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**Decent Workplaces, Self-Regulation and CSR:  
From Puff to Stuff?***Guy Standing*

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**Abstract**

The growth of voluntary initiatives to promote socially responsible business practices has been accompanied by a chorus of criticisms, including claim that much of the activity has been public relations and attempt to deter governments from implementing effective regulations.

This paper reviews various types of self-regulating initiative and campaigns that have grown up alongside to assess their effect on labour practices and employment. It concludes by proposing how there could be greater emphasis on market incentives coupled with more effective public measures to induce medium- and small-scale firms to improve their labour practices, including radical overhaul in labour inspectorates functions.

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# Decent Workplaces, Self-Regulation and CSR: From Puff to Stuff?

*Guy Standing*

## Introduction

For many decades, politicians and trade unions struggled to impose regulatory restraints on employers by detailed legislation backed by labour law, the primary intention being to raise labour standards and extend labour-based entitlements, as well as with curbing the opportunistic behaviour of some firms—characteristically called ‘sweatshops’—that were effectively acting as ‘free riders’ by abusing mainstream norms in their effort to obtain high profits. A framework of statutory regulations effectively penalized and marginalized those firms that tried to undercut mainstream standards.

All across the world, during the course of the 20<sup>th</sup> century, albeit to a widely varying degree, labour legislation advanced the interests of employees in formal jobs. In doing so, the regulations in effect established and legitimized a business model based on an advancing informal code of what constituted decent working conditions, based on providing workers with labour security in return for their acquiescence to the managerial right to manage. But, according to many critics in the late 20<sup>th</sup> century, in so far as protective labour regulations contributed to this trend, they also imposed heavy non-wage labour costs, as well as rigidities and restrictions on employment practices, which ultimately hindered the expansion of employment and growth.<sup>1</sup>

Although the alleged effect of regulations has remained highly controversial, the subsequent rollback in protective statutory regulations in the globalization era has been accompanied by a shift to so-called self-regulation. One reflection of this has been the emergence of new schools of “human resource management” (HRM)—a regrettable term, in that it suggests that people are mere resources—alongside a renewed focus on employer voluntarism, captured by numerous exhortations to enterprises to show “corporate social responsibility” and to adhere to voluntary “codes of conduct”.

While this voluntarism may have gone furthest in the USA, it has spread to all parts of the world, and is influential in China and in other industrializing economies. In effect, a very different business model is becoming the global norm. Human resource management sets up a standard set of personnel practices, usually with detailed HRM manuals and complex procedural rules and expectations, often coupled with private or internal arbitration mechanisms and a very limited role for collective bargaining (Dobbin and Sutton, 1998).

The trend towards greater use of HRM techniques is only one part of the global transformation of labour relations in which the role of statutory instruments is being radically altered. This does not amount to de-regulation. There has been a shift towards more ‘business-friendly’ statutory regulations, often curbing the capacities of unions and employees. Into this has come a much greater emphasis on voluntary schemes to promote ‘socially responsible’ labour practices. The ethos of self-regulation behind many of the initiatives taking place is being accompanied by the growing privatization of regulations in general and a strong tendency to bypass traditional forms of collective bargaining.

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1 For a review of the claims and counter-claims and the evidence, see Standing (1999).

Are these voluntary moves an effective substitute for statutory protective regulations and complex protective legislation? Are they equitable in their actual impact? What is required to make them a success in terms of promoting more decent work and raising the quality and quantity of employment?

While not intending to provide definitive answers to these and related questions, this paper reviews the trend towards corporate voluntarism in the global economy and proposes several initiatives that might strengthen its effectiveness, bearing in mind that the protracted debate between those favouring mandatory measures of enforcement and those favouring a purely voluntaristic approach is largely a dialogue of the deaf.

### **Work-related Stress**

To assess the success and effects of the new forms of self-regulation, we need to take stock of one of the major aspects of modern labour. Globally, there is a widespread perception that the pursuit of labour market flexibility—and the changes to labour relations that the drift to more flexible practices represent—have induced a rise in the extent of labour-related stress, linked to the uncertainties and insecurities associated with precarious labour relationships. Stress may be perceived as just one phenomenon, but it has been associated with a widespread growth of worker insecurity and worker ill-being, linked to a higher incidence of work-related accidents and illnesses.<sup>2</sup>

Recall that in the pursuit of increased competitiveness everywhere, and the perceived need to accelerate the growth of productivity, there is more pressure on workers to labour intensively. There is more emphasis on the need for risk-taking, for developing and re-developing workers' skills and for obtaining credentials, and for multi-tasking. There has also been evidence of a decline in the value of loyalty and commitment to particular enterprises. While corporations may want a relatively small core of fully committed employees, they build into corporate planning the expectation of fluctuations in employment and scope for more sub-contracting, all of which emphasise short-term profit maximization, which creates stressful labouring relationships.

In turn, certain enterprises may feel that it is more acceptable to neglect working conditions, and to cut back on safety standards and labour restraining mechanisms, than to respect the principle that workers' long-term welfare depends on working conditions. If the emphasis is put on competitiveness and flexibility, regulations may be allowed to become more permissive, or lax. In this more liberalized environment, more onus is put on employers, so that managers can decide for themselves whether or not to respect and advance decency. In many countries, this onus on voluntary responsibility has been increased by the fact that trade unions have been weakened, or seem unlikely to emerge, while legislation has encouraged a more discretionary labour inspection regime.

Stress is one phenomenon that comes from unregulated pressure to be productive and 'competitive'. There have been numerous books and articles testifying to the growth of such stress, usually ending up with counsels for better work-life balance and better pacing of work. In the pre-globalization era (from 1945 to about 1975), most workers and employees in industrialized countries, at least, would have looked to their unions or employee associations to impose some brakes on the system driving them on, or on sectoral bargains that protected them indirectly. Now, with the dramatic weakening of unions and collective bargaining almost everywhere, they cannot do so to anything like the same extent as was once expected. And most poli-

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2 See, for instance, European Agency for Safety and Health at Work (2002); Johnstone, Mayhew and Quinlan (2001); ILO (2004a: ch. 7).

ticians seem content to let this be the case, because they are eager to make their economies more competitive and to out-perform their neighbours.

One of the great unresolved challenges facing those favouring the spirit of voluntary self-regulation is the need to fill the vacuum left by the virtual demise of collective bargaining coverage, before mass stress and burn-out become one of the biggest threats to decent work and employment everywhere. To illustrate the problem, it is instructive to reflect on the surge of what is called *karoshi* in Japan. Literally meaning 'death from overwork', it seems to arise as much from an absence of constraints on working long working days and weeks; working over 60 hours a week has become far more common, according to official statistics (Sanchanta, 2006). But this unregulated overwork has been growing in many other countries as well.

Stress is the form of health hazard that has caught the popular imagination in relatively affluent industrialized countries. It has been linked to more flexible labour systems not protected by statutory regulations and collective bargains involving Voice for workers. But the situation is even worse in low-income developing countries where the pursuit of rapid growth and industrialization has generated a social climate where the ethos of self-regulation has been powerful. The resultant disquiet has led to a veritable whirlwind of international and national initiatives, by corporations, international agencies, non-government organizations and governments.

The traditional approach to work insecurity (poor working conditions, abuse of safety standards, stressful labour and so on) has been statutory procedures backed by labour inspectorates. Around the world, these have come in for a great deal of criticism in recent years, in part because many are underfunded, understaffed and ineffectual. In some countries, there has been a widespread suspicion that the authorities have been less concerned about resources for inspectorates than they claim. This is unfortunate. It should not be forgotten that, although voluntary approaches are in vogue, it is still important to have mandatory rules and regulations to prevent 'rogue' firms from operating bad labour practices. In this regard, what has been called the 'Spanish model' of labour inspection is enjoying something of a comeback, with experimental developments in several Latin American countries.

This is a compliance model, in which labour inspectors visit enterprises selectively in response to complaints lodged with them by workers or their representatives. Rather than impose fines on employers who have broken some labour regulation, they try to persuade them to change a practice and, if appropriate, compensate workers who have a legitimate grievance. Only if an employer refuses to comply over an extended period will more punitive action be taken.

Some observers believe that this semi-voluntary model is more suited to the flexible, informal labour systems that are emerging in the global economy than the mandatory system that is still widespread. It is still too early to say whether or not that is the case, but it is surely as true in the early 21<sup>st</sup> century as at any time in the 20<sup>th</sup> that a professional labour inspection system must be the backbone of any regulatory regime, however prominent self-regulation and voluntary initiatives become.

### **Corporate Initiatives**

In the last decade, as statutory protective regulations have been eroded and as labour markets have become more flexible and insecure, major corporations have moved to introduce "voluntary" codes of conduct and sets of commitments to adhere to decent labour practices. There are so many corporate initiatives in this area that one risks causing offence by omitting some of them in considering their scope and effectiveness.

According to an international survey conducted in 2002 by PriceWaterhouseCoopers, 70 per cent of executive directors of global corporations believe that CSR is vital to their company's profitability. And an Environics International survey suggested that there was widespread support for the view that companies should go beyond 'financial philanthropy' to solve 'social problems' (Dickson, 2002: 9). Most recently, in a survey of CEOs participating in the UN's Global Compact (reviewed later), the vast majority of respondents claimed to be doing much more to incorporate environmental, social and political issues into their firms' core strategies than they had done just five years previously (McKinsey and Company, 2007).

Some corporations are even using CSR or corporate citizenship performance to determine executive remuneration explicitly. In a frank interview in 2003, Olav Fjell, chief executive of Statoil, Norway's largest oil company, linked CSR to his contract:

*"Indicators related to health, safety, environment and employee satisfaction are included, among others, in my performance contract and are thus used for determining my bonus and form part of my performance review. So far, there are no indicators covering bribery and corruption, security and human rights and community development—but these topics are on the board's agenda and are thus indirectly part of the review of the CEO."*<sup>3</sup>

The forms of voluntary initiative have been diverse. Many of them have involved single companies acting alone (wearing Corporate Social Responsibility (CSR) or broader philanthropic hats, as in the case of the Shell Foundation, for example). In some of those cases, there has been a conspicuous difference between what they claim as companies and what they have been doing as lobbyists, often through business associations.<sup>4</sup> Other initiatives have taken the form of so-called public/private partnerships between private corporations, governments and international agencies. Others have been the initiative of a group of companies, often within a particular sector. And topping the edifice is the United Nations Global Compact.

### **The United Nations Global Compact**

The Global Compact was launched in July 2000, following an address by Kofi Annan, United Nations Secretary-General, to the World Economic Forum in Davos in January 1999. The Compact seeks to promote "responsible corporate citizenship". It is a "purely voluntary initiative" with the twin objectives of mainstreaming ten designated "principles" in business activities around the world and catalysing related actions in support of United Nations goals. It does not police, enforce or measure what companies do, which has led critics to claim that it allows companies to "bluewash" their shortcomings with the UN's name. But it has begun to tighten its monitoring of how companies signed up to the Compact are adhering to its principles. It had a huge celebration in its "Leaders Summit", held in the United Nations Office in Geneva on July 5-6, 2007, which was attended by several thousand people at what was a massive cost.

According to its founding document, the Global Compact requires companies wishing "to embrace universal principles to make globalization more stable and inclusive by embedding markets in shared values" to commit themselves to ten principles, covering protection of human rights (supporting them in general and ensuring their own firms respect them in particular), core labour standards (on freedom of association,

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3 Cited in Maitland (2003: 10).

4 A well-known case concerned Shell. While claiming a commitment to human rights in its public relations, it led the successful lobby against binding human rights standards by the International Chamber of Commerce, which was chaired by Shell's Vice-president for External Relations.

child labour, forced labour, and anti-discrimination), and environmental protection (supporting a 'precautionary approach', undertaking environmental initiatives, and encouraging 'environmentally friendly technologies').

The four labour-related principles are taken from the ILO's *Declaration on Fundamental Principles and Rights at Work*, adopted by the International Labour Conference in 1998. With the number given in the Compact's list, they are:

- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- **Principle 4:** the elimination of all forms of forced and compulsory labour.
- **Principle 5:** the effective abolition of child labour.
- **Principle 6:** the elimination of discrimination in respect of employment and occupation.

By March 2006, the number of participants in the Compact had grown to nearly 3,000, including over 2,500 businesses in 90 countries. However, in October 2006, 335 companies were "delisted" as part of the general strategic drive towards elevating the integrity and accountability of the initiative.<sup>5</sup> All companies participating in the Global Compact are expected to submit an annual report on how they are implementing the ten principles. Under the Compact's Integrity Measures introduced in 2004, any company that misses two consecutive deadlines to submit a "Communication on Progress" is regarded as inactive. Companies deemed inactive are barred from using the Global Compact name or logo. But they can be re-listed by submitting a *Communication on Progress*.

In connection with the delisting practice, Sir Mark Moody-Stuart, chairman of the Foundation for the Global Compact, has laid out the expectations:

*"While the Global Compact is a purely voluntary initiative, it is important to protect the investment that seriously committed companies and other stakeholders have made."*

The Global Compact is an effort to move from abstract principles 'downwards' to firms. This is a potentially good feature, although it imposes a responsibility on those driving the strategy to make the requirements sufficiently specific. There is a danger of elitism—enlisting big-name executives of brand-name corporations who can meet at Davos and at other attractive venues, and do little more. That fear will be lessened if many more small and medium-sized firms join and participate.

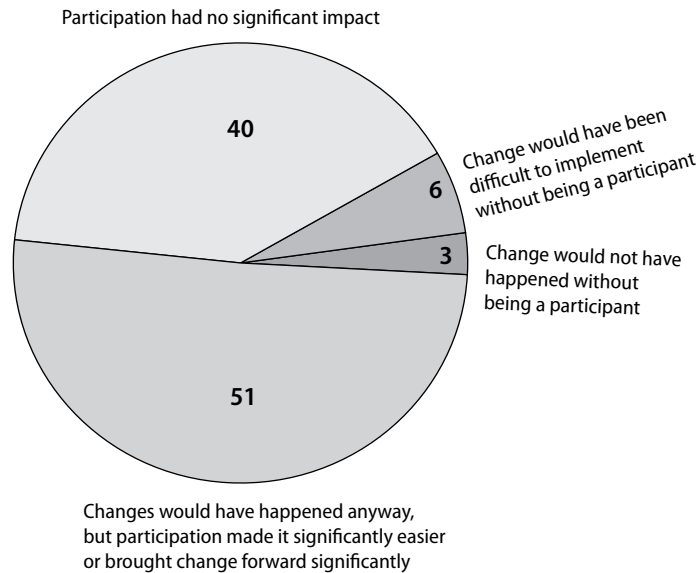
More importantly, the Compact has no capacity to check whether or not a chief executive's stated commitment to the principles actually changes company behaviour. The hope is there, and the United Nations unit dealing with the Compact believes that through it "United Nations' values are penetrating the texture of leading companies". The trouble is that the Compact has no real monitoring or regulatory function.

A McKinsey survey of participating companies in 2004 concluded that the Compact had had a "noticeable incremental impact on companies" but had primarily "accelerated policy change" rather than instigating it. Only 3 per cent of respondents said changes to company policy would not have happened without participation in the Compact. Still, 67 per cent of respondents had changed their corporate policies on human rights, labour and environmental principles since joining the Compact, with 40 per cent report-

5 See [http://www.unglobalcompact.org/NewsAndEvents/news\\_archives/2006\\_10\\_02.html](http://www.unglobalcompact.org/NewsAndEvents/news_archives/2006_10_02.html).

Figure 1.  
Impact of Global Compact on Company Reform

Were any of these [policy] changes helped by your organization's participation in the Compact?  
Percent of company respondents<sup>a</sup>



Source: Survey of GC participants.

Note: For most of the survey respondents who report that their companies made changes to implement the Compact's principles, participation in the Compact accelerated, rather than instigated the change.

<sup>a</sup> Percent of respondents who indicated some change made since joining Compact (who made up 67% of total).

ing that the Compact was a significant driver of those changes. It may be too early to be too optimistic about the actual effects, but undoubtedly the Compact is helping to spread the call for more decent working conditions as part of the call for corporate social responsibility more generally.

The Global Compact has attracted a mix of reactions, from reverential deference to scornful disdain. There is no doubt that too many platitudes have been produced in its name. In what appears to be a determined effort to maximise its attractiveness for multinationals and their executives, the principles have been couched in platitudinous and ambiguous terms that minimise the potential embarrassment for firms subscribing to its 'principles'. There have been too many glossy brochures and too many conferences in which distinguished names have prominent places. The advocates should not be too surprised at the criticisms from those who look on as it seems a circus of the privileged moves around the world. And nor should observers be impressed by the delisting process, since thus far delisting has been for procedural failures rather than from substantive failings in corporate behaviour. Unless there is a proper system of evaluation, why should anyone take its pronouncements seriously?

### Other United Nations and International Initiatives

The United Nations has pursued other tracks to promote decent work practices along voluntaristic lines. In 2005, following a request from the Human Rights Commission, the former United Nations Secretary General appointed John Ruggie, a Harvard professor, as Special Representative on the issue of human rights in connection with transnational corporations and other business enterprises, with a two-year mandate to



identify and clarify standards of corporate responsibility and accountability for business with regard to human rights. In February 2006, he submitted an interim report to the Human Rights Commission (now the Human Rights Council), which, among other things, refers to aspects of the decent work agenda. (Human Rights Commission, 2006).

That interim report gave a cautious assessment of the progress being made. With reference to labour principles, it mentioned the ILO's 1998 *Declaration on Fundamental Principles and Rights at Work*, the ILO *Tripartite Declaration of Principles Concerning Multinational Enterprises*, revised in 2000, and what it regarded as a noteworthy experimental ILO programme in the Cambodian garment industry.

More particularly, the report concluded that the monitoring of supply chains had come to play a particularly important role for premium brands in the footwear and apparel industries. It singled out the role being played by the *Fair Labour Association* (FLA), a multi-stakeholder coalition of 18 firms, NGOs and nearly 200 university retail outlets. FLA member companies agree to adopt a programme of workplace standards implementation, monitoring and remediation in order to bring some 4,000 manufacturing sites into compliance with FLA standards, which go beyond the ILO's core standards.

However, the report said the FLA had concluded that monitoring, by itself, was not an effective way of bringing about behavioural changes in supply chains. It highlighted the problems caused by the proliferation of differing codes of conduct and the imposition of several codes on the same suppliers, imposing an excessive burden that encouraged them to try to circumvent the system. It also pointed out that the big brand-name corporations were, as a standard practice, demanding that suppliers adhere to ever-shorter delivery schedules and to tighter quality and cost controls, placing an onerous strain on the suppliers and their workers.

Remedial efforts to overcome non-compliance were "inevitably" inadequate because the required human and institutional capacities were lacking in the developing countries where the suppliers were located. In response to this, the FLA was piloting a strategy to build such capacities, including improving the human and institutional capacities in the public labour inspection system. Labour inspectors in many developing countries are few in number (see Box 1) and may be paid even less than the factory workers whose conditions they inspect, the report noted (Human Rights Commission, 2006).

Box 1:

**Why not more?**

In many developing countries there are very few labour inspectors. There are scarcely any in some of the poorest countries where working conditions tend to be worst. In Cambodia, there is one inspector for every 370,000 workers. In Bangladesh, it is one for every 3,200,000 workers (ILO, 2006).

Appointing more inspectors would be a signal that policymakers and donors were serious about the promotion of decent work. International donors could help.

More generally, the interim report concluded that existing voluntary initiatives on human rights were flawed because they tend not to cover "determined laggards"—the companies that cause the biggest problems—and thus left many areas of human rights poorly protected or uncovered.

Controversially, the Special Representative said that the draft United Nations norms on human rights and business represented a dead end in terms of how to improve rights on the ground. This view is not

shared by many NGOs, or even all companies. The *Business Leaders' Initiative on Human Rights*, a network of ten major international corporations (ABB, Barclays, Gap, Hewlett-Packard, Novo Nordisk, Statoil, Body Shop, MRV, National Grid Transco and Novartis) that are testing the draft United Nations norms in their operations, have come up with a human rights "matrix", which categorises and disaggregates issues as "essential", "expected" or "desirable". The companies say this has led to greater understanding both of the minimum companies need to do to comply with international standards and of their "wider sphere of influence" (Maitland, 2003b:14).

Besides the rights approach within the United Nations itself, various United Nations agencies have been nurturing partnerships with business, or even with individual companies. Not all observers are impressed by these.<sup>6</sup> But many do feel that progress can be made, in a spirit of voluntary cooperation. Much of the concern about UN-sponsored public-private partnerships (PPPs) appears to centre on health, but there are also worries about private sector interests trumping the public interest in other areas.

Public-private partnerships are certainly popular, and provide scope for raising labour standards through moral suasion. In relation to employment (leaving aside the privatisation of employment services, etc.), the UNDP has made a considerable commitment to the support of PPPs for development. And, in a small way, the ILO's SEED programme is also encouraging PPPs to help create urban employment in developing countries.

The UNDP has a scheme called *Growing Sustainable Business*, initiated by the United Nations Global Compact itself, which brokers partnerships between companies and either non-governmental organisations or local government bodies. The basic idea is that such alliances can reduce investment risk sufficiently to encourage foreign and domestic companies to invest in commercially viable businesses in developing countries. UNDP believes that countries will not be able to meet the Millennium Development Goals unless they can generate more income and growth, and that means encouraging local small and medium-sized businesses.

Kemal Dervis, UNDP's Administrator, says private enterprises, from farmers and micro-entrepreneurs to local manufacturers and multinational companies, provide 90 per cent of jobs, provide goods and services, and are the main source of tax revenue, which contributes to public funding for health, education and other services (Dervis and Davies, 2005). Companies such as Ericsson, Unilever, Total, Tetra Pak, Shell, Thames Water and EDF have participated in pilot schemes in Tanzania, Madagascar, Ethiopia and Bangladesh (Murray, 2005). Projects have included supplying electricity and telecommunications to poor rural areas, and encouraging small farmers to cultivate natural ingredients for soap and margarine.

The business model is commercial, not philanthropic, with companies accepting a lower return on investment in order to develop new markets that are expected ultimately to be profitable. Fuelling support for this model is the much-touted work of C.K. Prahalad, a US-based business professor, who argues that companies can help eradicate poverty (and earn profits) by targeting "the fortune at the bottom of the pyramid" (Prahalad, 2005).

Other organisations involved in public-private partnerships, and usually encouraging companies to become more involved in development, include the International Business Leaders' Forum and the World Economic Forum. A related initiative is Business Action for Africa, with more than 60 participants and SAB-Miller, Anglo American, De Beers, GlaxoSmithKline, Shell and Unilever as founding sponsors. There have

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<sup>6</sup> See, for example, Zammit (2003); Utting and Zammit (2006).

also been a number of government-led initiatives, with some actively promoting such partnerships, sometimes to introduce commercial principles in public services alongside respect for certain social principles.

The European Commission has also become more active in promoting CSR. In July 2002 it issued a 'Communication' in which "the Commission presents a EU strategy to promote CSR" (European Commission, 2002). This is a succinct statement of mainstream views on the subject, placing emphasis on the voluntary nature of CSR (contrary to the position advocated by trade unions and various other non-governmental organisations), and a need for *transparency* and *credibility*. It advocates a "balanced and all-encompassing approach to CSR", recognises the special situation of small and medium-sized enterprises, and commits the European Union to support the ILO's core labour standards and the OECD's Guidelines for Multinational Enterprises.

The 'strategy' the European Commission has proposed is impressive—to increase knowledge of the impact of CSR, develop a network for the exchange of information on good practice, promote management skills in CSR, facilitate convergence and transparency of CSR practices, and integrate CSR into European Union policies. As part of this strategy, it has launched a Multi-Stakeholder Forum on CSR at EU level.

In this, as in so much of the CSR movement, the biggest challenge will be to move beyond abstract principles to practical measures that can be applied and monitored. In this regard it is relevant to note that when the Commission launched consultations on rules to guarantee "socially intelligent restructuring" at the beginning of 2002, it ran into heavy opposition from UNICE, the European employers' federation.

The World Bank has also stepped up its interest. It initiated a programme called Business Partners for Development (BPD) to encourage firms, governments and community groups to pool expertise to tackle social issues in developing countries.<sup>7</sup> And its International Finance Corporation (IFC) has established an IFC 'corporate citizenship facility', in part to help its clients and private firms in emerging markets to identify appropriate investment opportunities. The IFC has developed a framework for measuring private investment sustainability, which includes assessment of workers' health, safety and welfare. Actions that companies are asked to take include compliance with ILO Conventions, paying "somewhat higher wages than average" and meeting the ILO Code of Practice on HIV/AIDS.

Not to be outdone, the World Economic Forum launched the WEF's global corporate citizenship initiative in 2002, and focused on the need to "rebuild" trust in its 2003 Davos meeting. The 31 chief executives included in its survey all said they were developing measures and targets for their 'leadership teams' on CSR or corporate citizenship. And a majority said there was a merging of the corporate citizenship and corporate governance agendas in their companies, no doubt due to the loss of trust engendered by the Enron and other corporate scandals of the recent past.

There have also been numerous national initiatives. In the USA, the CSR movement, spearheaded by the Global Reporting Initiative (see below), was boosted by the establishment of Business Strengthening America (BSA) in 2002, whose aim is "to encourage civic engagement and volunteer service in corporate America". This had the support of President George W. Bush and some high-profile corporate executives. It was designed to improve the image of corporations in the wake of business scandals and to encourage businesses to "do well by doing good". It does not seem to be a means of focusing on what is appropriate to do in their domains, and thus may exist outside the reporting frameworks.

7 Information on Business Partners for Development (BPD) is available online at [Http://www.bpdweb.com](http://www.bpdweb.com).

A relatively promising tendency in the USA has been shareholder activism, led by major pension funds. Another trend has been for leading companies to invest in the monitoring process by non-governmental organisations. In 1999, Nike gave US\$7.7 million to the International Youth Foundation to set up the Global Alliance for Workers and Communities to monitor the practices of sub-contractors; it was wound up in December 2004. But it was operating in crowded territory.

In the UK, the Ethical Trading Initiative (ETI), a tripartite body consisting of employers, unions and campaigning groups backed by the UK's Department for International Development (DFID), developed a code based on ILO Conventions (Crowe, 2001). The Business in the Community (BITC) sets out to help companies quantify performance on a set of indicators on marketplace, environment, workplace, community and human rights.<sup>8</sup> In March 2003, the BITC issued a Corporate Responsibility Index, as part of its Business Impact Self-Assessment Tool. It sets out to measure firms' performance in terms of five 'divisions'—environment, employment, community, human rights and consumer issues. It is thus very broad in scope. It is also, so far, limited in the number of companies it covers; it also seems to be a tool for pointing out poor or 'irresponsible' performance.

In Denmark, the Ministry of Social Affairs has developed a social index, intended to measure the social responsibility of companies. Enterprises that obtain verification will receive an "S-label". The Danish Confederation of Trade Unions (LO) (2002) has proposed that to obtain this label, companies should be measured by actual performance. The LO has also proposed a "Workplace Knowledge Index".

Another approach is 'the ISO model', notably SA8000, based on ISO9000, an auditing technique specifying corrective and preventive actions. In January 2003, the International Organisation for Standardisation (ISO) established a CSR Advisory Group (with ILO, IOE and ICFTU on board) to consider a CSR management framework in this mould. In February 2003, it recommended that ISO should conduct a survey of the worldwide state of the art on social responsibility codes and guidelines and to consider preparation of "a management system guideline standard that specifically includes a process for the self-declaration of conformity by organisations and excludes conformity assessment involving third-party certification".

The broad range of issues covered by such 'standards' as the ISO model and the AA1000 framework raises a problem of lack of rigour and sharpness. This may be lessened by approaches that are more focused on labour standards *per se*, such as the proposals of the Fair Labour Association, which has conducted 'anti-sweatshops' campaigns, and Social Accountability International (Fung, O'Rourke and Sabel, 2002). But in such cases, heavy demands are placed on inspection and auditing, which are often left largely to international consultants and accounting firms, a tendency that raises problems of conflict of interest.

### **The Global Reporting Initiative**

A related global activity is the Global Reporting Initiative (GRI), conceived in 1997, and launched by the US-based Coalition for Environmentally Responsible Economies in partnership with the United Nations Environment Programme. It is unique in being an ambitious attempt to induce companies to report on "the triple bottom line", the GRI is

*"an international multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental and social impact of organisation-level activity"*.

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8 See [http://www.bitc.org.uk/what\\_we\\_do/cr\\_index/index.html](http://www.bitc.org.uk/what_we_do/cr_index/index.html).

As a multi-stakeholder process and independent institution, the GRI defines its mission as making “sustainability reporting” as routine and comparable as financial reporting, with a vision of a sort of triple bottom line, as often mentioned by other civil society organisations, encompassing financial, environmental and social roles of business.

As demonstrated in its Sustainability Reporting Guidelines, the GRI is very complicated. The Guidelines are not intended to be a code of conduct or set of principles, or a performance standard, or a management system (GRI, 2002). The only way to do justice to the GRI’s scope and ambition is to study the extensive documentation already generated on its behalf. Since its inception, thousands of companies have published corporate environmental or sustainability reports. The GRI requires firms to report on dozens of “core indicators” of performance and dozens of “voluntary indicators”.

The complexity highlights a difficulty inherent in this sort of initiative. It tries to cover all the angles, and is thus in danger of being choked with detail and with bureaucratisation under the weight of the offsetting voices steering the initiative. Perhaps unfairly, it has also been criticised for apparently proposing a “one-size-fits-all” reporting framework, applicable to all sectors, all size groups of firms and so on. These issues may have been taken into account by the people driving the GRI. However, precisely because of its detail and attempt to provide a common framework, it is apparent that applying the GRI can be very expensive.

The GRI became the most popular framework for voluntary Corporate Social Responsibility reporting, and is used by about 1,000 organizations, mostly large for-profit corporations. The GRI claims to be the result of an interaction with many people representing a wide variety of stakeholders concerned with the impact of the activity of business around the world. Yet these groups appear to represent only “practitioners” of the GRI framework and not all sectors of global civil society as a whole. In October 2006, the GRI released its Third Generation Sustainability Reporting Guidelines. However, in this latest development there is still no requirement to report on the level of wages paid, even though companies are supposed to report on the ratio between pay of men and women. The fact is that something as basic as living wages continues to be absent as a reporting indicator from the GRI framework. It seems there is a long way to go to obtain a comprehensive measure that covers all aspects of the decent work agenda.

This leads to a wider concern. A study commissioned by the United Nations concluded that moves by companies to report on their labour standards and their environmental footprints will remain a niche practice, being limited largely to transnational companies based in industrialised countries (Williamson, 2006). Few small and medium-sized enterprises, or companies in emerging markets, are set to join the Global Reporting Initiative. The report, commissioned by the United Nations Environment Programme and written by the Global Public Policy Institute in Berlin, predicts that by 2020 only 11 per cent of transnational companies—let alone other businesses—will provide social and environmental data. However, a survey by KPMG in 2005 said more than half the world’s top 250 companies in the Fortune 500 list gave details of their environmental and social performance (Buck, 2005).

The GRI has spawned some related efforts, some of which are just as complex. Among the many national-level and more informal initiatives, mostly done by individual consultants or small consultancies, one can mention AccountAbility’s 1000 (AA1000) framework (AccountAbility, 1999). Presented by its designers as an auditing complement to the GRI, this has been well advertised, and is designed to improve the accountability of organisations by increasing their social and ‘ethical’ accounting, auditing and reporting. Like the GRI (and others), it espouses a ‘multi-stakeholder’ approach, and covers a broad range of issues. But it too has had difficulty in gaining widespread acceptance or use, in part no doubt because of its complexity.

To some extent, the GRI and other initiatives have built on guidelines established by the OECD and the ILO in the late 1970s. The OECD issued its Guidelines for Multinational Enterprises in 1976, which it revised in 1991 and again in July 2000; the ILO issued its Multinational Enterprise Declaration in 1977 (revised in 2000), which has had relatively little effect.

Box 2:

**OECD Guidelines for Multinational Enterprises**

Some OECD members are pressing for the OECD Guidelines for Multinational Enterprises to be made more effective. These voluntary guidelines, issued in 1976 and revised in 1991 and 2000, cover multinationals' handling of a range of issues from industrial relations to human rights, the environment, corruption and taxation. They have been endorsed by all 30 OECD members.

One way of making the guidelines more effective would be to strengthen national contact points, through which trade unions, campaign groups and others can complain about alleged corporate malpractice. Trade unionists and NGOs have charged that implementing the guidelines has been slow and the complaints procedures are inadequate. They want faster processing and resolution of complaints, and some have suggested that export credit guarantees and other government assistance could be made conditional on companies' compliance with the guidelines.

In May 2005, the Financial Times reported that about 90 complaints had been brought since the guidelines were reinforced in 2000 (Maitland, 2005). Most involved employee relations but some concerned human rights, corruption, environment and companies' involvement in politics.

The OECD Guidelines encourage corporations to adhere to standards on disclosure, labour relations, environment, bribery, consumer interests, competition, taxation and technology. On employment issues they echo the 1998 ILO Declaration of Fundamental Principles and Rights at Work, and encourage companies to provide facilities, information and consultation to employee representatives. They also request companies to observe standards of employment not less favourable than those observed by comparable employers in the host country.

At the time the Guidelines were revised in 2000, the US Government representative said they would promote "a race to the top" in standards of corporate behaviour. However, even though voluntary and not legally binding, they were criticised by the Mexican Government, a relatively new OECD member, which argued that they were depriving the country of investment from the other members of the North American Free Trade Agreement (NAFTA). A significant change following the 2000 revision was the points (NCPs) to monitor the voluntary Guidelines, which the ILO believes has strengthened their implementation.<sup>9</sup>

Other codes of conduct for multinationals have included The Global Sullivan Principles, drafted in 1976 for employment practices in South Africa, the United Nations Centre for Transnational Corporations Draft Code of Conduct for Transnational Corporations, drawn up in 1977 and abandoned in 1992, and The Caux Round Table Principles, drafted in 1986 by a coalition of business executives from North America, Europe and Japan.

9 The ILO also established a business and social initiatives database (BASI). See <http://www.ilo.org/dyn/basi/VpiSearch.Main>

## Do Voluntary Codes of Conduct work?

The tradition of voluntary codes of conduct has a longer history than many proponents today appear to believe. In the early phase of the globalization era, when hostility to restrictive statutory regulations was intense, led by adherents of the Chicago school of law and economics, the United Nations set up a Centre on Transnational Corporations, which produced a Draft Code of Conduct on Transnational Corporations in 1977. It was very much like the modern variants. It was systematically opposed by the US Reagan Administration, which managed to have the Centre closed. It is very unlikely that the Codes that have been spreading in the past few years will be abandoned.

Do voluntary 'codes of conduct' promote decent and dignified work? Or should they be made mandatory? The evidence and observations of those involved suggest that voluntary codes are better for dissuading firms and public agencies from doing some things, rather than for inducing innovatively good practices.

There are some advantages in a voluntaristic approach. While there are laws and institutions to try to ensure compliance with minimum standards, an advantage of a voluntary approach is that aspirations can be set higher, and it is also easier to obtain consensus on what constitute acceptable principles and practices. A downside of a voluntary approach compared with a mandatory one is that there may be a higher probability of deceit and 'window dressing'—or 'greenwashing'—because everything depends on moral suasion and the appeal of belonging to a club of laudable people. Moreover, critics say there is still a "free rider" problem in that firms that do not adhere to a voluntary code of conduct may be able to lower their costs and out-compete those that do (Fitzgerald, 2002). Others claim the CSR vehicle conceals a scarcely hidden political agenda.<sup>10</sup>

Ever since it came into public debate, the view that CSR should be voluntary has been subject to extensive criticism. Thus, in the early 1990s the G77 (Group of 77 developing countries) had a dispute with the OECD, the G77 wanting a binding code, the OECD advocating a non-binding one. Later, spokesmen from developing countries came to suspect any proposal for mandatory schemes as a disguised form of protectionism.

That sensitive issue aside, another criticism is that by no means all firms that claim to adopt voluntary codes of conduct share compliance information with the public (less than one in four, according to Ruggie, 2002), and even fewer subject themselves to third-party auditing, although the situation may have improved subsequently. In any case, perhaps because they allow for a wide array of interpretations, codes have proliferated, without consensus on what they should include or on how they might be used to best effect. It has been said, correctly,

"Making a code fully operational takes years. Management systems are still in their infancy, which makes it hard to assess the effectiveness of these private initiatives. Clearly, the intense code activity of recent years has kept a spotlight on undesirable practices" (Fleiss, 2001:53).

As far as CSR reporting is concerned, there has been an extraordinarily rapid growth in its incidence, usually focused on environmental and social issues. A survey found that in 2002 45 per cent of the world's largest 250 companies produced such reports, up from 35 per cent in 1999 (KPMG, 2002). The trouble is that there is a plethora of guidelines on what such reports should look like, and much of what has

<sup>10</sup> For a strong statement along these lines, see Berne Declaration Magazine (2007).

been done has been described as largely public relations. As one CSR consultant, Peter Knight, director of Context, put it,

*“The increase in reporting is good news. But there’s still too much fluff about.”*<sup>11</sup>

Although that view may be contested, there is a more widespread impression that the CSR ‘reporting’ movement has made less progress on labour and work issues than on environmental and economic issues. As the Information Note for the ILO Governing Body of March 2003 concluded, “the labour and employment information disclosure in this type of report is generally quite weak” (ILO, 2003).

In reviewing the issues that are most typically reported, it added:

*“The subjects least frequently reported on included equal remuneration (a fundamental category), job security, the effect of technology on employment quality and quantity, disciplinary practices and establishing linkages with national enterprises.”*

Nothing that has happened since then has altered the view that much more could be done to make the reporting more transparent and useful in advancing the decent work agenda.

The argument over whether the codes of conduct should be made mandatory will no doubt continue. Several prominent international NGOs have argued that they should. Among those pushing for a mandatory approach of multilateral rules to enforce labour and environmental standards are Friends of the Earth and Greenpeace. The British charity Christian Aid has even proposed there should be a “global regulator” to enforce a code of conduct.

Christian Aid has called for international laws to control multinationals’ operations in developing countries. It wants the United Nations to develop a legal framework for corporate responsibility based on the United Nations draft norms, and also wants mandatory social and environmental reporting by British companies. In a report, it concluded that “business has consistently used CSR to block attempts to establish the mandatory international regulation of companies’ activities” (Christian Aid, 2004). Resistance to regulation had “left the worst corporate abusers effectively unrestrained and the victims of their actions without adequate means of redress.”

Christian Aid said voluntary social and environmental initiatives had proved “wholly inadequate” and that the rhetoric of CSR could mask operations that made life worse for local communities and workers. For example, British American Tobacco stressed the health and safety of workers, but contract tobacco farmers in Kenya and Brazil reported inadequate protection against pesticides and complained of related ill-health. Coca-Cola stressed responsible use of natural resources, but this jarred with accusations that its Kerala subsidiary had depleted village wells of scarce water. Shell said it strived to be a good neighbour, but the report accused it of failing to clean up oil spills quickly enough in the Niger Delta and said its community development projects were “frequently ineffective”.

It is often presumed that opposition to voluntarism comes exclusively from unions and NGOs. Thus, David Coats of the UK’s TUC asserted, “Much of the CSR stuff companies do is little more than a smokescreen to avoid statutory legislation. Most corporate responsibility programmes do not involve workers’ rights. These tend to be dealt with separately.” (Morgan, 2001:13)

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11 Quoted in Financial Times (2002:viii).



The head of an international group of clothing worker unions was more blunt, “Millions of dollars have gone into codes of conduct and monitoring efforts, and the major output has been to create an army of fraudsters” (cited in Birchall, 2007). But it should not be overlooked that some executives are also against it. Sir Geoffrey Chandler, former Shell executive and a senior civil servant, told a public meeting that “voluntarism never works” (Cowe, 2003:6). This view is certainly not the view of most international business leaders, but the debate seems set to continue for some time to come.

### Monitoring and Shaming Global Supply Chains

As western consumers have become more aware of the poor working conditions in which goods are often produced, multinationals have come under pressure to ensure decent treatment of workers throughout their supply chain. One significant development is the international monitoring of enterprise labour practices and the practices of those firms that are supplying raw materials or components to multinational corporations that are the “brand names”. A major objective has been to improve labour standards in global supply chains.

Business for Social Responsibility, a US-based non-profit foundation financed by member companies, has summarised current practices on monitoring of these global supply chains (Business for Social Responsibility, 2003). Although most companies claim to inspect their suppliers’ factories periodically, the system is highly fragmented. The standards used are different, the main ones being set by bodies such as the Ethical Trading Initiative, Fair Labour Association (FLA), Interfaith Centre on Corporate Responsibility (ICCR), Social Accountability 8000, and Worldwide Responsible Apparel Production (WRAP).

In addition, monitoring is done by a variety of organisations (or internally), including for-profit groups as well as NGOs. Thus the same factories may be monitored by several different monitoring agencies acting for different western buyers using different standards. Monitoring is often inadequate, enabling factory managers to falsify records, dupe inspectors or play buyers off against each other without changing the way they operate or treat workers. In 2005, the Clean Clothes Campaign, a coalition of trade unions and pressure groups that surveyed 670 workers in 40 clothing and sports shoe factories, found that audits were often superficial and failed to uncover problems. (Financial Times, 2006a)

The US-based Fair Labour Association, which works with NGOs, universities and companies such as Nike, Adidas, H&M and Liz Claiborne, claims that in 2005 it found an average of 18 violations per factory it visited (Financial Times, 2006a). All visits were unannounced and lasted about 10 days, with companies having to deal with issues identified. The main problems encountered in Asian countries such as China and Thailand related to working hours and wages.

Perhaps the textbook example is the Cambodian textile and clothing industry, which has been subject to an ILO factory monitoring and improvement programme called Better Factories Cambodia. This programme, initiated by a 1999 trade deal between the USA and Cambodia, is designed to improve working conditions for Cambodia’s 270,000 garment workers and boost the local clothing industry at a time of intensifying competition. The deal promised greater access to the US textile market if Cambodian factories improved working conditions and respected trade union rights. To export to the USA, factories had to submit to surprise inspections by the ILO, which made all its findings public.

This approach is being recognized as a means of inducing western buyers, local governments and trade unions to collaborate on a campaign to combat sweatshops and improve working conditions of some of

the world's most exploited workers (Kazmin, 2005). In 2006, the ILO programme received financial support from big western companies, including Gap, Nike, Reebok, Adidas, Levi Strauss, Sears, Wal-Mart, Hennes and Mauritz, the Children's Place Retail Stores and the Disney Corporation.

The ILO inspectors have a highly visible presence in Phnom Penh, use local staff who speak the language, enable workers to ring up or talk outside the workplace, and "name and shame" factories with bad practices. A World Bank survey claimed that ILO monitoring is credible with buyers, and 86 per cent of buyers believe that compliance with labour standards is of moderate to critical importance to their consumers (ILO, 2005d). The ILO has been trying to persuade western companies to reduce or drop their own audits in Cambodia in favour of a single ILO audit.

Even after the abolition of textile quotas in 2005, Cambodia decided to continue requiring all factories to submit to ILO inspections to obtain export licences. Cambodian industry supported the policy. The \$2 billion industry accounts for 80 per cent of national exports, 12 per cent of GDP and, directly or indirectly, supports up to 20 per cent of Cambodia's 13 million people. So far the gambit has worked. Cambodia's exports to the crucial US market have continued to grow rapidly, while other south-east Asian producers have lost ground to India and China (WTO, 2006).

As the Financial Times reported, "Cambodia is hardly a workers' paradise" (Kazmin, 2005). Some factories still ask staff to do excessive overtime, underpay wages to temporary workers and are lax on safety. Collective labour agreements have been resisted. Chea Vichea, a trade union leader, was gunned down in 2004, possibly for supporting Cambodia's opposition party. But the consensus seems to be that the Better Factories programme is having some effect. The reasons are five-fold:

- Trade incentives, in the form of better access to the US and other markets, because clothing companies and retailers want to be able to claim their goods are produced with decent labour standards;
- Government commitment—ILO inspections are a requirement for exporters;
- Independent, credible monitors;
- Transparency—the ILO publishes its findings on factory conditions, giving all buyers a common reference point on which to evaluate their suppliers;
- Union involvement—trade union representatives help oversee ILO monitors, along with industry representatives and government officials. The threat of labour unrest has also forced factory managers into agreements with workers.

For the moment, this is the only ILO monitoring programme, for any industry. The ILO has said it is prepared to consider other monitoring schemes, provided all the social partners want it to be involved and there is adequate funding; the USA initially paid the bulk of the Cambodia costs although the financial burden is shifting to the multinationals and the Cambodian government.

These conditions have not been satisfied elsewhere. In 2003, the ILO was asked by companies and workers to monitor conditions at clothing factories in Saipan, the largest in a chain of 14 US-owned Pacific islands known as the US Commonwealth of the Northern Mariana Islands, following a legal settlement in a lawsuit brought by workers against a number of big-name American companies. But the US administration rejected the request from the Marianas Islands' governor, insisting that a private monitor be selected instead of the ILO. In the end, each side chose a different monitor (Clean Clothes Campaign, 2004).

Labour abuses are being exposed by diligent NGOs elsewhere. For instance, according to the Mexican Centre for Reflection and Action on Labour Rights (CEREAL), workers assembling electronic equipment in Mexico for multinationals such as Dell, IBM, Hewlett-Packard and Sony are suffering discrimination and humiliating treatment despite a drive by these companies to stamp out labour abuses (Maitland, 2006). CEREAL has cited exposure to toxic materials, obliging job applicants to reveal their religious beliefs, sexual preferences and union affiliation, and to agree to submit to degrading tests; and temporary rolling contracts as short as 15 days that deny workers holidays and severance pay.

CEREAL is a partner of Cafod, the Catholic UK-based development charity, which in 2004 exposed labour abuses in the technology industry's global supply chain. Later that year, Dell, HP, IBM and five of their suppliers launched the electronics industry code of conduct (EICC) to which 15 companies subsequently signed up. But CEREAL claimed that problems such as discrimination, sexual harassment, low wages, employment instability and lack of trade union freedom are still widespread in the Mexican electronics industry. CEREAL alleges that companies sign collective employment contracts with unrepresentative trade unions in secret for a fee to prevent workers from organising freely, and because Mexican law states that only a union can negotiate with a company on work issues, most workers do not know they "belong" to the unrepresentative union.

Another example was a 2004 report "Clean Up Your Computer" by Cafod itself, which exposed poor working conditions in factories in Mexico and China supplying personal computers, printers, monitors and components for some of the world's biggest technology groups, such as Dell, Hewlett-Packard and IBM (Authers and Maitland, 2004; Maitland, 2004).

The report found that electronics workers in the Pearl River Delta in China often faced dangerous conditions from toxic chemicals, smoke from soldering, metal dust or noise. Workers who test monitors could spend 11 hours a day in front of flashing screens. There was no health and safety training in many factories in Dongguan, where most of the research was done. The report said workers, many of them young women from rural China, were often in debt to a labour agency before they started their job. Their basic wage could be well below the legal minimum and many worked excessive overtime, sometimes totalling 16 hours a day, seven days a week.

In Mexico, the issue was less about health and safety than about wages and employment security. Companies can circumvent Mexico's labour laws by outsourcing assembly to contract manufacturers. But even these companies do not directly employ the workers. Instead, they are employed by agencies. This means that despite having their own codes of practice on labour rights, the big computer brands have little or no daily control over employment conditions.

Many basic requirements of job security under Mexican law can be bypassed if workers are employed by "intermediaries" rather than by the factory. According to the report, agents choose predominantly women and screen out those with signs of aspiration including applicants who have ever been involved with a union, have relatives who are politicians or lawyers, or have spent time in the USA. They set standards for tattoos and body-piercing, question applicants on drug use and require them to give urine and blood samples and to take a pregnancy test.

CAFOD compared the three companies' codes of conduct with standards drawn up by the Ethical Trading Initiative, a UK alliance of companies, non-profit organisations and trade unions that promotes

best practice in the supply chain. CAFOD said all three were deficient because, with a few exceptions, they referred to compliance with local law rather than international labour standards. None of the codes provided unequivocally for freedom of association. There was also no commitment to providing regular employment. “This is a significant omission given that many of the problems suffered by workers in the electronics sector relate to their temporary status” (CAFOD, 2004:19)

The CAFOD report also made the point, noted above by John Ruggie, that companies must conduct their core business in a way that enables suppliers to implement labour standards, for example, by negotiating appropriate prices and lead times (Human Rights Commission, 2006). Otherwise, pressures to keep costs down and achieve quick turnarounds in orders are bound to lead to unreasonable pressures on workers.

Another example is the Fair Labour Association, mentioned earlier, which was formed in 2000 and evolved out of the Apparel Industry Partnership initiated by US President Bill Clinton in 1996. Companies that participate in the FLA have agreed to adopt and adhere to an industry-wide FLA code of conduct; undertake an extensive programme of internal monitoring of all factories in their global supply chain; allow independent external monitoring of a representative sample of those factories by monitors who have been selected by and work for the FLA; and undertake remedial actions when violations of the code of conduct are found.

In 2005 Nike, the sports shoe company, released a list of more than 700 contract factories that manufacture its footwear, apparel and equipment, as part of a corporate responsibility report (Kang, 2005). The company, long hounded by allegations it uses sweatshops, is now held to be in the forefront of global supply chain monitoring. In the report Nike said its own audits and those by the Fair Labor Association had identified problems in some areas including working hours, freedom of association, wages and harassment. The report also cited the company’s special challenges in China, where more Nike goods were produced than in any other country but where labour organization was prohibited while there were other problems involving issues like falsification of wage data by factories (Harney, 2005).

In 2006, there was a riot at a big toy supplier in the Chinese city of Dongguan, allegedly sparked by poor wages and living conditions for 11,000 factory workers (Greenlees and Lague, 2006). The factory supplied plastic toys to several iconic American brands, including Disney, McDonald’s, Mattel (Barbie Doll etc.) and Hasbro. China Labour Watch, a New York-based worker rights group, said it had conducted an investigation of the factory, which found that workers were typically required to work 11 hours a day, six days a week, with total overtime of up to 70 hours a month. Chinese law required that workers should not be made to work more than 40 hours a week and should do no more than 36 hours of overtime a month, according to China Labour Watch.

The group said the factory workforce was paid 574 yuan or \$72 a month, “the exact minimum wage standard in Dongguan”. “Chinese workers live at the bottom of the society”, said Li Qiang, executive director of China Labour Watch. “They have no means to voice their needs or to protect their lawful rights.” The factory owners deny the allegations of poor working conditions and say the disturbance was fanned by a disgruntled employee who had been dismissed.

However, other labour rights groups such as Hong Kong-based China Labour Bulletin also say there is increasing evidence that workers are beginning to resent the long hours, low pay and poor working environments in some Guangdong factories, the engine of China’s booming export industry. This is mak-

ing it more difficult for some factories to recruit workers, leading to labour shortages in some areas. “Many migrant workers are voting with their feet”, said Robin Munro, research director at China Labour Bulletin, adding, “They are heading to other provinces where conditions are better.”

The US companies say they are carrying out an investigation and that there are long-established codes of conducts on working conditions that suppliers are required to follow. All the companies said that labour audits had been carried out periodically to ensure that suppliers were meeting minimum labour standards, including compliance with local laws, fair terms of employment and safe and clean working environments.

Pressure is also building up from the workers themselves. There have been increasing reports of popular unrest in China, mainly over corruption, land seizures and industrial pollution. Official figures show that there were 87,000 disturbances of public order in 2005 alone (Greenlees and Lague, 2006).

A related development, which began as part of the anti-sweatshop movement in the 1990s, has been the activity of so-called “social compliance auditors”, or more colloquially sweatshop snoops, who are being deployed by US and European firms to monitor working conditions, filling what they perceive as a vacuum due to Chinese Government oversight.

The Chinese Ministry of Labour and Social Security employs about 20,000 full-time labour inspectors, and it claims to have audited 1.2 million business units in 2005 and dealt with 25,000 employee complaints, which resulted in the repayment of back wages of 8.4 million workers.

But all this clearly fails to impress the informal foreign monitors, who are hired by foreign firms to check up on their suppliers. According to one social compliance auditor, many factories are using specifically designed software to produce fictitious employee work logs (Fuller, 2006:2). Factory managers, it is claimed, hire consultants to assist them to do this, while supervisors are given “cheat sheets” to use to tell workers what to say if an auditor asks.

Some large multinationals in the USA hire non-profit social compliance firms, such as Verité, to investigate allegations of poor working conditions. This is an instance of the privatization of regulation. According to Verité, some 68 per cent of factories it audited in China in 2005 and 2004 had not paid the statutory overtime pay they were obliged to pay.

Lest we think that it is only the suppliers who are ignoring labour laws, it should be added that there have been many instances of contractors of multinationals failing to apply their own codes of conduct and only investigating potential abuses by their sub-contractors after press reports have brought problems to the surface.

More generally, according to an ILO report in 2004 on codes of conduct in global supply chains, companies vary in the emphasis they put on monitoring compliance (Mamic, 2004). One sports footwear and apparel company (no names are given in the report) had a dedicated team of over 100 people whose sole job is to oversee corporate social responsibility and code of conduct issues.

By contrast, a big retailer with a continually changing supply base of over 5,000 factories said it did not have a separate team responsible for the compliance code. Instead, it assigned this responsibility to the quality assurance department, asking 12 people there to spend a quarter of their working time on “ethical

issues". According to the ILO, the sports footwear sector, where linkages are very tight, has seen more success than the apparel sector, where progress has been spottier, and the retail sector, where in some areas even minimal compliance is not taking place.

What these examples suggest is that energetic efforts by citizens of the world, coming together in various ways, can make a difference to working conditions of workers in developing countries. By exposing shoddy treatment, they can shame and name, and elicit positive change. There are various ways by which unscrupulous enterprises can deceive the monitors, such as by keeping double accounts, one for probing monitors, one for other purposes. However, there is evidence that these monitoring efforts have had some success, most notably in reducing the extent of hazardous forms of child labour.

### **Fairtrade and 'Decent' Labour**

A development related to corporate monitoring is the Fair Trade movement, designed to put consumer pressure on firms to adhere to good practices. Fairtrade labelling started in the Netherlands in 1988, and has spread around the world. By 2006, it had member groups in 20 countries, the biggest being Transfair USA and the Fairtrade Foundation UK.

The idea is to set 'fair prices' and to adhere to principles of 'ethical purchasing'. The former requires that "democratically organized farmer groups receive a guaranteed minimum floor price and an additional premium for certified organic products" (Transfair, n.d.) The latter requires producers to adhere to ILO guidelines on safe working conditions, freedom of association and child labour, and the workers must be paid a 'living wage'.

As far as the producers are concerned, to become certified by the Fairtrade Labelling Organisation, a non-profit organization based in Berlin and elsewhere, which charges a small fee, a cooperative has to convince inspectors accredited to FLO that it meets basic environmental and labour standards and is able to decide collectively on what to spend the social premium. Later in the production chain, the wholesaler pays Fairtrade an extra levy of 2 per cent of the product's value, which pays for FLO's 100 or so staff and running costs.

Certification for the Fairtrade label has been growing at 40 per cent a year. The scheme now encompasses about five million farmers, workers and their families worldwide, and covers hundreds of products from dozens of producers and retailers. Global sales of Fairtrade-labelled goods have risen by between 40 per cent and 60 per cent in recent years (Beattie, 2006:16). Fairtrade coffee now accounts for nearly a fifth of the roasted and ground coffee market, though only 4 per cent of (much larger) instant coffee sales. According to one estimate, certified sales were over \$1.4 billion by 2005 (The Economist, 2006:12). TransFair USA claims that over a million farmers benefit from their scheme and that between 1999 and 2006 received over US\$67 million more than they would have done without it.

Although Fairtrade has established as a 'brand leader', it does face some competition in the ethical labelling market. Kraft Foods, the food company that owns the Kenco coffee brand, has chosen a certification mark from the Rainforest Alliance, a New York-based NGO, which applies wider tests of environmental, social and economic sustainability, but does not guarantee farmers a price. Green & Black's, the high-end chocolate manufacturer now owned by Cadbury Schweppes, launched and still sells the world's first Fairtrade product, Maya Gold. But it now says it helps producers by paying a high price for good-quality organic cocoa beans rather than by what it calls a "charity premium".

The Fair Trade movement has attracted vitriolic and sarcastic attack from several sources. Among those sympathizing with the claims made on its behalf are those who believe that not enough goes to the actual producers (Alsever, 2006). There is a lack of transparency on what proportion of the premia paid by consumers actually goes to low-income farmers. There are also concerns that companies are taking advantage of consumers' willingness to pay more to help fatten their own margins, with retailers and wholesalers reaping most of the benefit, even though some have guaranteed to not to do this.

The integrity of the Fairtrade scheme has also come into question. A Financial Times investigation found that workers on certified coffee farms in Peru were being paid less than that country's minimum wage, contrary to the requirements of the Fairtrade mark (Weitzman, 2006:6). There were also allegations that non-certified coffee is being passed off as Fairtrade and that certified coffee is being illegally planted in protected rainforests.

In an editorial, the Financial Times (2006b) reasoned that the scheme was vulnerable to corruption because certification created a large pay-off in terms of the premium paid by consumers, but that if this could be overcome the idea of Fairtrade was a good one because it is voluntary and market-based. It concluded:

“Fairtrade-approved contracts often come bundled with advice, money for social projects, and market contacts. They can help smallholders to develop diversified, high-quality products that lift them beyond the need for the Fairtrade premium...”

“The scheme could become a springboard for thousands of entrepreneurs in poor countries to reap the benefits of globalisation for themselves and their suppliers and employees. It could also become an odd piece of corporate-mediated welfare, creating dependency and dangerously vulnerable to corruption. At the moment it remains too small to be either...”

Some commentators have observed that certification systems of the Fairtrade type represent an emerging model of private regulation that resonates with other attempts to transfer the welfare and regulatory activities of the government to the market.<sup>12</sup> Essentially, in the 1990s, when it appeared that governments were unable or unwilling to enforce labour and environmental standards, such as by a social clause in the WTO, NGOs turned their efforts to private forms of regulation.

However, Fairtrade basically involves the payment of a subsidy to some producers, which has two questionable effects. A subsidy raises the price and income received, and consequently encourages greater production by those receiving the subsidy, while driving down the price and income of those not receiving it. Critics contend that the low overall price for coffee, the main product targeted by Fairtrade, is due to over-production, which the subsidy provided by consumers paying a premium for Fairtrade-marked coffee, merely encourages (Harford, 2005).

A final and worrying criticism is that, while Fairtrade has provided income support to smallholder producers, benefiting their livelihoods, it has not to those who are working on coffee or other plantations, who are often among the very poorest. The result is that from an economic and equity point of view, the good intentions may not translate into good outcomes.

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<sup>12</sup> See, for example, Bartley (2006).

## “Socially Responsible Investment” (SRI)

While the consultancies and international groups are competing to set guidelines and standards for CSR reporting, the pressure to adhere to CSR principles is coming mainly from the growth of investment funds and related pressure groups linked to the UN’s Principles for Responsible Investment. This is a potentially exciting aspect of globalisation, and is tapping into the altruistic attitudes of numerous people who are in a position to make choices about where to direct their savings.

Investment funds worth more than \$4,000 billion have backed the UN’s investment principles, launched by Kofi Annan, former United Nations Secretary-General, at the New York stock exchange in April 2006. The six principles underlying the initiative, all voluntary, were developed with pension funds and foundations as well as experts, and are underpinned by a set of 35 possible actions that institutional investors and asset managers can take to integrate environmental, social and corporate governance (ESG) considerations into their investment activities.

The United Nations hopes hundreds of public and private pension funds around the world will eventually sign up to the principles, which include vows to incorporate ESG standards into investment analysis, active engagement with companies, ESG disclosure and cooperative action.

There are SRI funds established to steer investment to highly rated companies; there are elaborate ratings; and there are indexes. But so far there is no evidence of convergence on one type of SRI, one type of SRI fund, one type of rating or one type of index. Nevertheless, the scale of it all is impressive. Calvert, a US consultancy, has estimated that by 2012 SRI will comprise 10 per cent of all US mutual fund assets.

Many SRI funds have been set up by big commercial funds, and many belong to the Social Investment Forum, a non-profit membership organisation set up to promote SRI. The rate of growth has been spectacular. The Social Investment Forum reported in 2004 that investments using one or more SRI criteria had risen in the USA from US\$40 billion in 1984 to over US\$2.34 trillion in 2001. Many of these funds, although not yet a majority, include labour relations criteria and a big majority include equal opportunity and non-discrimination criteria (Social Investment Forum, n.d.).

Some of the ratings agencies include the full range of the ILO’s core labour standards. These include EIRIS (Ethical Investment Research Service) and PIRC (Pensions and Investment Research Consultants). Many of the funds have been given somewhat exotic names; among the more intriguing are the Domini Social Equity Fund in the USA, which “seeks to invest in companies that involve employees in day-to-day operations” (whatever that means), and the Social Awareness Fund of Friends Ivory, which “favours companies that provide excellent workplaces and strong benefits to increase employee loyalty.”

The CSR movement is related to the proliferation of corporate governance initiatives, which were stimulated by the protracted debate on the relative appeal of the continental European ‘stakeholder’ model and the Anglo-Saxon ‘shareholder’ model. Perhaps the characterisation of these two types was always oversimplified. Nevertheless, since the late 1990s there has been a period of agonising over what should constitute good corporate governance and over how to balance potentially conflicting objectives.<sup>13</sup> Among the outcomes were the Cadbury Commission and the Turnbull Report in the United Kingdom, the King Report in South Africa, the OECD’s Principles of Corporate Governance adopted in 1999, and the World Bank’s Corporate Governance Forum. These have influenced the development of socially responsible investment.

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13 See Ellsworth (2002).



In several countries, a link has been made between codes of corporate practice and stock market regulation. Thus, the Johannesburg Stock Exchange requires all listed companies to adhere to the King Report's Code of Corporate Practices and Conduct. The promotion of CSR has become part of government policy in a growing number of countries, including Belgium, Denmark, France, the Netherlands and the UK.

In the latter, activities have proliferated. There is now a Minister with responsibility for CSR. UK law requires pension funds to disclose how they view social, ethical and environmental issues in their investment decisions. The government-backed Ethical Trading Initiative brings together unions, companies and NGOs to draw up codes of conduct on labour rights. And the UK's DFID is working with the Canadian International Development Agency to promote CSR in development. In France, the amended *Nouvelles Régulations Economiques* (NRE) is a law requiring all nationally listed corporations in France to report to shareholders and stakeholders on various sustainability issues from 2003 onwards.

Finally, there are the 'sustainability stock market indexes', the two most well-known of which are the Financial Times' FTSE4Good Index, which was set up in 2001, and the Dow Jones Sustainability Index, which was set up in 1999. The FTSE4Good Index screens companies on a wide range of issues, from human rights to ecological record, but excludes companies in some sectors altogether, on the grounds that they are intrinsically socially undesirable, as in the case of tobacco and weapons production. Whereas the Dow Jones Sustainability Index compilers invite companies to apply, the people responsible for compiling the FTSE4-Good Index study about 2,200 companies and exclude some sectors and types of producer, in effect excluding about 55 per cent of all companies registered on the FTSE All-Share. This has made it somewhat controversial among major pension funds.

Less well known are the indexes used to guide purchasing practice, such as the UK's Co-op Bank's Ethical Purchasing Index. These indexes are generating other activities. Thus, the consultancy Sustainable Assets Management (SAM) has carried out a survey for the Dow Jones Sustainability Index to determine how many companies are taking account of CSR performance in determining remuneration. In the UK, there were plans in early 2003 to launch an Ethical Exchange, a kind of alternative stock market for what are being called Alternative Public Offerings.

Ethical investment strategies seem here to stay, and do tap into a sense of altruism among those with savings and the information to help them make choices about where they direct those savings. Companies and financial markets are likely to respond to the values guiding those decisions, and thus the beneficial effects may increase, as long as satisfactory monitoring and evaluation methods emerge alongside the various initiatives that are gathering momentum.

### **Corporate Initiatives for Voluntary Work**

An emerging practice, led by a few prominent service companies, is to allow a few employees to take time off, or sabbaticals, in order to enable them to work for a while on some voluntary charity work, usually within non-governmental organizations operating in developing countries. Thus far, these initiatives are entirely voluntary, with no government involvement.

In some cases, firms are merely passive, allowing employees to take a period of extended unpaid leave, with a prior agreement on what the worker is going to do in the break period. In others, the firm continues to pay the salary or part of it while the person does the voluntary work. While there may be phil-

anthropic or altruistic intent, the firms allowing this sort of practice typically have a commercial objective as well, to retain and attract highly motivated staff.

Such schemes could spread, and are in the spirit of voluntarism and globalization, enabling young workers in particular to travel and experience a different and often uplifting range of work tasks. They surely deserve to be encouraged as a way of enhancing the quality of working life. Because they are so attractive, one should take note of the possible downsides.

It is possible that certain forms of such work could act in the same way as in-kind aid. As such, they might have an adverse effect on the income or work prospects of local workers doing similar work. When the numbers doing such voluntary sabbaticals are small, the potential crowding-out effect will also be small. But if the pattern caught on, it could be a significant demerit to be considered carefully in advance.

A second concern is that such work might be done for the benefit of the firms and employees rather than the communities in which the sabbatical work is done. There was evidence of this in the aftermath of the *tsunami* in South and South-east Asia in early 2005, when thousands of well-meaning voluntary workers rushed around plying their particular brand of assistance, often to the detriment of local suppliers and the balanced recovery of the local economies. For instance, in Sri Lanka the provision of fishing boats at low cost or no cost, coupled with technical assistance, increased the efficiency of local fishing precisely at a time when fish stocks were depleted.

Within firms allowing selected employees to go on sabbaticals for voluntary social work, there may be a backlash among those not selected or allowed to go on such leave, particularly where there is only scope for a few to go and where selection is determined at the discretion of management. This could, conceivably, adversely affect the productivity of other staff.

Perhaps the most difficult issue if this pattern grows will be the determination of what counts as non-profit voluntary work. Someone may say that they are wishing to care for frail old ladies in their community, and they turn out to be close relatives. Such possibilities raise issues of accountability and monitoring. In the end, it may turn out that the best course will be to allow all individuals a certain minimum amount of time off as paid sabbatical leave, after a period of employment, with the option of investing in a contributory scheme to obtain entitlement to a longer amount of time. The question arises whether this is a significant aspect of the quasi-voluntary initiatives. If leading firms are already practicing it, we may predict that it will grow into a major aspect of balancing work and leisure.

## Conclusions

Voluntarism and self-regulation look like being long-term features of globalization. The interests promoting them are powerful, and the opposition to them seems weak and scattered. Preventing and penalizing “free riders” will continue to be major challenges. Governments would be advised to intervene in support of corporate social responsibility, if only because there are positive externalities that individual companies may not be able to realize on their own (Hopkins, 1998; 2006).

Corporate Social Responsibility is so entrenched as a slogan, and as a badge of respectability in the international business community, that its immediate future is assured. Doing good socially has become part of the job of executive in major corporations. However, it is far from clear whether the power to do good

should be extended to the point where firms become the primary instrument of many aspects of social policy. The critics should not be dismissed as cynics or disappointed ecologists wanting a mandatory approach. Some economists argue that CSR is doing harm and is part of what a former chief economist of the OECD has called “global Salvationism” (Henderson, 2001). There has been a tendency for rhetorical abstraction to swamp practical, operational measures.

Most CSR advocates recognise that society and the ecology depend on responsible behaviour to a much greater extent than can be captured by detailed legislation and complex regulations. In the middle of the critics and advocates, something is emerging as part of the evolving global governance. In that, realism requires a balance between idealism and common practice—the realm of decency.

Companies should not be expected to take over responsibility for social policy, and should avoid becoming paternalistic. As Kofi Annan, the former United Nations Secretary-General, told a meeting of the Swiss business community in March 2001:

“Clearly business is about making profits, and public policy is the responsibility of States. If the 20<sup>th</sup> century taught us anything, it is that when one tries to do the other’s job, all sorts of things go wrong” (Annan, 2001).

This statement is tantalising, since the first part seems to contradict the essence of the CSR movement and the Global Compact. But it returns us to a dilemma emphasised at the outset, the danger that corporate welfare and ‘social responsibility’ could exceed as well as fall short of desirable boundaries. All those working in this field need to keep that dilemma in mind. The Economist (2001:84) put it more sharply,

*“It is no advance for democracy when public policy is “privatised”, and corporate boards take it upon themselves to weigh competing social, economic and environmental goals. That is the job for governments, which remain competent to do it if they choose.”*

In a 2005 policy statement, the International Organisation of Employers said companies should not be expected to do the job of governments. The IOE President, Francois Perigot (IOE, 2005), put the view quite bluntly: “Enterprises are not an alternative to government and CSR is not an alternative to regulation.”

Some prominent businessmen associated with major multinational corporations have expressed even more scepticism about the efficacy of voluntary action. There is something to be said for these views. They reflect a recognition that the state is needed to set the rules and to regulate in the interest of all groups equitably and efficiently.

There is also a problem about strong corporate action being taken in the light of revelations about labour practices, which is that the relational or reputational objective may outweigh others or have adverse social consequences that are not taken into account. Consider one celebrated case. Calpers is one of the largest pension funds in the world, managing over US\$150 billion of assets and employing many other fund managers. In February 2002, it announced that it would withdraw from all investments in Indonesia, Malaysia, the Philippines and Thailand, because of its concern over general social conditions in those countries and because of its decision to revise its “permissible countries” criteria to give weight in its investment decisions to labour standards as well as to market regulation, investor protection and accounting transparency.

Was this the genuine reason for the withdrawal, or a rationalisation, or ‘tokenism’ or ‘disguised protectionism’? Workers without rights, in export processing zones in particular, must hope that such strong actions, or the threat of it, will be a force for good. But it does raise questions about foreign involvement in national labour markets, even in determining what should comprise decent working practices.

In the globalisation era, self-regulation undoubtedly has a place to play in the more economically liberalised world of business and labour relations that is emerging in the globalisation era. The dangers and limitations are real, and should not be brushed aside. This is why legislation and monitoring pressures are required. Some believe that legislation is essential. In 2007, a move in the US Senate was pushing for the passage of a “decent working conditions and fair competition” bill, to oblige US companies to respect international labour standards.

Meanwhile, major corporations are responding to the limitations of earlier CSR schemes, putting more emphasis on strengthening the voice of workers and on providing training for both local managers and workers in what is required and why improvements in working conditions should benefit both workers and the firms for which they work. These are encouraging initiatives, but they still require protective legislation, as well as organisations to empower workers so that they can put pressure on recalcitrant firms. A judicious combination of tools is required, even in the most liberalised market economy.

While attracting its many critics, CSR will surely continue. It has become an integral part of public relations and personnel policy. One debate that will not go away is between those who demand that the only way forward is mandatory rules and those who state that only voluntarism is acceptable. While this writer is convinced that there is no substitute for government policy, perhaps a middle way could be forged as well, at least while that debate trickles on.

Rather than either more directive regulations or pure voluntarism, why not push in the direction that is supposedly desired by all mainstream corporations and agencies by means of financial incentives? One way forward would be to introduce national award schemes. Elsewhere, I have proposed Decent Work Enterprise Awards, established by governments, perhaps with financial support and other involvement by the UN, other international bodies or interested foundations. These DWE Awards could be given to firms that demonstrate exemplary ‘decent work’ and environmental practices. A selection of firms could be made annually, via surveys and inspections carried out independently. Receipt of the DWE Award could be used as one factor in determining tenders for public contracts. Thus there would be not just status in receipt of an award but also financial incentive.

If advocates of CSR really believe that it should be encouraged and that good performance makes economic sense, they should favour moves to accelerate its adoption.

A second suggestion is more modest. Labour inspectorates should be restructured and renamed. At present, they are in a mess in most parts of the world. They have a negative image, are regarded as intrusive and are subject to bureaucratic failure, petty corruption and general disarray. But multinational corporations should wish them to play a more constructive role, rather than drift into decay. The biggest corporations, particularly those selling brand-name consumer products, are rarely among the bad employers, and should wish to discourage ‘sweatshop’ free-riding. Accordingly, they should wish to help in financing and legitimising a new type of agency, consisting of decent workplace development officers, rather than labour inspectors.

These could be charged with making visits to companies and making recommendations on improvement in working practices, with responsibility not just for deterring wrongdoing but with encouraging 'best practices'. Major corporations should wish to help in the financing of this new supportive instrument. The cost of renovating such agencies in a middle-sized African country and funding the staff for a year would be less than the cost of one meeting of the Global Compact.

The key challenge for those advocating all the decent practices and CSR is to move the model away from the global circus of brochures and glamorous meetings and "mission statements" to real measures. Business knows the language of money and incentives. If its leaders mean business with CSR, they should wish to see a much greater role for incentives in the next phase of its development. If they do not move in that direction, the message will not be missed by the critics.

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