



Do codes of conduct improve worker rights in supply chains? A study of Fair Wear Foundation



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ABSTRACT

The rise of private regulation of sustainability in global production networks has led to intensive debates about the impact of this regulation at the point of production. Yet, few empirical studies have systematically examined this impact in practice. Based on multiple factory audits of 43 garment factories conducted by the multi-stakeholder initiative Fair Wear Foundation, we show that codes of conduct improve (although marginally) worker rights on an overall level but that few significant results are found for specific worker rights. Our findings also lend support to the widespread argument that codes have uneven impact. Furthermore, we show that even rigorous multi-stakeholder factory audits seldom are able to identify process rights violations (such as those affecting freedom of association and discrimination), and that auditing is thus more fundamentally flawed than assumed in previous research. Given companies' extensive investments in private regulation of worker rights, the findings have important implications for both scholars and managers.

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1. Introduction

Trade is increasingly conducted via global production networks involving interlinked suppliers coordinated by lead companies that exert control without formal ownership. The rise of global production networks facilitates the global integration of activities from initial design to inputs, manufacturing, and distribution, through to the final retailing of goods and services (Barrientos et al., 2011b). It has also led to a fragmentation and geographical dispersion of production, typically in low-wage developing countries (Locke et al., 2013; Seuring and Müller, 2008).

This transformation of global production has created both opportunities and challenges for workers. On the one hand, the expansion of global production in labor-intensive industries has been an important source of employment generation, especially for women and migrant workers who previously had difficulty accessing wage employment (Barrientos et al., 2011a). On the other hand, stiff competition among export manufacturers in developing countries have led to poor working conditions and lax environmental standards in the factories producing for global brands

(Locke et al., 2013). National governments have been unable to address these sustainability challenges, leading to multinational corporations being required, via voluntary private regulatory systems, to enforce sustainability principles at their legally independent and geographically dispersed suppliers (Barrientos et al., 2011b; Seuring and Müller, 2008). This rise of “private regulation” of worker rights followed from high-profile, activist-driven “name-and-shame” campaigns and has mainly taken the form of companies adopting codes of conduct and auditing schemes across their international network of suppliers (Bartley, 2007; Locke et al., 2007a).

With companies, labor activists and scholars having, since the early 1990s, invested staff, time, and resources into codes of conduct and auditing, the central question now becomes whether working conditions at the factories have improved, thanks to the codes. This question is intensely debated, with some scholars claiming that codes hold great promise for improving worker rights (e.g., Pearson and Seyfang, 2001; Ruggie, 2004; Zadek, 2004), while others claim that codes are too weak for the job (e.g., Blowfield and Dolan, 2008; Frundt, 2004).

The scholarly conversation about the effectiveness of codes of conduct is limited in three important ways. First, studies of the impact of codes have almost exclusively been limited to qualitative studies of a small number of firms (e.g., Chan and Siu, 2010; Locke et al., 2013) and these should be complemented with more quantitative research. Second, the few quantitative studies have relied

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on corporate auditing methods (Locke et al., 2007a, 2007b) that previous research has identified as suffering from quality problems (Egels-Zandén, 2007; O'Rourke, 1997). Third, despite this lack of studies involving larger samples of suppliers, the view is widespread that codes have uneven impact, i.e., codes are presented as improving *outcome* standards but not *process* rights (Barrientos and Smith, 2007).

We seek to close these gaps by asking: Do codes of conduct improve working conditions (in the form of outcome standards and/or process rights) at the point of production? We draw on multiple factory audits of 43 garment factories that were conducted by Fair Wear Foundation (FWF). FWF is an independent non-profit organization that is recognized as conducting some of the most rigorous and trustworthy audits worldwide. In this way, we provide one of the first large-scale studies of code effectiveness based on credible auditing data. Through detailed coding of the factory audits, we also provide the first large-scale analysis of the claim that codes improve outcome standards but not process rights. Our results contribute to the scholarly conversation by showing that even rigorous factory audits are unable to identify violations of process rights; that codes do improve suppliers' overall performance, although marginally; that few significant results are found in relation to specific worker rights; and that one of the main problems with codes is that they are unable to ensure that compliant factories remain compliant over time.

2. Impact of codes of conduct on worker rights

The emergence of voluntary private regulation of worker rights has spurred an extensive literature on codes of conduct. In similarity to the literature into sustainable supply chains more generally (Seuring et al., 2008; Seuring and Gold, 2013), however, relatively few studies have empirically studied the impact of codes of conduct at the point of production in developing countries. As Seuring and Gold (2013: 1) put it, "among future research needs, supply chains in low-income countries stand out, which are still hardly addressed." Although incomplete, the existing body of research suggests two important insights about the impact of codes at the point of production. First, it highlights the challenges of ensuring that codes improve worker rights at the point of production where they are supposed to matter. For example, Chan and Siu (2010: 185), on the basis of a study of nine Chinese Wal-Mart suppliers, show that the "general failure of auditing to detect violations of vital labor standards means that the CSR program of which Wal-Mart boasts has had little impact on workers at the company's supplier factories." Similarly, Egels-Zandén's (2007) study of Chinese suppliers to proactive Swedish toy firms found no factories (out of nine studied) in compliance with the Swedish firms' codes of conduct, with two-thirds of the suppliers violating all but one of the studied criteria.

While several other studies provide similar qualitative case evidence that "there has been little progress in improving labour standards through such [private] regulation" (Wells, 2007: 53), few studies move beyond individual cases. In a rare exception, Locke et al. (2007a, 2007b) used Nike's internal rating of 800 factories in 51 countries (audited between 1998 and 2005) and showed that, over time, almost half of the factories did not improve their compliance; 36% actually experienced a decline in compliance, and only approximately 20% improved. This was so even though Nike is recognized as investing extensively in code of conduct audits and is described as a code of conduct front-runner. Scholars in both qualitative and quantitative studies have thus shown that even when companies invest staff, time, and resources in codes and auditing, it is far from certain that the investment translates into improvements at the point of production.

At the same time, scholars comparing worker rights compliance by suppliers that are exposed or not exposed to codes have shown that those exposed to codes are generally more compliant. For example, Oka (2010a, 2010b) showed, on the basis of ILO-conducted audits through the Better Factory Cambodia project, that suppliers to reputation-conscious buyers that adopted strict codes and auditing were more compliant than suppliers to less reputation-conscious buyers. Similarly, Chakrabarty and Grote (2009) found from a survey in 2005 in India and Pakistan that child labor was less likely to be used in producing socially labeled than unlabeled carpets. It seems, then, as if suppliers exposed to codes and auditing are more compliant, but that it is questionable whether they improve over time as a consequence of codes and auditing.

Second, the research indicates that codes have uneven impact improving some, but not other, worker rights. Barrientos and Smith's (2007) argument has been particularly influential, claiming that codes improve *outcome* standards (such as health and safety, working times, and wages), while largely failing to improve *process* rights (such as trade union rights and discrimination). This argument has been supported by several case studies of a small number of suppliers (Egels-Zandén, 2014; Frenkel, 2001; Mamic, 2004). The argument is *not* that codes are unable to improve process rights in specific cases (Rodríguez-Garavito, 2005; Ross, 2006), but simply that such improvements are unlikely. While the assumption of codes' uneven impact is widely disseminated, it has never been systematically tested.

To project these insights into the impact of codes further forward requires us to address five methodological shortcomings in previous research. First, it requires a move beyond the dominance of intensive case studies of small numbers of suppliers. There are signs of this development in recently published studies: for example, Locke et al. (2013) studied 276 HP suppliers, Anner (2012) studied 805 factory audits conducted by the Fair Labor Association (FLA), and Toffel et al. (2012) studied 31,915 audits conducted by a private auditing company. However, all these studies only compared *adherence* between different group of suppliers (i.e., the degree of supplier compliance with codes) and not *improvements* (i.e., comparing compliance over time). Similarly, Oka (2010a, 2010b) and Chakrabarty and Grote (2009) compared adherence (rather than improvements) between suppliers exposed and not exposed to codes. Locke et al.'s (2007a, 2007b) study of Nike currently remains the only quantitative study focusing on improvements over time.

Second, taking existing insights further requires abandoning the reliance on data collected at single points in time. Most qualitative studies of code impact rely on retrospective interview accounts to create reference points for which current working conditions are compared (e.g., Barrientos and Smith, 2007; Chan and Siu, 2010). This is problematic because of both high turnover in the studied industries (mainly garment) and the established research design weaknesses of reliance on retrospective accounts (e.g., Boring, 1954; Stouffer, 1949). In practice, this means that quantitative (and qualitative) studies of codes' impact must be based on, at least, two systematic audits of worker rights at a specific factory.

Third, the necessary research requires access to reliable factory audits since numerous studies have shown the weaknesses of factory audits of suppliers (Egels-Zandén, 2007; O'Rourke, 1997). These weaknesses are particularly prevalent when audits are conducted by "commercial actors" (Barrientos and Smith, 2007) such as corporate internal auditors, specialized auditing firms (e.g., Intertek, Societé Générale de Surveillance, and Bureau Veritas) or service-driven, semi-commercial NGOs (Armbruster-Sandoval, 2005; Brown, 2013). Many of the audits conducted by commercial actors, for example, do not even include the central aspects of off-

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