

**SUPPLY CHAIN MANAGEMENT  
FOR  
SUSTAINABLE DEVELOPMENT:  
  
PERSPECTIVE  
FROM  
GREATER PEARL RIVER DELTA**

by

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**Ph.D. THESIS**

A thesis submitted in partial fulfilment of the requirements  
for the Degree of Doctor of Philosophy  
at the University of Hong Kong

July 2005

*Delicated to:*

*Mr Tsoi Kai Hon*

In memory of my Grandfather, Mr Tsoi Kai Hon who passed away during my effort in completing this thesis

*Mrs Tsoi Ying Sau Yee*

*Mr Tsang Chung Ming Alfred*

*Family & Friends*

Abstract of thesis entitled:  
**Supply Chain Management for Sustainable Development:  
Perspective from Greater Pearl River Delta**

Submitted by

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in July 2005

*This thesis investigates the application and implications of supply chain management as a modern management model in regulating corporate outsourcing activities within the Greater Pearl River Delta. Globalisation has accelerated the application of supply chain management as a mechanism to enhance corporate performance. At the same time this rapid economic development has also accelerated the destruction of environmental and social conditions in these areas, and this has resulted in a lot of media and public attention. This thesis contributes to the debate on how principles and concepts of sustainable development can be put into modern business practice. Society also expects corporations to play an essential role in creating economic, environmental and social prosperity.*

*The literature integrates the concepts of corporate social responsibility and environmental management into the core supply chain management activities within the wider framework of sustainable development. The environmental and social challenges are investigated since there is a growing recognition that development should go beyond economic growth. Whilst most research in the west has focused on the environmental approaches of supply chain management, this thesis seeks to*

*understand, integrate, evaluate and find other options to improve conditions in suppliers' factories. There is comparatively less literature discussing the social approach to and implications for supply chain management with respect to this region. Perhaps more importantly, social issues such as human rights and labour issues in relation to the physical environment are gaining momentum, and are particularly important in this region because of strong media and western consumer pressure resulting from sweatshop activist group campaigns in the west. The four-tier methodological approach is structured within an action research model to achieve the research objectives.*

*The first and second primary studies confirm that both suppliers' and retailers' knowledge are inadequate in terms of establishing and publishing their environmental and social policies and procedures, such as implementing internal and external controls for employees and workers. Their traditional and conservative mindsets are linked to their unwillingness to make a change despite the economic restructuring rapidly taking place, and China's accession into the World Trade Organisation.*

*In particular, codes of conduct are commonly existing literature, embedded with environmental and social criteria as an important policy imposed by multinational buyers to improve both environmental and social conditions within the supply chain. But how effective are such policies? Specifically, the effectiveness of the code of conduct approach is evaluated in the third study by social compliance audits at ground level in the garment industry. It is found that workers' awareness of the code*

*of conduct is low. The barriers include a lack of continuous training, human resources or systems present to tackle specific problems. Key challenges are found in the areas of excessive working hours, unfair pay to the workers and health and safety issues, that coincide with the detailed interview results.*

*This thesis concludes that the code of conduct approach is inadequate to improve workers' conditions in the long term and asks what can be done next to contribute to the pursuit of sustainable development goals. The expert interviews from the fourth study explain the obstacles of the code of conduct approach. It is found that no long-term commitment and trust from multinationals is built on this relationship. The detailed interviews indicate that stakeholders' approaches seem to be the most effective mechanism. In addition, national government intervention in enforcing existing legislation, the development of multi-party partnerships through trust programmes, with proper training from top management down to the workers, and strong public involvement, can help to achieve the desired long-term sustainability down the supply chain.*

*(591 words)*

## DECLARATION

I declare that this thesis represents my own work, except where due acknowledgement is made, and that it has not been previously included in a thesis dissertation or report submitted to this University or to any other institution for degree, diploma or other qualifications.

Signed : \_\_\_\_\_ J.T. \_\_\_\_\_

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**Wing Hang Enterprises Limited: Information sheets**  
**Wing Hang Enterprises Limited: Job advertisement**  
**G CSR and supply chain management interview protocol**

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## LIST OF ABBREVIATIONS

ACFTU	All-China Federation of Trade Unions
AMRC	Asia Monitor Resource Center
BiE	Business in the Environment
BSR	Business for Social Responsibility
CEO	Chief Executive officer
CEG	Corporate Environmental Governance
CNS	Central Nervous System
CoC	Code of conduct
CSR	Corporate Social Responsibility
DEFRA	UK Department of Environment, Transport and the Regions
DJSGI	Dow Jones Sustainability Group Index
ESCM	Environmental Supply Chain Management
ETI	Ethical Trading Initiative
GDP	Gross Domestic Product
HK	Hong Kong
HKSAR	Hong Kong Special Administrative Region
HKCIC	Hong Kong Christian Industrial Committee
HKQCC	Hong Kong Quality Control Center
ILO	International Labor Organisation
ISO	International Organisation for Standardisation
LCA	Life-cycle analysis
IPC	Initial Production Check
MFA	Multi-fibre Arrangement
MNC	Multinational Company
MPF	Mandatory Provident Fund
NGO(s)	Non-Governmental Organisation(s)
OECD	Organisation for Economic Co-operation and Development
OI	Oxfam International
OSH	Occupational Safety and Health
PPE	Personal Protective Equipment
PRD	Pearl River Delta
RMB	Renminbi
SA 8000	Social Accountability 8000
SCM	Supply Chain Management
SME (s)	Small and Medium sized Enterprise(s)
TNC(s)	Transnational Corporation(s)
UK	United Kingdom
UNEP	United Nation Environmental Programme
US	United States of America
UNCTD	United Nation Conference on Trade and Development
WBCSD	World Business Council for Sustainable Development
WFSGI	World Federation of Sporting Goods Industry
WSSD	World Summit on Sustainable Development
WTO	World Trade Organisation

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Globalisation, Corporate Social Responsibility and Supply Chain Management**

Globalisation has had a major impact on all types of business entities, companies' activities have become global by nature, thereby affecting the greater part of economic life (Ohmae, 1990; Barnet and Cavanagh, 1994; Brecher Costello, 1994 and Perraton *et al*, 1997). This becomes most apparent when considering the increase in foreign direct investment in developing countries and the liberalisation of international trade in goods and services, which are both factors that have accelerated local economic and technological development, and increased employment in such less developed regions.

One of the major outcomes of this has been the resulting shift in major manufacturing activities from developed to developing countries. These outsourcing activities result in adverse social impacts such as greater income disparities and unequal sharing of gains, as has been evident through the experiences of the United States, Western Europe and Japan between 1870 to 1992 (Sethi, 2002a). This demonstrates a general trend of the rich people becoming richer while the poor people have become poorer. Pearson and Seyfang (2001) describe globalisation as a recent and accentuated trend against the context of accelerating global institutional governance of international

## *Chapter 1 Introduction*

integration, while increasing the deregulation and de-protection of workers. The costs and benefits of globalisation are unevenly distributed, with developing countries facing special difficulties in meeting this challenge, according to the literature, which suggested that the current process of globalisation is unsustainable in the long run unless we introduce new institutions and policies able to govern it (Tisdell, 2001).

In responding to the challenge of globalisation, businesses entities are organised differently compared to the past. Changes have been made to the supply chain in the form of new development such as company organisational structure, just-in-time delivery, central warehousing and logistics operation. Before, businesses wanted to own all the activities encompassed in their supply chain, but now they only control the strategic core of their supply chain activities and depend more on external business partners. For example, 80% of Hewlett-Packard products are manufactured from alliances, and as a result suppliers are seen as a key aspect of their social and environmental performance. Many multinational corporations are finding it beneficial to source and produce products from low wage economies and sell them in higher income economies. Thus much of the production is outsourced to contractors and sub-contractors in a large diversity of low-cost operating locations. Local investors usually own the production sites and they are independent businesses. By outsourcing part of the supply chain, responsibility also shifts from a single organisation to many more, depending upon the nature of the product market. Hence, the supply chain becomes more complex and culturally diverse. According to Porter (1998), who describes the present business model, single companies are not able to survive on their own; they can

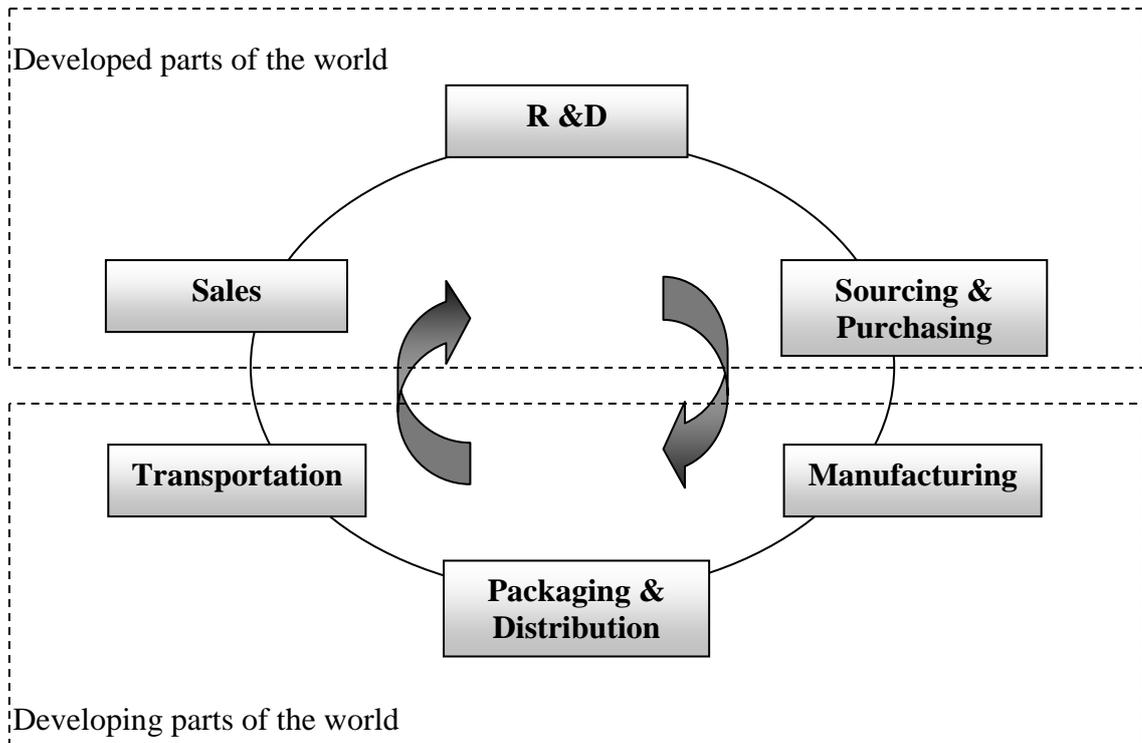
survive only as part of the supply or value chain in an increasingly competitive business environment. Christopher (1993) also stressed that it is the supply chain, which will bring true competitive advantage to companies, by satisfying customers' needs and lowering operating costs. Therefore the role of supply chain management is critical in managing issues that arise across organisational boundaries, improving corporate competitiveness and profitability in today's operating environment (Wood, 1997; BSR, 2001). Christopher (1998) emphasised that individual businesses no longer compete as solely autonomous entities, but rather as supply chains.

The supply chain is often referred to as a value chain. A typical supply chain includes information, funds and physical material flows, which run parallel to the value chain. A definition of supply chain management (SCM) from Handfield and Nichols (1999) is:

“Supply chain management (SCM) is the integration of the activities associated with the flow and transformation of goods from the raw materials stage (extraction), through to the end-user through improved supply chain relationships, to achieve competitive advantage. Material and information flow up and down the supply chain” (Handfield and Nichols, 1999:2).

The diagrammatic presentation of the overall picture of the core function of SCM includes an array of interdependent activities from sourcing and purchasing, production, distribution and transportation, and sales that operate in the developed and developing world, as is shown in figure 1.1. Very often, offices in

the developed world deal with research and development, sourcing and purchasing function and sales to the consumers. Products are manufactured and packaged in the developing world and transported to the developed world.



*Fig 1.1 Key activities in the typical supply chain management cycle*

In the last 15 years, world economies have been urged to cope with the impacts of supply chain activities such as deregulation and the adverse impacts of social infrastructures in developing countries (Sethi, 2002a). In a lot of cases multinational companies are regarded as weightless corporations since they are no longer the manufacturers of their products, but the promoters of their brands (Frankental, 2002). Companies are encouraged to relocate their high cost labour-intensive production processes to developing regions where an abundant labour force, lower overall operating costs and a poorly-regulated environment exists. As a result, the physical environment and local communities in less developed

regions are under enormous threat. For example, the environmental impacts of Shell's oil and gas drilling operations in Nigeria have been sharply criticised by the public. In some cases the contractors and sub-contractors have caused social damage and environmental destruction to developing countries. Recently, Wal-Mart's contractors' working conditions in Africa and Asia were criticized as being "intolerable, ranging from excessive compulsory overtime to wages below subsistence level" (Daily Times, 2005:1). In this way, high-income western economies have taken full advantage of the emergence of low cost imports primarily from Asia. Many multinational companies are socially and environmentally destructive in developing countries in terms of extracting raw materials from developing nations, paying substandard wages to overseas workers and operating without regard to local communities. This results in significant and permanent damage to the local communities. Social and human rights issues such as child labour, employee working conditions and working hours, employee health and safety and freedom of association to name a few, attract media coverage. Environmental issues such as over-exploitation of natural resources, the degradation of marine habitat and deforestation, air pollution and chemical emissions also emerge in the headlines for public scrutiny.

This outsourcing practice has led to an increasing concern about environmental, social and human rights impacts on developing countries where goods are sourced and manufactured. Western consumers' demand for added value other than the traditional factors of price, quality and time is an important driving force for improvements (Heiskanen *et al.*, 1998). Irresponsible behaviour of multinational corporations is watched and reported on by non-governmental

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organisations (NGOs) and labour activists, which has had direct impacts on consumer purchasing decisions, which have in turn directly affected the sales and reputation of the companies. This has resulted in a growing distrust amongst the general public towards multinational companies such as Shell, Dow Chemicals, Wal-Mart and KPMG International (Daily Times, 2005).

China's accession to the World Trade Organisation (WTO) in November 2001 is the second most important factor in this emerging trend. Since November 2001, China has taken major steps forward under the WTO agreement to offer market access to foreign firms in different economic sectors, especially the industrial sector which has already been exposed to domestic and global competition. WTO membership is thought to be highly beneficial in increasing Chinese exports and domestic employment, particularly through the abolition of the Multi-Fibre Arrangement (MFA) in January 2005, which will lead to improved performance that will in turn drive export-oriented companies to benefit from greater competition. In addition, China has also signed the product-specific safeguard for textiles, which includes restrictions on exports that are imposed for another five years (Bhalla and Qiu, 2004). In addition, previous literature has often claimed that China's accession to the WTO will benefit it in terms of increased market access for the export of products, enhanced employment opportunities and will force domestic firms to improve efficiency, productivity and capacity.

## **1.2 The objective of this thesis**

The objective of this research is to contribute to the international debate on how sustainability in the supply chain can be achieved in practice at a regional level, and more specifically to identify what the drivers and barriers are for delivering such sustainable changes. In this sense the outcome of the study will aid in the increase of the overall understanding concerning SCM in the greater Pearl River Delta region where products are usually sourced, manufactured, packaged and transported to the United States, Europe and other developed countries. In particular the elements and stages of implementing SCM and evaluating the effectiveness and implications of SCM instruments will be explored. This is distinct from earlier research work carried out mostly in the developed world, as most researchers often focus on either material- and process-oriented manufacturing or the life cycle of a product. This study examines a wide range of issues and problems that the SCM model might encounter. The application of the concepts of environmental management and corporate social responsibility is analysed at local and regional levels since this is a relatively new field of research. The thesis will not review the technological aspects of the supply chain, but rather contributes to the added-value chain itself. In addition, this thesis stresses the growing importance of social issues specific to this region, which the literature shows should not be ignored.

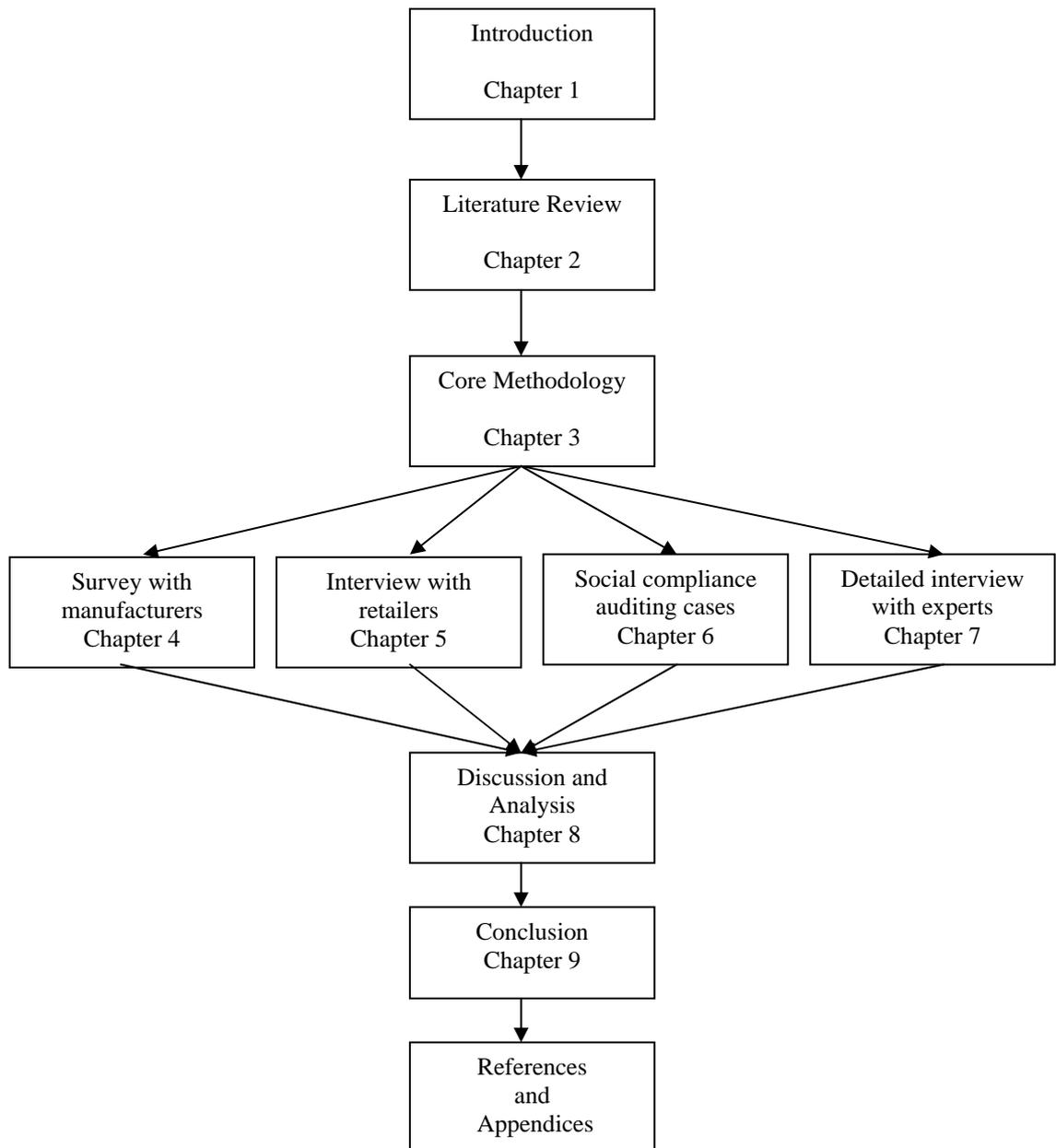
The primary research questions include the following:

1. How does the broad concept of sustainable development relate to supply chain management? What drives business to adopt such an approach?
2. To what extent and how effective are specific corporate social responsibility policies or codes of conduct as used on a local and regional level? How are these operated and managed?
3. Is the current supply chain model sustainable? If not, what instruments need to be integrated?
4. What alternative tools are needed to achieve sustainable development?

The primary research questions outline the conceptual features of SCM. In response to these questions, the core research of this thesis will focus on the retailing and manufacturing industries in the greater Pearl River Delta region, which includes Hong Kong, Macau and the Guangdong Province. The latter is of particular significance in the context of China's entry into the WTO. As mentioned earlier, with the accession to the WTO, foreign capital inflow into China will continue to expand. The implications of trends associated with human rights, labour and the environment will be reviewed, since it is widely accepted that China's entry into the WTO will not only have a direct impact on the domestic economy, but also on business worldwide.

### 1.3 The structure of the thesis

This thesis is organised into 9 chapters and is presented according to the following diagram.



*Fig 1.2 Thesis flow diagram*

## *Chapter 1 Introduction*

The introductory section in Chapter 1 presents the impacts of globalisation and the emergence of corporate social responsibility. Supply chain management is presented as a mechanism to respond to environmental and social concern, enhance corporate performance and result in profitability and competitive advantage that forms the background of this research. This is followed by the literature review in Chapter 2, which examines four main concepts, sustainable development, corporate social responsibility, environmental management and supply chain management. The chapter also examines how these concepts contribute to making a sustainable supply chain model. It also reviews the international practice of SCM, considering the integration of corporate social responsibility and environmental management into the supply chain in order to achieve sustainable development in the international context. How businesses respond to sustainable development in the context of the supply chain forms the conceptual framework at this stage and the research questions are formulated as a result.

In order to achieve the research goals stated above, a four-tier research methodology, comprised of both qualitative and quantitative techniques, was adopted in the action research model. The core methodology and analytical techniques used to approach the research problem are discussed in Chapter 3. A multidata collection method was selected to fill in the research gaps on the two important industry sectors selected for study, the manufacturing and retailing industries in the region.

## *Chapter 1 Introduction*

Chapter 4 to Chapter 7 comprise the primary data and qualitative analysis sections of the thesis. Firstly, Chapter 4 investigates how far the concept of environmental management is integrated into SCM and the associated perceived effects of China's accession to the WTO within the manufacturing industries in Hong Kong. To this end a survey was carried out to explore the local knowledge and practice amongst manufacturers in order to fill this research gap. The second study, detailed in Chapter 5, investigates the perspective of local retail companies in terms of corporate perceptions at the downstream end of the supply chain, particularly as regards specific supply chain policies, commonly known as codes of conduct (CoC), and its relation to corporate behaviour. This study is set to investigate whether the retailing industries in Hong Kong actually have such a policy and what steps have been taken to implement the policy. Another question examined in the chapter regards whether or not present institutional structures allow for adequate monitoring of suppliers and contractors (i.e. internal factory inspections, third-party inspections of compliance with the CoC, comprehensive public reporting system, published fair trade scheme for some or all products and incorporating sustainable development into considerations). To further clarify this, two best practice retailing companies with publicly available CoCs were selected for detailed interviews.

The third study in Chapter 6 consists of multiple case studies which try to examine the extent and effectiveness of the CoC in fieldwork through the process of social compliance auditing. The process of a social compliance audit consists of a factory walk-through, interviews and secondary sources provided by the supplier. This is done to determine whether the process of social compliance

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auditing can help to deliver sustainability and how this can be achieved in practice. This field data provides an in-depth picture to answer the research problem. A sample of multinational companies and their suppliers related to their internal organisational characteristics and external inter-organisational characteristics are also described in detail, followed by an analysis and discussion of major findings. A cross-case analysis is also presented as a conclusion to the chapter, and in order to provide analytical generalisation and draw out the key lessons. In solving some of the complex problems encountered in the case studies of the supply chain, detailed interviews with experts from academia, human rights organisations, governmental departments, labour unions, multinational companies, social auditing firms, trade organisations and NGOs, will be beneficial in forming a common consensus and identifying new tools to be implemented in Chapter 7.

Chapter 8 discusses and analyses the primary research findings from tier one to four as presented in the previous four chapters. Finally, chapter 9 concludes the research findings and the activities undertaken throughout the thesis.

Beyond the self-regulatory techniques such as having a CoC plus social compliance auditing, partnerships between government, non-governmental organisations and suppliers are found to be favourable supply chain practices through pilot trust programmes. The integration of primary and secondary data analysis leads to useful contributions in SCM with respect to sustainable development. Implications and mechanisms in achieving sustainability within the supply chain context will be discussed, limitations of the research will be

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indicated, and the directions of future research will be highlighted. This study is especially significant in setting the research context for the greater Pearl River Delta region, since it is regarded as the world's factory. As yet, limited research has seriously explored the implication of sustainable development for supply chain management practically as a whole.

## **CHAPTER 2**

### **SUSTAINABLE DEVELOPMENT: CORPORATE SOCIAL AND ENVIRONMENTAL MANAGEMENT**

#### **2.1 Introduction to sustainable development and supply chain management**

##### 2.1.1 Sustainable development

The concept of sustainable development provides a framework for the efficient use of resources, effective development of infrastructures, protection and enhancement of quality of life, economic or business development whilst protecting the environment. Sustainable development can also be defined as a process of change to bring a new order of development to achieve sustainability. This umbrella term is not limited to physical values, economic development, material flows and physical environmental improvements, but also includes the social well-being and quality of people's lives. Over more than ten years of discussion, it appears that it is often more difficult to strike a balance between the three pillars of the triple bottom line concept (Elkington, 1997) which includes economic, social development and environmental quality, in the implementation process. Sustainability has been defined as the goal of sustainable development, which is “types of economic and social developments that protect and enhance the natural environment and social equity” (Diesendorf, 2000: 23).

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In the last 20 years, an integrated concept of sustainable development emerged in the report “*Our Common Future*” (WCED, 1987) issued by the World Commission on Environment and Development. This included systems and effective citizen participation in decision making, providing solutions for the tensions arising from disharmonious developments, respecting the obligation to preserve the ecological environment, and fostering long-term stability of trade and finance. At the same time, the commission also called for industry action to accept social responsibility, establish company policy and comply with the laws and requirements of the country in which they operate. This concept was set out as an integrated approach to policy and decision making in which environmental protection and long-term economic development are seen not as incompatible, but as complementary. Five years later, principles of sustainability became a global political agenda during the Earth Summit in Rio de Janeiro in 1992. The summit resulted in a statement of principles and a plan of action (Agenda 21). Surprisingly two years after, China was the first to produce its national Agenda 21, which translates sustainable development into local, and sector specific action plans (Ng *et al.*, 2003). In addition the Rio principles urged a wide range of stakeholders to concentrate on damage done to many natural ecosystems that in turn threaten the capacity of the earth to support life, and most importantly, addressed how long term economic and social development can be achieved by taking into account the current growth rate of industrialisation, population and social inequality. Among the Rio principles, principle 4 stresses that “in order to achieve sustainable development, environmental protection shall constitute an integral part of the development process, and cannot be considered in isolation from it” (UNEP, 2005). The principle is built on

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ideas from the Stockholm Declaration at the 1972 United Nations Conference on the Human Environment, which reinforced the emerging concept of sustainable development (UNEP, 2005).

More recently in 2002, aiming to reduce the current unsustainable trend of global activities, multiple governments committed towards sustainable development at the World Summit on Sustainable Development (WSSD) which resulted in a more focused and targeted 10 year plan of implementation on production and consumption. Studies also proved that corporations could contribute to sustainable development through adopting sustainable production and consumption processes (Welford, 2002). Based on the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development principle, the United Nation Global Compact was proposed by United Nation Secretary General, Kofi Annan in the World Economic Forum 1999 as internationally accepted principles in the areas of human rights, labour and environment, and launched in July on the following year. The three areas include specific issues such as support and respect of human rights, avoiding human rights abuses, freedom of association, rights to collective bargaining, child labour, forced and compulsory labour, discrimination, promotion of greater environmental responsibility and diffusion of environmentally friendly technologies (UNEP, 2005). The principles also encourage companies to adopt a responsible corporate policy initially, gradually take initiatives to ensure SCM by means of

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adopting the same operating standards regardless of suppliers' locations, contribute to environmental awareness and communicate with the local community (UNEP, 2005).

### 2.1.2 Corporate social responsibility

The term corporate social responsibility (CSR) has been in use since the early 1950s; Bowen (1953:6) defined CSR as “the obligation “to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of our society”. At the time, Ackerman (1975) also noted that businesses were too concerned with financial results, which was inhibiting social responsiveness. Others observed that companies' sole purpose was to make a profit (Friedman, 1963 and 1970) and that they did not have any obligation therefore to “solve the world's problems” (Reinhardt, 1999: 53), especially as CSR is nothing more than the “voluntary restraint of profit maximisation” (Andrews, 1989: 257). McDonald and Puxty (1979) on the other hand viewed CSR as a social obligation. These different types of social obligations were conceptualised into three main types: economic obligations (e.g. productivity and economic viability), legal and ethical obligations (local legislative compliance and acknowledging norms and values) and philanthropic obligations (e.g. proactively give back to society) (Carroll, 1979). Tuzzolino and Armandi (1981) commented that companies would adopt CSR only after they have overcome physiological or survival needs by corporate profits.

In the 90s, the trend headed towards the concept of CSR being regarded as a part of

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governance. However, a number of authors reject the idea that CSR is a social obligation, stating that it is unfair for corporations to be responsible for society as a whole and that CSR should only focus on those who directly or indirectly affect or are affected by corporate activities (Donaldson and Preston, 1995; Jones, 1995; Wood and Jones, 1995). Balabanis *et al.* (1998) added that a company should be held accountable for any of its actions that affect people, communities and the environment in which those people or communities live. The term responsibility extends from purely financial aspects to environmental, social and community issues. Corporations should not only be responsible to their shareholders, but since companies exist within society they should therefore have responsibilities to society as a whole. Maignan and Ferrell (2003) categorise corporate responsibilities as two distinct types: corporate social responsibilities (Frederick, 1978; Carroll, 1979; Strand, 1983; Wartick and Cochran, 1985) and corporate stakeholder responsibilities (Clarkson, 1988, 1991 and 1995; Donaldson and Preston, 1995). The latter, corporate stakeholder responsibility, emphasises that responsibility in the supply chain involves not only industrial partners, but also legislators, standards organisations, customers and scientists (Meinders *et al.*, 2001). CSR is seen as a stakeholder obligation (Maignan and Ferrell, 2003). Henriques and Sadorky (1999) attempted to regroup stakeholders into four main categories:

1. Organisational stakeholders (e.g. employees, customers, shareholders, suppliers)
2. Community stakeholders (e.g. local residents, special interest groups)
3. Regulatory stakeholders (e.g. municipalities, regulatory systems)
4. Media stakeholders

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As described previously, the role and responsibilities of companies is changing in the process of globalisation, this is further described by Ledgerwood (1997:11) who noted that “the split of responsibilities between corporation and community is in continuous change, with government taking on some of the enterprising characteristics and exercising wider social responsibilities”. As this section has demonstrated, today stakeholders demand companies to demonstrate wider social responsibilities and be more responsible for their actions compared to the past. Increasingly public concern is also raised concerning the implementation of CSR; this will be discussed in the section on supply chain management (SCM). In recent years, the emphasis of CSR is towards accountability.

### Demand for CSR

As mentioned in the previous chapter, globalisation has accelerated social movement. Giddens (1991:64) defined globalisation as “the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring miles away and *vice versa*”. As a result, supply chain relationships are becoming more transparent due to the interest from NGOs, the media and western consumers. In turn every such relationship carries the risk of creating environmental and social violations.

The demand for CSR was driven by western consumer sweatshop campaigns in the 90s. The anti-sweatshop movement spread and many activist groups started to form in

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the 1990s, including activists from the Clean Clothes Campaign, university students and administrators, labour rights experts from Worker Rights Consortium, and US working men and women from the Solidarity Center. These and many other activist groups campaigned to stop the production and sales of school uniforms, university logo T-shirts, rugs and footballs which were made by child workers or in sweatshop conditions. This increase in sensitivity of western consumers to labour issues in developing countries as well as heightened public scrutiny from NGOs, sweatshop campaigners and student groups has created enormous media attention on brand name products from companies such as Nike, the Gap, Disney and Reebok.

Other research has also confirmed that the public have higher demands and expectations from businesses than ever before (Ottoman, 1998; Welford, 2002; Lewis, 2003). According to a survey carried out by Environics in 1999 which covers over 25,000 individuals in 26 countries, almost 60% of consumers rank labour practices, business ethics, responsibility to society at large or environmental impacts as factors that influence their views of companies (Environics, 1999). Both Martinsons *et al.* (1997) and Lam *et al.* (2003) indicate an increasing trend of customers taking into account environmental issues in their purchasing decisions; the figures are 14% of consumers in 1992, 26% of consumers in 1995 and 38% of consumers in 2003. Similar results were obtained by MORI, with the proportion of consumers saying that CSR is important in making their purchasing decision increasing from 24% in 1997 to 38% in 2003 (Dawkins, 2004). Overall these results show that consumers now expect companies to disclose their social and environmental performance in addition to their

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financial results.

In the British and European context, consumers are aware that industry is not paying much attention to CSR. This is shown by a MORI survey which indicates that 58% of European consumers and 71% of British consumers declare that industry does not pay enough attention to its social responsibilities (Rushton, 2002). The survey also shows a trend from 1997 to 2003 of less than a third of consumers able or willing to name any company that is particularly environmentally or ethically responsible. In addition 40% of business and industry leaders also agree that they are not paying enough attention to social responsibility issues (Rushton, 2002). A recent survey conducted by the Ethical Corporation in the UK in conjunction with an independent marketing research company, reveals that there is a lack of knowledge concerning how sustainability can be achieved in practice. According to the survey 107 out of a total number 160 CSR professionals (67%) disagree that the primary responsibility of corporations is to make money and that all else is secondary. A significant number (91%) of those surveyed believe that by better managing CSR, shareholder value can be created. But when asked to identify the tools for better managing CSR, they all declared that they had no idea of how it should be implemented (Ethical Corporation Magazine, 2002).

### Elements and perspectives of CSR

The World Business Council for Sustainable Development (WBCSD:1) defines CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to

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improve their quality of life". Business for Social Responsibility (BSR) defines global CSR as "business decision-making linked to ethical values and respect for people, communities and the environment." The interpretation of CSR also depends on the origin of the corporation. For North American companies, CSR means "disclosure of information to shareholders, disclosure to the board of directors, environmental protection, equality of treatment for minorities, ethics in advertising, monopolistic behaviour, profit sharing and social impacts of technology" (Schwartz, 1975). For UK companies, CSR refers to "an employee scheme (e.g. higher standards of occupational health and safety, good standard of staff treatment, job sharing, flexible time), environmental protection (e.g. reduction in emissions and waste and recycling of materials), involvement in social causes from human rights to AIDS education and philanthropy (e.g. donating to charities), urban investment (e.g. working with local government to regenerate small businesses and inner city environment generally)" (Vyarkarnam, 1992:60). It is important to note that Asian companies view CSR differently from their US and European counterparts, as they often view CSR as business ethics which mostly include bribery and corruption issues (Salahuddin and Tsoi, 2003). The difference between CSR and business ethics is that the latter one deals with issues and dilemmas related to morality of individual organisational actions or decisions, whereas CSR focuses more on the consequences of the organisation actions (Epstein, 1987). Welford (2003b) attempted to divide some of the earlier mentioned elements of CSR into 4 categories: internal aspects, external aspects, accountability and citizenship (see table 2.1).

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Elements of CSR			
Internal aspects	External aspects	Accountability	Citizenship
Written policies on non-discrimination	Labour standards policy adopted by suppliers in developing countries	Commitment to CSR reporting or sustainability reporting	Direct support for third party social and sustainable development initiatives
Equal opportunities statements and implementation plans	Policy on “no child labour in suppliers’ factories	Policies and procedures for engaging a wide range of stakeholders in a two way dialogue	Educational programmes for promoting corporate citizenship
Statement of normal working hours, maximum overtime and fair wage structure	Commitment to the protection of human rights		External campaign programme for raising social and sustainable development issues
Staff development, in house education and vocational training	Inspection of suppliers’ factories for health, safety and environmental aspects		
The right to FOE, collective bargaining and compliant procedures	Commitment to local community protection and engagement		
The protection of human rights within the company’s own operations	Policy on responding to stakeholders		
	Policies on fair trade, equitable trade and end-price auditing		
	Policies on the protection of indigenous population and their rights		
	Code of ethics on bribery and corruption		

*Source: (Welford 2003a)*

Table 2.1 Elements of CSR

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Despite the fact that there are a lot of definitions that different organisations, companies and academics use in addressing CSR, in general CSR captures a multi-dimensional perspective which includes the environment and extends to include society and the business community.

### Implementation process of CSR and its effectiveness

Cadbury (2002) organised the process of implementation of CSR into three levels (see table 2.2). He concludes that most companies today are operating at a primary level, although many of them limit their ‘responsibilities’ and ‘obligations’ to that of their shareholders and creditors. Although it would be hard to find a company who operate at the third level of this hierarchy of corporate responsibility, there are some who strive to the second level of responsibility such as the Body Shop.

Primary level	Comprises a company’s responsibility to meet its obligations to shareholders, employees, customers, suppliers, creditors, to pay its taxes, and to fulfil its statutory duties.
Second level	Concerns the direct results of the actions of companies in carrying out their primary task and includes making the most of the community’s human resources and avoiding damage to the environment. Companies should attempt to minimise the adverse effects of their actions, rather than adhere to the lowest acceptable standard.
Third level	Consists of interaction between business and society in a wider sense.

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	Companies have to look outwards at the changing terms on which society will license them to carry on their activities. They envisage the wider consequences of their decisions and build that awareness into their decision-making processes.
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*Source: (Cadbury, 2002)*

*Table 2.2 Three levels of corporate responsibility*

The characteristics required for effective CSR implementation are described by Frankental, “CSR can only have real substance if it embraces all the stakeholders of a company, if it is reinforced by changes in company laws relating to governance, if it is rewarded by financial markets, if its definition relates to the goals of social and ecological sustainability, if its implementation is benchmarked and audited, if it is open to public scrutiny, if the compliance mechanisms are in place, and if it is embedded across the organisation horizontally and vertically” (Frankental 2001:23).

#### Benefits of implementing CSR

The level of CSR engagement is dependent on corporate objective or ambition, whether the companies regard CSR as a value, a source of competitive advantage, reputation or risk management, all of which are part of the intangible assets of modern business. Rushton (2002) noted the benefit of CSR is linked to value and brand since they are intangible assets of a company. Bixner *et al.* (1999) and Welford (2002) believe that CSR can result in enhanced image and brand value.

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### *CSR linkage to competitive advantage.*

Several authors emphasise that taking a philanthropic view of CSR will bring true competitive advantage to companies and their supply chain partners: “the truly strategic way to use CSR is to realise that philanthropy in the competitive context aligns with social and economic goals and improves the company’s long term business prospects” (Porter, 2003:28). In the Harvard Business Review (HBS, 2003b), Smith emphasised that philanthropic and business units have joined forces to develop philanthropic strategies that give their companies a powerful competitive edge.

### *CSR linkage to reputation risk management*

According to Interbrand, a quarter of the world’s financial wealth is brand value (Rushton, 2002). Arguably CSR can be used as a brand management strategy, since companies’ intangible assets such as image and reputation are highly vulnerable to risks and dilemmas. In fact, gaining back the public trust is the most difficult task once the brand has been damaged. Risk management is about the ability to effectively manage the balance between potential liabilities and potential opportunities. Literature also suggests that some of the potential opportunities of adopting CSR would include enhanced brand value and image (Bixner *et al.*, 1999; Welford, 2002). Reduction of legal liabilities is seen as one of the main drivers for companies to adopt CSR since malpractices of their contracted suppliers might rebound on them, effectively damaging their reputation. Previous research has shown that CSR may not be a sustainable driver as it does not provide an incentive to improve stakeholder relationships or encourage resource and production efficiency (Khanna and Anton,

2002; Welford, 2002).

### 2.1.3 Environmental management

Environmental concern grew in the 1960s because of pollution and its associated environmental degradation. The lethal effects of chemical pesticides, oil spills and industrial wastes on human health and the ecosystem resulted in conservation protection of wildlife and countryside becoming a primary concern. In the 1970s, depletion of raw materials raised ecological concerns. This in turn led to the important concept of pollution prevention emerging. Environmental protection was the prime focus of ecological management in better managing global resources. In 1980s and 1990s, the link between socio-economic problems, nature and the environment became inseparable. Modern global pollution problems include air pollution, terrestrial pollution, climate change and global warming, stratospheric ozone depletion and trans-boundary pollution. In responding to these problems, pollution control in water, air, waste management and “end of pipe” solutions are often used in addition to the conventional model, in which solving individual operational problems inside the corporation’s physical boundaries is the primary objective. This includes for example scrubbers and filters being installed for the appropriate functions in order to improve environmental performance.

The importance of environmental management to business is pointed out by several authors (Walley and Whitehead, 1994; Porter and Van der Linde, 1995). This means

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that the environment is not the sole responsibility of the government, and therefore the responsibility is extended to businesses as they are part of society and need to be held accountable for the decisions made within their organisation that may have global effects. The role of business and industry is also discussed in Agenda 21. Chapter 30 describes responsible and ethical management of products and processes in terms of health, safety and environmental aspects. Towards this end, business and industry should increase self-regulation, guided by appropriate codes, charters and initiatives integrated into all elements of business planning and decision-making, and fostering openness and dialogue with employees and the public" (Agenda 21, 1992:26).

Traditional environmental management tools often work through parallel systems (e.g. environmental management systems, ISO 14001 certification, total quality management (TQM), and total quality environmental management (TQEM)) where a separate department and managers are constantly struggling to convince top-level executives and operation managers to consider environmental measures. Both TQM and TQEM aim at improving quality at every stage of the production process. On the other hand, Welford (1995) argues that traditional approaches to environmental management cannot deliver sustainability. He mentions that corporate environmental management should move beyond systems (Welford, 2003b).

In moving beyond systems, the United Nation Global Compact Principle 8 provides a framework for the business communities to change their traditional practices and to encourage them take greater environmental responsibility. This includes switching

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from inefficient resource use to resource productivity, end of pipe technology to cleaner production, public relations to corporate governance, reactive to proactive approach, management systems to business design and life cycles, as well as from one-way passive communication to multi-stakeholder dialogue (UNCP, 2005).

#### 2.1.4 Supply chain management

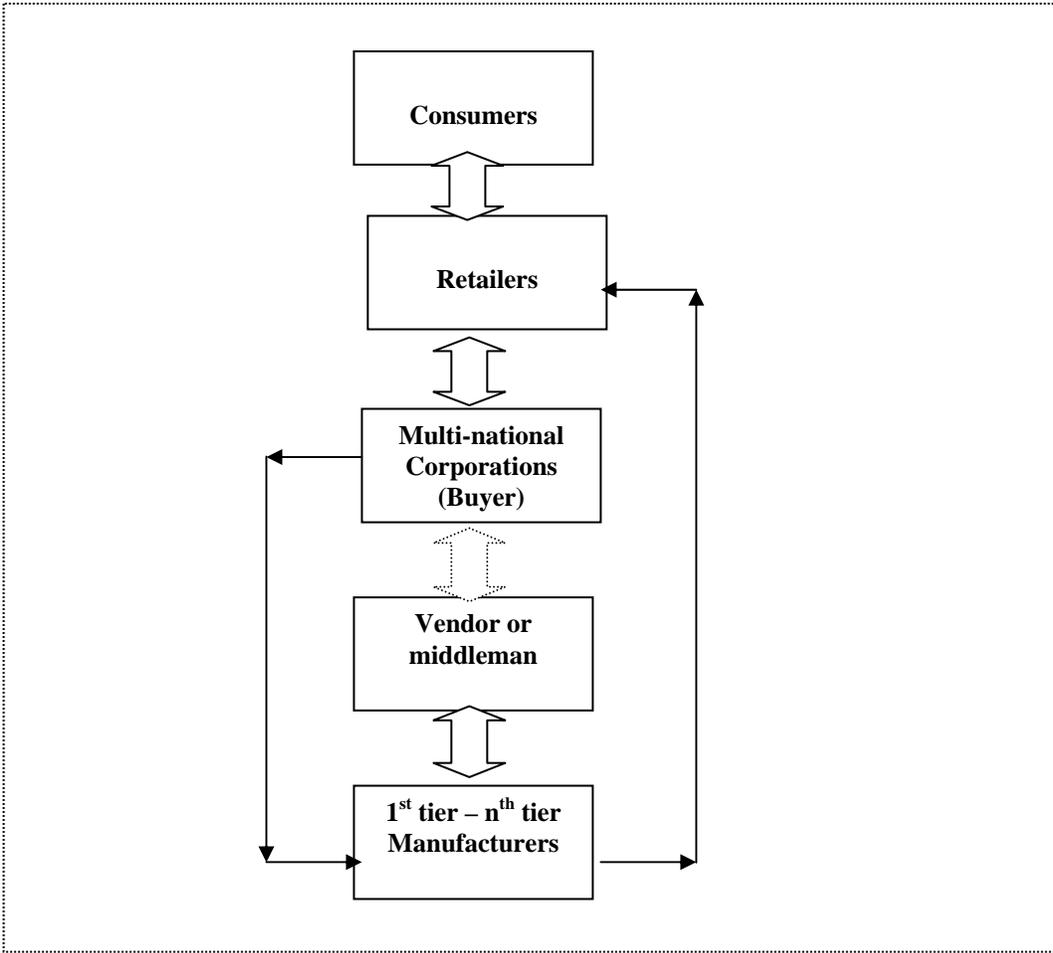
Supply chain management (SCM) is a promising area in achieving sustainability. The management of the supply chain is an important element in attempts by business to lower its environmental and social impacts (Wycherley, 1999). The conventional supply chain model was vertically integrated in the past, where the processes and activities were managed within the same organisation. In addition companies supplied their own parts and services, and environmental and social impacts came from a single company. But the current models have changed and companies nowadays depend on a much more complex and fragmented supply chain to acquire their product components, services and even labour, which they need to function. Globalisation is one of the most significant factors, which drives the supply chain to be more complex and diverse. Therefore supply chains are longer and more complex and contractors and subcontractors are numerous. Welford (2002) emphasises that the supply chain relationship is therefore critical in today's globalised world.

Referring to figure 2.1, a typical supply chain is made up of a complex chain of actors and includes the following entities:

- **Consumers** in the west demand the products

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- **Retailers** are primarily engaged in the distribution and sale of garments to consumers. Retailers include department stores, specialty stores, national chains, discount and cut-price stores, outlets, and mail-order companies. Some retailers who sell their own private labels go beyond their traditional role as distributors and become directly involved in the design and sourcing of garments from manufacturers and contractors.
- **Multinationals** generally design and market clothing, but contract the actual production to manufacturers.
- **Vendors or Middlemen** are located locally or regionally and they qualify and inspect foreign manufacturers of garments, negotiate with manufacturers, and often monitor production for quality control and compliance with other standards.
- **1<sup>st</sup> tier to n<sup>th</sup> manufacturers** are primarily engaged in producing, cutting, and sewing of garments from fabric. Some manufacturers are contractors or sub-contractors, who generally manufacture apparel from materials owned by other firms. 1<sup>st</sup> tier manufacturers often contract production to many n<sup>th</sup> subcontractors and some manufacturers are vertically integrated, producing the textiles from which they make garments, or even operating retail outlets.



*Fig 2.1 Actors in a typical supply chain network*

The local-level SCM initiatives start as an industry strategy where business partners jointly commit to work closely together to bring greater value to the customer for the least possible overall supply chain cost (The Hong Kong Article Numbering Association, 1997). A typical supply chain and its relationship between upstream and downstream actors are shown in Fig 2.1. As the figure shows, consumers demand products and in order to satisfy these demands, multinationals source products through a vendor or middleman or purchase directly from contracted suppliers. The contracted

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suppliers in turn contract parts of the production to 1<sup>st</sup> to n<sup>th</sup> tier suppliers. Hong Kong companies are important regional players, acting as sourcing or buying agents, upstream suppliers or manufacturers, brand name owners or retailers in the global supply chain. These companies often place direct orders to supply factories. Sourcing companies act as middlemen between the client and the production site in coordinating the overall supply chain from ordering, sampling making, purchasing materials, production scheduling and logistical functions to targeted countries. These functions are all strongly influenced by western business systems. Due to its excellent geographical location and free port status, Hong Kong serves as a partner for foreign companies to increase sourcing and production in the Pearl River Delta (PRD). Over half of overseas buyers source China-made products through Hong Kong traders, taking advantage of Hong Kong's legal, physical and trading infrastructure. In addition, the city serves as a risk manager for foreign companies to ensure quality. In comparison, China's current supply chain is highly underdeveloped and fragmented, with major bottlenecks in activities ranging from transportation, distribution, logistics, and materials handling to information technology systems. Details of the role and significance of Hong Kong within the greater PRD region will be discussed in the next chapter.

SCM is a modern management model that supports the broader context of sustainable development in a globalised world. By integrating sustainable development into the SCM model, the diversity of issues can be categorised into two major parts: an environmental segment and a social segment.

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The environmental segment

The environmental segment consists of the use of natural resources, emissions, waste, hazardous substances, energy use, loss of biodiversity and deforestation, nuclear radiation, ozone depletion and global warming. The linkage between SCM and the environment has only been attracting the attention of academics and industrialists in the last 10 years, in fact a number of researchers have pointed out that the external environmental impacts are much more significant than the internal environmental impacts (Lamming and Hampton, 1996; Noci, 1997; Birret, 1998; Carter and Narasimhan, 1998; Beamon, 1999; Lippmann, 1999; Bacallan, 2000; Bowen *et al*, 2001; Hagalaar and Van der Vorst, 2002).

The United Nations Environmental Programme (UNEP) also recognises SCM as a valuable environmental management tool (UNEP, 2003). Components of environmental management include internal and external corporate environmental policies, environmental management systems and various ISO certifications which provide an initial point to drive environmental performance (Zsidisin and Siferd, 2001). The UK roundtable on sustainable development recommends that all organisations, but especially large companies and public sector organisations, should use procurement as a way of encouraging those in the supply chain to improve their environmental performance. Other organisations, including the US Environmental Protection Agency (USEPA), the US Asian Environmental Partnership, the National Environmental Education and Training Foundation and the Global Environmental

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Management Initiative, have started to address environmental impacts across the supply chain. Since then, the growing importance of the environmental segment of the SCM model is being embraced by industry such as BT, Body Shop International, B&Q, Gap, General Motors, Hewlett Packard and IBM (Morton *et al.*, 2001).

Many researchers support life-cycle thinking, which requires contractors to become aware of the environmental aspects of their products within the supply chain. Klassen and McLaughlin (1996:1199) define this new form of environmental management at an operation level as “encompassing all efforts to minimise the negative environmental impact of the firm's products throughout their life cycle”. All efforts may be expanded to include “a set of SCM policies held, actions taken, and relationships formed in response to concerns related to the natural environment with regard to the design, acquisition, production, distribution, use, reuse, and disposal of the firm’s goods and services” (Zsidisin and Siferd, 2001:69).

Schaltegger *et al.* (2003) point out that perhaps the most difficult challenge of corporate environmental management today is the “integration challenge”, where environmental management itself needs to be integrated fully into core business processes, tools, decision-making and accountability. Specifically, Lamming and Hampson (1996) noted that the linkage between supply chain activities (vendor assessment, total quality assessment, lean supply and collaborative supply strategies) and environmental management approaches (e.g. life cycle analysis, control of air emissions, water and wastewater management and product stewardship) need to be run in parallel to each

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other. These environmental management approaches are often seen as discrete elements of an integrated supply chain. Penman (1994) warns that the danger lies in viewing these aspects in isolation.

### *Drivers, barriers and benefits of implementing the environmental segment of SCM*

Back in the early 1990s, better environmental performance was driven primarily by international and local regulations. Government policy was often the main driver for changes in corporate strategies. As a result the development of environmental legislation is the most important factor influencing the behaviour of industry in the field of the environment (Welford and Gouldson, 1993). In the late 90s, businesses started to respond to some of the environmental challenges, Sarkis (1999) states that the driving force for implementing the environmental segment of SCM into company operations ranges from reactive regulatory reasons to proactive strategic and competitive advantage reasons. Ytterhus *et al.* (1999) argue that the supply chain pressure from large companies is significant and that this could initiate a “multiplier” effect where small suppliers have to respond to environmental issues in order to maintain their contracts with large customers. This is illustrated by a simple example proposed by Lundgren (1997) which assumes that if a large company has 1000 suppliers and these 1000 companies in turn have 10 different suppliers each, the total number of companies affected come to 10000.

However, many corporations have viewed this as an unmanageable task (USAEP, 1999) as their supplier base is very large, their supply chain is too complex or they

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regard it as an overly time-consuming task. Others have attempted to approach this individually, which has resulted in duplicated efforts in SCM. Fiat and BMW in the automotive field have involved suppliers in their new product development process by changing their multiple sourcing strategies into single sourcing strategies (Gupta, 1995). A considerable reduction of suppliers from 4000 to 2700 has been achieved by IBM U.K (Taylor and Welford, 1993).

Working with suppliers to manage environmental issues can yield significant internal benefits to the firm and external benefits to society. These benefits are summarised in table 2.3.

<b><i>Internal benefits</i></b>	<b><i>Academic reference</i></b>
<i>To the firm</i>	
Avoid potential increase in waste handling cost or waste disposal cost	Lamming and Hampson 1996 Min and Galle 1997
Better management in reputation risks	Bowen <i>et al.</i> 1998 Drumwright 1994
Better manage liability for environmental damage	Min and Galle 1997
Deliver current and future legislative compliance at lower cost	Green <i>et al.</i> 1996 Hampson and Johnson 1996 Min and Galle 1997
Improve product and service quality	Cramer 1996 Noci 1997 Russel 1998
Meet market expectations	Hutchinson 1996 Knight 1996
Direct cost reduction	Drumwright 1994 Cramer 1996 Green <i>et al.</i> 1996 Russel 1998 Bowen <i>et al.</i> 2001
<b><i>External benefits</i></b>	<b><i>Academic reference</i></b>
<i>To society</i>	

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Accelerate diffusion of environmentally sound practices through industry	Green <i>et al.</i> 1996 Lamming and Hampson 1996 Russel 1998 Bowen <i>et al.</i> 2001
Eliminate or reduce the demand for environmentally harmful raw materials	Min and Galle 1997 Epstein and Roy 1998
Encourage the use of life cycle analysis	White 1996 Lamming and Hampson 1996
Facilitate legislative compliance	Green <i>et al.</i> 1996 Hampson and Johnson 1996 Min and Galle 1997
Gain greater environmental benefits through co-operation	Cramer 1996
Moving towards sustainability	Miller and Szekely 1995 Russel 1998
Provide response to public concern	Drumwright 1994 Miller and Szekely 1995 Cramer 1996 Russel 1998

*Source: (parts adopted by Bowen et al. 2001)*

*Table 2.3 Internal and external benefits of implementing environmental segment into the supply chain*

Roberts (2000:1) for example views SCM as a form of strategic management as “a powerful conduit of demands for higher environmental and social standards”, which offers an important option for improvement in environmental aspects such as waste reduction and environmental innovation. Multinationals view integrating environmental management into SCM as part of their wider set of business values (Morton *et al.*, 2001). Hewlett Packard has been focusing on the environmental impacts of materials, and as a result has been able to reduce costs and the release of toxic chemicals by 71% by incorporating environmental issues into its top-level corporate mission. Companies’ environmental initiatives with suppliers may provide additional

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opportunities to generate value through supply chain excellence while also helping to meet the expectations of customers throughout the world (Lippman, 1999). It is only recently that some leading US companies have significantly increased their competitiveness through their environmental performance. Implementing an environmental segment into SCM can assist industries to become more sustainable. By improving environmental performance, their corporate position as a whole improves, thus enhancing the corporate “green” image.

### *Enhanced value for customers*

Implementing the environmental segment of SCM offers challenges, but also new opportunities to create environmental and business value (Lippman, 2001). Bowen *et. al.* (2000) classified the potential benefits as going beyond the supply chain relationship boundary, to include society at large, the firm and specifically to the purchasing and supply process.

### *Competitive advantage*

Both Christopher (1993) and Handfield and Nichols (1999) add that through improved supply chain relations, companies can harness a competitive advantage. On the other hand, Rao (2002) stresses that enhancing the environmental performance of suppliers can lead to competitiveness and improved economic performance.

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### *Cost reduction*

Researchers from the management-consulting firm A.T. Kearney, estimate that inefficiencies in the supply chain can waste up to 25% of a company's operating costs and that even a 5% reduction in waste throughout the supply chain can double a typical company's profit margins (BSR, 2001).

### *Operational efficiency*

Efficient production is enhanced through the use of cleaner technologies, process innovation, and waste reduction. Reduction in wastes equals dollars earned (Hampson and Johnson, 1996).

### *Moving towards a cooperative model*

SCM is not only about accessing the material flow and its related environmental impacts through screening, it also includes a wide range of other components concerning how suppliers can be better managed. In order to increase suppliers' environmental management capacity, working collaboratively with suppliers on new product development or providing training or mentoring is necessary. (Lippman, 2001). An example of this is Carillion, a UK construction and services group, which has integrated environmental issues into its supply chain through setting corporate targets, supplier accreditation processes, supplier performance measurements, supplier sustainability workshops, Project Acorn, training supply chain staffs and changes in procedures and orders. Before looking into the supply chain, the company had already

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developed an environmental policy in 1994, an environmental report was also published in 1995 and an environmental management system was put in place in 1997. Rao (2002) comments that companies should do business only with those suppliers that meet their regulatory standards through an environmental performance process.

The partnership model is moving from a command and control approach, which mostly requires companies to fill in suppliers' environmental questionnaires and check their facilities towards increased dialogue with suppliers. This requires cooperation amongst businesses, second parties (e.g. government) and/or third parties (e.g. NGOs, environmental organisations or other businesses in the supply chain), whereby businesses voluntarily undertake to achieve effective environmental improvements in exchange for benefits from other partners. Many argue that partnership would be a better way to solve environmental problems, since it is a two-way communication platform. Improving a firm's environmental performance increasingly requires a co-ordinated effort between exchange partners in a supply chain rather than firms acting independently of each other (Shrivastava, 1995). Gunningham and Sinclair (2002) argue that partnership offers a middle course between the two extremes of traditional regulation and self-regulation or voluntarism. On the other hand, Lippman (1999) argues that the cooperative partnership model supersedes the traditional adversarial model. Partnership refers to a relationship that attempts to build interdependence, enhance co-ordination, improve market position focus (by broadening or deepening), or to achieve other shared goals; and that entails sharing benefits and burdens over some agreed time horizon (Cooper and Gardner, 1993).

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The importance of partnerships in the supply chain was also emphasised in 2002 at the World Summit on Sustainable Development (WSSD) in Johannesburg. The resulting plan of implementation emphasises the importance of over 300 partnerships that were formed between governments, businesses and NGOs during the course of the world summit. Surprisingly, it was suggested that the retail sector, being at the downstream end of the supply chain, would be expected to contribute significantly in terms of promoting consumer information tools to encourage sustainable consumption and production as well as committing to the phase-out of chemicals with detrimental health impacts by 2020 (Article 13, 2002) Working with suppliers to manage environmental issues can yield significant advantages (Lippman, 2001). Partnerships are suggested as a way to improve environmental performance and demonstrate how various parties can work together for mutual benefit in order to meet the globalisation challenge. Five types of partnership approach models are proposed in Table 2.4.

Types of the partnership approaches	Defined according to the institutions involved
Corporate- Corporate partnership	Involve one enterprise and other enterprises from the same industry
Corporate – Government Partnership	Involve one enterprise and a government agency
Corporate- NGOs partnership	Involve one enterprise and a trade association / an environmental organisation / an academic or research institute / a non-profit organisation
Corporate- Suppliers partnership	Involve one enterprise and its suppliers
Multi-Party partnership	Involve multiple partners

*Table 2.4 Types of partnership approaches*

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The partnership approaches taken amongst 13 cases worldwide are classified into five categories indicated as above with respect to four industries: automotive, electronics, food and apparel manufacturers and retailers.

<b><i>Automotive industry</i></b>				
<i>Types of Partnership</i>	<i>Institutions involved</i>	<i>Environmental Goal</i>	<i>Type of goal</i>	<i>Operational Benefits</i>
<b>Corporate-Suppliers partnership</b>	Bristol-Myers Squibb and its suppliers	Eliminate methylene chloride (a toxic volatile organic solvent) in Egypt, Venezuela and Greece	Manufacturing oriented	Decreased risk and cost and expense on-product disposal Increase reliability of their supply chain
<b>Corporate-Suppliers partnership</b>	Ford Motor Company and its suppliers	Establish supplier learning institute and lean research centre  Work with major and minor suppliers' development  Encourage suppliers to engage in every stage of their development process  Meet Materials management targets to increase the	Training material sourcing and purchasing	Demonstrated by a product, Ford Mondeo (Europe) contains 55 parts made of recycled, non-metallic material and 21 parts made of renewable material. This includes an air channel footwell made of recycled bottle caps, a fan and shroud radiator made of recycled carpets and an insert door trim panel made from natural fibres

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		recyclability of their vehicles		
<b>Multi-Party partnership</b>	General Motors(GM) and its suppliers, University of Tennessee, Centre for Clean Technologies and the National Institute of Standards and Technology (NIST)	Establish pollution prevention practices  Further resource conservation  Purchase 6650 reusable crates/ pallets for delivering  Reduce packaging and transportation waste	Packaging and transportation oriented  Material purchasing	Reduced packaging waste by approximately 20 percent  Eliminated approx. 266,000 cardboard crates per year through returnable packaging  Diverted more than 5000 tons of waste from landfills

*Table 2.5 Partnership approaches in the automotive industry*

<b>Electronic industry</b>				
<i>Types of Partnership</i>	<i>Institutions involved</i>	<i>Environmental Goal</i>	<i>Type of goal</i>	<i>Operational Benefits</i>
<b>Corporate-Suppliers partnership</b>	Applied Materials and its suppliers	Find solution for dealing with copper-bearing wastewater Design and develop closed-loop, zero-discharge water recycling system	Final disposal (End of pipe solution)	Reduced water requirement  Removed the potential of getting heavy metals into water supplies  Reduced environmental and ecological problems
<b>Corporate-Suppliers partnership</b>	Xerox and its suppliers	Set specific objectives e.g. Waste-free targets for	Product design ?  Manufacturing	Reuse prevented 30000 tons of waste going into landfills

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		products and factories To make “smarter” parts and products Remanufacture copiers and other equipments at the end of their useful life	oriented End-users	
<b>Multi-Party partnership</b>	Intel and its suppliers, other companies in the semiconductor and electronic industry	Training Develop lead-free solution e.g. reduce lead in its electronic products	Manufacturing oriented	Reduced employee injury/illness rate by 33%.
<b>Corporate-Corporate partnership</b>	Xerox, Quantum and Intel	Jointly develop cleaner technology with their suppliers	R & D	-
<b>Corporate-Corporate partnership</b>	Hewlett Packard and industry peers	Standard development Standardise requirements Produce a single supplier standard	Strategic role	-
<b>Corporate-Suppliers partnership</b>	Sony and its suppliers	Reduce the use of plastic packaging and carbon dioxide emission in the environment	Packaging Manufacturing oriented	-

*Table 2.6 Partnership approaches in the electronics industry*

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<b>Food manufacturing industry</b>				
<b>Types of Partnership</b>	<b>Institutions involved</b>	<b>Environmental Goal</b>	<b>Type of goal</b>	<b>Operational Benefits</b>
<b>Corporate-Suppliers Partnership</b>	Ben & Jerry's and its suppliers	Develop chlorine-free packaging, ECO-pint ice-cream containers  Reduce berry packaging  Encourage the supplier to use containers that can be shipped back to the suppliers	Packaging	Eliminated the adverse environmental impacts associated with chlorine bleaching and dioxins release  Eliminate cost and potential liability associated with final disposal of single use containers, empty drum and millions of gallons of wastewater containing dioxins
<b>Multi-party partnership</b>	Nestlé and its suppliers	Devise environmental management system Set up materials recovery and composting centre Set up new recovery system Training through USAEP	Strategic role	Reduced waste by 8%, water consumption by 15% and energy consumption by 8% Reduce solvents consumption by 60%
<b>Multi party partnership</b>	Unilever and its suppliers, fishing nations	Sourcing fish from sustainable sources by 2005	Raw material sourcing and purchasing	-

*Table 2.7 Partnership approaches in the food manufacturing industry*

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<b><i>Apparel manufacturers and retailers industry</i></b>				
<i>Types of Partnership</i>	<i>Institutions involved</i>	<i>Environmental Goal</i>	<i>Type of goal</i>	<i>Operational Benefits</i>
<b>Multi-party partnership</b>	Nike and its suppliers, USEPA Business for Social Responsibility (BSR)	Green recycled-content packaging  Seek alternative chemicals and raw materials  Provide education on EMS, compliance issues and pollution prevention techniques	Packaging  Raw material sourcing and purchasing	Diverted approx. 5 million pounds of scrap materials from waste stream, of which 92% is reprocessed into film
<b>Multi-party partnership</b>	Levi Strauss & Company, Nike, Gap Inc, L.L. Bean, Eddie Bauer	Works on water quality Reduction in solid waste Reduction of inputs Cleaner processes	Manufacturing oriented	-

*Table 2.8 Partnership approaches in the apparel manufacturers and retailers industry*

Comparing the five industries as described above, these partnerships tend to concentrate on 3 aspects: material sourcing, operational activities and process-oriented aspects in order to reduce toxic components in products and processes and reduce the amount of packaging materials. Common forms of partnerships include corporate-supplier partnerships and multi-party partnerships. However, there is the potential for a greater number of new partnerships among various organisations such as trade associations, governments, universities and NGOs. Other international examples of multi-party partnership programmes in United States of America, United Kingdom

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and Taiwan are discussed below.

*United States of America*

The US based Environmental Protection Agency, Design for the Environment (DfE) forms voluntary partners with a wide range of industry sectors, universities and other public interest groups to identify potential risks to human health and the environment. DfE provides these individuals with a variety of materials and tools, such as fact sheets, bulletins, case studies, software, videos, and training manuals. These materials are distributed to industries so that companies can make more informed decisions that reduce risks to workers and the environment and even boost the bottom line. For example, the garment and textile care partnership is committed to identifying environmentally preferable cleaning technologies and educate stakeholder groups about safer alternatives to traditional ones. In the US, health and safety issues remain one of the main drivers in better managing the supply chain. The United States Asia Environmental Partnership programme (USAEP) under the US Agency for International Development (USAID), also collaborate with the electronics and textile industries to promote the integration of an environmental segment into these supply chains in the Asia-Pacific region.

Business for Social Responsibility (BSR) is a global non-profit organisation, which helps companies and their suppliers to develop more cooperative and long-term relationships through the Supplier Environmental Management (SEM) programme. Chemical Strategies Partnership (CSP) works with manufacturing companies such as

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the Silicon Valley Manufacturing Group to reduce chemical use, waste, risks and cost in the chemical supply chain. They work with companies to implement their own CSP programme to optimise chemical use by applying their new customer-supplier model. The resulting benefits include a 50% reduction in chemical consumption and a significant reduction in hazardous wastes.

### *United Kingdom*

In the UK (2002), Project Acorn aims to improve environmental performance in the business sector by a staged approach. A six-level model can be applied to the companies' supply chain strategy. One of the benefits of this model is that suppliers of these companies are continuously monitored for environmental improvements. Government, trade associations and environmental organisations have been encouraged to support this project. In January 2003, Project Acorn was promoted in Hong Kong through the Hong Kong Productivity Council, Business Environment Council and the Trade and Industry Department. They have a similar role in encouraging Hong Kong SMEs to incorporate environmental management systems and overcome problems such as lack of expertise and financial resources. According to a recent survey conducted by the Corporate Environmental Governance Programme at the University of Hong Kong, it seems that trade organisations in Hong Kong are not providing sufficient activities and training related to environmental SCM (Poon *et al.*, 2003). Therefore, encouragement from trade associations for introducing an environmental segment into the supply chain should be initiated to a greater extent.

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### *Taiwan*

In encouraging industrial SMEs to adopt integrated supply chain practices, the Taiwanese government has taken an active role in developing and using the Corporate Synergy System (CSS) together with large companies for several years. The specific goal of this system is a focus on Integrated Waste Management measures (IWM) amongst companies' upstream suppliers and downstream buyers in the chains. The SMEs are fully supported and funded by the Industrial Development Bureau (IDB) of the Ministry of Economic Affairs (MOEA) and the Corporate Synergy Development (CSD) Center. This programme has successfully attracted more than 110 CSS partnerships with manufacturing industries that produced more than one-third of Taiwan's total industrial output.

### *Benefits of the partnership approach*

Partnership is a tailored business relationship featuring mutual trust, openness, as well as shared risks and rewards that yield strategic competitive advantage (Handfield and Nichols, 1999). The partnership approach will not only benefit organisations and their suppliers, but society as a whole (see table 2.9).

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<b>Potential benefits of The partnership approach</b>
<i>To society</i>
<ul style="list-style-type: none"> <li>• More natural resources (e.g. GM)</li> </ul>
<ul style="list-style-type: none"> <li>• Higher quality product</li> </ul>
<ul style="list-style-type: none"> <li>• Good corporate citizen image, thus improving relationship with</li> <li>• Stakeholders</li> </ul>
<ul style="list-style-type: none"> <li>• Reduced environmental footprint</li> </ul>
<ul style="list-style-type: none"> <li>• Reduced solid and toxic emissions and greenhouse gas</li> <li>• emissions and energy savings</li> </ul>
<i>To the companies and their partners</i>
<b>Internal</b>
<ul style="list-style-type: none"> <li>• Cost savings through lower handling expenses and costly inputs (e.g. Applied Materials, Bristol-Myers Squibb, Intel, Xerox, Ben &amp; Jerry's, GM)</li> </ul>
<ul style="list-style-type: none"> <li>• Enhanced quality, productivity and innovations (e.g. GM, Intel)</li> </ul>
<ul style="list-style-type: none"> <li>• Help to maintain relationships between partners leading to increased control over quality</li> </ul>

Table 2.9 Potential benefits of the partnership approaches

Referring to table 2.9, companies such as Applied Materials, Ben & Jerry's, Bristol-Myers Squibb, GM, Intel and Xerox experienced cost savings through lowered handling expenses and costly inputs by incorporating other innovative cleaner technology techniques. However, they do not just concentrate on achieving cost savings through reducing waste and the inefficient use of raw materials, packaging, water and energy within their own corporation, they also consider improving the environment, health and safety for employees and other stakeholders as one of their priorities. In addition, partnerships can help different parties to develop their capacity for environmental innovation, from which all parties can mutually benefit . At the same time, companies will operate more effectively and efficiently, providing better services

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and products to meet public demand. Firms consciously need to focus on creating value not only in financial terms, but also in environmental and social terms, which appears to be a win-win situation for various partners.

### The social segment

The social segment of SCM includes the role and relationship of the company to the local community, labour practices, oppressive regimes, honesty, trust, respect and fairness in corporate or organisational relations, bribery and corruption (Young and Welford, 2003). Codes of conduct (CoC) are increasingly being drafted and adopted by corporations and industry as a way to control their behaviour. The importance of CoCs is emphasised on the European Commission's Green Paper published in July 2001, which suggests that CoCs should concern working conditions, fundamental social rights such as the prohibition of child labour and freedom of association (European Commission, 2001). In addition, the European Commission recently required that member state-based listed companies should disclose a corporate governance statement which should provide environmental and social development, position and performance as part of their annual report. In addition this corporate governance statement may also include an analysis of environmental and social aspects necessary to understand their development, performance and position.

### *Voluntary approach to codes of conduct*

CoC have long been regarded as a common self-regulation tool in addressing corporate behaviour, which can be adopted voluntarily (Arrow, 1973). As early as 1977, the

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United Nations Centre on Transnational Corporations (UNCTC) working group began to draft the CoC for transnational corporations in addressing issues of concern to businesses operating in developing countries. A good CoC is based on a foundation of ethical values, including issues ranging from human rights, employee wages and benefits, freedom of association and collective bargaining to occupational health and safety. Different companies have different purposes in addressing the issues covered by a CoC. A CoC is the most common means of promoting CSR (Kolk and Van Tulder, 2002b); other ways are similar to the environmental measures for improving supplier performance as mentioned earlier and include mandatory assessment questionnaires, audits and assessments. This can even require suppliers to undertake independent certification or abide by certain conditions to fulfil contract terms.

### Corporate CoC

The European Association of National Organisations of Textile Retailers also believed that having a policy is the starting point for changes in management behaviour. It also allows a company to clearly define the limits that it is placing upon itself and the extent of its responsibilities (AEDT, 2002). The corporate CoC has emerged from, and is sometimes used synonymously with more traditional business CoC, such as “codes of ethics” or “codes of practice” (Sorell and Hendry, 1994; Sajhau, 1998). It can be defined as “the text, which gathers all the commitments that a company promises to respect with regard to the social conditions of production” (AEDT, 2002: 8). In the past, the internal CoC had been formulated by individual companies for internal employees, although there are CoCs that concern entire industries or professions

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(Sorell and Hendry, 1994). In recent years, an increasing number of companies have developed issue-specific supply chain policies that provide more detailed guidelines to their employees such as sourcing and purchasing guidelines. The findings of a survey conducted by the US Department of Labor of 48 apparel companies and 16 footwear and sport equipment companies, show that high percentages of 69% and 88% respectively of these companies have adopted a CoC (US Department of Labor 1996). To a large extent, a CoC formulated as a supply chain policy is often based on the International Labour Organisation's (ILO) standards, which define corporate CoC as companies' policy statements that define ethical standards for their conduct (ILO, 2004).

Aside from the inherent value of a corporate CoC as a tool to demonstrate a company's willingness to take responsibility, the transparency of a CoC is directly and indirectly related to the potential benefits to be gained. A formal text of this form also makes it possible for a company to communicate its position as a good corporate citizen more effectively. In short it allows for a degree of transparency which is crucial if a company is to reap the benefits of a good image (Lewis, 2003). This does of course assume that the company decides to publish the document both internally and externally. The use of a corporate CoC can serve as a protective mechanism against the vulnerability of the corporate reputation. Sethi (2002b) viewed the CoC as an invaluable opportunity for responsible corporations to create an individual and highly positive public identity for themselves and thus create a direct "reputation effect" in their bottom line. Recent studies by O'Rourke (2003) pointed out that CoCs are used as a company's public

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relations tool and often criticised by NGOs. Therefore, there is a need for higher transparency, technical capacities, new mechanisms of accountability to workers and consumers and non-governmental monitoring to be implemented in such current voluntary systems (O'Rourke, 2003). Research has shown that the implementation of such policies is directly linked to reputation and brand image. This in turn drives better business performance, as statistics concerning the Dow Jones Sustainability Index outperforming the Dow Jones Index by 36% over the last 5 years shows (Ruston, 2002).

In recognising the business benefits, US garment companies are taking steps in increasing their control over their suppliers. An extensive survey conducted by the US Department of Labor (1996) demonstrates that the most common method in terms of control of suppliers is to require their suppliers to get permission before subcontracting part of the work to another factory. Companies such as Fruit of the Loom, Nordstrom, Sara Lee and The Gap favour this method. The second most common method found is to establish a strong staff presence in countries where they manufacture. Companies such as K-Mart Corporation, Liz Claiborne, Salant and Levi Strauss reduced the number of their suppliers. For example, Levi Strauss (1996) has reported that they have gone from 700 suppliers before introducing their CoC to a current level of 450 suppliers and they encourage suppliers to build business partnerships based on terms of engagement, service, financial stability, community support and long-term mutual profitability as opposed to simply lowering costs. In the UK, the majority of large UK based companies produce the CoC to articulate CSR value (Rushton, 2002). Rushton

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questions “how many of them would seek to embed their values and ethical behaviour and seek to do it consistently across all their operations worldwide. And how many simply produce a CoC, send it to their employees, stick it on the corporate website and say “job well done”?” (Rushton, 2002). But there are limitations where the CoC is attempted to be made universal and where a company has significant impacts away from the location of the production site. Multinational corporations encounter not only challenges in production of a universal CoC but also in ensuring that it is implemented practically across different cultures. When comparing Singapore and Hong Kong in Asia, Welford (2003a) notes that there is a marked difference between the two cities. Singapore displays significantly higher levels of external policy activities whereas this is given much less attention in the case of Hong Kong. There are also much fewer instances of external policies on child labour and labour standards, fair trade initiatives, indigenous populations, inspection of suppliers, local community development and stakeholders responsiveness in Hong Kong, as indicated by Welford in 2003.

This degree of control is crucial for a CoC to become more than just an ‘add-on’, something which has repeatedly been proven to be a counterproductive measure in terms of the perception of external stakeholders regarding a company’s genuine commitment to social responsibility (Lewis, 2003). KPMG (1997) in their business ethics survey report, indicate that 60% of companies admitted to never having undertaken a review of their ethical policies. In addition they confess to a lack of monitoring with regard to the ethical performance of the company (KPMG, 1997). Systems of monitoring include:

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- Firm internal compliance monitoring
- External monitoring and certification by initiatives or a certification body
- Independent investigations and verification

In terms of accountability, most standards encourage corporations to report on their internal compliance programme, shareholders, the general public, the CoC proponents and all interested parties. The growing demand of corporate accountability is expected globally by various stakeholders. The Global Sullivan Principles and US Business Principles for Human Rights of Workers in China require their members to report directly to their working group. Internal standards are expected to be maintained within the companies. There are also standards formed by students. The United Students Against Sweatshops aims to improve labour conditions for the production of university goods by defining sustainable living wage conditions in detail.

Internal monitoring systems and external auditing systems should complement the CoC. Taking a step further towards sustainability, the Global Compact is a voluntary initiative and it provides a framework to promote sustainable development and good corporate citizenship. External monitoring is a particularly important process in ensuring that the CoC is being implemented to a certain extent.

### External CoC

The increasing proliferation of CoC has been raised in conjunction with industry

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specific initiatives as well as various local and national initiatives (Seyfang, 1999). The table below shows that there is a wide interest in external CoC from the apparel industry, international bodies, NGOs, trade associations and other stakeholder groups.

<i>Coalition of industry and other stakeholder group</i>	<i>International bodies</i>	<i>NGOs</i>	<i>Trade Association</i>	<i>Other stakeholders</i>
Apparel Industry Partnership (AIP)	International Labour Organisation (ILO)	Amnesty International	American Apparel Manufacturers Association	Worker Rights Consortium (WRC)
Social Accountability 8000 (SA 8000)	United Nations Universal Declaration of Human Rights	Clean Clothes Campaign (CCC)		
Ethical Trading Initiatives (ETI)	United Nations Human Rights Convention (UNHRC)	Fair Labor Association (FLA)		
Worldwide Responsible Apparel Production (WRAP)		Interfaith Center for Corporate Responsibility (ICCR)		
Business Social Compliance Initiative (BSCI)				

*Table 2.10 Various international organisations that generate external CoC*

Referring to table 2.10, external CoC set by international bodies which include basic human rights standards and labour issues are included in the United Nations Universal

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Declaration of Human Rights (UDHR) to promote fundamental rights and freedom in Article 1 to 30.

“Everyone has the right to work, to just and favourable conditions of work and to protection for himself and his family [and] an existence worthy of human dignity ... Everyone has the right to a standard of living adequate for the health and well being of himself and his family, including food, clothing, housing and medical care”

— Universal Declaration of Human Rights, 1948

Similarly, the International Labour Organisation’s (ILO) conventions focus on rights of human beings at work such as freedom of association, abolition of forced and child labour and equality (see table 2.10). There is a trend of an increasing number of countries ratifying the fundamental ILO conventions in the last 5 years, the number has risen from 936 in 1999 to 1218 in 2003 (ILO, 2004). This ILO system consists of the ILO labour standard which is endorsed, monitored and enforced by governments. This type of system is often criticised by trade unions and human rights groups for being too weak to protect basic worker and trade union rights and prevent violations (Greenfield, 2000; Ranald, 2002). One of the reasons is that governments who have signed up as ILO members do not need to agree with all ILO conventions such as freedom of association (convention no 87), the right to organise and collective bargaining (convention no 98), forced labour convention (convention no 29) and minimum age convention (convention no 111). In principle, governments who have signed up to the conventions should make sure employers do not violate the rights of workers. But in

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reality, there is a large gap between committing and enforcing these labour principles. Similar to the governments who commit and sign up to environmental agreements, companies who have signed up to the United Nations Global Compact or OECD Guidelines for Multinational Enterprises (OECD, 1998), the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (ILO, 1977) and the Norms on the Responsibilities of Transnational Corporations, are not bound by any legal obligation since all these guidelines are voluntary and of a non-binding character, resulting in irresponsible corporations not being penalised for their malpractice. Ranald (2002) also confirms that slow progress has been made by companies to acknowledge the obligations imposed on them by these standards. The reluctance of the companies to take accountability seriously is also shown in the CSR Network (2003) Benchmark Survey 1 of Fortune Global 100 companies report, which finds that only one third (32%) of the companies reported on their supply chain. The national OECD guidelines are also criticised for being ineffective. There is a growing trend that stakeholders want the guidelines to be enforceable so that companies are fined for non-compliance.

Other external CoC represent additional standards agreed on by a coalition of companies and other stakeholder groups, such as the Apparel Industry Partnership (AIP), Social Accountability 8000 (SA 8000) or trade association standards, World Responsible Apparel Production (WRAP) such as American Apparel Manufacturers Association which establishes the minimum standards for inspecting suppliers' workplace conditions. The Fair Labor Association can certify local community groups

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to be the monitors and the SA8000 can certify them into the auditors' role. China has no independent monitoring organisation on human rights or labour rights, which is a constraint in China. It has to depend on other monitoring tools such as local labourers, communities and NGOs. The ILO (1998) found that eight out of 12 multi-country schemes were using either independent professional or NGO monitoring and there is substantial scope for expanding independent monitoring. The importance of external verification and NGO independent monitoring is critical in ensuring standards are being met. There are other standards proposed by NGOs such as Amnesty International, the Interfaith Center for Corporate Responsibility (ICCR), the Fair Labor Association (FLA) and Clean Clothes Campaign, which focus on the garment and footwear sector.

Comparing corporate and external CoC, a number of authors have investigated the content of CoC and pointed out that their content varies from general principles to detailed rules of actions (Benson, 1989; Webley, 1992; Braithwaite and Drahos, 2000; Douglas, 2001). Kolk and Tulder (2002) specifically investigated child labour issues addressed in the content of CoC drafted by NGOs and companies. They found that CoC drawn up by NGOs tend to be the most specific and those developed by companies are the least specific. Others suggest that adopting a mixed combination of self-regulation, industry regulation and government regulation is a more effective system (Gavin, 1983; Gupta and Lad 1983).

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### *Moving towards a legislative approach*

Both the US and the EU have not as yet undertaken legislative measures regarding CSR monitoring or reporting. This approach can only be seen in the Australian model where the debate is moving from a voluntary perspective towards a regulatory framework, recently demonstrated by the “Corporate CoC Bill” (Ranald, 2002). French corporate legislation also requests listed companies to include the environmental and social consequences of their activities in public disclosure as of May 2001 (OECD, 2004).

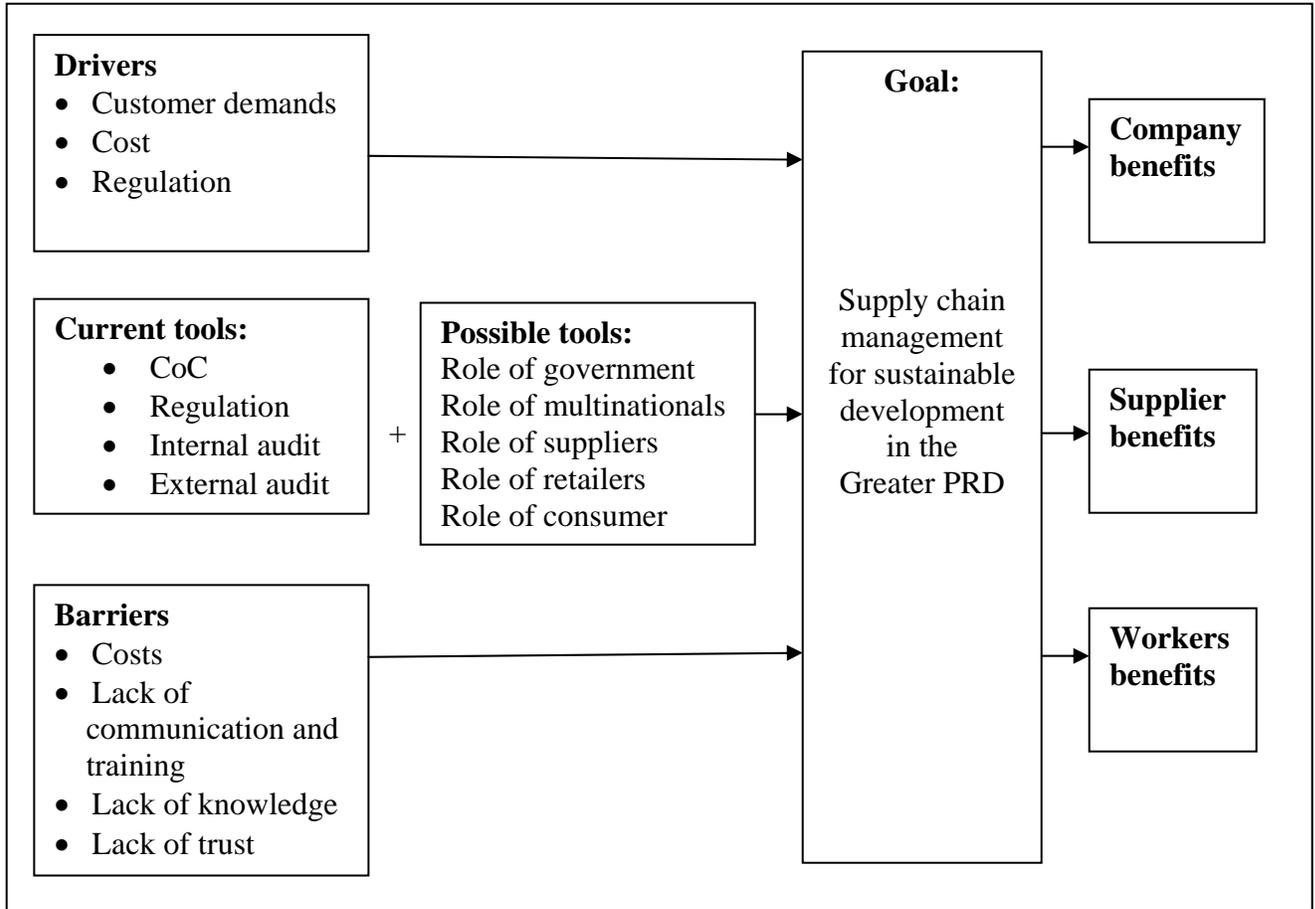
## **2.2 Conceptual framework**

This section develops a conceptual framework based on four concepts: sustainable development, CSR, environmental management and SCM. By drawing together the concepts, the study explains that CSR and environmental management must be integrated into the core activities of SCM if companies are to act in a way that is consistent with sustainable development. The four concepts balance the social and environmental demands of globalisation and, successfully applied, the concepts will not only result in a high quality physical environment, but an increased social wellbeing as a whole. Achieving sustainability requires a stepwise approach; it is necessary to identify tools, drivers and barriers in achieving desired performance.

Over the past 10 to 20 years, the way companies work has changed from a vertically

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integrated supply chain to a complex and diverse type of supply chain due largely to globalisation and market liberalisation. Under these driving forces, supply chain models and practices are becoming increasingly unmanageable. These regional economic, social and environmental problems have global implications since the supply chain is comprised of a network of upstream and downstream actors, retailers, multinationals (often brand name owners), vendors or middlemen, 1<sup>st</sup> to n<sup>th</sup> tier manufacturers and so forth. Many international companies regard this development towards high environmental, social and quality standards and measures as a new and also more complex area of business management to tackle. This thesis will largely focus on the effectiveness of self-regulating tools such as the CoC included in the conceptual framework as shown in Fig 2.2. The data will be evaluated through a social science perspective. What are the drivers and barriers to achieve sustainability in the supply chain? What role should government, multinationals, suppliers and consumers play and what are the benefits in return? If CoC are not adequate, could more stringent command and control type of approaches such as those used in Australia be more suitable in this region? Or are there any other possible tools? Corporations must realise that not only do they have to be aware of reducing damage to the environment; they have to be socially responsible towards the community as a whole.



*Fig 2.2 Conceptual framework of SCM for sustainable development*

### 2.3 Conclusion

Within the larger framework of sustainable development and CSR, the environmental segment of SCM is more developed in the international context. A lot of academics have focused purely on the environmental impacts in terms of the process and product perspective, and investigated SCM through the use of a life cycle approach. There is a lack of literature on how regional manufacturers and retailers perceive SCM for sustainable development and their willingness to adopt and implement environmental

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and social measures. As previous literature suggests, it is apparent that there are a diverse range of environmental and social measures involved that are specific to the selected supply chain activities, specific industry and actors involved. This thesis will not investigate the technological difficulties in packaging, transportation and logistics, but instead focuses on examining the management issues and related complications.

Previous findings also suggest that the social implications of SCM have often been ignored since issues embedded in the CoC are multi-faceted and therefore more difficult to tackle. In particular, a number of authors have indicated their concern that there is limited evidence that the actual impact of CoC has been gathered and investigated (Cowton and Thompson, 2000; Kolk and Van Tulder, 2002). Therefore additional actual and realistic research is required to obtain an insight into business and stakeholder ideas in terms of the effectiveness of CoC, roles that government ought to play in addressing the issues in CoC as well as other vehicles and mechanisms in tackling the issues, communication and organisational aspects such as company structure, culture and leadership that impact on employees' behaviour. More research effort should also be focused on the importance of companies' country of origin, the country's regulatory and societal context and the role of stakeholders (Van Tulder and Kolk, 2001). This will help to identify common problems and a full range of possible tools to improve the current situation of manufacturers and workers in the greater PRD since this is regarded as the "world's factory".

## **CHAPTER 3**

### **RESEARCH PROBLEM AND METHODOLOGY**

#### **3.1 Introduction**

The central purpose of this chapter is to define the research problems concerning the environmental and social conditions of the greater PRD region and to provide the core methodological review undertaken in this research and a framework for analysis. The methodology is comprised of qualitative and quantitative techniques to achieve the research goal and objectives. The investigations consist of four phases, including a postal survey, semi-structured phone interviews and best practice interviews, multiple case studies and interviews with experts. While the data is predominantly qualitative, both the survey and interviews also generated simple quantitative data. This is in line with other research on supply chain management worldwide, where the common methodologies identified have been mostly qualitative by nature. Qualitative methods include conducting questionnaires (Min and Galle, 1997; Carter and Carter, 1998; Carter, *et al.*, 1998), interviews (Lamming and Hampson, 1996), case studies (Green, *et al.*, 1996; McIntyre, *et al.*, 1998; Murphy and Mathew, 2001) or a combination of interviews and case studies (Drumwright, 1994; Handfield *et al.*, 1997).

The background of the companies was also compiled to understand their country of origin, CoC policy and implementation system in regulating the supply chain. Publicly available company data from annual reports, websites and CSR or sustainability reports were interpreted in terms of transparency and accountability. Social compliance auditing was used as a monitoring method to produce a set of case studies to understand suppliers' working conditions. This data was derived from transcripts of individual expert interviews and documentation available. The data were interpreted from each respondent and themes were derived from each question. The desire to collect every piece of useful data was constrained by the time spent at each supplier's facility.

The research will examine the relationship between suppliers and buyers. In this case buyers are multinational companies and suppliers are local or regional investors in the operational aspect of the supply chain. This thesis does not intend to look at other supply chain activities from transportation, sales and the individual's responsibility (such as customers and other stakeholders) towards the end-of-life of a product's life, where life-cycle analysis (LCA) is frequently applied to identify the impacts of producing and disposing of specific products. Instead the research will specifically focus on the characteristics of suppliers, the main drivers and barriers for environmental and social development and their integration into purchasing and manufacturing. Multi-dimensional issues from environmental, social and human rights issues are examined in order to discover lessons to be learned. Each individual case study is unique in capturing the details of supplier operating conditions in the desired geographical location. A cross-case study analysis will follow the individual case studies. The analysis encompasses both qualitative and quantitative analysis. Qualitative analysis is the

non-numerical examination and interpretation of observations for the purpose of discovering underlying meanings and patterns of relationships (Babbie, 1979; Bernard, 1995; Maxwell, 1996). Quantitative analysis is the numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that those observations reflect.

### **3.2 Key Research Problems**

This core of the thesis seeks to assess the current situation of SCM and its implementation tools, identify and explore major drivers for and barriers to improving suppliers' workplace conditions in the Greater Pearl River Delta. In particular the effectiveness of CoC in terms of transparency and monitoring is explored. The study fills the research gap and adds to the limited evidence of CoC integration into supply chain management in this region.

This research extends beyond the environmental aspects of SCM by providing a broader perspective of SCM within the wider framework of sustainable development and by taking into account social issues, since they have gained momentum in recent years. From the literature, it is suggested that SCM is broad in scope and allows for greater flexibility with respect to both material and non-material aspects of operations. Regardless of whether the focus is on material or non-material aspects, it is believed that a policy is vital for a company to commit to their principles. For company policy-makers, it is of great importance to be able to adjust to these new challenges by having an effective policy in place. The self-regulatory approach of developing a voluntary corporate CoC is one way

that the business sector has responded to environmental and social problems. The policy perspective is a holistic approach that can be applied to all the actors in the supply chain. In order for policy measures to become more effective, auditing has become the most popular method to execute the policy and demonstrate a company's commitment.

Therefore, the case studies were designed to answer the following questions in relation to the effectiveness of the CoC:

- After the sophisticated formulation and development stage of the CoC, is the CoC an effective solution to improve working conditions in the supply chain in reality?
- What does the corporate CoC mean to the worker? In other words, what is the level of awareness of the CoC?

Other specific types of issues are examined as sub-questions:

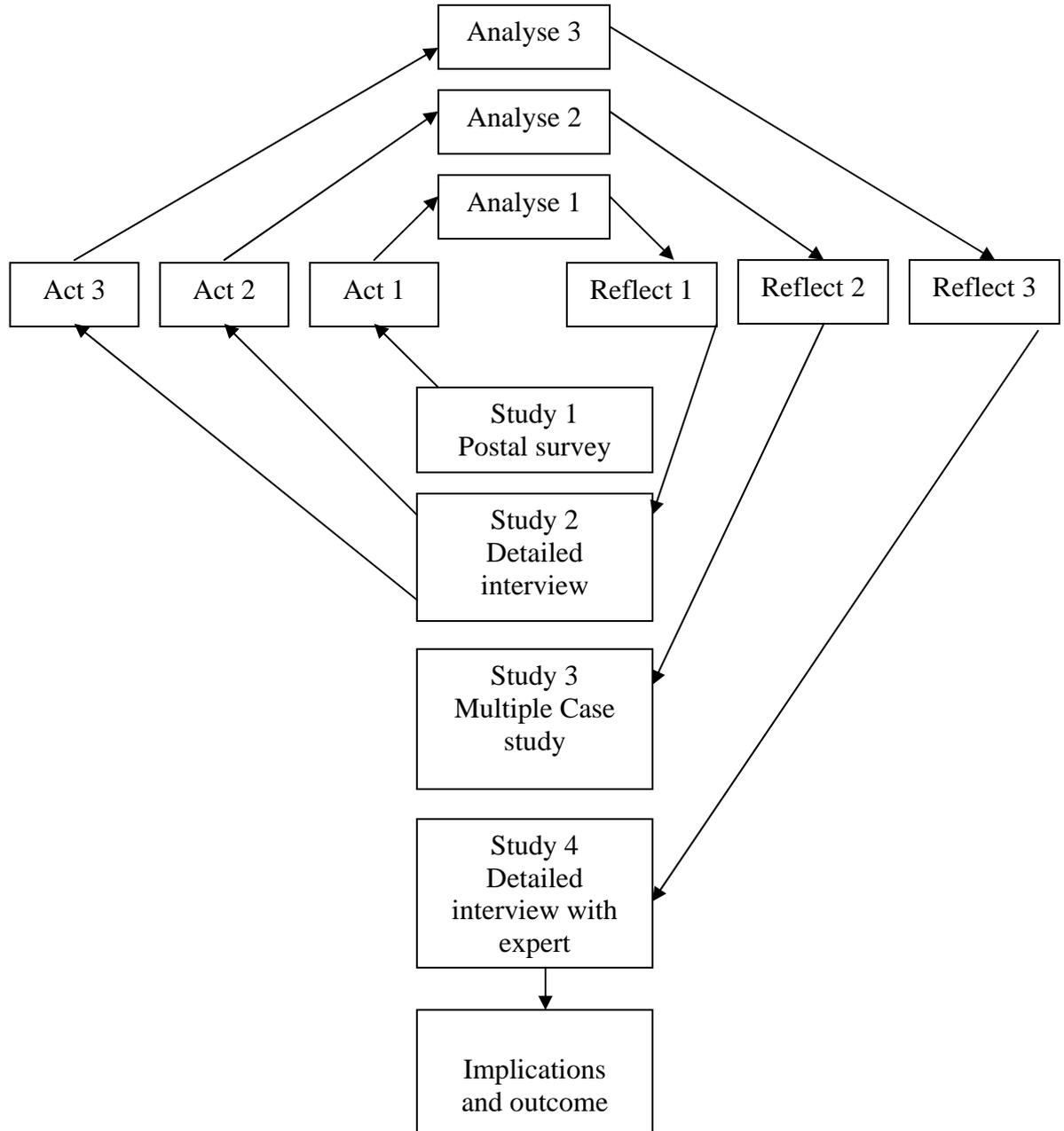
- What are the common non-compliance areas, how can individual factories improve and are there any examples of best practice to be found? Why do some factories not further improve their present conditions?
- Under what conditions will factory managers are most likely to cooperate and make changes or adopt other strategies to improve the workers' conditions?

### **3.3 Core methodology**

In order to answer the research questions, a mix of qualitative and quantitative methodological techniques can be used to combine both exploratory and explanatory research (Yin, 1989). Several methods may be used for authors and researchers who work in organisations and some argue that one should attempt to mix methods to some extent, because it provides more perspective on the phenomena being studied (Easterby-Smith, 1991) and the same position is recommended for PhD research by Gable (1994). A mix of exploratory and explanatory qualitative research methods is suited to serve this research purpose, as the subject under study does not have a well-developed set of theories regarding the level of knowledge and status of implementation. As such the content itself involves a complex system of company and supplier interdependency. Therefore this thesis is highly practical and the theoretical components will be taken into account to a much smaller extent. The research explicitly explores genuinely open questions and new phenomena, rather than testing theoretically derived ones, since the topic under study is dynamic by nature. The method is best suited for focusing on real-world situations such as both factory operations and labour working conditions. Previous researchers such as Kolk and Tulder (2002) have also used exploratory methods to investigate supply chain management. The cyclical methodology and action research model is the most suitable since the research problem is highly practical in nature, focus on change, have a problem-solving emphasis and are concerned with participation (Denscombe, 1998). "Action research is a process of systematic reflection, enquiry and action carried out by individuals about their own

professional practice” (Frost, 2002:25). It allows “action and critical reflection taking place in turn. The reflection is used to review the previous action and plan the next one” (Dick, 1997:1) and “combines a substantive act with a research procedure, it is action disciplined by enquiry, a personal attempt at understanding while engaged in a process of improvement and reform” (Hopkins, 2002:42). Most scholars characterise the action research model by dividing it into four processes: plan, act, observe and reflect (Bassey, 1998; Cryer, 2000; Dirk, 2002; Robson, 2002). This involves defining the enquiry for research, planning and executing the activity, observing the outcome, reflecting on what has happened and deciding on the next activity.

The four-tier research methodology is fitted into the action research model. It is illustrated in fig 3.1.



*Fig 3.1 The diagrammatic representation of the action research model*

The action research model illustrates that the research process involves multiple cycles of planning, acting, analysing and reflecting. Such reflections lead to the

identification of a particular problem or issues that are missing in the literature and require further research. By completing each cycle, findings from the research become the starting point for developing an action plan. The cycle begins again from planning to reflection. This method can lead to substantial studies within the supply chain setting in this region. The nature and objectives of the four action plans is discussed below.

#### Study 1: Postal survey

The first plan of this research investigates manufacturers' knowledge and practice of supply chain management for sustainable development through a direct postal survey, since there is no literature in this region. This method is often used in a broad sense in social sciences (Babbie, 1979; Last, 1983). Due to the lack of literature describing the current status of supply chain management, the first part of the research is explanatory by nature. It is aimed at exploring whether manufacturing companies are knowledgeable, have engaged or are willing to engage with any SCM activities. A detailed questionnaire was drafted and administered to a selection of manufacturing companies in Hong Kong. The questionnaire also sought to understand if the macro drivers, such as the WTO, would lead to changes in their current practices in the near future. The data was verified quantitatively, as this could help to clarify the research results in the later stages of the study.

Study 2: Detailed phone interviews

The second plan was aimed at finding out the existence and knowledge of CoC in regulating suppliers' behaviour locally (see Appendix B). Qualitative telephone interviews primarily investigated the perception of retailers. In-depth interviews with best practice retailers further elaborate on the drivers and reasons behind implementing CoC.

Study 3: Multiple case studies

Corporate CoC are often drafted in western countries and are often aimed at improving working conditions in developing countries. The aim of the case studies is to measure the effectiveness of CoC through monitoring. The need for CoC monitoring is largely due to pressure from customer companies and the sweatshop campaigns mostly initiated in the US. To evaluate the effectiveness of CoC, there is a need to find out how the code is communicated, if the business entity's employees and management follow the code, how compliance with the code is monitored and if compliance with the code improves the effectiveness of other control policies and procedures. Both qualitative and quantitative analysis were applied to find the emerging trends. The analysis identifies the implications of suppliers and the interrelationship amongst suppliers and multinational companies. A case study methodology was chosen as the main approach to tackle the key research problem as this forms an empirical inquiry to assess the real-life context. In carrying out the case studies, multiple forms of qualitative techniques such as in-depth interviews (McCracken, 1988) were used, which produce data directly and relate to the interactions and interconnections between action and

consequence. Some of these components were selected in answering the research problem.

The design of the research within each case study has its own distinct characteristics. Each case study represents a particular multinational company with its contracted supplier. Information tends to be interpretative and in-depth. Several explicit and independent case studies provide a broad description of the observations, and in-depth interviews were carried out on a random sample of workers. This provides a rich and detailed discussion of a small set of examples that can then form a valuable contribution to the understanding of the complexities of the supply chain and the complex decision-making that lies behind multinational companies and their suppliers. Yin (1994) describes collective case studies as analytical generalisations and explanation building as opposed to statistical generalisation.

Case studies were selected to focus on a single industry. A single industry was used to control the differences in processes and materials that might be common for multiple case studies' comparison. The literature review in Chapter 2 reveals that the garment industry is of cross-industry significance. This industry appears under the greatest pressure from consumers and the media in terms of implementing CoC compared to other parts of the supply chain. In addition, the export-oriented garment industry was selected for the case studies for the following reasons: economic, geographical, historical and media significance.

(1) *Economic significance of the garment industry in the greater PRD*

Economic performance forms part of the sustainable development paradigm. The PRD is an economic region on the southern coast of China. Its GDP is between US\$250 to 300 billion (Enright and Scott, 2004). It is outperformed by the Yangtze River Delta Economic Zone and Bohai in the northern part of China. In addition, the PRD's gross domestic product (GDP) combines with Hong Kong and Macau Special Administrative Regions to be US\$275.8 billion (HKSAR government, 2004 and China Statistics Press, 2002), which makes it the fastest growing export-oriented manufacturing area in the region. According to the World Trade Organisation's figures in 2003, the value of Chinese exports reached US\$ 325.6 billion in value. Detailed economic indicators in the greater PRD are shown in table 3.1. If the economy continues to grow at the same rate as in the past, the combined GDP will be close to US\$500 billion in 10 years' time (Hong Kong Coalition of Service Industry, 2004).

	HKSAR	Macau	PRD
Registered population (million persons)	6.8	0.47	23.65
GDP (US\$ billion)	155	10.31	120.8
% of primary industry (% of GDP)	0.1	0	5.0
% of secondary industry (% of GDP)	12.4	12.5	50.0
% of tertiary industry(% of GDP)	87.4	87.5	44.0
Total export trade (US\$ billion)	200.1	2.58	112.61

(Source: HKSAR Government, 2004, Hong Kong Trade Development Council, 2004a, Macau SAR government, 2003 and China Statistics Press, 2003)

*Table 3.1 Summary table of the HKSAR, Macau and PRD general and economic indicators*

Further comparisons of economic indicators, GDP and the value of total export trade between Hong Kong and the greater PRD show the significance of Hong Kong within the region (see table 3.2). In the first 10 months of 2003, Hong Kong's exports of clothing to the US, EU and Japan rose year-on-year by 4%, 12% and 3% respectively (HKTDC, 2003).

	PRD	HKSAR	Macau	Greater PRD	% of Hong Kong within the Greater PRD
GDP (US\$ billion) (2004)	163.92	162.75	10.31	336.98	57.3
Gross Industrial Output (US\$ billion) (2004)	224.98	20.06	2	247.04	11.4
Total export trade (US\$ billion) (2004)	182.43	258.86	2.81	444.1	64.9

(Source: HKSAR Government, 2004 and China Statistics Press, 2004)

*Table 3.2 Comparative table of the greater PRD and Hong Kong economic indicators*

Among many industries, the garment industry is regarded as a traditional light manufacturing goods sector dominated by SMEs due to rapid economic development. Among the top ten industries in the PRD economic zone, the gross industrial output (GIO) for the PRD in terms of garments is RMB 47.42 billion. This industry accounts for 26.17% of the value-added percentage of gross domestic output (Guangdong EPB, 2002). Garment production in the PRD continues to rely heavily on export growth. The PRD itself accounts for 34% of the country's total exports, where a large part of these industrial and commercial activities in the region are the business investments of Hong Kong citizens. Taking Guangdong province as an example, 93% of Hong Kong manufacturers have production facilities in Guangdong and 60,000 factories in Guangdong are

invested in or produce for Hong Kong companies (HKTDC, 2003). Almost 70% of residents in the PRD believe that the relocation of Hong Kong industries across the border has added to the mainland's pollution problems (Civil Exchange and China Development Institute, 2003). Therefore, Hong Kong investors should share the responsibility for solving part of the problem. 70% of PRD goods are freighted through Hong Kong and re-exported to other parts of the world, which makes Hong Kong an important element in many supply chain links.

The United Nations Conference on Trade and Development (UNCTAD) reported that the garment sector remains an important part of world trade and that world imports have increased from 2.4 to 3.1% (value from US\$41 to US\$174 billion) in the period of 1985 to 2000. In 2000, this single sector also accounted for 20% of low technology non-resource-based manufacturing. Local NGO Oxfam International also ranks “the textile and garment sector as the single largest source of manufactured export from developing countries by value” (Oxfam Hong Kong, 2004), see table 3.3 for further details.

Country	Export value in 2002 (HK\$ million)	% of national merchandise export (1995)	% of national merchandise export (2002)
China	322,156	16.2	12.7
Hong Kong	64,787	31.9	45.5
Macau	12,854	69	70
<b>Total export value by 3 areas</b>	<b>399,797</b>		

Source: (WTO, 2003)

Table 3.3: Export clothing value and % of national merchandise export in 1995 and 2002 within China, Hong Kong and Macau

The combined value of Chinese, Hong Kong and Macau exports is HK\$ 399,797 million compared to the total export value of the remaining 14 developing countries, which is valued at HK\$ 327,952 million. This shows the dominance of the greater PRD market worldwide (see table 3.3 and 3.4). The importance of these three regions has been fully discussed in the previous chapter (FHKI, 2003).

Country	Export value in 2002 (HK\$ million)	% of national merchandise export (1995)	% of national merchandise export (2002)
Bangladesh	32,222	52.7	67.8
Cambodia	8,775	0	81.7
Dominican Rep	21,154	45.5	50.9
Honduras	3,705	24.5	37.4
India	42,767	13	12.4
Indonesia	30,771	7.4	6.9
Mexico	60,458	3.4	4.8
Morocco	18,821	16.9	30.4
Philippines	20,336	13.8	7.2
Romania	25,358	17.2	23.4
Sri Lanka	18,143	46.3	49.5
South Africa	1,997	0.6	0.9
Taipei	17,137	2.9	1.6
Thailand	26,278	8.9	4.9
<b>Total export value for the above countries</b>	<b>327,952</b>		

Source: (WTO, 2003)

*Table 3.3: Export clothing value and % of national merchandise export in 1995 and 2002 for the above countries*

The worldwide significance of this sector is also shown by its customer base.

This sector also has worldwide consumers who spent approximately HK\$8

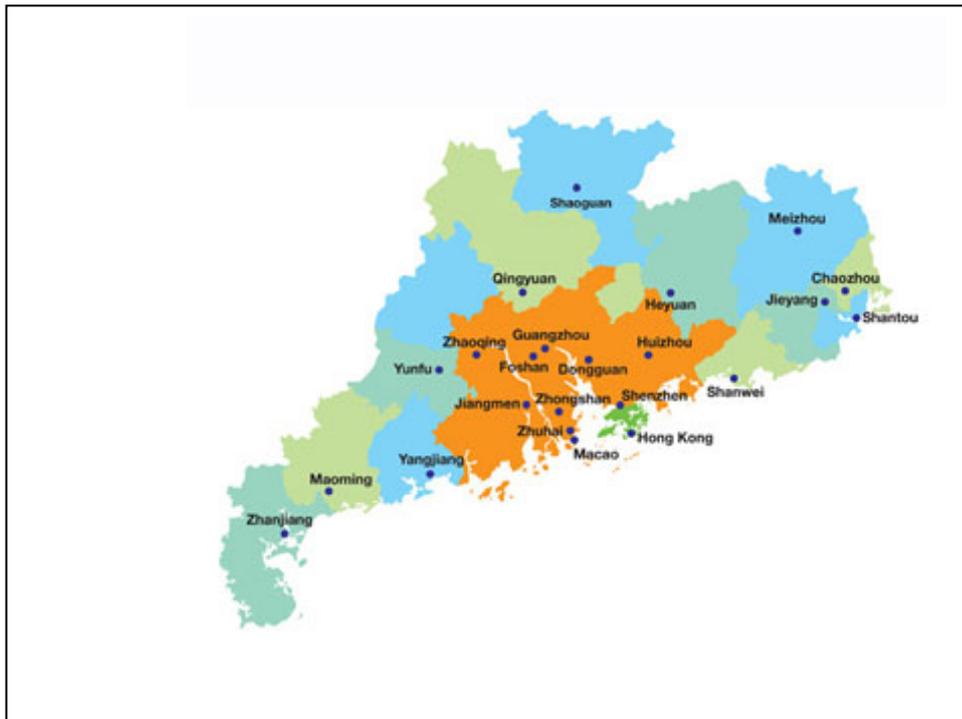
trillion buying clothes in one year, with sales of one-third from Western Europe, one-third from North America and one-quarter from Asia (Gibbon, 2003).

The most significant impact of the garment industry is from the upper end of the product development process that consists of wet processes from production of fibres, washing, bleaching and dyeing of textiles, which is outside the scope of this thesis. The scope of this thesis is confined to focusing on the lower end of garment product development where the common dry processes of fabrics are carried out, including cutting, sewing, washing, ironing and packing products to be delivered to retailers. Labour and human rights issues are at the forefront of this product-finishing end.

*(2) Geographical significance*

The original definition of the PRD region was first introduced in 1985, which only included 16 municipal cities excluding Guangzhou, Zhuhai and Shenzhen. Two years later, a broader definition of the greater PRD was adopted to include Guangzhou, Zhuhai and Shenzhen. Since there are various definitions that arose in different years, a proper definition of the PRD is necessary to state the geographical boundary of this research. The official definition of the 'Greater Pearl River Delta' (greater PRD) that includes the Hong Kong Special Administrative Region (HKSAR), the Macau Special Administrative Region, and the Pearl River Delta Economic Zone (PRD economic zone) of Guangdong Province is applied in this thesis and as shown in fig 3.2. The PRD economic zone comprises of Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Dongguan, Zhongshan, parts of Huizhou (the urban district of Huizhou, Huiyang County,

Huidong County, and Boluo County), and parts of Zhaoqing (the urban district of Zhaoqing, Gaoyao, and Sihui) (Guangdong EPB, 2002).



Source: InvestHK, 2005

*Fig 3.2 The geographical map of the greater PRD*

The greater PRD consists of a population of 30.88 million people living on a land area of 41,294 km<sup>2</sup> and forms a major part of the world's manufacturing and distribution base. Since 1985, China has adopted its open-door policy where its economic growth is largely through export-oriented manufacturing industries. Since then, many Hong Kong manufacturers relocated their production facilities to southern China and retain their sales and support services in Hong Kong (Yam

and Tang, 1996). In Guangdong, 60,000 factories are invested in by, or produce for, Hong Kong companies. Hong Kong accounts for over 70% of Guangdong's total foreign investment. 93% of Hong Kong manufacturers have production facilities in Guangdong and 83% of Hong Kong traders source products from Guangdong. Some of them have other offshore production facilities in other developing countries such as Bangladesh, Cambodia, Indonesia, Madagascar, Mauritius, Mexico, South Africa, South Korea, Sri Lanka, Thailand and Vietnam in order to lower the production costs. The relocation of production facilities to southern parts of China has resulted in a steady decline in the number of garment manufacturers in Hong Kong, and at the same time re-exports of garments from Hong Kong to other countries has increased. The Trade Development Council shows that Hong Kong exports to Europe and the US has increased by 12% and 4% respectively each year (HKTDC, 2003). Hong Kong benefits from the cross-border sourcing relationship as mainland China is in a rapidly developing stage of economic development.

In Hong Kong alone, the garment industry accounts for 1,805 companies and the gross output was HK\$41.1 million in 2001 (HKTDC, 2003). The gross output is one of the highest amongst all manufacturing sectors, which account for 52.5% of total domestic exports in the first ten months of 2003 (HKTDC, 2003). It is the largest manufacturing employer hiring 32,987 workers, according to the Hong Kong Trade Development Council (HKTDC). A large number of Hong Kong companies (16,403 according to figures from December 2002, TDC) are now garment traders or vendors for multinationals that only deal with import-export. A lot of these Hong Kong branches are SMEs that have less than 50 employees in Hong Kong. They only deal with fabric procurement, clothing design, quality

control, logistical arrangements, sales and marketing and other trade supporting services. In addition, Hong Kong's free port status, the existence of good local institutional structures such as legal, financial and banking systems, good communications infrastructure, quality of life for executives, supporting and supply industries, government economic policy and political cleanliness, also attracts foreign buyers such as multinationals to set up local sourcing offices and source products from China through Hong Kong. These high profile companies are under much greater pressure from a comparatively larger range of stakeholders to improve social as well as environmental performance. In contrast, small supplier firms are under lesser pressure, but are highly influenced by their customer's demands. As a result, high profile companies are under higher potential environmental and social risks compared to smaller firms. The next chapter will further elaborate on the reasons why multinationals and their suppliers are favoured for a case study methodology.

In terms of the manufacturing industry which forms part of the global supply chain, SMEs are defined as manufacturing enterprises with fewer than 100 employees and they remain very important in Hong Kong since they account for a large percentage of the total number of manufacturing establishments. One-third of them are import-export oriented employing 397,686 workers. The total number of employees in this sector outnumbers wholesalers, retail trades, restaurants and hotels (SME information centre, 2004), as can be seen in table 3.4. In the first month of 2003, domestic exports fell by 3% while Hong Kong's re-export of clothing increased by 7%. This is the result of the third stage of the liberalisation process on textiles and clothing quotas under the WTO Agreement

on Textiles and Clothing in 2002, which suggests that the trend of relocation of factories to the mainland is continuing. Macau also faces a similar situation of a decline in their manufacturing industries.

	No of SMEs	Percentage (%)	No of persons engaged by SMEs	Percentage (%)
<b>Industry</b>				
Manufacturing	16,356	5.7	107,379	8.1
Mining and quarrying, electricity, gas and construction	16,356	0.6	10,105	0.8
<b>Services</b>				
Import/ Export trade	94,293	33	397,686	30.1
Wholesalers, retail trades, restaurants and hotels	80,779	28	366,353	27.7
Financing, Insurance, real estate and business service	51,361	18	211,185	16
Community, Social and personal services	32,213	11.1	164,931	12.5
Transport, storage and communications	10,191	3.6	63,992	4.8
<b>Total</b>	<b>285,905</b>	<b>100</b>	<b>1,321,631</b>	<b>100</b>

Source: (SME Information Centre, 2004)

*Table 3.4 SMEs distribution among Hong Kong industrial sectors*

Due to the relocation of factories, as previously mentioned, Hong Kong no longer plays a major role in manufacturing, but has instead become an important export trading and sourcing economy. According to figures published by the Hong Kong Trade Development Council in 2002, 83% of Hong Kong traders source from Guangdong (HKTDC, 2002). Taking into account the period of 1979 to 2001, the cumulative foreign direct investment (FDI) from Hong Kong alone in Guangdong amounted to US\$ 79 billion, accounting for 71% of the total cumulative FDI inflow to Guangdong (Federation of Hong Kong Industries, 2003). This growth trend continued until the year of the Asian financial crisis in 1997. The statistics indicate that most of the economic development and industrialisation has been driven by Hong Kong. Shanghai comes in second place in terms of cumulative FDI inflows for the same period as mentioned above, with only US\$ 16.1 billion, accounting for 40% of total cumulative FDI. One of the major obstacles of the above mentioned FDI figures is that they do not take into account the FDI inflow into export-processing activities which add up to a larger figure: “Guangdong is the only Chinese province that is a significant recipient of foreign investments in export-processing activities” (Federation of Hong Kong Industries, 2003). Referring to FDI in relation to export-processing investments for Hong Kong only, 55% of total Guangdong FDI and 26% of total Shanghai FDI comes from Hong Kong. Other minor FDI investments in Guangdong and Shanghai are from Japan, Taiwan and South Korea. As indicated above, the importance of the PRD is much more significant than the Yangtze River Delta (YRD) which will be the main focus of the case studies in Chapter 6.

Increasingly, civil society expects businesses to be accountable for the impacts resulting from their business decisions on outsourcing aspects of the supply

chain. In the US, statistics show that six out of ten Americans are concerned about sweatshop conditions within the US and a further nine out of ten are concerned about goods made in Asia or Latin America (Vietnam Labor Watch, 2002).

Although the garment supply chain is one of the longest, most complicated and fragmented supply chains comprised of SMEs, the manufacturing parts are fairly concentrated in this region since many of the Hong Kong garment manufacturers moved onto the mainland largely because of a reduction in operating costs, but still re-export their finished goods through Hong Kong to other parts of the world. Secondly, this is a labour-intensive export industry that forms a significant segment of this region's GDP and is easily accessible for the purposes of this research since the industry is concentrated in the PRD. But other parts in the current chain from transportation, distribution, logistics and material handling are still highly underdeveloped and fragmented, which might represent a hindrance to carrying out this type of research activity at present.

China is the world's largest producer of garment products and this industry plays a significant role in the country's economy. China's share of the world's garment exports has continued to increase dramatically in the last 20 years. The percentage increase in the past was restricted by the fact that China as a developing country faced quantitative restrictions such as bilaterally negotiated quotas, global quotas and unilateral quotas imposed by industrialised countries. More workers are expected to be employed in this sector since the Multi-Fibre Arrangement was phased out at the end of last year. It would be an advantage for

China to improve its human rights, social and environmental record, in preparation for the western importing countries' anticipated request for a product-specific safeguard clause and anti-dumping clause in the future WTO agreement.

*(3) Historical significance*

The garment industry has a long established history in this region. In Hong Kong for example, a large number of suppliers started relocating their factories to China in the 1980s. In the case studies, all suppliers' factories are mainly export-oriented and particularly involved in the supply of garments to multinationals.

*(4) Media significance*

In the current situation, this industry often catches media attention due to the existence of many big, brand name companies such as C&A, Gap Inc, H&M, Levi Strauss and Nike (Kolk and Van Tulder, 2002a). Roberts (2003) comments that the positive side of this industry is that it shows its commitment to improving workers' conditions and human rights. It is often one of the sectors undergoing numerous lawsuits and public criticism concerning its environmental and social performance. Until 2003, the garment industry had the widest adoption of codes of conduct worldwide. In addition, public attention has always been on the production stage of garment manufacturing. These multinational companies are often under intense pressure from consumer groups, non-governmental organisations (NGOs) and other stakeholders to improve certain aspects of their CSR such as working conditions in the factories, and to manage the risks associated with their suppliers and contractors by developing codes of

conduct and monitoring the supply chain (Bremer and Udovich, 2001; Frankental, 2002). Levi Strauss and Nike were among the first clothing and footwear companies to adopt a CoC in the early 90s (Murphy and Matthew, 2001). Local research was also conducted in 2001 by two non-governmental organisations on the electronics, toy and fast food industries: the Hong Kong Christian Industrial Committee (HKCIC, 2001) on Hasbro, Mattel, McDonald's and Disney contracted factories in southern China, and by the Asia Monitor Resource Center Ltd on Mattel and MacDonald's. The target suppliers in the case study are also directly related to the multinationals, which has a direct link to the global supply chain.

*Why multinationals' suppliers?*

A multinational company is often defined as a trans-national corporation (TNC), which is a single business organisation with operations and affiliates or subsidiaries in multiple countries (Mirovitskaya and Ascher, 2001), so they often control activities in three or more states (Modelski, 1979). They are often major players in the garment and retail industry worldwide. The specific characteristics of multinational companies extends the previous definition by Vernon and Wells (1986:8) that "they are linked by ties of common ownership"; "they draw on a common pool of resources such as money, credits, information systems, trade names and patents"; and "they respond to the same strategy". The multinational companies' supply chains are similar to one another, such as Mattel, Nike and Levi Strauss, who buy finished products from literally thousands of factories around the world. Only a few are under their direct management and ownership control. Most contractors are local investors in low-wage countries such as

Korea, China, Mexico and Taiwan. In many cases, these contractors produce for many multinational companies. This has been an ongoing concern over the last 30 years and academics, practitioners and regulators are struggling with how to regulate multinational activity (Ranald, 2002).

Multinational companies such as Levi Strauss, Nike and Gap are based in the consumer sector and often come under fire for social and environmental misconduct, and are vulnerable to multiple media attacks and increasing public distrust. Bremer and Udovich (2001) characterise the difference between well-known brands and less established brands. Well-known brands are those who are more likely to have US staff or special auditors rather than relying on their in-country buying staff, whereas less established brands usually depend solely on contract language with no assurance of impact on working conditions. A recent study conducted by Oxfam International (OI) across 12 countries in April 2004 has confirmed that a relatively small number of dominant global corporations are causing sweeping inequalities and abuses in different countries and different sectors.

Various authors (McIntyre *et al.*, 1998; Hall, 2000; Trowbridge, 2001; Warren *et al.*, 2001) have also used the case-study approach in SCM research on multinational companies such as Advanced Micro Devices (US), Smart<sup>TM</sup> automobile (UK), Xerox (UK) and J Sainsbury (UK) respectively from a solely environmental perspective. De Hann and Oldenziel (2003) (IKEA) and Wycherley, (1999) (The Body Shop International (UK)) extend beyond the environmental perspective and look into labour conditions. The background of

the prospective study companies will be reviewed from publicly available documentations such as corporate websites and reports without reference to the company name. Academics such as Yin (2003a and 2003b) and Birkenhoff (2003) also favour the use of case study methodology as a business related social science research method.

This part of the research used mixed qualitative techniques from direct observations, detailed interviews and documentation to form the basis of the case study methodology. Yin advocates the merits of a mixed case study methodology, both in terms of the source of data for the case study itself (interviews, questionnaire and documentation) and in terms of using case studies in conjunction with other methodologies. Triangulation will be used between the various sources of data as a means of validating the research findings (Ragin 1987; Kaplan and Duchon, 1988; Gable, 1994).

*Method of collecting case study data: Use of social compliance audit*

The case study approach (Merriam, 1988; Hamel *et al.*, 1993 and Yin 1994) includes a review of documents and in-depth interviews (Yin, 1984 and Hagan, 1993) and also the elements of the CoC monitoring method, such as factory inspections or social compliance auditing. For the purpose of this thesis, the latter one will be used as a common term. In answering the research questions, each case study was conducted in one to two full-day third-party external social compliance audits from October 2003 to September 2004 in order to fulfil the research objective, which is to find out the effectiveness of CoC. The advantage of using social compliance auditing is that it enables a better understanding of factory culture, policy, operation, management style and verifies factory conditions. Social compliance auditing is often used as a supplier assessment

technique for supplier monitoring in the current supply chain model. According to the Hong Kong Quality Control Center (HKQCC, 2004), social accountability assessments can be performed in the initial production check (IPC) and during production check (DUPRO). Multiple issues such as child labour, environment, working hours, disciplinary practices, factory facilities, quality control systems, communications, documentation control and cleanliness can be explored. The process of social compliance auditing has been criticised by academics such as O'Rourke (2000), stating an example whereby PricewaterhouseCooper's (PwC) auditors failed to discover critical CoC non-compliance and to provide an accurate picture of factory conditions in China and Korea. The PwC auditors were only able to find minor non-compliance issues and failed to identify critical CoC non-compliance issues including health and safety problems, barriers to freedom of association and collective bargaining, violation of wage and overtime regulations and falsified timecards. Their failure is due to the following reasons: information was only gathered from managers, and workers' interviews were problematic in the sense that managers helped to select the workers to be interviewed. In addition the managers knew exactly who would be interviewed and where the interviews were going to be held, and all interviews were conducted within the factories. Extra attention needs to be paid to gathering data from factories from top to bottom levels. O'Rourke (2000) suggests that independent monitoring can play a positive role in improving factory conditions under three conditions: 1. Monitoring methods and audit results should be more transparent and accountable to the public, 2. Include workers fully, 3. The results should be verified by local NGOs and workers. Frost (2004) also has a similar view that workers should be involved more centrally in the monitoring process,

as they are always the closest to the problems in the factory. He believes that there is no one perfect way to monitor a factory; there are clearly better and worse monitoring practices.

The social compliance audit is the most appropriate research instrument to investigate multi-dimensional issues. The auditing procedure will be mentioned in greater detail below. Social compliance auditing is a technique for gathering primary as well as secondary information, assessing an organisation's ability to comply with local health, safety and labour regulations and multinational companies' requirements in addressing CoC. This auditing process is more than a cross and tick exercise on compliance, and in all cases suggestions are given to the factory's management on how the factory can be further improved. Similar techniques were adopted by De Hann and Oldenziel (2003) in exploring the labour conditions of IKEA's supply chain in India, Bulgaria and Vietnam. The main advantage of using this specific technique is that it is able to capture the relationships between individuals, processes and management systems at the same time. By incorporating this procedure, the reliability and validity of the data collected in each case can also be assessed with reference to multiple sources of evidence onsite. The effectiveness of this instrument is evaluated according to primary and secondary data. Extremely detailed and rich information is obtained by using descriptive case studies. The process of carrying out social compliance audits is discussed in detail below.

*1. Entering into the field*

In achieving the research objective, the researcher initially approached potential case study companies and organisations such as multinational companies, independent non-governmental organisations and auditing firms through electronic mail and post to explore opportunities to get involved in the social compliance monitoring process. The researcher acted as an independent auditor in the social compliance audits and did not have a financial relationship with the companies, such as through consulting services. The audits were conducted independently.

Interestingly, one multinational company and one U.S voluntary multi-stakeholder monitoring initiative agreed to spend time as desired. They picked the contracted suppliers' factories for carrying out social compliance audits. However, the research outcome may not represent the situation of the whole garment industry since there are thousands of factories of varying sizes. The research was conducted by independent external monitoring in different areas of the greater PRD; the importance of this area has been discussed previously. The research outcome aimed to provide an insight into what problems might exist in implementing CoC. The audit team consisted of two to four people from different educational backgrounds. The use of social compliance auditing is noted as the second step on the road to corporate sustainability and towards responsible practice after a CoC is established. As mentioned above, social compliance auditing is used as a research technique to find out the effectiveness of CoC, the real situation of how contracted factories are managed, whether they comply with the CoC and the minimum legislative requirements.

*2. Procedure of the social compliance audit*

1. Opening meeting with the management team to discuss the purpose of the visit, process of the audit and confirm the documentations for review
2. Walk-through inspection of production facilities, material and waste storage areas, pollution prevention facilities, canteen, clinic, dormitory, recreational facilities and other facilities provided by the factory for workers, with some short workers' interviews
3. Review documentation (e.g. factory rules, personnel files, wages records, fire and safety policy and disciplinary records)
4. Interview workers
5. Interview supervisors
6. Interview managers responsible for health and safety, human resources, payroll, trade union, workers' healthcare and environmental management
7. Closing meeting with the management team

Initially, the following documents were reviewed according to the criteria set in the CoC and local legislation:

1. Attendance records or time cards for the last 12 months
2. Wage records
3. Payroll records
4. Personnel records
5. Insurance participation record or receipt
6. Mandatory provident fund participation record/ receipt
7. Labour contract

8. Business registration
9. Fire safety certificate
10. Environmental certificate
11. Factory regulations or employee handbook
12. Timecards
13. Accident records
14. Disciplinary records
15. Overtime permit or environmental permits issued by government authorities
16. Health and safety and environment policy
17. Maintenance records for various equipment
18. Broken needle records
19. Environmental monitoring data such as amount and types of waste and wastewater parameters
20. Training records

Such documents provided physical evidence and were essential in providing a means of supporting the conclusion and findings made. However, there were limitations on the external validity of the data provided by the suppliers. There was a possibility that the data provided might be faulty. Such documentation aided in triangulating managers' and workers' responses during the audits. Each case was treated separately and no assumptions were made before the social compliance audit.

*3. Collection and recording data*

The six factories producing garments for multinationals were audited on location in Hong Kong, Macau, Shenzhen, Dongguan and Panju. The research was conducted from 2003 to 2004. Each supplier case was located in the different cities mentioned above. From specific sites, extensive field notes were taken throughout the auditing process. Although a camera can be an extremely useful tool in gathering auditing evidence and can graphically illustrate the problems at a factory, a camera cannot be used in most of the factories since the multinational companies do not allow photographs to be taken in the facilities. A multi-level interview approach was used to find cross-data evidence among workers, supervisors, managers and documentation.

The data collected above can be cross-checked to increase accuracy. For example, worker X and Y stated that Sunday work is necessary; this piece of information was cross-checked through supervisor and manager interviews, workers' timecards, payroll and needle logs to determine whether this information was accurate. The semi-structured interview protocol used for workers, supervisors and managers is presented in Appendix D. Details of multi-level interviews are described below:

*Worker interviews*

The confidential workers' interviews were intended to find out their awareness of the CoC and various aspects of malpractice in their working conditions. The workers were selected from different operational units in the factory. Worker interviews took place throughout the visit. Workers were selected at random

during the visit without their supervisors and managers being present. These discussions include interviews with individuals as well as some small group discussions.

Workers were interviewed at places away from factory management offices and operational areas, interview questions are attached in Appendix D. They were asked to clarify their responsibilities and working conditions. A sample of workers was selected at random and each detailed interview lasted for 20-30 minutes. Workers were generally randomly selected from each operating process, but special attention also focused on young workers, pregnant women, experienced workers or workers who were involved with hazardous chemicals or machinery. A real cross-section of workers, representing the total population of workers, was engaged in the interview process. All data obtained from the interviews were treated as confidential and the exact identification of the individual interviewees was not revealed after the interviews were completed for content analysis.

*Management and supervisors' interviews*

A sample of management interview questions is provided in Appendix D. These interviews are important in determining managers' level of responsibility, how the factory actually administers its functions and how they execute their factory policies and procedures. The responses of these interviews are cross-checked to see if there are any discrepancies. The descriptive data obtained from the audits will provide a true indication of the situation at the sites.

One of the advantages of using multi-level interviews is that the researcher was able to verify individuals' knowledge of the CoC and local legislation, capture the relationships of individuals as well as testing their knowledge of factory core processes, chemical handling, evacuation procedures and other activities at the same time.

#### *4. Leaving the fieldwork*

The following structure shown in table 3.3 helps in organising the data collected from the desktop research on multinationals shown in part 1 and during the social compliance audits in part 2. Cross analysis of the qualitative data in part 3 compares collective case studies collected from multiple sites in order to find patterns, supports the generalisation of the results and draws on the lessons to be learned for this industry.

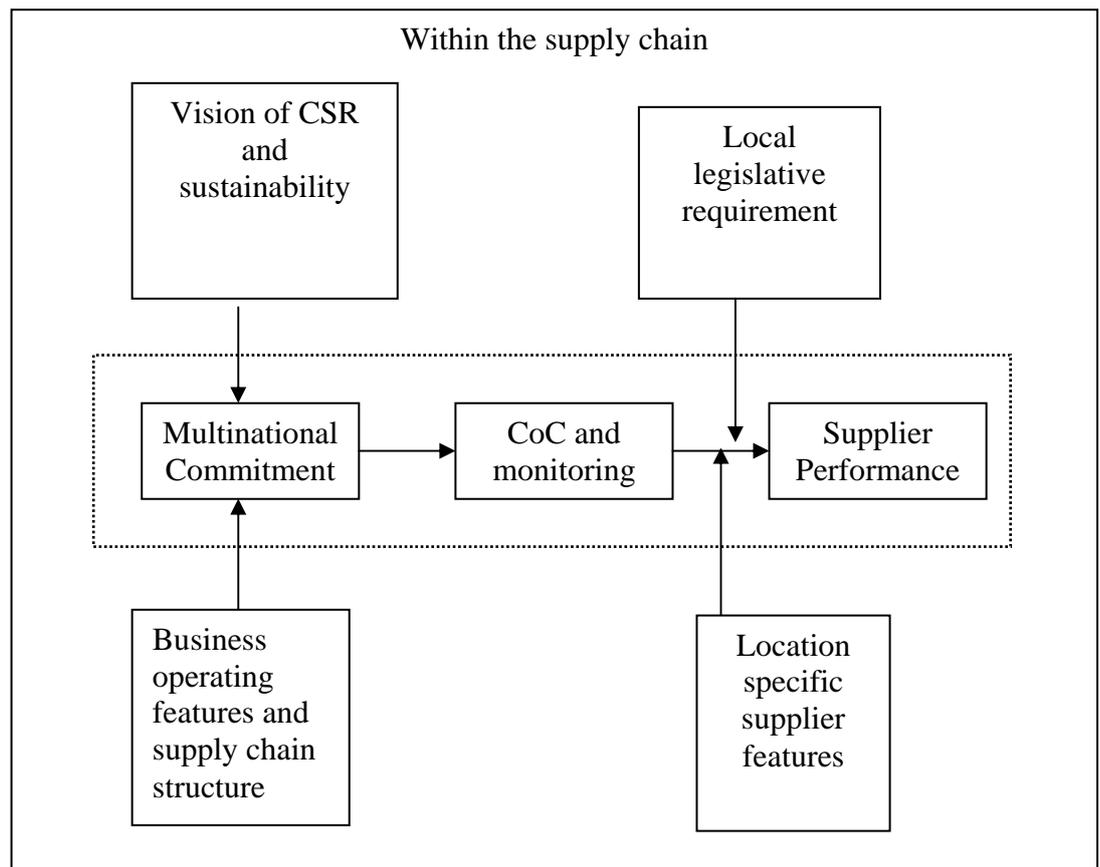
#### *Presentation of results*

Part 1	Multinational company profile and vision statement
	- Multinational company supply chain and its operations
	- Environmental and social posture
Part 2	Contracted factory background and operations
	- Summary of observations
	- Corrective action plan
Part 3	Cross case analysis
	- Problems and implications

Table 3.3 Presentation of results

*Analytical framework*

The scope and overall framework of analysis is presented in figure 4.1 below. The process of analysis starts from the commitment of multinationals to their suppliers' performance. Factors influencing the suppliers' performance are based on how multinationals view CSR and sustainability and whether they involve stakeholders in the process, as well as how this concept of CSR and some form of environmental management is put into practice after the establishment of a CoC. The performance of the suppliers is measured by the effectiveness of the CoC implementation and monitoring.



*Fig 3.3 Overall framework of analysis*

The effectiveness of a CoC is analysed according to transparency and monitoring. The extent of transparency and monitoring of a CoC by multinationals and suppliers can be determined by analysing the following elements:

1. Multinational's operating features and supply chain structure

This section concerns the corporate profile and vision statement, organisation and management systems, product ranges, policies available and the position of the multinational company in the PRD. The findings are summarised in a tabulated format for comparative purposes. It also explores the external relationship between multinational companies and their suppliers, in how and where the multinational companies source and manufacture their products, the existence of an external policy and its implementation procedures. How is their performance checked? And how far up the supply chain does monitoring extend?

2. Multinationals' vision of CSR and sustainability: social and environmental posture such as the existence of a CoC or environmental policy

This level looks into CSR practices, specifically environmental and social issues committed to by multinational companies and possibly their suppliers. For example, the existence of a CSR policy, environmental policy, supplier purchasing policy, ISO certification, SA8000, social and environmental reporting, partnerships, stakeholder dialogue or engagement. What guidelines on the social policy are suppliers given?

Are they based on established international conventions (e.g. ILO)? Are their suppliers regularly audited on their social and environmental performance? If so, where is the information published? Are the audits external or internal?

3. Location-specific supplier features such as the existence of policy instruments and the extent of the implementation in suppliers' premises. In other words, what is the awareness of the CoC?

Individual factories' data and field notes generated from the greater PRD are presented according to scale, ownership, organisational structure, management and subcontracting arrangements of their operations, and are described and summarised. Various themes are then analysed according to the CoC criteria:

1. CoC and factory regulation awareness
2. Wages and benefits
3. Working hours
4. Child labour
5. Health and safety
6. Freedom of association
7. Prison and forced labour
8. Disciplinary practices
9. Discrimination
10. Environment
11. Subcontracting

12. Dormitory

These are the common indicators found in most corporate CoC, many of which were originally derived from ILO conventions or the Universal Declaration of Human Rights. In addition, these issues are often contained in the contractual requirements to control supplier behaviour.

4. Meeting local legislative requirements to regulate performance in suppliers' premises

In addition to the voluntary policy instrument, the CoC imposed by the multinationals, suppliers are also required to meet local legislation. The CoC criteria are used as a framework for categorising pieces of information and analysing data based on the multinational's CoC and local legislation.

*Limitations and difficulties in carrying out the case studies*

*1. Difficulties in collecting case sensitive data in China*

Getting permission to enter the factory site was a problem in collecting highly sensitive data. Difficulties in collecting data have been faced by numerous academics (Christmann and Taylor, 2001; Zhu and Sarkis, 2004) due to lack of mechanisms in getting data from reliable sources and incomplete and outdated databases available for doing research in relation to Chinese industry. A "guanxi relationship" is needed particularly in China to collect this kind of research data.

There are also constraints in collecting extra information due to a minimum number of non-governmental organisations present in the area. There is also a time constraint in talking to the neighbours of the factories or visiting nearby villages, NGOs and local bureaus as well as visiting the factory in the evening.

### *2. Time constraint*

The desire to collect every piece of useful data was constrained by the time allowed on factory premises. This forms one of the major limitations of the case studies in that qualitative data was produced through one-off audits and the collected data was cross-checked from another source to confirm validity. Both Creswell (1998) and Kuzel and Like (1991) suggest that at least two forms of verification procedures be used, such as triangulation, broad description, external audits, for confirming and disputing cases.

### *3. Confidentiality*

Due to confidentiality, the real identities of the multinational companies and individual factories will not be disclosed. While the approaches of social compliance auditing vary between internal and external audits, some audits are previously announced and some are unannounced. Overall each one investigates similar issues and the main aims of the audits remain unchanged, in that they seek to find out the real condition of the workers and their working conditions. These audits provide the opportunity to talk to the workers confidentially. But sometimes, it remains difficult to keep workers' interviews confidential as management staff often communicate with the supervisors of those workers. In this thesis, it is assumed that there are no coached workers in the factories and

that those workers were telling the truth about how they feel about the issues and their working conditions. However in many cases, workers are told by their supervisors or managers what to tell the auditors, and there is a possibility that the documents might be false. Factory management might create false records in order to protect themselves from contract termination based on non-compliance with the CoC standards issued by multinationals. This causes hidden problems and therefore little progress can be made to resolve critical issues.

*Study 4: Detailed face-to face interview with experts*

Expert interviews were conducted during July to October 2004 to examine what needs to be done to achieve sustainability. Selected parties were contacted through phone calls and interview questions were faxed to the follow-up parties. The use of face-to-face interviews is especially useful for discussion at the local level, but also in the search for future action to be considered in building capacity for sustainable development through civic empowerment and inclusion. The analysis of data from interviews in Chapter 7 aims to elaborate on possible changes that can be introduced. Themes emerged from the categorisation of the data in the form of words, with information about each question collected together with reflection about the information.

The multi-data collection method was chosen to minimise errors and to provide an explanatory and descriptive picture of the reality where there is a continuous interplay between data collection and analysis. The desktop study aims to

identify the research gap, formulate future research questions and pose future direction for detailed research.

### **3.4 Conclusion**

The exploratory research design consists of a mix of quantitative and qualitative techniques from conducting questionnaires (plan1), phone and detailed interviews (plan 2), case studies (plan 3) to expert interviews (plan 4) respectively. The four-tier methodology is best fitted to the action research model since there is a lack of literature with respect to supply chain management for sustainable development in this region. The action research model is appropriate since it allows for planning, action, analyses and reflection on the results of the previous phase of the investigation in order to decide what is required for the next phase of research. For example, the selection of multinationals and their suppliers in the case studies was determined by the literature, which showed that they often experience high public and media pressure to improve their social and environmental performance. The results from plan 2 also suggest that multinationals can be seen as best practice companies in terms of existence and knowledge of CoC.

The boundary of the research problem is justified to be within the greater PRD context because of its economical, geographical, historical and media significance. The four-tier plan forms the basis of this thesis, where efforts have been made to address the level of knowledge of SCM, and the existence and

application of CoC to suppliers and retailers; thus the effectiveness of CoC implementation is evaluated. These provide valuable lessons for other companies to learn from.

This research is distinct from previous literature in that it is not intended to look at product environmental impacts through life cycle analysis. It tends to focus largely on the existence and implementation of a specific corporate supply chain policy, the CoC. A CoC embeds social, environmental and human rights criteria, which can be used to assess supplier performance through social compliance auditing. This thesis moves from this concept to include implementation challenges. The small sample of six detailed case studies is used to understand and analyse in the greater PRD context, by assessing the effectiveness of CoC and monitoring, in bringing about sustainability through comparing and contrasting case studies. Problem areas are identified in each case and thus look behind the problems, such as whether the knowledge of regional suppliers is adequate to promote improvement? What are the drivers and barriers in moving towards sustainability? What are the possible solutions to improve the situation? This research adds to the available knowledge of supply chain management by exploring imposed policy and implementation, drivers and barriers to improve supplier performance towards both suppliers and retailers. This research is highly practical in the application of sustainable development. Each plan serves as a building block of SCM knowledge and practice in Hong Kong.

The literature suggested that each company has certain drivers for implementing CSR and environmental management into its core business functions and it

perceives them to be advantageous to its business. In addition to analysing a set of multinationals' supply chain structures and visions of sustainability, primary data on sector-specific case studies of their contracted suppliers provide a valuable lesson to be learnt for other companies.

The research design and strategies directly provide the answers and explanations to the key research problems in a specific industry, in addition they enable a wide range of multidimensional problems to be found and assessed within a similar culture. In the next chapter, the first plan investigates the current situation of SCM; it examines whether knowledge and practice is in place within the companies themselves and their supply chain partners.

## **CHAPTER 4**

### **DIMENSION OF SUPPLY CHAIN MANAGEMENT**

#### **4.1 Postal Survey of the Current Status of Supply Chain Management**

The critical review in chapter 2 suggests that there are comprehensive applications of the environmental segment of SCM in countries such as the US, UK and Germany. This includes how to improve environmental performance from design, sourcing, manufacturing and packaging processes, but how far this concept has been adopted in Hong Kong is not known. This first plan investigates whether suppliers are required to comply with any environmental policy or standard; secondly it explores whether environmental considerations are implemented practically in their supply chain process and investigates their willingness and perception concerning WTO issues in enhancing SCM. A survey (see Appendix A) of 905 companies including large companies and SMEs was undertaken in April 2002 to investigate this gap. The survey focused on the following four sections:

- Corporate environmental knowledge and practice
- Corporate beliefs and knowledge of SCM
- Status of SCM

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- Perception of the effects of China's accession into the WTO in terms of business opportunities, business growth potential and drivers in implementing an environmental management system.

The number of companies selected from each manufacturing sector represents 15% of the total population of the respective sector according to the Directory of Hong Kong Industries 2001-2002, excluding utilities companies, construction companies and service companies. Major companies were defined as those with 100 employees or more. Where the employee numbers were not available, they were classified as small and medium sized enterprises (SMEs). SMEs are defined as those with less than 100 employees. Nine manufacturing sectors were investigated: chemicals, electronics, food manufacturing, machinery, metals, paper, plastics, printing and textile. The sample consists of 27 chemical companies, 92 electronics companies, 53 food-manufacturing companies, 109 machinery companies, 124 metal companies, 29 paper companies, 134 plastics companies, 94 printing companies and 202 textile companies. Individual companies were selected based on random sampling. In addition, 41 ISO manufacturing companies were selected for the purpose of comparison. For the purpose of the analysis, companies are grouped by size and sector. There is a degree of survey bias as this survey is about supply chain management in relation to the environment. Companies are more likely to participate if they have already begun to do some work in the past, and it is more likely that there is a designated person in charge or that they have been certified to an ISO standard. The information gathered is of both a qualitative and quantitative nature.

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### 4.1.1 Results and Analysis

The response rate for the survey was 11.2%. Although this is not especially high, this rate is regarded as reasonable, given the local situation where companies are not usually enthusiastic about postal surveys. 905 questionnaires were sent and 101 were returned over a period of one and half months. Of the 101 participating companies, 22 were large-sized companies and 79 were SMEs. An interesting point is that a similar survey conducted in 2001 specifically targeting ISO 14001 certified companies in the Philippines, Indonesia, Malaysia, Thailand and Singapore, showed that a response rate of 10% was obtained in South-East Asia. (Rao, 2002) The main findings are summarised in Tables 4.2 to 4.7. The response rate percentages according to each sector are shown in Table 4.1.

Types of manufacturing sectors	Number of companies' responses (n=101)	Overall response rate (%)
1. Chemical	8	29.6
2. Electronics	16	17.4
3. Food manufacturing	5	9.4
4. Machinery	14	12.8
5. Metals	16	12.9
6. Paper	4	13.8
7. Plastics	12	9.0
8. Printing	5	5.3
9. Textiles	17	8.4
ISO manufacturing companies	13	31.7

*Table 4.1 Overall response rate of the individual manufacturing sectors*

Overall, the highest response rates came from the chemicals and electronics industries. The textile and printing industries have the lowest response rates among

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the other manufacturing sectors. Overall, it is not surprising that the ISO manufacturing companies are more willing to participate in this type of survey as they have already employed such concepts in their business.

*Corporate environmental knowledge and practice*

The study found that less than one-third of manufacturing companies have a written environmental policy or targets, the positive side is that over half of them have an action plan beyond a written statement to achieve their targets (See table 4.2).

Issues	All companies responses	
	Yes (%)	No (%)
1. Does the company have any written environmental polices and targets?	30 (29.7)	71 (70.3)
2. If you have a written environmental policy, does your company have an action plan for achieving these targets?	20 (66.7)	10 (33.3)
3. If you don't have an environmental policy and targets, is your company likely to develop such a policy in the future?	11 (15.5)	33 (46.5)
4. Does your company have any staff specifically responsible for environmental / safety aspects?	23 (22.8)	78 (77.2)

*Table 4.2 Corporate environmental knowledge and practice*

A significant number of Hong Kong manufacturers are not motivated to implement environmental policies and targets in a voluntary manner. For those who do not have environmental policies, only 15.2% are likely to develop such policies in the future,

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the remaining 46.5% do not consider it to be necessary to implement such policies in the future. However, these companies must realise that it is not only an environmental objective, it is also a business objective. Consideration must be given to environmental management in corporate priorities. This is the way to sustain their competitive position in the global market place. Because of an increasing international influence, more customers will require their suppliers to become environmentally conscious. There has been increasing international attention focused on suppliers as well as contractors and subcontractors as regards environmental performance. It is expected to be a customer requirement in the future. The results also show that 67% of companies with environmental policies and targets in place have an action plan. The remaining 33% of companies must realise that only when policies are planned, designed and executed effectively, will high levels of environmental performance in the operation and continuous improvement be achieved.

#### *Corporate beliefs and knowledge of SCM*

Additional insights were gained by investigating the existing level of SCM locally. Only 10 companies out of 101 are either knowledgeable or very knowledgeable and over 45% of respondents are not very knowledgeable about SCM (see table 4.3).

A large number of them view SCM in human resources, financial and information management terms. Furthermore, the practical applicability of SCM is limited. Only 11.9% of companies thought that they are currently taking environmental

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considerations into account in their SCM (see table 4.3). This can be explained in terms of their lack of knowledge. In general, most companies do not realise the importance of the SCM concept.

Issues	All companies' responses	
	Yes (%)	No (%)
1. How would you rate your knowledge of SCM? <ul style="list-style-type: none"> <li>• Very knowledgeable</li> <li>• Knowledgeable</li> <li>• Neutral</li> <li>• Not very knowledgeable</li> <li>• Not knowledgeable</li> </ul>	1 (1) 9 (8.9) 20 (19.8) 46 (45.5) 25 (24.8)	/
2. Is your company currently taking environmental considerations into account in the supply chain?	12 (11.9)	89 (88.1)
3. Does your company believe that integrating environmental aspects in the supply chain will cut costs and enhance performance?	18 (17.8)	14 (13.9)

*Table 4.3 Corporate beliefs and knowledge of SCM*

The link between SCM knowledge and corporate performance cannot be ignored. Improving the knowledge and the practice of SCM will enhance performance. Our study found that only 17.8% of companies believe that it will cut costs and enhance performance, 13.9% of companies do not believe it will cut costs and performance. Over half of the companies (68%) did not respond to this question. The reason might be that they are not familiar with the SCM concept in a local context. Filling this gap

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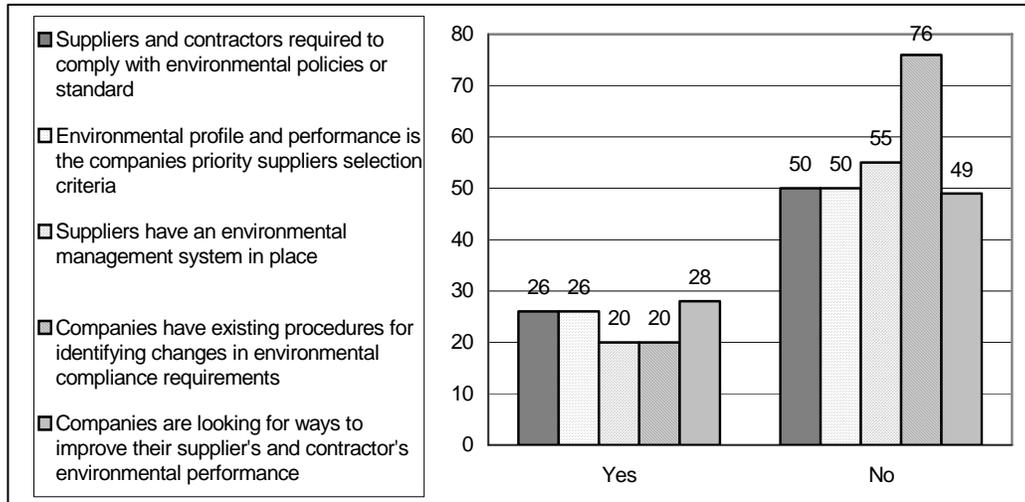
by providing appropriate training to companies will dramatically increase the potential opportunities to integrate environmental matters into the supply chain.

*Status of SCM*

Apart from in-house company activities, suppliers and their contractors and subcontractors are also important parts of the supply chain which will contribute to indirect impacts on the environment. Overall, approximately half of the manufacturing companies have manufacturing processes that are contracted out, subcontracted or both.

Issues	All companies' responses	
	Yes (%)	No (%)
1. Does your company have any manufacturing processes that are contracted out or sub-contracted or both? <ul style="list-style-type: none"> <li>• Yes (Contracted)</li> <li>• Yes (Sub-contracted)</li> <li>• Yes (Contracted and subcontracted)</li> </ul>	25 (24.8) 21 (20.8) 6 (5.9)	49 (48.5)
2. Are your suppliers and contractors required to comply with a specified environmental policies standard?	25 (24.8)	76 (75.2)
3. Is their environmental profile and performance one of your priority selection criteria?	26 (25.7)	74 (73.3)
4. Have they implemented an environmental management system?	20 (19.8)	81 (80.2)
5. Will you be looking for ways to improve your suppliers' and contractors' environmental performance?	28 (27.8)	73 (72.3)

*Table 4.4 Status of SCM*



*Fig 4.1 Status of SCM*

Comparing the percentage of those that require/do not require their suppliers to comply with their environmental policy or standard, it is surprising that less than half of them have to comply. 75.2% do not require their suppliers to comply with specified environmental policies or standards and it is not surprising that a similar figure is obtained that indicates that a large majority of companies do not take environmental profile and performance as one of their supplier selection criteria. Among the responses, only 27.8% of companies are willing to improve their supplier and contractor environmental performance in the future (see table 4.4 and fig 4.1). 72.3% of companies will not look for ways to improve their suppliers' and contractors' performance. Again, it appears that a large number of the manufacturing companies in Hong Kong are reluctant to change in a voluntary manner. They must change their attitude in viewing environmental issues as opportunities for further improvement.

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*Perception of the effects of China's accession into the WTO in terms of business opportunities, business growth potential and drivers in implementing an environmental management system*

The WTO is gaining greater importance worldwide. From the results of the survey, it can be seen that the manufacturing industries in Hong Kong usually have a business or factory in China (see table 4.5). Only 20.8% of manufacturing companies do not do business in China. They are aware of and remain positive about the potential implications of the WTO in creating business opportunities. About one-third of the companies recognise that this will make environmental regulations stricter. Only 17.8% of companies thought that there is a need to implement SCM (see table 4.5). The top drivers for implementing environmental management systems in their companies and for their suppliers will come from (1) reduction in operating costs, (2) enhanced company image and (3) increased revenue.

Issues	All companies' responses	
	Yes	No
1. Does the company have a business / factory in China?	80 (79.2)	21 (20.8)
2. For those who do not have a business or factory in China, will the company expand its business to China in the foreseeable future?	6 (28.6)	15 (71.4)
3. Is your company sourcing from China?	79 (78.2)	22 (21.8)
4. How would you rank the following effects of China's accession to the WTO to the company? <ul style="list-style-type: none"> <li>• Increase business opportunities</li> <li>• Need to comply with stricter environmental regulations</li> </ul>	58 (57.4) 33 (32.7)	/

<ul style="list-style-type: none"> <li>• Need to develop / enhance SCM</li> </ul>	18 (17.8)	
<ul style="list-style-type: none"> <li>• Decrease business opportunities</li> </ul>	2 (2)	
6. Does your company have any existing procedure for identifying changes in environmental compliance requirements?	20 (19.8)	81(80.2)
	Total marks	Ranking
7. How would you perceive/rank the following criteria as a driving force for implementing an environmental system?		
<ul style="list-style-type: none"> <li>• Increased revenue</li> </ul>	514	3
<ul style="list-style-type: none"> <li>• Enhanced company image</li> </ul>	515	2
<ul style="list-style-type: none"> <li>• Reduction in operating costs</li> </ul>	590	1
<ul style="list-style-type: none"> <li>• Fulfilling social responsibility</li> </ul>	417	5
<ul style="list-style-type: none"> <li>• Pressure from the public</li> </ul>	310	7
<ul style="list-style-type: none"> <li>• Expansion of potential market by complying with environmental regulations</li> </ul>	220	8
	425	4
<ul style="list-style-type: none"> <li>• Government subsidies and support</li> </ul>	373	6

*Table 4.5 Perception of the effects of China's accession to the WTO in terms of business opportunities, the need for SCM and drivers in implementing an environmental management system*

However, it is alarming that there is only limited awareness of the future challenges of environmental regulations becoming tighter. They have no existing planning procedures for meeting those requirements. It is surprising that over 80% of manufacturing companies have either got a business or factory in China, but only 11.4 to 16.5% of companies have prepared for future environmental challenges in China. It is certain that environmental pressure will increase for social, economic,

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business and financial reasons. Companies that have prepared for these future challenges will be able to grasp more opportunities and earn more in financial terms while others are still struggling to manage their environmental risks. Among business aspects, the environmental element is only one of the aspects that an organisation must keep improving in order to cope with existing and new competitors. Early environmental implementation and planning into the supply chain can actually become one of the critical success factors for manufacturing industries locally.

##### *Scenario 1: Analysis of response by company size*

Companies are grouped by size for analytical purposes. By company size grouping, the percent of responses from the major companies compared with SMEs are 11.8% and 10.6% respectively. There are major differences between large companies and SMEs. Most major companies require their suppliers to comply with an environmental policy or standard. As they are thought to be “the worst polluters”, they often have environmental management systems that are likely to help them make progress in reducing their environmental impacts. They are also under greater public pressure. 59% of major companies have to comply with an environmental policy or standard. The reason is that half of the major companies are certified with ISO 14001 and they are required to manage any significant effects from their manufacturing activities. In contrast, only 13.9% of SMEs have written environmental policies and regulations. Over half of them do not currently intend to develop such policies in the future. Overall, large companies generally have a more positive attitude towards using environmental profiles and performance indicators as

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supplier selection criteria, encouraging their suppliers and contractors in the implementation of EMS, and they are most willing to look for ways to seek further improvements in the near future. The number of companies that have written environmental policies and targets, that have taken environmental considerations into the supply chain, and that are less willing to improve their suppliers or contractors' performance is comparatively small. Although both categories are not very knowledgeable on SCM, 31.8% and 15.2% of large companies and SMEs respectively recognise that there is a need to enhance SCM.

When comparing corporate environmental knowledge and practice between the two types of companies, 59% of major companies have environmental policies and targets, whereas only 13.9% of SMEs have similar policies and targets. It is surprising that SMEs have a comparatively greater number of action plans for achieving environmental targets than large companies. This can be explained by the fact that the SMEs' company structure is simpler than large companies, and so they are more effective in agreeing on the action plan and implementing changes where necessary even though they usually do not have an environmental policy in place (see table 4.6).

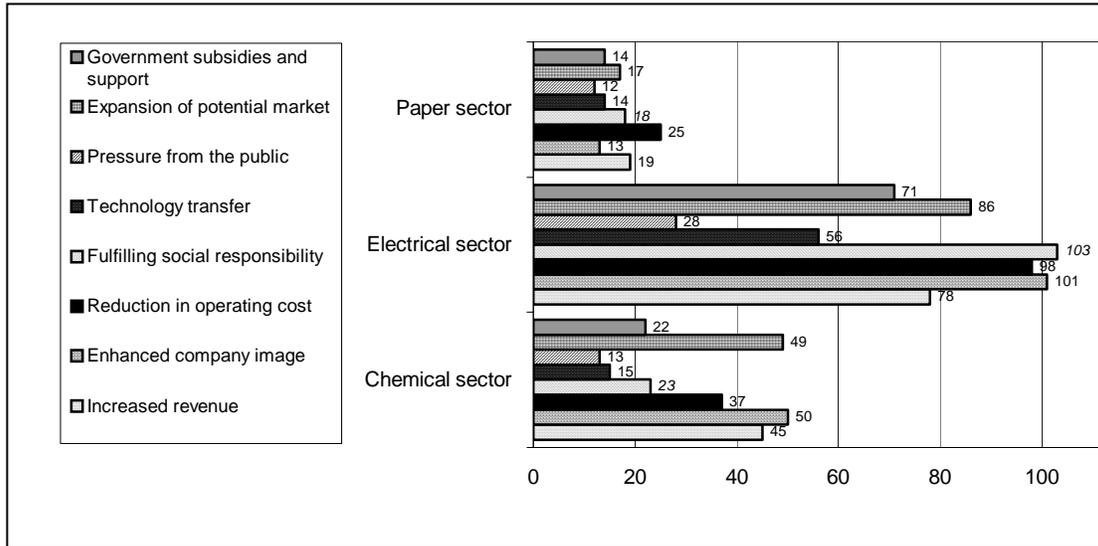
	Major companies	SMEs
	Yes (%)	Yes (%)
Companies have written environmental policies and targets	59	13.9
Companies have an action plan for achieving environmental targets	59	72.7
Companies are not very knowledgeable on SCM	27.2	46.8
Companies currently undertaking SCM	50	25.3
Companies are willing to look for ways to improve their suppliers' and contractors' environmental performance	16.5	11.4

*Table 4.6 Major companies and SMEs environmental knowledge and practice*

*Scenario 2: Analysis of responses by individual sectors*

Among the manufacturing sectors, the chemicals, electronics and paper industries were more responsive to environmental issues. The overall response rates of the individual sectors are 29.6%, 17.4% and 13.8% respectively. One of the significant findings is that the majority of electronics companies recognised that fulfilling social responsibilities is the most important driving force for implementing an environmental system (see fig 4.2). There is a need to increase the awareness for social responsibility across the manufacturing sectors as the results show that most of the other manufacturing sectors do not seem to recognise the importance of this set of concerns. The survey indicates, as might be expected, that 100% of ISO companies are aware of the need to look for ways to improve their suppliers' and contractors'

environmental performance. Other common drivers for implementing an environmental management system are reducing operational costs, increased revenue, enhanced company image and expansion into potential future markets.



*Fig 4.2 Analysis of scenario 2*

#### 4.1.2 Major Limitations

A major limitation of the study reported here is that it is difficult to obtain a high response rate for Hong Kong companies in this type of survey. A recent survey conducted by the Hong Kong General Chamber of Commerce on business prospects obtained a response rate of just 12%, which is comparable to this study. However, some companies certified with the International Organisation for Standardisation (ISO), such as the ISO 14001 companies, are more responsive. A good response from ISO companies is expected largely because of the difference in corporate culture and the general awareness of environmental issues. Detailed interviews with a

representative sample of manufacturing industries in each sector will enhance the information available for future studies.

#### *4.1.3 Discussion*

The current status of SCM as regards the environmental dimension is established through this study and this fills the research gap. The results from the study provide strong evidence that Hong Kong companies do not have a good understanding of SCM, nor is it a common practice yet. It is also found that there is a gap between their perception of stricter environmental regulations as one of the WTO accession's major effects, and their existing procedures in meeting these future requirements. According to a recent survey conducted by the Corporate Environmental Governance Programme at the University of Hong Kong on the role of Industry Associations and Chambers of Commerce (Poon *et al.*, 2003), the study found that the least common type of management activity undertaken by trade associations is SCM. Sufficient training and activities should be provided to members. Therefore, encouragement from trade associations for undertaking SCM training and seminars to share best practice should be initiated to a greater extent. Clearly, the study results indicate that a considerable amount of work needs to be done in Hong Kong and in China to enhance prospects for SCM in the future.

According to the World Bank, countries with high environmental standards were able to remain competitive as regards their share of exports and economic activity as compared with countries with less stringent environmental regulations. Hence, Hong

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Kong businesses will benefit in terms of stronger competition in the local and international contexts. In addition, the benefits of encouraging SCM and total industry involvement can certainly help to solve part of the landfill problem, which is a major environmental concern in Hong Kong.

Industrial developments have vastly expanded the possibilities of economic cooperation between Hong Kong, Macau and the Pearl River Delta on many levels and across many sectors. Domestic and cross-border land, water and air quality are affected at every stage of the product life cycle. Local and regional companies must realise that managing environmental impacts and taking responsibility for their products are critical elements in gaining a business advantage. In early 2002, at the National People's Congress, central government officials from China, Chairman Li Peng and Premier Zhu Rongji, stressed that social and economic development should be kept in pace with the developments of population, natural resources and environment protection. This announcement urged government departments to stick to a path of sustainable development. It is crucial that the Chinese government endorses the concept of sustainable development and has a common vision for the future. Corporate environmentalism is increasing steadily as more companies and governmental departments are certified with ISO 14001. In addition, Fryxell and Szeto (2002) explored the drivers for obtaining ISO 14001 and found that company reputation and cost reduction are positively related to the effectiveness of policy statements. By identifying environmental aspects and impacts, environmental performance can be improved. Academics in Hong Kong (Hills and Barron, 1997; Hills and Welford, 2002) have long recognised that rapid population growth and

intense development pressures are the roots of many environmental problems. These cause environmental problems to become severe not only within the boundary of Hong Kong, but also in the southern parts of China. Rhodes and Koenig (2001) estimate the HKSAR ecological footprint to be 332,150 to 478,300 km<sup>2</sup>, 5 to 7.2 ha per capita. A similar figure was obtained by Barron in 1996, 6.35 ha per capita and world, 5.6 ha per capita. This figure is comparable to other developed regions such as France and Canada. Hong Kong's ecological footprint is much bigger than its ecologically productive land and sea area available, which is 2.2 ha (Wackernagel, *et al.*, 1997). In searching for solutions, Hills (2002) stressed that the current situation cannot be effectively addressed solely by local initiative, but must involve broader collaborative efforts with authorities in the neighbouring Guangdong Province. This is due to the majority of businesses in Hong Kong being SMEs, and the literature confirms that SMEs usually have limited resources to deal with environmental problems (Walley and Whitehead, 1994; Lamming and Hampson, 1996).

Rapid economic development has created environmental burdens as well as public health problems. Based on a survey conducted by the Hong Kong Chamber of Commerce, a majority of companies have a plan for expansion into the PRD in the next 6 months to 5 years, as they believe that the PRD client need will grow. This trend coincides with the postal survey conducted in 2002 in chapter 2 where economic integration was perceived to be extending. The quality of the natural environment continues to deteriorate with obvious signs of air pollution to marine and water resources. Academics in the region have proved that air pollution contributes to

global warming and climate change, both domestically and across the border (Wang, *et al.*, 2002; So and Wang, 2003). Marine pollution disturbs biodiversity such as the precious Chinese white dolphins' habitat (Liu and Hills, 1997). There is an obvious trend of water quality deterioration due to improper sewage and wastewater discharge from industrial developments in the mainstream as well as tributaries of the Pearl River (Zhang and Wu, 1999; Wang and Zhou, 1999; Ip, *et al.*, 2004). HKSAR is dependent on the PRD as it imports about 80 % of its potable water from Dongjiang. Ironically, the factories, which are invested in by Hong Kong residents are believed to be one of the major sources of water pollution in Dongjiang. Hong Kong still needs to rely on a potable water supply from Guangdong and so drinking water remains one of the limiting factors to the sustainability of Hong Kong. Increasing concerns over the health and epidemiological impacts have been raised by the general public in Hong Kong (Citizens Party, 1999). Environmental law compliance in the central PRD areas of Guangzhou, Fushan, Shenzhen and Dongguan are relatively poor. The government recognised that the greatest challenge in the Guangdong Province is to strengthen its ability in law enforcement and industrial control (Guangdong EPB, 2002). A past survey conducted by Chau in 1993 illustrates that Hong Kong residents are the least inclined to preserve the natural environment among 14 cities surveyed. Interestingly, they rated social issues such as human rights as a higher priority than environmental protection, which is interesting to undertake further study in the next step.

## **CHAPTER 5**

### **CODE OF CONDUCT AS A MECHANISM FOR SUPPLY CHAIN MANAGEMENT**

#### **5.1 The Social Significance of Supply Chain Management**

The previous study reviewed the current state of SCM in terms of the environmental dimension in Hong Kong. Since social issues are gaining momentum, it is desirable to fill the knowledge gap on this aspect as well; the following study will discover the current state of the social dimension in the supply chain among Hong Kong retailers. Aspects of codes of conduct (CoC) at corporate and sector levels are examined. One form of supply chain policy is a written policy statement, commonly known as a code of conduct (CoC). This represents a way for companies to demonstrate their commitment to socially responsible business practices. There are many formats mentioned in the previous chapter that can be followed to draft such a policy; however the most important elements are the accessibility of such a policy to internal and external stakeholders. Many companies refer to the CoC as their most substantial instrument of control over social conditions. Within the content of a CoC, a social agenda is usually included, which states the company position on forced and exploitative labour, freedom of association, right to collective bargaining, living wages, excessive working hours, decent working hours and conditions, established working relationship and independent monitoring.

For the purposes of this study, the Hong Kong retail sector was chosen because of the importance of the retailing industry to Hong Kong's economy. More than 80% of businesses in Hong Kong are in the service industry. In the last two decades Hong Kong has shifted from being a manufacturing based economy to a service-oriented economy. As a result the GDP share of the service sectors increased from 67.3 percent in 1980 to 86.5 per cent in 2001. According to the Hong Kong Retail Management Association (HKRMA) the retail industry accounts for 26% of the GDP in 2002 and ranks as the second largest service sector in Hong Kong. The retail sector consists of 221,000 employees working across 60,207 retail establishments and the total retail sales amounted to Hong Kong \$176.9 billion in 2002 (HKRMA, 2002). In addition, the Hong Kong Trade Development Council also stressed that Hong Kong's ability to remain competitive can be attributed to the growth in service-oriented sectors such as retail (HKTDC, 2003). This is consistent with the approach advocated by the Hong Kong Retail Management Association (HKRMA) that "to stay competitive, local retailers are focusing on improving their core business strategies and identifying new retail directions" (HKRMA, 2002:1).

Local research also suggests that there is a relatively high consumer demand for responsible retail corporations. An earlier study by Lam *et. al.* (2003) shows that 72% of consumers rank disclosure and corporate social responsibility as key elements of corporate governance. On the other hand, companies place low priority on corporate social and environmental responsibility. 38% of consumers ranked social, ethical and environmental issues as their top purchasing factors. In terms of companies'

obligations to disclose their corporate information and their duty of care towards the community, these are both issues that the general public feels very strongly about. In fact 82% agreed that companies should disclose and 85% thought companies have a duty of care towards the community.

### *5.1.1 Methodology*

This part of the research is a methodological replication of a UK study by Young and Welford (2002). The data was compiled and analysed for the purposes of a consumer guide, entitled *Ethical Shopping- Where to Shop, What to buy and What to do to make a difference* between 2000-2001. The survey covered 417 retail stores that were categorised into 15 retail sectors. Similarly, this research covered a wide selection of 67 retailing companies of varying sizes operating in Hong Kong out of 5 sectors in total, ranging from clothing, department stores, electronics, footwear and furniture. Sectors such as DIY stores and carpet retailers are neglected since they are not of importance in Hong Kong's economy. The selections of companies were based on their exposure in the Hong Kong region; all retailing companies surveyed have retail outlets in Hong Kong. 'Hong Kong companies' were defined as those companies that had retail outlets in Hong Kong, although they were not necessarily Hong Kong based entities and are not necessarily a Hong Kong brand. A limited number of truly Hong Kong based retailers sell their own brand products; many sell international brands instead. Among them, four best practice examples were identified for detailed interviews.

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The information was obtained from two sources. First a desktop study checked if they have a CoC publicly available on their website. For those who disclosed it on the internet, their codes were evaluated accordingly. If they did not have the relevant information available on the website, they were contacted at least 3 times through different media (e-mail, telephone and fax). If they had a copy of the CoC in place, they were asked if a copy could be obtained. The information came mostly from human resources departments, legal compliance departments, marketing departments, procurement departments, and public relation departments. Information was then analysed into the ranking system used by Young and Welford (2002) in the UK study (see table 5.1).

Star rating	Explanation
½ star	Company has a CoC or is developing a CoC.
1 star	Company has published the CoC.
2 star	1 star plus: Company has independent inspectors of factories for compliance with the CoC.
3 star	2 stars plus: Company had a comprehensive public reporting system detailing the number of factories/suppliers in developing countries and results of inspections.
4 stars	3 stars plus: Company has own fair trade scheme for all or some products.
5 stars	4 stars plus: Company has demonstrated that it is moving beyond implementing basic human and working rights in factories / suppliers and acting on sustainable values.

*Source: (Young and Welford, 2002)*

*Table 5.1 List of criteria in the ‘five star’ ranking system for retailers*

For example, a ½ star ranking system would denote that the company has a CoC or is currently developing a CoC, but it is not publicly available. On the other hand, 5 stars ranking would denote a comprehensive corporate code of conduct and implementation in terms of public disclosure, content, accountability (auditing and

publishing audit reports), use of fair trade schemes and evidence of active implementation of sustainable development principles (Young and Welford, 2002).

There is a variation between the Hong Kong and UK study. The UK study was intended to cover the external aspects of the supply chain (i.e. contracted and subcontracted factories' working conditions, contracted employee working hours etc.), but this study covered both internal and external aspects including internal employee issues other than supplier issues. The UK study emphasises retailers with their own branded goods produced in developing countries. It was not assumed that a lack of reply from companies meant that they do not have a CoC. In Hong Kong, this is a normal situation as many companies do not respond to this type of survey. The main consideration in the UK study was the sourcing issues and working conditions in developing countries. In comparison, Hong Kong is rather different in terms of its position on this issue, as it is part of a developing country, namely China, and it is the international and financial centre.

### *5.1.2 Results and Analysis*

The lack of transparency and responsibility was reflected in the study, only 23.9% of the companies have a CoC, including 6% of corporate CoC which can be found on company websites, and 17.9% of these claimed to have one that is intended for internal use only (see table 5.2).

	Total
Total number of web-sites checked	67
Per sector response rate (%)	Books and stationery 3/9 (33.3%)
	Clothing 15/26 (58.0%)
	Department store 8/14 (58.0%)
	Electronics 3/6 (50.0%)
	Footwear 3/6 (50.0%)
	Furniture/Household 2/6 (33.3%)
Number of companies with CoC on website	4 (6.0%)
Number of companies who claim to have a CoC (%)	12 (17.9%) (No copies of these are shown)

*Table 5.2 Overall response rate and result of the study*

In comparison, the UK study shows that 15% of all companies there publish CoC compared to 6% in Hong Kong. Four companies out of 12 who claimed to have a CoC noted that it is available by formal written request, but it is not possible to obtain a copy of the code. In addition 76.1% of retailers in Hong Kong lack a CoC, this figure is in sharp contrast with the corresponding UK figure of 48%. In total 94% of Hong Kong retailers have no CoC, do not make it publicly available or do not provide independent verification if they have one. In the ranking system, 13 retailers are ranked as ½ star, 4 retailers are 2 stars, no retailers score 1 star or more than 2 stars. This also indicates the characteristic of Hong Kong. CoC are predominantly made up of internal codes. This has been confirmed repeatedly, both through this research and previous work in the region (Snell *et al.*, 1999 and Welford, 2003a).

The main reasons for why companies are not being accountable are:

- The CoC is for internal use only
- The CoC is a piece of confidential information and it may not be possible to obtain even by written notice
- The CoC contains commercially sensitive information
- Security reasons
- The person contacted doesn't have the authority, a "written notice" should be submitted

Star Rating	Retailers	No of retailers score
½ star	Broadway, IKEA, Jusco, Lane Crawford, Green dot dot, Health Plus, Mirabell, Shanghai Tang, Sincere, Samsung, TGC, Uni, Walker Shop	13
1 star	None	0
2 stars	WH Smith, Nike, Puma, Tommy Hilfiger	4
3 stars	None	0
4 stars	None	0
5 stars	None	0

*Table 5.3 Summary of retailers' rankings*

Best practice examples in the Hong Kong retail sector are difficult to find as a limited number of Hong Kong retailers have developed a CoC. The few examples that could credibly be termed 'best practice' are not truly Hong Kong-based companies; they simply have outlets in Hong Kong. They are Tommy Hilfiger (a U.S. clothing retailer), Puma (a German sports wear retailer) and WH Smith (a UK based books, entertainment and stationery retailer) and Nike (a US sports wear retailer).

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The findings suggest that only companies with significant international market interests show commitment to social responsibility. Tommy Hilfiger has its CoC in 35 different languages, a fact that can greatly assist the workers to gain understanding of the issues stated. The structure of their monitoring programme is explained in great detail. They have their own internal inspectors as well as independent auditors, which is a non-profit organisation, Verite. Puma has a publicly available CoC, but it also has a set of internal standards called “Declaration of Principles” embedded into the contract for its manufacturers. The most interesting observation is that it has included the environmental perspective to a much larger extent in terms of compliance with regulations regarding the handling of harmful substances, safety at work and environmental protection as well as labour issues. A corrective action plan is used as an instrument to improve the conditions within a target schedule. Adidas has a separate policy on social and environmental affairs in terms of its commitment to raising its standards in suppliers’ factories, independent monitoring and setting sustainability as its target.

For best practice companies, the content of the CoC is further compared by content analysis (see table 5.4). All 4 companies addressed child labour, freedom of association and collective bargaining, hours of work, living wage and benefits. Issues that are least frequently discussed are equal opportunities, monitoring mechanisms and penalties for suppliers or subcontractors.

Content of the CoC	Adidas	Puma	Tommy Hilfiger	WH Smith	Total count
Child labour	✓	✓	✓	✓	4
Contract labour			✓	✓	2
Discrimination	✓		✓	✓	3
Equal opportunities		✓			1
Forced labour	✓		✓	✓	3
Freedom of Association and collective bargaining	✓	✓	✓	✓	4
Harassment or abuse or punishment		✓	✓	✓	3
Health and safety in workplace			✓	✓	2
Hours of work	✓	✓	✓	✓	4
Legal and ethical business compliance and practices	✓		✓	✓	3
Legal compliance regarding handling harmful substances, environmental protection and safety at work		✓		✓	2
Living wage and benefits	✓	✓	✓	✓	4
Monitoring mechanisms			✓		1
Penalties to suppliers or subcontractors			✓		1

*Table 5.4 Content analysis of various CoC*

Two companies (from two different sectors) out of four agreed to participate in an in-depth questionnaire by phone (see Appendix B) and the data was used in conjunction with publicly available documents in order to form the basis of the two cases. The questionnaire was designed in order to investigate the drivers and barriers for a CoC in the retail sector. Both companies have over 1500 employees working worldwide, and they provide an extensive range of training for their employees. The background of the two companies and details of their training are listed in table 5.5. In addition, Puma provided a detailed progress report on the implementation of its CoC in its

corporate sustainability report (Puma, 2003), which is summarised in table 5.6.

Company background	Puma	WH Smith
Size of company <ul style="list-style-type: none"> <li>• Hong Kong</li> <li>• China</li> <li>• South East Asia</li> <li>• Worldwide</li> </ul>	<ul style="list-style-type: none"> <li>• 100-499</li> <li>• 2800</li> </ul>	<ul style="list-style-type: none"> <li>• 100-499</li> <li>• 0</li> <li>• 100-499 (Singapore)</li> <li>• 1000+ (America, Australia etc)</li> </ul>
Type of training provide for employees	<ul style="list-style-type: none"> <li>• S.A.F.E. Training</li> <li>• Training for the job as applicable, e.g. environmental, health and safety</li> </ul>	<ul style="list-style-type: none"> <li>• Financial accounting to account staffs</li> <li>• Customer service, environmental health and safety, product knowledge</li> </ul>

*Table 5.5 Details of Puma and WH Smith company background*

Year	Puma CoC development progress
1993	<ul style="list-style-type: none"> <li>• Introduction and incorporation of the CoC into all production contracts for footwear and apparel in the Far East</li> </ul>
February 1994	<ul style="list-style-type: none"> <li>• Distribution of the code to all footwear and apparel manufacturers</li> </ul>
September 1995	<ul style="list-style-type: none"> <li>• Distribution of the code to all accessories manufacturers in the Far East</li> </ul>
January 1996 August 1996 September 1996	<ul style="list-style-type: none"> <li>• Notification to all licensees of strict compliance with the code by writing</li> <li>• Communication with Sporting Goods Industry on the subject of child labour</li> <li>• Site visit to football manufacturers in Sialkot and Pakistan concerning “Declaration de Berne”.</li> </ul>
February 1997 July 1997 October 1997 November 1997 December 1997	<ul style="list-style-type: none"> <li>• Notification to all Far East manufacturers on the importance of the code</li> <li>• Appointment of a Far East representative responsible for social audits in all facilities.</li> <li>• One of their manufacturers’ demand for absolute prohibition of child labour in football production.</li> <li>• Revision and distribution of code to all manufacturers in Far East and Europe on strict compliance on the written conditions</li> <li>• Distribution of revised code to all licensees</li> </ul>

February 1998	<ul style="list-style-type: none"> <li>• Distribution of code to all accessories manufacturers</li> <li>• Notification to all global partners on strict adherence of code and sourcing guideline</li> </ul>
May 1998	<ul style="list-style-type: none"> <li>• Appointment of a technical representative responsible for ensuring the soccer boots and gloves are made without using child labour</li> </ul>
June 1998	<ul style="list-style-type: none"> <li>• Modification to licensing contracts with soccer ball manufacturers that all soccer balls have to be sourced from manufacturers who have been audited for compliance with code</li> </ul>
September 1998	<ul style="list-style-type: none"> <li>• Communication with the German Retail Industry's Foreign Trade Association on social standard</li> </ul>
January 1999	<ul style="list-style-type: none"> <li>• Audit training seminar on social standard provided to all suppliers and manufacturers in Hong Kong</li> </ul>
February 1999	<ul style="list-style-type: none"> <li>• New licensees are subject to modified licence contract based on code</li> </ul>
September 1999	<ul style="list-style-type: none"> <li>• Appointment of a corporate environmental officer responsible for enforcing environmental and social standards in the global network of suppliers and manufacturers</li> </ul>
October 1999	<ul style="list-style-type: none"> <li>• Appointment of a Far Eastern representative responsible for social audits in Asia</li> </ul>
November 1999	<ul style="list-style-type: none"> <li>• Review of the CoC</li> <li>• Published the first manual on product-related environmental and social standards</li> </ul>
2000	<ul style="list-style-type: none"> <li>• Presentation and distribution of the manual to apparel and footwear manufacturers in Hong Kong. The manufacturers were required to accept and sign their "Declaration of Principles" as an obligation to adhere to their social standard</li> </ul>

*Table 5.6 Puma's progress on CoC (Puma, 2003)*

The results are summarised in table 5.7. Puma has a dedicated team, "Social Accountability and Fundamental Environmental Standards Team" in developing their policy, whereas the General Manager and the human resource department of WH Smith are responsible for the initial process in drafting the CoC. During the consulting process, Puma engages a wider range of stakeholders, which includes not only employees, but NGOs from the Clean Clothes Campaign and trade unions. On the other hand, WH Smith only takes into account the labour department of the

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Government HKSAR and the Independent Commission Against Corruption (ICAC). Puma's CoC is based on the ILO conventions and SA 8000, whereas WH Smith's CoC is based on the global group instructions and Hong Kong Employment Ordinance. The reasons for adopting the CoC for both companies are for internal and external reasons. Puma wants to demonstrate its corporate commitment towards human rights, while WH Smith sees it as an investor requirement.

	Puma	WH Smith
Correspondent	Environmental / Health and safety officer/ Manager	Assistant to General Manager
1. Draft of the CoC	Social Accountability & Fundamental Environmental Standards Team	Human Resource department and the General Manager
2. Groups for consultation during the drafting process	Employees, NGOs (e.g. Clean Clothes Campaign and Trade Unions)	Labour department and ICAC
3. The use of guideline in the drafting process	International Labour Organisation (ILO) Social Accountability 8000 (SA 8000)	Global Group Instruction Guideline Local Labour Standard and Ordinance
4. Reasons for adopting the code	Company commitment towards Human Rights International Labour Organisation (ILO)	Internal Group requirement Investor requirement Senior management priority
5. Languages of the code available	32	2
6. Groups that the code targeted	Employees, Suppliers and Sub-contractors	Employees
7. Notification of code	Booklets, poster	Orientation talk and handbook
8. Measures which have been taken to ensure the implementation of code	Compliance is a mandatory part of the suppliers' contract Regular monitoring by in-house auditors Suppliers are responsible for compliance Suppliers and contractors are monitored using internal auditors and third-party auditors (through	Performance appraisal for Human Resource department and Account department

	FLA membership from 2004)	
9. Frequency of reviewing the code	As applicable / annually	Annually
10. Inspection results publicly available	Yes, in Sustainability Report	No, upon written request
12. Social issues equally important to environmental issues in the company strategy 1 strongly disagree 10 strongly agree	Strongly agree (10)	Strongly agree (10)
13. Other CSR initiatives apart from CoC	PUMA S.A.F.E.- System (Social Accountability and Fundamental Environmental Standards)	No, follow global group guideline
14. Elements to move beyond current practices to establish the company as a sustainable corporation	Achieve targets set within the S.A.F.E. System Report “perspective”	They have considered many factors, but they are internal aspects and have not been published
15. CoC is an effective instrument in self-regulation 1 Not effective 10 Very effective	Partially effective (5) It is only effective if implementation is ensured.	Very effective (10)

*Table 5.7 Results of the 2 detailed cases*

The CoC is available in 32 languages for Puma but only two for WH Smith. Puma takes a step further in the implementation of its code and achieving compliance is a mandatory requirement for continuing suppliers’ contracts. This is achieved through regular monitoring by in-house auditors and third-party auditors. It is encouraging to note that both companies review their codes annually. Both companies agree strongly that social issues are equal in importance to environmental issues in the company strategy. In terms of transparency, Puma make their inspection results publicly

available. But for WH Smith, they are available only upon written request. When asked if Puma has considered other elements to establish the company as a sustainable corporation, it replied that it will try to achieve the targets set within its S.A.F.E. (Social Accountability and Fundamental Environmental Standards) system in the near future. WH Smith replied that it has recognised many factors, but they are internal aspects and have not been published.

When asked about the company benefits from implementation of the CoC, both companies rank relatively high in terms of improving organisational ethical standards. Their opinions differ hugely when they rank the reduction of the risk associated with negative publicity as one of the benefits of the implementation of the code. Puma sees implementation of the code as a risk reduction mechanism, but WH Smith sees it as a way to enhance image and brand value. In comparison, it is shown that Puma has a stronger commitment towards social, ethical and environmental accountability than WH Smith.

Overall, WH Smith found that the CoC is very effective as it ranks it as 10 out of the scale of 1 (not effective) to 10 (very effective). Puma only ranks the CoC as a partially effective instrument as it ranks it 5, it feels that a CoC policy is only effective if further implementation is ensured. When asked about the company benefits from implementation of the CoC (see table 5.8), both companies rank relatively high in terms of improving organisational ethical standards. Both agree that they have a responsibility to disclose their corporate information to external as well as

internal stakeholders. International best practice standards ranked as their top incentive for disclosing corporate information and also both of them placed competitors' practices at the bottom of their ranking. The latter result is somewhat surprising, as competition theories would indicate that the latter would be a top incentive for companies to disclose their information. Furthermore, both companies showed that shareholder demands are more important than either consumer expectations or competitor's practices.

Company benefits from implementation of the CoC	Puma	WH Smith
• Attracting foreign direct investment	Hard to specify	8
• Competitive advantage	Hard to specify	8
• Enhanced image and brand value	Hard to specify	9
• Limit legal potential liabilities	Hard to specify	8
• Improve stakeholder relations	Hard to specify	5
• Improve organisational ethical standard	10	7
• Improve shareholder / investor confidence	Hard to specify	4
• Increase profitability	Hard to specify	8
• Reduce the risk of negative publicity	10	1
• Strengthen relationship between management and junior employees	Hard to specify	N/A (Indirect)

*Table 5.8 Comparison of Puma and WH Smith in viewing benefits of CoC implementation*

### *5.1.3 Discussion and Conclusion*

This study clearly shows how Hong Kong retailers fall dramatically behind international market trends in terms of accountability and transparency of their CoC. Their conservative mindsets have not changed in accordance with international best practice. This can be seen from the result that only 4 out of 67 companies (6%) published their CoC openly on their corporate website. CoC are rarely available and

they tend to be an internal document for internal use only. Those who are willing to provide a copy of their policy are not truly Hong Kong companies. The transparency of CoC will need to be addressed. With respect to the ranking system, most retailers receive a ½ star ranking and no companies rank higher than 2 stars. Best practice examples amongst local retailers are rare with only 23.9% of surveyed retailers having a CoC, and if they have one it tends to exclude the issues covered by their foreign counterparts, and focus largely on business and personal ethics. This includes employment policies on bribery and corruption. However, the good news is that Hong Kong does have a strong tradition of adhering to good business ethical standards. It would therefore seem as if the appropriate platform already exists, in the form of internal codes of ethics, to incorporate social responsibility into the local corporate agenda.

The results are in line with the statistics provided by the IMD (2002) on management practices, where Hong Kong compares favourably to the UK and US in areas such as financial disclosure, management practices, impacts of globalisation and consumer issues. However there is still room for improvement in areas such as shareholder issues and ethical and social issues (Garelli, 2002). Companies do not seriously consider the needs of their stakeholders. As mentioned previously, over 80% of Hong Kong consumers expect companies to disclose corporate information and have a duty of care towards the community at large (Lam *et al.*, 2003).

Across the border of Hong Kong, suppliers are often required by multinationals to

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focus on external issues in their CoC, which relate to their production and supply chain practices. But are suppliers incorporating the CoC requirement in their facilities in reality and if so how? The next chapter tackles this major research question.

Working Conditions in the greater PRD are of concern and continue to impact on workers' lives. Cases of human rights abuses and exploitation of workers is common in the greater PRD in order for suppliers to achieve profit maximisation (Chan, 2001). With respect to wages and benefits, one non-governmental organisation researcher, Jilin, published in the Workers' Daily in 2003 that 85% of female workers working in the private sector received less than the average provincial wage and that they do not have social security insurance, housing or overtime pay. No special attention is given to pregnant workers and the provision of a shower room is regarded to be as special care (China Labour Bulletin, 2004a). China Women Publication also reported that there is wage inequality between male and female workers. 19.8 percent of the female work force earns less than 500 RMB per month, and 11.6 percent of males earn wages in the same range. Only 6.6 percent of the female work force earns more than 2000 RMB compared to 12.6 percent of the male work force (China Labour Bulletin, 2004e).

Information Times reports that 3 million out of 5 million workers in textile, footwear and furniture production encounter different levels of occupational hazards in Guangdong (China Labour Bulletin, 2004c). Chemicals are used daily, but no preventive measures are provided to protect workers' personal health. Article 29 of

the Occupational Illness Precaution Law states that the employer should be held responsible for damage or illness to the workers. However in Guangdong, medical fees for occupational illness have increased to 2 million RMB and are not reimbursed by employers (China Labour Bulletin, 2004b). Many underage workers are employed in the PRD:

“they live in crowded, dark and dirty rooms. They are locked in during the day so that no one could discover them. Their working hours are from 4 p.m. to 8 a.m. in the next morning. They are given fake identity cards, proving that they are old enough to work, but most of the time, they are not allowed to go out or talk to strangers. Other than two poor meals and bad accommodation, they are not usually paid during the first 2 years of work, which the bosses call ‘educational time’. Starting in the 3rd year, they get 2-3 Yuan a day, which the bosses keep for them until the end of the year. And during the year, they make excuses to deduct from these wages. Even if the children want to run away, they don’t have enough money for the transportation. Most enterprises prefer hiring very young female workers, especially those younger than 18, because they are less likely to get married and pregnant than women from 18 to 30. This causes discrimination against older women and they usually face being ‘laid-off’ when they become pregnant or after giving birth, when they are believed to be less productive because they have to take care of children. Also work insurance, especially items related to maternity, is seldom covered” (Shaanxi Workers’ News, 2003).

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In a recent survey in Shaanxi, only 2 out of 126 private enterprises provided reproduction insurance programmes for their migrant workers, but the local women workers were covered (Shaanxi Workers' News, 2003). In contrast, other literature suggests that in recent years there have been some positive changes in workers' conditions, mainly driven by market conditions, and so manufacturers are paying attention to the quality of life of workers in order to retain them, since the market is suffering from labour force shortages. It is estimated that there is a shortage of 2 million workers in the greater PRD and the same trend is seen elsewhere (People's Daily, 2004).

In order to reduce the turnover rates, some factories have raised salaries, are giving bonuses to workers who work for more than a few years and are providing swimming pools, dormitories equipped with television sets, libraries, churches and gymnasiums. It is estimated that factory payroll costs could rise 40 to 50% as factories have to increase social-welfare contributions to attract workers. According to Fong (2004), one of the state-run Chinese newspapers reported that it is estimated that approximately 2 million workers are needed in the greater PRD region. Worker shortages have also been experienced in other provinces of China. This shortage is partly due to the increase in prosperity, recent increase in agricultural subsidies and increases in grain prices. These factors attract farm workers to stay on their land. In August 2004, the Guangzhou provincial government announced a one-third increase in the minimum wage, which makes the workers in the south the highest-paid throughout the country.

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As noted earlier, the presence of a publicly available CoC plus proper implementation, form a basis in acknowledging the required CoC compliance control. In most cases, statutory requirements are regarded as a minimum standard that suppliers have to comply with. The CoC presents a standard that governs all suppliers, when there is either no such legislation locally or the legislation is more lax than the code. Suppliers have to comply with whichever is the higher standard. The main regulatory context of labour and environmental law in China, Hong Kong and Macau will be discussed in the next chapter.

## **CHAPTER 6**

### **THE GARMENT INDUSTRY IN THE GREATER PEARL RIVER DELTA: AN EVALUATION OF THE CODE OF CONDUCT APPROACH**

#### **6.1 Introduction**

Previous research indicates that the transparency and accountability of code of conduct (CoC) is low among Hong Kong retailers. Multinationals are more likely to have a system, monitoring targets and mechanisms in addition to publicly disclosed CoC. There is a further interest in finding out the effectiveness of CoC implementation in suppliers' facilities in Hong Kong and beyond the border. The significance of Hong Kong and beyond the border is, shown both in the literature and the first postal survey, in that over 70% of Guangdong's total foreign investment is from Hong Kong. 93% of Hong Kong manufacturers have production facilities in Guangdong and 83% of Hong Kong traders source from Guangdong (HKTDC, 2003). This figure is similar to the first postal survey obtained, indicating that the majority of manufacturing companies (78%) are sourcing from China.

Six major regional case studies in the greater PRD are presented, attempting to describe the implementation of CoC in practice, identify problem areas and unravel the implications of integrating such policy in the supply chain. The main reason for

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choosing suppliers of multinational companies (MNCs) is that these companies are in a better position to exert significant influence over their supply chains. Chambers *et al.* (2002) commented that companies which operate internationally, that operate internationally, are more likely to engage in CSR, institutionalise through CoC and make greater use of partnerships. Sethi (2002b) described a MNC as “an engine for change through their injection of capital, technology, organisation skills and a competitive environment”. These companies bring not only their new technologies and management systems to the developing countries, but also bring different kinds of corporate culture and the relationship between national government and other socio-political institutions. On one hand, these MNCs have to ensure the products made in developing countries meet the quality standards and are acceptable to consumers in the developed world. On the other hand, they have been reported as abusing and exploiting workers and causing harm to the environment. And they are more likely to be large customers who are able to make demands on their suppliers, contractors or subcontractors across a broad range of issues. Therefore it is believed that they could play a major role in changing the workers’ conditions in developing countries and become the prime focus of this research. It is believed that they have the biggest power to make a change since most of them are not only looking for benefits in financial terms, but also in social and environmental terms and in the way they interact with the local community. In order to provide a general picture of the multinational company, a brief company profile is summarised in table 6.1.

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*Characteristics of multinational companies in the garment sector*

Multinational company	A	B	C	D	E
Country of origin	US	European	US	US	HK
Corporate history	1960	1949	1886	1887	1964
Net Sales (US\$ Millions)	2380.9 (2004)	8453 (2003)	41,400 (2002)	6491 (2003)	2105 (2004)
Profits (US\$ Millions)	1323.3 (2004)	3795 (2003)	1,400 (2002)	398.1 (2003)	370 (2004)
Total Assets	2270.2 (2004)	5642 (2003)	50,409 (2002)	4466 (2003)	255 (2004)
Publicly listed	New York Stock Exchange	Frankfurt Stock Exchange	New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange	New York Stock Exchange	Hong Kong Stock Exchange London Stock Exchange
No of employees	N/A	15,686	28,9000	N/A	6580
No of stores	376	N/A	1650	179	6580
Business Division	Licensing Retail Wholesale	Wholesale Retail	Retail Direct mail service Product repair service	Retail stores Credit operations Catalogue and internet Corporate services	Licensing Retail Wholesale
Products	Garment, home collections, fragrances	Garment, footwear, accessories, ski boots, snow blades and snowboards.	Garments, cosmetics, camping and recreational equipment, appliances, electronics, furniture and home furnishing products, Automotive accessories	Garments, shoes, accessories	Garment, Footwear, Accessories, Home products
Countries in sales operation	Canada, US, Europe,	Europe, North America, Asia, Latin America	US, Canada, Puerto Rico	US 27 states, Europe	US, Asia, Europe

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	Japan and Pacific Rim or Korea				
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*Note: N/A indicates that there is no data publicly available*

*Table 6.1 Summary of the multinational company profile and its financial indicators*

The structure of the multinational supply chain and its environmental and social strategies will be discussed in detail. The supply chain is defined as transparent when the multinationals show their openness with regard to sharing information about how they operate. This is followed by details of the supplier’s manufacturing facilities and the results of the social compliance audits. Throughout the auditing process, problem areas are identified and corrective actions recommended to the factory are also reported.

Five case studies were aimed at covering 5 different cities in the greater PRD area and they are different enough in terms of government systems, local legislation, skilled workforce and infrastructure, economic and industrial development. It is necessary to review the legislative requirements for those areas in the next section.

### 6.1.1 Regulatory framework of Hong Kong, Macau and China

The legislative framework will also be reviewed to provide the basis for the research. Command-and-control legislative labour and environmental requirements are always the traditional drivers for change of malpractice. Principal sources of Hong Kong, Macau and Chinese legislation will be highlighted in this section.

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Hong Kong is situated at the east end of the Pearl River Delta. It was developed as a British colony from 1842. It was returned to China on the 1<sup>st</sup> of July 1997 and is a Special Administrative Region of the People's Republic of China (PRC). The economy of Hong Kong is currently on the move from economic stagnation. The mainland operates under a socialist system; it has a different legal system compared to Hong Kong and Macau. Both Hong Kong and Macau are Special Administrative Regions (SAR) of China under the basic law; the two capitalist systems are operated under the principle of "one country, two systems". Most of the International labour conventions operating before the handover in 1997 and 1999 for Hong Kong and Macau respectively will remain unchanged. Nevertheless, all three places share ethical and cultural similarities.

*Hong Kong labour and environmental legislation*

The principal sources of Hong Kong labour legislation are: Employment Ordinance (Cap. 57), Employee's Compensation Ordinance (Cap. 282), Factories and Industrial Undertakings Ordinance (Cap. 59), Labour Relations Ordinance (Cap. 55), Labour Tribunal Ordinance (Cap. 25), Occupational Safety and Health Ordinance (Cap. 509) and Trade Unions Ordinance (Cap. 332). The Hong Kong Employment Ordinance was enacted in 1968. The Labour department is responsible for enforcing labour legislation in Hong Kong. Under the Employment Ordinance, it covers a wide range of issues from wage protection, rest days, holidays with pay, paid annual leave, sickness allowance, maturity protection, severance and long service payment, employment protection, and termination of employment contract, to protection

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against anti-union discrimination. But the principal source of labour legislation does not state the local minimum wage and maximum number of working hours. Trade unions in Hong Kong continue to persuade government to legislate maximum working hours and local minimum wages. Family Status Discrimination Ordinance and Disability Discrimination Ordinance deal with sex discrimination. Factories and Industrial Undertakings Ordinance, Occupational Safety and Health Ordinance, Occupational Safety and Health Council Ordinance are concerned with OSH. Employees Compensation Assistance Ordinance, Employees' Compensation Insurance Levies Ordinance, Employees' Compensation Ordinance (Cap. 282), Occupational Deafness (Compensation) Ordinance, Protection of wages on Insolvency Ordinance, Mandatory Provident Fund Schemes Ordinance and Employees Retraining Ordinance clearly state the compensation, pensions and retraining issues. Hong Kong also supports voluntary labour standards (VLS) issued by International Labour Organisation (ILO); 41 international labour conventions are endorsed by HKSAR's justice department (See Appendix F).

Hong Kong's major environmental law entails air pollution control ordinance (Cap. 311), Noise control ordinance (Cap. 400), waste disposal ordinance (Cap. 354), water pollution control ordinance (Cap 358), ozone layer protection ordinance (Cap 403), dumping at sea ordinance (Cap 466) and environmental impact assessment ordinance (Cap 499).

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*Macau labour and environmental legislation*

The core Macau labour law entails the right of association, the right to organize and bargain collectively, status of child labour practice, prohibition of forced or compulsory labour, minimum age for employment, acceptable working conditions and trafficking in persons. The international labour conventions applied to Macau before and after the handover to the People's Republic of China in 1999. A similar political situation to Hong Kong is found in Macau, located to the west of Greater PRD, which returned to Chinese sovereignty in 1999 and became a special administrative region (SAR) of China under the basic law. It is agreed that Macau SAR will remain the same for 50 years of special autonomy.

The major labour laws in China are: constitution labour law (1995), regulations on minimum wages for enterprises (1995), regulations governing the settlement of labour disputes in enterprises in China (1995), trade union law (2001) and work safety law (2002) which is often cited as comprehensive on paper (AMRC, 2003). In recent years, the Government of China has also taken steps to respond to the reform of workers rights and health and safety law (Pringle and Frost, 2003). In terms of wages and benefits, there is an average wage level across the PRD region of RMB 400 to 500. Article 48 and 49 of Chinese labour law stated that the local government should determine the minimum wages, based on local conditions. A piece rate is common in the garment manufacturing sector and other low-skilled sectors. In terms of wage payment dates, the labour regulations governing Special Economic Zones in Guangdong state that an employer shall issue wages at least once a month. A date

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should be fixed and the wage should be implemented on that day. If payment cannot be paid by that date, the employee shall be rewarded compensation equivalent to 1 percent of his or her wage owed per day. Article 21 states that probation periods are limited to 6 months. Overtime is fixed at 150 percent of the basic wage on normal working days, 200 percent on rest days, and 300 percent on annual holidays. The details of social insurance and welfare captured in Article 70, state that a basic contributory system of insurance, to which both employers and employees have to contribute, is divided into five basic categories: unemployment, pension, sickness, industrial workplace, injury and maternity. No children under 15 are allowed to work in industrial premises.

*Chinese labour and environmental legislation*

Chinese labour law defines the maximum working hours as 40 hours per week with eight hours a day on a normal working day. Overtime is limited to three hours a day and 36 hours a month at the most. Article 40 states that overtime pay is calculated at a premium of 150 percent of the basic wage on a normal working day, 200 percent on rest days and 300 percent on annual holidays which are New Year's Day, Spring Festival, International Labour Day and National Day. Article 37 is also intended to protect piece rate workers, in that employers must not force workers to agree to excessive and illegal overtime. However, there are a number of clauses in the laws that allow management to extend working hours in 'special circumstances' as long as the trade union or workforce has been 'consulted' (Article 41). This loophole is enlarged by Article 39 that allows an enterprise to bypass stipulations 'due to the

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special nature of its production' as long as the local labour department has approved it (Article 40).

The law does not allow for freedom of Association. Chinese workers do not have the right to strike, organise or negotiate settlements with factory owners. There is only one state-run trade union. The China Federation of Trade Unions (ACFTU) is dominant. Independent trade unions are not allowed in China.

In November 2002, the Occupational Safety and Health (OSH) legislation was synthesised into the National Work Safety Law. The State Administration of Work Safety (SAWS) is responsible for drafting OSH laws, regulations, technical standards, overseeing compliance and safety management systems. Article 19 states that work units producing, operating and storing dangerous materials should set up OSH management organisations or allocate full time OSH personnel to administer safe practice. Other work units of over 300 staff and workers must also set up OSH committees. Article 45 sets out that all employees have the right to be fully aware of all hazards present at work and the preventive and emergency measures. All employees have the right to make suggestions on OSH to their work unit policy. Article 46 gives the rights to the workers to criticise, report, take legal action and refuse orders that violate OSH or work in hazardous conditions. Article 47 also states that workers have the right to stop work, take appropriate measures and leave the workplace if their personal safety is in danger.

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The environment protection law of China also aims at improving the people's and the ecological environment, controlling pollution and other public hazards (Article 1). It consists of six chapters: general provisions, supervision and management of the environment, protection and improvement of the environment, prevention and control of environmental pollution and other public hazards, legal liability and supplementary provision. All units and individuals have the obligation to report on or file charges against any other units or individuals causing pollution or damage to the environment (Article 6).

*6.1.2 Methodology*

These suppliers are required by the five multinational buyers to impose their CoC policy, which plays an important role in SCM. Twelve elements of multiple social and environmental elements within the CoC are examined actively by carrying out social compliance audits in order to increase credibility in the eyes of the public: 1. CoC and factory regulation awareness, 2. wages and benefits, 3. working hours, 4. child labour, 5. health and safety, 6. freedom of association, 7. prison and forced labour, 8. disciplinary practice, 9. discrimination, 10. environment, 11. subcontracting and 12. dormitory. The detailed procedure in evaluating the above elements and what information is cross-checked are summarised in the table 6.2.

Elements of CoC	Process in evaluating the effectiveness of CoC implementation
1. CoC and factory regulation awareness	<ul style="list-style-type: none"> <li>• Check if CoC and factory regulation exist and in which languages</li> <li>• Interview workers and supervisors</li> <li>• Interview managers</li> </ul>

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2. Wages and benefits	<ul style="list-style-type: none"> <li>• Check written factory regulation and procedures include insurance, medical, annual leave and accommodation</li> <li>• Check local legislation</li> <li>• Check payroll records</li> <li>• Check insurance invoice</li> <li>• Interview workers and supervisors</li> <li>• Check any other evidence</li> </ul>
3. Working hours	<ul style="list-style-type: none"> <li>• Check written factory regulation on working hours</li> <li>• Check local legislation</li> <li>• Conduct random time card checks and compare hours of work with the payroll records</li> <li>• Interview workers</li> <li>• Check any other evidence</li> </ul>
4. Child labour	<ul style="list-style-type: none"> <li>• Check local legislation</li> <li>• Check written factory regulation and procedures</li> <li>• Check workers' identification by random sampling</li> <li>• Check all personnel records in search for young (underage?)workers</li> <li>• Check any other source of evidence</li> </ul>
5. Health and safety	<ul style="list-style-type: none"> <li>• Check local legislation</li> <li>• Check written factory regulation and procedures (e.g. health and safety policy)</li> <li>• Conduct on-site inspection(s)</li> <li>• Check material safety data sheets (MSDS)</li> <li>• Inspect factory accident records</li> <li>• Inspect training records</li> <li>• Interview workers and supervisors</li> <li>• Check any other evidence</li> </ul>
6. Freedom of association	<ul style="list-style-type: none"> <li>• Check local legislation</li> <li>• Check written factory regulation and procedures</li> <li>• Inspect minutes and physical evidence of the union meeting</li> <li>• Interview managers</li> <li>• Interview workers</li> </ul>
7. Prison and forced labour	<ul style="list-style-type: none"> <li>• Check local legislation</li> </ul>

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	<ul style="list-style-type: none"> <li>• Check written factory regulation and procedures</li> <li>• Perform unannounced social compliance audit</li> <li>• Interview workers</li> <li>• Check overtime record</li> <li>• Check other source of evidence</li> </ul>
8. Disciplinary practice	<ul style="list-style-type: none"> <li>• Check local legislation</li> <li>• Check written factory regulation and procedures</li> <li>• Interview workers, supervisors and managers</li> </ul>
9. Discrimination	<ul style="list-style-type: none"> <li>• Check local legislation</li> <li>• Check written factory regulation and procedures</li> <li>• Check other source of evidence</li> </ul>
10. Environment	<ul style="list-style-type: none"> <li>• Check local legislation</li> <li>• Check written factory regulation and procedures (e.g. environmental policy)</li> <li>• Any discharge permit</li> <li>• Conduct on-site inspections</li> <li>• Check how they handle hazardous chemicals and wastes</li> <li>• Check injury or illness records</li> </ul>
11. Subcontracting	<ul style="list-style-type: none"> <li>• Conduct on-site inspections</li> <li>• Interview managers</li> </ul>
12. Dormitory	<ul style="list-style-type: none"> <li>• Conduct on-site inspections</li> <li>• Check if rooms, toilets and common areas are free of foul odour and maintained in a clean condition</li> </ul>

*Table 6.2 The process of evaluating CoC elements*

Each case study was set out to be informative and descriptive in nature in reviewing the multinational companies' profile and details of supply chain operations in a desk-top study. This was followed by examining the CoC elements, reporting observations and a corrective action plan for improvement within a specific

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timeframe, and responsibilities agreed or disagreed by management. The process of achieving the research objective is through social compliance audits including direct observation, documentation review, factory management, and supervisors' and workers' interviews, to discover the degree of effectiveness of the CoC and its implementation in achieving sustainable development goals. The audits were performed within the period of October 2003 to December 2004.

## **6.2 The Hong Kong and Macau dimension**

### *6.2.1 Multinational company A: supply chain structure and its operation*

This company has a licence for manufacturing with more than 350 contracted manufacturers worldwide. The supply chain is not transparent, which means that there is no publicly available information on suppliers' operating locations and how they monitor and implement their corporate codes of conduct. Therefore, a specially designed questionnaire was sent by post and electronic mail to both the investor relations manager and the global compliance manager, to get an understanding of its network of suppliers and locations, manufacturing sites and distribution centres, its intention to expand on its international presence and the types of reporting made available to the public, its environmental, social and sustainability standpoint, and CSR issues. But due to the high confidentiality of the above information, the compliance manager refused to fill in the questionnaire and responded that they would be unable to provide further information without a reason. The investor

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manager chose not to respond to the questionnaire. One of the NGOs in Thailand suggested that they have chosen not to answer the questionnaire due to the highly sensitive and confidential nature of the information requested.

*Environmental and social posture*

Multinational company A provides very little information on the implementation of its standards and verification mechanisms. There is no publicly available information on environmental and supply chain policy, environmental initiatives or leadership programme. From other documents, it is found that multinational Company A has established a compliance monitoring system as part of its Global Human Rights Compliance Programme to ensure that apparel manufacturing contractors and subcontractors comply with local and national government laws and company operating guidelines. No monitoring results are publicly available; the CoC presents only the general principle of good practice without detailed clarification in other publicly available documents.

The potential impacts of multinational company A on the environment are difficult to evaluate since its supply chain is not transparent. Therefore a questionnaire (See Appendix B) was sent by post and electronic mail to two specific personnel, the global compliance manager and the investor relations manager to try to find out information related to the sourcing and purchasing arrangements or licensing partnership, the locations of raw materials obtained and extracted, how products are processed, distributed and stored. The compliance manager responded that they are

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not able to provide the information. *“We won’t be able to provide further information without a reason”* (compliance manager). It is not surprising that the compliance manager refused to respond since the nature of information asked might be highly sensitive and confidential for a conservative company.

*CSR is about philanthropy*

The company declares, *“Philanthropy as their essential part of their corporate identity, they have a longstanding commitment to the communities which they live”* (Multinational company A, 2004:1). In promoting CSR, it cooperates with US local communities in charity work. In 2000, the company contributed US\$ 5 million to establish the Center for Cancer Prevention and Care at North General Hospital in Harlem (Multinational company A, 2004). This Center provides services such as screening, education and diagnostic services for different types of cancers. The company also launched a campaign to reduce disparities in cancer care, raising awareness in cancer care prevention, screening and treatment. Other initiatives such as September 11th relief efforts and the preservation of the "Star-Spangled Banner" are part of their charitable activities.

*6.2.2 Wealthy Industrial Company background and operation*

The Wealthy Industrial Company is owned by a Hong Kong investor. It is a one-floor factory situated in a Cheung Sha Wan factory building. It has a long-term relationship with multinational company A, since they have manufactured knitwear items for them for 7 years. Multinational company A is an important customer in

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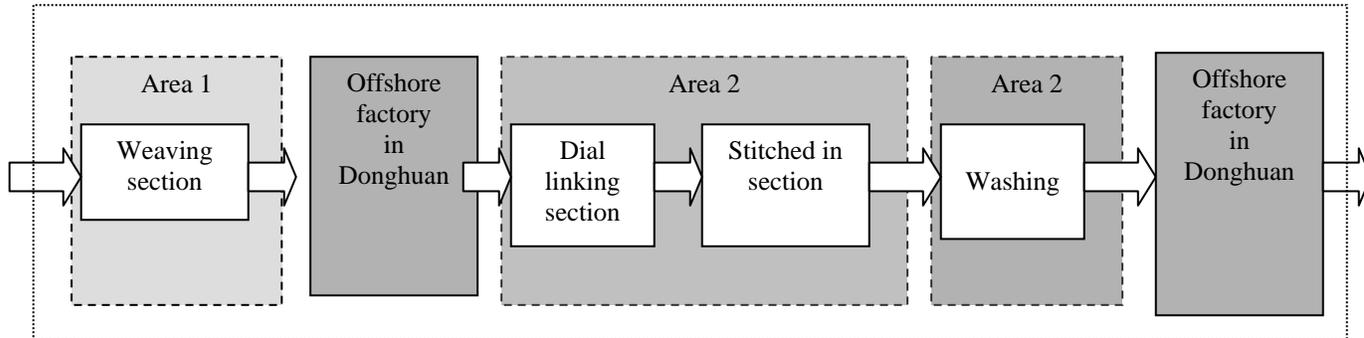
this factory as it comprises 50% of the whole factory's capacity, which is about 7200 pieces monthly. The social compliance audit took place in October 2003, which was the end of their peak period. According to the preliminary information given by the US monitoring initiative, there should be 75 workers. But on the date of the announced social compliance audit, there were only 20 workers. The workers in this factory are only involved in four types of production process: weaving, dial-linking, stitched-in and washing procedure. The unfinished parts will be transported to China for further processing. Cantonese, Mandarin and English can be spoken at the facility. A detailed factory profile and the basic production flowchart are shown in the table 6.3 and fig. 6.1.

Geographical location	Hong Kong
No of factory buildings	1
Total factory area	12,000 square feet
Total production area	3,000 square feet
Number of dormitory buildings / area	0
Year established	1983
Ownership Type	Privately owned by Hong Kong Investor
Company A labels produced	Knitwear items (e.g. Golf wear, shirts, skirts etc)
Monthly production	1200 dozen (14400 pieces)
Low production period	Nov to April
Peak production period	May to Oct
% of factory's capacity to production of Company A products	50%
Length of trading relationship with Company A	7 years
Total number of employees at factory	75
Number of contract employees	0
Number of local employees	75
Number of office staffs	50
Number of production staffs	20 (on site audit)
Number of salary paid employees	75
No of piece rate employees	0
Offshore factory staffs (Donghuan)	700

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Language spoken	Cantonese, Mandarin, English
Any environmental policy?	No
Any existing certification system such as - ISO 9000 - ISO 14001	No

*Table 6.3 Wealthy Industrial Company background*



*Fig 6.1 Basic production process flowchart and layout at Wealthy Industrial Company*

Summary of observations and analysis

The factory manufactures not only for multi-company A, but also for other brand names, DKNY, Liz Claiborne, Wal Mart Store Inc and Jones Apparel Group. The overall standard of the factory-working environment is high. This manufacturer has other offshore factories in China, Bangladesh and Vietnam. One of the major weaknesses observed is the unfair pay due to late starting working hours.

1. *CoC and factory regulation awareness*

All workers in the factory were interviewed including 14 females and six males. The overall awareness of Wealthy Industrial workers of Company A's CoC is moderate. Five of the employees out of 20 indicated what the CoC might include and they were

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correct. “It probably says about no discrimination and no bad language to other workers. The company post it on the wall and I have a look at it before”(Mr Lam, worked in the factory for five to six years). On the other hand, seven workers interviewed have not read the CoC posted on the factory wall. Two workers commented that the factory does not force each worker to read, fully understand and accept the guidelines. Most of the workers declared that they only follow their supervisors’ instructions.

2. *Wages and benefits*

Hong Kong labour legislation does not specify a minimum wage for local workers. “The only people who qualify for a minimum wage are some security guards and cleaners working on outsourcing contracts for the government, and the city's foreign domestic helpers, whose monthly wage was cut last year to HK\$3,270” (*Asian Labour News*, 2005). Recently in November 2004, the Hong Kong Federation of Trade Union called on the Chief Executive for a minimum wage in Hong Kong. But economists warned him that it might reduce the competitiveness of Hong Kong. The debates is still unresolved at the currenttime.

There was evidence found in the June 2003 timecard record that the factory deducts workers’ wages for late attendance to the factory. In detail, the penalty for arriving late is that 1 minute late means deduction of 15 minutes salary, 16 minutes late means the deduction of 30 minutes salary, 31 minutes late means the deduction of 45 minutes salary and 46 minutes late means the deduction of one hour’s salary and so

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forth. Employees must join the Mandatory Provident Fund (MPF) scheme, which is required by local legislation.

*3. Working hours*

No excessive hours of work were found. Wealthy Industrial operates 48 hours a week, eight hours per day and six days a week. Since there are no local maximum working hours, multinational company A's CoC is used as a benchmark for compliance. According to multinational company A's CoC, employees' working hours are defined as not exceeding 60 hours a week including overtime or local industry limits, whichever is the lesser, and the employees have the option of one day off in seven. Hong Kong legislation does not specify maximum working hours, therefore the factory needs to meet the CoC standard. The normal employee working hours are specified as 9 a.m. to 6:00 p.m. with a one-hour lunch break. It is found that all workers work less than 60 hours per week; no Sunday work is necessary.

*4. Child Labour*

Multinational company A defined child labour as workers under the age of 15. No use of child labour was found in the factory by random sampling (see Appendix D Child labour testing record).

*5. Health and safety*

Multinational company A defined health and safety in the production plant as a safe and healthy work environment, not subject to unsanitary or hazardous conditions.

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Stocks of clothes and piles of fabric materials are stored properly in a separate storeroom without blocking the walkway, which is considered as a good practice.

Through employee interviews, it was shown that there is training provided on the use of fire extinguishers. It is reported by the factory manager that the factory building management team is responsible for collaborating with district fire station in providing training sessions. The interviewed workers seem familiar with the evacuation procedure. From direct observation, it was seen that fire evacuation maps are too small for the workers to read and they are posted at an inconvenient location. The light intensity of the back door fire exit is extremely low, which needs further attention.

On the production floor, it was found that workers use burning candles to seal the cutting edge of the fabric. The factory manager promised that he would find other alternatives to solve this problem as the current mechanism creates a fire hazard.

*6. Freedom of Association*

Multinational company A defined freedom of association as a legal right of employees to freely and without harassment participate in worker organisations of their choice. But the workers aren't unionised internally or externally as they do not see the need and benefits in setting it up.

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7. *Prison or forced Labour*

No use of forced or prison labour was found in any production stages.

8. *Disciplinary practice*

No evidence of physical or mental abuse or punishment of workers was found during interviews. “*Why beating and yelling? Beating and yelling do not happen here in the developed world, it probably happened 20 years ago*” (a worker laughed). Similar responses were obtained when workers were being interviewed. The response was that this is a typical question to make sure workers are not mistreated.

9. *Discrimination*

Discrimination including age, race, colour, gender or religion is mainly subject to hiring practice. Both the job advertisement sample shown in Appendix E and manager interview showed that there is no discrimination in employment practice.

10. *Environment*

Multinational company A uses local and internationally recognised environmental practices as its benchmark towards supplier environmental performance.

11. *Subcontracting*

No subcontracting is found in the factory X1.

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*12. Dormitory*

No dormitory is provided to the workers.

*Corrective action plan*

Company A's CoC is clearly posted at the entrance and the obvious places on the factory wall, in both English and Simplified Chinese languages. But, more communication between the staff and workers on the content of the code is desirable since only five out of 20 know what the CoC is for and what it includes. In terms of health and safety, it is suggested that the fire evacuation map should be enlarged and posted at eye level at the entrance of the factory. The light intensity of the back door fire exit is extremely low, therefore it's unsafe for the workers to evacuate during a fire incident. The corrective action agreed by the factory manager was that a light bulb would be installed in the ceiling within two weeks' time.

Overall, positive comments were received from the employees about their physical working conditions, good relationship with other workers, supervisors and managing staff. *"They pay us regularly on a monthly basis, the boss never delays our pay"* (Ms Wong, a worker). *"The colleagues here are helpful and kind, it is difficult at our age to have a stable job and have nice colleagues around"* (Ms Chin, a worker). *"Every year, there is a company day trip where the company pay for transportation and dinner just before Chinese New Year"* (Ms Mok, a worker). Most workers are satisfied with their current wage rate. Almost 100% of the workers speak Cantonese

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and there are no migrant workers found in the factory. It is a best practice that the factory maintains, to employ a local workforce. Free movement within the factory during working hours is permitted. Some of the strength of this factory is that a good working relationship has been established between workers and managers, good benefits and good housekeeping practice.

### 6.2.3 Wing Hang Enterprises Limited background and operation in Macau

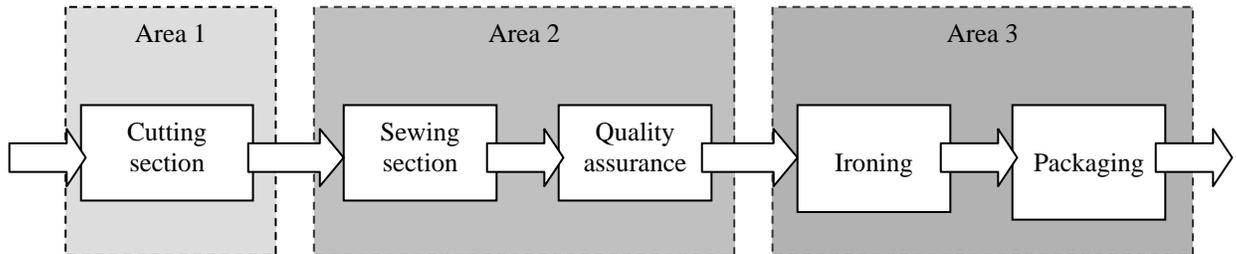
Wing Hang Enterprises Limited is owned by a local Macau investor, has been producing 72,000 to 78,000 knit items only for multinational company A for over seven years. The announced audit took place on December 2003, which is a peak production period. The company employs local Macau workers based on two systems, piece rate and hourly rate. No environmental policy and ISO certification was found in the factory. The detailed factory profile is shown in the table 6.4.

Geographical location	Macau
No of factory buildings	1
Total factory area	21,300 square feet
Total production area	21,300 square feet
Number of dormitory buildings / area	0
Year established	October 1996
Ownership Type	Privately owned
Company A labels produced	All knit items (e.g. shirt, skirt, short, pant, jacket, cardigan etc)
Monthly production	6000-6500 dozen ( 72000 –78000 pieces)
Low production period	N/A
Peak production period	Dec, Jan
% of factory's capacity to production of Company A products	100%
Length of trading relationship with Company A	7 years
Total number of employees at factory	127
Number of contract employees	0

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Number of local employees	127
Number of hourly paid employees	40
Number of office staffs	10
No of piece rate employees	70
Number of bimonthly salary paid employees	17
Language spoken	Cantonese
Any environmental policy?	No
Any existing certification system such as - ISO 9000 - ISO 14001	No

*Table 6.4 Wing Hang Enterprises Limited background*



*Fig 6.2 Basic production process flowchart and layout at Wing Hang Enterprises Limited*

Summary of observations and analysis

A total of 12 workers, ten female and two male were interviewed. Almost 100% of workers speak Cantonese. No migrant workers out of 12 were found in the factory.

*1. CoC and factory regulation awareness*

The overall awareness of factory B workers of multinational company A's CoC is low. None of the workers knew about the details in the CoC. Only three declared

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that they have had a brief verbal explanation session during their pre-employment orientation. Two of the employees revealed that the company encourages the workers to read the CoC. On the other hand, eight interviewed have not read the CoC posted on the factory wall. Out of eight, five of them don't even know the multinational brand name that they are working for. It is also found that some workers are not literate, which is regarded as a major barrier for them to understand the guideline by themselves. Six of the workers only follow their supervisors' instructions.

2. *Wages and benefits*

A local minimum wage is not specified clearly in Macau labour law. A legally mandated benefit, social security is required by the Macau government which includes the contribution of HK\$30 paid by the employee and HK\$15 paid by employer on a monthly basis. Employees who work more than 15 days a month will have to start paying social security contributions. From the payroll, it was found that the factory complies with the local law in respect to social security contributions.

3. *Working hours*

Factory working hours are specified in the factory regulations. The working hours allowed by the policy and the working hours allowed by the local legislation are compared to determine whether they comply with the legal requirement. The local standard of maximum working hours is 48 hours work per week with an eight-hour working day, which is more stringent than the CoC, which says no more than 60

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hours per week. The normal employee working hours are specified from 8:45 a.m. to 6:30 p.m. with a one and a half-hour lunch break, eight hours per day and six days a week. All workers work 48 hours per week, no Sunday work is necessary. Overtime records shown in the workers' timecards was checked with the payroll records to ensure overtime is paid and the amount was also cross-checked during workers' interviews to see if they received the correct pay from the factory. However, the number of overtime hours in the timecards did not match with the payroll record. This is an indicator that a second book might exist.

4. *Child Labour*

Macau law prohibits minors to work under the age of 16 although ages between 14 to 16 are allowed to work on an exceptional basis. Again, local law is more stringent than the CoC where it specifies child labour as workers under the age of 15. Through observation, reviewing personnel records and interviews with workers, no use of child labour was found in the factory by random sampling (See Appendix E).

5. *Health and safety*

Local health and safety law stressed that employers should provide a safe working environment and this is enforced by the labour department. There is no protective mechanism to protect the workers' right to continue employment in the case where they refuse to be directed to work under hazardous or dangerous conditions. The CoC defined health and safety in the production plant as a safe and healthy work

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environment, not subject to unsanitary or hazardous conditions. There is evidence that employees are trained in the use of the fire extinguishers. Eight interviewed workers seem familiar with the procedure. Dates and time needed for fire drill practice are shown below:



敬啓者：

茲 位於 [ 澳門

為提高該廠員工對防火安全的認識及如何正確使用該廠現有之消防設備。故特邀本會到該廠舉辦之防火講座，該講座已於 2002 年 3 月 18 日（星期一）舉行。

其內容包括有：

- 一) 燃燒學。
- 二) 一般火警成因及預防方法。
- 三) 火警發生時應採取的措施。
- 四) 如何使用消防裝置及設備。
- 五) 走火警演習。

特此證明

歐雲海 理事長  
2002 年 3 月 18 日

*Fig 6.3 Fire drill notice*

From direct observation, the general housekeeping practice is found to be unacceptable. The storage of raw materials, stocks of clothes and piles of fabric

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materials are found everywhere, in the production area and fire evacuation route. There is no designated storeroom. There are ways to improve housekeeping practice. The factory manager and the management team did not take this issue seriously and replied that they will consider it in a later stage since huge efforts are needed to redesign the factory production floor.

One of the major concerns on the production floor is that a hazardous working environment is found. Hazardous working environment refers to any workplace in which a worker interacts with hazards such as occupational or environmental exposure, sometimes to individual susceptibility that increases risk, a source of possible injury to workers or damage to the environment or material assets, and disturbs work process. A spray that contains hydrocarbons was used by workers in the production process without an adequate ventilating facility. Excessive dust rising from the factory floor was found, which is potentially hazardous to workers. This can cause significant long-term health impacts on the workers, such as chest pain, respiratory problems and hair loss. Environmental improvement is needed in reducing the amount of dust indoors. Appropriate indoor air pollution measures were suggested, to be considered through further laboratory testing and evaluation.

*6. Freedom of Association*

The CoC defined freedom of association as a legal right of employees to freely and without harassment participate in worker organisations of their choice. No workers union has been formed in the factory. Comments from workers' interviews seem to indicate that they are uninterested in joining external trade union. *"I don't think I*

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*will join in the union as I don't have time to participate. Once the factory bell rings, I will go home immediately to look after my children"* (Mrs Chen, a worker in the sewing section). A similar response was obtained from other workers.

*7. Prison or forced Labour*

No use of forced or prison labour was found in any stage of the production.

*8. Disciplinary practice*

No physical or mental abuse or punishment was found from workers' interviews.

*9. Discrimination*

No discrimination including age, race, colour, gender or religion was found, mainly subject to hiring practice. The job advertisement sample is shown on the audit.

*10. Environment*

Careful measurement of fabrics is seen in the cutting section to minimise wastes.

*11. Subcontracting*

The multinational company A's guidelines state that manufacturers may not subcontract all or any part of the work on their products without its express written consent. The consent will not be given unless the subcontractors meet the criteria in its guidelines. In factory X2, we found that the packaging part of the operation was subcontracted to a supervisor with four staff without being told previously that there

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was a subcontracting section within the factory area. The supervisor and several workers are not directly employed by the factory although they work inside the factory. Those workers are directly employed by the supervisor to carry out the job if there is work to do.

*12. Dormitory*

Dormitory health and safety guidelines are not applicable since no dormitory is necessary for local Macau resident workers.

*Correction action plan*

The awareness of the CoC is low; a training session and more communication between the staff and workers on the content of the code is desirable. Overall, many positive comments were received on regular payment to workers at the specified date. All workers are Macau resident which is a best practice that the factory maintains to employ a local workforce. Free movement within the factory during working hours is permitted. In terms of health and safety, it is suggested to the factory management staff that they should provide a special industrial carbon mask to the worker when he is spraying the chemicals in the sewing section. The factory manager declared that it remains difficult to force the workers to wear a mask at the workplace. Subcontracting practice is found in the factory without written consent of the multinational company, which is considered as a non-compliance area.

### **6.3 The Shenzhen dimension**

#### 6.3.1 Multinational company supply chain structure and its operation

Multinational company B has a highly transparent supply chain structure; it relies on 570 factories worldwide in producing its products. In Asia alone, it has suppliers in 18 countries. It sources garments from China, India, Indonesia, Thailand, Turkey and Vietnam. 60% of the factories are in Asia, 20% are in America, another 20% in Africa and Europe. These factories are audited at least once every year. 954 audits were carried out in 2004, 301 factories were audited excluding 62 external audits conducted by external auditors. Multinational company B has also started to promote a new strategy of reducing the number of suppliers.

#### *Environmental and social posture*

The multinational company is serious about sustainability both in its own practice and that of its suppliers. It perceives “outsourcing supplies does not mean outsourcing moral responsibility”. The expectation of suppliers, contractors and subcontractors are clearly written in its corporate CoC (See Appendix D). All of its business partners have to conduct business in a fair, honest and responsible way.

In terms of internal institutional structure, it has a dedicated social and environmental affairs team in this region. The auditing procedure involves interviewing managers and workers, reviewing the documentation and inspecting facilities. Before a business relationship is formed, an internal audit will be

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performed by the social and environmental affairs team in order to ensure the working conditions are acceptable with regard to the corporate codes of conduct. Then the factory manager has to sign an agreement declaring that the factory will comply with the details of the CoC at all times and that it has to take responsibility for its subcontractors. If the supplier refuses to make the necessary improvement as suggested, the company will end its business relationship with the factory. In a longer time frame, the company also looks beyond the policy level in improving the workers' life, delivering training courses for the factory personnel to attend throughout the year for capacity building. Ten percent of its factories are externally monitored by national NGOs, universities or private auditing firms.

This company has integrated environmental and social concerns into its supply chain process. It defined sustainability in terms of the five main areas stated in table 6.5:

Area of sustainability	Definition
1. Legislation	<ul style="list-style-type: none"> <li>• complying with the social and environmental legislation</li> </ul>
2. Management	<ul style="list-style-type: none"> <li>• managing social and environmental impacts of the new products, technologies and processes at design and development stage</li> </ul>
3. Supplier and customer relationships	<ul style="list-style-type: none"> <li>• comply with their corporate codes of conduct</li> </ul>
4. Support	<ul style="list-style-type: none"> <li>• For social and environmental projects</li> <li>• Partnerships with businesses and organisation to contribute to sustainable society</li> </ul>
5. Stakeholder dialogue	<ul style="list-style-type: none"> <li>• Communicate with stakeholders in building mutual trust and respect</li> </ul>

Source: *(Multinational company B)*

*Table 6.5 Definition of sustainability*

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The importance of social and environmentally responsible practice is stressed in the section on corporate mission. “We are dedicated to socially responsible, safe and environmentally sustainable practices in the company and its supply chain and to enhancing the value of our brands by guaranteeing the ideals of the company for the consumer and for those making their products, strengthening their image and reputation, making the supply chain more effective and helping to provide a long-term future for sport” (Multinational company B, 2004). They also have high internal organisational competence. Their global head of Environmental and Social Affairs was based in the Hong Kong sourcing office and he directly reported to the board of directors in the German headquarters about continuous improvements of suppliers in employment, health and safety and environmental conditions in Asia, Europe and the USA. Multinational company B provides suitable internal and external training on health and safety, freedom of association, worker-management communication and general compliance awareness for workers, supervisors and managers, and support on a continuous basis for their employees and suppliers. Three training sessions and compliance training were conducted in Vietnam, China and Indonesia with 40 representatives from suppliers in the year 2004 (Multinational company B, 2004). The company has a clear structure in reflecting social responsibility concern.

The company has published a sustainability report annually since 2000. In September 2002, its progress towards sustainability is recognised by the Dow Jones Sustainability Group Index (DJSGI) as the industry leader on reporting social, environmental and economic issues. In particular, the DJSG noted that the company has made significant

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progress in improving the social and environmental conditions in the factories that supply its product. The company social and environmental report indicates clearly that it puts its corporate CoC into practice, takes actions and develops corrective action plans for its suppliers. The company also takes a proactive role in moving beyond reporting. Structured dialogue with stakeholders was initiated from 2001 in Asia and Europe in discussions on CSR concepts and sustainability reporting.

This company has undertaken nine stakeholder dialogues within the last few years. Discussions with major stakeholders were facilitated by an expert or independent organisation in Hong Kong (2001 and 2004), Turkey (2004), El Salvador (2004), Honduras (2004), Thailand (2004), China (2003), Belgium (2003) and the United Kingdom (2002). The findings from stakeholder dialogues are publicly available and also summarized in the annual social and environmental report. Currently, the company is in partnership with the World Business Council for Sustainable Development (WBCSD) to share the experience of managing sustainability issues with its stakeholders. It also published the minutes of stakeholder dialogues both on its corporate website and its sustainability report. In addition, the company is also in partnership with the World Federation of Sporting Goods Industry (WFSGI) to phase out child workers from football stitching, strengthen school education and provide supplements to assist in local family incomes.

Partnerships have been established with NGOs in China, Vietnam and Germany, which is aimed at helping the factories, establish health and safety committee and trained personnel such as workers, managers and NGOs representatives. The

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company is also in partnership with the Prince of Wales Business Leaders' Forum, the Vietnam Chamber of Commerce and the Vietnam Business Links Initiative in integrating environmental management into making purchasing decisions, storage, handling, use and disposal of chemicals used in production process. A practical manual was also drafted to help factory management in dealing with energy and resource management problems from raw material sourcing to product end-life cycle in the supply chain through partnership with the Bavarian Ministry of Environment.

### 6.3.2 Evergreen Garment Factory background and operation

Evergreen Garment Factory comprises three factory buildings and two dormitory buildings situated in the rural area of Shenzhen. It is owned by a Taiwanese Group, which obtained ISO 9002 in 1997. The managers believed that obtaining the certificate would gain a competitive edge in the market. The group owner is not only a garment and footwear manufacturer, but also a producer of fabrics and other raw materials such as neoprene rubber in Thailand and Taiwan factories. The raw materials are then distributed to this factory for processing finished goods. The major production process is shown in fig. 6.5.

Multinational B is a minor customer of the factory as it orders 1% or less than the total factory capacity of 270,000 pieces. Other major customers are Quicksilver, Sepa, Roxy and Alder. A total of 858 workers are paid at piece rate, a large proportion being migrant workers from Guangxi and Hubei. The audit took place in

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May 2004, which is the end of their peak production period. The detailed factory profile is shown in the table 6.6.

Geographical location	Shenzhen
No of factory buildings	5
Total factory area	129171 square feet
Total production area	58127 square feet
Number of dormitory buildings / area	2
Year established	1991 (the previous factory has been relocated to this new factory in October, 2003 without prior notice to multinational company B)
Ownership Type	Facility owned by a Taiwanese Group
Company B labels produced	Knit items (e.g. shirts)
Others labels produced	Other American brands: Quicksilver, Sepa, Roxy and Alder diving suits, vulcanized sole or zipper boots and diving gloves
Monthly production	270,000 pieces - 200,000 garments - 70,000 boots
Low production period	June to September
Peak production period	Oct to May
% of factory's capacity to production of multinational company B products	Less than 1%
Total number of employees at factory	1008
Number of office staff	150
No of piece rate employees	858
Other factories	1 Mexico factory 2 Taiwan factories 2 Thailand factories
Language spoken	Cantonese and Mandarin
Sub-contractor information	No subcontractors
Any environmental policy?	No
Any existing certification system such as - ISO 9002 - ISO 14001	Yes No

*Table 6.6 Evergreen Garment Factory background*

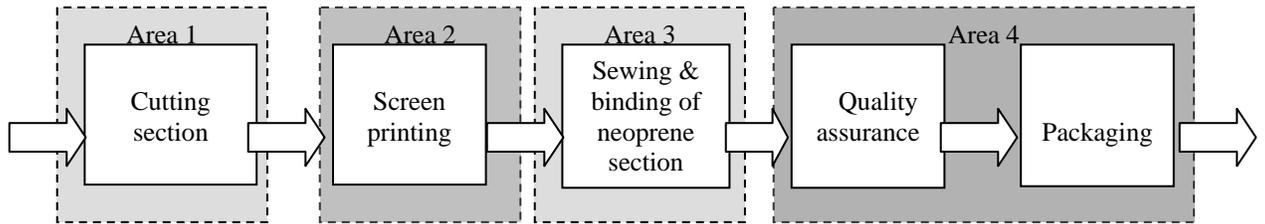


Fig 6.4 Basic production process flowchart of garments and floor layout at Evergreen Garment Factory

### Summary of observations

At the very beginning of the audit, the management team was surprised that the multinational company B, which only places approximately 2000 garments on an annual basis, would like to check their factory conditions. It is important to note that multinational company B is a minor customer of the factory as far as the factory management is concerned.

#### *1. CoC and factory regulation awareness*

From direct observation, neither the CoC nor the factory regulations are posted in the factory production area. From documentation, it is clear that the factory has its own factory regulations that were drafted from the Taiwanese headquarters. When the factory manager was interviewed, he declared that the factory regulations would be given and introduced to the factory workers at the very beginning of their employment period. It is unnecessary to post it on the factory wall, as they are worried that workers will copy it and sell it to another factory. When interviewing

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the workers, it transpired that, seven out of 12 did not know about the existence of the multinational company's CoC and the factory regulations. Only two were aware of some aspects such as working hours and rules of the factory within the internal factory regulation.

2. *Wages and benefits*

The minimum wage specified by the local government was changed from RMB 465 to RMB 480 in May 2004, and the audit took place in the same month. Overtime compensation is 150 percent of the normal wage. A hardworking bonus is RMB 260 per month. From the timecard, it appears that most workers work nine hours per day, six days per week and they work 200 hours per month. It appears that the wages calculation does not match with the number of hours of overtime worked. There is a probability that the company is faking the wage records. In reviewing the payroll record, workers are paid ranging from RMB 650 to 1350 per month (See table 5.6). But the basic wage has not increased from RMB 465 to RMB 480, since the payroll record is in March of the same year. The number of hours worked exceeds the legislative requirement which is 40 hours work per week with eight hours a day, five days a week.

Wages are paid on a monthly basis on the 15<sup>th</sup> of each month by cash. It is compulsory for employees to obtain personal insurance of RMB 183 per month where 40% is deducted from their monthly wages, and the company pays 60% of the sum. Other monthly salary deductions are RMB 12 for their dormitory

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accommodation and RMB 86 for their canteen food. The factory management declared that they have an option of whether they want to eat outside or have canteen food instead. Late attendance will result in an oral warning and a deduction of RMB 10 of the same month's salary. For more severe cases, the worker's name will be posted on the notice board for warning purposes and this is seen on the notice board.

Name of the worker	Basic	Hardworking bonus	Hours worked per month	Personal insurance	Meal deduction and accommodation	Total Monthly salary	Extra hours
Yip	504	260	176	183	98	1025	16
Ho	515	260	193	183	98	1117	33
Wong	644	260	185	183	98	1242	25
Li	500	0	144	183	98	781	0
Woo	650	260	193	183	98	1350	33
Chow	465	0	90	183	98	650	0
Lee	465	0	176	183	98	781	17
Chow	452	260	160	183	98	993	0
Ng	465	0	173	183	98	772	13
Wong	465	0	90	183	98	650	0

*Table 6.7 Wage records at Evergreen Garment Factory*

The workers are paid at a higher rate than other domestic garment factories taking into account that making wet suits, waders and diving boots is a labour intensive process where a high quality of professional attention is required. Generally, most workers are satisfied with their current wage rate and benefits such as medical care, subsidised meals, bonus and recreational facilities and living conditions as this factory has higher wages than other factories in the area and an acceptable standard of dormitory environment.

**3. Working hours**

Chinese labour law states that working hours are limited to 40 per week and each normal working day should be eight hours a day. Overtime should be no more than three hours a day and total maximum overtime hours is 36 hours a month. There is a local variation compared to the national law as factory managers can obtain a waiver from the local labour bureau that their workers can work over the national law limit. These waivers can be easily obtained through bribes or local connections with the local labour authorities. Compared to the multinational company B which defined employees' working hours as not exceeding 60 hours per week including overtime or local industry limits, whichever is less and the employees should have a consecutive 24 hours off as a paid annual leave within every seven-day period; the local law is more stringent and will be used as a baseline. The normal employee working hours are specified as Monday to Friday from 8:00 a.m. to 5:00 p.m. with an hour lunch break. They only work eight hours per day and five days a week, no Saturday and Sunday work is necessary. At a low peak period, the maximum that they will have to work is 20 extra hours each month. From reviewing the electronic timecard and payroll, all workers work less than 50 hours per week, which complies with the law. But in the peak production period, they will have to work on a day shift and night shift basis. The day shift is from 8 a.m. to 6 p.m. and the night shift from 10 p.m. to 6 a.m.

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4. *Child Labour*

According to the Chinese labour law on promotion of employment in chapter 2, article 15 states that employers shall be banned from recruiting juvenile workers under the age of 16, which is more stringent than the CoC. It is found that the workers tend to be younger compared to the Hong Kong and Macau workforce, although no child labour was found in the factory. The factory employed a larger number of men compared to the cases in Hong Kong and Macau. From workers' interviews based on Appendix D, it is found that their awareness of child labour issues is high. "I have not seen children around, they are not allowed to be here."(Ms Lou) "*Only if you are 16 or above, will this factory employ you*" (Mr Mou).

5. *Health and safety*

Multi-national company B defined health and safety in the production plant as a safe and hygienic work environment, and proper health and safety practices can prevent accidents and injuries. According to the health and safety record, five accidents happened from December 2003 till June 2004 ranging from finger punctures, chemical contact with eyes, to various finger and hand cutting accidents. The Chinese work and safety law (2002) is more comprehensive and contains a large body of regulation. For example, article 19 states that work units producing, operating and storing dangerous materials shall set up occupational safety and health (OSH) management organisations or allocate full time OSH personnel to administer safe practices at work. Work units over 300 staff and workers must set up OSH committees. No OSH committee was found in the factory.

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The general housekeeping practice in terms of the storage of raw materials is considered as good practice. Stocks of clothes and piles of fabric materials are found stacked up accordingly both inside and outside of the factory buildings. There are designated storerooms for chemical storage purposes.

Dangerous health and safety conditions were identified where workers were inhaling the vaporising chemicals from the glue that is used to make the finished product without wearing PPE. Xylene is one of the vaporising components found in the glue. The main effect of inhaling xylene vapour is depression of the central nervous system (CNS), with symptoms such as headache, dizziness, nausea and vomiting. This glue can cause long-term health impacts on the workers. It is also found that the present ventilation system is inadequate; the evaporated chemical components from glue rising from the production floor can cause significant long-term health impacts on the workers. Environmental improvement is needed particularly in dealing with indoor air pollution. The factory manager should explain the health impacts of inhaling the glue components to the workers, and encourage them to wear a mask at the workplace. In addition, the management should label the chemicals that are contained in the glue.

The hygienic condition of the toilets will have to be improved. A wet floor in the toilets and catering area can lead to accidents and injuries to the workers. All

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catering staff have applied for a health certification as shown by the management staff.

The electrical wires and plugs are not properly installed in the designated area even though the factory started operating only six months ago. Long cables pose hazards to the workers. A full set of personal protective equipment (PPE) is seen in protecting the workers in this designated area for manufacturing boots, which is a moulding process. In the sewing section, workers should be reminded and encouraged to use needle-guards as their protective mechanism against injuries.

It is also suggested that the company should standardise the height of all the locations of the fire extinguishers. It should also allocate some of the workforce to inspect the emergency box.

6. *Freedom of Association*

Multi-national company B considered that suppliers should recognise and respect the rights of workers to join and organise associations freely and bargain collectively. This contradicts the principles of freedom of association established by the Trade Union Law in China. Under the Chinese Law, the Federation of Trade Unions (ACFTU) is the only trade union recognised in China and the union is governed by the Communist Party. This also means that there is no possibility of truly independent unions that could be formed and controlled by workers' representatives in China. The recent amendment of the trade union law in 2001 offered legal protection for workers to form unions in the private sector. Even though the local

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law restricts the rights to freedom of association and collective bargaining, suppliers must not obstruct other alternatives for freedom of association and collective bargaining. The multinational company stressed the importance of communication among employees. There is a workers' welfare committee, which organises various functions for the workers. But workers seemed uninterested in joining the activities, when they were asked if they have ever done so before, according to their interview responses. *"We never join the activities. We gather in our room or we can go out with friends after work, there is no need to have a welfare committee as such"* (Ms Wang and Ms Yip, a migrant worker).

*7. Prison or forced Labour*

No use of forced or prison labour was found in any stage of the production.

*8. Disciplinary practice*

The Chinese media and scholars often report that Taiwanese managed factories often use militaristic management (Chan, 1997; Shenzhen tequ bao, 1994). It was alleged that some of these factories used retired Taiwanese army officers to control the discontented workforce, and that new workers had to march around the factory compound on one out of three days of training. The Shenzhen Tequ Bao (1994) reported a case where workers are not allowed to talk when they have their meals; when walking to and from the factory, dormitory and the canteen; they are required to follow a specified line en route; if they step beyond the line, they will be punished by being forced to stand for long periods or will be fined. But no use of physical or mental punishment was found against workers in this factory.

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*9. Discrimination*

No incidence of discrimination was found in the factory. In fact, we found there are equal opportunities for male and female, which is a good practice. The factory promotes vacancies in two ways: posting advertisements on the front gate and through an employment agency where the factory has to pay an agency fee to find workers. In China it is common that workers' wages are improperly reduced. Some Chinese workers must pay a large sum of money as a "deposit" to their employer, and they may have to pay a "recruitment fee" in order to be hired. These payments can prevent workers from leaving their jobs where their rights are violated. In this factory, workers do not have to pay a recruitment fee or deposit to the factory; this is confirmed in the payroll. The factory employs a wide diversity of migrant workers from Hubei in central China and Guangxi, west of Guangdong province within the southern part of China. The probation period is six months and they have a minimum of 15 days annual leave usually taken in the Chinese New Year.

*10. Environment*

There was no written environmental policy or health and safety policy found in the factory. The factory managers regarded themselves as light industries according to the Longjiang County Environmental Protection Bureau. Therefore, they are not required to go through an environmental impact assessment evaluation procedure. There is a designated disposal area for waste collection and disposal. But chemical waste, such as used tanks of chyllin resin, is dumped in an open area right next to a chemical storage warehouse, which make it highly dangerous if the container

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catches fire. Chyllin is flammable and it should be dumped far away from the chemical storage warehouse. In a nearby area, the oil tanker was reloading fuel into the underground storage under the factory area, which makes it even more dangerous if a fire is initiated.

*11. Subcontracting*

No subcontracting was found in the factory through observation, interviews and reviewing documentation.

*12. Dormitory*

Two separate male and female dormitories building are located on the factory production site. Eight people share one room with separate bathroom and kitchen. According to worker's interviews, the workers have the freedom to decide whether they want to live in the dormitory or outside the factory.

*Corrective action plan*

Even though it was suggested that the CoC and factory regulations should be posted on the factory wall, the factory management team refused to post it due to confidentiality of the document, and they were afraid that other factories will copy their factory rules.

The strength of this factory is that most workers are satisfied with their current benefits. *"We have a library, TV room, karaoke room, roller skate ground and other*

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*facilities here, so there is something to do in our free time” (Ms Chan, a migrant worker from Hubei). “If there is a need to work overtime, it will be from 6 p.m. to 8 or 9 p.m. So there is still some rest time.” (Ms Chow, a migrant worker from Guangxi). “The wage that we got here is higher in comparison with other nearby factories” (Mr Mao, a migrant worker from Guangxi). “There are also other benefits such as medical care, subsidised meals, bonus and recreational facilities and living conditions as this factory has comparatively higher wages compared to other factories provided with acceptable standards of dormitory environment” (Ms Kwok, a local worker in Guangdong).*

One of the major weaknesses observed is the health and safety and environment aspect, which is not recognised by either the managers or the workers. The attitude of the management team was that they seemed reluctant to make necessary changes and thought that what they have done is the best practice in the region. During the visual inspection of the factory audit, it was indicated by the factory manager that there are areas which are top secret and no visitor of any kind is allowed. It is an indicator that the factory management might purposely want to hide confidential information such as the real payroll and personnel records from auditors.

### *6.3.3 Multinational company C supply chain structure and its operation*

Multinational company C provides little information publicly on how and where it sources its products and the diversity of its supply base is unknown.

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*Environmental and social posture*

No social and environmental perspective is publicly available. The CoC is not publicly available. There is no information of how it implements the standards of its CoC. In terms of CSR, it actively supported minority-owned and women-owned businesses in the USA from 1967. The company has several campaigns helping Americans to purchase their properties and provide products and services that help people maintain their homes.

*6.3.4 Yuen Mei Garment Factory background and operation*

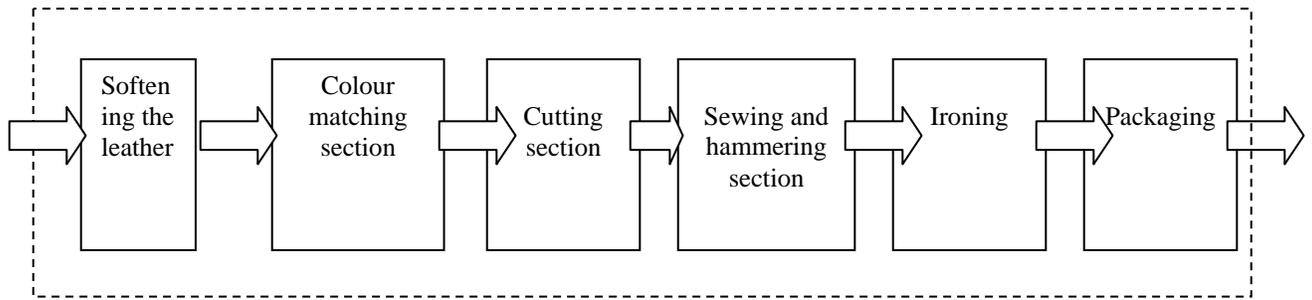
Yuen Me Garment Factory produces 5000 high-quality leather garments in Guan Lan Town, Shenzhen on a monthly basis. This factory is owned by a Hong Kong Investor, the health and safety aspects are supervised by the Hong Kong subsidiary. There is no information on the percentage of the factory's capacity to production of multinational company C products. But it is seen that the factory produces products for other European and US brand names. Raw material is delivered from a Hong Kong sourcing office, the full production process is undertaken in this factory through leather softening, colour matching, cutting and sewing, hammering and packaging (See fig. 6.5). 137 workers are paid by piece rate. Since there are no dormitories provided, new workers were introduced by the factory and current workers to rent their own place or share a rent with other workers. The audit took place in July 2004, which is a low production period. The detailed factory profile is shown in table 6.8.

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Geographical location	Guan Lan Town, Shenzhen
No of factory buildings	1
Total factory area	Office and factory operation area is 32293 square feet (3000 square metre), 10764 square feet (1000 square metre) on each floor
Total production area	45210 square feet
Number of dormitory buildings / area	0
Year established	1993 (But the factory has moved from nearby to here 3 years ago)
Ownership Type	Facility owned by Hong Kong Investor
Company C labels produced	Garment items (e.g. Leather jackets)
Other labels produced	The J. Peter Company, Katherine Hamnett, Calvin Klein, Victorinox, Giuliana Teso
Monthly production	5000 garments
Low production period	May to September
Peak production period	October to April
% of factory's capacity to production of Company C products	N/A
Total number of employees at factory	150
Number of office staffs	8
No of cleaning staffs	2
No of piece rate employees	137
Language spoken	Cantonese, Mandarin and Sichuan
Sub-contractor information	No subcontractor
Any environmental, safety and health policy available?	Yes
Any existing certification system such as - ISO 9000 - ISO 14001	No

*Table 6.8 Yuen Mei Garment Factory background*

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*Fig 6.5 Basic production process flowchart of garments at Yuen Mei Garment*

Factory

Interviewee	Number of workers and supervisors interviewed by section
Factory manager/ Payroll Manager	1/1
Personnel Manager/ Payroll Manager	1/1
<i>Total no of managers interviewed (N)</i>	2
Sewing, hammering and gluing	10/66
Quality assurance	3/10
Packaging	5/20
<i>Total no of workers interviewed (N)</i>	18
Supervisor (1 <sup>st</sup> floor)	1/1
Supervisor (2 <sup>nd</sup> floor)	1/1
<i>Total no of supervisors interviewed (N)</i>	2

*Table 6.9 Interviewee sample in Yuen Mei Garment Factory*

Summary of observations

1. CoC and factory regulation awareness

Multinational company C's CoC is clearly posted in Simplified Chinese and English at the entrance of the factory wall. This is only seen in the entrance of the ground floor, but not on other production floors. No other multinational CoC from other

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brands is seen in the area of the factory and it is confirmed by the factory manager that they only do it if their client requests. There are rules in the factory policy basically covering three aspects: the number of working hours, no fighting is allowed and no wastage of raw materials.

According to workers' interviews, eight workers out of 18 do not read the code posted at the entrance. Two new workers from Sichuan in the packaging section declared that they have had internal training on the code but they do not remember the details.

*2. Wages and benefits*

The local minimum wage for this area was recently increased to RMB 480 per month in mid 2004. The workers get paid according to their timecards. The wage is transferred to the workers' bank accounts between the 25<sup>th</sup> and 30<sup>th</sup> of each month. According to the management interview, they denied that they pay cash to some workers. But in the worker's interviews, two workers said there are cases where their salary is paid in cash. There is a discrepancy on what is the actual procedure and how and what items they are paid in cash. Workers payroll items are indicated as follows:

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Worker	Production section	Basic wage	Award	Allowance	Total received
Ms Wong	Sampling	520	75.6	204.4	800
Ms Leung	Packaging	232.5	37.2	-	269.7
Mr Leung	Sewing	520	18	-	538
Ms Leung	Sewing	520	-	-	520

*Table 6.10 Workers' wages sample in Yuen Mei Garment Factory (in RMB)*

During the workers' interviews, they were asked to write down their previous month's wage so that we could check if it coincided with the official wage record provided by the factory. It was confirmed that they are approximately the same.

China's social security system includes social insurance, social welfare, the special care and placement system, social relief and housing services. As the core of the social security system, social insurance includes old-age insurance, unemployment insurance, medical insurance, work-related injury insurance and maternity insurance. The interview with the management team suggested that they paid social security for all workers in the factory. However, only 30 factory workers have accident insurance bought by the factory. The factory manager responded that a worker has to work for them for at least four years before becoming eligible for accident insurance. He also declared that the factory's responsibility is to deal with production section; the sourcing and purchasing of the raw materials is controlled at the Hong Kong office.

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When interviewing the supervisors, one of the supervisors, Mr Lou disclosed that there is a penalty of wage reduction if the workers are late for work three times per month.

*3. Working hours*

The production hours are from 8 to 12:00 noon in the morning and 2 to 6 p.m in the afternoon. If there is overtime on that day, the workers work from 7 p.m to 9 p.m in the evening, which complies with the Chinese law.

*4. Child labour*

No use of child labour was found in the factory. Both workers and supervisors (Ms Lau and Mr Lou) interviewed are aware of the factory policy and declared that the factory only employs workers of 18 or over.

*5. Health and safety*

Shenzhen City Po On district health and safety law is posted at the entrance of the factory. There is a fire-safety regulation that stated that its main purpose is prevention. It is also stated as one of the factory rules that supervisors and management should meet every month to discuss the health and safety issues. Another factory policy, which is seen as best practice, stated that detailed inspection on machinery and all other tools will be undertaken on an annual basis. In terms of implementing the policy, they believe in “safety is everyone’s responsibility and they will take further action if anyone initiates a fire”. This entails anyone who

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smokes and causes a fire. If violation is found, the penalty is deduction of a month's wage. There is no record that this has ever happened before.

Fire drills are declared by the management team to be practised twice a year. Records showed that the latest ones were on the 14<sup>th</sup> of June 2004 and 30<sup>th</sup> of October 2003. There is visual evidence, photos have been taken to confirm this is correct. The record also shows three people are responsible for supervising the evacuation route, four people are responsible for laying out the blankets and 15 people are tested on using the fire extinguisher. According to the workers' interviews, it is also confirmed that the workers know how to operate fire safety equipment.

However, there are two risky areas in terms of health and safety. Firstly, the glue type, Karteond CA-723 was found to be used by the workers to stick the leather and the underneath layer of cloth together. This glue is highly flammable and the effects of overexposure are respiratory irritation, fatigue, loss of consciousness and irritation to eyes. There is a documentation that indicates that the chemical complies with the GB 18583 (2001) standard. It is suggested that workers should wear personal protective equipment when using the glue. Secondly, there are continuous hammering activities on the first floor, and a few questions were asked to the workers on whether they feel dizzy, have difficulties breathing or have pain resulting from long-term hammering. But workers stated that this is a usual practice.

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It was also found that there is a gasoline container for generating electricity in emergency circumstances. The container was wrongly labelled as trichloroethane.

*6. Freedom of Association*

No workers' union was found in the factory. According to the workers' interviews, they do not see the need for and benefits of creating a union inside the factory. "There is no need to form a union in the factory as everybody goes away after work" (Ms Cheng and Mr Wang, workers in the sewing and hammering section). This shows the workers' ignorance of what a union can do for them through collective bargaining.

*7. Prison or forced labour*

In terms of employment practice, the Managers declared that most of their workers are introduced by the present workforce. According to the workers' interviews, five workers declared that they were introduced by relatives and friends.

*8. Disciplinary practice*

No cases of severe physical or mental punishment were found through workers' interviews. In terms of employee grievances, suggestion boxes are found in the pantry on each floor, but all workers and supervisors who have been interviewed declared that they have not used them. If there were problems, the workers stated that they would communicate with their supervisors and managers? directly.

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*9. Discrimination*

No cases of discrimination in employment practice were found.

*10 Environment*

The general condition of the factory is acceptable. There are two toilets and one pantry on each floor, which are hygienic.

*11. Subcontracting*

No subcontracting was found in the factory by observation and reviewing records.

*12. Dormitory*

No dormitory is provided for the workers. The factory will help migrant workers to rent rooms in the nearby areas.

*Corrective action plan*

The awareness of the factory code and factory regulation needs to be raised through proper training. Through interviewing the supervisors, it is found that they have been promoted within the last seven to ten years. Both of them started off as workers from the sewing and packaging department. It is best practice that there is a non-discrimination policy on sex, age, religion and political background which a lot of garment factories do not have. In terms of health and safety, workers should be aware of the long-term health impacts of the glue, Karteond CA-723.

## **6.4 The Dongguan dimension**

### *6.4.1 Multinational company D's supply chain structure and its operation*

The supply chain is not transparent due to the fact that there is no publicly available information on the number of suppliers and their operating locations. Within the US, the company launched a supplier diversity programme in 1989 aiming to ensure that all businesses have equal access to opportunities with them. By doing this, they strive to put the non-discrimination principle into practice. Similarly to multinational C, they are in partnership with prospective suppliers who are minority or women-owned US citizens' enterprises and support economic growth of those communities. Minority groups are defined as African American, Asian-Indian American, Asian Pacific Islander, Hispanic American and Native American. As reported in 2004, they spent US\$ 597.4 million of products and services with these groups of businesses. Since the programme started in 1989, they have spent over US\$5.87 billion. This programme will refer prospective suppliers to the buyer within the purchasing structure.

#### Environmental and social posture

The company states clearly that it strives to be a socially responsible company and knows "that the trust our customers have in us is not to be taken lightly" (Multinational company D, 2004). In practicing CSR, the company adopted a multi-step approach with the goal of ensuring that the facilities operated by its suppliers; subcontractors and buying agents adhere to a high degree of ethical labour standards. It provides suppliers with the CoC and requires all its suppliers to follow and comply

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with all applicable wage, hour and overtime laws, follow fair employment practices, respect workers' rights to freedom of association, comply with environmental standards, and provide a safe work environment. The company strongly emphasizes that specifically the use of child, prison or other forced labour is forbidden. It routinely reviews the CoC to determine whether modifications are appropriate in light of new developments.

The company recognises and values the relationships with its customers, employees and communities as well as suppliers. In terms of community involvement, the company is committed to preserving the health and vitality of communities. It provides support to hundreds of community organizations such as United Way of Long Island, American Foundation for the Blind, Special Olympics, the National Multiple Sclerosis Society and many others through contributions, outreach programmes, special events and volunteering. The company's financial contributions target education, human services, the arts and community development. Employees are also involved in hundreds of organizations in their communities across the country. The company encourages employees to volunteer in regional activities such as food and blood drives, walk-a-thons for AIDS or act as mentors to local students and adopt families in need over the vacation period.

The company participates in the Fair Labor Association, a non-profit organization combining the efforts of industry, non-governmental organizations (NGOs), colleges and universities to improve suppliers' working conditions worldwide. In addition,

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the company is also a member of Business for Social Responsibility (BSR) a global organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment. A nonprofit organization, BSR promotes cross-sector collaboration and contributes to global efforts to advance the field of social responsibility.

#### 6.4.2 Best Garment Factory background and operation

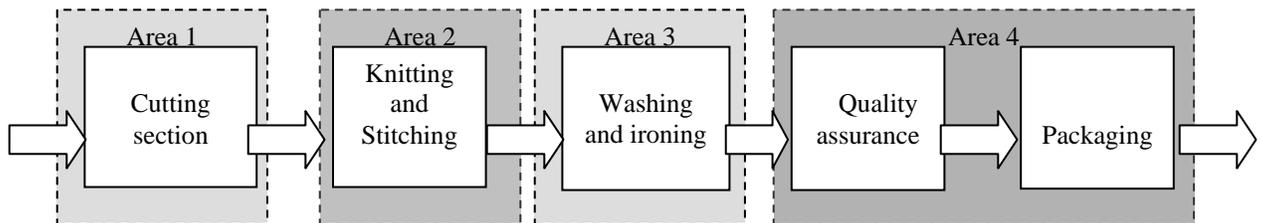
Best Garment Factory is owned by a Hong Kong investor, it has other factories in Hong Kong and Mexico. Multinational company D is a minor customer of the factory since the percentage of the factory's capacity to production of Company D knit items is only less than one percent. The detailed factory profile is shown in the table 6.11. A relatively large workforce was found that includes 85% female and 15% male. The factory has been certificated with ISO 9001 since December 2003. The factory subcontracts the provision of security personnel and catering to another company to lower costs.

Geographical location	Dongguan, Guangdong province, China
No of factory buildings	1
Total factory area	234,635 square feet
Total production area	145,318 square feet
Number of dormitory buildings / area	1
Year established	N/A
Ownership Type	Facility owned by a Hong Kong Investor
Company D labels produced	Knit items (e.g. knitwear)

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Other labels produced	Other American brands: The Limited, L & L Bean, Crystal Kobe, Sears, Target Corporation, Kohl.S
Monthly production	700,000 pieces
Low production period	Nov to May
Peak production period	June to Oct
% of factory's capacity to production of Company D products	Less than 1%
Total number of employees at factory	1600 (240 males and 1360 females)
Number of office staff	80
No of piece rate employees	0
Other factories	1 Mexico factory 1 Hong Kong factory
ISO certified	9001 (since December 2003)
Language spoken	Cantonese and Mandarin
Sub-contractor information	Catering provision Security
Any environmental policy?	No
Any existing certification system such as - ISO 9000 - ISO 14001	Yes No

*Table 6.11 Best Garment Factory background*



*Fig 6.6 Basic production process flowchart at Best Garment Factory*

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Interviewee	Number of them actually interviewed
Chief factory manager and Assistant to Chief factory manager	2
Health and safety manager / Security head	1
Personnel Manager/ Payroll Manager	1
<b>Total no of managers interviewed (N)</b>	<b>4</b>
Supervisor (4 <sup>th</sup> floor)	2
<b>Total no of supervisors interviewed (N)</b>	<b>2</b>
Cutting	2
Knitting and stitching	2
Quality assurance	1
Washing	1
<b>Total no of workers interviewed (N)</b>	<b>6</b>
Cleaner	1
On-site doctor	1
<b>Total interviewed:</b>	<b>14</b>

*Table 6.12 Interviewee sample in Best Garment Factory*

Summary of observations and corrective action plan

*1. CoC and factory regulation awareness*

From direct observation, no CoC from multinational company D is placed in the office entrance or on the factory floor. The factory manager claimed that multinational company D has not translated the document into Chinese for factory implementation. There are a few other codes translated into Chinese provided by other US multinational companies as posted on the office floor, none of them are seen to be posted on the factory floor. Direct interviews with the workers suggested that the awareness of the other multinational's CoCs is low since there is no training provided. *"I don't know about other company codes, I only know there are factory regulations that we have to follow"* (Ms Lo, a local worker in the sewing and stitching section). *"We don't read the notice posted on the wall, we just follow what*

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*our supervisors said.*” (Mr Tang, a worker from cutting section). Five out of six are not aware of the existence of the CoC. This is also confirmed when interviewing the supervisors, who are in charge of 80 workers, the type of training they provided is on factory regulations and fire safety and equipment. They don’t know if other types of training exist internally and they suggested that the human resource department should be able to help to get more information. From interviewing the personnel manager, it was confirmed that there is no brand name training on codes. Two new workers who had worked in this factory for three to four months said that they have not been trained on factory rules or fire safety. Four workers out of six know there are factory rules, but they cannot remember what is included in the rules. In reviewing documentation, the factory provides an employee handbook when the worker first joins the factory. The details of the handbook include the following sections: factory regulations, bonus, holiday and benefits, fire safety, worker health and safety, International Organisation of Standardisation (ISO) and quality standards.

2. *Wages and benefits*

The basic provincial minimum wage is RMB 450. Workers’ payroll records from February to August 2004 are reviewed on a random basis. No actual timecard is provided as the factory use a swipe card system where all data is stored in the computer programme. Workers payroll items are indicated as follows in RMB:

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Worker	Production section	Basic wage	Bonus	Total normal day overtime	Total Saturday overtime	Monthly Meal fee	Total received
Ms Zhao	Knitting	453.6	241.5	105.3	172.8	114	859.2
Ms Fan	Knitting	453.6	212.2	105.3	172.8	114	829.9
Mr Hung	Ironing	453.6	205.6	105.3	172.8	114	823.3
Ms Chen	Quality Assurance	453.6	202.2	105.3	172.8	114	819.9

*Table 6.13 Workers' wages sample in Best Garment Factory*

Wages are paid on a monthly basis on the 30<sup>th</sup> of each month in cash. The workers' hourly rate on a normal day is calculated as RMB 2.7 and on a Saturday the hourly rate is doubled to RMB 5.4. When the supervisors and workers were asked how the factory calculates their bonus, none of them know how it is calculated. Two of the workers thought that doubling and tripling the wage per hour on Saturdays and Sundays is regarded as a bonus. A meal fee of RMB 114 is deducted from the monthly salary, which is illegal according to Article 50 in Chinese labour law. The law stresses "Wages shall be paid monthly to labourers themselves in the form of currency. The wages paid to labourers shall not be deducted or delayed without justification". According to Article 50, meal fees should be paid from the employees' monthly wage voluntarily rather than a direct deduction from each month's salary. As part of the workers' benefit, workers do not have to pay for their dormitory fee.

Article 72 in the Chinese labour law states the employing unit and labourers must participate in social insurance and pay social insurance premiums in accordance with

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the law. Secondary evidence showed in table 6.14 below that the total number of workers insured is less than half.

Type of insurance	No of people insured (N)	Total cost embedded (RMB)
Accident	797	6325
Medical benefits	399	N/A
Social security	399	4890.6
Unemployment	398	6520.8
Pension	399	32604

*Table 6.14: Basic insurance plan covered by Best Garment Factory*

In the factory management interview, the factory manager responded that this is a common practice in China, where workers' turnover rate is high. Workers will resign as quickly as possible if they discover that the next-door factory has a higher pay than the current one. According to the workers' interviews, all workers thought that the factory had bought insurance for every single one of them. A typical answer from the workers is *"The factory has bought insurance for each one of us, we don't have to worry about that."* *"We are told that we are insured, but we have not seen any receipt given by our supervisors"*. But when asked if they have seen any receipt, it is apparent that they have not done so. No sign of deposit deduction was found in the payroll record.

*3. Working hours*

The factory operates two shifts from Monday to Saturday. The first shift starts from 7:30 a.m. to 9:30 a.m., 10:00 a.m. to 12:00 noon, 1:30 to 3:30 p.m., 4 p.m to 6 p.m.

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The second shift starts from 7:50 a.m. to 9:50 a.m., 10:20 a.m. to 12:20 noon, 1:50 to 3:50 p.m., 4:20 p.m. to 6:20 p.m. There is a half hour break both in the morning and afternoon. The time records from February to August were reviewed and it was found that workers get Saturday or Tuesday off rather than a Sunday. This is explained by the factory manager as being due to an electricity shortage in the area and this is common in the Dongguan area. The payroll records also show excessive overtime of over 36 hours, which is illegal by national law. There is a local variation, which contradicts the national law, which the factory can apply for a comprehensive working hours' permit from provincial government that maximum overtime can be extended to 60 hours per month. Even though this factory has obtained this permit, most workers work 26 hours overtime from Monday to Friday and 32 hours overtime on Saturday, this added up to 62 hours on a monthly basis which is still regarded as excessive overtime.

*4. Child Labour*

No child labour or young workers were found in hazardous conditions where chemical solvents are used in the washing process. The factory management's awareness of child labour issues is high.

*5. Health and safety*

The factory manager declared that the factory provided internal training on corporate culture and health and safety, but it is found from workers' and supervisors' interviews that they do not do it on a regular basis. According to the accident records

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in the clinic, no major accidents happened from January 2004 to July 2004. The doctor lives inside the factory in case there is an emergency.

Dangerous health and safety conditions were identified where the washing process uses a wide range of chemical solvents that are ignitable. Tetrachloroethylene solvent contains hydrofluoric acid and retinoic acid, and workers are without personal protective equipment. But both acids can irritate skin and may damage a developing foetus. If the workers are exposed to high concentrations in the air, especially in poorly ventilated areas, this can cause dizziness, light-headedness, nausea, and in serious cases it is possible to cause unconsciousness, and death. Overexposure can cause the heart to beat irregularly or stop. Long-term exposure can cause drying and cracking of the skin. Other chemicals used are aliphatic – fatty acid softener, composite fatty acid tallow-alkyl washing powder and organic siloxane solvent which are hazardous, and it is best to prevent them from direct contact with the skin and eyes.

A previous fire drill record was found on the 2<sup>nd</sup> of February, 2004 and the total time taken for evacuation was two minutes 30 seconds. The head of the security guard, who has been trained for health and safety, is responsible for regular inspection of fire extinguishers. When interviewing the security guard, he seemed knowledgeable in the use of fire safety equipments, and the use and storage of hazardous chemicals.

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6. *Freedom of Association*

Multi-national company D considered that suppliers should respect workers' rights to freedom of association and collective bargaining. However, in practice workers were not free to organize or join unions of their own choosing according to China Trade Union Law. Under the law, the All-China Federation of Trade Unions (ACFTU) was the sole legal workers' organization to control the establishment and operation of all subsidiary union organizations and activities throughout the country. Unions exhibiting the characteristics of an independent union will be forced to shut down. There are three kinds of associations existing in the factory: official trade union, workers' welfare committee and a fire safety committee. The trade union in this factory has a policy to show how they work to benefit employment at management, supervisory and worker level. They believe in democratic management, improvement in technical skills and have a socially responsible system in place. Union representatives are elected by members annually. Members can be of any race, religion, or educational level and they must be directly employed by the factory. Members have a right to vote, and demand changes to committee representatives. They also serve as a monitoring role and have responsibility towards a high standard of production. The financial aspect of the trade union is also disclosed, workers can decide if they want to pay at least RMB 1 per month to set up a fund to organise activities for workers. The worker's welfare committee has 15 people which consist of management staff, supervisors and workers from each part of the operations. They gather to improve the condition of the factory such as making complaints about the quality of the meals in the canteen. Minutes of the

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meetings provided secondary evidence that they have a meeting regularly to discuss meal costs, and the hygienic condition of the food and canteen. The fire safety committee was set up to supervise the fire evacuation route. Management interviews indicated that the committee members are elected annually by workers, but there is no evidence and procedure written to prove that there is an annual election. According to workers' interviews, five workers did not know that there is a trade union and a welfare committee in the factory.

*7. Prison or forced Labour*

From workers' interviews and documentation, no forced or prison labour was found in any stage of the production.

*8. Disciplinary practice*

No evidence of physical or mental punishment of workers or use of monetary fines was found, and this is confirmed by both workers' and supervisors' interviews.

*9. Discrimination*

Although there are a wide range of migrant workers from Sichuan, Hunan, Hubei, Shanxi and Guangxi working in the factory, no incidence of discrimination was found in the factory according to workers', supervisors' and managers' interviews.

*"I believe in equal opportunities of males and female. I will employ someone who is handicapped if he or she could do the job"* (Response from factory manager).

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*10. Environment*

No written environmental policy was found in the factory. The general housekeeping practice in terms of the storage of raw materials is considered as good practice. Stocks of clothes and piles of fabric materials are found stacked up on the lower floor of the building. There is no evidence of measures to reduce wastage of materials. No measures to improve air quality, water or waste management were found in the factory.

*11. Subcontracting*

No subcontracting was found in the main factory process. But the catering facility and 80% of the security is subcontracted to another company.

*12. Dormitory*

The dormitory building comprises male and female floors. Ten people share one room with separate bathroom and kitchen. The workers have the freedom to decide whether they want to live in dormitory or outside the factory, but most live on the factory premises. Of the total workforce, 90% of workers live in dormitory and the remaining 10% rent their own places.

*Corrective action plan*

With regard to the CoC and factory regulation awareness, it was suggested to the management team that more training should be provided to the supervisors and

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workers regularly on the content of the CoC and the details in their employee handbook.

Secondly, the illegal direct reduction of wages was discussed with the factory management team. The factory managers explained that the canteen is subcontracted to a catering company, where the factory pays the total sum of workers' meals directly from the company account, and in turn collect the fee back from direct deduction from the workers' payroll. He indicated that this case is acceptable to most of their multinational clients. .

In terms of protecting the workers from accidental injury, corrective action is needed so that all workers are insured, but the management team could not guarantee this can be done. Excessive overtime of 36 hours per month which violates the national law was also discussed with the factory manager and he defended this with documentation showing that the factory has applied for a comprehensive working hours permit from the provincial government so that their maximum overtime hours can be adjusted to 60 hours per month. Hazardous conditions were identified, and it was suggested that several sets of personal protective equipment (PPE) including masks and gloves should be provided to protect the workers. Workers should be encouraged to use PPE for their own good.

It can be a good practice that the factory has a trade union. However, some would argue that it is useless to have trade unions in the factories since they are not free

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trade unions and they are affiliated with the ACFTU. The latter believe that the official trade union is ineffective and unhelpful when workers encounter contract traps, salary delays, welfare infringement, overwork, security protection danger, and other unlawful infringements. As mentioned previously, ACFTU is state-controlled and is the country's only legal trade union. Suggestions were made to management staff that the union election process and results should be better documented in the future. From direct observation, there is a suggestion box in the canteen, which is falsely located at the canteen entrance as there is a surveillance camera recording that is coming in and using the suggestion box. The workers might feel insecure in voicing their concerns. It was suggested to the management staff that the box should be placed somewhere else. From employee interviews, four of the employees do not know that there is a suggestion box in place so the management staff should communicate with the workers about the grievance system which is in place. The supervisors explained that the human resource staff is responsible for opening up the suggestion box and deal directly with the complaint, this suggests that the factory has a good system in place.

It is best practice that the factory actually has most systems such as human resource system, grievance system and election system in place. But the major weakness is that their communication channel is weak in delivering the message to the level of the supervisors and workers.

## **6.5 The Panju dimension**

### *6.5.1 Multinational company E supply chain structure and its operation*

Multinational company E headquarters is in Hong Kong. It is one of the top performers in good corporate governance. It believes that companies should not rely solely on the Government and regulatory bodies to establish high standards.

It manages its supply chain from a diverse global sourcing base to retail and wholesale distribution of products. Its recent financial report indicates that the company sources approximately two-thirds of its merchandise mostly from China and the rest from Asia. The company believes that sourcing from a diverse supplier base is its strong competitive advantage. Its supply chain is not transparent; there is no publicly available information on the number of suppliers and their operating locations.

### *Environmental and social posture*

Its social standpoint is stressed in the social responsibility section of most recent financial report 2003-2004. "Our company believes in developing a long-term relationship with its shareholders, employees and business partners and behaves responsibly towards society as a whole. We believe companies that demonstrate a commitment to social responsibilities are likely to enjoy comparative advantage in the marketplace" (Multinational company E, 2004:1).

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It believes in developing a long-term relationship with its shareholders, employees and business partners and behaves responsibly towards society as a whole. There is no publicly available information on the existence of the CoC and how the company monitors its suppliers. It is only from its financial report that it is discovered that it requires its suppliers to observe the laws of the relevant jurisdictions with respect to child labour, workplace safety and fair wages and benefits. It also prefers suppliers that value children's education and demonstrate responsible environmental protection and practices. However, there is no evidence that it puts the mission into practice.

Company E is committed to act as a good corporate citizen and it believes that it has responsibilities towards the community. "Our company is committed to playing a full role as a good corporate citizen. We take pride in making contributions to the well-being of society and to people in need. As our business grows, we are determined to extend this tradition of good corporate citizenship through active participation in financial support, donations in kind and voluntary activities to be undertaken by employees throughout the organization" (Multinational company E, 2004). Recently, it sponsored the Directors of the Year Awards 2004 organised by the Hong Kong Institute of Directors (Multinational company E, 2004).

*6.5.2 Sunshine Garment Making Factory background and operation*

Sunshine Garment Making Factory is owned by a Hong Kong Investor. The factory is operated by the second generation of the family. This factory produces products mainly for the domestic market. This factory produces knitwear and coats for

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Multinational company E, but there is no information on the percentage of the factory's capacity to production of Multinational company E products. Its monthly production ranges from 40,000 to 60,000 garments. The audit took place in June, 2004 which is within the peak production period. 700 workers are paid at piece rate in 5 different sections: sampling and cutting, sewing, quality assurance, ironing and packaging (See fig 6.7). Other production processes such as washing, printing and embroidering processes are subcontracted to other factories.

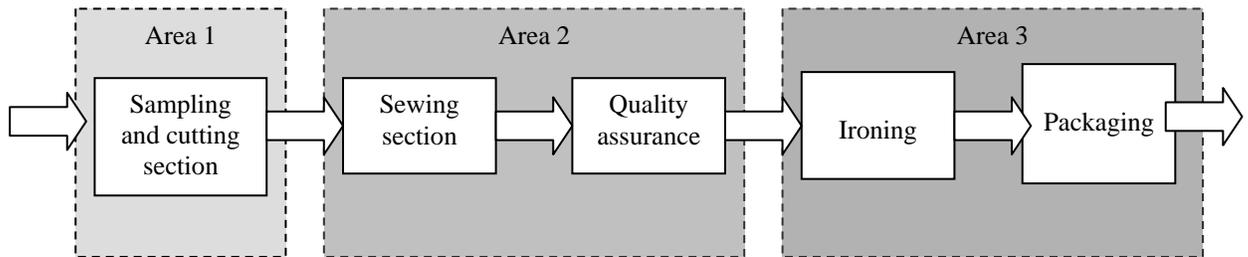
Geographical location	Panju, China
No of factory buildings	1
Total factory area	Entire land area is 200,000 square feet Built up area is 110,000 square feet
Total production area	45,210 square feet
Number of dormitory buildings / area	1
Dormitory area per person	28 square feet (2.6 square metre)
Year established	1992
Ownership Type	Facility owned by Hong Kong Investor
Company E labels produced	Knit items (e.g. sportswear and coats )
Others labels produced	Fred Perry, Queen of Saba (for domestic market)
Monthly production	40,000 to 60,000 garments
Low production period	November to April
Peak production period	May to October
% of factory's capacity to production of Company E products	N/A
Total number of employees at factory	750
Number of office staffs	50
No of piece rate employees	700
Language spoken	Cantonese and Mandarin
Other factories	Hong Kong factory
Sub-contractor information	Washing, printing and embroidering processes are contracted out
Any environmental policy?	No

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Any existing certification system such as - ISO 9000 - ISO 14001	No
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*Table 5.15 Sunshine Garment Making Factory background*

The factory comprises 4 floors. The first 3 floors are for sewing, ironing, quality assurance and packaging. The 4<sup>th</sup> floor is cutting, sampling area and office administration area. Details of the production flow are shown in figure 8 below:



*Figure 6.7 Basic production process flowchart at Sunshine Garment Making Factory*

*Summary of observations and corrective action plan*

Contracted Factory D with headquarters in Hong Kong is located in Tsuen Wan, which comprises management office, showrooms and design house. This is a typical example of a Hong Kong manufacturer that has initially started its factory in Hong Kong for 32 years and shifted the labour intensive process to China.

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*1. CoC and factory regulation awareness*

No CoC for multinational company E was found on the site. The factory manager stated that the multinational CoC is being amended to the factory regulation that is posted on the factory wall. There is no requirement from multinational company E that their CoC should be placed on the factory wall. It is confirmed from eight workers' interviews that they do not know about the CoC. Seven out of 12 workers do not know the details of the factory regulations.

*2. Wages and benefits*

The basic wage that the company pays is RMB 450. The legal requirement was recently changed to RMB 574 per month. It was discovered from reviewing the payroll from January to June 2004 that workers are paid at RMB 450 per month. The factory management staff failed to realise the change and claimed that they have not received a government letter informing them on this recent increase. There are three levels in the wage structure, which is shown in table 6.16.

Wage categories	Basic wage (RMB)	Total wage (RMB)
A	1000	>1500
B	700	1001-1499
C	450	<1000

*Table 6.16 Workers' wage structure at Sunshine Garment Making Factory*

From documentation provided, it was found that workers have to pay RMB 62 for meals and RMB 20 for accommodation per month to the factory. In terms of social insurance which includes old-age insurance, unemployment insurance, medical

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insurance, work-related injury insurance and maternity insurance, the factory only covers 30% of all employees, although article 72 requires employers to obtain social insurance for all employees. The factory management stated that it is a common practice for employers not to cover all workers' social insurance as some of them resign after a short period of time.

Later it was found that the total number of hours worked in the timecards does not match with the payroll and the managers were asked to give further explanation on how the payroll is calculated. In response, it is alarming that the management staff finally declared that they have to make false records to meet the clients' requirement. The real record shows an excessive overtime of over 70 hours per month and only two Sundays off per month. Three workers were selected and it was found that they are paid RMB 538 to 722 per month for a total of 36 hours even though they work 70 hours overtime. For workers paid at RMB 538, which is less than the minimum wage, they are working without overtime compensation. The factory managers declared that they face a number of external factors such as the continuing squeeze on the cost of each contract, the much smaller customer orders, and time delays from the upstream factory in providing raw materials. All the above factors result in shortening the manufacturing schedule from normally 60 days to 30 days, and therefore overtime is the only way to meet the deadline. While meeting tight deadlines, the factory manager added that their western clients increasingly demand SA 8000 certification, which is their main challenge. The factory manager declared that SA 8000 requires factory workers to work no more than 48 hours per

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week (eight hours a day) with at least one day off per seven day period, overtime to be paid at the premium rate and overtime not exceeding 12 hours per week (two hours per day) on a regular basis, which is difficult to comply with.

*3. Working hours*

The factory operates from Monday to Saturday 8 a.m. to 12 noon, 1:30 to 5:30 p.m., 6:30 p.m. to 11:30 p.m. Based on the working hours, workers work thirteen hours a day and the overtime is more than three hours per day, which is illegal in China. Article 36 (1997) defined that the state shall practise a working hour system under which labourers shall work no more than eight hours a day and no more than 40 hours a week on average. The time records show that sometimes workers work till 3 a.m. in the morning. The factory managers explained that the workers get the whole afternoon off due to the electricity shortage on some weekdays and that's why they have to work late at nights. This case is very common since China's demand for electricity has been increasing so rapidly that most electrical generation facilities are unable to cope with the demand. In the PRD where there is a strong presence of factories, most have been forced to change their working hours due to the electricity shortage. A blackout period of one to two days per week is very common (China Business Strategy Daily News, 2004). In addition, the factory manager declared that their workers want to work overtime so that they have more money to send home. If they found that their factory doesn't have enough work for them to do, they will leave and find another job around the area.

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4. *Child labour*

No evidence of child labour was found in the factory. The factory manager declared that the minimum requirement for employment is 18 or over, and they only employed workers with two years of experience in the garment factory. They also pointed out that it is very difficult for them to check for real identity cards, there are so many fake ones around. So they need to find a standard procedure to ensure the validity of the document.

5. *Health and safety*

No health and safety policy is in place in the factory. No needle guard was observed for the workers in the sewing section. Fire drills took place twice a year, in February and June. Emergency light boxes do not work on each floor, which requires further attention.

6. *Freedom of Association*

There is no workers' union in this factory.

7. *Prison or forced labour*

The management team reported that they received phone enquiries about employing prison labourers, but they rejected it immediately. "*Multinational clients will not accept their products made by prison or forced labour*" (Factory manager explained). The use of prison labour was criticised by the public as early as 1992. It was documented in the *Washington Post* that Chinese prison labourers are used to

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produce Levi's jeans in the island of Saipan. In recent years, it was also documented in the *Sydney Morning Herald* that Chinese labour camps force people to produce export products. Ms Zeng, one of the unpaid prison labourers among 130 from China's re-education camps, began work each day at 5:30am and continued until early the next day, seven days a week. "*We were told that the money received for each rabbit was the equivalent of about six Australian cents,*" says Ms Zeng. "*The labour camp took it all. We received nothing*" (Burke, 2001).

8. *Disciplinary practice*

It is confirmed by the workers that there is no physical or mental abuse in the factory.

9. *Discrimination*

No discrimination was found during the audit.

10. *Environment*

No environmental policy or management is in place in the factory.

11. *Subcontracting*

No subcontractor is currently employed in the factory.

12. *Dormitory*

It was found in the workers' dormitory that each worker has 2.6 cubic metres of space.

Corrective action plan

Sunshine Garment Making Factory should communicate with the workers about factory regulations. It is a serious offence that falsified records were found in the factory. Serious attention has to be given to paying correct wages and reducing excessive overtime hours. Working hours have to be restructured in order to comply with the local law. Needle guards should be freely provided to the workers and workers should be encouraged to use them for their own protection. Considering that the factory is a comparatively large operation with over 700 employees, it was suggested a health and safety committee and system would be desirable in order to have someone responsible in inspecting fire safety equipment, status of the emergency light boxes and emergency exits regularly and the committee could also advance workers' knowledge on emergency response and work-related hazards.

**6.6 Cross case analysis**

The five case studies illustrate how far CoC principles are implemented in the supply chain. The results are compared to derive themes and patterns. Cross-case analysis allows examination of cases, categorising the similarities and differences in each pair. As patterns begin to emerge, certain evidence may stand out as being in

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conflict with the literature. The effectiveness of a CoC is measured by the level of multinational commitment and the extent of CoC implementation in terms of transparency, public accountability, local participation and credibility, worker participation and benefits. Across five cities in the greater PRD, the following themes emerged:

1. Multinational operating features and their supply chain structures are not transparent

One of the major findings is that most multinationals have low accountability towards the public. Three out of five multinationals provided limited information on their supply chain structure, such as their number of suppliers and their operating locations, manufacturing sites and distribution centres. However, multinationals B and E admit that they are sourcing from a diverse base of factories and a large percentage of garments are produced from China and other parts of Asia. Multinational company D does not disclose the number and locations of suppliers, but it is a good practice that they have adopted a supplier diversity programme within the US to ensure suppliers from minority groups such as African Americans, Asian-Indian American, Asian Pacific Islander, Hispanic American and Native American have equal access to opportunities to do business with them.

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2. The multinationals' vision of CSR and sustainability: social and environmental posture such as existence and stage of implementation of the CoC is uncertain

Multinational companies viewed CSR differently. Some viewed CSR as philanthropy, such as giving donations to a charity. Multinational company A only considers the primary level of engagement, which includes charitable donations and community-specific projects in its home country. In comparison, multinational company B is seen in the other extreme where it commits to a high level of engagement and achieves a higher level of accountability. It looks beyond charitable donations, having a CoC publicly available, producing social and environmental reports, commits to socially and environmentally responsible practice internally and externally. It identifies what the local community need and initiates a corporate-community partnership in developing countries.

The existence and monitoring of the CoC signals its importance to senior management in that they have strong incentives in regulating supply chain behaviour. Reporting the CoC implementation in public results shows their active commitment to sustainable development.. For a large number of multinational companies, their sustainability journey is still at the beginning whereby there is either an internal CoC (multinational company E) or a CoC that is publicly available but with no sign of implementation procedures and results (multinational company

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A, C and D). Four out of five companies do not show how far up the supply chain monitoring extends and do not disclose the number of audits to date.

Among five multinationals, multinational company B is a comparatively proactive one that has become the benchmark for other companies to learn from by having its CoC policy publicly available, disclosing its implementation process and findings. With the exception of multinational company B, the others are the reactive type of companies where there is lack of transparency of supply chain structure and implementation of the written CoC. Multinationals A, C, D and E may have to rethink their approach in the direction of higher transparency. There is no publicly available information on how regularly their suppliers are monitored.

3. Key challenges for regional suppliers are increasing CoC and factory regulation awareness, the payment of correct wages and benefits and provision of a safe environment for the workers

The core competencies and common problem areas are identified and confirmed by multiple sources of evidence, direct observation, workers', supervisors' and managers' interviews and reviewing documentation in evaluating suppliers' performance. The results are shown in table 6.17 where a tick represents an acceptable condition based on the multinational CoC or local legislation whichever is higher, a cross represents problem areas that need corrective actions. Extensive

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explanation of the problem areas is undertaken to deduce similarities and differences among six suppliers.

Issues	Wealthy Industrial	Wing Hang Enterprises	Evergreen Garment	Yuen Mei Garment	Best Garment Making	Sunshine Garment Making
1. Code of conduct and factory regulation awareness	×	×	×	×	×	×
2. Wages and benefits	×	N/A	N/A	√	×	×
3. Working hours	√	√	√	√	×	×
4. Child labour	√	√	√	√	√	√
5. Health and safety	×	×	×	×	×	×
6. Freedom of association	√	√	√	√	√	√
7. Prison and forced Labour	√	√	√	√	√	√
8. Disciplinary practice	√	√	√	√	√	√
9. Discrimination	√	√	√	√	√	√
10. Environment	√	×	×	√	√	√
11. Subcontracting	√	×	√	√	√	√
12. Dormitory	-	-	√	√	√	√
No of problem areas found	3	4	3	2	4	4

*Key: × Problem area and need further attention  
√ Acceptable condition or no such case found in the factory*

Note: N/A denoted in wages and benefits issue as it remains difficult to confirm whether the wage record is real since the hours of work do not match with the payroll record.

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Table 6.17 Core competencies and problems of codes issues within the six factories

The extensiveness of CoC implementations in six suppliers' premises is discussed in the following:

*1. Code of conduct and factory regulation awareness*

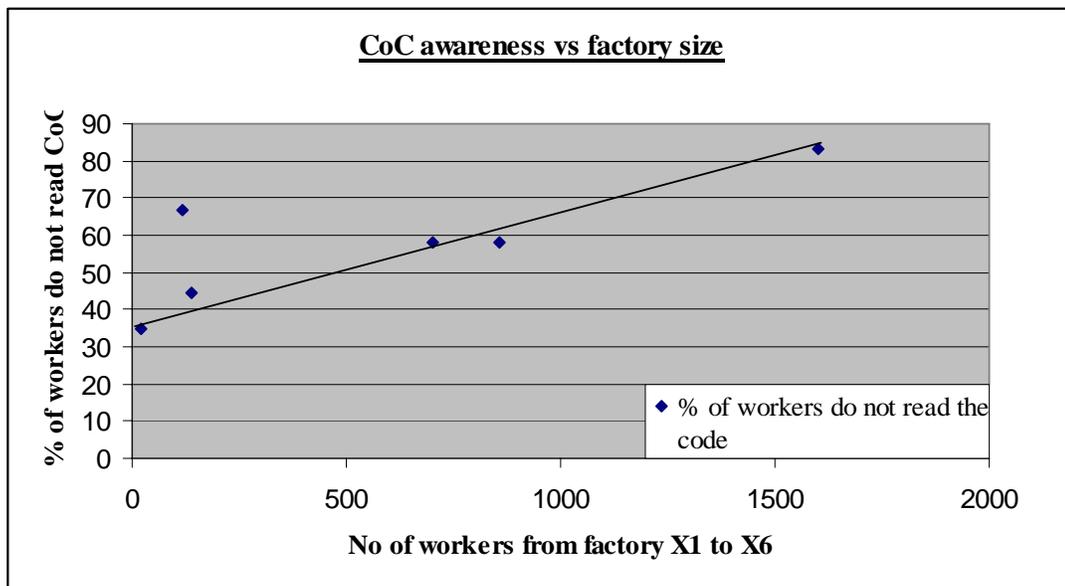
42 out of 80 workers (52.5%) do not read the CoC usually clearly posted at the entrance and the obvious places on the factory wall in both English and Simplified Chinese languages. With the exception of Hong Kong factory X1, all workers in the other factories could not give any details of the code during their interviews (See table 6.18). The situation in the garment industry nowadays seemed to be better when compared to the research executed by HKCIC in 2001, where 90% of the interviewed factory workers in 20 toy plants in varying size declared that they did not know what a CoC or ethical business principles were.

Code of conduct and factory regulation awareness	Factory X1 (20)	Factory X2 (12)	Factory X3 (12)	Factory X4 (18)	Factory X5 (6)	Factory X6 (12)
No of workers who can give the details of the code	5	0	0	0	0	0
No of workers who do not read the code	7	8	7	8	5	7
% of workers who do not read the code	35	66.7	58.3	44.4	83.3	58.3

Table 6.18 CoC and factory regulation awareness

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One-third of workers interviewed do not know about the brand name of multinational A and do not know that the code exists. Not only is the CoC poorly implemented, but also the factory regulations are poorly observed. More communication between the staff and workers on the content of the code and factory regulations is desirable.



*Fig 6.8 CoC awareness vs factory size*

In general, there is low awareness of the CoC among factory workers except the smallest factory where employee communication is easier, and the fact that their knowledge is comparatively higher is because these workers might be frequently chosen to be interviewed by an auditor. From the graphical representation, it is found that the smaller the size of the factory, the higher the number of workers who read and understand the CoC. However, the larger the factory, the higher the

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percentage of workers who do not read the CoC. A large factory does not mean a higher chance of CoC awareness amongst workers, despite the fact that they might have better resources, systems and human resources. Other factors have to be taken into account, such as factory location. The Wealthy Industrial Company is located in Hong Kong which is a developed region of a developing country and workers tend to be better educated. It might be that the smaller the number of workers in the factory, the higher chance that they would be asked by the auditors, and so they become more knowledgeable.

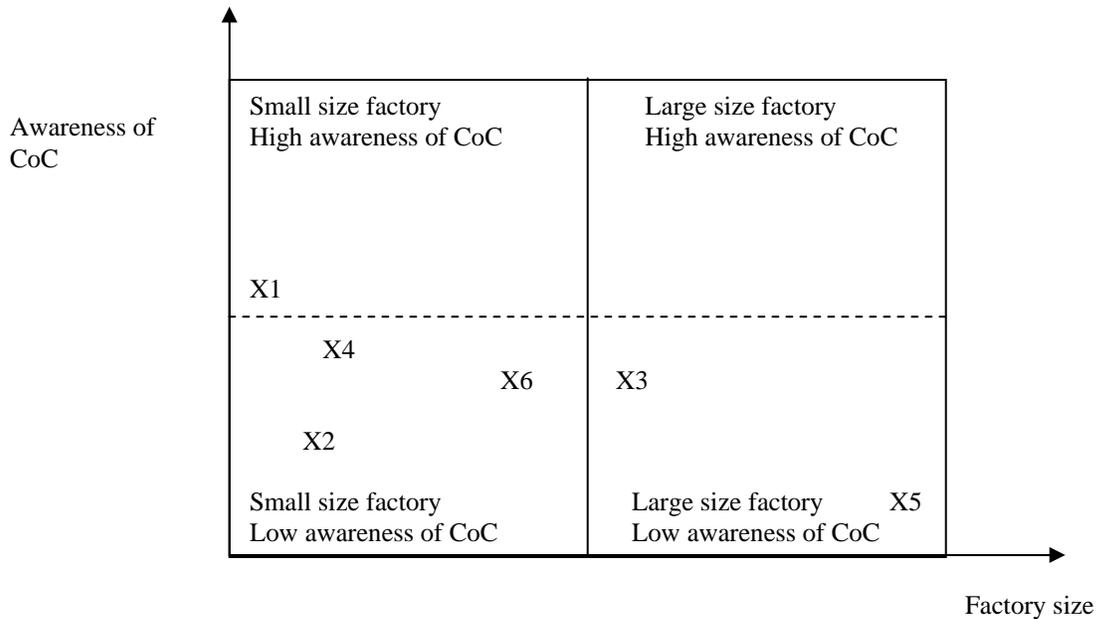


Fig 6.9 CoC awareness matrix

From the matrix, it is clearly shown that three out of four comparatively small sized factories have a low level of awareness of the CoC. Only one small sized factory

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located in Hong Kong has a high awareness of the CoC where employee communication is easier. None of the large factories has a high awareness of CoC.

*2. Health and safety*

It was reported previously that all of the suppliers experience problems in some aspects of health and safety, such as no personal protective equipment being provided to the workers, improper handling of dangerous chemicals or defective health and safety equipment. There is commonly a lack of OSH provision and knowledge amongst workers and at factory management level. Workers are not trained about the ingredients of the chemical materials that they are using at the workplace. One of the major weaknesses observed in factory X3 in the health and safety aspect is that the hazardous conditions are not recognised by the workers.

*3. Working hours, wages and benefits*

Workers are paid at a normal day hourly rate of RMB 2.25 to 5 per hour approximately. It is impossible to calculate their hourly rate exactly since the workers' sample is small. From the suppliers' point of view, one of the major barriers to overcoming excessive working hours is that multinationals continue to lower the vendor cost and shorten their delivery time, which forces the workers to work overtime, making it difficult to comply with the code as well as the legislative requirement, which is often more stringent in China. Other violations observed are failure to pay workers at the minimum wage and overtime compensation. For social insurance, it is commonly found that less than half the workers within the factory are

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entitled to social security. This is illegal according to Article 72, where it states that the employing unit and labourers must participate in social insurance and pay social premiums.

*4. Environment*

The use of environmental management policies and strategies are found to be rare in the garment manufacturing industry in this region, despite a lot of examples found in the other sectors in the west. These types of environmental request are not required by the multinational. There is a lot of room for integrating environmental management strategies into factory processes from the cutting to the packaging stages. Environmental parameters such as waste management and energy use could be incorporated into the operation. In the literature, it is often suggested that meeting the regulation is only the minimum. But from the manufacturers' perspective, meeting customer requirements is the minimum. Most of them do not embrace environmental issues in their operations for various reasons. There is often a lack of environmental specialists, and internal occupational safety and health experts in the human resource structure of the supplier's staffs.

It is unlikely that the businesses would voluntarily incorporate environmental and social dimensions in their own practices in promoting sustainable development. It was found that the manufacturers are resistant to making progress in this area. All of the suppliers' companies are compliance driven and they do not integrate environmental policy or management systems into the supply chain.

## **6.7 Conclusion**

The results from the five explicit case studies indicate that workers do not recognise the importance of the presence of the CoC in reality, following the sophisticated formulation and development stage of the CoC in the west. There is a large gap in policy and standard of awareness of the CoC among suppliers within the garment industry as a whole. The CoC is often used as a guide for a factory management team to comply. In order to raise awareness of the code, multinationals should be transparent and make greater effort in helping their contracted suppliers to communicate the CoC as a responsible policy implementation and cooperate with their suppliers. However, there are limits to which the CoC is able to influence the operational decisions of those factory owners, which indirectly affect the workers' quality of life. Very commonly, no specific environmental policy or certification is found in the factories, since it is not imposed by the buyers. Long-term excessive usage, spillage or improper disposal of hazardous wastes will eventually become a public health problem. This is not normally addressed in the codes. The environmental elements in the CoC should be addressed to a greater extent as it directly affects workers' health in the long term.

Workers should be better informed in terms of the details of the CoC and the health and safety aspects as it directly affects their personal health. The overall performance of the supply chain can be improved in the following core areas: codes of conduct and factory rule awareness, correct wages, acceptable working hours,

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health and safety and environment. Knowledge building in other areas such as the labour union and its power in bargaining can help workers in gaining a better working environment in the long run. Government and non-governmental organisations should play a bigger role in educating consumers and suppliers.

Employing a social compliance audit technique is the current and non-standardised inspection method in assessing common factory issues. It is criticised by academics in that the process is tedious and the auditing results do not always present the real situation (Welford, 2005). The study demonstrates that social compliance audit is effective to a certain extent, provided that the factory management do not aim to cheat the auditors in all cases. It is desirable to involve local stakeholders in order to find out the local situations and comments given to the factory.

In the long run, the mindset of the factory management will have to change and they must realise that they are benefiting from the process. They should be open and communicative both internally and externally, and have readily available, knowledgeable and specialised expertise. In the next chapter, it is intended to find out where the future direction lies and what the opportunities are for improvements for the greater PRD, by interviewing experts from universities, companies, government departments, industries and non-governmental organizations in this area. Priority attention can be identified for future action.

## CHAPTER 7

### PARTNERSHIPS FOR SUSTAINABLE DEVELOPMENT

#### 7.1 Beyond social compliance auditing: partnership

From the previous chapter, it can be seen that the CoC policy only works to a limited extent and that it has not filtered down to the minds of the workers that it is beneficial to them. Therefore the aim of this chapter is to identify alternatives and future opportunities to improve CSR implementation in suppliers' working conditions. Case studies in the previous chapter suggested that having self-regulating tools such as a CoC policy and social compliance auditing alone is not effective, which begs the question of whether there any other options that would work more effectively. Can public organisations play a role in bringing about changes? The World Bank report in 2003 stressed that there is a need to perform more research work in order to find locally specific CSR solutions for the supply chains. Currently the emphasis is on OECD countries. In particular, stakeholders viewed CSR differently in largely different parts of the world since they are culturally and historically different.

Increasingly, the trend is moving towards a more collaborative approach. The concept of partnership appears to be a win-win situation for every stakeholder when explored in detail. Bakker *et al.* (2002) emphasise the importance of partnership: "Only through co-operation and close interaction between the different parties involved is it possible to come to a specified form of responsible

chain management.” In the same year, the importance of partnership was also shown during the World Summit on Sustainable Development (WSSD), which aimed to take action and build alliances for a sustainable future. The UN Global Compact also tries to promote such partnerships in sustainable growth, through creative corporate leadership that is committed to the compact’s core values as set forth in its nine principles. A collaborative approach is also supported by academics in improving buyer and supplier relationships (Humphreys *et al*, 2003; Sheridan *et al.*, 1998; J.H., 1990). This requires trust and commitment for long-term cooperation amongst these parties, multi-level communication, open information sharing, continuous intra and inter improvements and willingness to share risks in the relationship. The role and types of partnership are previously derived from literature across industry sectors and are categorised into corporate-corporate, corporate-government, corporate-NGO, corporate-supplier and multi-party partnership. Detailed interviews with experts and decision makers in the supply chain in the greater PRD region would provide an indication of the types of collaborative relationships suitable and likely to be of interest to these actors. With regard to the problems that are identified in the case studies, the extent to which they coincide with the response from detailed interviews is analysed, and those results are taken into account when examining how a sustainable change could be made at the regional level.

The issues are then further investigated through a series of in-depth interviews, which conclude over the period of July to October 2004. Selected parties were contacted through phone calls and interview questions were faxed to the follow-up parties. 25 individuals were contacted, 20 agreed to have either a face-to-face

semi-structured interview or a detailed phone interview and one replied through an e-mail. The use of face-to-face interviews is especially useful for discussions on a local level but also for action in capacity building for sustainable development through civic empowerment and inclusion. Due to time constraints, 21 major stakeholders were approached, ranging from well-known academics from local universities such as University of Hong Kong and City University of Hong Kong, regional directors and chief operating officers of auditing firms, a government officer of the Sustainable Development Unit of Hong Kong, the chief executive of the Hong Kong Federation of Trade Unions, the Hong Kong director of Business for Social Responsibility, the executive director and researchers of labour rights research and human rights NGOs, head of social, environmental or human rights affairs in multinational companies, chief executive director and investment manager of supply chain consultancies and trade-related officers in trade associations and chamber of commerce. The response rate was 84 percent, which is relatively high in Hong Kong since each individual was contacted on a one-to-one basis. The positions of the interviewees indicated above are distinguished and they usually hold power in decision-making. These actors were specifically chosen since they were identified as important actors and are categorised in the following table 7.1:

Respondent classification	Types of correspondents	No of respondents (N)	% of population
A, B	Academics	2	9.5
C,D,E	Auditing firms	3	14.3
F	Government department	1	4.8

G,H,I,J	Multinational garment companies (the buyers)	4	19.1
K,L	Supply chain consultancy	2	9.5
M,N	Trade Association and Chamber of Commerce	2	9.5
O,P	Human rights non-governmental organizations	2	33.3
Q,R,S,T	Labour rights and research non-governmental organizations	4	
U	Trade Union	1	
	Total	21	100

*Table 7.1: Number of respondents from each category stated as above*

The semi-structured interview was designed to find a common ground in strengthening CSR and find out what implications there are. The questionnaire consisted of open-ended and structured questions. Both face-to-face and detailed phone interviews were recorded and transcribed for content analysis. Content analysis was useful in this case in revealing significant differences in the large amount of data gathered by the 21 different organisations. The texts were systematically categorised into different themes that emerge from the data and the number of occurrences of quotes were counted for each individual question.

The detailed interviews bring together leaders and related stakeholders at both local and regional level. Each interview demonstrates knowledge, provides relevant and up-to-date background in formation of the high-quality discussions that can be translated into action plans working toward sustainable development

in the near future. The results and discussions for each of the questions are summarised in the next section.

## 7.2 Results and discussions

### Part 1 General questions on local perception of CSR

#### 1. How significant is CSR as a business concern in Asia-Pacific?

Different interpretations of what the situation might be are summarised in the following table. Many respondents pointed out that it is difficult to answer the question without further clarification. Interview responses to this question are measured in a 1 to 5 ranking scale where 1 denotes not significant, 3 somewhat significant and 5 strongly significant.

Ranking	No of respondents	Respondent Group
1	3	Respondent Q, R, U
1.5	1	Respondent O
2	4	Respondent A, B, G, S
2.5	1	Respondent C
3	6	Respondent D,E, H, I, P, F
3.5	1	Respondent M
4	2	Respondent L, T
5	1	Respondent K
N/A	2	Respondent J, N
<b>Average ranking</b>	<b>2.36</b>	

*Table 7.2: Ranking in terms of the significance of CSR*

The largest number of respondents ranks 3 out of 5, which indicates that CSR is somewhat significant to certain type of companies, mostly multinationals and their contracted suppliers: *“Ranking 3 is only representing the western multinational companies that have subsidiaries in Asia Pacific. The majority of them are not paying attention to CSR”* (Respondent H). A lot of respondents agree that CSR is driven by multinationals from the west, not SMEs in Hong Kong: *“In various parts of Asia, CSR is important but mainly driven and required by the multinationals. For multinationals, they are not just buying things from China, but also selling things in China, they have a role in CSR”* (Respondent B); *“For SMEs in Hong Kong who only distribute product within this region, CSR is not there in their mind and operation”* (Respondent E).

By counting the characters element, 15 out of 21 respondents (71.4 percent) rank 3 or below showing that there is room for more integration of CSR into the business decision making model. At the other end, only one respondent ranked CSR as highly significant (rank 5) in this region. The average ranking is calculated as 2.36 which is less than the mean ranking 3 which means that there is considerable remaining effort to be made for CSR to become highly significant.

It should be noted that most respondents compare the level of significance of corporations in this region with the west (see theme 1). Four respondents explained that CSR amongst business operations in Asia Pacific is seen as lagging behind as compared to our western counterparts.

Theme 1: CSR is considered as less significant to corporations in this region compared to the west (Count=5)

- *“CSR is not particularly advanced in Asia in the way businesses think compared to the west, those things from social compliance, economic or risk management are driven from Europe. There are some business concerns regarding CSR, if it’s local, there are fewer” (Respondent G).*
- *“For many parts of Asia, we are lagging behind the rest of the western world. For a lot of manufacturers, they are often in a position where they are required by clients. If it is not required, they won’t do it” (Respondent I)*
- *“CSR is important, such as auditing implementation, environmental and labour rights. In this region, businesses are not as concerned as in the west” (Respondent O).*
- *“CSR is given less attention in this region’s corporations compared to western counterparts. Western corporations have to make a move because of western consumer movement. Brand products that are exporting goods take images more seriously” (Respondent S).*
- *“Compared to many parts in Asia, this region is lagging behind the western world. People here are tracking the issues, they are watching it, but in terms of taking action, it’s slow” (Respondent I).*

The reason for lagging behind is that strong media pressure, consumer and public pressure is absent in this region. The ranking of significance might depend on the nature of business and reputation of the brand. Most of the respondents agree that CSR is not a business concern for more local and small and medium sized companies, as they do not react according to the increasing importance of CSR. Usually export-oriented businesses in this region apply it because it is required

by their European and US clients. So there is a large difference when the respondents were asked if it is a business concern in general. The level of significance can also be considered according to how reputable the brand is. Three out of four multinationals stated that if the brand is less reputable, they might not care about this aspect because it does not affect them, as their brand is not the company highly valued by the media. The media do not have an interest in publicising these companies. McDonald's and other department stores have a high media value. Social compliance and CSR have gained importance as many factories have relocated to China and Vietnam. Respondent H added that "*CSR is only a business concern for a finite group, even then it is only a handful, the majority of them are not paying attention to CSR*". This forms a major barrier in Hong Kong as most of the enterprises are SMEs, which are largely concerned with short economic gain rather than brand and reputation.

*Theme 2: CSR becomes a business concern when it is a client requirement*

*(Count=4)*

- *"If the company has to do international trading and global sourcing with brand name clients, they have to integrate CSR as a client demand. If the European and US clients do not request it, they will not know about CSR as it is less likely that they will be attacked by the media. If there is no public or media pressure, they won't care about CSR"* (Respondent E).
- *"A lot of manufacturers implement CSR as required by clients. If they are not required to do it, they won't do it"* (Respondent I).
- *"CSR is less significant in this region, factories do it for foreign European and US clients"* (Respondent Q).

- “CSR is clearly a strong interest in a lot of well known brand name companies as it is required, but not local companies” (Respondent T).

The media pressure is definitely growing. *“The channel of disclosure has improved in the last few years. There is a lot of news describing bad manufacturing practices in China. The fake baby milk powder, which contained little nutritional value, resulted in big-headed babies syndrome. The babies' heads grew abnormally large while their torso, arms and legs were just skin and bones. A few dozen babies died because of eating the formula. Basically, a lot of us have been eating a lot of fake products and we are actually growing with it, but they were never exposed to the public before”* (Respondent I).

Respondent T commented that *“the Europeans are taking the lead in CSR since they have more public sector support in Europe. Strong public involvement is seen in Europe, which there is a lack of in Asia. Pushing CSR forward in this region will need strong public sector involvement”*. And at the moment, strong public sector involvement is the missing driving force in this region. Respondent I added that *“a lot of CSR issues are driven by the market, NGOs and activist groups. For the garment industry, the end consumers in the west are quite aware of the bad practices through the media and NGOs, a lot is driven by the end consumer and the market. If we look back 10 years ago in the 90s, we weren't really aware of these issues. Sweatshop overtime, unfair labour practices occurred not only in this industry, but this industry got a lot of attention because there are quite a few high profile cases in 90s where unfair labour practices or child labour was exposed to the media, so the brands have to deal with”*. The

power of consumer pressure from the west is noted by another respondent: *“end-consumers in the west will not buy from brands that have things produced from unfair labour practice. In this region, most of the Asian customers don’t really care about malpractice”* (Respondent J).

Concern is expressed by the respondents that there are no commonly accepted definitions of CSR. CSR means different things to different people. Three respondents suggested that it is time to look at what constitutes CSR, including donating to the community, hygiene or manufacturing practices in factories. American based companies view CSR as a kind of philanthropy. European companies tend to look at CSR from an environmental management perspective, now starting to look at social and economic impacts of their business operations: *“Some businesses are doing well with the environmental perspectives within CSR such as Japan, but largely you don’t have the social parts working. The environmental (aspect) tends to be a database in collecting data. The economic and social aspects, which are more to do with sustainable development, that is tough for businesses. Many of the Asian based companies don’t take it into account except the Australian ones. They probably can talk about some environmental aspects, but they don’t have views on how to deal with social compliance, economic or risk management”* (Respondent G). Three respondents share the same view that CSR is too broad and that it should be separated into different industries and different levels.

Respondents across the academic circle, supply chain consultancies, multinationals and trade unions believed that CSR has been implemented slowly

during the last few years and that there are some improvements to be seen. They remain on the positive side that the ranking will increase in the near future.

*Theme 3: CSR will become significant in the future (Count=4)*

- *“At present time and within the next couple of years, the ranking will increase” (Respondent A).*
- *“The situation in this region has improved a lot compared to two or three years ago. It will continue to do so” (Respondent I).*
- *“CSR is one of the business concerns because it arises from customer pressure. It is a big difference compared to five years ago. The pressure will continue to increase” (Respondent K).*
- *“CSR is starting to become a business concern in the Asia Pacific, more companies begin to discuss it and it is also seen in their advertisement campaigns” (Respondent U).*

## 2. Will CSR generate long-term business profit?

The majority of the respondents (11 out of 21) believe that CSR will generate long-term business profits, but most added that CSR cannot deliver short-term gain (see Theme 1). Secondly, quite a large proportion of respondents (eight out of 21) found it difficult to answer this question as brand name is an intangible asset and the success of CSR cannot be directly measured by sales (see Theme 2). At least four respondents declared that engaging in CSR is not for the purpose of generating money, it is about reducing risk and protecting the brand. Only a minority of respondents (two out of 21) thought that CSR would not

generate long-term business profits for similar reasons as mentioned above (see Theme 3).

Theme 1: “Yes, CSR works in the long term, not in the short term for the following reasons” (Count=8)

- *“It does create long term business profit. Definitely long term, if you have a brand that is focused on as not very hygienic and socially responsible, obviously that’s going to affect your profit” (Respondent I).*
- *“Yes, long term. In the short term, it’s difficult to say as it needs investment to develop” (Respondent K).*
- *“Short term, no business profits. CSR is a trend, if they are not taking CSR into account, then they will have less order and the profit margin will be lower” (Respondent P).*
- *“Incorporating CSR is profiting making for big brands, they see it as a concern because of consumer demand from the west. There is lack of consumer pressure in this region” (Respondent Q).*
- *“If CSR is employed and they can make us believe what they make is under good working conditions, they might generate some profits” (Respondent R).*
- *“If CSR doesn’t work, capitalism will destroy everybody, CSR contributes towards a healthy, successful business community, generating profits long term. We have to be conscious about what we claim CSR is and can do, be realistic, it is necessary for long term business survival, business’s fundamentals have to be in place” (Respondent T).*

- *“CSR can generate positive impact in the long term, the areas depend on how you define CSR. If the areas are very general, the impact might not be significant. If it is very specific such as environmental issues, the impact is obvious” (Respondent M).*
- *“Yes, in the long term. We can’t see it obviously in the short term. Businesses have to initiate work to be done which needs investment” (Respondent U).*

Theme 2: “No, CSR cannot generate business profit, but something else”(Count =2)

- *“CSR is not a profit making exercise, it is seen as a risk reduction tool” (Respondent A).*
- *“CSR is a trend, taking CSR locally is a matter of survival” (Respondent S).*

Two out of 21 respondents thought that CSR does not generate profit, it is either a risk reduction method or it is a survival mechanism.

Theme 3: “N/A, the benefits of CSR are difficult to measure as it generates profits indirectly or it works not for the purpose of generating money, it is a preventive measure” (Count=7)

- *“CSR will lead to sustainability. What CSR is about is having a company thinking about its management and systems to be sustainable, like environmental. Indirectly it will generate profits. Shareholders don’t*

want to see unethical behaviour, they want companies to be sustainable in the long term” (Respondent B).

- *“CSR is a preventive measure rather than a proactive measure. It is difficult to implement if a product costs more when it includes outstanding CSR. CSR is more like a risk management exercise rather than a profit generating process. Profits are usually made through sales. As auditing staff, no matter how well or fairly you do the audits, the company would not make the product cheaper or more expensive or higher quality such that the purchaser or consumers will be happier to buy your products. So, why we do still do audits? It is for risk management. If we don’t do it, it will impose long-term risk or even big damage to multinationals.”* (Respondent E).
- *“Research hasn’t proved that CSR as an integrated and external policy can generate profits. CSR includes funding to schools. CSR in the supply chain may boost your sales, but it remains difficult to measure properly”* (Respondent C).
- *“It’s difficult analytically to link CSR and share value. It’s much easier to look at negative aspects; you are protecting value. But if you don’t make the effort, then your exposure is very high”* (Respondent J).
- *“There is no evidence of CSR generating long term business profit that I have seen. The benefits are intangible; it’s to do with the media”* (Respondent H).
- *“It is very difficult to say that CSR is profitable internally, what it does is to reduce risk. When it reduces risk, it also means it protects the value of the brand. So it is not so much about profitable, it’s a value protecting*

*approach in reducing risks. Where you can see a profit is actually in a socially responsible investment fund, indirectly if you are a good business and responsible, people will invest in it” (Respondent G).*

3. What criteria should a responsible corporation follow?

The detailed results are counted in the table below:

Criteria	Count
Adhere to international standards	11
Meet local legislative requirements	16
Personal development of workers and employees	10
Respect consumers	11
Protect the environment	13
Protection of livelihood	9
Protect shareholder interests	2
Beyond legislative requirements	4
Work together with suppliers	1
Pollution control	1
Continuous improvement	2
Human rights and labour rights policy	1
Internal communication channel	1
Consultation with workers’ unions	1
Set standard wages	1
Transparent supply chain	1
Benefiting the workers	1
Freedom of association	1
Health and safety	2
Basic rights	1
Access stakeholder demands	1

*Table 7.3 Common criteria of a responsible corporation*

Referring to table 7.3, the common view of a responsible corporation (16 out of 20) in this region is meeting local legislative requirement. It is a first priority and it is a must. This is due to the fact that there are many abuses in the media when

suppliers fail to comply with local legislation. But respondent R argues that meeting local legislation does not mean that the company is a responsible corporation: *“Adhering to local law doesn’t mean that they are doing anything good. The legislation requirement is really low in Cambodia, there are no explicit laws on health and safety, and so suppliers have to depend on international standards. And also the minimum wage is really low in Bangladesh, it starts from 20 Hong Kong dollars per month. Suppliers can say that they are doing CSR as they comply with minimum local wages”*.

Protecting the environment (13 out of 20) is the second most commonly cited criterion. Adhering to international standards is ranked as the third commonly cited criteria. Respondent G, H and I from multinationals thought meeting local laws is not enough; they tend to benchmark on international standards, they drive suppliers to achieve a higher standard on pollution control, and they may specify European standards or other international standards for suppliers. They raise standards to what is common to their country of origin.

Only four interviewees recognise that going beyond minimum local legislation is what a responsible corporation should do. Respondent B explains that there are differences between the perspective on CSR in Asia and CSR in Europe: *“CSR in Asia is only seen as meeting local legislative requirement, but in US or Europe, it is seen as going beyond labour laws and local legislative requirements. CSR in the west is not about meeting European labour law. Considering the conditions are so bad in China, it’s about meeting local and some international standards. The barrier to go beyond legislative requirements is due to unresolved problems*

*in complying with current local legislation particularly in China: Two respondents from a multinational and an auditing firm stressed, “if everybody even complies with the law in China, it will mean a lot” (Respondent B and F).*

Respondent C and E in the auditing industry thought that adhering to legislative requirements is not up to a responsible corporation. Respondent E tried to define *“a responsible corporation should be the one who has a framework to help suppliers to achieve targets and improvement and have auditors come along and audit your factory, not only giving a standard and telling you to adhere to it. Multinational companies must hold hands with suppliers”*. Respondent C added *“It is a long term thinking from companies and towards their employees. Companies should set corporate standards on standardised wages and respect consumers”*.

Respondent G and M thought that environmental protection, training employees and labour issues are common to business practice. Respondent M added *“adhering to local legislative standards is very basic. Environmental issues are one of the corporate responsibility issues that are addressed as environmental legislation.”* This respondent failed to realise the implications in meeting even very basic requirements in China.

The other half of the respondents pointed out that personal development of workers and employees, respecting consumers and protecting the livelihood are important criteria of concern. However, they are the ones least commonly discussed by the respondents.

4. Do you think both Hong Kong and Chinese governments should make CSR policy mandatory? Why?

13 out of 21 respondents thought that it is unnecessary to make CSR mandatory (see theme 2 for reasons). Only three out of 21 respondents thought it should be mandated (see theme 1 for reasons). The remaining four respondents found that it is difficult to decide whether CSR should be mandatory because the CSR concept is too broad and that it is difficult to decide whether there is a need to have a mandatory CSR policy. There should be other means such as collaboration between the Hong Kong and Chinese governments and making environmental and social reporting mandatory for public listed companies (see Theme 3).

Theme 1: The reasons why CSR policy should be mandatory

- *Need for new legislation for a new business model*

*“There’s a need for some legal measures. Because now the corporations in Hong Kong are cross-bordered, so there’s a need to have commonly agreed legal measures or other standards available such as ILO”* (Respondent P).

Even though Respondent L believes that CSR policy should be mandatory, she pointed out that there might be implications caused by implementing such a policy practically.

- *The result might be significant*

*“Hong Kong and Chinese governments should collaborate since China has very good laws. Mainland China has comprehensive laws; it is just a matter of implementing them. Just like the ‘Clean Hong Kong’ campaign, in recent*

*years the government has implemented punishment to those who litter, which has been successful” (Respondent I).*

Theme 2: The reasons why CSR policy should not be mandatory

- *Existing legislation is already in place, enforcing that is enough (Count=5)*  
*“As previously mentioned about the concept of environmental and labour issues, there is already mandatory legislation in place. For example, they may not specify the percentage of recycled material in the product. Companies do have a minimum policy for employees. But they need to be fully discussed for detailed issues” (Respondent M).* Companies should be addressing the details of their policy to their employees. *“The content of CSR or the CoC include that the factories must follow local legislation. The content of CoC include wages, working hours, child labour, environment, health and safety, discrimination, all these issues are in legislation, then why do we need another one?” (Respondent E).* Respondent E’s response is similar to respondent M, both agreed that some of the CoC issues are contained in the legislations. *“Government should work together with companies to look at how to enforce labour law” (Respondent C).* *“Government should be working towards ensuring that the labour law and other local regulations are met” (Respondent A).* Respondent A, C and H stressed that government should play a bigger role in improving labour standards. *“I doubt Hong Kong and China would start. Basically, there’s so much overlap in CSR and your own country law. So why don’t you just enforce the country law. So I don’t think they should make it mandatory, they should enforce their own law much, much better than they are now, to fulfil CSR” (Respondent H).*

- *CSR is only a concern for brand name companies or some high profile listed companies. It is not suitable for Hong Kong companies due to their business make-up*

*“The structure and economy in Hong Kong means that SMEs dominate and, to make these things mandatory for those business really does not make a lot of sense for them. It could be linked to good general governance, or to those listed companies in Hong Kong because of the scale of exports or linked to China rarely being encouraged to take a higher profile on CSR. NGOs will only talk about big brand names, like Adidas or Nike; they won’t talk about the supplier. The brand names are in the news, which shelters them from attack. It may be the factories who have problems, but only the brand name that has a profile is of interest to the media. But increasingly, some listed companies in Hong Kong have such a high profile and are directly linked to the size of exports going to America” (Respondent G).*

- *Huge drawback from mandating CSR on the business community*

*“Non-voluntary tariffs imposed by Germans and Americans that tells us to meet international environmental and labour standards. If they mandate CSR, there will be backlash from the business community. The policy will form a barrier by the developed countries to prohibit Chinese competitors” (Respondent B).*

- *Making CSR policy mandatory will raise too many public objections*

*“It is not the best choice. If you start to make it mandatory, there will be a lot of objections” (Respondent K).*

- *A dangerous situation will be created where legislation may substitute inspections*

*“If lots of people made this regulatory system, you won’t have inspections. This is very dangerous, you if do not have any inspections, what would the situation be like?” (Respondent R)*

- *Legislation is not a driver of improving CSR performance*

*“I don’t think regulation is a driver in pushing it. CSR always pushes us to the top line, we as a society have to set it and enforce it. CSR provides the opportunities for raising performance off the bottom line and beyond that. In particular, companies should take a leading role in the industry” (Respondent T).* The government respondent shared a similar view that businesses should use other means of approach instead of legislation. Making CSR mandatory is not a solution as it remains difficult to enforce on both sides.

Theme 3: There should be other means rather than making CSR policy mandatory

- Collaborate

*“China and Hong Kong should collaborate in terms of environmental legislation and management” (Respondent C).*

- Mandate certain types of reporting on publicly listed companies

*“Hong Kong could mandate certain types of reporting, from just financial to environmental and social.” (Respondent B).* A number of respondents

pointed out that companies should be forced to be more transparent. “*South Africa mandates social reporting, improved transparency drives the level for competition to go higher. In the future, they might have to specify what gets reported, but for now just taking the action may be enough. We have not seen the results yet, it is still in a very early stage. A number of years later, this process of social reporting might have some interesting ramifications. If required, it will take time and a healthy competition, and society has to ask what our minimum and maximum are*” (Respondent R).

## **Part 2 Supply chain specific**

### 5. Do CoC work?

Less than half of the respondents (eight out of 21) thought that CoC work to improve worker’s quality of life under certain conditions (see Theme 1, six out of eight have given a comment on the conditions under which CoC do work) and to a certain extent: “*The effectiveness of the CoC is less than 40 percent*” (Respondent D). Among the respondents who thought CoC do work, three out of eight respondents pointed out that it is not a long-term solution. The implication of implementing CoC is commented on by Respondent R.

#### Theme 1: CoCs do work under the following conditions:

- “*Companies and suppliers are working together*” (Respondent I and T).
- “*Multinationals force factory management to properly implement the CoC. Training is initiated by multinationals which will provide*

*opportunities to gain trust and worker participation” (Respondent P and H).*

- *“Proper implementation is a competitive edge to get orders”(Respondent K).*
- *“CoC work with a monitoring mechanism plus training, the process needs to engage workers and build trust. It won’t work without the aforementioned criterion. The missing point is the extent to which the codes work depending on how management are doing things with the code” (Respondent Q).*
- *“It is driven from the top, from senior factory management and then filters down. Companies need to communicate and drive their message from the top down” (Respondent I).*
- *“CoC result in a lot of positive issues. CoC have pushed health and safety to a higher level. CoC help to apply pressure to the suppliers, they have set certain expectations. They help people to distinguish good and bad practice. They have helped to point out issues that might apply to their daily lives, e.g. discrimination, try to look at discrimination and try to see what it means. They have helped workers to get wages and benefits that they had not been getting before. This is what the codes have done. CoC do work but they are not always transparent, they are not publicly available. Some companies are open about them and disclose them in their website, but not all companies. ” (Respondent T). This is also found in the case studies in the previous chapter where Multinational E does not disclose its CoC publicly.*

Six out of 21 respondents thought that CoC do not work. A number of respondents pointed out four major reasons why CoC do not work: lack of communication of the CoC from top to bottom, low awareness of the CoC at factory managerial level, improper posting of the CoC, and negative factory attitude, hence a result in negative impacts (see Theme 2, only two out of six respondents have given a comment on the condition under which CoC do not work).

Theme 2: CoCs do not work due to:

- *“Factories only see this as a decorative or PR exercise rather than truly wanting to improve workers’ conditions” (Respondent R).*
- *“Enforcing a CoC might result in negative impacts to workers. There are many grey areas. Previously workers who work for 14 hours would be paid overtime. The new CoC states that workers can only work eight hours a day. Workers now do not get overtime pay, as they are not supposed to work more than eight hours. Instead they have to finish their products overtime without payment” (Respondent R).*
- *“The content of the codes only targets the supervisory grade factory employees. Below that level, no workers know of the existence and content of the codes. That factory has an internal labour union in the factory. But the organising members of the labour union don’t know what the CoC is for” (Respondent U).*
- *“Human rights managers in the factory are not properly trained to CoC or labour legislation. They do not know that rule violates China labour laws” (Respondent U).*
- *“The print is so small that nobody could look up and see what the detail is” (Respondent U).*

Seven respondents thought it is difficult to answer this question, four out of seven explained that the answer might depend on:

1. Factory management's attitude and enforcement

- *“It depends on how management enforces the details of the CoC. First, a CoC must be in place. If yes, the code must be combined with enforcement action to become a useful tool”* (Respondent K).
- *“It works only if there are good managers and proper implementation”* (Respondent E).

2. Type of factory

- *“The CoC has improved a narrow band of factories. If you are a top tier supplier, then the CoC works”* (Respondent S).

3. The multinational company is a major or minor customer of the factory

- *“If the multinationals are telling factories that only supply a small percentage of products to make a change, factory management would not care. It works best when a big buyer or brand company with lots of money, who supplies a large percentage of products if not 100 percent”* (Respondent Q).

4. Support from multinationals

- *“A CoC is not just a standard and states what you have to do. Multinationals have to join hands with the factories and do it together”* (Respondent E).

*Implications of the CoC and its implementation*

1. Direct benefits of the existence of a CoC to the workers is not obvious.

*“A lot of times if changes are made, workers have no idea that this is to do with the CoC. There's no benefit of knowing about the CoC unless it changes a worker's life”* (Respondent R).

2. There are limitations to what a CoC can do

*“People always misunderstand that CoC are the answer to all problems within the factory. Codes do not fundamentally change the power dynamics of the industry or factory, that’s where our challenge lies and codes cannot be the only solution to take us to the next level, we need to look at others. Factories will comply 90 percent with the code if they fulfil the local legislative requirements. It is much more important that the factory has a good system, and that the people employed understand the human resource management aspects of workers’ health and safety since a lot of it is fundamentally to do with business practices which are absent in factories”* (Respondent G).

*“Many organisations fail to realise that CoC have limitations. The usual practice of thousands of factories is to send a big team of people to inspect factories three or four times a year and put different codes on the wall. They do not realise the extent to which the CoC provided cannot provide all improvements”* (Respondent Q).

6. Does factory auditing / social compliance auditing work?

Half of the respondents (ten out of twenty-two) thought that the current practice of social compliance auditing work is positive (see Theme 1, four respondents explained why it does work). Only one respondent comments on the effectiveness of social compliance auditing in numerical terms: *“Social compliance auditing does work, its effectiveness is greater than 80 percent”* (Respondent D). Only three out of twenty-one respondents thought that it does

not work (see Theme 2, two out of three have given an explanation). However, seven respondents were unsure whether it works.

Theme 1: Social compliance auditing does work because:

- *“It provides up-to-date measurable results achieved by the factory”*  
(Respondent D).
- *“This tool helps to find, see and hear problems. Auditors stand in the middle between multinationals and factories, we report to the clients what is happening and what needs to be done”* (Respondent E).
- *“It forces factories to make changes. It is needed on a micro level of management. Second party or third party auditing can improve the situation even more”* (Respondent K).
- *“Auditing is a great driver in improving factory conditions”* (Respondent T).

Similar comments were given to the previous question, five respondents (Respondent A, B, C, E, G) added that it's not a long term solution to the problems despite the fact that there have been some gains from improving the safety standard of equipment. Respondents A and B suggest that the long-term solution should be capacity building including raising awareness, positive attitude and skills through training programmes. *“Education is required where the effect should be, not people running around auditing”* (Respondent R). Respondent R added that it is good to involve the community and workers in addition to more factory inspections.

Theme 2: Social compliance auditing does not work because:

- Auditors have inadequate knowledge about local labour laws  
*“External auditors do not have a good knowledge of Chinese legislation. They use the same criteria for all countries where they do audits. They are not especially aware of the Chinese labour laws. The most important part of the audit is that the auditors have to get independent views from workers on the mainland situation, this is very difficult. Auditors just go in and do the job; they won’t look further into problems”* (Respondent R).
- Lack of workers’ engagement  
*“‘Counter-auditing’ where factories lie and train factory workers to answer questions, clean up the factories before auditors come and give you a false sets of books. The factory manager resists the auditor at every step. This situation is described as a “police game” where the factories have to put a CoC in place and then auditors come and inspect the factory. It is favourable if a factory manager realises what they have done in the past is wrong, and he or she then follows what guideline is given by the customer”* (Respondent B).

Theme 3: Social compliance works or does not work depending on:

- Existence of a compliance programme  
*“It only works if the multinational company has a compliance programme in place”* (Respondent C).
- Who does the auditing?  
*“The auditing does or does not work depending on who does the auditing”*

(Respondent R and S).

Respondent C stresses that there are limitations in terms of what auditors can do to drive improvements, so the existence of an internal compliance programme in the multinational company would be desirable to monitor continuous improvement. Two respondents, R and S, also consider that the integrity of the auditors is critical in revealing the real conditions of the factory. Many agree that auditing is a tool, which finds out the problems of factories and indicates they are not meeting the standard. It does not however offer a solution. Finding out the problems by employing auditors in the factory is not enough, there is a need for the factory to be motivated and look for ways to make changes. What should they do after finding out all the problems? That is actually out of an auditor's control.

7. Have you ever seen any falsified records in a factory?

It is alarming that thirteen out of twenty interviewees have seen a second set of books across the industry in this region. Four respondents out of thirteen who have seen the second sets of books added these comments:

- *“A brand name manager pointed out that no factory in China does not make falsified records. It depends whether an auditor catches it or not. There are only a few factories that understand that they have responsibility”* (Respondent E).

- *“Every month, we find which factories do falsified records and which factories employ child labour, excessive working hours and inaccurate wages” (Respondent D).*
- *“90 percent of the time in China, companies have falsified records, it is much more severe in China. Even though some of the colleagues didn’t find falsified records in the factory; they would assume that the factory management’s very good at hiding. Unless nighttime surveillance, take a few days to know factory is working at night” (Respondent H).*
- *“Factories hide problems and create a second set of books. This is very common in China among the big brands, 40 percent of factories may have falsified documents. In a small no brand area, people productivity is at a much lower price level, so it could be much higher” (Respondent G).*

This suggests that the situation is severe and that current practices are illegal and unacceptable by multinationals’ standards. The percentage is similar to the result of the Oxfam research (2004) where six out of eight factories declared that they have a second set of books. Four out of eight respondents (Respondent O, M, U and F) have not seen falsified records because they simply have not had an opportunity to see it since it is unrelated to their job duty.

Out of seven respondents who answered that they have not personally seen falsified records, five of them (Respondent A, I, K, O and S) believe falsified records exist or factory managers have told them it exists before: *“I’ve never seen a second set of books. But the manager told me that they keep false set of books”* (Respondent A). Falsified records are common in developing countries in India

as well as China. *“This is a common problem that also exists in India and he had seen frequently that workers are made to sign on two payroll documents, one is for the government as a legal obligation and the other one is for the monitor to see. But the actual amount of money that they are earning is much less than what the official documents show. There is no government enforcement even here in Hong Kong, I have seen that people are paid less than they actually earn”* (Respondent R).

The implication in identifying the false set of books is addressed by Respondent B. *“It is difficult to define ‘falsified’; the auditors sometimes cannot prove the records are 100 percent falsified. It is suggested that it is likely to be false if it’s 100 percent accurate”* (Respondent B). The barrier identifying the false set of books is that frequently the auditors don’t have time to check production against workforce. Similar findings have also found by CSR Asia (Welford, 2005) through interviewing the factory manager: *“To be honest, a one-day inspection cannot even begin assessment of a factory of our size with all the facilities and operations that we have”* (Alice, the factory manager). She also found that auditors are part of the lies and cover-ups: *“I tell auditors that I cannot tell them the truth in relation to some of the questions. They smile and move on to something else. They are complicit in the deception”* (Alice, the factory manager). The major reason for many factories making falsified records has been recognised by respondent H and J: *“The factories are part of the supply chain, they are simply trapped at this point in the supply chain. Big brands are usually big buyers with big demands, but the fluctuations of these demands are in the control of the retailers, the buyer or the brand. Retailers may agree to take so*

many thousand units two months ago, and then they change their mind. The factory has previously been planned to produce so much by a certain time forecast. Two months later, the buyer comes back and asks the factory to produce three times as much as agreed. This late order request puts a lot of pressure on the factory and the factory tries to satisfy all customers and stick to this long-term business relationship. That's where they start to hide information or even make falsified records". The previous quote suggests that the multinationals have responsibility towards suppliers' malpractices. "Buyers should stop the exploitative relationship and source from other regions" (Respondent C).

8. From your experience, what are the areas that need improvement in the factories in the Pearl River Delta in general? (Rank in the order of priorities)

Correspondents were asked to refer to the provided list and rank the areas that need improvement in the order of importance or they could create their own list. The number of times and areas ranked by interviewees as the first priority is shown in the following table 6.4. One respondent (Respondent R) thought that the issues on the list are equally important. Respondent F, M and N did not answer the question as they claimed that this question is not relevant to their organisation, their role is to create a platform for businesses.

	Issues	Count as first priority
1.	Code of conduct and factory regulation awareness	2
2.	Wages and benefits	9
3.	Working hours	6

4.	Child labour	1
5.	Health and safety	3
6.	Freedom of association	3
7.	Prison and forced labour	1
8.	Disciplinary practice	1
9.	Discrimination	1
10.	Environment	1
11.	Subcontracting	1
12.	Dormitory	1
13.	Safety and human resource system	1
14.	Operating system is out-of-date	1
15.	Worker participation	1
16.	Retain workers	1

*Table 7.4 First priority areas for improvement in the factories in the greater PRD*

The results show that the current major bottlenecks are wages and benefits (nine respondents), working hours (six respondents), child labour (three respondents), health and safety (three respondents) and freedom of association (three respondents). Surprisingly, only two respondents rank the CoC and factory awareness as a first priority.

Wages and benefits is the most frequently raised issue that nine respondents are most concerned about: “*Under-payment of wages is very serious, the workers are either not getting the right pay or they don’t get paid correctly or they don’t get paid overtime*” (Respondent H). About half of the respondents acknowledge that

wages and benefits is an unresolved problem and respondent U pointed out the barrier. *“Most clients and auditors concentrate on wages and benefits and working hours and the reason behind this is that it is easier to expose to the media”* (Respondent E). *“There is lack of a complaint channel for workers within PRD. Worker mistreatment issues will be exposed to the media this way”* (Respondent U).

Improving health and safety is important and is widely ignored by many respondents and the reason behind this is explained by respondent R: *“The problem of health and safety is that the information is very technical, a very few people know it. The factory can still pass the audit and get orders from customers even though health and safety is an issue for improvement. It is only if the situation is very bad, that it will be given as a warning or even non-compliance”* (Respondent R). Only three respondents identified this as a first priority in their list. Respondent E also discussed another barrier of improving health and safety in this region: *“This is partly due to inaccessibility for a journalist to enter the factory premises and investigate the health and safety conditions without the client’s consent. Also usually there is a need for sophisticated equipment to measure environmental parameters such as air quality. Changing health and safety is more important than wages and benefits because the workers can spend less if they are being paid less, you can search for a higher-paid job. But if the workers work in a dangerous factory, one major accident is enough to make them disabled and they will be struggling with how they can live. For workers, they depend only on their hands on heavy-load jobs to earn money. When compared to underpaid workers, the damage is much more serious. In many*

cases, workers are unaware that they have occupational health illnesses and sometimes they just think that they are too tired. After a few years of work when they find that they cannot endure the factory conditions anymore, they will resign and go back to their hometown. The problem is that nobody realises that workers' health has been damaged" (Respondent E). Respondent E and R have a similar viewpoint and they commented that the above examples happen a lot.

Furthermore, the research attempted to examine the most commonly cited problems that need improvements regardless of their ranking, this is shown on table 6.5. The highest number of respondents ranks wages and benefits (fourteen respondents), working hours (eleven respondents) and health and safety (eleven respondents) as items for improvement. This is similar to the results indicated in table 6.4. The environment (ten respondents) emerged as an important issue to overcome.

	Issues	Count
1.	Code of conduct and factory regulation awareness	8
2.	Wages and benefits	14
3.	Working hours	11
4.	Child labour	6
5.	Health and safety	11
6.	Freedom of association	9
7.	Prison and forced labour	4
8.	Disciplinary practice	5
9.	Discrimination	5
10.	Environment	10

11.	Subcontracting	3
12.	Dormitory	5
13.	Safety and human resource system	1
14.	Operating system is out-of-date	1
15.	Worker participation	1
16.	Retain workers	1
17.	Protect rights of the workers	3
18.	Training	3
19.	Protect migrant workers in negotiation in workplace	1

*Table 7.5 Overall areas for improvements regardless of the ranking system*

Respondent I and J share the view that sizeable factories tend to be better equipped and knowledgeable about the above issues. *“Usually the most sizeable factories have a higher standard, provided that the staff in the factories is adequate, living conditions are good and they seem to treat the workers decently”* (Respondent I).

A relatively high number of respondents (nine respondents) included freedom of association as one of the areas for improvement: *“Government should allow freedom of association, set up union branches of independent unions”* (Respondent S). *“Freedom of association is the core problem area which remains unresolved”* (Respondent Q). But most remain pessimistic about having independent labour unions in China since it is not practical in China. Similar to other problems, a number of respondents agree that the ignorance of workers’ right in general is a major barrier: *“Most workers are unaware of how they are*

*actually protected under constitution law, trade union law, various company laws and occupational health and safety regulation etc. As a citizen of this country, they don't know what rights they have. It is the level of ignorance of the work force, which means they do not know their basic rights. This civic education should be done in high school"* (Respondent G). Respondent T argues that it is not totally a brand name company's job to improve the situation as a whole. *"It's simply too much for the brand to take on. Compared to the situation in Thailand, where all workers knows what the minimum wage is, everybody knows about their rights. In China, nobody knows"* (Respondent H). Respondent B added that: *"Workers do not understand what a trade union in the factory can do for them. Workers need to be trained on what a trade union could do, they will be able to negotiate with factory management on working conditions, dormitory, discrimination, disciplinary practice, contracting, child labour, CoC etc"*.

9. Do you think the local regulation is enough to make companies and factories carry out social and environmental improvements?

Over half of the respondents (eleven out of 21) thought that Chinese legislation is strict and comprehensive, but weak in enforcement (see Theme 1). A similar result was obtained in the World Bank report (2003) which states that most participants think the government should be responsible for putting greater efforts into enforcing the regulations. But the reason why enforcement is weak in China is revealed by respondent E: *"Government officials on the provincial level are not adequately trained in what labour laws entail. On the other hand, the central government executives are very knowledgeable about the country labour laws. So there is a gap in the knowledge between top central government officials and provincial grade officials"* (Respondent E). Labour rights and research NGOs compare the

situation in China and India as they are facing a similar situation: *“India also has good regulations. Due to the number of factories being huge, it is impossible for them to carry out inspections. This is very similar to China”*. Only three respondents thought that local legislation is inadequate due to corruption laws and that tends to be conservative in Asia and the local legislation tends to contradict national law (see Theme 2). Very often, there are loopholes in the law where workers are not protected under the current legislative framework, only the suppliers have to take full responsibilities for this matter in the present legal framework: *“There is no clear legislative procedure to protect workers. For example, Nike sourced products from a factory in China. The factory suddenly closed down and the factory management ran away. The workers got nothing.”* Respondent P pointed out that corporations in Hong Kong are now cross-border, so there’s a need to have a commonly agreed legal measure.

*Theme 1: The majority of interviewees think that Chinese law is enough, but inspection and enforcement is weak.*

- *“Regulation is enough, but there is no enforcement. The interpretation of those laws on the provincial level or county level is probably different from national law. The real problem is implementation. For example in Hong Kong, workers who work under 18 hours a week are not covered by the labour law. Big hotels in Hong Kong employ people to work less than 18 hours per week, so they may never get a full contract”* (Respondent B).
- *“Overall Chinese law is sufficient. But legislation on trade union law has to change as it is wrongly interpreted and there is a need to translate it in a practical way”* (Respondent C).
- *“Within China, there are very good laws, but a lack of enforcement and inspection system and people often misunderstanding the law”* (Respondent G).
- *“If monitoring is enforced, legislation will be enough, China is very good in some areas compared to Indonesia and Thailand”* (Respondent H).

- *“In theory, Chinese law is perfect. If factories comply with that, then factories are perfect. Health and safety aspects are very comprehensive, but there is a need for improvement in FoE” (Respondent I).*
- *“China’s legislation is adequate but needs enforcement. Hong Kong legislation is inadequate” (Respondent K).*
- *“Most of the local legislation is good, but weak in implementation” (Respondent L).*
- *“Legislation is written clearly and sufficiently, but inspections are not enough” (Respondent P).*
- *“China has the best legislation. The problem is implementation. If regulations are implemented we will see a lot of change” (Respondent R).*
- *“China has very good law, enforcement is really weak” (Respondent U).*

*Theme 2: Three correspondents think legislation is inadequate to make social and environmental improvements due to:*

- *“A lot of these local governments want investment. If a guy comes in with a lot of cash, they won’t talk about regulation. The guy has their own town planning, so the local government would let him open a factory that was originally planned for other purposes” (Respondent I).*
- *“The problem in Asia is that local regulation is very conservative. Business groups or chambers of commerce want to make laws more flexible. Overtime is one of the big areas of concern. They do not want hard law to address how much overtime there should be. A lot of businesses work in peak seasons. They also want more flexibility in hiring and firing” (Respondent M).*
- *“Chinese local regulation often contradicts national law that should not be allowed.” (Respondent S).*

10. How can factory conditions be improved in this region?

(a) If you think partnerships would work, should there be a development of trust programme initiated?

(b) What are the benefits to your company and your suppliers?

The main question explores the type of instruments that are likely to lead to improvements in environmental and social performance. Sub question (a) and (b) were asked in search of mechanisms and benefits to companies and their suppliers.

Type of solutions raised by respondents	Count	% of respondents
Partnership	16	76.2
Increase frequency of internal factory training	10	47.6
Integrate stakeholder dialogue	6	28.6
Reduce the number of suppliers	4	19.0
Keep long-term relationship with suppliers	3	14.3
Increase sourcing from China	1	4.8
Penalty and reward scheme	1	4.8

*Table 7.6 Methods to improve social and environmental conditions in the factory*

Sixteen out of twenty-one interviewees agree that some form of partnership will practically improve factory conditions in this region.

About half of the respondents (ten out of twenty-one) ranked an increased frequency of internal factory training as important to both factory ownership and workers. In fact, there is a common consensus that one of the ways to deliver a training programme is to train the factory management team first so that they can train their workers internally. Respondent G expressed that it is difficult to provide general workers' rights training since it is a broad subject and NGOs in

this region only focus on certain issues. *“Human rights NGOs in Hong Kong are driven towards political issues such as human abuses and prison labour. Some of the other NGOs deal with forced labour only in the human rights dimension, their focus is very specific”* (Respondent G).

Six respondents rank stakeholder dialogue as an important mechanism to bring about improvement. Respondent G commented that doing stakeholder dialogue in China is not an easy task: *“Even bringing academics into it, it is very clear most academics do not understand what CSR is. I have to educate those people who have actually conducted dialogue before, there are lots of challenges when doing stakeholder dialogue. The definition of ‘ethics’ is different in China from the western world”* (Respondent G). There are practical challenges when taking stakeholder dialogue on board: *“Using customer-based dialogue, they have received a lot of feedback from consumers on environmental, the quality and safety of the materials that frequently has an active consumer voice in Germany. But the implication and challenge is how you feed it back to workers, they don’t really understand what these things are”* (Respondent G). While respondent H criticised the use of stakeholder dialogue as being too theoretical: *“There are so many stakeholder dialogues, they always talk about it on a theoretical level and the outcome is nothing practical except someone writes a report, they are not usually practical solutions (Respondent H)”*. The success of improving factory conditions depends on whether the issues are taken seriously in the action plan: *“Stakeholder dialogues only work if you do something with the comments. If you don’t do anything with it, it is just a conversation”* (Respondent G).

Interestingly, Respondent B suggests that consumers should pay more, which might solve the entire problem: *“In the current situation of the garment industry, there’s a 30 percent drop in price of the order that factories are receiving from multinationals. For example, a big US firm, Wal-Mart, has a policy of reducing price by five percent per year. Factory manager complained that Sainsbury, Wal-Mart, Woolworth and Reebok want to pay less for the same number of items because consumers demand cheaper products. Big companies are paying less but asking the factory to do audits and comply with other criteria. Therefore at some point, it is suggested that the cost of improving the factory must outweigh the price you are getting for the product. External competition of multinationals also pushes the consumer price down. Based on a seminar in China, he asked if the factory manager could make a profit while the customer continues to squeeze down cost. The factory owner answered ‘yes’. But when he asked if they can make a profit in addition to complying with labour and occupational health and safety law, 40 percent of factory managers said ‘no’”*(Respondent B). Apparently, the implication of suppliers not complying with the local legislation is partly due to economic reasons.

Type of partnerships mentioned	Count
Corporate-corporate partnership	2
Corporate-government partnership	2
Corporate-suppliers partnership	5
Corporate-NGO partnership	5
NGO-government partnership	1
Multi-party partnership	11

*Table 7.7 Types of partnership work for responsible practice*

The most favourable form of partnership is multi-party partnership that focuses on 'shared responsibility' with more than two partners, such as the partnership case between a multinational company, government agency and NGO (see table 6.7). *"The solution has to be a multi-party partnership, but the party that's currently missing is the consumer"* (Respondent B). Respondents B and H raised a fundamental question that consumers would not buy the product simply because it has a good social and environmental performance, it must be combined with good quality and low price: *"How many care about good working conditions in factories or make their choices based on these issues? Would you buy another of that brand because you think that brand is good at social and environmental performance? How about people don't know about the information, would the consumer buy a product simply because it is made in a good factory condition? What about if the quality wasn't good? In the end, most consumers will focus on quality and price, some consumers will still go for cheaper products because a lot of consumers are earning lower wages"*.

The second most favourable options are corporate-NGO partnerships and corporate-suppliers partnerships. A multinational highlighted several implications of focusing on corporate-NGO partnerships in this region as indicated below:

- *"Collaborative work with NGOs is a good thing, but is also a big problem or challenge in China where there are very few NGOs"* (Respondent I).
- *"NGOs can be good or bad. Some continue with their good work, but some exaggerate the situation which leads to permanent damage to the brand"* (Respondent G).

- *“It is difficult to find equal partners. NGOs may not be knowledgeable and experienced and sometimes it takes awful lots of work for the companies. Companies have to spend a lot of time to let them understand what companies want from them”* (Respondent G).

There are also dilemmas between multinational companies and NGOs: *“On one hand, companies want workers to be trained, but on the other hand, they are scared that they will disclose it to the media. It takes time for companies to build up trust with NGOs”* (Respondent Q). Most NGOs do not trust and believe in self-regulation.

In terms of corporate-corporate partnerships, Respondent G suggests that partnering with other brands in developing a standardised human resource management system is beneficial because it's much better to share the cost and effort to bring about long-term changes.

10(a) If you think partnership would work, should there be a development of trust programme initiated?

A trust programme is suggested and explained to be a pilot project with specific objectives where trust could be built up before committing to a long-term working relationship. For those who agreed that partnership would work, fifteen out of sixteen interviewees believe that the use of a trust programme before a partnership should be initiated. It is clear that trust is missing between different types of organisations in the current supply chain model. Respondent R expressed strongly about their distrust towards multinational: *“Why should we trust multinationals? What have they done to earn trust? Multinationals only*

care that if they don't do it, they will lose money, market or investors who are concerned how products being produced. That doesn't mean that they genuinely want to do something. They should prove themselves to be trustworthy". The current supply chain model is that the sourcing team pushes pressure down, the monitoring and compliance team keep checking them and this increases tension between the two partners. This is described by Respondent B as a policeman model: *"The current CoC and auditing process is a policeman model where auditors are multinational companies' policemen, that's not the basis of a trusting relationship. The trust programme provides an opportunity for them to come to the table, where one is not the policeman, and the other one is not a criminal. Multinationals must take out the policeman mentality from the relationship, that's how trust can be developed. Trust is the crucial element in a multi-stakeholder relationship. At the moment, trust is missing. For example, Wal-Mart told its suppliers, "you do what we say. Or we will cut the contract"* (Respondent B). *"In most cases, companies do not trust their suppliers, therefore auditing exists. If the buyer trusts their supplier, they will not require their suppliers to go through an auditing procedure. If buyers continue to squeeze the cost down, they won't see the possibility of developing a trusting relationship"* (Respondent A). Multinationals should play a different role. *"Brands who are on the leading edge of CSR recognise that their auditing needs to shift its role, they need to take an advisory role, give more business management and support to the suppliers' facilities"* (Respondent J).

*"The new model is definitely the partnership model, share information with our customers; in turn they share with us, so that it is easier to plan and be more*

*efficient. Positive media attention will come*” (Respondent I). There is an overwhelming response to form a partnership programme, which initiates from a trust programme and continuous dialogue with stakeholders. *“One clear advantage of a trust programme is that two or more parties can build up trust that is important”* (Respondent U). *“We start off a partnering programme with an NGO which has technical skills in that field and it tends to be project driven, dialogue is a mechanism of developing trust and it should be on-going* (Respondent H and G). *“Constant dialogue is needed in regard to what are the things that can be improved”* (Respondent J).

10(b) What are the benefits to your company and your suppliers?

Benefits to the company	Count
Protect the brand (risk management)	5
Improve buyer and supplier relationship	2
Competitive edge	2
Comfort consumers in the west	1
Positive rating from socially responsible investment group	8
Positive media attention	8
Gain loyal customer base and increase sales	3
Enhance value to customer	8
Greater operational efficiency	5
Cost reduction	2

*Table 7.8 Benefits to the company in making improvement*

Referring to table 6.8, the most frequently cited benefits for companies are positive media attention (count=8), enhanced values to the customers (count=8)

and positive rating from socially responsible investment groups (count =8).

Benefits to the company	Count
Reduce turnover rate	4
Positive media attention	2
Increase orders and sales	5
Enhance value	2
Greater operational efficiency	8
Cost reduction	5

*Table 7.9 Benefits to the suppliers in making improvement*

The top four benefits for suppliers are greater operational efficiency (count=8), increased orders and sales (count=5), cost reductions (count=5) and reduced turnover rates (count=4) (see table 6.9). Other issues such as safeguarding business, competitive edge, positive working environment, better quality products and systems, increasing their level of motivation and long-term development are addressed by respondents individually: *“To achieve greater operational efficiency, factories have to rethink and reform their old business model”* (Respondent B). Respondent J complained that the reward for improvement from multinationals is minimal *“Increased orders and sales usually means only one extra order for the factory, therefore there will only be a few factory managers that would agree that they want to improve because they want to make more money. Nowadays factories are also afraid that they could be affected by bad media attention since the supply chain is increasingly more transparent”* (Respondent J). They are more concerned about their factory name being exposed to the media and that no brands will want to do business with them: *“If you don’t improve, your story will go out and people outside will know.*

*The whole value chain nowadays is so transparent, it can take only several weeks before your company is removed from the customer's supplier list as they don't want to do business with someone who is not complying with CSR" (Respondent H).*

Direct cost reduction is difficult to measure since implementing CSR increases the direct costs of the factory: *"Improving performance will not reduce cost for suppliers (Respondent U). But cost reduction can be seen as an indirect benefit to the suppliers. "Cost reduction is an indirect benefit that is linked to turnover rate. Improving working conditions can reduce turnover rate because every new person you bring in needs to be trained. If there is a need to train 3000 to 5000 people per year, and supervisors spend two hours in a half a day to train workers using a machine, this can lead to loss in productivity. The cost of training workers becomes a big added cost" (Respondent E).*

### **Part 3 Motivation**

11. Do you think voluntary initiatives or agreements are more powerful than legislative requirements to make a change and why?

Voluntary initiatives or agreement is more powerful than legislation to make a change	Count
Yes	4
No	10
N/A	7

Table 7.10 Voluntary initiatives are more powerful to make a change than legislative requirements

The interviewees were asked if voluntary initiatives are more powerful to make a change than legislative requirements. Only four respondents agreed that voluntary initiatives are more powerful. A significantly high number of respondents (ten respondents) thought that legislation is more powerful than voluntary initiatives. Seven respondents said that it remains difficult to choose which is more powerful as they are equally powerful or they are targeted at different types of companies. Respondents H and J regard implementing CSR in the current supply chain system as being only partially voluntary, it is mainly driven by client pressure. The comments from the respondents are categorised into three themes: voluntary initiatives are more powerful than legislation, legislation is more powerful than voluntary initiatives, and it is difficult to say which is more powerful than the other.

Theme 1: Voluntary initiatives are more powerful than legislation

- *“Legal measures are needed for the worst performing factories. For proactive companies, whether it’s mandatory does not matter to the company as they are already doing it. For other companies who might not be doing it, then there’s a legal outcome. If it is done on a voluntary basis, there is flexibility to choose how little or how big the effort”* (Respondent G).
- *“Voluntary will help in marketing the products”* (Respondent M).
- *“Legal measures tend to be slow in developing and might not end up with*

what you think. Even if it is legislated, it could weaken the voluntary system” (Respondent Q).

- “Implementation of CSR should be voluntary. In terms of protecting workers’ rights and the environment, there should be legal legislation. This is the minimum standard for business on how to comply. The problem is on enforcement which government to take responsibility to penalise the businesses. Businesses should comply with the legislation as a minimum, but they want to go beyond the basic requirement, this should be voluntary” (Respondent U).

Theme2: Legislation is more powerful than voluntary initiatives

- “Stronger legislation is powerful to make a change. If government can do a good job, monitors should not be in business” (Respondent C).
- “Legislation is more powerful in obtaining a desirable result in a short time frame” (Respondent D)
- “Legislation can get things to happen, for example the penalty of 1500 Hong Kong dollars for littering can make Hong Kong clean within two weeks. Voluntary is more noble” (Respondent I)
- “Government should take a more active role in supporting CSR, require companies to act ethically according to international labour law” (Respondent S)

Theme 3: It is difficult to say which mechanism is more powerful than the other

- “Voluntary initiatives are useful when there is already a build up of trust. I cannot see a strong role of voluntary initiatives in China yet, possibly in

*the future. In Mainland China, regulation, inspections and proper implementation are needed in the factory. Even to the level of paying workers, as they are not paid correctly in the current situation”*

(Respondent A).

- *“They are equally powerful. Increased legislative requirements are powerful in Sweden, US, Germany and Australia. Legislation and voluntary initiatives can work side by side. Even though Australia has a very powerful legislative framework, they are still doing voluntary initiatives of CSR to gain good publicity and hence result in better sales”*

(Respondent B).

- *“Doing CSR here is not completely voluntary”* (Respondent E)
- *“Voluntary initiatives cannot be compared with legislations in terms of power. Each has its benefits. Some companies implement CSR because they are proud of what they did and they have to be a role model in the industry. Legislation is for companies that need to be monitored, these companies only follow what the legislation states. Only if it is said in the legislation, will they make a move. They are targeted for different companies. Both legislation and voluntary initiatives should be complemented and used together”* (Respondent O)
- *“They are equally powerful. The legislative requirement has to be there as a precondition. Voluntary initiatives productively channel a lot of energy and knowledge that can help companies to work together to create an impact that changes the entire industry”* (Respondent T).
- *“They should couple with policy initiatives or even financial incentives”* (Respondent F).

- “Nobody does CSR voluntarily, everybody does it because of client pressure. Brands do it because of media pressure. They would never do it to such an extent if the pressure was not there. In this sense, this is not voluntary” (Respondent J).

12. How can we make suppliers appreciate the importance of responsible production and make real improvements in the future ?

Major drivers in making suppliers appreciate the importance of responsible production?	Count
Market driven	2
Some kinds of rewarding scheme	4
Non-governmental organisation intervention	6
Government intervention	12
Trade organisation intervention	4
Supply chain pressure	11

*Table 7.11 Drivers in making suppliers appreciate the importance of responsible production*

The results of the question of how to motivate suppliers in this region are shown in table 7.11. The search for some possible mechanisms is important since a lot of factories are short-sighted and usually do not appreciate the concept of responsible production unless they are required to do it. The majority of respondents (twelve respondents) favour government intervention in moving the suppliers forward. This is partly because the Hong Kong government has been playing an inactive role in the current supply chain model. But Respondent G criticised the government for not being an active player: “The Hong Kong government has no knowledge about CSR in the PRD

region, they are simply not doing anything ” (Respondent G). Most respondents also discussed the roles of government, companies, non-governmental organisations, multinationals and trade organisations and their comments are summarised in table 7.12.

<i>Organisation</i>	<i>Their role</i>
Government	<ul style="list-style-type: none"> <li>- Enforce command and control regulation (e.g. health and safety, labour law)</li> <li>- Provide funding supporting</li> </ul>
Non-governmental organisations	<ul style="list-style-type: none"> <li>- Improve awareness of consumers and producers</li> <li>-Push for higher standards</li> </ul>
Multinationals	<ul style="list-style-type: none"> <li>- Get management buy-in</li> <li>- Promote workers’ involvement and implement in steps</li> <li>-Increase awareness and provide incentives to factory</li> </ul>
Trade Organisations	<ul style="list-style-type: none"> <li>- Facilitate world trade</li> <li>- Set standards</li> </ul>

Table 7.12 Roles of each type of organisation

The traditional top-down supply chain pressure from multinational companies is the second most important driver, which was dominant to make real changes in supplier practice in the past. A few respondents criticised supply chain pressure as being only a short-term driver, it fails to an extent and results in a false set of books in order to satisfy the client: “*I don’t think the supply chain process is*

sustainable up until now, it's just compliance people come in and say you have to do this and that. Factory manager may say he can do this, he wants to satisfy you, but he cannot deliver it" (Respondent H). "There are only a handful of companies who are doing something. The vast majority of factories are not required to comply with external requirements. Every brand is doing incomplete monitoring, as they don't have enough people to go round the factories. It is a tiny fraction of the workers that are protected and this is not a sustainable way (Respondent E). "Supply chain pressure has failed to a certain extent and results in factories having two sets of books" (Respondent P). Six out of eleven respondents thought that supply chain pressure alone is inadequate since the multinational or the vendor will source from another factory if the factory fails to make changes. Therefore many other actors suggested that it should be combined with other drivers in order to accelerate the pace of improvement (see table 7.13). The most common response is a combination of the following: government intervention, non-government intervention and supply chain pressure.

A combination of drivers		
<i>Two types of drivers</i>	<i>Respondent</i>	<i>Frequency</i>
Government intervention (from national government) + some kind of rewarding scheme	Respondent C	1
Government intervention +supply chain pressure	Respondent D	1
Market driven + supply chain pressure	Respondent G	1
Market driven (shortage of skilled labour) + move from auditing to partnership	Respondent A	1

Media driven +supply chain pressure	Respondent Q	1
<i>Total frequency</i>		5
<i>Three types of drivers</i>	<i>Type of organisation proposed</i>	<i>Frequency</i>
Government intervention + rewarding scheme + supply chain pressure	Academic	1
Government intervention + supply chain pressure + trade organisation intervention	Respondent K	1
Governmental intervention + non-governmental intervention + supply chain pressure	Respondent F Respondent P Respondent J Respondent H	4
Government intervention + trade organisation intervention + training	Respondent M	1
Government intervention + non governmental organisation + trade organisation intervention	Respondent R	1
Non-governmental intervention+ some kind of rewarding scheme + trade organisation intervention	Respondent S	1
<i>Frequency</i>		9

*Table 7.13 A combination of drivers needed for positive change*

Other minor drivers are economic drivers, public pressure, consumer movement, media driven and peer influence, which is only recognised by a few respondents:

“It’s only when the factory recognises the workforce as part of its valuable assets, will they actually get to change. But unfortunately in the present business environment where you have a lot of low cost labour easily available, people come and go and it doesn’t matter with the management. They believe that they can always find someone else” (Respondent J). “Peer influence is much better than buyers trying to make them do it by supply chain pressure” (Respondent G). Both respondent U and P emphasise that tighter monitoring is needed. Harmonisation of the law and enforcement by the national government is the only long-term solution, more freedom of association would be important and that will make a big difference.

**Part 4 Barriers**

13. What are the barriers in making real improvements?

Drivers in making suppliers appreciate the importance of responsible production?	Count
No education to consumers	3
Lack of NGOs’ intervention	3
No independent workers’ organisations in China	4
Lack of concern of factory management team	6
Lack of government intervention	10
High complexity of the supply chain	12

*Table 7.14 Major barriers in making improvements*

*Top barrier: High complexity of the supply chain (count=12)*

- *Structural complexity*

The complexity of the supply chain remains the top barrier for real improvement as agreed by twelve interviewees: *“The vertical supply chain structure itself is complex, one supply chain includes many subcontracting suppliers. It might include ten or more logistical operations from the factory to production, from production to distributors, in order to bring the product to the market. For example, Levis Strauss has 1000 suppliers if they include upstream supplies of plastic bags, boxes, clothes hangers, plastic tags, dyes from plastic bottles etc. The supplier number will increase by five-fold. That’s complex, even if you have got the factory under control; you still have five times more suppliers to deal with”* (Respondent B). Respondent U shares a similar view with the aforementioned respondent: *“The garment industry within the supply chain is complex as this industry is fragmented. It will be even more complex if the upstream suppliers provide hooks, rivets, printed labels and tags. The garment industry itself is too broad as it represents factories making a large diversity of products from denim garments, fleece garments, knitted garments, baby pants, leather jackets and trousers, ski garments, sportswear, tee and sweat shirts, outerwear, jeans, casual wear, sport shorts, winter wear footwear etc”* (Respondent U).

- *Operational complexity*

Three correspondents pointed out that buyers’ responsibility towards their suppliers is inadequate, this is due to the buyers’ CoC policy not being transparent, lack of financial support from buyers, buyers and their sourcing team continuing to squeeze prices down, shortened delivery times (count=2), no communication between the purchasing and compliance teams (count=2) and

most buyers not taking account of subcontracting chain (count=2). *“Purchasing managers in the garment industry will continue to chase for price and delivery. You won’t see a big change in this industry”* (Respondent H). Respondent B pointed out that suppliers have to be responsible for all matters in the present framework: *“Buyers do not provide financial support to assist manufacturers, they pressurise these factories on production structure and training on SCM. A typical example is that the factory is asked to keep to 60 working hours at maximum, but at the same time they have to meet deadlines for a large volume of late orders, cash penalty, time to meet air freight. All these put enormous pressure on the suppliers. The outcome is that they naturally have to work longer hours. Suppliers are trapped in the system that they are in. But the supply chain is dependent in nature, buyers should be responsible for some of the problems”* (Respondent B). *“For example in Hong Kong, there’s legislation to protect workers in a construction site. If the workers from a subcontractor do not get paid, then workers can take the main contractor to court in order to get their wages back. But if Nike sources products from a factory in China, the factory suddenly closes and the factory management runs away, then their workers get nothing”* (Respondent R). The problem in China is that there is no clear legislation or fines procedure to protect workers.

- *Lack of a common standard in garment industry*

There is no common standard for the CoC policy (count=4).

- Lack of long term multinational (buyer) commitment to CSR on suppliers

This leads to factory management being indecisive in investing in the improvements as required. A typical example is highlighted by respondent E. *“Factory managers are often asked if they comply with CoCs and pass social compliance, how many orders will the multinational put into our factory in the long run? If the multinational can guarantee five years’ orders with the same amount of quantity, they might consider it since this is a stable order. But so far, it is rare that multinational clients give more than one stable order to the factories as a reward. If the factory complies with the CoC requirement, passes social compliance audit and is certified with SA 8000, but the multinational client cannot accept the price as it is more expensive than the factory without certification, then what can the factory do after he has invested a sum of investment?”* (Respondent E). In response to E, Respondent J answers that they also face huge uncertainties in terms of future demand: *“We cannot guarantee a long-term supplier contract with specific factories since we are under constraints and uncertain about the future economic environment and it remains difficult to predict the future demand”*.

*Second barrier: Lack of government intervention (count=10)*

Ten respondents agreed that the respective governments are inactive members in demanding responsible business practice across the region: *“There have been many dialogues among players such as companies and NGOs for several years; government are not involved that much* (Respondent I).

*Third barrier: Lack of concern of factory management team (count=6)*

Garment manufacturing is a low-skilled level industry, factory managers may not be particularly highly educated and it might be difficult to convince them to make changes: *“Changing the thinking or mindset of suppliers remains difficult, businesses in this region are too much concerned with profitability”* (Respondent F). Respondent B explained that lack of concern of the factory management team might be due to the fact that they cannot see the global connection with the western world: *“They do not know that they are part of the supply chain. The businesses in China will need to realise they are not an independent business entity, they are linked to sweatshop activists worldwide”* (Respondent B). Secondly, factory managers might not realise that they need good human resource management to cope with their expanding operation in the factory: *“In the greater PRD region, it is common that the human resource management system within contracted suppliers is weak, staffs are not particularly well trained and recognise that working hours are linked to productivity. Many of these factories might come from small business origins, the factory manager may have had 100 workers to start off with. Now he has got 3000 people but the structure tends to be the same. The factory manager might not recognise the need for good middle management and might not have enough middle managers that are technically capable”* (Respondent G). Respondent E also noticed that this is due to lack of management development for staff from code awareness to health and safety. In the absence of strong leadership, the factory management team shows a lack of concern mostly because it is unmotivated and short-sighted; its only concern is profit making (count=3). The management team believes that large investment and added costing from the factory is unavoidable (count=4). An academic added that the factory manager could not afford everything that the

multinational asked for, ranging from better wages, shorter hours and a dormitory. Their lack of concern may be due to the fact that they do not have the knowledge to make their workforce become more productive (count=1) and the lack of a system and insufficient or no management development (count=2). It is common that many of them do not have a copy of the labour law in the office and they don't pay attention to legal changes.

*Fourth barrier: No independent workers' organisation in China (Count=4)*

Several respondents commented on the importance of worker involvement. *"There are lots of workers who know what trade unions can do for them, but their involvement in any decision-making is important, which is not coming out from CSR. You can't have sustainable development without taking account of marginalized sections in the society"* (Respondent P). Workers' organisations are extremely important to train workers on what their rights are: *"Forming workers' organisations in China remains difficult, as it is forbidden to form independent unions"* (Respondent T).

14. How can the above barriers be overcome?

*To improve the structure and system of the supply chain*

Multinationals should gain commitment from the top management: *"Implementing CSR needs corporate-initiatives; it takes the CEO or chairman to drive"* (Respondent Q). A multinational recommended that the compliance team should have an equal status with the sourcing team in the organisation. They

should work on a better system and strategies in dealing with late orders, rather than putting pressure on the suppliers: *“Within the structure of the multinational, many compliance teams may actually be positioned underneath a sourcing department, they are actually in a weaker position to appeal”* (Multinational G). The compliance department should work with the sourcing team to take the pressure away from suppliers. Compliance teams should have an active voice within the company structure which is uncommon in the present situation, reviewing and examining how the sourcing team decisions affect compliance can be useful in looking for reasons for non-compliance: *“The brand will also need to invest into contracted factories”* (Respondent E). There is a common consensus from respondents that making real improvements have been and will be likely to be mainly pressurised by the multinational companies. Another dynamic force should be coming from factory management. Workers should be motivated through technical and general education training. *“Multinational companies should learn to work with their suppliers and try to look behind the problem”* (Respondent C, Q and U). They should look for reasons behind non-compliance. Do they have a proper system or skilled personnel to tackle non-compliance?

*“The responsibility of principal suppliers should increase; they should also monitor their subcontractors, and the subcontracted factories’ working conditions must satisfy the brand name requirements”* (Respondent U). Suppliers need to put proper systems in place such as safety systems and human resource systems. They should find someone internally to do it and that person may not have technical skills, may just have good English, for example: *“These things can’t be tackled simply on a CoC basis. Unless there is a proper system,*

*production system and planning, this needs to be in place to tackle those things”* (Respondent G). They need to actively employ people who have the capability to deal with problems concerning compliance work. *“In many cases, the factory doesn’t understand how to deal with the code. It’s like we give them guidance on how to do it. They absolutely need educated people in a sense that they have technical skills, trained as human resources professionals, health and safety qualified people, they need to be working in the factory to actually manage the system and do the technical things that need to be done”* (Respondent G).

#### *A common CoC would be desirable*

The manufacturers’ associations should come together and examine the possibility of a common code. There is a lack of a common and powerful trade association that most SMEs garment manufacturers endorsed to take the lead: *“It is better to look at international standards available rather than creating our own standard in this region. Standardisation of the codes of conduct by an industry would be too general”* (Respondent M). *“The common set of codes would be too general as ethics can get very detailed and complicated”* (Respondent M). However, three respondents (Respondent P, Q and R) said that the benefit of having a common industrial CoC would eliminate a lot of inconsistencies in individual multinational company codes.

#### *Government Involvement*

*“Government should play its responsible role”* (Respondent A). But achieving this will necessitate getting the Chinese government to play a greater role: *“Financial incentives should be provided by the government because businesses*

*will always ask, what do we get out of complying with CSR? Businesses want to make sure there's some return. Compared with other Asian examples in Korea where, when the oil prices rise to a high level, the government will offer suppliers a tax cut if they use energy efficient technology. Why not have the same in China? If you are obeying Chinese labour law and regulations in factory government, this will give you a 10 percent reduction on a tax cut" (Respondent J).*

*Powerful trade unions, independent workers' unions and NGO intervention*

Many respondents were uncertain about how this can work in China since freedom of association is not allowed: *"The number of unions in China is really low. From international examples, places that have good labour rights are usually supported by a powerful union" (Respondent R).*

*Increase consumer awareness*

Although the multinational companies themselves are continuously raising standards and expectations to their suppliers, consumers at the end of the supply chain are not informed whether the products are made under acceptable factory conditions. Two respondents (Respondent F and U) emphasised that consumer and product awareness is fundamental.

15. If a supply chain task force is set up and aims to help different partners in improving the working condition in the PRD, what role can your organisation play or contribute in this task force?

In achieving harmonisation, it is proposed that a collaborative body entitled “supply chain task force” should be set up to play a role in intervening among the actors, by recommending a partner that the company or the factory might want to work with, bring partners together and facilitate operations, pool resources and expertise, provide technical assistance in terms of health and safety, training and provide funding support in helping the greater PRD to gain a competitive advantage in the world market. This is especially useful to form concrete agendas that work towards sustainable development and hence boost the image of Hong Kong and enhance and promote its position as an international centre. Responses discussing the role each organisation can play is shown in table 7.15.

Organisations	Role of organisation in supply chain task force
Academics	<ul style="list-style-type: none"> <li>• Provide CSR training in Hong Kong on disclosure since Hong Kong companies have very secretive culture</li> <li>• Management training</li> <li>• Occupational health and safety expertise</li> <li>• Provide data since many expressed difficulties in getting data from Hong Kong</li> </ul>
Auditing firm	<ul style="list-style-type: none"> <li>• Monitoring</li> <li>• Give opinions to NGOs on certain standards</li> <li>• Expertise, training, auditing</li> </ul>
Chambers of Commerce	<ul style="list-style-type: none"> <li>• Reinforce our leadership in trade promotion and business policy</li> <li>• Support social and sustainable development related initiatives</li> </ul>
Government	<ul style="list-style-type: none"> <li>• Discuss and propose policy initiatives</li> <li>• Set up incentive programmes</li> <li>• Promote cross-border collaboration</li> </ul>
Human rights NGO	<ul style="list-style-type: none"> <li>• Training of workers to understand CoC and legislation.</li> <li>• Work as a monitor</li> <li>• Engage workers</li> </ul>
Labour rights and research NGO	<ul style="list-style-type: none"> <li>• Consult them when constructing a labour policy</li> <li>• Provide good research on different workers’ issues such as wages, health and safety and criticism about CoC</li> <li>• The organisation can be a neutral convenor of</li> </ul>

	<p>dialogue, invite people who might not meet directly such as competitors in the industry.</p> <ul style="list-style-type: none"> <li>• Support efforts in research in business practice, training services or trust-building process.</li> <li>• Campaign</li> <li>• Research</li> <li>• Training workers</li> <li>• Watchdog</li> <li>• Engage workers as part of monitoring</li> </ul>
Multinationals	<ul style="list-style-type: none"> <li>• Ensuring good working practice is one of their responsibilities.</li> <li>• State issues in political agenda</li> <li>• Increase institutional capacity – building education, training and systems</li> <li>• Speak on behalf of textile and apparel manufacturing industries, share best practices</li> <li>• Education</li> <li>• Share experience and knowledge, training</li> </ul>
Sustainable Development Unit, HKSAR government	<ul style="list-style-type: none"> <li>• Discuss and propose policy initiatives, incentive programme.</li> <li>• Promote cross-border collaboration</li> </ul>
Supply chain consultancy	<ul style="list-style-type: none"> <li>• Training, technical experts, assist the suppliers to Understand CSR.</li> <li>• Training and developments</li> <li>• Consulting audit- teaching and explain to them what to do, why current practice might not be the best?</li> <li>• Partnership in health and safety</li> </ul>
Trade organisation	<ul style="list-style-type: none"> <li>• Promote trade</li> <li>• Provide trade platform or information</li> <li>• Provide trade related training</li> <li>• Monitoring information</li> </ul>

Table 7.15 The role of each organisation in the “supply chain task force”

“The task force is best if it is convened by the government” (Respondent I). Over half of the respondents mentioned that training and building institutional capacity is important in this region in assisting suppliers to understand CSR, and only that will bring long term sustainable change: “Unless you educate people, provide the professional expertise and capacity capabilities. Until that is in place, there’s no way that China can improve in the future” (Respondent G).

### 7.3 Conclusion

This chapter gathers potential options that would help in achieving sustainability in the supply chain. CSR is only a business concern to certain types of companies, mostly multinationals and their contracted suppliers. Businesses in this region implement some form of CSR in order to satisfy client demand. In the ranking scale 1 to 5, 2.36 is obtained, which indicates that CSR is somewhat significant in these businesses although they are lagging behind western counterparts due to low external pressure from the public, consumers and the media. But these companies are moving ahead compared to the local SMEs producing domestic goods. Most interviewees declared that there has been some positive progress made compared to the situations in the past five to ten years, and the ranking of CSR significance is expected to increase. *“The changes are apparent, in that factories will not ask why auditors have to come, why they have to pay a minimum wage, and they acknowledge how they should operate.. But for some bad factories, they will still have falsified records for you to inspect”* (Respondent E). Most respondents believe CSR can only deliver some kind of long-term profits, but not in the short term. However, some do not believe that it is a profit-making exercise, rather that it is about managing reputations. When asked what criteria characterises a responsible corporation, meeting local legislative requirements was their main concern. Surprisingly, protecting the environment came second, due to the fact that corporations in this region commonly perceive that government should take sole responsibility for the environment.

Most respondents pointed out that a CoC only works if monitoring and training is supplemented. It will not work if there is a lack of communication of the CoC from top to bottom, low awareness of the CoC at factory managerial level, improper posting of the CoC and negative factory attitude, hence it results in negative impacts on the workers. With the addition of social compliance audits, a significant number of respondents thought that it does help in finding out some of the problem areas, provided that auditors have adequate knowledge about local labour law and factory managers do not intend to cheat and coach workers to answer auditors' questions. However, social compliance audits cannot force factories to make improvements. There is a role that the multinational company has to play within their compliance programme. It is found that the problem of falsified records is severe not only in China, but also in other parts of Asia. It is claimed that multinationals themselves should be taking responsibility, as they frequently place late orders and require suppliers to deliver the products in a short time frame so that suppliers have to make workers work overtime in order to finish the products and meet the shipping schedule. Both CoC and social compliance auditing have limitations; it is commonly agreed that they are not long-term solutions. The top three severe problems in the greater PRD that need urgent attention are wages and benefits, working hours and freedom of association, which coincide with the findings of the case studies.

One-quarter of respondents considered that the current model cannot deliver long-term sustainable change; there are other basic systems that need to be implemented to ensure a healthy working environment. The findings imply that multi-party partnerships are favoured by the majority of stakeholders in addition

to stricter enforcement of local legislation. Government, non-governmental organisations and multinationals should work together to make suppliers appreciate the importance of responsible production. Prior to establishing a working relationship, a trust programme is thought desirable by almost all respondents. Similar findings were obtained when compared to the World Bank report (2003) that partnership initiatives are needed to move beyond the current practice of relying on the use of codes of conduct and social compliance auditing. The challenge is to build up a trusting relationship and system where positive benefits of globalisation can be harnessed against widespread abuses of workers. Tension exists between companies and NGOs as there is a lack of trust: *“CSR does not actually help in addressing the actual issues. It is a PR strategy; there are a lot of examples that integrating CSR is not actually benefiting workers. CSR should be termed “corporate social accountability”, companies should behave responsibly and accountable. If they do damage to the environment, they should be held responsible. Companies are getting away with the wrong thing right now”* (Respondent R).

The complexity of the supply chain remains a major barrier for real improvement. None of the regional drivers from NGOs, customers and other civil society actors are strong enough to push it forward. It is believed that the major pressure cannot only come from supply chain pressure in the future, but should also come from government intervention through legal enforcement and financial incentives. The feasibility of investment should partly come from government subsidies.

The study concludes that China's regulatory standards are high and it is only the enforcement that is weak. There is a common consensus that enforcing regulation is necessary; mandating CSR policy for Hong Kong, Macau and China at present is undesirable since there are existing regulations. Legislating CSR can be powerful in delivering a quick change and make reluctant corporations change. While many pointed out that voluntary initiatives are not more powerful than legislation, they can be equally powerful. It is seen that the involvement of government, trade associations and chambers of commerce is limited, they are not actually addressing or discussing the problems faced by businesses. They claimed that their sole responsibility is to provide a platform for businesses.

In driving change, all correspondents are positive about forming a supply chain task force to serve and create business value. When possible, actors in society can facilitate follow-up activities and discussion of the issues raised in this thesis.

## **CHAPTER 8**

### **DISCUSSION AND ANALYSIS**

The four exploratory primary research studies were carried out through specified qualitative research procedures within the framework of an action research model. They focus on the current knowledge level of SCM, the presence of a CSR policy, the extents of CoC implementation and the development of options such as partnership opportunities in order to achieve sustainable development goals. Each plan has provided insights into the situation including what constraints they are facing and future challenges. The interconnections between knowledge, policies, implementation and partnerships will now be linked to the literature in Chapter 2.

#### *Summary of the research findings and implications for the greater PRD*

##### *1. Inadequate SCM knowledge among regional suppliers*

Much of the literature in the west is devoted to lowering environmental impacts from the production process and therefore focuses on product-oriented measures such as reducing raw materials, packaging and discharge from manufacturing rather than social issues. The first survey contributes to the SCM literature in this region by describing the current trends and perspectives of suppliers in nine manufacturing

sectors: chemical, electronics, paper, food manufacturing, machinery, metals, plastics, printing and textile. The current status of SCM as regards the environmental dimension is established, which fills the research gap. The results from the study provide strong evidence that Hong Kong companies do not have a good understanding of SCM (45% of companies are not very knowledgeable about SCM), nor is it a common practice yet. This reflects the fact that a high percentage of companies in Hong Kong are SMEs, which is also seen in the survey, where a high percentage (78%) of companies are SMEs. Therefore, it is actually not surprising that a high percentage (72.3%) does not have a written environmental policy internally and does not require suppliers to improve environmental performance externally. The main drivers to motivate changes in the supply chain from the manufacturers' perspective are: reduced operating costs, enhanced company image and increased revenue. Unfortunately, implementing environmental aspects in the supply chain does not reduce operating costs and increase revenue in the short term. It is also found that there is a gap between suppliers' perception of stricter environmental regulations as one of the major effects of the accession to the WTO, and their existing procedures in meeting these future requirements. This requires a change in the mindset of the suppliers themselves in realising the real benefits of sustainable development. These suppliers are important actors in the greater PRD since most suppliers (79 out of 101 companies) in Hong Kong are sourcing from China. The application of a traditional environmental management system approach would help in increasing their knowledge of how environmental aspects can be integrated. Consequently, they can move beyond systems to educate their

subcontractors. Taking into consideration an environmental commitment with the involvement of major industries will not only help Hong Kong and regional businesses to face stronger competition in the local and international contexts, but also help to improve domestic and cross-border land, water and air quality through each stage of the product life cycle.

2. *The absence of SCM policies*

Published supply chain policies such as CoC are rarely found among Hong Kong retailers . This indicates that Hong Kong retailers fail to meet local consumers' expectations as regards the disclosure of corporate information and their duty of care towards the community at large. Regarding the ranking system, most Hong Kong based retailers received a ½ star ranking if they are currently developing a CoC or have an internal CoC. Only four out of 67 companies (6%) published their CoC openly on their corporate website. These companies are Adidas, Puma, Tommy Hilfiger and WH Smith. These multinationals develop CoC to satisfy stakeholder pressure from the west, but the effectiveness of CoC used in this region cannot be ignored. This suggests that the role of large internationals would be an interesting subject for further investigation. This study clearly shows how Hong Kong retailers fall dramatically behind international market trends in terms of accountability and transparency of CoC. This is demonstrated by the fact that 15% of all participating companies in the UK publish CoC compared to only 6% in Hong Kong. Their conservative mindsets have not changed according to international best practice.

Retailers in Hong Kong view the CoC as an internal document, which mostly focuses on internal aspects of CSR such as bribery and corruption, and as a result they have not moved towards external aspects such as accountability and corporate citizenship. *“The CoC is for internal use only”* (An electronic retailer). *“The CoC is a piece of confidential information and it may not be possible to obtain it even by written notice”* (A clothing company). According to the literature Cadbury (2002) describes different levels of CSR implementation. On this scale Hong Kong is still at level 1, which means that considerable efforts will be required in accepting corporate responsibilities and meeting obligations to shareholders, employees, customers, suppliers, creditors and to fulfil its statutory duties, including paying taxes. Examples are rarely found of companies operating at a higher level, such as where they consider the direct results of their actions in carrying out their primary task, make the most of the community’s human resources, avoid damage to the environment and are accountable for their actions. This suggests that the current position of multinationals is important when imposing such requirements to address CoC issues. Across the border from Hong Kong, suppliers are often required by multinationals to focus on the external issues in the CoC, which relate to their production and supply chain practices. There is still room for improvement on external issues such as addressing ethical and social aspects in the corporate CoC.

### *3. Implementation Challenges*

*Low awareness of CoC*

As noted earlier, the presence of a publicly available CoC plus proper implementation forms the basis for acknowledging the required CoC compliance control. The implementation step is important in making sure standards set are met. Four out of five multinationals' CoC are found on the factory wall or in places accessible to workers both in English and or in simplified Chinese. One of the multinational companies' CoC is not publicly available and is not found in the supplier's facility. Most multinationals do not take a proactive stance in explaining the implementation process and reporting the results of the social compliance audits, they are compliance oriented. In most cases, statutory requirements are regarded as a minimum standard that suppliers have to comply with. CoC represent a standard that obliges suppliers to comply when there is either no such legislation locally or the legislation is much more lenient than the code. Suppliers have to comply with whichever is the higher standard. A review of the main regulatory context of labour and environmental law in China, Hong Kong and Macau forms a baseline for the monitoring purposes of the case studies. *"People misunderstand CoC to be the answer to all the problems in the factory"* (Multinational company B). The cases also identified themes for direct action and indicate that the overall performance of the supply chain can be improved in the following core areas: codes of conduct and factory rule awareness, wages and benefits, acceptable working hours, health and safety, environment and freedom of association.

## *Chapter 8 Discussion and Analysis*

Practical implications for implementing CoC include the fact that suppliers don't communicate the details of their CoC to the workers even though codes are provided by multinationals and posted on factory walls. Therefore, low awareness of CoC was found in most suppliers' facilities even though training is provided in some cases. Most workers declared that they only followed what the supervisors said. The third case also revealed that a positive attitude and cooperation from suppliers is necessary to change the factory working conditions. It does not work if only one actor or multinational is committed to make a change.

### *Ignorance of the factory manager and his team*

Suppliers in this region are often subject to short-term profit targets. The challenges of implementing a CoC policy for a supplier in the garment industry differ greatly and depend on the percentage of products manufactured for multinationals. Generally, the larger the percentage of products made for multinational companies, the greater is the possibility to influence the factory manager and his team to agree on corrective actions and make changes in the working conditions of their facilities (see Chapter 6 Wing Hang Enterprises Limited). Conversely, the lower the percentage of products made in the facility, the more challenging it is to convince the factory manager to incorporate changes (see Chapter 6 Evergreen Garment Factory).

Through factory managers' and management interviews, it was found that supplier management teams have some degree of awareness of the content of the CoC;

however this has not filtered down to the workers' level. The results from the five explicit case studies indicate that workers do not recognise the importance of the presence of the CoC in reality, after the sophisticated formulation and development stage of the CoC in the west. There is a large gap in policy and standards of awareness of CoC among suppliers within the garment industry as a whole. The CoC is often used as a guide for factory management teams to comply with. In order to raise awareness of the code, multinationals should be transparent and make greater efforts to help their contracted suppliers to communicate the CoC as a responsible policy implementation, and cooperate with their suppliers. However, there are limits to the extent to which CoC are able to influence the operational decisions of those factory owners, which indirectly affect the workers' quality of life. In the garment industry, it is rare to find an environmental policy or an environmental management system in place. Waste management systems or any type of air pollution controls are usually not imposed by the buyers. There is a lot of room to improve the environmental practices of these companies. This is partly due to the fact that environmental concerns addressed in CoC are too general and they are not expected or required by customers to impose these in practice. The lack of such practices may be due to the fact that they have an inadequate knowledge of SCM. Long-term excessive usage, spillage or improper disposal of hazardous wastes will eventually become a public health problem. This is not normally addressed in the codes. The environmental elements in the CoC should be addressed to a greater extent as it directly affects workers' health in the long term. After corrective actions are agreed on by the factory management team, it is the responsibility of the supplier to verify

or take the necessary steps to make changes and comply with the CoC. Many multinationals do not require their subcontractors to comply with their CoC, but there are indications that this will be one of the requirements in the future.

The analysis indicates that the mindset of the factory management will have to change and it must realise that it is benefiting from the process in the long run. It should be open and communicate both internally and externally, and have readily available, knowledgeable and specialised expertise. In the next chapter it is intended to find out what the future directions and opportunities for improvements for the greater PRD are, by interviewing experts from universities, companies, government departments, industries and non-governmental organisations in this area. Priority attention can be identified for future actions.

#### *4. Partnership for change*

In promoting effective strategies of supply chain management for sustainable development through expert and key stakeholder interviews, the study hopes to discover what drives change and what does not. Interviewees expressed strong enthusiasm and support for a collaborative effort to address social issues across the supply chain, which can lead to better factory conditions and yield greater social benefits. Three main forms of collaboration favoured by stakeholders are multi-party (three or more actors), corporation and NGOs, and corporation and suppliers.

## *Chapter 8 Discussion and Analysis*

Over half of the respondents believe that new command and control legislation is not necessary as it will overlap with existing policies; rather the regional governments should join hands to enforce existing regulations. In particular, China's regulatory standard is high and it is only the enforcement that is weak. It is clear that most actors in this region do not favour the Australian model, which is moving towards a legislative approach. In achieving sustainability, experts in this region suggest that full enforcement of local legislation will bring tremendous benefits. Full enforcement of current legislation has some problems. Factory managers argue that they cannot comply with the legislation for economic reasons. They are often under severe constraints such as tight delivery schedules: "*We will be out of business if we fully comply with the law*" (Factory manager from Sunshine Garment Making Factory). The case studies show that multinationals might be committed to sustainability within their own organisational boundaries. Beyond that boundary, it remains difficult for suppliers to achieve a strong financial bottom line, but also to achieve this in an environmentally sound and socially fair way.

Businesses in this region implement some form of CSR because of client requirements. Therefore, the position of multinationals can be important. However, Hong Kong companies must realise that CSR is also a business concern for local companies as well as multinationals and their contracted suppliers. It is more important that factory managers realise the real benefits of taking corrective action. They should make changes because they view it as a benefit rather than just meeting client requirements, which is a common practice at the moment.

The study indicates that CSR is somewhat significant locally although it lags behind western counterparts due to low external pressures from the public, consumers and the media. In the ranking scale 1 to 5, a result of 2.36 is obtained. But these companies are moving ahead compared to local SMEs producing domestic goods. Most interviewees declare that some positive progress has been made compared to the situation in the past five to ten years, and as a result the ranking of CSR significance is expected to increase: *“The changes are apparent, so that factories will not ask why auditors have to come or why they have to pay minimum wages, and they acknowledge how they should operate. But for some bad factories, they will still have falsified records for you to inspect ”* (Respondent E). Most respondents believe CSR can only deliver some kind of long-term profit, not in the short term. However, some do not believe that it is a profit-making exercise, but that it is about managing reputations. When asked what were the criteria that characterise a responsible corporation, meeting local legislative requirements was their main concern. Surprisingly, protecting the environment came second due to the fact that corporations in this region commonly perceive that government should take sole responsibility for the environment.

Both as a policy and an instrument, CoC and social compliance auditing have limitations and it is commonly agreed that they are not long-term solutions. The top three problems identified in the greater PRD that need urgent attention are wages and benefits, working hours and freedom of association, which coincides with the findings of the case studies. A quarter of the respondents consider that the current

model cannot deliver long-term sustainable change and that there are other basic systems that need to be implemented to ensure a healthy working environment. The findings imply that multi-party partnerships are favoured by the majority of stakeholders in addition to stricter enforcement of local legislation. Government, non-governmental organisations and multinationals should work together to make suppliers appreciate the importance of responsible production. Prior to establishing a working relationship, a trust programme is advocated by almost all respondents.

The barrier to forming partnerships between companies and NGOs is a result of tension existing between them due to a lack of trust: *“CSR does not actually help in addressing the actual issues. It is a PR strategy, there are a lot of examples that integrating CSR is not actually benefiting workers. CSR should be termed ‘corporate social accountability’; the company should behave responsibly and accountably. If they do damage to the environment, they should be held responsible. Companies are getting away with their wrong doing right now”* (Respondent R from expert interviews).

Other external barriers to achieving sustainability stem from a lack of strong drivers from regional NGOs, customers and other civil society actors to create societal pressure. It is believed that pressure cannot only come from the supply chain itself in the future, but that government intervention through legal enforcement and financial incentives is also needed. Investments should partly come from government subsidies to promote sustainability.

There is a common consensus among the experts interviewed that government should contribute to the management of the supply chain by providing non-financial or financial incentives to business. When possible, stakeholders can facilitate follow-up activities and discussion of the issues raised. The Sustainable Development Unit of the HKSAR government and Council for Sustainable Development (CSD) should play an active role. They should take a lead rather than being a platform and should promote sustainability to proactively engage businesses, as well as the local and regional communities of the greater PRD, and work towards a common goal. It is necessary that the economic agenda should be integrated with environmental and social issues to pursue the path of sustainable development.

The case studies reveal that neither the Chinese government nor businesses have the capability to bring sustainability on their own. There should be two-way communication between multinationals and suppliers, and therefore partnerships emerge as a central concept. To trigger the partnership process, a trust programme is seen as a positive way to pursue such a cooperative relationship. Similar to the trend of the environmental segment, which is much more developed in the west, the social segment of SCM is also moving towards a cooperative model. Implementing environmental management approaches is desirable and there is much to learn from international practice, which is discussed in the literature.

Overall, the findings suggest that the current garment supply chain is not sustainable in the long run if suppliers continue to ignore the need to improve environmental and

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social performance and continue to cheat. All four primary research studies demonstrate some common features; they indicate that suppliers in this region have a conservative mindset in policy disclosure and that they are reluctant to make changes in relation to China's accession into the WTO.

There are important lessons that can be drawn for the greater PRD. Major considerations and an action plan to be taken by various stakeholders to increase the opportunity for achieving high sustainability in Hong Kong are concluded in the next chapter. Mechanisms are proposed to voluntarily motivate or pressurise suppliers to become socially and environmentally responsive.

## **CHAPTER 9**

### **CONCLUSION**

#### **9.1 Summary and recommendations**

The introduction of this thesis reviewed the cost implications of globalisation and accession to the WTO that have caused corporations to contract the labour-intensive parts of their operations to developing countries to increase their profit margins. They continue to relocate from one place to another, which has resulted in huge social and environmental impacts beyond the corporations' boundaries. Therefore, the driver for managing the supply chain is directly linked protection of the reputation and brand, which are non-quantifiable by nature as they are intangible assets. SCM was further explored in detail in Chapter 2. The growing importance of SCM from an environmental and social perspective is noted by scholars and practitioners in Chapter 2.

The literature review takes into consideration the broader concept of sustainable development and outlines how and why companies should be concerned with environmental and social issues in the supply chain. The review suggests that this is mainly due to pressure from stakeholders and to enhance the company reputation as well as for competitive advantage reasons. Systems and evaluative measures should

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be implemented. Common benefits of SCM in achieving sustainability are enhanced value for customers, cost reduction, increased operational efficiency and competitive advantage. In theory, implementing tools of CSR will raise the triple bottom line and enhance a company's competitive ability. However in reality, factory managers declare that it is difficult to achieve economic benefits as well as social and environmental benefits when the price of the order continues to decrease. The current trend in recent literature also indicates that a more cooperative model of SCM favours the environmental and social dimensions. Desk-top research suggests that these types of SCM partnerships are found mostly in the electronics industry. In addition, other international multi-party partnerships have been initiated in the U.S., the United Kingdom, the Philippines and Taiwan. This qualitative desk-top study of SCM was initially undertaken to determine the significance of SCM developments worldwide, and it shows that this focuses largely on the role of purchasing managers in reducing environmental impacts. Methods such as the commonly used life cycle analysis methodology aim to investigate the product-oriented approach at large. Labour and human rights issues have often been ignored in the SCM literature and this thesis expands the environmental dimension of SCM to include a new dimension, the social dimension, in order to fill the gap in knowledge. Within the social perspective, the introduction and implementation of the CoC and local legislative requirements play a key role in the delivery of higher environmental and social performance. They often serve as the minimum requirement with which suppliers have to comply.

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The first preliminary research study in chapter 3 develops this by confirming that there is a knowledge gap within the manufacturing industries about how to manage the supply chain. This study was based on 905 major companies and SMEs in Hong Kong and the response rate was 11.2%. A significant number of these companies are either sourcing from China and/or have factories in China. Surprisingly however, over 40% of those companies have contracted or subcontracted their manufacturing processes and less than half use the environment as a selection criterion for suppliers. Also, less than half require their suppliers to have an environmental management system in place, and it is discouraging that nearly half of them are not willing to improve their suppliers' performance in the future to take account of China's accession into the WTO. The second preliminary study reveals that only four out of 67 companies have published a code of conduct, which includes Adidas, Tommy Hilfiger, Puma and WH Smith. None of the Hong Kong brands are prepared to disclose their CoC or inspection results for their suppliers or factories to a wider range of stakeholders. The data indicates that Hong Kong companies remain reactive and conservative.

This thesis contributes to the international debate on how to implement principles and concepts of sustainability in relation to supply chain management at local and regional levels. The principle of sustainable development asks that all three aspects, social, economic and environmental, should be considered in an integrated manner. As reviewed in the literature in Chapter 2, considerable attention to this idea has been paid at an international level within the last 10 to 15 years. However, this thesis

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has shown that regional manufacturers and retailers in the supply chain are struggling with how sustainability could be achieved.

The four primary research studies provide evidence of the problems specific to this region, and possible consensus to solve sustainability problems. The problems of workers' rights abuses as well as pollution in this region are overwhelming. By drawing together the concepts of corporate social responsibility (CSR) and environmental management within the sustainable development framework, the study explains the drivers, barriers and benefits of pursuing a path of sustainable development. Inadequate knowledge, absence of policies and problems with monitoring measures within industry remain the major barriers. More time is needed to increase education and awareness and the capacity to engage and apply partnerships to make a change. Specifically, the process of developing and implementing CoC monitoring provides an opportunity to put a diversity of concerns into practice, from workers' wages and benefits, working hours, child labour, health and safety, freedom of association, prison and forced labour, disciplinary practice, discrimination, environment, subcontracting and dormitory issues. As discussed in the previous chapters, workers do not appear to recognise the benefits of enforcing the CoC. Taking relevant stakeholders into account, such as governmental and non-governmental organisations, in order to learn their views and address issues relevant to them, is an important exercise. Rising public involvement in government and business affairs is seen in the growth and activism of non-governmental organisations and in pressures to disclose environmental and social performance.

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Civil society creates pressures for businesses to be more open and transparent in the way they deal with the public, government, other businesses, and local communities. The pressure from international NGOs will continue to increase to ensure that corporate activities everywhere in the world are under stakeholder and shareholder scrutiny. Failure to perform responsibly in a distant market along the supply chain, or in the launch of new products and technologies, may erode the corporate reputation and harm the competitive position in core markets and in equity markets. Businesses in this region must realise that they are part of the supply chain network, as noted in Chapter 2, and that the benefits of being socially responsible will bring true competitive advantages and reduce liability costs. Active engagement with stakeholders and documented good performance can protect a company's licence-to-operate, drive product and service innovation, reduce legal liabilities, and improve business strategy.

Environmental conditions in this region are deteriorating at a rapid rate, as noted by many authors (Liu and Hills, 1997; Ip, Li, Zhang, Farmer, Wai and Li, 2004; Zhang and Wu, 1999 and Wang and Zhou, 1999; Sheng, Fu, Chan, Lee, Chan and Wang, 2002; So and Wang, 2003) and therefore suppliers should seriously consider implementing environmental measures to a greater extent. Lloyd (1994) stresses that environmental pressures will increase in the future. Since 1995, China has encountered the most anti-dumping investigations of any trading country. The commodities involved have been mainly labour intensive ones such as textiles, chemical products, mechanical and electrical products and acoustic equipment.

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Economic growth in the region is significant and is likely to expand in the greater PRD. Mainland China will continue to be subject to U.S. anti-surge safeguards or anti-dumping measures, which will in some way affect the trade of goods.

One of the main conclusions of this thesis is that the current way of managing the supply chain is not sustainable. The approach of supply chain management to sustainable development is still evolving. The common consensus from the expert interviews in the region reveals the following issues that need to be considered:

- There is a need to go beyond auditing activities.
- There should be a systematic and standardised approach in monitoring the suppliers
- There is no long-term commitment from multinationals (customers). Multinationals need to create an environment which promotes social compliance
- Compared to the garment companies producing for the domestic market, the companies under research are probably further ahead since they have to meet western customer standards as well as local legal requirements. Clearly, suppliers fail to realise the benefits of a sustainable corporation
- It is essential to build trust between multinational companies and suppliers. But to build trust, multinationals should take a long-term view in addressing corporate social responsibility.

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There is much work to be done in pursuing sustainability in Hong Kong. It was found that different parties from the government, multinational companies, local and regional suppliers and NGOs have a different role and responsibility to play in the near future. They should share the responsibility of joining partnership initiatives such as supply chain task forces as suggested in the previous chapter. The establishment of a supply chain task force will assist in better coordination and cooperation among governmental authorities, companies and organisations in the region, to the benefit of all. Future directions are discussed at six levels:

- 1. Role of global multinational companies*
- 2. Role of the Factory Manager and Management team*
- 3. Role of workers*
- 4. Role of local and regional government level*
- 5. Role of NGOs*
- 6. Role of consumers*

### *1. Role of global multinational companies*

The current CSR model is a risk-based and short-term incentive-based approach imposed by multinationals. In achieving sustainability, multinational businesses should improve their supply chain transparency through open and clearly stated business principles, information disclosure and reporting and, most importantly, a

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responsible factory management team. At the internal company level, four out of five multinational companies A, C, D and E, do not make their supply chain transparent. There is no data on the number of factories they are sourcing from, the number of public reporting mechanisms on internal and external audits conducted, and no information on improvements. There is scope for improvements to make the supply chain transparent. Only one multinational (multinational B) out of five takes a proactive role in CSR. It is serious about formulating and implementing the code, and trains staff to implement them for individual factories; the implication in this case is the need for the factory to cooperate. So a two-way cooperation between multinational and supplier is fundamental if changes are to be made. Based on six suppliers operating in the PRD, one of the constraints is that factory managers complain that most of the multinational companies keep lowering the cost of contracts, while at the same time increasing their expectations of environmental and social performance. The finding coincides with Oxfam (2004) who state that multinational companies demand quicker and cheaper delivery of the latest products without communicating with internal departments. In some cases, the purchasing and sourcing activities are not directly linked with the social and environmental compliance team. So there is a lack of institutional structure to assist suppliers in improving the physical conditions of the workplace as such. There tends to be an attitude of 'there's the code, just do it'. Many stakeholders in the detailed interviews responded that this phenomenon does not work. The multinationals' purchasing teams should use "best value" suppliers.

2. *Role of the Factory Manager and Management team*

Effectiveness in improving supplier workplace conditions can be increased through commitment and support from top-level factory management. Factory managers indicated that meeting the standards of different social compliance audits from different parties is burdensome, as one customer requests them to change one aspect and another customer might have a different request. Therefore a common monitoring method is desirable.

The primary data captures the perspectives of the behaviour of suppliers' supervisors and workers in a well-defined region of the greater PRD, based on long-term and multiple observations of five multinational companies and their six suppliers over a year of fieldwork. Three kinds of qualitative data were obtained from interviews, observations and documents. The most common violations found among workers in the greater PRD region are overtime, wages, and health and safety issues, which need urgent attention.

Suppliers have to increase their efforts to improve the health and safety of the working environment. Since the introduction of CoC, stakeholders interviewed in Hong Kong noted that positive changes have been made within the garment industry in the last five years: *“The situation in this region has improved a lot compared to two or three years ago. It will continue to do so”* (Respondent I), *“CSR is one of the business concerns because it arises from customer pressure. There is a big*

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*difference compared to five years ago. The pressure will continue to increase”* (Respondent K). However, this research reveals that the performance implications when translating the principles of CoC into specific actions are impeded by the fact that the workers do not understand the details of the code. Key findings in the case studies indicate that the implementation of the code of conduct fails to reach the workers’ level in most cases. Among the cities in the greater PRD, only workers in the Hong Kong factory could give the details of the code. The highest percentage of workers that do not read the code are from Dongguan. Surprisingly, when comparing codes of conduct awareness and factory size; it is found that the larger the factories, the higher the percentage of workers who do not read the CoC. On the other hand, the smaller the size of the factory, the higher the awareness of the code. Overall, five out of six factories have low awareness of CoC in both small and large size factories. This implies that the current CoC policy and monitoring models based on the standards set from multinationals and local legislation are inadequate in improving workers’ conditions. Faced with this result, communicating the responsible policy is necessary within different levels of factory employees. It might also indicate that other mechanisms might work better to increase performance. The results also confirmed that more progress has to be made in implementing codes in the suppliers’ premises. It should be noted that the case studies focus mainly on export-oriented suppliers invested in by companies from Hong Kong, Macau and Taiwan, and that they make products for multinationals largely in Europe and the U.S. They may not represent other suppliers which are state-owned, or the foreign-invested suppliers who operate under the direct control of multinationals.

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Factory managers and the team are usually reactive and compliance-oriented, and therefore fail to realise the true value of implementing a CoC, as it does not reflect on their financial performance. The common message from the case studies and the interviews suggests that it is important that factories comply with the basic legislative requirements on labour wages, insurance and benefits, environmental, health and safety and other areas. As mentioned by many interviewees, Chinese Law itself is comprehensive and clearly established in comparison with many other countries. It was seen from interviewing the factory managers that they struggle to make decisions with two conflicting objectives, profitability or socially responsible practice. From the suppliers' perspective, the major barriers of integrating social and environmental measures are:

1. Manufacturer view audits as a complication.
2. Lack of expertise within the factory premises (human resources, H & S, and environmental)
3. Lack of incentives to improve worker skills
4. Lack of knowledge of environmental improvement options. They should realise that they should take some kind of environmental responsibility other than occupational health and safety, such as for environmental pollution and waste disposal issues. Potential sources of pollution should be identified and sound resource conservation measures should be implemented. A set of long-term environmental goals should be set at the internal factory level.
5. Cost of obtaining certification

6. Cost of worker development

They often operate with severe constraints such as shortened delivery times, a large amount of late orders and order prices which continue to go down. But it is unclear about their expected profit margin. Most importantly, factory managers should recognise that “workers” are a valuable business asset. After the management team has been trained, the issues of the CoC should be promoted to the lower levels, from supervisors to workers. In some cases, a change in the suppliers’ organisational structure is desirable. Very often, there is one factory manager, two management staff and four supervisors to look after a few hundred functional teams of trained personnel to carry out changes in each area such as health and safety, workers rights and human and resource management. An early investment into the management team is desirable to make a change at the factory level. A lack of environmental policies and management is often found in the factory. The environmental dimension is implemented to a lesser extent than social implementation. Companies need to start emphasising environmental issues. There are large opportunities to improve environmental performance in the garment industry in China through supply chain management, since this has not yet been applied to a large extent.

3. *Role of workers*

Workers must be informed and trained on the details of the CoC, which is their basic right. Those who know what their own rights are need to be more proactive in making

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an effort to protect those rights and improve working conditions in the factory. It is also confirmed in the literature that factories have often been criticised for continuing to ignore the importance of informing workers of their rights under the company code of conduct (Webb, 2003).

1. Low level of education level
2. Low level of education of workers hinders the ability to learn elements in the factory
3. Ignorance of their own basic rights
4. Ignorance of environmental and social impacts
5. Government departments do not strictly enforce the relevant legislation

The findings from the detailed interviews help in building consensus for associations and governments to explore possible areas for action and assist companies to formulate long-term business strategies. They also test whether promoting and facilitating some types of environmental and social partnerships or programmes between businesses, NGOs, provincial governments and special administrative regions, will help businesses to make a move to satisfy international environmental and labour requirements. Managing these issues falls under the concepts of CSR and sustainable development in achieving a high level of corporate environmental governance and sustainability, which form the core of this thesis.

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The combination of desktop research and detailed interviews with academics, companies, NGOs and trade associations have provided further insights in gaining an understanding of the drivers and barriers behind these complex situations and problems . The conclusion is that a more powerful mechanism has to be formed in the near future. The detailed interview findings also indicate that voluntary initiatives have to be combined with other measures in the current economic climate, since it has been confirmed that suppliers will remain reactive and compliance-oriented unless they experience strong supply chain pressure from multinational clients. Improving environmental and social conditions remains at a slow pace because multinational companies continue to squeeze the cost of each order and shorten delivery times. In this situation a lack of trust and long-term commitment between partners negatively affects the relationship. Positive factors in achieving sustainability are (1) positive factory management beliefs and attitude (2) external governmental pressure to enforce existing legislation rather than create new legislation.

The detailed interviews with major stakeholders in this region reveal that the implementation of the CoC and its enforcement mechanism, social compliance auditing, works to a certain extent to ensure acceptable social and environmental conditions among suppliers. Reliance on the code and social compliance auditing is not effective in the long run. This is also found from the literature, which states that codes have not been effective (Ranald 2002). The HKCIC points to issues such as freedom of association and concludes that employees do not easily understand this

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unless the company makes an effort to educate them. This statement is supported by research on toy factory workers in the Guangdong province of Mainland China.

The concept of partnerships between garment suppliers and multinational companies will create a new dimension to go beyond pure implementation and monitoring of CoC. Previous research by the Hong Kong Christian Industrial Committee (HKCIC) does give some indication that companies in Hong Kong might be starting to move beyond the traditional approach through some tentative work with local NGOs. They could provide suitable training and support on a continuous basis. An academic also stressed that once trust is developed between partners, there is no need to have frequent social compliance audits, third-party counter audits or re-auditing of any kind.

Partnerships usually fail for a variety of reasons: the main one is that there is insufficient trust between partners. Different actors should share responsibilities in relation to their role within society. The formulation of the ILO convention itself is a collaborative approach by various stakeholders from governments, employers and unions. A promising method suggested by most respondents is to enforce existing command-and control legislation properly to improve the current situation, which tends to be more favourable than issuing new CSR regulations as such. A proactive approach includes integration of a wider range of supply chain partners into stakeholder dialogues and constructive engagement where information is collected for further action. This includes industry specific initiatives as well as co-operation

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with NGOs. In Hong Kong, previous research (Snell *et al.*, 1999) indicates that the ICAC has proved itself as an effective channel for communicating ethical practice issues to Hong Kong businesses. The ICAC's model CoC does in fact already include provisions for social and environmental issues, which have so far not been adopted by individual companies in the development of their codes of conduct. In light of this fact, a public announcement by the ICAC to Hong Kong companies may prompt a response to develop and implement CoC in Hong Kong to include social responsibility issues.

This study also shows that supply chain complexity is the most significant factor that inhibits increased performance. This is followed by a lack of government intervention. In most cases, the resistance of suppliers to change is due to a lack of long term commitment from multinationals.

### *4. Role of local and regional government*

Detailed interviews with stakeholders reveal that it is critical to have government intervention to enforce command and control regulations in order to improve performance. The limited knowledge of government officials, trade organisations and chambers of commerce also form a barrier to improvement. At present, they play a limited role in the process. The personnel in the provincial regulatory agency in China will need to be trained, since it was found that there is a knowledge gap in labour law within the government structure. Usually village officials do not have

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adequate knowledge, but the provincial officials are well-trained and knowledgeable. Lack of knowledge is directly linked to weak enforcement. As for the degree to which regulations need to be improved, more inspectors should be encouraged to enforce regulations. More proactive movement from government from all three sides is needed to act as a powerful driver. A collaborative effort among the Hong Kong and Chinese governments and trade associations should create training manuals, which provide a wide variety of short-term and long-term options for factories to consider. The Hong Kong government and trade associations should motivate Hong Kong investors in the PRD to change their malpractice. At the same time, the Hong Kong government and cross-border provincial governments should influence other institutions. An academic commented that governments should play a responsible role. But overcoming this will require the Chinese government to play a greater role. Regulatory bodies should observe this matter, but the question remains: who will monitor these monitors? The government should provide more civic education to managers and society at large, which would allow them to understand the complexities of the supply chain, and so they will recognise that they have a role in shaping the environment and their community. To revise the trade union law might be another option for the Chinese government. According to international examples, it is only the existence of strong trade unions that has changed corporate malpractice in Europe and the US. The emergence of social interest groups should be encouraged.

*5. Role of NGOs*

Regional and local NGO empowerment should apply pressure on the Chinese government and persuade it to play a more positive role in regulating labour conditions.

*6. Role of consumers*

Stronger societal pressure such as consumer action needs to be created through varying stakeholder dialogues, facilitated by local or regional institutions such as the consumer council in Hong Kong. There is a lack of information and awareness in the greater PRD of consumers' behaviour in purchasing products that are produced in good factory working conditions, and these remain a barrier to improving these conditions. The consumer council in Hong Kong could play a role in educating the consumers in the community at large in order to increase public concern for CSR. Stakeholder dialogue must accompany constructive action to make real changes. Consumers must openly discuss what they expect from businesses, which is to act responsibly and to educate consumers to become environmentally conscious purchasers. Consumers can compare factories and multinationals through harmonised or comparable audits.

## **9.2 Limitations to the research**

One of the biases of the case studies is that companies are selected by a U.S. non-governmental organisation and they are multinational companies that respond to opportunities and risks posed by sustainability. One of the constraints of the case study methodology in this thesis is that the types of audits employed are “one-off” audits. Therefore they may not provide a true picture, as some of the audits might be announced beforehand, which gives the factory one to two weeks to make critical changes. If the audits are periodic processes, it is more likely that a true and dynamic picture will be seen through repeating the process. More case studies should be performed in each of the five areas in the Pearl River Delta in order to obtain more cross-data comparison within the garment suppliers. This case study research can be improved if the research boundary could be extended beyond the factory area. It is suggested that for further research the interviews with local communities would discover a detailed picture of the factory behaviour from an external point of view. It was also found that the factory’s commitment to the supply chain is crucial to improving both the physical environment and the workers welfare.

### 9.3 Further research

Finally, the research raised several questions requiring further investigation.

#### *Expanding the geographical boundary*

Future research may include other examples in Mexico, where heavy investment has been made by U.S. multinationals (Dowlatshahi *et al.*, 1999), in eastern Europe where a lot of investments are received from western Europe (Glaister *et al.*, 1998) or in other southern Asian countries such as Indonesia, India, Malaysia and Thailand that have a similar contracting supply chain model to the PRD region. Comparative analysis of the cases among those countries may yield interesting results.

#### *Expanding research to other activities in the garment supply chain*

By expanding the research in the area of environmental and social initiatives to other core activities in the supply chain, such as the logistics sector or raw materials suppliers, effective development of the literature can be achieved. For example, the logistical functions can be investigated in logistics companies, and the sourcing of raw materials can be investigated by targeting raw materials suppliers. The results of this study can aid cross-industry theory development concerning the role of SCM in the value chain.

#### *Comparing suppliers producing for multinationals and suppliers producing for the domestic market*

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It would be interesting to compare the differences between factory practices of multinational suppliers and factory practices of local suppliers or small suppliers. It is often cited that factory conditions are even worse if the factories are only producing for the domestic market in China, and the media often expose improper operating activities that occur in small facilities. How much attention does the latter factories' management pay to health and safety, wages and benefits and hygiene? How do the factories' management organise staff to address the above issues?

### *Expand to include environmental aspects*

Systematic environmental audits applied to the garment industry can form an analytical tool to measure and monitor environmental aspects of the supply chain. These audits will tend to increase in the very near future in response to public and shareholder demands for corporate social responsibility and the environment. Some key environmental performance indicators shown in the literature will enable benchmarking and continuous improvement.

## **9.4 The challenge ahead**

Overall, the progress improvements declared by experts are positive; there are signs of improvements, but the pace is slower than expected. Top management engagement from large multinationals is vital. Environmental and social expectations will continue to grow from big multinationals from the west. In the

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longer term, it is argued that further reductions in tender costs and shortened product development lead-times may occur due to global competition, which is likely to increase supply chain pressure, hence increase non-compliance and deterioration of the workers' quality of life. This practice is not sustainable. The garment factories, which are low-end labour-intensive sites and produce low technology value products, will move north where they will gain a higher profit margin.

Firstly, multinational companies should make their supply chain transparent, must modify their organisational structure and increase communication between internal departments. Resources should be allocated to employ people with technical skills together with professional management capabilities. Secondly, the factories in the greater PRD must make a move to comply with local laws, and the next step should be to move beyond compliance requirements to proactive environmental and social management. If the management of Hong Kong's export businesses does not recognise and pay attention to CSR issues, this may have undesirable effects in the future, such as damage to Hong Kong's export market share. There is a need to make a change; this will create a good image and put the entire PRD region ahead of its competitors. Factories in the PRD need to demonstrate to stakeholders that they can be trusted to behave responsibly. The traditional thinking of a short-term survival strategy, such as after the major economic recession in 1997, should be phased out, and companies in the greater PRD and the rest of the South East Asia must think about the long-term impacts of their business on the workers, the environment and the community. Environmental and social degradation will always

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be a risk and a hindrance to pursuing sustainable long-term economic growth in China. Businesses must be prepared to manage risks in dealing with future uncertainties. It is believed that good business and sustainable development go hand in hand.

### *Research contribution*

This thesis makes an important contribution to exploring the implications of implementing CSR, the achievement of successful factory improvements through suggested mechanisms, and the involvement of actors in enhancing better supply chain performance. Previous work tended to focus on suppliers in Eastern Europe and South America. This research is the first major study to explore problems and attempts to seek solutions for practitioners and academics. In conclusion, multinationals have different objectives for creating a corporate code of conduct. Many see it as a risk reduction tool as they are concerned about the profound damage to their intangible assets, such as reputation and brand image. Some see it as a public relations tool, a window dressing policy. But do such policies exist and contribute to improvements in factory conditions and thus benefit the workers? Nonetheless, existing literature has not extensively explored social and environmental implications for these companies' suppliers. So this thesis intends to fill the research gap. On the other hand, this thesis also intends to show practitioners a better understanding of what might be the drivers for and barriers to making further improvement to the characteristics and attitudes of suppliers. There is a common consensus that a closer and more proactive role should be played by

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multinationals if they desire their suppliers to improve, since they have the economic power to request changes from their suppliers. China is seen as one of the new engines apart from Brazil, India and South Africa for economic growth, where many multinationals have benefited from the low cost of production. Competition between these countries is expected to drive costs down and this will continue to cause environmental damage locally and across the border if measures are not taken in this region.

Although there is an extensive range of literature on international examples that contains ways to improve environmental performance such as cleaner production and leaner manufacturing, which can help China in gaining a competitive advantage, it is not found in the garment manufacturing industry at present. Suppliers are only concerned about this if it is required by the multinationals. A typical environmental agenda in relation to apparel manufacturing activities and the environment is biodiversity, sourcing and purchasing, pesticide use, resource use, soil erosion, use of toxic chemicals, transportation, water consumption and water pollution.

The core ILO conventions should be included in the WTO agreement as a trade criterion. The national governments, members of the WTO will act as powerful opponents to compliance with the banning of certain products. Trade unions, NGOs and other social groups do not have the power to initiate the process. In investigating trade disputes, it is unfair that the WTO only places blame on governments and not on the multinational companies operating in those developing countries. So

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integrating ILO conventions into WTO agreements could fail to provide an incentive for real improvements.

In the near future, external pressure will continue to increase in this region. Globalisation will remain a strong driving force that will bring more trade opportunities to the PRD region. In addition, the WTO is powerful in placing trade sanctions on violating countries, which can limit the negative impact of free trade in this global economy. Environmental supply chain partnerships will favour the export-oriented structure in this region since the manufactured products have to meet international environmental and social standards. A greater number of consumers will demand products that provide superior environmental performance at a reasonable cost and with minimal adverse environmental impacts. Traditional regulations and self-regulation methods in monitoring suppliers are clearly less effective models. They need to be accompanied by a partnership approach, which involves a more active role for companies to influence the practice and performance of suppliers. From an international experience, it is seen that successful environmental supply chain partnerships require a high degree of functional and organisational integration. Such integration does not happen overnight. Therefore, companies in Hong Kong, Macau and PRD must have a long-term vision in driving the industries towards sustainable supply chain management. Maintaining a good relationship with the suppliers can facilitate the process.

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Clearly, our study results indicate that a considerable amount of work in terms of enforcement and capacity building needs to be done in Hong Kong and in China to enhance prospects for SCM in the future. One of the most promising long-term solutions to the roots of the problem is mass-oriented social and environmental education. Education could play a significant role in shaping future managers' attitudes and vision.

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## **APPENDIX A**

### **Questionnaire Survey**

### **The Current Status of Supply Chain Management**

**Corporate Environmental Governance Programme**

**Questionnaire Survey: The Current Status of Supply Chain Management**

*This survey focuses on ESCM knowledge, investigating the current implementation status of supply chain and environmental management. The identities of individual organisations will NOT be divulged in this report.*

*Please take a few minutes to fill in this questionnaire. Please use additional sheets if necessary.*

*Please tick  and comment as appropriate:*

**Environmental Supply Chain Management (ESCM)**

1. How would you rate your knowledge on ESCM?  
 Very knowledgeable       Knowledgeable       Neutral  
 Not very knowledgeable       Not knowledgeable
  
2. Is your company currently taking environmental consideration into your supply chain?  
 Yes       No
  
3. To conclude, does your company believe that integrating environmental aspects in corporate governance will cut cost and enhance performance?  
 Yes       No

**Perception of WTO issues**

4. Has the company got a business/ factory in China?  
 Yes       No
  
- 4a. Will the company expand its business to China in the foreseeable future?  
 Yes       No
- 4b. Is your company sourcing from China?  
 Yes       No
  
5. How would you perceive the effects of China's accession to the WTO to the company? (May choose more than one)  
 Increase business opportunities       Need to comply with stricter environmental regulations       Need to develop/enhance environmental supply chain management  
 Decrease business opportunities  
 Others (please specify): \_\_\_\_\_
  
6. Does the company has any existing procedure for identifying changes in environmental compliance requirements? (e.g. changes in legislation/ regulation)  
 Yes       No
  
7. How would your company perceive rank the following criteria as a driving force for implementing an environmental system? (Please rank with 1 the most important and 9 the least important)  
 Increased revenue       Enhanced company image       Reduction in operating cost  
 Fulfilling social responsibility       Technology transfer       Pressure from the public

- Expansion of potential market by complying environmental regulations
- Government subsidies and support
- Others (please specify): \_\_

Please return this questionnaire in the pre-paid envelope attached or fax back to Joyce Tsoi at 2559 0468. Your contribution would definitely enhance our future plan in meeting your needs. For additional information or questions, please contact either of us at CEGP, CUPEM, University of Hong Kong, Pokfulam Rd, Hong Kong. Tel: 2857 8641 E-mail: [cegp@hkusua.hku.hk](mailto:cegp@hkusua.hku.hk).

Thank you for your time and participation!

End....

## **APPENDIX B**

### **Phone Survey and Detailed Interview**

#### **Code of conduct questionnaire**

#### **Detailed code of conduct best practice questionnaire**

**The University of Hong Kong**

*Corporate Environmental Governance Programme*

*Code of conduct questionnaire*

This questionnaire forms part of a survey on the retail sector and will contribute ongoing research concerning the code of conduct best practice examples in Hong Kong. Please return my call on 2857 8638 or by fax to 25590468. Should you have any questions please call us on 2857 8638.

Please tick (✓), rank or comment as appropriate:

Dear Sir or Madam,

I am a researcher in the **University of Hong Kong** working on the retailing industry under the *Corporate Environmental Governance Programme*. I am interested in your company profile and I would like to ask you a few questions.

**1. Do you have a code of conduct in place in your company?**

\_\_\_\_\_

**2. Do you have a supply chain policy in place?** \_\_\_\_\_

**3. Would it be possible to obtain the above policies?** \_\_\_\_\_

**If No, why?** \_\_\_\_\_

The information you provided will only used for academic purposes.  
**Please fax this back to me at 2559 0468**

Thanks for your time and participation!

Your sincerely,

Ms Joyce Tsoi  
*Doctoral Candidate*  
*jtsoi@hkusua.hku.hk*

# The University of Hong Kong

## Corporate Environmental Governance Programme

### Code of conduct best practice

This questionnaire forms part of a survey on the retail sector and will contribute ongoing research concerning the code of conduct best practice examples. Please return by fax to Ms Joyce Tsoi on 25590468. Should you have any questions please call us on (852) 2857 8638.

Please tick (✓), rank or comment as appropriate:

1. Who drafted your code of conduct? (please tick ✓ as appropriate).

- |   |   |
|---|---|
| <input type="checkbox"/> CEO                | <input type="checkbox"/> Human Resources officer / manager              |
| <input type="checkbox"/> Board of directors | <input type="checkbox"/> Legal compliance officer/ manager / department |
| <input type="checkbox"/> Consultants        | <input type="checkbox"/> Others, please specify: _____                  |

2. Which of the following groups did you consult during the process of drafting the code of conduct? (please tick ✓ as appropriate)

- |  |  |
|--|--|
| <input type="checkbox"/> Employees   | <input type="checkbox"/> Suppliers, contractors and subcontractors             |
| <input type="checkbox"/> Independent Commission<br>Against Corruption (ICAC) | <input type="checkbox"/> Labour department                                     |
| <input type="checkbox"/> Trade Development Council                           | <input type="checkbox"/> Trade Industry Department (TID)                       |
| <input type="checkbox"/> NGO, please specify:<br>_____                       | <input type="checkbox"/> Other government department, please specify:<br>_____ |

3. Which guidelines did you use when writing the code of conduct? (please tick ✓ as appropriate)

- |   |   |
|---|---|
| <input type="checkbox"/> Apparel Industry Partnership (AIP)                 | <input type="checkbox"/> Global reporting initiatives (GRI)                             |
| <input type="checkbox"/> American Apparel Manufacturers<br>Association      | <input type="checkbox"/> Global principles  |
| <input type="checkbox"/> Caux principles                                    | <input type="checkbox"/> Global Sullivan Principles                                     |
| <input type="checkbox"/> Clean clothes campaign                             | <input type="checkbox"/> International labour organisation (ILO)                        |
| <input type="checkbox"/> Other industry standards, please<br>specify: _____ | <input type="checkbox"/> Social Accountability 8000 (SA 8000)                           |
| <input type="checkbox"/> Fair Labor Association                             | <input type="checkbox"/> US Business Principles for Human Rights of Workers in<br>China |
| <input type="checkbox"/> Worker Rights Consortium                           | <input type="checkbox"/> United Nation Universal Declaration of Human Rights            |
| <input type="checkbox"/> United Nations Global Compact                      | <input type="checkbox"/> Others, please specify: _____                                  |

4. What were your main reasons for adopting a code of conduct? (please tick ✓ as appropriate)

- |  |  |
|--|--|
| <input type="checkbox"/> Apparel Industry Partnership (AIP)            | <input type="checkbox"/> Global reporting initiatives (GRI)      |
| <input type="checkbox"/> American Apparel Manufacturers<br>Association | <input type="checkbox"/> Global principles                       |
| <input type="checkbox"/> Caux principles                               | <input type="checkbox"/> Global Sullivan Principles              |
| <input type="checkbox"/> Clean clothes campaign                        | <input type="checkbox"/> International labour organisation (ILO) |

5. In how many language is your code of conduct currently available?

\_\_\_\_\_

6. Which of the following groups does your code of conduct address? (please tick ✓ as appropriate)

- Employee     Suppliers     Sub-contractors     Others: \_\_\_\_\_





- General Manager
- Administrator / Secretary
- Public Relations Officers/ Manager Officer/ Manager
- Environmental / Health and Safety Officer/ Manager
- Human Resources Officer / Manager
- Legal Compliance Officer / Manager
- Procurement Officer / Manager
- Other, please specify: \_\_\_\_\_

17. Size of company i.e. number of employees in: (please tick ✓ as appropriate)

Hong Kong	China	South East Asia	Worldwide
<input type="checkbox"/> 1-99	<input type="checkbox"/> 1-99	<input type="checkbox"/> 1-99	<input type="checkbox"/> 1-99
<input type="checkbox"/> 100-499	<input type="checkbox"/> 100-499	<input type="checkbox"/> 100-499	<input type="checkbox"/> 100-499
<input type="checkbox"/> 500-999	<input type="checkbox"/> 500-999	<input type="checkbox"/> 500-999	<input type="checkbox"/> 500-999
<input type="checkbox"/> 1000+	<input type="checkbox"/> 1000+	<input type="checkbox"/> 500-999+	<input type="checkbox"/> 500-999+

18. What type of training do you currently provide for employees? (please tick ✓ as appropriate)

- Financial (accounting etc)
- Legal compliance
- Customer service
- Environmental/ Health and Safety
- Product knowledge
- Health and safety
- Management
- Other, please specify:

## **APPENDIX C**

### **Study 3**

**The Garment Industry in the Greater Pearl River Delta:**

**An evaluation of the code of conduct approach**

**Multinational Company A detailed questionnaire**

# The University of Hong Kong

## Corporate Environmental Governance Programme

### **Case studies of environmental and social supply chain management** **Polo Ralph Lauren Corporation**

This questionnaire forms part of a case study on the retail sector and will contribute to ongoing research concerning corporate social responsibility and the code of conduct in the supply chain. Your contribution is important to us. Please return by e-mail to [jtsoi@hkusua.hku.hk](mailto:jtsoi@hkusua.hku.hk) or fax to (852)25590468 or post to Corporate Environmental Governance Programme, The Centre of Urban Planning and Environmental Management (CUPEM), Pokfulam Rd, University of Hong Kong, Hong Kong. Should you have any questions please call Ms Joyce Tsoi on (852) 2857 8638.

Please tick (✓), rank or comment as appropriate:

#### ***Part 1 Company background***

1. How many countries do you operate in?

\_\_\_\_\_

2. How many stores and factories are owned and how many are franchises?

\_\_\_\_\_ stores owned by Polo in \_\_\_\_\_ countries

\_\_\_\_\_ stores are franchisees in \_\_\_\_\_ countries

\_\_\_\_\_ factories owned by Polo in \_\_\_\_\_ countries

\_\_\_\_\_ factories owned by Polo in \_\_\_\_\_ countries

3. How many staff members worldwide?

\_\_\_\_\_ Europe

\_\_\_\_\_ United States

\_\_\_\_\_ Asia

\_\_\_\_\_ Africa, New Zealand and Australia

\_\_\_\_\_ Others \_\_\_\_\_

4. What types of reporting do you make to the public?

Environmental reporting

Financial reporting

Factory audit report

Sustainability reporting

Other means: \_\_\_\_\_

5. Who do you view as your stakeholders?

Associations

Competitors

Employees

NGOs

Shareholders

Unions

Others: \_\_\_\_\_

## Part 2 Suppliers issues

1. Is there a supply chain policy?  
 Yes                       No  
If yes, in what year did you start having that policy?  
\_\_\_\_\_
  
2. How many suppliers are there in your network?  
If yes, indicate the number of suppliers? \_\_\_\_\_  
  
(a) Do you know the number of subcontractors of your suppliers? If yes, please specify: \_\_\_\_\_  
 Yes                       No
  
3. Where are your suppliers' production locations?  
 South East Asia  
 Eastern Europe  
 Russia  
 Mainland China  
 Others: \_\_\_\_\_
  
- 2(a) What is the percentage of production that takes place in each of the following area?  
\_\_\_\_\_ % Eastern Europe  
\_\_\_\_\_ % Mainland China  
\_\_\_\_\_ % Mexico and South America  
\_\_\_\_\_ % Russia  
\_\_\_\_\_ % South East Asia  
\_\_\_\_\_ % Others e.g. \_\_\_\_\_
  
3. What process do you outsource?  
 Design  
 Purchasing and sourcing  
 Manufacturing  
 Distribution and logistics  
 Retail  
 None of the above
  
4. How many suppliers are you currently working with?  
\_\_\_\_\_
  
5. How do you keep track of your suppliers?  
 Comply with the Polo operating guideline, what is the operating guideline based on?  
 ILO  
 Fair Labor Association  
 Amnesty International  
 SA 8000  
 Apparel industry partnership  
 ICCR  
 Others, please specify: \_\_\_\_\_  
 Monitor and measure labour standards and performance by  
 Internal auditing, how often is the factory getting re-audited? \_\_\_\_\_  
 External verification by third-party auditors  
 Re-audit if necessary  
Who finances the audits?     Polo     Both Polo and suppliers  
 Sign on the framework agreement  
 ILO core conventions  
 Global Compact  
 Others: \_\_\_\_\_

6. What types of auditing information do you disclose?
- Audit procedure
  - Number of audits  
How many supplier audits did you conduct in the previous year? \_\_\_\_\_  
And how many suppliers are removed from your supplier list because of non-compliance? \_\_\_\_\_
  - Results of the audit
  - The violations
  - Corrective actions
  - Supplier lists
  - Others e.g. \_\_\_\_\_
7. What are the main reasons for non-compliance of your internal company standard?
- |   |  |  |   |
|---|--|--|---|
| <input type="checkbox"/> Excessive overtime | <input type="checkbox"/> Housekeeping                  | <input type="checkbox"/> Working contract            | <input type="checkbox"/> Emergency lights |
| <input type="checkbox"/> Fire drill         | <input type="checkbox"/> Hygienic condition of toilets | <input type="checkbox"/> Minimum wage                | <input type="checkbox"/> Social insurance |
| <input type="checkbox"/> First aid kits     | <input type="checkbox"/> Overtime premium              | <input type="checkbox"/> Payment of public holidays  | <input type="checkbox"/> Others _____     |
| <input type="checkbox"/> First aid training | <input type="checkbox"/> Safety team                   | <input type="checkbox"/> Safety team                 | <input type="checkbox"/> Others _____     |
| <input type="checkbox"/> Fire drills        | <input type="checkbox"/> Working contract              | <input type="checkbox"/> Permission to go to toilets | <input type="checkbox"/> Others _____     |
7. Do you establish any kind of partnerships with your suppliers? If yes, please specify.
- Yes, please specify: Joint project with \_\_\_\_\_
  - No, why? \_\_\_\_\_
8. What kind of help do you offer to your suppliers?
- Yes  No
  - Training workers on specific issues e.g. \_\_\_\_\_
  - Others: \_\_\_\_\_

### ***Part 3 Environmental issues***

1. Is there an environmental policy in your company?
- Yes  No
2. Are environmental criteria taken into account in the decision making process? If yes, please specify:
- Green procurement sourcing of environmentally friendly materials
  - Chemical Substances management
  - Product responsibility
  - Recycling initiatives
  - Others: \_\_\_\_\_
2. What is Polo's effort in protecting the environment?
- Environmental protection activities such as setting up environmental committees, sub committees and working groups
  - Certification of environmental management systems (e.g. ISO 14001, EMS etc)
  - Ensure high quality products which are free of substances harmful to human health or the environment by testing the quality and ecological compatibility
  - Others: \_\_\_\_\_
3. Do you examine the possible environmental impacts of your products during the planning, design, production, transportation stage?  
If yes, what are the stages and the key challenge?

- 
- 
4. What criteria would you use when evaluating the environmental performance of your suppliers?
- The status of ISO 14001 implementation
  - Corporate philosophy and environmental policy
  - Organisation structure for environmental management and planning
  - Environmental impact assessment of their products and materials
  - Environmental education and disclosure of information
  - Reduction of chemical substances

**Part 4 Sustainability issues**

1. How do your company define “sustainable development”?
- 
2. Are you integrating sustainability into your management structure and corporate policies?  
If yes, please specify in what ways and why do you think it’s important:
- 
- 

**Part 5 Corporate Social Responsibility (CSR) issues**

1. Is there a social or CSR policy in your company?
- Yes
  - No
- If yes, what does it address? \_\_\_\_\_
2. How do you view CSR issues? (You can take more than one)
- Charity
  - Community giving
  - Business responsibility
  - Others: \_\_\_\_\_
2. What structures does Polo have in place to reinforce the act of corporate social responsibility? Please give details:
- 
3. Do you have structured dialogue with your stakeholders such as the community, NGOs and trade unions?
- Yes, please give details: \_\_\_\_\_
  - No

**Future development**

1. What is your future strategy in improving the supply chain?
- Increasing the buying volume, but reduce the number of suppliers
  - Increase productions in a specific country, e.g. \_\_\_\_\_
  - Increase sourcing from a specific country, e.g. \_\_\_\_\_
  - Partnering with NGOs for \_\_\_\_\_
  - Set environmental and social targets, please specify: \_\_\_\_\_
  - Others: \_\_\_\_\_

Thanks you for filling in the questionnaire. We appreciate your time and effort and we will send you the results of this research shortly.

## **APPENDIX D**

### **Study 3**

**The Garment Industry in the Greater Pearl River Delta:**

**An evaluation of the code of conduct approach**

**Multinational company A, B, C and D**

**code of conduct**

## **MULTINATIONAL COMPANY A** **CODE OF CONDUCT**

Company A is dedicated to conducting its operations throughout the world on principles of ethical business practice and recognition of the dignity of workers. We expect our Business Partners, their suppliers, and authorized sub-contractors to respect and adhere to our standard guidelines and to all applicable national and local laws in the operation of their business. We will utilise these criteria to evaluate our relationships with customers and suppliers.

### **WAGES/ BENEFITS**

Our business partners must comply with laws regulating local wages, overtime compensation and legally mandated benefits. Wages and benefit policies must be consistent with prevailing national standards, and also be accepted under a broader international understanding as to the basic needs of workers and their families. We will not work with companies whose wage structure violates local law or prevailing industry practice.

### **WORKING HOURS**

Under ordinary business circumstances, employees must not be required to work more than 60 hours per week including overtime or local industry limits, whichever is lesser and have the option of at least one day off in seven.

### **CHILD LABOR**

Our business partners must not use child labour, defined as workers under the age of 15.

### **HEALTH & SAFETY**

Our business partners must ensure that their workers are provided a safe and healthy work environment, and are not subject to unsanitary or hazardous conditions.

### **FREEDOM OF ASSOCIATION**

Our business partners should respect the legal rights of employees to freely and without harassment participate in worker organisations of their choice.

### **PRISON OR FORCED LABOR**

Our business partners will not work with or arrange for purchase of any materials from business partners who utilise prison or forced labor in any stage of the manufacture of our products.

### **DISCIPLINARY PRACTICE**

Our business partners will not employ or conduct any business activity with partners who employ any form of physical or mental coercion or punishment against workers.

## **DISCRIMINATION**

Our business partners will not practice nor do business with business partners who practice any form of improper discrimination in hiring and employment, including on the basis of age, race, color, gender, or religion.

## **ENVIRONMENT**

Our business partners must embrace a fundamental concern for environmental protection and conduct their operations consistent with both local and internationally recognised environmental practices.

## **CUSTOMS COMPLIANCE**

Our business partners must comply with applicable customs law and participate in programs to comply with customs laws regarding illegal transshipment of products.

## **LEGAL REQUIREMENTS**

Our business relationship must be built on a mutual respect for and adherence to legal requirements. Our business partners will observe both local and applicable international standards.

## **ETHICAL STANDARDS**

We intend to conduct all our business in a manner consistent with the highest ethical standards, and we will seek and utilise partners who will do likewise, as this contributes directly to our corporate reputation and the collective success of our organisation and selected business partners.

## **SUBCONTRACTING**

Our business partners may not subcontract all or part of the work on our products without our express written consent, which not be given unless each subcontractor meets all of the criteria set forth herein.

## **CONFLICT OF INTEREST**

Our business partners may not give Company employees a gift of value in excess of US\$25, and may not bribe foreign officials to benefit the Company or its business.

## **IMPLEMENTATION**

We will apply these criteria in all business partner determinations, and will continue to implement these policies in the conduct of all activities. This will include our business partners sharing information on production facilities and procedures, with the objective of improving our collective service to customers in a responsible manner. Failure by a business partner to meet these standards will result in our taking appropriate actions, up to and including cancellation of existing orders.

# MULTINATIONAL COMPANY B

## CODE OF CONDUCT

### **Authenticity. Inspiration. Commitment. Honesty.**

These are the core values of the multinational company B. We measure ourselves by these values, and we measure our business partners in the same way. Consistent with these brand values, we expect our partners - contractors, subcontractors, suppliers and others - to conduct themselves with the utmost fairness, honesty and responsibility in all aspects of their business.

The code of conduct is a tool that helps us choose and retain business partners who follow workplace standards and business practices consistent with our policies and values. As a set of guiding principles, they also help identify potential problems so that we can work with our business partners to address issues of concern as they arise. Business partners will develop and implement action plans for continuous improvement in factory working conditions. Progress against these plans will be monitored by the business partners themselves, our internal monitoring team and external independent monitors. Specifically, we expect our business partners to operate workplaces where the following standards and practices are followed.

### **I. General Principle**

Business partners shall comply fully with all legal requirements relevant to the conduct of their businesses.

### **II. Employment Standards**

We will only do business with partners who treat their employees fairly and legally with regard to wages, benefits, and working conditions. In particular, the following guidelines apply:

**Forced Labour:** Business partners shall not use forced labour, whether in the form of prison labour, indentured labour, bonded labour, or otherwise. No employee shall be compelled to work through force or intimidation of any form.

**Child Labour:** Business partners shall not employ children who are less than 15 years old, or who are younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

**Discrimination:** While we recognise and respect cultural differences, we believe that workers should be employed on the basis of their ability to do the job, rather than on the

basis of personal characteristics or beliefs. We will seek business partners that share this value, and that do not discriminate in hiring and employment practices on grounds of race, national origin, gender, religion, age, disability, marital status, membership of associations, sexual orientation, or political opinion.

**Wages and Benefits:** Business partners shall recognise that wages are essential to meeting employees' basic needs and some discretionary payments. In all cases, wages must equal or exceed the minimum wage or the prevailing industry wage, whichever is higher, and legally mandated benefits shall also be provided. Wages shall be paid directly to the employee in cash or check or the equivalent, and information relating to wages shall be provided to employees in a form they understand. Advances and deductions from wages shall be carefully monitored, and shall comply with law.

In addition to their compensation for regular working hours, employees shall be compensated for overtime hours at the premium rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding their regular hourly compensation rate.

**Hours of Work:** Employees shall not be required, except in extraordinary circumstances, to work more than sixty hours per week, including overtime, or the local legal requirement, whichever is less. Employees shall be allowed at least 24 consecutive hours off within every seven-day period, and shall receive paid annual leave.

**Freedom of Association and Collective Bargaining:** Business partners shall recognise and respect the right of workers to join and organise associations of their own choosing, and to bargain collectively. Where law specifically restricts the right to freedom of association and collective bargaining, the employer must not obstruct alternative and legal means for independent and free association and bargaining. In any case the employer shall implement systems to ensure good communication with employees.

**Disciplinary Practices:** Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

### **III. Health and Safety**

A safe and hygienic working environment shall be provided, and occupational health and safety practices, which prevent accidents and injury in the course of work or as a result of the operation of employer facilities, shall be promoted. This includes protection from fire, accidents, and toxic substances. Lighting, heating and ventilation systems should be adequate. Employees should have access at all times to sanitary facilities, which should be adequate and clean. The factory must have safety and health policies that are clearly communicated to the workers. These should apply to employee residential facilities, where provided by employers.

### **IV. Environmental Requirements**

Business partners should aim for progressive improvement in their environmental performance, not only in their own operations, but also in their operations with partners, suppliers and sub contractors. This includes: integrating principles of sustainability into business decisions; responsible use of natural resources, adoption of cleaner production and pollution prevention measures, and designing and developing products, materials and technologies according to the principles of sustainability.

## **V. Community Involvement**

We will favour business partners who make efforts to contribute to improving conditions in the countries and communities in which they operate.

**MULTINATIONAL COMPANY C**  
**CODE OF CONDUCT**

**Provision 1: Compliance with the law**

The company only deal only with vendors of merchandise which the company considers reputable and whose business and labor practices conform to the requirements of applicable law. The company will not do not do business with companies that violate the law, and will terminate vendors that do.

**Provision 2: Safety and health**

Conditions in all work and residential facilities must be safe, clean and consistent with applicable laws and regulations regarding safety and health.

**Provision 3: Child labour**

No person shall be employed under the age of 14, or under the age interfering with compulsory education, or under the minimum age for employment in the country of manufacture, whichever is greater.

**Provision 4: Forced labour**

The use of forced or compulsory labor is unacceptable.

**Provision 5: Harassment or abuse**

Corporate punishment or other forms of harassment, abuse or coercion, whether mental or physical, are strictly forbidden.

**Provision 6: Discrimination**

Discrimination in hiring, pay, promotions, discipline, termination or other terms and conditions of employment based on personal characteristics, beliefs or other legally protected criteria is prohibited.

**Provision 7: Working hours**

Employees shall not be required to work hours (inclusive of overtime) in excess of legally prescribed limits. Vendors shall comply with applicable laws that entitle employees to vacation time, leave periods and holidays. Subject to the requirements of local law, a regularly scheduled workweek of no more than 60 hours and one day off in every seven-day period is encouraged.

**Provision 8: Wages and benefits**

Vendors shall compensate their employees by providing wages, including overtime pay, and benefits that satisfy all applicable laws and regulations.

**Provision 9: Freedom of association**

Vendors must allow their employees the right to establish and join legal organisations of their own choosing without being penalised for their non-violent exercise of this right.

**Provision 10: Environmental compliance**

Vendors must comply with all local laws protecting the environment. In addition, we encourage its vendors to conduct business so as to minimise waste and maximise recycling.

**Provision 11: Notice and record keeping**

We may require vendors to post this policy in a location accessible to their employees ( in the appropriate local language). Vendors must maintain current sufficiently detailed records to enable us to determine their compliance with this policy, and make these records available to our representatives upon request.

**MULTINATIONAL COMPANY D**  
**CODE OF CONDUCT**

**Legal Requirements:**

The company expects all of its business Partners ("Partners" as used in these Partnership Guidelines shall include all agents, vendors, manufacturers, factories, suppliers, and subcontractors) to comply with the applicable laws and regulations of the United States and those of the respective country of manufacture or exportation. All products must be accurately labeled and clearly identified as to their country of origin. The language to be used for purposes of notice and interpreting the meaning of these guidelines shall be English.

**Forced Labor:**

Company D will not conduct business with any Partner that uses involuntary labor of any kind; including prison labor, indentured labor, or forced labor. Employees shall not be required to lodge 'deposits' or identity papers upon commencing employment with the company.

**Child Labor:**

Partners will not employ anyone under the age of 15, and/or younger than the age for completing compulsory education, or under the minimum ages established by applicable law in the country of manufacturer, if higher than the age of 15. Furthermore, Partners of any kind, will not expose anyone under the age of 18 to situations in or outside of the workplace that are hazardous, unsafe, or unhealthy and will provide adequate protection from exposure to hazardous conditions or materials.

**Harassment and Abuse:**

Company D expects our Partners to treat every employee with respect and dignity. No employee will be subject to any physical, sexual, psychological or verbal harassment or abuse. Partners will not use monetary fines as a disciplinary practice. Furthermore, workers must be free to voice their concerns to Company D or Company D appointed staff without fear of retaliation by factory management.

**Nondiscrimination:**

Company D firmly believes people are entitled to equal opportunity in employment. Although the company recognizes cultural differences exist, Company D will not pursue business relationships with Partners who discriminate in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement on the basis of gender, race, religion, age, disability, sexual orientation, nationality, marital or maternity status, work or personal affiliations, political opinion or social or ethnic origin.

**Wages and Benefits:**

Partners shall set wages, overtime pay and legally mandated benefits and allowances in compliance with all applicable laws. Workers shall be paid at least the minimum legal wage or a wage that meets applicable industry standards, whichever is greater.

**Health and Safety:**

Company D seeks Partners who provide written standards for safe and healthy work environments for their workers, including adequate facilities and protections from exposure to hazardous conditions or materials. These provisions must include safe and healthy conditions for dormitories and residential facilities, and they must comply with local health and safety laws and standards.

**Hours of Work/ Overtime:**

While permitting flexibility in scheduling, we will identify local legal limits on work hours and seek Partners who do not exceed them except for appropriately compensated overtime. While we favor Partners who utilize less than 60 hours a week, we will not use Partners who, on a regular basis, require in excess of 48 hours per week and 12 hours overtime per week, or as permitted by applicable law, whichever is lower. Employees should be allowed one day off in seven.

**US Customs:**

Partners will comply with applicable US Customs importing laws and, in particular, will establish and maintain programs and documentation to support country of origin production verification, to avoid illegal transshipping.

**Environment:**

Partners must demonstrate a regard for the environment, as well as compliance with applicable environmental laws. Further, Company D actively seeks partners who demonstrate a commitment to progressive environmental practices and to preserving the earth's resources.

**Documentation and Inspection:**

Company D intends to monitor compliance with our Partnership Guidelines and to undertake on-site inspections of Partners' facilities. Partners will maintain on file all documentation necessary to demonstrate compliance and will authorize company D and its designated agents (including third parties) to engage in announced and unannounced monitoring activities to ensure compliance, including confidential employee interviews. Company D will review and may terminate its relationships with any Partner found to be in violation of the Partnership Guidelines.

**Freedom of Association:**

Partners will respect workers rights to freedom of association and collective bargaining.

**Subcontracting and Changes in Manufacturers, Factories, or Suppliers:**

Partners will not utilize subcontractors for the production of Company D products or components without written approval and authorization from company D, and only after the subcontractor has agreed to comply with the Partnership Guidelines. Partners will not change manufacturers, factories, subcontractors or suppliers for the production of Company D products without written approval and authorization from company D and only after the new factory, subcontractor, or supplier has agreed in writing to comply with the Partnership Guidelines

**Change of Control:**

Partners shall promptly notify Company D in writing if the ownership of the Partner changes. The new owners of Partner shall promptly agree to comply with the Partnership Guidelines.

## **APPENDIX E**

### **Study 3**

#### **The Garment Industry in the Greater Pearl River Delta: An Evaluation of the codes of conduct approach**

##### **Workers, Supervisors and Managers**

##### **Interview sample questionnaire**

## **Worker interview sample questionnaire**

### **General questions**

1. How long have you been working in this factory?
2. How many factories have you been working for earlier?
3. What do you like about this factory?
4. What is the best and worst part of your job?
5. What can be done to make your work better or happier?
6. How do you get this job and will you recommend your friend or family member to work in this factory? Give reasons.

### **1. Code of conduct and factory regulation awareness**

1. Does the factory post corporate code of conduct in place? Can you present where is it? What is the context of it?
2. Have you read the “Codes of Conduct” posters of the different brands? Do you understand what these mean?
3. Do you know what rights do the code of conduct posted on the wall give to you?
4. If your rights aren't respected, who do you contact and how do you do this?
5. Have you aware of company policy? Do you have employee handbook on your own? What is it tells you?
6. Do you understand and recognize the factory rule? If yes, how do you know about it? E.g. training sessions
7. Who gives you information on wages and benefits, about work and health and safety in the factory?
8. Did you have pre-employment orientation? What is that (if yes)?
9. Are there any other types of training provided in the factory?

### **2. Wages and benefits**

1. When did you join this factory? (Month/ year started)
2. When do you receive your pay and how is your pay being calculated?
3. When do you get paid? How often are you getting paid?
4. What kind of compensation do you received? (Cash or its equivalent)
5. Are there any restrictions for you to leave production or residential facilities when you are not working, are those restrictions reasonable? Are you freely to enter and go out the facility?
6. Is the demeanour of armed guards benign?
7. Are you indebted to a broker or other employee for obtaining your job? If Yes, how much do you owe? Describe the terms
8. Are you indebted to the company for any reason (Loans, moving express, etc)? If Yes, how much do you owe? Describe the terms
9. Are you required to live in employer-owned or controlled residences? (A4)
10. Are there any workers in this facility who are not working voluntarily? If Yes, Describe the circumstances

11. Are you controlled to go to the toilet or drinking water station during the working time?
12. Besides your pay, are there any other benefits that provided by the factory?  
Are there any conditions to received the benefits?
13. What is the factory policy on maternity leave?
14. Have you ever asked for leave or time off? When is your latest leave and how long are you leaving for? Did you get pay and how much?
15. What kind of leave can you take in the factory that is with pay and without pay?
16. If you are sick and need a day-off, what do you do?

### **3. Working hours**

1. What time do you start working?
2. When do you have lunch? When does lunch time end?  
Do you have to swipe your card or use other system to record lunch time and breaks?
3. What time do you go home last night?
4. What did you do last Saturday or Sunday?
5. What time do you have a break normally?
6. Do you register the hour of work? And how?
7. How do you record overtime hours? How do you make sure the working hours have been registered correctly? Does the factory use timecard or swipe card system?
8. Why do you work overtime?
9. When overtime is required, what benefits do the factory provided?
10. What do you do in your day-off? Which day is it? Do you sometimes work during your day-off?
11. Do you have pains in your body when you come home from work? Where and why?

### **4. Child labour**

1. What is your Date of Birth?
2. Are there children under age 15 working in the factory?
3. What is the age of the youngest worker in the factory?
4. Is company support adequate to ensure that children receive schooling?
5. Do children ever work here or help their parents with work? If Yes, when do the children work (After school / Weekends)
6. What kind of work do the children do?
7. Is there any indication that children or young workers are exposed to dangerous, unsafe or unhealthy work conditions?
8. Do you have a one-hour break every 4 hours?
9. Are there any part-time student workers or internships working here?

## **5. Health and safety**

1. Do you know that the factory has a health and safety policy?
2. Have you seen any of your friends or other workers getting ill or injured in the factory? What happened to the worker? Does the same incident happen often?
3. What do you do in the case of fire? How did you learn it?
4. Do you know how to use a fire-extinguisher? How do you know about it?

## **6. Freedom of Association And Collective Bargaining**

1. Have there ever been a union in this facility?
2. Are there any worker associations in the factory?
  - If so, what kind of association and what does this association do?
  - Is there any representative of the workers, and if so how are representatives chosen? If the representative is chosen through an election process, have you been voted in an election?
3. Are you members of any worker associations?
4. Have association organizers or members been given reduced rate of pay or encouraged to leave the company with incentive?
5. Has any worker strike/protest happened in the factory? What is the factory response?
6. What is the factory grievance system and process in which you and other workers can raise concerns to factory management?
7. When you have something to say, who do you feel comfortable talking to?
8. Does the company restrain freedom of movement of workers, including movement in canteen, during breaks, using toilets, accessing water, or to access necessary medical attention?
9. What is the process to use the bathroom or get drinking water during working hours? Are workers allowed to leave the factory compound as needed or desired?
10. What are the tasks of Security Guard?

## **7. Prison and forced labour**

1. Have you ever refused to work overtime? Do you know if any other workers who did it? What happened to him or her?

## **8. Disciplinary practice**

1. What do you like best and least about your work?
2. Are you aware of the discipline process? What is that?
3. What happens if you would like to use the bathroom during a work shift?
4. Is there any story/rumor of special treatments offered in exchange for a sexual relationship?
5. Are there any physical/corporal abuses when workers make a mistake? Any screaming, threatening, or demeaning verbal language?
6. Are you given opportunity to explain your side?

7. Do you know some workers who were disciplined or fired because they reported a grievance?
8. How does the company conduct security practices especially for women workers?
9. Are you aware of any rules that cause immediate termination?
10. Do you have any problem with your supervisor?
11. What do you do when you have a complaint about how you are treated? Any suggestion box?
12. Have you heard of any unreasonable punishment?
13. Are there any monetary fines and penalties for poor performance and disciplinary purpose?
14. Do you know someone who were fired from the factory? Why and which production line is he /she from?
15. Do you know someone who were suspended for 12 months or over? Why and which production line is he/she from?

## **9. Discrimination**

1. Is it easy to find a job in this area?
2. How did you know about the opening procedure here?
3. How are new employees hired? Have you heard of any preference on hiring process?
4. What is the hiring process? Do you have to take a blood, HIV, pregnancy OR urine test for getting a job here? Do you know if there are other types of test for male and female workers?
5. How are hiring, assignment, promotion and compensation decisions made?
6. Any job announcement?
7. In your view, are all workers treated equally?
8. Do you know any of the workers ever get disciplined in the last 6 to 12 months? If yes, what was the matter and how?
9. Do you know or heard anyone who have been victims of disciplinary sanctions or dismissed after interviews with social auditors?
10. Are women afforded the same pay and work benefits as men?
11. Are you married?
12. Is 'pregnancy testing' part of the medical screening for pre-employment requirements?
13. Are you asked to test pregnancy?
14. If you are pregnant, who do you notify?
15. Does the company facilitate you when you get pregnant? Are there any changes of your roles after you get pregnant?
16. What practices the company has regarding maternity leave?
17. What are the rights of pregnant women according to the local law, code of conduct and internal factory regulation or guideline?

## **10. Environment**

1. Do you think the ventilation in the factory is adequate?
2. Is your working place too hot or too cold?

## **11. Subcontracting**

1. How many pieces do you work per day during peak or low season? How many do you make yesterday?

## **12. Dormitory**

1. Do you live in the dormitory facility? Why?

## **Supervisor interview sample questionnaire**

### **General questions**

1. How long have you been working in this factory?
2. What are the main challenges other than delivering quality products on time for shipment?
3. How do you deal with the above challenge?
4. How can the workers help you to face the above challenge?
5. From your experience is your factory similar to other factories in the area?
6. How did you apply for work in this factory?
7. What do you like most about this factory?
8. What is the best and worst part of your job?
9. Who can help you make your work better?
10. What can be done in order to make your work better?
11. Would you recommend friends or family to work in this factory? And why?
12. What does this factory do for the community?

### **1. Code of conduct and factory regulation awareness**

1. Does the factory post corporate code of conduct in place? Can you present where is it? What is the context of it?
  2. Have you read the “Codes of Conduct” posters of the different brands? Do you understand what these mean?
  3. Have you aware of company policy? Do you have employee handbook on your own? What is it tells you?
  4. What rights do the different codes of conduct posted on the wall give to you?
  5. What did you learn from the training?
  6. Do you understand and recognize the factory rule? If yes, how do you know about it? E.g. training sessions
1. What kind of training do you receive?
  2. How has the training help in managing your line?
  3. What kind of training are given to workers during the probation period?
  4. Do you have migrant workers in your factory? Is their language different from yours?

## **2. Wages and benefits**

2. When do workers received their pay? Are the wages paid as scheduled? If not why? Did you receive any complaints about irregular wage payments?
2. Do workers eat lunch at the factory? How much does it cost? Do they pay for it directly or the factory deduce it from their pay?
3. Can you list out the company benefits that are given to the workers?

## **3. Working hours**

3. Do workers eat lunch in the factory? How much does it cost? How do workers pay for their lunch? Do they buy tickets directly through you or does the factory deduce it from their wage?
4. When overtime is required, what benefits are provided?
5. How are workers informed about overtime?
6. Does the swipe card / timecard record lunch time and breaks? Explain how and why?
7. Do you have a category of workers for whom time is not recorded? If so, how do you calculate their wage?

## **4. Child labour**

1. What is the youngest worker in the factory?
2. What is the process or procedure to control underage workers?
3. Do you know some factories employ children?

## **5. Health and safety**

1. What is your health and safety policy?
2. Who is responsible for health and safety in the factory?
3. Do you have a list of positions that can be dangerous for young workers, pregnant workers (work on hazardous equipment, working at dangerous heights, lifting heavy loads or exposed to hazardous substances)?
4. Where do you register for work accidents? On which document?
5. Does the factory have a policy to minimise on hazardous material?
6. Do you have a policy or program to minimise risks of accidents and health problems?
7. Did you have fewer or more accidents in the factory in the previous year?
8. Please explain what you should do in case of fire or other emergencies? How did you learn this?
9. Did you identify the potential health and safety hazards in the factory?

## **6. Freedom of association**

1. How do you communicate with workers?
2. How can workers express their concerns? Are there any ways such as notice boards, workers' unions or committees, suggestion boxes?
3. What method of communication is most used by workers?
4. In what language are the notices written or used during meetings?

5. Are you aware of the activities between worker-management committee and their response to issues? How? What did the recent event they did for the workers?
6. Has there ever been a union in the factory?
7. Is there a collective bargaining agreement here in this factory? If so, please provide a copy.
8. What are the tasks of the Security guard?

### **7. Prison or forced labour**

1. What kind of leave can the workers take in the factory?
2. Have you asked for leave or time off? Please describe in terms of the kind of leave, how was it accepted, by whom and when and were you paid.
3. Under what circumstances could annual leave or any other leave be refused?

### **8. Disciplinary practice**

1. How many workers or supervisors received disciplinary sanctions in the last 12 months and why?
2. Did you get disciplined in the last 12 months? Do you know a colleague who was? Why? Would you mind talking about what happened?
3. What is the policy of the factory in regards to promotions?
4. What is the policy on termination?
5. How many workers are fired?
6. Do you know some workers who were suspended in the past 12 months?
7. Is there a written procedure that supervisors has to follow in order to fire Workers? Why?
8. How do you define harassment or abuse?
9. How do you define sexual harassment?
10. Do you have a written policy on sexual harassment?
11. Did you have a sexual harassment case in the last year?
12. Did the supervisor, management or workers receive harassment and abuse training? If yes, where and who gave the training?
13. What does harassment and abuse mean to you? Do you know people in the factory that were victims of harassment, abuse or other discrimination?
14. Is there a procedure to report on harassment and abuse? Please describe it and who is in charge and who ensure the procedure works.

### **9. Discrimination**

1. Is it easy to find a job in this area?
2. What is the most common function performed by male employees in the factory?
3. What is the most common function performed by female employees in the factory?
4. Do you have a written policy on hiring?
5. Who is in charge of implementing the hiring procedure?
6. What kind of training do the people responsible for hiring receive?
7. If you use an agency, who pays the recruitment fees of the agency?
8. How do you hire or arrange staffing in consideration of changes in th

- business cycle from peak season to low season?
9. Who makes the decision to hire workers directly or through an agency or subcontractor?
  10. Are there any deduction from workers wages made to pay off a debt with the agency? If so, what is the amount?
  11. Did you know any cases of pregnant women reassigning?
  12. Do pregnancy status of workers influence your planning of the work flow? If so, how do you deal with it?

## **10. Environment**

1. Do the factory have ISO 14001 certification?
2. Do the factory has a separate policy on the environment?
3. Does the factory have a policy to reduce or to control hazardous material?
4. Does the factory provide environmental education to workers?

## **11. Subcontracting**

1. Do you know if t some parts of production are subcontracted to other companies?
2. How many production lines do you have and how many workers are on each line?
3. How many functional machines do you have?
4. Approximately how many pieces of garments are completed during peak seasons?
5. Approximately how many pieces of garments are completed during low seasons?
6. How many garments are completed yesterday?

## **12. Dormitory**

1. Is it easy for workers to find a room in this area?
2. Can workers get in and out freely?

## **Manager interview sample questionnaire**

### **General questions**

1. What are the successes that you are proud of in the past year?
2. Is there anything you want to improve in the short term and a long term?
3. What prevents you from doing what you wish to do in the factory?
4. What are the main challenges you face in delivering quality products on time for shipment to your clients?
5. How do you deal with the above challenge?
6. How can the workers help you to face the above challenge?
7. From your experience is your factory similar to other factories in the area?
8. What projects have you introduced or do you want to introduce in the factory that could benefit workers?

9. How did you apply for work in this factory?
10. What is the best and worst part of your job?
11. Who can help you make your work better?
12. Would you recommend friends or family to work in this factory? And why?
13. What does this factory do for the community?

### **1. Code of conduct and factory regulation awareness**

1. Do the human resource manager and its staff receive training on the code of conduct and factory regulation?
2. Are there other types of training provided to supervisors and workers?
3. Do you have migrant workers in the factory? Is their language different from yours? How do you communicate with them about training?

### **2. Wages and benefits**

1. What is the wage rate for different function?
2. When do workers received their pay? Are the wages paid as scheduled? If not why? Did you receive any complaints about irregular wage payments?
3. Do workers eat lunch at the factory? How much does it cost? Do they pay for it directly or the factory deduce it from their pay?
3. What is the factory policy on maternity leave?
4. What kind of leave do the workers take in the factory? Under what circumstances could pay leave, sick leave or other leaves be refused?
5. What is the procedure of workers applying for day off?

### **3. Working hours**

1. How do you arrange staffing in different business cycles (i.e. peak season and low season)?
2. When overtime is required, what benefits are provided?

### **4. Child labour**

1. What is the minimum age for employment in your factory?
2. Do you know some factories that employ children in this area?
3. Do you work with subcontractors?
4. How do you ensure that your subcontractors work without child labour?
5. Have there been cases of underage workers in the factory in the last year?
6. Do you have apprenticeships in your facility? Can you provide the positions given and relationship with school?

### **5. Health and safety**

1. What is your health and safety policy? What is your procedure?
2. How do you communicate and implement it? Why?

3. Who is responsible for health and safety in the factory?
4. In the previous year, did you have more or fewer accidents in the factory? Why? Can you describe the work accidents or illnesses in the factory?
5. Once you identify the potential health and safety hazards in the factory, what did you do afterwards?
6. Do you have a policy or program to minimise risks of accidents and health problems?
7. Do you have a list of positions that can be dangerous for young workers, pregnant workers?
8. Does the factory have a policy to minimise on hazardous material?
9. Did you have fewer or more accidents in the factory in the previous year?
10. Please explain what you should do in case of fire or other emergencies? How did you learn this?
11. Do you have a list of positions that could be dangerous to kids, young workers and pregnant women (e.g. working on hazardous equipment or dangerous heights, lifting heavy loads or exposed to hazardous substances)?

## **6. Freedom of association**

5. Please lists out the ways workers and your management staffs communicate in the factory (e.g. notice bords, unions, committees, suggestion boxes etc)
6. Is there a union in the facility? If yes, please describe the election process. When was the last election? If there was no election, why not?
7. Has there been a union in this facility before?
8. Do you have a written policy that protects workers' rights of freedom of association and collective bargaining?
9. How is the above policy implemented? Is the procedure written? Who is responsible to make sure the policy is implemented properly?
10. How are the minutes of worker committee meetings communicated to all workers?
7. Does the factory has a grievance system in which workers can raise concern to factory management?
8. What is the process to use the bathroom or get drinking water during working hours? Are workers allowed to leave the factory compound as needed or desired?
9. What are the tasks of Security Guard?

## **7. Prison and forced labour**

1. Do you employ prison labour in the factory?

## **8. Disciplinary practice**

1. What is the policy to disciplinary sanctions? Is there a written policy? Are workers informed about the policy? If so, in what way?

2. What is procedure of firing? Who reviews and interviews workers involved?
3. How do you define harassment or abuse?
4. How do you define sexual harassment?
5. Do you have a written policy on sexual harassment?
6. Did you have a sexual harassment case in the last year?
7. Did the supervisor, management or workers receive harassment and abuse training? If yes, where and who gave the training?
8. Is there a procedure to report on harassment and abuse? Please describe it and who is in charge and who ensure the procedure works.
9. If there has not been training on harassment and abuse, why not? What prevent you from doing it?

## **9. Discrimination**

1. Is it easy to find a job in this area?
2. What is the most common function performed by male employees in the factory?
3. What is the most common function performed by female employees in the factory?
4. Do you have a written policy on hiring?
5. What is the procedure for hiring?
6. Who is in charge of implementing the hiring procedure?
7. What kind of training do the people responsible for hiring receive?
8. Do you use a hiring agency for hiring workers?
9. If you use an agency, who pays the recruitment fees of the agency?
10. How do you hire or arrange staffing in consideration of changes in the business cycle from peak season to low season?
11. Who makes the decision to hire workers directly or through an agency or subcontractor?
12. Are there any deduction from workers wages made to pay off a debt with the agency? If so, what is the amount?
13. What is the profile of supervisors you hire? What standards do you require?

## **10. Environment**

1. Do the factory have ISO 14001 certification?
2. Do the factory have a separate policy on the environment?
3. Do you carry out environmental impact assessment of your products and Services?
4. Does the factory have a policy to reduce or to control hazardous material?
5. Does the factory have an organisational structure for environmental planning and management?
6. Does the factory provide environmental education to workers?

## **11. Subcontracting**

1. Do you work with subcontractor?

## **12. Dormitory**

1. Do you have a dormitory in the facility?
2. Can you describe the living condition of the workers?

## **APPENDIX F**

### **Study 3**

#### **The Garment Industry in the Greater Pearl River Delta:**

##### **An evaluation of the code of conduct approach**

Wealthy Industrial Company Internal employee code of conduct

Wing Hang Enterprises Limited: An Employee Information Sheets

Wing Hang Enterprises Limited: Information sheets

Wing Hang Enterprises Limited: Manufacturer B Job advertisement

Visual evidence from Evergreen Garment Factory

**Wealthy Industrial Company Internal Employee Information**  
**(Factory regulation)**

1. Office hours:

Factory operating area: Monday to Saturday 9:00 a.m to 6:00 p.m.

Lunchtime: 12:45 p.m to 1:45 p.m.

Flexible office hours are used for office staffs:

- a. Monday to Friday: 9:00a.m. to 6:00 p.m.  
Saturday: 9:00 a.m. to 1:00 p.m.
- b. Monday to Friday: 9:15a.m. to 6:15 p.m.  
Saturday: 9:15 a.m. to 1:15 p.m.
- c. Monday to Friday: 9:30a.m. to 6:30 p.m.  
Saturday: 9:30 a.m. to 1:30 p.m.

Employees can inform the company on changes of their working hour on a half-yearly basis. In June each year, the employees can inform the company changes of the working hours from 1<sup>st</sup> of July to the 31<sup>st</sup> of December; in December each year, the employee can inform the company about changes of their working hours from 1<sup>st</sup> of January to 30<sup>th</sup> of June. If no changes are made, the company will assume the previous working hours is the best time the employees has selected.

From being late for 5 times in one month, a warning letter will be issued to the employee. If the employee is frequently late from lunch, a verbal warning will be implied. For more severe cases, a warning letter will be issued. All other positions above the assistant managers are not needed to punch their timecard for lunch.

2. Payment of wages

The company use the bank autopay service to pay salary, employees are paid on the 7<sup>th</sup> of each month.

3. Overtime allowance

- a. Overtime to 9 p.m. in the evening, an allowance of HKD\$60.00 are paid each night.
- b. Overtime to 10 p.m. in the evening, an allowance of HKD\$120.00 are paid each night.

4. Employee training

The company selects appropriate courses from various training organisations for the employees to attend, encourages employees to register for training courses. For more details of the company sponsorship plan, please refer to the human resources department.

5. Sickness allowance

One paid sickness day is allowed on a monthly basis. If the employee is sick for more than 4 consecutive days, he/ she can reclaim back fourth-fifth of the normal rate as a sickness allowance. The number of days of the consecutive sick leave is calculated according to the Hong Kong Employment Ordinance. The employee sickness

condition should be supported by certificate issued by a registered medical practitioner. Failure to show evidence of sickness, the wages will be deducted in respect to employee's private reasons.

6. Annual Leave

An employee is entitled to 14 days annual leave with pay after having been employed under a continuous contract for 12 months. The amount of days are entitled to the next 12 months from 1<sup>st</sup> of Jan to 31<sup>st</sup> of Dec. No holiday compensation will be given to unused annual leave.

7. No paid leave

For sickness or any other reasons for absence of work, the employee should phone the supervisor, department head or human resource department before 10:30 a.m on the day. For employees who is excused from work more than 1 day, a written form is needed to be endorsed by the supervisors and then submitted to the human resource department.

8. Accident, Incidents or dangerous occurrence application

When accidents occur, employee should inform their supervisors, administration department or human resource department, relevant staffs from each section are equipped with simple first aid procedure for help if necessary.

9. Fire emergency procedure

The administration and human resource department is responsible for educate the Staffs on fire hazard and fire drill procedure. In the event of sudden occurrence of fire, the employees must keep calm and evacuate from the factory operation area or office area as quickly as possible.

10. Typhoon signal or thunderstorm warning is raised:

- a. When the typhoon signal 3 warning / yellow or red thunderstorm warning is raised, employees are required to continue to work as usual.
- b. When the typhoon signal 8 warning / black thunderstorm warning is raised, monthly rate employees are not required to work and the wages will not be deducted accordingly. If the typhoon signal 8 is off during office hours, the monthly rate employees will need to decide if it is safe to return to work. If the employee can return back to work within 2 hours after the typhoon signal 8 is off, the salary on the day will still be paid. If not, the salary will be deducted in terms personal reasons. For daily rate employees, the salary will be paid according to the starting time of the timecard.

11. Medical allowance

Company do not provide a medical insurance for the employees. But the company will provide sufficient employee benefits to all employees. The employees will need to provide necessary documents for claim if the accidents cause is related to work.

12. MPF

The company register with Bank Y for management and service for MPF.

13. Environment and Hygiene

- a. Employees must keep the working environment clean and tidy. Cooking is not allowed for any purpose in the factory operation area and office area. Eating is only permitted in the pantry area or the area planned for eating purpose inside the factory operating area
- b. All other kinds of food consumption except water or tea cannot be placed in the office area.
- c. Toilets are equipped with toilet paper and soap for employees.

14. General issues

- a. The last person who leave the office/ factory area should ensure all electricity supply is properly shut.
- b. Employees should be responsible and save the company resources. For equipment that is out of order, please inform the administration or human resources department for maintenance.
- c. For changes of personal address, please inform human resource department for any changes.
- d. Company will disperse any notice through e-mail and also on noticeboard in factory operation area and pantry.

Date of review: 1 / 8/ 2003

## Wealthy Industrial Company: Employee Information Sheets

### The distribution of female and male workers

Production section	Female workers	Male workers
Weaving	0	1
Dial linking section	8	0
Stitched in section	5	0
Washing	0	1
Miscellaneous	1	4
Total number (N)	14	6
% of female/ male workers	70	30

### Child testing record

Number	Worker's name	Sex	Age	No of years worked in the factory	Daily rate / monthly rate/ piece rate
1	Ms Ng	F	37	11	Daily rate
2	Ms M.H. Au Yeung	F	43	1.5	Daily rate
3	Ms Yau	F	50	2	Daily rate
4	Ms Chow	F	52	1	Daily rate
5	Ms Chin	F	52	7	Daily rate
6	Ms Wong	F	48	3	Daily rate
7	Ms M.C. Au Yeung	F	50	0.5	Daily rate
8	Ms Shum	F	49	6	Daily rate
9	Ms Yeung	F	61	5	Daily rate
10	Ms Mok	F	61	1.5	Daily rate
11	Mr Li	M	44	13	Monthly rate
12	Mr So	M	36	6	Monthly rate

### 3. Job advertisement sample (in Chinese)

## **Wing Hang Enterprises Limited: Internal Employee regulation**

### **Factory regulation**

1. From the start of the office hour, employee must consume breakfast. Employees are not allowed to leave the factory and have breakfast outside or do any shopping after the card being punched. If there is a need or urgency to leave due to private reasons, employees must inform their supervisor and punch their timecard for record. From the start and end of lunchtime, employee (except office staffs) have to punch their timecard.
2. During office hours, employees cannot do private work, deal with private matter and avoid talking on the phone.
3. Employees must not use company resources to deal with personal matter such as photocopying, printing etc.
4. Do not enter or keep any personal data or information including software or hardware into company's computer. Do not use company e-mail for personal communication usage such as sending out personal e-mail unrelated to operation nature, this includes sending out e-mail to internal staffs. If the company discover the above misbehaviour, warning letter will be issued or even resulting in immediate termination of service.
5. Passwords are not to be set to all computerised data file, computer user can set a user id and password and inform the administration / technical services for a record.
6. Employees are not allow to cook for any purpose in the factory operation area and office area.
7. Eating is permitted in the pantry area or the area planned for eating purpose inside the factory operating area.
8. All other kinds of food consumption except water or tea cannot be placed in the office area.
9. Employees cannot take any company properties such as clothes samples, faulty items, stored items, raw materials and stationary home.
10. Employees should not punch your colleague's timecard.
11. Employees must not release company's confidential information, avoid conflicts, misbelief, jealousy, fabrication.
12. Employee leave procedure:

1. Each employee should be responsible for the operating facilities, turning off the electricity supply including computer terminals, monitors, typewriters; all ventilating fans and air conditioners in all rooms.
2. The last person of each departmental team who leave from the factory should ensure the enforcement of item 1.
3. The last person who leave the factory should ensure closure of the following items:
  - a. All computers, monitors, typewriters, ventilating fans in each separate room, air conditioners in all conference rooms, sample showroom etc;
  - b. All windows including factory operation area;
  - c. Pantry's air conditioner
  - d. The electricity supply of all toilet
  - e. All doors including the front and back entrance

If the employees are against any of the above rules or take any actions affecting the company in any form, this can lead to immediate termination of contract without any kind of compensation.

Date of review: 13/ 3/ 2003

The distribution of female and male workers in factory X2

Production section	Female workers	Male workers
Cutting	0	5
Sewing	56	0
Quality assurance	40	0
Ironing	12	2
Packaging	2	2
Total number (N)	110	9
% of female/ male workers	92.4	7.6

Child testing record

Number	Worker's name	Sex	Age	No of years worked in the factory	Daily rate / monthly rate/ piece rate
1	Ms Sio	F	37	6.2	Piece rate
2	Ms Ng	F	43	2.4	Piece rate
3	Ms Wong	F	44	0.5	Daily rate
4	Ms Lei	F	37	5.7	Piece rate
5	Mr Cheang	M	47	3.4	Monthly rate
6	Ms Chan	F	49	1.3	Piece rate
7	Ms Chang	F	38	2.3	Piece rate

8	Ms Lam	F	44	5.8	Monthly rate
9	Mr Lai	M	54	6.9	Piece rate
10	Ms Ao Ifong	F	36	5.8	Piece rate
11	Ms Wong	F	41	1.5	Daily rate
12	Ms Ma	F	33	0.1	Daily rate
	Total Female Total Male Average	10 2	42	3.5	Daily rate: 3 Monthly rate: 2 Piece rate: 7

### Workers record

Number	Name	Birth date	Date of hire	Types of production stage
1	Ms Sio	1966	8/1997	Sewing
2	Ms Ng	1960	5/2001	Sewing
3	Ms Wong	1959	4/2003	Quality assurance
4	Ms Lei	1966	2/1998	Sewing
5	Mr Cheang	1956	5/2000	Cutting
6	Ms Chan	1954	7/2002	Sewing
7	Ms Chang	1965	6/2001	Quality assurance
8	Ms Lam	1959	1/1998	Ironing
9	Mr Lai	1949	11/1996	Ironing
10	Ms Ao Ifong	1967	12/1997	Sewing
11	Ms Wong	1962	4/2002	Quality assurance
12	Ms Ma	1970	9/2003	Quality assurance

### Fire drill record

Year	Dates and Time of fire drill (day /month / time)	Time needed (min)
2002	18 <sup>th</sup> March at 4:50 p.m	15
2002	5 <sup>th</sup> August at 5 p.m	3
2003	26 <sup>th</sup> March at 5 p.m	3.5
2003	18 <sup>th</sup> June at 5 p.m	4

### Fire training record (in Chinese)

Visual Evidence from Evergreen Garment Factory

Factory building



Workers' washroom



Cutting section



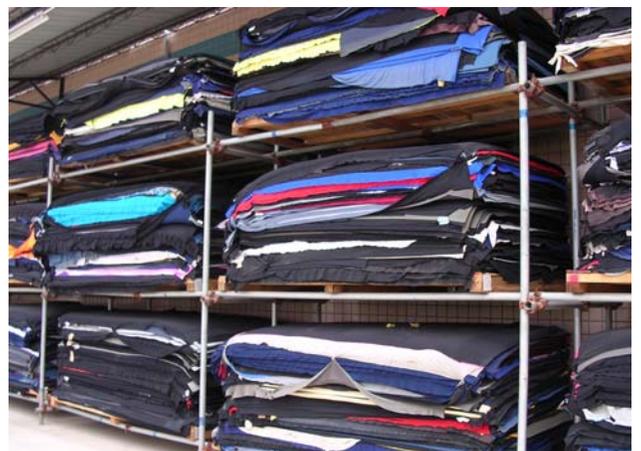
Dormitories



Separate storeroom



Uncovered storage area



## **APPENDIX G**

### Study 4

#### Partnerships for Sustainable Development

#### CSR and supply chain management interview protocol

# The University of Hong Kong

## *Corporate Environmental Governance Programme*

### **Case studies of environmental supply chain management**

#### **Question Themes**

This questionnaire consists of structured and open-ended questions, which forms part of a case study of the garment industry and will contribute to ongoing research concerning corporate social responsibility and the code of conduct in the supply chain in this region. Your contribution and experience is important to us in order to move forward in this area. Please return by e-mail to [jtsoi@hkusua.hku.hk](mailto:jtsoi@hkusua.hku.hk) or fax to (852)2559 0468 or post to Corporate Environmental Governance Programme, The Centre of Urban Planning and Environmental Management (CUPEM), Pokfulam Rd, University of Hong Kong, Hong Kong. Should you have any questions please call Ms Joyce Tsoi on (852) 2857 8638.

#### **Part 1 General questions**

- 1. How significant is CSR as a business concern in Asia-Pacific?**
- 2. Will CSR generate long-term business profit?**
- 3. What criteria should a responsible corporation follow?**
- 4. Do you think both the Hong Kong and China government should make CSR Policy mandatory? Why?**

#### **Part 2 Supply chain specific**

- 5. Does code of conduct work?**
- 6. Does factory auditing / social compliance auditing work?**
- 7. Have you ever seen any falsified records in the factory?**
- 8. From your experience, what are the areas that need improvement in the factories in the Pearl River Delta in general?**
- 9. Do you think the local regulation is enough to make companies and factories carry out social and environmental improvements?**
- 10. How can factory conditions be improved in this region? What are the benefits to your company and your suppliers?**

**If you think partnership would work, should there be a development of trust programme initiated?**

#### **Part 3 Motivation**

- 11. Do you think voluntary initiatives or agreement is more powerful than legislative requirement to make a change and why?**
- 12. How can we make suppliers appreciate the importance of responsible production and make real improvement in the future ?**

#### **Part 4 Barriers**

- 13. What are the barriers to making real improvements?**
- 14. How can these barriers be overcome?**
- 15. If a supply chain task force is set up and aim to help different partners in improving the working condition in the PRD? What role can your organisation play or contribute in this task force?**



**8. From your experience, what are the areas need improvement in the factories in the Pearl River Delta in general? (Please rank in the order of priorities)**

- code of conduct and factory regulation awareness
- wages and benefits
- working hours
- child labour
- health and safety
- freedom of association
- prison and forced labour
- disciplinary practice
- discrimination
- environment, for example, excessive water consumption
- subcontracting
- dormitory
- strength and weaknesses of the factory
- others

Please give detailed description or explanation on the areas raised:

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**9. Is the local regulation enough to make companies and factories carry out social and environmental improvements?**

- Yes
- No

**10. How can factory conditions be improved in this region? What are the benefits to your company and your suppliers?**

- Reduce the number of suppliers
- Increase productions in a specific country, e.g. \_\_\_\_\_
- Increase sourcing from a specific country, e.g. \_\_\_\_\_
- Increase the frequency of internal factory training, hence increase the frequency of interactions between companies and workers
- Acquisition of a specific factory (by changing factory ownership)
- Integrate stakeholder dialogue
- Keeping long-term relationship with suppliers can create win-win situation
- Partnership

If you think Partnerships will work, what types of partnership do you think would work in initiating responsible practice?

- Corporate-corporate partnership
- Corporate-government partnership
- Corporate-NGOs partnership
- Corporate-suppliers partnership
- Multi-party partnership, please specify: \_\_\_\_\_
- Set environmental and social objectives and targets, please specify objectives: e.g. reuse and recycle inputs  
\_\_\_\_\_
- Others: \_\_\_\_\_

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Should there be development of trust programme?

- Yes
- No

(a) Benefits to the company:

- Cost reduction
- Greater operational efficiency
- Enhanced value to the customers
- Increased sales
- Positive media attention
- Positive rating from socially responsible investment group
- Others: \_\_\_\_\_

(b) Benefits to the suppliers:

- Cost reduction
- Greater operational efficiency
- Enhanced value to the customers
- Increased sales
- Positive media attention
- Others: \_\_\_\_\_

### **Motivation**

**11. Do you think voluntary initiatives or agreement is more powerful than legislative requirement to make a change and why?**

- Yes, \_\_\_\_\_
- No, \_\_\_\_\_

**12. How can we make the suppliers appreciate the importance of responsible production?**

- Supply chain pressure
  - Get management buy-in
  - Workers driven
  - Implement in steps
- Government intervention
  - Command and control regulation
  - Funding support
  - Increase awareness
  - Provide incentives
- Non-governmental organisation intervention
- Trade organisation intervention
- Some kind of rewarding scheme in shifting to sustainability
- Others: \_\_\_\_\_

### **Part 4 Barriers**

**13. What are the barriers of making real improvement?**

- High complexity of supply chain issues
- Lack of government intervention
- Lack of non-governmental organisation intervention
- Lack of concern of the factory management team

Lack of reward scheme in shifting to sustainability

Others: \_\_\_\_\_

**14. How can these barriers be overcome?**

e.g. cross border collaboration \_\_\_\_\_

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**15. If a supply chain task force is set up and its aim is to help different partners in improving the working condition in the PRD? What role can your organisation play or contribute in this task force?**

Training

Provide technical experts

Others: \_\_\_\_\_