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THINK PIECE

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Five Myths in and Five Recommendations for the Global Sourcing and Codes of Conduct Debateⁱ

The risk is that codes of conduct do more harm than good, because much of the academic and policy-oriented rhetoric on the topic is largely divorced from the realities faced by many developing country suppliers, workers, and communities.



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Much attention has been devoted to corporate social responsibility in recent years. A large number of academic articles have been published on the topic, and newspaper articles appear each week in Europe and North America discussing how global corporations are taking increasing responsibility for not only their own social and environmental behavior, but also the behavior of those with whom they do business. In recent years, a large part of the debate has concentrated on how global sourcing companies can integrate social and environmental concerns in their supply chains. Codes of conduct – or the ethical principles that companies use to guide their conduct – have thus been at the heart of the debate about how global companies should manage their supply chains in a socially and environmentally responsible mannerⁱⁱ.

What characterizes the codes of conduct debate today? Exaggerated claims are often made about the benefits that codes supposedly bring to workers and the environment in the developing world. At the same time, academics and practitioners still sometimes fail to distinguish between suppliers' compliance with codes of conduct and the ultimate impact that

such codes have on workers' conditions and the environment in the developing world. The risk is that codes of conduct do more harm than good, because much of the academic and policy-oriented rhetoric on the topic is largely divorced from the realities faced by many developing country suppliers, workers, and communities. Their voices and concerns often do not find their way to CSR conferences in North America and Europe, which tend to be dominated by corporate, NGO, trade union, business school representatives and other delegates (whose skin color is usually white)ⁱⁱⁱ.

In this think piece, we shall attempt to bust 5 myths that continue to characterize the codes of conduct debate and introduce 5 recommendations that could lead to a more fruitful engagement with future research, policy, and practice in this area.

Myth no. 1 – CSR is widespread in the developing world

If we think of the large number of academic articles on CSR that have appeared in internationally recognized journals, if we think of the continued media attention paid to how global corporations affect social and environmental conditions in the developing world, and if we look at the number of CSR conferences that take place in Europe and North America, we get the impression that most multinational corporations have already adopted CSR as an integral part of their business practices and that their supply chains are following suit. In reality, the spread of CSR in the developing world is quite limited. It is only a small percentage of the world's 70,000 transnational corporations, their 700,000 affiliates, and millions of suppli-

ers that have seriously embraced CSR^{iv}. At the same time, whereas a large number of CSR conferences take place every month in North America and Europe, the situation is markedly different in most developing countries. For example, the Ethical Performance Monthly CSR & SRI Events Listing for November 2006 (displaying upcoming CSR conferences and events) showed a list of fourteen events that were to take place in the next two months. Out of these, six were to be held in the United Kingdom, five in the United States, two in Germany, and one in China. Clearly, there is limited attention being paid to, and interest in, the Anglo-Saxon inspired CSR discourse in most parts of the developing world^v.

Myth no. 2 Engaging in CSR is the key challenge for global sourcing companies and their suppliers in the developing world.

One of the most frequently cited definitions sees 'CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' (European Communities 2001, p. 8). In the definition, the emphasis is on the voluntary nature of CSR initiatives, and that CSR goes beyond legal obligations. That is, it is assumed that companies are already in compliance with national social and environmental laws, and that the main challenge for them is to improve their performance by going beyond what they are legally required to do. In the context of developing countries, however, the emphasis on corporations voluntarily going beyond what they are legally required to do might be somewhat misleading. In fact, the challenge in many developing countries such as India and Pakistan is primarily to get companies to meet their legal obligations as they generally fail to comply with existing legal frameworks related to environmental and social protection, etc. In fact, corporate failure to comply with existing legal frameworks related to social and environmental issues is not the exception but the rule in the developing world.

Myth no. 3. If developing country suppliers comply with codes of conduct, they will surely improve workers conditions and reduce environmental pollution.

While we do have evidence of codes of conduct leading to improved labor conditions in some contexts, there is a real risk that codes of conduct may worsen social and environmental conditions for workers and communities. On the one hand,

simply complying with certification schemes or environmental standards such as ISO14001 does not automatically guarantee environmental improvements. One thing is to have an environmental management system such as ISO 14001 implemented in an organization; another thing is how this affects a company's ultimate environmental impact. For example, a leather factory in a developing country may both have been ISO14001 certified and also installed primary and secondary water treatment plants to cleanse its wastewater. However, these investments are unlikely to improve the factory's overall environmental impact if it does not have adequate ways of disposing of the hazardous substances which are filtered through the water cleansing process. In fact, the factory might be forced to dump its toxic waste in a nearby river unless publicly owned landfills exist where the waste can properly be disposed of^{vi}. In other words, simply complying with environmental standards does not necessarily lead to improved environmental impact for a given factory. As such, codes of conduct do not necessarily work out of context. Often (public) social institutions to support them must be in place.

Similarly, some codes of conduct stipulate that workers at supplier factories should only work a limited number of hours a week. This requirement has its roots in North American or European ideas about what constitutes a proper working week^{vii}. However, this does not take into account that many employees in the developing world have to work much longer hours if they are to provide for themselves and their families, simply because they may be paid on the basis of the number of pieces of a given item that they produce. For a Chinese worker, being forced to only work e.g. 37 hours a week as opposed to 60 hours may thus result in her no longer being able to provide for herself and her family. Again, the main challenge is not for suppliers to go beyond compliance with their legal requirements. In the case of China, wages are often set at an abysmal level, many industrial workers are not paid the official minimum wage or owed millions of dollars in wages. In such a context, if supplier companies were to meet their minimum legal obligations, workers might be less compelled to do overtime.

In other words, there is both (i) a need to anticipate the ultimate impacts of implementing codes of conduct, (ii) contextualize their application instead of simply demanding compliance with conditions that make little sense in a particular developing country context, and (iii) incorporate the

voices of workers and communities in the design, implementation, monitoring, and impact assessment of codes in order to ensure a better fit between what workers and communities prioritize as opposed to what Northern companies, trade unions, NGOs, and consultants think they ought to prioritize. In the case of codes for regulating working hours, it would in fact make more sense to have codes for fair salaries (which are normally not included).

Myth no. 4. Auditing helps us understand the effects of codes on workers' conditions and the environment.

Auditing refers to the procedure through which internal or external auditors systematically check whether a supplier is complying with the requirements contained in a given code of conduct. However, the question is whether supplier auditing can provide adequate insights into the social and environmental performance of suppliers in the developing world. Serious questions have arisen as to whether auditors, internal or external, are likely to have the capacity, objectivity, and independence to provide an adequate account of the performance of a given factory in the developing world. Auditing traditionally relies on a top-down procedure with limited stakeholder participation, meaning that issues which workers may consider important to their well-being might not be recognized as part of the auditing process. Furthermore, company records often contain erroneous information^{viii}. For example, elaborate double book-keeping systems kept in many Chinese supplier factories are falsified. In other words, auditing can only provide limited insights into the actual effects that codes of conduct have on workers' conditions in the developing world.

Myth no. 5. Exclusion of non-complying suppliers is an effective way of securing compliance with codes and, in turn, of improving workers' conditions and the environment.

It is often claimed that global sourcing companies should not trade with supplier factories that use child labor, pollute the environment, or do not treat their workers according to standards which are considered appropriate in Europe or North America. In fact, some global sourcing companies panic in response to media exposure of poor working conditions or the use of child labor at their supplier factories, and choose to sever their connections with these suppliers (the 'cut and run' response).

However, global sourcing companies may make the situation a lot worse for local workers and community members by severing their links with a supplier. On the one hand, workers at a textile factory in India may work under hazardous conditions and be exposed to chemical burns. On the other hand, if the textile factory suddenly loses all its orders from Europe, the factory may have to close down and the same worker may be out of a job, unable to support herself and her family.

This dilemma was dramatically illustrated in Bangladesh in the mid-1990s when many textile manufacturers in Bangladesh decided to fire the child workers employed in the industry in anticipation of a United States ban on imports of textile products from Bangladesh. Concerns had arisen in the US about the use of child labor amongst the Bangladesh manufacturers. Unfortunately, many of the child workers wound up in a situation that was worse than working in the textile factories, for example by becoming child prostitutes or engaging in other forms of hazardous employment. In fact, sometimes the only thing that is worse than being exploited is not being exploited^{ix}.

The Way Forward – Five Recommendations

So what should then be the way forward? First, we need to find more meaningful ways of assessing the ultimate impact of codes of conduct as opposed to simply assessing compliance with their stated requirements. The UK Ethical Trading Initiative is one such initiative that has attempted to devise more appropriate ways of understanding the actual as opposed to postulated effects of codes of conduct.

Second, we need to take the social, economic, environmental, and linguistic contexts in which codes are being implemented into consideration if we want to avoid producing unintended, often negative consequences for the intended beneficiaries of codes. For example, in some Central American factories, codes have sometimes been written in English or Chinese and placed in such a high position on factory walls that it is impossible to read them. That is of little help to Spanish-speaking workers, some of whom may not be able to read. In this case, translating the code into local languages is a simple but important step in relation to making code implementation more meaningful in local contexts.

Third, governments and international organizations still have a role to play in ensuring responsible social and environmental behaviour on the part of companies in the developing

world. If efforts of global sourcing companies and local suppliers in relation to implementing codes of conduct are undertaken in isolation, they are unlikely to bring about sustained improvements in working conditions. National governments and international organizations cannot only play a role in relation to actually enforcing existing legislation, but also to providing the necessary expertise, resources, and infrastructure that enable developing country suppliers to meet their legal obligations. In the case of Cambodia for example, the International Labor Organization's Better Factories program monitors and reports on working conditions in Cambodian garment factories according to national and international standards, by helping factories to improve working conditions and productivity, and by working with the Government and international buyers to ensure a rigorous cycle of improvement^x.

Fourth, global sourcing companies that want to act in a socially responsible manner need to engage with suppliers in the long run in terms of providing the necessary resources and expertise that will enable them to improve their social and environmental performance. The 'cut-and-run' response in relation to negative media publicity is likely to do more harm than good if the aim is to improve the workers' conditions and reduce environmental pollution at supplier factories.

Fifth, emphasis needs to be placed on incorporating the concerns and voices of the ultimate beneficiaries of codes of conduct in the design, implementation, monitoring and impact assessment of codes. That is, if we are to overcome the paradox where the intended beneficiaries of codes have little influence on the initiatives that are supposed to help them. ■

- ⁱ The author would like to thank Ole Kirkelund, Jette Steen Knudsen, Hanne Fast Nielsen, Stephanie Barrientos, and Marina Prieto-Carron for commenting on an earlier draft of this TCC briefing.
- ⁱⁱ Fynas, J.G. and M. Blowfield, Editorial - Setting new agendas: critical perspectives on corporate social responsibility in the developing world, *International Affairs*, vol. 81, no. 3, 2005, pp. 499-513.
- ⁱⁱⁱ Lund-Thomsen, P. Critical perspectives on CSR and sustainability in the developing world: The lessons of history, present status, and future perspectives, forthcoming in *Greener Management International*
- ^{iv} Utting, P. Corporate Social Responsibility and Equality, forthcoming in *Third World Quarterly*
- ^v Prieto-Carron, M. et al. Critical perspectives on CSR and development: What we know, what we don't, and what we need to know, *International Affairs*, vol. 82, no. 5, 2006 pp. 977-987.
- ^{vi} This example has been stylized, but it refers to an actual example observed by the author during fieldwork in South Asia in early 2006.
- ^{vii} For a more in-depth critique of the cultural assumptions underlying the current CSR and global sourcing debate, see Blowfield, M. Ethical Supply Chains in the Cocoa, Coffee and Tea Industries, *Greener Management International*, vol. 43, 2004, pp.15-24.
- ^{viii} Blowfield, M., More than a feeling? What we know about CSR's impacts, Paper presented at the conference 'Beyond CSR? Business, Poverty, and Social Justice, London, May 22nd, 2006
- ^{ix} Pierik, R. and M. Houwerzijl, Western Policies on Child Labor Abroad, *Ethics & International Affairs*, vol. 20, no. 2, 2006, pp. 193-218
- ^x Information from Better Factories Homepage (<http://www.betterfactories.org/aboutBFC.aspx?z=2&c=1&#HIW>, accessed 1 February 2007).



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