your positive points to the auditors and that even if they don’t ask for them to make sure that they are put in the report. For example, as mentioned above, the company provides a gym, free health care checkup facilities, a balanced diet advised by a physician and a garden for the employees. No one ever asks the company if they have a gym or a garden, but this shows that the company cares about its people and this can be a competitive advantage if it is documented in the auditors’ reports. Similarly, he is surprised that auditors do not ask what the employee turnover is, something that has always been very low at company C as the general manager is quick to point out.

**Problems with the Social Auditing Process**

The main problem for company C’s owner is that the companies conducting the audits are not actually interested in improving the lives of the people working there. As an example, he offers the fact that auditors check health and safety issues but do not check the kind of food a company provides or what the source of the food is. In his opinion, the companies conduct the audits because they are interested in protecting their trademarks and to decrease the liability conditions at supplier-companies could have on their brands. They also do not want to give the consumers any reason to question why they are charging so much for their garments. “When items are made in poor conditions and then sold for eight times their costs, it reflects very badly on the company, as the consumers react negatively when they add value to labour because if you are paying a worker 1 USD a day then how can one talk about social standards or bringing added value to the living conditions in a particular country?”

In the future, the company wishes that multinationals conducting the audits would be less reactionary and more opportunistic. Rather than try and defend the company from a possible liability, they should see social auditing as a genuine opportunity for the company to market itself and build a closer working relationship with the supplier, where they actually care about what is happening at the suppliers’ factories. He also suggests healthy competition between companies, that is, factors in social conditions would benefit both the buying and selling companies.

As the general manager points out, one of the biggest problems in the field of social auditing is the fact that the sourcing department and marketing department of the buyer is oftentimes not directly connected with the social auditing department. In this way, the product is neither marketed as socially responsible nor is their any guarantee for the producer that their adherence to social standards will lead to consideration for continued contracts in the future. Especially with regards to marketing, the general manager of company C suggests that an opportunity is being missed. For example, he points out that one multinational markets its products as ‘ecologically friendly’ but they do not market the fact that the production process is ‘ecologically friendly.’ Similarly, the general manager of company C believes companies should start marketing the fact that products were made under socially friendly conditions. He suggests that business will indeed be able to benefit from this approach, as they will be able to market the social conditions in their factories to the consumer. In this way the company would focus not on punishments for bad behaviour but on rewards for good behaviour while emphasizing inter-dependency. In short, the buyers should exploit the positive marketing aspect of working with good factories that maintain a high level of standards in terms of social responsibility and working conditions and encourage other factories to behave in the same way.

**Specific Issues on Social Auditing**

**Showing of accounting books**

The general manager at company C explained that some multinationals now want a full disclosure of all accounting bookkeeping. He would be happy to share some financial information with them if they want to see that they are complying with the law, for example if the company paid the social security tax for its employees. However, some multinationals require full disclosure of all financial information as part of a social audit, which is, in company C’s opinion, neither necessary nor relevant. By opening the books the company would involuntarily disclose to the buyer the overhead costs, loans, cost of equipment, etc., which may influence buyers’ decisions to do business with the supplier while it has no relevance to the social standards of the factory.
Selection of questions

Each buyer has a list of questions for the company, and it appears as though they are competing with each other to have the most comprehensive set of questions, even if they are of no relevance in Turkey. For example, in some instances suppliers have asked workers if they have been held prisoner. In other instances they have asked workers “Does your employer pay your wage?” Often the workers see this question as an opportunity to voice complaints about low wages etc. In the opinion of company C’s management, these questions force employers and workers against each other, even giving some workers the idea that they can go to the multinational if they lose their job or want a raise, thinking that if they lose their job the employer should also lose his job. Although the general manager explains that this never happened at his factory, it has indeed happened in some other factories that are run by his acquaintances.

Flexibility

As previously mentioned, sometimes the auditing company takes its own rules too literally. For example, there are specific guidelines that the decibels should not exceed a certain threshold. In company C’s factory, a lot of new machines were installed over the last few years. When these machines move, they give a warning signal, both as a flashing light and as a siren. However, the siren sound exceeds the threshold allowed, and some of the auditors have complained about this. Nevertheless, company C would never consider taking away, or diminishing the noise emitted by the machine as the priority in this case is clearly the safety of the workers, who may be hit by a machine if they do not hear that it is moving. The larger point here that the manager of company C was trying to make is that the auditors should not be too rigid in the implementation of the rules as sometimes situational circumstances need to be taken into consideration.

Experiences of the Subcontractor

The subcontracted company, company DEF, also makes finished garments for exports. As mentioned, it has roughly 30 employees and is located nearby the parent company, company C. During the course of 2004, it was audited eight times by one multinational (MNE A) and one time by another (MNE B). The company supplies two more multinationals with garments but the orders are so few that they do not get audited by them.

The company had recently been granted permission to supply products to MNE A after a series of audits that lasted one and a half years. The reason why these audits took a long time was not because of the social conditions, however, but rather because of the process of garment manufacturing. Also, it became clear while visiting this factory that the reason why MNE A had gone through such lengths to certify this factory was because of its good relations with company C. Nonetheless, the series of audits conducted by MNE A included the social conditions within the factory. The social audits had three parts: social security, health and safety and code of conduct. There appears not to have been major changes as a result of these audits. This was later confirmed by the workers, who indicated that they saw only a few changes in the physical conditions of the factory as a result of the audits.

The workers interviewed generally saw the external audits as a good thing and they appreciated the fact that the companies cared. This being said, they did not notice any real differences (except for a big arrow on the floor pointing to the exit).

According to the workers, interviews with auditors included the following topics:
1. Working time;
2. Hygiene;
3. Social security;
4. Health insurance;
5. Overtime (whether or not forced);
6. Meal and break times;
7. Off days;

The owner of the factory did not mind the audits, although he wishes they were more consistent in their implementation and actually led to some guaranteed contracts, which does not happen. He explained that in rewarding the contracts, both MNE’s they did business with rank social standards last on their list of priorities, ranking their priorities as follows:
1. Price;
2. Quality;
3. Time of delivery;
   The policies between two companies also differ in this respect. MNE B is ruled by the people whereas MNE A is ruled by the system (computer). So the terms can be negotiable with MNE B but not with MNE A.
4. Process control;
5. Social standards.
As the table below illustrates, there was also considerable difference in the way in which the two multinationals conducted their audits. While MNE A demanded that the company make a few changes to its procedures and physical safety equipment, MNE B asked nothing of the company after the social audit. Interestingly, MNE B’s audit took place well before MNE A started their audits and they asked similar questions and followed a similar procedure (factory walk-through, examination of books and interviews with management and workers).

Table 19  Difference in methodologies between the audits

<table>
<thead>
<tr>
<th>MNE B</th>
<th>MNE A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Announced visit well ahead of time</td>
<td>Unannounced visits</td>
</tr>
<tr>
<td>Checked once at the beginning of contract</td>
<td>Checked a reported three times during a year and a half before granting permission as a supplier</td>
</tr>
<tr>
<td>Checked all issues but not thoroughly</td>
<td>Checked all issues rather seriously Insisted on changes that included:</td>
</tr>
<tr>
<td>Did not insist on any changes, not detailed</td>
<td></td>
</tr>
<tr>
<td>in implementation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Well marked exits</td>
</tr>
<tr>
<td></td>
<td>- A hand rail for the elevator</td>
</tr>
<tr>
<td></td>
<td>- A clock in/out system for employees</td>
</tr>
<tr>
<td></td>
<td>- Exit lamps</td>
</tr>
<tr>
<td></td>
<td>- Covering of municipal trash bin outside building</td>
</tr>
<tr>
<td>Total cost to the supplier is very little</td>
<td>Total cost to the supplier: would be 15,000 USD if a system to track employees is installed, however they are using system of parent company nearby. The driver takes the ID cards of the employees every morning and drives them to the other factory to sign in the workers. The total cost covering the implementation is around 5,000 USD now.</td>
</tr>
<tr>
<td>Checked only social audit issues during visit</td>
<td>Checked process and performed social audits at the same time</td>
</tr>
</tbody>
</table>

Problems with Social Audits in Subcontractor

Like company C, one of the biggest complaints the factory owner had vis-à-vis the social audits was that even though the audits were done by one or two people who checked both the process and the social conditions, the departments they reported to at the MNE A headquarters had little or no communication between them. One of them deals only with quality issues and procurement while the other department deals only with social conditions.

Again, as in company C, the general manager found that the questions the social auditors ask are sometimes very irrelevant (One auditor reportedly asked a worker, “Are you tortured by your employer?”). According to him these forms also should be revised according to the economic and political conditions of the countries. Also, the recruitment procedure is not very easy to implement, as they require company DEF to post wanted ads without any specific criteria to eliminate the chance of discrimination. The general manager of the factory doubted very much that the same was being done in countries like Bulgaria, China, Indonesia etc.

Comments and suggestions

This case study provides numerous examples of lessons learnt from the experience of being audited and also cites some of the problems associated with social auditing. However, during the course of the factory visits, the managers interviewed also had some suggestions to improve the process of social auditing. More specifically, they suggested that:
1. A process should be designed that allows for continuous auditing, with mid-level managers and worker representatives reporting directly to the multinational if any problems occur or just for a regular check in;
2. The auditors should make clear to the workers what type of job they are doing, also the questions should be checked with local managers beforehand to make sure that they are relevant to the local conditions and will be easily understood by the workers;
3. Auditing should be done by the same department that does the procurement/buying/ quality control, and this department should have a direct link with the marketing department;
4. Competition among suppliers on social conditions should be encouraged. Full disclosure by multinational companies on their social audit findings would start such a process;
5. The ILO or another international organization should publish widely accepted guidelines on how to conduct social audits and what kind of questions to ask.
Company D

“So far I have complied with all laws and regulations as a responsible citizen. But nowadays I have this list in my hand to think about which workers should stay and which should go. Then my conscience does not allow me and I leave the case for the next day. I decided not to abide by rules in order to avoid making life more difficult for these people …”

- CEO and owner of company D, commenting on the increasing cost pressures and competition as well as the pressure for the firm to abide by strict laws and regulations

Brief History

Company D was established in 1992 as a workshop where larger firms outsourced their product components. Since that time it has grown and it now has regular orders from four major customers. The plant is located in a large two-story building on the outskirts of one of Turkey’s largest cities. The building used to be owned by another textile firm before, into which company D moved upon the collapse of the previous company. Since they rent rather than own the building, company D cannot currently initiate restorations or changes to the building, although they plan to upgrade the facilities in the future. The company currently does not have any quality system certificate.

Company D currently employs 260 workers including those in four outsourcing units located in the same plant. One hundred and eighteen of these workers are female and the remaining 142 are male. Worker turnover is around 20-25%. Company D has many subcontractors and four of those outsourcing units are located in the same plant, forming different links in the chain of production. The owners of these units also work as production line managers and each one of them pays his own employees. The subcontractors are also responsible for the workers’ security, premium payments and overtime payments; although company D takes the responsibility of making sure the subcontractor firms comply with the code of conduct of the multinational companies. The owner of one of these firms used to work for company D and the CEO explained that this works as a motivating factor for workers employed by company D, hoping that someday they too might become an owner of their own business. The subcontractors, which are located outside the plant, are also subject to social audits. The human resource person of company D accompanies these social audits.

Some subcontractors are moving out to their own buildings at the moment, so the company is going through some changes. One subcontracting firm is under the supervision of MNE A and it rearranged the building according to MNE-A criteria. These subcontractors did not take orders from firms other than company D before, but now they are beginning to take orders from them as they are making changes in their way of doing business (this can be partly attributed to the social audits, which caused some of their subcontractors to have a direct relationship with the MNE’s).

Context

Facing increasing cost pressures from other countries, as well as a relatively strict regulatory environment, the CEO was keen to share his thoughts on the state of the industry after the elimination of textile and garment quotas earlier this year. “If a few of the big multinational firms ordering products in this city leave, it would be a serious threat. These firms are not engaged in massive production in China, but their preliminary contacts are in progress.” He believes that Turkey should raise its present level of employment in the sector in order to compete effectively with other low-cost countries. He suggested that the present level of employment could be raised by 25% if minimum wage is exempted from tax.

The owner explained that recently, the quality of the finished product is getting less attention than the cost or the speed at which a product can be delivered. Whereas before the average lead-time for finished items of clothing was eight weeks, now it is only five weeks. Also, the owner believes that company emphasis on social conditions within factories was much greater a few years ago than it is today. He explained that this is mainly because of the recent poor economic performance of the European Union, whose companies are facing increasing cost pressures.

Social Auditing

Company D has been subject to social inspections since 1997. When these audits first started, the company used to receive frequent visits from multinationals, but now the company receives only about one to two visits each year on average. Currently, two of the four companies that buy products from company D conduct social audits at the factory. Although the auditors inspect the records from all subcontractors, the human resource person from company D usually accompanies them and company D takes the overall responsibility for their performance in the social audit.

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30 For the purposes of anonymity, in this case study they are named as MNE A and MNE B
The social audit inspections have been effective mainly in terms of training the staff on social issues and improving health and safety practices in the company. In order to increase the compliance with social audits company D has hired a retired labour inspector who conducts internal audits. This inspector visits the place twice a month and also gives trainings and completion certificates to trainees.

A report outlining the results of inspection is usually given to the company and a time period is agreed upon if this report stipulates some modifications and/or improvements. A longer time period is given for arrangements that bring along some financial burden. An example of the summary of such a report is given in table 20 on the following page. Company D complied with all required changes outlined in this report.

The priorities for social auditors who have visited company D include:
- Notification and certification of subcontractors;
- Payroll and other monetary compensation to workers;
- Child labour issues;
- Health and safety concerns;
- Broken needle procedures;
- Evacuation plans;
- Overtime payments (only MNE B).

Multinational A has been conducting audits in the company for quite some time. It sees Turkey as a well-established quality and volume production base. It had production in Bangladesh at one time, but stopped producing there as a result of low quality. As such, its primary focus is still on quality but it nevertheless takes the social issues seriously, especially issues concerning child labour, outsourcing and health and safety. When company D first started to supply MNE A, the company found an underage minor working in one of the subcontractors to company D and immediately told company D to cancel all contracts with this company.

Multinational B recently began auditing company D. At first, an auditor from the multinational came and did a superficial audit. A few months later, company D was told that an auditor from a private consultancy would come to conduct a social audit and that they would be responsible for the costs of the audit (1,000 euros). Although company D did not particularly like having to pay for this audit, they say that it helped them greatly as the auditor was very experienced. The inspecting firm not only conducted routine inspection but also informed managers about how they could adopt suggested measures without incurring heavy cost. They therefore viewed this more as training than as a social audit. A summary of how MNE A and MNE B compare in their methodologies is given below.

**MNE A**
- Conducts inspections on its own
- Inspections are superficial and focus on health and safety as well as child labour
- There is tolerance from the multinational on of work and overtime issues

**MNE B**
- Conducts their own inspections as well as sends a consulting firm from time to time
- Inspections are more thorough, other issues besides health and safety, such as overtime and hours of work are more important
- Requests that overtime pay should fully confirm to existing hours legislation

**Costs and Benefits of Social Audits**

The immediate financial benefits experienced by the company as a result of social audits are negligible, as satisfactory performance in social inspections has not yielded any immediate monetary increase in the value of contracts. However, the company does admit that it has gained different contracts with other multinationals as a result of successfully passing the audits. This is because other multinationals see it as an important reference and they respect the audits conducted by MNE A and MNE B.

The cost of social inspection is born mostly by clients, except in the previously mentioned case where the MNE required company D to pay for a private auditor. The biggest single cost in complying with the audits is the fact that they must now report all their overtime payments to the government, in effect forcing them to pay social security
payments on the overtime. This can be difficult at times, as the company feels that they are at a big disadvantage vis-à-vis companies in the informal sector.

Other than changes in the way the company records and pays out overtime, the company has had to make other minor changes as a result of the social audits:

- Ensuring hot water for employees in the kitchen and installing a dishwashing machine;
- Change broken needle procedure;
- Posting a list of all clients at the entrance of the warehouse;
- Bringing lights closer to the cutting table;
- Posting of signboards;
- Changes in the recording system for financial, time keeping and employee records.

Comments and suggestions

From the interviews conducted during the case study, it is clear that the company did not see great benefits nor great costs to social auditing, rather it sees it as a necessary condition to doing business. However, they still take the social audits seriously. The human resource manager underlined that social audits helped to develop a more secure working environment and increased awareness in many aspects of health and safety and worker rights. The greatest concern for the owner and manager of the company was the inability to compete with low cost countries in the future. Their strategy is to increase subcontracting in the short-term rather than in-house production. The subject of China came up again and again. As Turkey has some of the highest tax rates in the OECD, he was worried that he cannot comply with strict overtime requirements and social security payments in an increasingly competitive marketplace.

The company D case showed that subcontracting in Turkey might increase as a result of the impact of the elimination of quotas. With respect to social audits, it is difficult to monitor the subcontractors especially if the company is producing for many different brands. The owner of company D believed that although a lot of the subcontractors are now declaring their bankruptcy as a result of the ending of quotas, they often simply take the machinery and establish a new business elsewhere. This shows that the statistics showing the company closures might not always show the reality and that subcontractors might be increasing rather than decreasing, even though there is no official data to support this.

Table 20 Example of a social audit report

<table>
<thead>
<tr>
<th>Health and Safety</th>
<th>Time Given</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is no periodic check chart in the fire box</td>
<td>30 days</td>
</tr>
<tr>
<td>Emergency corridors are blocked</td>
<td>30 days</td>
</tr>
<tr>
<td>There is no sign showing the place of alarm button</td>
<td>30 days</td>
</tr>
<tr>
<td>Insufficient needle guard in machinery</td>
<td>30 days</td>
</tr>
<tr>
<td>No signs showing 2nd exits in cutting and quality control departments</td>
<td>30 days</td>
</tr>
<tr>
<td>The main gate should open outwards not inwards</td>
<td>60 days</td>
</tr>
<tr>
<td>There is no hot water in cafeteria</td>
<td>30 days</td>
</tr>
<tr>
<td>No signs about protective equipment</td>
<td>30 days</td>
</tr>
<tr>
<td>Glasses and masks used are not sufficient. There should be masks protecting against chemicals</td>
<td>30 days</td>
</tr>
<tr>
<td>Training has been given about protective equipment and handling of chemical substances, but there are no records</td>
<td>30 days</td>
</tr>
<tr>
<td>Drinking water safety analysis needs to be renewed</td>
<td>15 days</td>
</tr>
<tr>
<td>Porter checking date for those working in the kitchen has been missed</td>
<td>15 days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Working Hours</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers aged 15-18 work longer than 40 hours a week. They should not work overtime</td>
<td>15 days</td>
</tr>
<tr>
<td>There are workers working until morning in December</td>
<td>15 days</td>
</tr>
<tr>
<td>In December some workers in the sewing department worked 20 days without a day off.</td>
<td>30 days</td>
</tr>
<tr>
<td>There should be at least one day off in a week</td>
<td></td>
</tr>
</tbody>
</table>
Company E

“When you have to fill an order in one month it is very difficult to only work eight hours a day. Suppliers care mostly about quality and delivery time but still want us to invest in social standards. Meanwhile prices are continually decreasing …”

- Owner and Manager, company E

Brief History

Company E is a clothing contractor for women’s apparel located in a small Bulgarian city. Its two current owners established the company in 1991 after they both had amassed 17 years of technical production experience in the apparel sector. It operates in one two-story, 1,600 square meter factory building that includes production, storage and warehousing facilities. At the present time the current capacity is around 50,000 units per month.

Although the company currently does not have any subcontractors, it sometimes cooperates with other factories to fill orders during the peak season. In the last year, company E has filled orders for five different small European multinational companies and two big multinational brands (one from France, the other from the United States). The company employs about 270 people but this number fluctuates according to the time of the year. As a result of irregular orders and migration to the big cities by the local population, turnover at the factory is high. The owner mentioned that the company in unable to pay its employees only minimum wage (about 80 euros a month) because it would make it even more difficult to retain workers. They therefore pay most of their employees more than this amount.

The owner of the factory is not too happy with current conditions in the textile and garment industry. Traditionally his company has competed on price but this is difficult right now, as the end of the Multi Fibre Agreement has resulted in increasing competition from Asia for big orders. Now the company has to contend for smaller orders for less money with a shorter lead-time. These facts, along with a decline in well-qualified staff have the manager worried about the future prospects of the company. The owner thinks that the only way to secure a future for the factory is to start their own brand of clothing but they do not know if they will have the funds necessary for this.

Social Auditing

The company has done a significant amount of work for about 10 different multinationals, but has only been audited by two of them. He recalled that once they were audited by MNE A, based in the United States, and once by MNE B, based in France. The other seven multinationals the company has produced for have never conducted audits at the firm. In fact, perhaps the best known of these companies (MNE C) not only did not conduct audits; representatives from company E had to visit the headquarters of MNE C to recoup their money for the production, even though they had signed off on timely delivery and quality of the product.

The owner believes that companies conduct audits for their own security. After the initial audit, neither MNE A or B returned for a follow-up audit, nor did either multinational stipulate any penalty in the contract as a result of failing an audit. Both multinationals conducted audits one month before giving an order and after company E agreed to implement a set of recommendations. During the visit to the factory for the purpose of this case study, the owner willingly shared the results of the audits, which are listed below. The company was visited first by MNE A and next by MNE B.

MNE A

Last year, when company E first started doing business with MNE A, they sent a private auditing consultant to the company as a condition of the contract. Company E had to pay the charges for this audit, which was 1,700 USD. Below is a full list of the recommendations given by the private auditor:
- Increase percentage of disabled employees from 0% to 4%;
- Move tables blocking pathway;
- Use needle guards on machines;
- Improve lighting;
- Use an uninterrupted power supply for emergency exit;
- Improve access to first aid kit;
- Workers not trained in emergency drills;
- Gloves not consistently worn;
- Time card system not in place.

Although company E tried to comply with all the recommendations, the owner readily admits that the changes that were made were largely superficial. “How can I invest in significant changes when the money they give me to fill the order is so low?” he questioned. A total estimate of cost of the changes made is around 500 euros, mostly for things like needle guards, lighting and batteries for the emergency exit signs.

After filling the first order for MNE A, the company reportedly struggled to make any profit and even to pay its employees with the low amount revenue made from the order. In fact, when MNE A gave another order late last year, company E refused to fill it because of the low prices.

**MNE B**

With MNE B the company had a better experience. As with MNE A, MNE B came one month before they gave an order and made a prescription for fixing the problems that existed. Company E had to write a plan for fixing the problems after which they received orders. The audit in this case lasted three days and was done by an MNE B auditor responsible for Eastern Europe. The company admits that after the three-day audit several things were not up to speed (the writers of the case reviewed the audit report), although because of the cosmetic changes that were made after the MNE A audit, there were no problems with the lighting, the layout of the factory, fire exits and the evacuation plan.

The MNE B audit report of the factory indicated that there were also no problems in discrimination, sexual harassment and freedom of association or child labour at the company. The biggest problem was with time keeping and overtime, which at company E is filled in by hand. Like other factories in the industry, the company has difficulty staying within the legal limit for overtime, especially during the busy season, as orders need to be filled in a short period of time. Also, the introduction of a time card system would require significant expenditures on the part of Company E and therefore was not done. The cost the company spent on the second audit was around 150 euros, again mainly in cosmetic changes. The owner confesses that he does not know if MNE B will continue to do business with them if they find out that no changes were made to the time keeping and record keeping system.

**Comments and suggestions**

The company admits that many of the changes it made as a result of audits were cosmetic. Nonetheless, they do believe that some of the health and safety conditions for the workers in the factory were improved. Since not a lot of investment was made and MNE B is an excellent client, the owners believe the social audits are ok, as long as they are not enforced too rigorously. They would be willing to invest additional resources in compliance as long as this means that the multinationals pay a little higher price to share in some of the costs.

As with the majority of companies interviewed, the subject of freedom of association is merely inquired about and no actions are taken as a result of this audit. Overtime is a concern although the auditors did not stay after the audit to confirm that the workers were leaving. They have a busy season during June, July and August and in between it is difficult to find work for all employees. The auditors for both MNE A and B included worker interviews as part of their social audit and recommended changes to the system which records working time (card system).

Like other companies exposed to the social auditing process, the owner of company is in favour of disclosure when it comes to the results of the social audits, but only if the rules are consistently enforced across the industry in all countries.
Company F

Brief History

1950-The company is founded as a state owned company, employing 280 people
1961-Company F’s products are first exported
1971-The first major development sees company double its production capacity and the number of employees jumps to 2,086
1977-The second major development of the factory, expands staff to 3,600 people
1996-The company is privatised
2003-Company F has a total of 3,500 employees and can produce over 4.4 million pieces for clients in the European Union and Romania.

Organizational structure and working conditions

The company has the production, administration, accounting and sales department all in one place but also manages several shops throughout the country.

Production units:
1. Cutting;
2. Sewing;
3. Pressing;
4. Embroidery.

Employees and management were able to come to an informal agreement to focus on keeping production running and freeze salaries and any other benefits in order to work through difficulties related to the latest developments in the market. The company admits that this type of agreement was easier because the people employed at the factory tend to come from a very poor area. It also became apparent that this kind of agreement has been made throughout the local market in several other companies.

Regarding the company’s labour practices, there is confusion regarding different types of codes within the company. In addition to the code of conduct, there are also other standards required by Romanian legislation that are very similar to the code of conduct. These additional codes include: A personnel manual, which deals with employees’ rights and duties, including behaviour at the workplace, holiday payments and overtime; A health and safety manual that includes not only occupational safety but also call for the number and placement of fire extinguishers and roles of each employee in case of a fire or an accident, including first aid. There is no reported discrimination or forced labour in the company. About 80% of employees are women, but this is not due to any discrimination but rather to an old mentality that this is a job for women. A working day is eight hours long. Breaks are not included but this aspect is usually negotiated between employees and management.

Social Auditing

Both MNE A and MNE B have audited the company for a number of years. The first social audit took place in 1997. Each client usually, but not necessarily audits the company once a year. There is no clear auditing schedule.

Consultants sent by the multinationals perform the audits. The audits usually involve talks with the management, walks around the factory and short discussions with three or four employees. Most of their recommendations relate to working condition, but they are never mandatory. According to management, it was a major advantage that the factory had a very good infrastructure already in place. For example, the company’s facility already included two medical facilities and a kindergarten for employees’ children. Following the audits, the most substantial changes the company has been called on to make have been to renovate these facilities and to raise the quality of services offered. These improvements cost less than 50,000 USD. An additional investment the company will need to make, as required by the Romanian legislature and related to employee welfare, involves a new ventilation system and refrigerators for water (especially during the summer). Estimated cost: 150,000 USD.
The perception of social audits was rather neutral. For them these audits are just another necessary step to gain contracts, especially after they noticed that most of the issues covered by social audits are also covered by the audits performed by Romanian Labour Inspectorates, whose standards are quite stringent. The only issue that raises significant debate is the standard of a decent wage for employees. This is the only point permanently on the discussions agenda with the trade union.

A real problem seems to be corruption at the local-governmental agency level. In the areas covered by social audits there are three agencies mandated to perform audits, and for every audit there is a price to pay. This cost is not determined by the conclusions and recommendations of the audit, however, but the size of the factory. “Most of the time they come looking for irregularities and they don’t go further than my office or personnel manager’s office,” the manager said.

Constant legislative changes seem to be a problem as well. Overtime is one issue that comes up often in legislative debates, much more than other common aspects of social audits. Apparently overtime worked is generally translated into additional vacation days and not into money. It is possible to pay overtime but it seems that the option of additional vacation days, which are also paid, according to Romanian legislation at 80% of the gross salary, is the more preferred form of compensation. However, legislation is constantly changing and most of the time managers don’t know if this solution is legal or not. “Unfortunately not even people working for the Labour Inspectorate or for the Local Financial Administration know if it is legal or not,” according to the factory manager.

Comments and suggestions

Regarding social audits and social norms, the factory manager seemed to be more focused on the factory image within the community than the specific aspects of compliance with social norms. “We are one of the oldest and biggest factories in the region. We always take care of our workers.” The real concern regarding social norms is related more to compliance with Romanian legislation. Social audits are seen as only an additional confirmation of management’s ability to manage the work in the factory. It seems that better communication between lawmakers and producers is necessary. The overall goal of any government system is to foster opportunities and protect its citizens. Concludes the manager: “If employers are unaware of business and social standards and those charged with monitoring these standards are ignorant than no benefit can come to companies or the people that work for them.”
Company G

This study case is typical with regards to the latest developments in the Romanian market. The company presented here is actually a group of companies. The owner and manager started from a small workshop with 10 employees and developed throughout the years several companies that engaged in different activities in order to survive in the market.

Brief History

1991-First workshop established. It had four second-hand sewing machines and ten employees, manufacturing shirts and sport jackets for men that were sold on the local market.
1993-Twenty employees, eleven second-hand sewing machines in a rented 60 square meter room.
1994-Company G moves into a rented 500 square meter-weaving factory employing 50 workers producing shirts for men to be sold in Romania. Thirteen new machines were purchased.
1995-Company grew to 70 employees and rented 1,000 square meters in the same weaving factory. Began to export shirts for men to France and Switzerland. The company purchased additional new machines to replace all the old ones. The market for mens shirts collapsed in Romania due to cheaper Chinese imports of mens shirts. The company switched production capacity to the production of ladies garments.
1996-Company G begins production of ladies garments for an Italian company and then for an English company. Company G also began work for a company in Bucharest that used to deal with some English companies with significant outlets in the UK.
1997-Expanded capacity to 50,000 garments a month. Started a new relationship with a company in London
1998-In the beginning of the year, a new factory with 200 employees was set up in a small town 20 km from the main facility. Company G also bought shares in additional companies in the area to gain control of a share in their production capacity. During the expansion, additional QC measures are taken to continue to meet the high standards of the customers.

At present, the company is doing its best to navigate the new challenges in the textile market, especially cost pressures coming from the Asian market. In the manager’s opinion, there is still room for a quality European producer in a price-point oriented market. Right now, European producers still have a proximity advantage to deal with short lead times for orders. The real danger comes in terms of transportation. If Asian manufacturers find a way to lower transportation time to three or four days, than European manufacturers will be in significant danger. He says, however, that he’s already thought of that issue: “All our investments are made to be converted. Nothing was constructed or developed focused exclusively on textile production.”

Organizational structure and working conditions

The company has head production, administration, accounting and sales departments all in one facility. This central office deals with production planning and other administrative needs. There are also several small production units (no more than 250 workers) which were organized according to the skills in a given proximate labour market (production units are set up where qualified workers are found). Regarding working conditions, since 1995, when company G started to work on lohn production, they developed their own units based on “European standards.”

Regarding the company’s labour practices, they are focused on complying with Romanian laws, which covers most social norm requirements. These standards include a ban on child and forced labour. They don’t have medical or other health facilities, given the rather small production units, but they do provide a health plan for each employee. Ventilation systems and engineers are hired to assure safety and comfort within each unit. Wages are paid monthly in cash, overtime and bonuses are paid depending on contracts. Working time is officially eight hours per day from Monday to Friday. Overtime is occasionally worked during the week or on Saturdays and even Sundays, this depends on the contracts and the buyers. Regarding discrimination in the workplace, geographic locality or skills - not sex or race - determines the demographics. Workers have not reported any discrimination.

Social Auditing

Several buyers have audited them since 1994. MNE A, B, C and D usually, but not necessarily, audit the company once a year. There is no clear auditing schedule. In the last two years they were audited 10 times. Consultants sent by the companies perform the audits, which usually involve talks with management, walks around one of the factories and short discussions with unit managers. Most of their recommendations were regarding the working condition, but were never mandatory.
What it is very interesting is the fact that the company is developing according to the different requirements. What they actually do is take the recommendations from different audits and use these recommendations when they build or renovate the next unit. The whole strategy of company G's social development is highly focused on business development. For example, they've built production units where they've found qualified workers, so they invest in wages and working conditions but they don't invest in training or development. Regarding their subcontractors, they never ask for an audit: "Our buyers don't care, so why bother?"

There were never any direct changes following the social audits but the manager estimated that the company invests around 120,000 USD in assuring good working conditions for workers. Investments are made especially in assuring access to clean drinking water, toilets, showers and adequate ventilation systems. A special case is a new unit they recently built, in which investments in working conditions will reach 200,000 USD, following recommendations from different audits, but not necessarily related to them. These investments include large windows for better light, state of the art air conditioning systems, toilets, ergonomic seats and other facilities. Every worker is paid at least minimum wage, but company G doesn't normally spend money on higher wages.

The manager wasn't able to give precise figures about social investments, not because he didn't want to but as he put it: "I don't really know how much it costs and I don't really care. I just sign the contract and pay the bill to whomever is making the improvements." The perception of social audits was neutral. "If that is what it takes to have production running, whatever…"

Comments and suggestions

Regarding social audits and social norms, the factory manager seemed to be more focused on the business than the specific aspects of compliance with social norms. He was actually very upset that some of the auditors asked him a lot of questions about how he runs the business and not about specifics of past audits. "They don't understand why I've split production into small units, but it is not their problem. Anyway, I just built a new modern European unit for 700 workers. I wonder what they will ask me this time."

Despite all this, the manager is not against complying with and respecting social norms, but he thinks that standards should come naturally.

"My personal and business policy is based on respect. Respect between management and workers, and between us and buyers or suppliers. The problem is that in this regard, we are a long way from achieving this. I've invested, for example, 20,000 USD in a small garden so the workers could relax on their breaks. But guess what? Production decreased instead of increased. Why? Because my workers spent more time in the garden than doing their job."

"At some point in the past we didn't have any orders for almost two months, but because it was around Christmas and I believed in their loyalty, I paid from my own pocket the minimum wage at that time to each worker so they would have some money during holidays and come and work for me again when I need them. Big mistake! People here don't remember these things and will never consider that they had to offer something in exchange, whatever you offer to them."

"Another experience regards subcontracting relations: At the beginning, when we were small we were subcontractors for another Romanian firm. The only discussions we had involved the money, and what I will always remember is that because of the fact that our workshops were not well furnished and were at low standards, they penalized us repeatedly, just for fun, without having any real argument."

"These are the mistakes that I didn't want to repeat, but this is also why I don't believe in 'respecting social norms' before we all learn what respect means. Communication between managers, business professionals, employees etc. is a far more important issue to be addressed"

Note: The manager here has developed a method wherein he learns from the audits that are performed. His business model is a bit unique as he adjusts to the needs of his customers not simply through factory capacity or product specs but through a nimble manipulation of the skills of the available labour pool. This case provides an obvious reminder that most companies are trying to make money first, and if that means meeting social standards they will do so if they must.
Company H

“If you would have asked me eight months ago what I thought about social auditing, I would have given a dramatically different response.”
- President and general manager of company H, based in Turkey.

Brief History

Company H, a producer of women’s wear, was founded in 1993 by its current general manager. First operating as a small workshop and corresponding clothing store in one of Turkey’s biggest cities, H grew quickly and moved to a 16,000 square meter production facility in 1995. In 1998, the company underwent major reorganization and started to work solely on apparel products for export. Current capacity at its main facility is around 6,000 items a day (including skirts, jackets and trousers). Just last year, the company opened an additional production facility in one of the poorer regions in Turkey, taking advantage of government incentives to set up factories in remote regions of the country where income per capita is less than 1,500 USD a year.

After a period of significant investment last year, the company is currently going through a difficult period. From a peak of over 1250 employees a little over a year ago, the company is poises to cut staff to just 650 in a couple of months time. “We used to be the biggest Turkish owned company in the area, but not anymore” explains the general manager. The main reason for this downturn in business is that they lost all the orders of their biggest client, Multinational B. Prior to this dramatic drop in orders, Multinational B was the company with whom they had the longest standing business relationship. “They switched their sourcing to low price-low standards countries. Rather disregard of social side but more cost oriented move. At this stage nobody realizes the fact that they are loosing a customer base.”

The general manager quoted an article from the editorial page of the Financial Times (April 25th 2005), indicating that it described exactly as he felt: “Professing high standards at home but observing low ones abroad is not only hypocritical, it is commercially foolish. The threat to their reputations and brands is a powerful spur to do better. Western consumers should not expect to enjoy both ultra-cheap products and clear consciences.”

Not coincidentally, the dramatic drop in orders coincided with the phasing-out of the Multi-Fibre Arrangement and the subsequent elimination of quotas around the world on Chinese exports in the textile and garment industry. Many multinationals, taking advantage of low labour costs elsewhere, dropped their production in medium cost countries such as Turkey. This case study will examine the social audits that were conducted by the client companies of H, in particular by MNE B, as this was also the company who insisted most on rigorous social audits. The case study will look at the impacts of these audits, identifying some of the costs and benefits to the company in terms of resources committed to comply with audits and the gains associated with increased contracts.

Organizational structure and working conditions

The company’s main production, office and storage facilities all lie in the same 16,000 square meter compound. Besides the finance and personnel department, which handles the human resources functions, the company also has a general administrative affairs unit that handles the buying, selling, health and safety and any other management requirements. The actual production can be further broken down into eight different units:

1. Receipt/inspection;
2. Cutting;
3. Stiffening;
4. Preparation;
5. Assembly;
6. Pressing;
7. Quality control;
8. Storage/delivery.
As previously mentioned, the company’s staff of around 900 was greatly reduced in the beginning of 2005, with the current staff of 400 expected to be reduced to just 200 in two months’ time, unless new orders can be found. In recent years the company was experiencing a large annual turnover of around 15 to 30%, costing the company close to 10,000 USD annually in compensation for the termination of employment contracts.

Other highlights of the company’s labour practices include:

- No children below the age of 16 working, although the company employs around 30 apprentices from local schools nearby.
- There is no noticeable discrimination in the workplace; H employs a roughly equal number of women and men. The biggest issue with regards to discrimination is the wearing of headscarves, which the company bans because of national legislation on this matter;
- There is no reported forced labour;
- Safety and health have always been a concern for the factory managers. For example, there are over 60 fire extinguishers and the company employs a full time doctor and a nurse, as well as a number of staff who have health care training. A recent review found that no serious accidents have occurred at the factory except for electrical shocks;
- Wages and overtime premiums are paid between the 5th and 10th of every month, directly into the employees’ bank accounts. Around one quarter of the employees make minimum wage plus overtime.
- Work is usually done for nine hours, between 8:30 and 18:30 with three breaks of one hour total in between. Overtime is usually kept within the legal limit of 270 hours per year. Sundays are off and overtime is worked on some Saturdays. Hours are calculated as per the mag-stripe access cards used by staff upon entrance and exit.

Social Auditing

The company has been audited for a number of years by both MNE A and MNE B, and a few times by MNE C. The first social audit was done seven years ago in 1998. Typically an audit lasts one day and comprises of a walk around the factory, interviews with 20 or 30 employees on issues such as overtime, discrimination and payments, as well as a review of their written records. In H’s experience, the audits from American companies, such as MNE A, conduct fewer and easier audits than European companies such as MNE B. More importantly, for suppliers such as H, buyers like MNE A place less importance on social audits and more importance on a relationship of trust that is built over time.

Since the first social audit, the company has made a number of changes to the company to comply with the social audits. Moreover, it has often gone beyond what was required by the MNEs to show greater concern for their workforce and to try and build a closer relationship with the suppliers. For example, a few months ago MNE B asked H if they could participate in a project on discrimination and diversity in the workplace. H willingly complied by recruiting a greater percentage of disabled people. The idea would be that MNE B would be able to showcase this project in all their reporting on social responsibility. A few months after they started this project however, their orders from MNE B dropped dramatically and no one talks about this project any longer.

It is this kind of behaviour shown by the multinational enterprises that has left the management of H feeling somewhat betrayed at the beginning of 2005, as the company with the strictest audits and the one they had the closest business relationship with simply cut all their orders. “It is as though companies care less about social conditions now then they did two years ago, increasingly it is about price and price once again,” explaining the continuous downward pressure on prices paid by multinationals for the finished garments while at the same time expectation of higher social conditions. “I don’t mind competing on price alone, after all, business is business. But one shouldn’t demand changes that cost money while at the same time not tying these changes to any business benefits. When you cooperate so closely with a buyer on these issues how can they not be connected?” the manager continues. He estimates that the physical changes to the factory have cost him about 175,000 USD, mainly on improving health and safety measures that went beyond what was required by law. These were not forced upon them by the auditor but strongly suggested nonetheless.

Another 100,000 USD was spent on improving the conditions of factory employees, in the words of management, to increase the morale and welfare of the workforce. This money went above and beyond what was required by the
auditors but was considered an investment in the workforce by management, which believed in good relations with the workforce. The table below illustrates the costs made to improve the factory’s working conditions.

**Table 21  Investments by company H**

<table>
<thead>
<tr>
<th>HEALTH &amp; SAFETY *</th>
<th>COST (YTL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILDING A NEW THREE-ROOMED HEALTH CENTER WITH ADEQUATE EQUIPMENT</td>
<td>30,000.00</td>
</tr>
<tr>
<td>SECOND DOCTOR (ADDITION) AGREEMENT</td>
<td>80,000.00</td>
</tr>
<tr>
<td>APPLICATION OF TETANUS VACCINATION FOR ALL WORKERS IN THE FACTORY</td>
<td>750.00</td>
</tr>
<tr>
<td>DRINKABLE WATER SUPPLY WITH SIX REFRIGERATORS MADE AVAILABLE ON PRODUCTION FLOORS</td>
<td>6,000.00</td>
</tr>
<tr>
<td>ADDED WCs TO DECREASE 12/1 WORKER to WC RATIO (REGULATION 50/1)</td>
<td>100,000.00</td>
</tr>
<tr>
<td>TWO VENTILATION FANS INSTALLATION FOR SECOND PRODUCTION FLOOR</td>
<td>10,000.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SOCIAL CONDITIONS NOT REQUIRED BY AUDITORS BUT INSTALLED FOR THE MORALE AND WELFARE OF THE WORKFORCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIVING HEALTHY ADVICE AND EXERCISE PROGRAMS</td>
</tr>
<tr>
<td>ARMCHAIRS DESIGNING TO WORK BY SITTING FOR 29 WORKERS (TRAIL PROJECT)</td>
</tr>
<tr>
<td>SEPERATE DESIGNATED SMOKING AND NONSMOKING AREAS</td>
</tr>
<tr>
<td>BY AIR CURTAIN TECHNOLOGY IN CANTEEN (NO PHYSICAL SEPERATION)</td>
</tr>
<tr>
<td>TAKING A POLL TO MEASURE COMMUNICATION CHANNELS BETWEEN WORKERS</td>
</tr>
<tr>
<td>AND MANAGERS IN THE FACTORY</td>
</tr>
<tr>
<td>EVALUATIONS OF NOISE, DUST AND LIGHTING IN THE FACTORY</td>
</tr>
<tr>
<td>CONSTRUCTION OF A LIBRARY AND BOOK SUPPLY FOR WORKERS IN THE FACTORY</td>
</tr>
<tr>
<td>CIRCUMCISION CEROMONY OF WORKERS’ SONS AND ENTERTAINMENT FOR CHILDREN</td>
</tr>
<tr>
<td>1st AND 2nd SPRING FESTIVAL FOR OPAL WORKERS (2003 AND 2004)</td>
</tr>
<tr>
<td>MUSIC BROADCASTING AND ANNOUNCEMENT SYSTEM INSTALLATION</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td>Current exchange rate approximately 1.3 YTL = 1 USD</td>
</tr>
<tr>
<td><strong>TOTAL USD</strong></td>
</tr>
</tbody>
</table>

* All health and safety regulations were already in line with Turkish laws and regulations

**Opening the books**

A few years ago, multinational B announced at a conference organized for its buyers that it would now require all suppliers to open their accounting books to the scrutiny of the multinational’s social compliance department. “It was explained to us that if we wanted to keep doing business with this multinational we had to do this,” says the manager, continuing, “The thing I realize now is that we wouldn’t have lost our contract had we refused to open our books to them”

One of the main complaints encountered by the authors of this case study from factory owners regarding the opening of the accounting books is that the buyers are able to scrutinize overall costs, including machinery amortization, general debt, unit labour cost, and factory profits, just to name a few. For the majority of factories this is
information that they would like to keep to themselves, especially as it may lead the buyer to ask for lower prices if they deem that the company is making too much profit. For company H, their reservations about opening the accounting books went beyond this concern. “We were hesitant about opening our books not just because they would be able to our entire financial performance, but they would be able to dictate to us how we should report our overtime, pay our taxes, etc.”

**Multinationals perceived as tax collectors for the government**

The opening of the financial statements to MNEs carries with it significant tax implications, as multinationals insist on full compliance with legislation on overtime and social security for every individual working in the factory. For H, located in Turkey, this is very difficult to do as “countries such as Turkey have a large underground economy and the government seems to control only those people that are actually in the system, who, in turn, end up supporting the people that are not in the system by their large contributions.” Although the factory insists that they pay their social security for each and every employee, they were not always recording everything on overtime. “The difference between recording and not recording every dollar spent on employment/overtime payments from the tax point of view is around 35% for overtime and 15% on employment and social security. We always comply with the law when it comes to paying peoples social security, but tell me one other company that is reporting every single cost of its overtime to the government?” Reporting this constituted a significant cost increase for H. Moreover, although the majority of bigger companies in Turkey fully comply with reporting social security, most are more creative when it comes to reporting overtime. Thus, the management of company H feels that by having to report all taxes on every hour worked in the factory, it is in fact losing its competitive advantage vis-à-vis local rivals, let alone the international competitors, whom H feels are not being held to the same standards as they are.

Company H admits that the reporting of overtime is probably the most significant cost incurred as a result of the social audits, stressing that it always pays their people for overtime but that the difference lay merely in the way it was recorded. Nevertheless, they do not know how big of a problem this really is for other local companies as they only heard of one company, MNE B, who was demanding full disclosure of their financial statements. (Note: others later confirmed this and it seems to be an isolated practice). Unfortunately for H, the company with the policy of checking the financial books of their suppliers just happened to be their biggest and best buyer.

**Comments and suggestions**

Despite the reservations about social auditing listed above, the general manager is eager to explain that he does not consider investments to abide by social audits a waste of money or of resources. After all, six years ago they were voted the number one supplier in the world for MNE B, partly owing to the good factory conditions. Also, the managements’ relationship with the workers improved after money was invested in health and safety measures and other initiatives. However, as explained in the introduction to this case study, the focus of many of the buyers has gone East, to countries such Bangladesh, India and China, who may not boast as good a record on social conditions in their factories but are increasingly offering good quality products for very low prices. Thus, while the benefits of complying with social audits are numerous, they raise operating cost for companies such as H, making it hard to compete with suppliers who compete only on cost. Herein lays his main complaint, as with others in the industry, namely that there seems to be little or no relation between the amounts of money invested in social conditions and the business relationship with the buying company. Perhaps this point was best illustrated by MNE B, who invited the management of H to a conference on Corporate Social Responsibility, which they were encourage to attend at their own cost. When told that the company’s first priority is now Corporate Social Responsibility, the suppliers asked whether excellence in this field would ensure orders. The company responded that unfortunately another department decides about the orders and they have nothing to do with it.

The company, meanwhile, has decided to cut its losses and follow a different business strategy rather then the earlier strategy of relying on close relations with the buying companies. Having had their own line of clothing up until five years ago, they will again develop this and open independent stores with their product line. Also, they will continue to search for smaller multinational buyers with whom they may have a closer relationship. The management has no doubt this strategy will succeed. Nevertheless, they fear that the majority of Turkish suppliers will not have the financial resources necessary to pursue this strategy and that these suppliers will suffer considerably in the time to come as the country feels the full effects of the elimination of the quotas on textiles and garments.
9. Conclusions and recommendations

Conclusions

This research paper examined different aspects of social auditing and certification in three European accession candidate countries. As the preceding pages show, social auditing is an increasing phenomenon that affects companies in Romania, Bulgaria and Turkey to varying degrees. Companies in the textile and garment industries are affected by social audits in all three countries, albeit more in Turkey than in either Romania or Bulgaria. Highlights of the research include:

- The percentage of companies reporting audits by their buyers in the textile and garment industry was 48.5% in Turkey, 10.6% in Romania and 15.1% in Bulgaria;

- The difference between the countries is less among large companies. 57% of companies with more than 500 employees reported buyer audits in Turkey, compared to 37% for Romania and 32% for Bulgaria;

- Codes of conduct are common in industries like the footwear sector and the machinery sector. However, the research showed that the number of factories experiencing social audits in the footwear, forestry products, machinery and leather industry sectors is less than 10 percent in the countries surveyed;

- Only 8% of companies that reported social audits indicated that they significantly interfere with the day to day operations of the factory. About one-third of companies say that the audits ‘somewhat interfere’;

- The greatest benefit from social audits as cited by supplier factories is ‘improved relationship with buyers’, the least cited benefit was ‘improved relationship with employees or trade unions’.

One of the immediate objectives of the project was to better understand the costs and benefits associated with social auditing for employers. To investigate this issue, the benefits and costs of social audits to the supplier companies was asked during the main questionnaire, the follow up questionnaire and the case studies. In the questionnaire, the majority of companies indicated that social audits improved their relationships with buyers, while slightly less than half also indicated that it led to an increase in contracts for them. In the follow up questionnaire companies cited ‘increase in orders’ as one of the most common benefits to factories. Despite this, during the case studies and interviews with factories the companies often told a different story, one that implied that social audits did not benefit them or their workforce to a great extent. More often than not, social audits were seen as a necessary condition for doing business, and not a process that brings great benefits to the factories that are inspected, or to its workforce. Similarly, while the benefits did not seem to be very great, the costs to companies -- with some notable exceptions -- were also not particularly large, particularly when companies already had good practices.

Discussion and recommendations

Besides the hard data that was collected during the factory survey, a lot of anecdotal evidence and recommendations were gathered during the course of the project. The most common recommendation was a call for a greater coherence and cooperation among different codes of conduct and social auditing initiatives. Companies complained of a lack of a common code of conduct and being audited by dissimilar social auditors who look for different things in factories they inspect. As a result of different demands, the social audits can be a time consuming exercise for some companies. The 20 companies interviewed for the ‘in-depth questionnaire’ had been audited 199 times between them in the last two years.

Significant efforts are currently being made by different interests groups to try and agree upon a common code of conduct and to establish common procedures for checking factories on their social standards. Nevertheless, these efforts often involve groups of buyers, NGOs or business organizations and are rarely universal. The fact remains that many enterprises have adopted their own codes of conduct, and business is facing its own problems of monitoring and supervision because of the growth of supply chains and subcontracting practices. The essence of the problem is to combine the need of enterprises for a recognized external source of reference, with international measures which provide a consistent framework to benchmark individual initiatives. The ILO has a unique expertise to move forward in this area, while remaining attentive to existing legal obligations and to business sensitivities.
A manager at one company that was interviewed for a case study suggested that public disclosure of the results of social audits should be introduced to encourage competition and establish a better link between the costs and benefits of social audits. To investigate this issue further, companies in Turkey and Bulgaria were asked during the ‘in-depth questionnaire’ if they would favour such an approach. Perhaps surprisingly, around half of the companies that were asked this question favoured this. Recent efforts by some multinationals to publicly disclose their entire supply chain are a step in this direction. One would expect that the next step in this process would be to publicly disclose the audit results of all companies that multinational enterprises source their products from. The increased transparency could well create an environment where businesses compete not only on their price, the quality of their products and the time of delivery but also on the social conditions within factories.

The relationship between the buying and selling company is also very important in the social auditing process. During the seminar for social auditors, it became clear that many company auditors had opportunities to work together with their buyers over time and that some of the more progressive multinationals had used this opportunity to train and educate their suppliers on social issues. On the other hand, while third party auditors may be more at arms length and have the opportunity to give an independent assessment, they are also restricted as there is often no follow up for them and no opportunity to build a relationship based on mutual trust and understanding. Close cooperation between the buying and selling firm may also help in the practical implementation of the codes of conduct. A common example that was cited is that it is hard to comply to overtime rules when lead times given by multinationals are so short. Increased lead time in this case would reduce the pressure on overtime worked to fill the order, but this requires close cooperation between the selling firm and the people at the multinationals who are familiar with the buying process and also the procurement process. A closer integration of the two departments at the level of the multinational (buying/procurement and compliance/CSR) is therefore recommended to achieve the objective of code of conduct implementation.

Overall, there was a difference in the interest of the different parties involved - the national stakeholders, supplier companies and multinational enterprises- vis-à-vis social auditing and certification. A lack of complete transparency in the social auditing process is in part responsible for different expectations on the part of these stakeholders. For example, multinational brands are often said to want to protect themselves and their company image from any potential legal liability. Factory owners hope the process of social auditing and subsequent investment will lead to increase contracts in the future. Similarly, it was pointed out that workers in factories at times raise their expectations of multinational companies after being asked by auditors if they have enough money to feed their families, enough free time, etc. Also, worker and employer organizations have different of the expectations of how social auditing and certification may or may not contribute to the advancement of their interests. Increasing transparency, cooperation and dialogue about social conditions, labour standards and social auditing may aid the convergence of the interests of all parties involved.

While much anecdotal evidence has hitherto been gathered on this topic by researchers, no hard data existed about the number of companies that actually experienced social audits. Admittedly, the research had some important limitations, including a small geographical area and a relatively large margin of error. Nevertheless, it is clear from the results that a large and increasing number of companies are affected by social audits. This in turn raises some important questions vis-à-vis the responsibilities and indeed the response of national governments to this phenomenon, which have thus far remained largely uninvolved. A finding of this research was that little or no cooperation currently exists - at least in the countries where the survey was carried out - between national governmental inspections and third party or company auditors. A few of the auditors that attended the seminar in Ankara for social auditors told that they have plans to increase their cooperation.

ILO conventions and recommendations cover a broad range of subjects concerning work, employment, social security, social policy and related human rights. The majority of these recommendations and conventions are directed at governments. For example, Convention Number 81 provides for a system of labour inspection to secure the enforcement of the legal provisions relating to conditions of work and the protection of workers in industrial workplaces (132 member states have ratified this convention). The Convention defines the organization and functioning of inspection services, and the responsibilities of a central authority, and more importantly in the context of social auditing, it specifically outlines their co-operation with other public and private services and with employers and workers or their organizations. Increased cooperation between all of the tripartite partners of the ILO (Governments, Employer and worker organizations) in the area of social auditing and certification, both at the international and national levels would increase the effectiveness and transparency of social auditing and certification initiatives.
Any debate about the subject of social auditing should take into consideration both economic and social issues at hand. Both the ILO and the EU have long recognized that economic and social developments are two aspects of the same process which sustain and reinforce each other. An issue raised by some people during the course of the project was that raising social standards will sometimes take away a company’s competitive advantage vis-à-vis low labour costs. Anyone familiar with global supply chains will readily tell you that these cost advantages have a huge impact in the decision to buy products from one country or company over another. Some companies that have raised standards at the behest of international buyers have in the process raised their costs, only to see the multinational stop buying from them. Companies, governments and workers organizations all have a vested interest in this topic.

While it is beyond the scope of this research to give specific recommendations on what the roles and responsibilities of different societal actors’ vis-à-vis labour standards and trade issues around the world, it is hoped that the issues raised during this research will contribute to the debate on this subject. Both the EU and the ILO have important roles to play in this regard; with their convening power and significant political clout they can contribute to debate on how to create decent work for individuals all over the world. As reported by the Director General of the ILO for the International Labour Conference in 1999: “The goal is not just the creation of jobs, but the creation of jobs of acceptable quality. The quantity of employment cannot be divorced from its quality. All societies have a notion of decent work, but the quality of employment can mean many things. It could relate to different forms of work, and also to different conditions of work, as well as feelings of value and satisfaction. The need today is to devise social and economic systems which ensure basic security and employment while remaining capable of adaptation to rapidly changing circumstances in a highly competitive global market.” 31

31- “Decent Work” Report by the Director General for the International Labour Conference 87th Session, 1999
http://www.logos-net.net/iio/150_base/en/publ/017_2.htm
### APPENDIX 1 Overview of responses from follow up questionnaire

<table>
<thead>
<tr>
<th>Turkey</th>
<th>SIZE</th>
<th># Times audited in last 2 years</th>
<th>Who Audits?</th>
<th>Is there a connection in MNE between departments?</th>
<th>Average length in hours of social audit</th>
<th>Are social auditors experienced?</th>
<th>Changes as a result of the audit?</th>
<th>Sanction if changes are not made?</th>
<th>What happens if changes are not made?</th>
<th>Cost of changes required by audit</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company 1</td>
<td>750</td>
<td>3</td>
<td>B</td>
<td>C</td>
<td>6</td>
<td>Yes</td>
<td>C</td>
<td>B</td>
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<td>6</td>
<td>A</td>
<td>C</td>
<td>7</td>
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<td>A (minor)</td>
<td>C</td>
<td>No comment</td>
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</tr>
<tr>
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<td>300</td>
<td>6</td>
<td>C</td>
<td>C</td>
<td>8</td>
<td>Yes</td>
<td>A (minor)</td>
<td>C</td>
<td>B</td>
<td>N/A</td>
<td>Yes/No</td>
</tr>
<tr>
<td>Company 4</td>
<td>1/30</td>
<td>10</td>
<td>B</td>
<td>C</td>
<td>8</td>
<td>Yes</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
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<td>705</td>
<td>8</td>
<td>B</td>
<td>A</td>
<td>12</td>
<td>Yes</td>
<td>A (minor)</td>
<td>B</td>
<td>R</td>
<td>1,000</td>
<td>Yes</td>
</tr>
<tr>
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<td>345</td>
<td>4</td>
<td>A</td>
<td>A</td>
<td>4</td>
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<td>A</td>
<td>B</td>
<td>No comment</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>Company 7</td>
<td>2000</td>
<td>3</td>
<td>B</td>
<td>C</td>
<td>10</td>
<td>No</td>
<td>A</td>
<td>B</td>
<td>A</td>
<td>C</td>
<td>Yes</td>
</tr>
<tr>
<td>Company 8</td>
<td>300</td>
<td>3</td>
<td>A</td>
<td>A</td>
<td>3</td>
<td>Yes</td>
<td>A</td>
<td>C</td>
<td>B</td>
<td>2,000</td>
<td>Yes</td>
</tr>
<tr>
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<td>690</td>
<td>8</td>
<td>B</td>
<td>C</td>
<td>7</td>
<td>Yes</td>
<td>A</td>
<td>C</td>
<td>B</td>
<td>2,000</td>
<td>Yes</td>
</tr>
<tr>
<td>Company 10</td>
<td>1150</td>
<td>2</td>
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<td>C</td>
<td>2</td>
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<td>A</td>
<td>C</td>
<td>B</td>
<td>200</td>
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<tr>
<td>Company 11</td>
<td>200</td>
<td>5</td>
<td>B</td>
<td>C</td>
<td>8</td>
<td>Yes/No</td>
<td>A</td>
<td>C</td>
<td>B</td>
<td>30,000</td>
<td>Yes/No</td>
</tr>
<tr>
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<td>C</td>
<td>12</td>
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<td>A</td>
<td>C</td>
<td>B</td>
<td>2,000</td>
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</tr>
<tr>
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<td>C</td>
<td>C</td>
<td>B</td>
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<td>No</td>
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<tr>
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<td>413</td>
<td>50</td>
<td>C</td>
<td>C</td>
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<td>A</td>
<td>C</td>
<td>B</td>
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<td>C</td>
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<td>A</td>
<td>B</td>
<td>B/C</td>
<td>3,000</td>
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<td>15</td>
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<td>C</td>
<td>3</td>
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<td>C</td>
<td>B</td>
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<td>No</td>
</tr>
<tr>
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<td>C</td>
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<td>C</td>
<td>B</td>
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</tr>
<tr>
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<td>718</td>
<td>20</td>
<td>C</td>
<td>C</td>
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<td>B</td>
<td>C</td>
<td>B</td>
<td>750</td>
<td>No</td>
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<tr>
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5 only consultant, 4 only buyer, 11 both
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**Average** | 475  | 2.35                          | 18.55       | 5350                                          |

**Comments**
- 12 only consultant, 4 only buyer, 4 both
- Mostly no comment
- 19 yes, 1 No/Yes
- 16 Yes (out of these, 3 minor), 4 No
- Yes – 5, Threatened – 3, No sanctions – 8
- 11 Cut orders (out of these 9 hesitating), 1 payment delay
- Too small sample size
- 8 Yes, 5 No/Yes, 7 - No