Regulating for Corporate Human Rights Abuses:

The emergence of corporate reporting on the ILO's human rights standards within the global garment manufacturing and retail industry

by:

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Abstract

This paper investigates the adoption of the International Labour Organisation's (ILO) workplace standards by major multinational companies that source products from developing countries, as disclosed through their reporting media. Despite the ubiquitous nature of the discourse on human rights, there is currently little research on the emergence of corporate disclosure on their human rights obligations or the regulatory dynamic that lies behind this disclosure. This study specifically explores the role that International Governmental Organisation's (IGO) such as ILO have played in regulating the behaviour of large multinational garment retail organisations that source products from developing countries. This study reviews corporate reporting media including social responsibility codes of conduct, annual reports and stand-alone social responsibility reports released by 18 major global clothing and retail companies during a period from 1990 to 2007. The study found that the number of companies adopting and disclosing on the ILO's workplace human rights standards has significantly increased since 1998 – the year in which the ILO's standards were endorsed and accepted by the global community. The study also found similar or isomorphic behaviour among companies in addressing the ILO's workplace social standards within their reporting media.

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"Human rights are part of a long and honourable tradition of dissent, resistance and rebellion against the oppression of power and the injustice of law."

Ernst Bloch, Natural Law and Human Dignity,

Introduction

In the introduction to Human Rights and Empire, Costas Douzinas (2007, p.33) observes,

> "Human rights are the way people speak about the world and their aspirations, the expression of what is universally good in life. They have become ingrained in the new world order, their claims adopted, absorbed and reflexively insured against challenge. Assent and critique, approbation and censure are part of the same game, both contributing to the endless proliferation and to the colonialism of rights."

Yet despite the ubiquitous nature of the human rights discourse, there is a surprising lack of critical accounting scholarship on corporate disclosure in relation to human rights obligations or the emerging regulatory environment which may lie behind these disclosures. This study attempts to begin to address this lacuna by investigating the adoption of the International Labor Organisation's (ILO's) workplace human rights standards by major global retail companies that source products from developing countries, as disclosed in their corporate reporting media. While prior research has focused on the impact of the media (see, Brown and Deegan, 1998; Deegan et al., 2002; Islam and Deegan, 2010) and Non Government Organisations (NGOs) (see, Tilt, 1994; Deegan and Blomquist, 2006) upon the operating and reporting behaviour of companies, to date, little attention has been paid to the regulatory function of International Governmental Organisations (IGOs) within the global economy and in particular the role of such organisations in regulating corporate behaviour specifically in relation to human rights violations.

The paper builds on Islam and Deegan's (2008) study of the Bangladesh Garments Manufactures and Exporters Association (BGMEA), and in particular their comment that multinational companies appeared to exert pressure on local suppliers to adopt ILO standards. This is an interesting observation as historically the global business community has forcefully resisted bringing the language of human rights into the sphere of corporate responsibility (Kinley and Chambers, 2006). For example, the UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (2003) represents one of the best known attempts to highlight the potentially negative impact of corporate activity on human rights and to extend corporate responsibility for human rights abuses to suppliers and other business partners that fall within their sphere of influence. This attempt to develop an international set of legally binding norms reflected a growing appreciation of an individual States' inability to hold multinational corporations accountable for complicity in human rights abuses that occurred outside national borders. For example the controversial behaviour of multinational garments retail companies often emerges around the transferring of production locations to developing countries with lower domestic corporate social standards and related disclosures[1] and where labour rights are either missing or not enforced. A number of high profile companies have experienced mounting global criticisms about incidents of child and forced labour, accidents from fires, verbal and physical abuse or direct exploitation of workers in their supply factories in developing countries (Bachman 2000; Spar, 1998; Wah, 1998). However, as Kinley and Chambers (2006, p. 449) point out, in the face of this escalating concern,

> "Business leaders mounted critiques, not only of the Norms document itself, but also of any expansion of the concept of corporate liability for human rights responsibilities that went beyond the current model of self-regulation through corporate codes of conduct, social responsibility policies and the like."

Partly as a consequence of this aggressive lobbying, the Norms have effectively been sidelined (Kinley and Chambers, 2006). Yet it may be that the enduring threat of a more legally binding set of principles, along with growing public concern, goes someway towards explaining the somewhat paradoxical tendency towards greater

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[1] Some studies (see Belal, 2001; Teoh and Thong, 1984) found evidence of lower or minimal corporate social disclosure in developing countries.

voluntary disclosure on human rights obligations as hinted above effected through another UN agency, the International Labour Organization. IGOs do appear to play an important role in the global regulation of multinational enterprises for human rights abuses by developing global standards; forging alliances with NGOs and collectively using media to pressurise companies and their suppliers into eradicating poor labour practices.

While we retain a relatively sceptical position in relation to whether or not these commitments to the ILO's workplace human rights standards correlate with any substantive improvement in the lot of workers in emerging economies and also whether the broader human rights discourse represents an effective mechanism for securing greater economic justice (Douzinas, 2007), we nevertheless contend that this shift in the language of corporate responsibility and the institutional pressures that may be partially behind it, represents powerful and important new ways of constructing workers (as bundles of rights) and corporations as duty bearers, and also constructing the boundaries of the corporations sphere of influence for which it should be held accountable (Ruggie 2008; Islam and Deegan 2008; 2010 Christopherson and Lillie, 2005; Mc Clintock, 1999; Barrientos, 2000).

We specifically focus on whether major multinational garments and retail companies adopt the ILOs' workplace human rights standards and wether and how they extend commitment to these principles to their suppliers. In order to investigate these questions, we undertake a content analysis of the annual reports, stand-alone social responsibility reports and social responsibility codes of conduct of large multinational garment companies. This paper therefore aims to contribute to the growing debate surrounding corporate disclosure on social and environmental issues more generally and corporate disclosure on human rights specifically. This study focuses on the way in which corporations construct and construe their field of responsibility and how and whether these broader responsibilities are influenced by International Government Organisations like the ILO.

Our investigation is informed by two complementary theoretical positions. Firstly, we draw on Institutional Theory to understand the behaviour of corporations within the same industry as they become exposed to a similar set of social and environmental pressures (DiMaggio and Powell, 1983). Secondly, we draw on Responsive Regulation Theory in order to understand the global, networked, regulatory environment that seeks to discipline multinational organisations, particularly in relation to human rights violations, an issue where state regulation has proved inadequate for the cross boarder activities of multinationals. From a responsive regulation perspective, when corporations fall short of agreed upon standards set by regulators (it can be states, professional body or global regulators such as NGOs and IGOs), coercive control and pressure come to be seen as a more effective way of ensuring compliance (Ayres and Braithwaite 1992; Braithwaite, 2002a,b; 2006). By embracing these two theories, this paper specifically seeks to understand how institutional human rights standards such as the ILO's 1998, workplace standards, contribute towards the construction and practice of corporate accountability.

This paper makes two important contributions to the literature. Firstly, the paper provides an insight into corporate disclosure on human rights responsibilities, an area in which there is almost no academic literature at present[2] and secondly the paper contributes towards a more general understanding of the evolving regulatory dynamic that is emerging in response to the globalisation of capital.

The remainder of the paper is structured as follows. Section two provides some background information on the presence of global retail companies in developing countries; section three delineates the theoretical perspectives underpinning the paper; the research methods are outlined in section four; the results are presented in section five and the paper closes with some reflections on the prospects for the discourse of human rights and it's institutions to effective substantive change in relation to corporate accountability.

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[2] We are aware of one survey of corporate reporting practices in relation to human rights published in 2009 by the Global Reporting Initiative and a second survey published in 2009 for the UK Government by the consultancy twentyfifty.

2. Presence of global clothing and retail companies in developing countries and the roles of IGOs

The clothing and retail industry presently has one of the most extensive of all worldwide production networks. Driven by the desire to minimise production costs, companies within this industry have extended their operations globally (Wilkins, 2000). As this production network of large MNCs has expanded so indigenous clothing manufacturing in many developed countries has almost disappeared (Shelton and Wachter, 2005). As the world's largest importers of garments, the US global clothing companies import 89% of total clothes used by US consumers (Shelton and Wachter, 2005). Global clothing and retail companies now typically outsource their operations across continents while Asian countries in particular have grown to become major global suppliers (Wilkins, 2000). Low wage countries such as China, India, Thailand, Indonesia, Vietnam and Bangladesh, for example, have gained global market share in producing and exporting products that once were manufactured in developed countries. However, along with this growing role for large multinational corporations, international pressure from stakeholders such as IGOs, NGOs and the media has also increased. In some instances it would seem that this pressure has been responsible for changing production practices in developing countries. For example, global stakeholders appear to have exerted direct pressure on global companies and their suppliers to eradicate child labour and poor working practices (Bachman 2000; Spar, 1998; Wah, 1998). The work of some IGOs in developing global standards seems to be part of a broad responsive regulatory environment where new organisational forms emerge in an attempt to hold global corporations to account, as Muchlinski (2003, p. 145) states:

> "In their activities concerning corporate social responsibility, IGOs appear to have been given an "agency" by their member countries – endorsed by NGOs it seems – to fill out the terms of the "social contract" between such countries, as representatives of the communities found therein, and MNEs. This emergent phenomenon can be seen as some kind of "constitutionalisation" of IGOs."

The roles of IGOs may emerge from concerns over the limitations of individual nation states in regulating the practices of multinational organisations, who's activities span across many different national jurisdictions (Chalmers, 2000). The role of a particular IGO such as the ILO may therefore arise due to a perceived need to protect weak

economic participants in states with weak regulatory and enforcement environments (Muchlinski, 2003).

The ILO specifically works to promote workplace human rights at the production centres of multinational companies. In order to address these challenges, the commitment of the international community to provide assistance in strengthening organizations and policies for workplace justice was confirmed with the adoption of the ILO's Declaration on Fundamental Principles and Rights at Work by Governments, multinational companies and labour right NGOs in 1998 (ILO, 1998). The ILO's Declaration (1998), draws explicitly on the Universal Declaration of Human Rights and emphasizes four essential workplace rights. These are: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation (ILO 1998). The UN Global Compact promotes these rights as universal values to be achieved in business dealings around the world (*www. Ilo.org*). International NGOs and labour right organizations such as the International Confederation of Free Trade Unions (ICFTU), World Confederation of Labour (WCL), International Textiles, Garments and Leather Workers' Federation (ITGLWF), Oxfam international, Ethical Trading Initiatives (ETI), Fair Labor Association (FLA), and Clean Clothes support and embrace these standards as a way of creating expectations and pressures on multinational companies to be socially and ethically accountable. Some of these international NGOs along with the media appear to lobby multinational companies to push for the incorporation of a clause that would see them commit to respect these rights. Given their prominent role within the broader regulatory environment, this paper therefore focuses on corporate disclosure in relation to these workplace rights by global companies that source products from manufacturers in developing world.

3. Theoretical perspectives: Why organisations embrace ILO's work place social standards.

The paper adopts two complementary theoretical perspectives. We employ Braithwaites (2006) Responsive Regulation theory in order to understand the emergence of the ILO within the global economic environment and Institutional Theory in order to inform our exploration of the adoption of the ILO standards by multinational clothing and retail companies.

Responsive Regulation (Braithwaite 2006) assumes that the regulatory environment is responsive to perceived deficits in corporate accountability. Responsiveness is therefore viewed as an essentially democratic ideal (Braithwaite 2006). Through empowered civic engagement, "power should check power" in circles of regulation where each participant holds each other to account (Selznick, 1992). Braithwaite comments (2006,p. 885)

> "So for example, business custom shapes responsive business regulatory law and state regulators check abuse of power in business self-regulatory arrangement, and both should have their power checked by the vigilant oversight of NGO's and social movements…This ideal is for guardians of accountability to be organised in a circle where every guardian holds itself internally accountable in deliberative circles of conversation where such circles are widened when accountability fails."

Secondly, however, the theory contends that these deficits in capacity are resolved through new "strategies of networked governance." This is particularly the case in relation to deficits in developing countries. This theory therefore assumes that abuses of power, in this instance the potential for large corporations to violate human rights, is best tackled via a plurality of disparate powers in a network of governance. We view the emergence of the ILO and its strategic coupling with both NGO's and the media as an example of a global responsive regulatory environment that emerges to mitigate against the abuses of corporate power, and in this instance, serves to bring some regulatory mechanism to bear on the corporate abuse of human rights.

Ayres and Braithwaite (1992) and Braithwaite (2002a, 2000b; 2006) provide a useful perspective on the process of global regulation of the disclosure behaviour of multinational business. Responsive regulation operates via a notion of a pyramid which helps the regulator decide when to punish and when to persuade. At the base of

the pyramid, the regulatee can seek for securing compliance via the law. As we progress up the pyramid, more and more demanding and punitive interventions in actors' lives are involved. As Braithwaite (2002a, p.20) states:

> "The idea of the pyramid is that our presumption should always be to start at the base of the pyramid, then escalate to somewhat punitive approaches only reluctantly and only when dialogue falls, and then escalate to even more punitive approaches only reluctantly and only when dialogue falls, and then escalate to even more punitive approaches only when the more modest forms of punishment fail. The regulator here escalates with the recalcitrant company from persuasion to a warning to civil penalties to criminal penalties and ultimately to corporate capital punishment – permanently revoking the company's licence to operate."

The fundamental message of the regulatory pyramid gives us is that " if you [regulated actors] keep breaking the law, it is going to be cheap for us [regulators] to hurt you because you are going to help us hurt you" (Ayres and Braithwaite, 1992; Braithwaite, 2006 p. 888).

The regulatory theory posits that regulatory intervention escalates if the regulated actor is not a responsible citizen. That is, responsive regulation enforces agreed upon standards, preferably through persuading those who fall short, but it imposes pressures and uses punishment when necessary to achieve regulatory objectives. The regulatory intervention is not only directed at individual regulated firms but also is also applied to entire industries (Ayres and Braithwaite, 1992; Baldwin and Black, 2007). While Braithwaite uses the term regulators as a wide range of actors including states, industry associations, trade unions, professional body, IGOs, NGOs and any other actors who regulate others, he contends the role of NGOs and (IGOs) as regulators to be fundamentally important (Braithwaite, 2006). Particularly, in states (developing countries) where economic, social and environmental frameworks to protect public interest are weak. NGOs and international human right organisations then play a crucial regulatory enforcement function. As Braithwaite, (2006 p.888) points out:

> "NGOs do more than just check capture of state regulators; they also directly regulate business themselves, through naming and shaming, restorative justice, consumer boycotts, strikes, and litigation they run themselves."

The combination of human rights NGOs and IGOs networked with investigative journalists on the ground in developing country may create a regulatory pressures (Braithwaite, 2006 p.888) and generate demand for greater accountability by

multinational corporations operating in or sourcing products from developing nations (Deegan and Islam, 2009). As Braithwaite (2006 p.893) states:

> "When fundamental labor rights are being crushed, the local trade union can escalate up to networked support from a state ministry of labor, the International Confederation of Free Trade Unions, the labor attaché at the US Embassy, the Campaign for Labor Rights, the Clean Clothes Campaign, or Oxfam International."

The capacity of NGOs and IGOs to escalate strikes and networked naming and shaming drives the company down to the restorative justice at the base of pyramid (Braithwaite, 2006 p.893). This particularly creates pressures on multinational companies for greater social and environmental accountability (Deegan and Islam, 2009). It is our expectation that the evolving corporate reporting on workplace conditions is indicative of a process of responsive regulation, where large multinational garment producers respond to the expectations of the global community as expressed through the ILO's standards and against the backdrop of the greater threat of legal sanctions as expressed previously through the UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights.

Secondly, however, our study is informed by Institutional Theory. This theory has already been shown to have explanatory potential in understanding the implementation of and reporting around social and environmental standards more generally (Islam and Deegan, 2008). Institutional Theory has been used to establish a relationship between stakeholder pressure and individual corporate reporting practices (Deegan, 2009) and also similarities in reporting practices across different organisations. One key aspect of institutional theory is the concept of *isomorphism*. Dillard, Rigsby and Goodman (2004, p. 509) explain that "*isomorphism* refers to the adaptation of an institutional practice by an organisation." In particular, this concept refers to the processes whereby organizations within the same line of business come to adopt similar kinds of response to the same set of social and environmental pressures. According to DiMaggio and Powell (1983), the greater the dependence of an organisation on another organisation, the more similar it will become to that organisation in structure, climate, and behavioural focus. Such a process is referred to

as *coercive isomorphism.*[3] The above view provided by institutional theory implies that organisations will be coerced by their powerful stakeholders into adopting and maintaining particular practices and associated disclosure policies.

Where managers within an organization perceive that operating activities might be challenged by the community in which it operates, then various "legitimising strategies," including the adoption of particular social standards or code, may be employed. Managers may try to associate themselves with "symbols" of legitimacy, such as particular workplace codes or standards and codes of environmental management, in order to respond to community expectations (see, Deegan and Blomquist, 2006). The values and expectation of the community are not considered to be fixed, but change over time, thereby requiring corporations to be responsive to the changing environment in which they operate (Islam and Deegan, 2010). When the global community pressurizes global clothing and retail companies to adopt particular practices including ILO's standards, these companies appear to respond to global community expectations.

If the managers within a multinational company perceives that the legitimacy of the company is already being threatened (due for example to media coverage of child labour by suppliers in their manufacturing plants), then, the expectation is that strategies will need to be embraced in order to re-establish their legitimacy (Islam and Deegan, 2008). One response may be to embrace a particular code of conduct promoted and endorsed by powerful stakeholders groups like NGOs and the media.

Recent work by Islam and Deegan (2008) indicates that multinational clothing companies are the most powerful stakeholder group to influence the operating and

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[3] DiMaggio and Powell (1983) also refer to two other categories of *isomorphism*, these being normative isomorphism and mimetic *isomorphism*. It is a difficult exercise to identify that one form of isomorphism, above the others, is the driver for the adoption of particular organisational structures. As Carpenter and Feroz (2001, p. 573) state, "two or more isomorphic pressures may be operating simultaneously making it nearly impossible to determine which form of institutional pressure was more potent in all cases". Further, the three categories of isomorphism are often considered to be linked. For example, Unerman and Bennett (2004) maintain that without coercive pressure from stakeholders it is unlikely there would be pressure to mimic or surpass the social reporting (institutional practices) of other organisations. Hence, whilst our research is informed by the concept of coercive isomorphism, it needs to be appreciated that this form of isomorphism is often linked to normative and mimetic isomorphism.

disclosures behaviour of a major supply body such as BGMEA. They also found that, consistent with institutional theory, the pressure exerted by multinational clothing retail companies also led to BGMEA adopting in a rather homogeneous manner, various codes of conduct consistent with the multinational companies' existing codes of conduct. Consistent with the concept of coercive, BGMEA officials perceived that they adopted universally accepted best practices (ILO's workplace social standards) and codes as a direct response to the perceived social pressures exerted by powerful stakeholders (Islam and Deegan (2008). As one senior official from BGMEA stated:

> "We have drafted our code of conduct which is based upon ILO conventions and major buyers' codes of conduct. Once our code of conduct is accepted by our government, BGMEA's compliance team will go monitoring on the code of conduct to determine whether individual factories abide by this." (Interviewee: 10) (Islam and Deegan, 2008, p.865).

Within Islam and Deegan (2008) it appeared that the code became a symbol of legitimacy or legitimising instrument to exercise power of multinational companies on their supply companies in a developing country such as Bangladesh. As multinational companies appear to be coerced by the global community over their suppliers' work place practices in developing countries, these companies appear to adopt universally accepted work place social standards such as ILO's work place social standards.

In another research paper Islam and Deegan (2010) focussed on a case study of two large global companies, specifically Nike and H&M. Their study documented a sustained level of negative media attention on child labour and poor working conditions in developing countries towards the global clothing and sports retail industry from late 1990s to mid 2000s. Their work linked negative media attention and positive corporate social and environmental disclosure practices. Their study found that child labour and poor working conditions in developing countries attracted the greatest amount of negative media attention and that both corporations reacted by providing positive disclosures relating specifically to these issues. The study indicates that these two companies behaved similarly (in an *isomorphic* manner) in response to media pressures towards the industries. As an extension of the prior work, by embracing institutional theory, this paper specifically focuses workplace social practices of a group of multinational companies that sources product from developing

countries to see whether they adopt ILO's workplace social standards and how the number of companies adopting work place social standards change through time, over the period 1990 to 2007.

From the above discussion we would expect that as the global community places pressure on global clothing and retail companies to attend to particular workplace social standards such as ILO's standards, major global companies within the clothing and retail industry will become similar or *isomorphic*, implementing the same benchmarks.

4. Research Methods

This study reviewed the corporate adoption of the ILO's workplace human rights standards as reported in the annual reports, stand-alone social responsibility reports and social responsibility codes of conduct of eighteen major global clothing and retail companies.

Due to a lack of publicly available information on where multinational clothing manufacturers source their products, constructing a database of companies proved to be a significant task. We initially obtained information from a major clothing export body in a developing country, this being BGMEA, Bangladesh. Our selection was also supported by Islam's (2009) review of global news coverage of social and environmental issues within the global clothing and sports retail industry via Dow-Jones FACTIVA database. Most importantly, the companies we selected were among those multinationals that had been subject to global attention in the field of social responsibility and human right issues (US Department of Labor 1994; Landrum, 2001; De Tienne and Lewis, 2005; Hughes, Buttle and Wrigley, 2007; Haltsonen, Kourula and Salmi 2007; Kolk and Van Tulder, 2004; Kolk and van Tulder, 2002). The review of each selection source corroborated with other sources and resulted in a sample of 18 companies. Our review revealed that all of these companies sourced a major part of their products from at least one of the Asian countries covering China, India, Indonesia, Vietnam, Malaysia, Thailand, Bangladesh, Pakistan, Nepal and Cambodia. A list of major global clothing retail companies is located in appendix 1.

Two hundred and forty two annual reports along with all available stand-alone social responsibility reports (55 documents) produced by these companies between 1990 and 2007 were collected. Social responsibility codes of conduct, available via the websites of these companies in 2007 were also analysed. Out of 18 multinational companies, 9 where US based and 9 were based in the EU. Various sources were used to obtain the reports and codes, including the Corporate Library of the London Business School, the Swedish Companies Registration Office, Thomson Corporation, Mergent Online and company websites.

The study covers an 18 year period from 1990 to 2007. As the ILO's workplace social standards were adopted in 1998, the period of study was selected in order to explore the reporting practices of global clothing and retail companies before and after this event. The selection of this time period is consistent with prior research (see Islam and Deegan, 2008; Islam and Deegan, 2010) that focuses on social and environmental accountability issues within the same industry. The annual report was the only media which was regularly available during this period. Of the other two media, stand-alone social reporting began to emerge within our sample in early 2000 and has become more prevalent. Only those codes of conduct available in corporate websites at the end of our periods of analysis were considered. As expected, the corporations provided only their most current codes of conduct. There is no detailed record of prior period codes of conduct in the corporate website, annual reports or stand-alone social responsibility reports. The annual report was therefore the primary source document for our study and this is consistent with prior social and environmental accounting research. Data collection commenced in late 2007 and was completed by mid 2008.

The framework for analysing these reports was provided by the ILO's Fundamental Principles and Rights at Work (ILO, 1998). In particular, the reports were analysed for disclosure relating to 1. Freedom of association, 2. Elimination of child labour, 3. Elimination of forced labour, and, 4. Elimination of all forms of discriminations. This study also considered a fifth category of disclosure, namely, providing a safe and

healthy work environment, as research indicates that workplace safety appears, along with child labor, as one of the key concerns for organizations operating in developing countries (Islam and Deegan, 2008). The above five categories were taken as proxies for social performance standards for organizations operating in, or sourcing products from, developing countries (Islam and Deegan 2008a, Islam and Deegan 2010)[4].

As stated previously, this paper examines whether reporting media including annual reports, standalone social responsibility reports and social responsibility codes by major global clothing and retail companies address and disclose workplace social standards. Each report and code was read and the presence or absence of each type of workplace social standards was documented. The content analysis approach is consistent with prior research in social and environmental accounting (See for example Adams and Frost, 2007; Cowen et al., 1987; Haque and Deegan 2009). The meaning of each category of standards is provided in appendix 2. Each annual report and code was also examined to identify statements of monitoring/auditing the standards either by external auditor or by internal auditor or both.

The following section reports on the nature of the disclosure by the clothing and retail companies in our sample in relation to the five standards outlined above.

5. Results:

5.1   Workplace social disclosure practices by major global clothing and retail companies

This section of the paper explores two related issues. Firstly it discusses whether the companies in our sample have adopted the ILO's standards as disclosed through their different disclosure media. And secondly, it explores whether and how these practices have changed over time.

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[4] Accounting firms and global reporting and accountability organisations also considered these issues to be performance indicators for an organisation (KPMG, 2008, 2005, 2002; *www.globalreporting.org; www.sa-intl.org*).

5.1.1 Addressing workplace social standards within codes of conduct

Table 1 documents whether major global clothing and retail companies disclosed workplace related social responsibility commitments within their social responsibility codes of conduct in 2007.

Table 1: Workplace social standards adopted and disclosed by multinational clothing and retail companies within 2007 social responsibility codes of conduct (Total eighteen companies examined).

Workplace social standards	ILO's workplace social standards within code	
	Absent	Present
1. Freedom of association	1	17
2. Elimination of child labour	0	18
3. Elimination of forced labour	0	18
4. Elimination of all forms of discriminations	1	17
5. Providing a safe and healthy work environment	0	18

As shown in Table 1, most of the codes (17 or more codes, 94% of 18) include an essential section on each of the ILO's standards. Only one code did not include information on freedom of association while on other code contains no reference to the elimination of all forms of discrimination. 100% of the companies in our sample address 'elimination of child labour' (standard 2); 'the elimination of forced labour' (standard 3) and 'providing a safe and healthy work environment' (standard 5). In relation to the 'elimination of child labour' many companies commented : 'Factories shall employ only workers who meet the applicable minimum age requirement or are at least 14 years of age, whichever is greater'. All social responsibility codes are disclosed as a separate section in the corporate website.

The following quote from the president of Carrefour, as stated in the companies charter, provides an insight into the way the company articulated their responsibilities for human rights violations and also the function of the ILO's in establishing these commitments:

> "We are delighted to share these principles with you through this social charter. This charter is an integral part of business which we wish to use as a benchmark not only towards our customers, our employees, our suppliers and our shareholders, but also towards all players in the economic world and civil

society. .. Carrefour's approach relies on the international instruments which are universally recognised in terms of Human Rights, in particular: the Universal Declaration on Human Rights of the International Labour Organisation (ILO) on the fundamental labour standards, as well as the pertinent conventions of the ILO… Carrefour's total commitment is from fighting against child labour to fighting for all fundamental labour rights." [Suppliers charter/code: *charter for commitment to protect human rights, viewed in 2007*]

The universality of the ILO's principles are presented as a legitimating aspect of the companies position. It is also interesting to note the extent of the company's commitment not only to protect against human rights violations (in the sense of fighting *against* child labour) but also their apparent commitment to the fulfilment of certain human rights (in the sense of righting *for* all fundamental labour rights). It is also interesting to note the extent to which this commitment is extended to the company's suppliers. This commitment, appears to widen the companies sphere of responsibility to include suppliers over who they exert an influence.

5.1.2   *Workplace social standards within annual reports*

Table 2 shows disclosure in the annual reports of workplace social standards by the18 multinational clothing and retail companies in our sample over the18 year period from 1990 to 2007.

As shown in table 2 and figure 1, the number of companies addressing all types of workplace social standards within the annual reports has been rising steadily since 1998 – the year when the ILO's Declaration on Fundamental Principles and Rights at Work was endorsed by Governments, multinational companies and labour right NGOs. An indication of the kind of disclosure made by corporations is provided in the following extract from Hennes &Mauritz (H & M) 2007 annual report:

"Our Code of Conduct and our Sustainability Policy form the backbone of our work on corporate social responsibility. All the factories involved in producing H&M's products are covered by the Code of Conduct. It applies both to our suppliers and to any production. The Code of Conduct, which is based on ILO conventions and on the UN Convention on the Rights of the Child, includes the following requirements: compliance with local labour law; statutory pay and working hours; the right to organise and bargain collectively; a ban on child labour; a ban on discrimination; a ban on forced labour; health and safety in the workplace; compliance with local environmental legislation."

The last two years of the study (2006 and 2007), saw the highest number of firms reporting on the adoption of the ILO's standards, with almost all types of workplace social standards receiving significant attention. Out of five workplace standards, the issue of child labour received the highest level of corporate attention from mid 1990s until recently. This attention appears to be associated with the concerns of global media and NGOs over the issue of child labour and poor working conditions in the multinational companies' supply factories in developing countries (see global concerns as documented within Islam and Deegan, 2008, 2010). Among all companies examined, Nike and H&M became the first global clothing companies that introduced disclosure on elimination of child labour within annual reports of late 1990s.

Table 2 : Workplace social standards adopted and disclosed within annual reports by multinational clothing and retail companies (from 1990 to 2007)

Year	N =Number of annual reports reviewed	Number and percentage of companies adopted and disclosed workplace standards									
		1. Freedom of association		2. Elimination of child labour		3.Elimination of forced labour		4. Elimination of all forms of discriminations		5. Providing a safe and healthy work environment	
		n	%	n	%	N	%	n	%	N	%
1990	4	0	0	0	0	0	0	0	0	0	0
1991	4	0	0	0	0	0	0	0	0	0	0
1992	4	0	0	0	0	0	0	0	0	0	0
1993	4	0	0	0	0	0	0	0	0	0	0
1994	4	0	0	0	0	0	0	0	0	0	0
1995	15	0	0	1	6.67	0	0	0	0	0	0
1996	15	0	0	2	13.33	0	0	0	0	0	0
1997	15	2	13.33	3	20	2	13.33	2	13.33	1	6.67
1998	17	2	11.77	4	23.53	3	17.64	3	17.64	3	17.65
1999	17	3	17.65	5	29.41	3	17.64	3	17.64	4	23.53
2000	17	3	17.65	5	29.41	5	29.41	5	29.41	4	23.53
2001	18	3	16.67	5	27.78	6	33.33	6	33.33	7	38.88
2002	18	3	16.67	6	33.33	7	38.89	7	38.88	8	44.44
2003	18	3	16.67	6	33.33	7	38.89	7	38.88	7	38.88
2004	18	3	16.67	5	27.78	6	33.33	6	33.33	7	38.88
2005	18	5	27.78	7	38.88	10	55.55	11	61.11	9	50
2006	18	7	38.89	11	61.11	11	61.11	12	66.67	12	66.67
2007	18	9	50	13	72.22	13	72.22	13	72.22	13	72.22

As shown in Table 2, in 2007, 72 percent of major clothing companies disclosed that they adopted standards including elimination of child labour, elimination of forced labour, elimination of all forms of discriminations, and providing a safe and healthy work environment, compared with 20 percent or below in 1997. Disclosure on freedom of association remained the lowest of all types but increased over the period (50% in 2007 compared with 13% in 1997). All workplace social standards other than freedom of association attracted considerable interest from the NGOs and media from the late 1990s while freedom of association emerged as a comparatively new issue.

Figure 1: Workplace social standards adopted and disclosed within annual reports by multinational global clothing and retail companies (1990-2007)
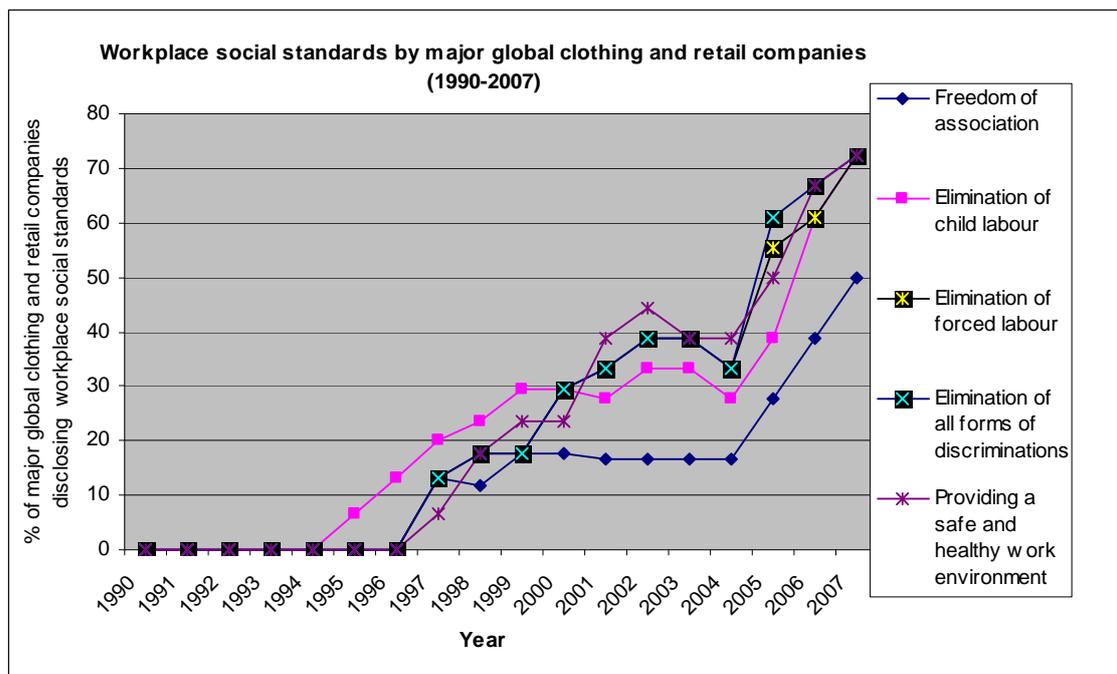

Figure 1 also indicates an increasing trend of companies disclosing the adoption of workplace social standards from late 1990s to 2007. 2007 saw the highest reported level of disclosure in relation to all type of standards. The apparent trend in the adoption and disclosure of workplace social standards appeared to coincide with the broader and sustained level of social concerns on child labour, abuse of workers, health and safety developed by NGOs and media (as reported in Islam and Deegan, 2008, 2010) .

Disclosure of work place social standards was further analysed via company country of origin. Table 3 provides an overview of each standard addressed and disclosed by sample US based and EU based multinational companies. According to Table 3, in terms of specificity of requirements under each standard within codes, both EU based and US based sample companies appeared similar. All EU companies examined mention adoption of each standard within their codes. With a few exceptions, (3 or less) all US based sample companies also outlined clear and specific requirements in relation to suppliers in their codes. All of the companies in our sample made reference to the elimination of child labour and the provision of a safe and healthy work environment in this regard.

Table 3: Workplace social standards adopted and disclosed between US and EU based multinational clothing and retail companies for 2007

Workplace human rights standards	EU companies (N=09)		US Companies (N=09)	
	Standards in Code	Standards in annual reports	Standards in Code	Standards in annual reports
1. Freedom of association	9	6	7	3
2. Elimination of child labour	9	7	9	6
3. Elimination of forced labour	9	7	8	6
4. Elimination of all forms of discriminations	9	7	8	6
5. Providing a safe and healthy work environment	9	7	9	6

However, examining the annual reports, we found that more EU based companies disclosed on the ILO's standards than US based companies in 2007. The level of disclosure by companies ranges from 6 to 7 depending on the specific standard, and this contrasts with 3 to 6 US companies. Taken together, both EU and US based companies addressed similar key social standards within either codes or annual reports or both, a finding which would seem to match our initial expectations in relation to coercive isomorphism outlined above.

5.1.3 Workplace social standards within stand-alone social reports
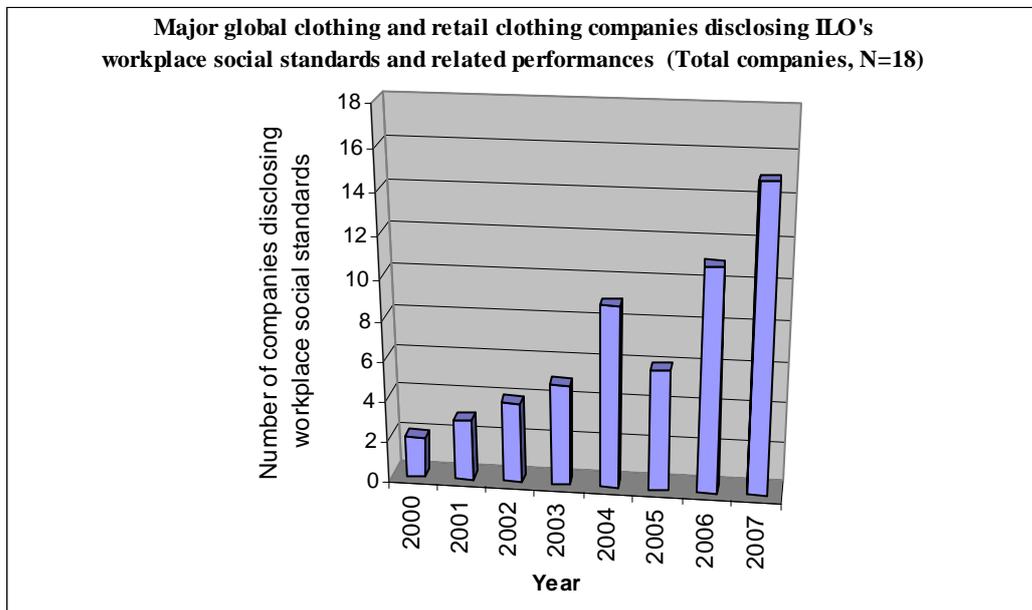
All available stand-alone reports (55 reports) produced by the companies in our sample were thoroughly reviewed. Availability[5] of all reports was confirmed by reviewing all available annual reports from 1990-2007 and the companies websites. Although the number of companies disclosing workplace social standards within annual reports has increased significantly, there also seems to have been a corresponding increase in the number of companies reporting on workplace social standards as the core part their stand-alone social responsibility reports. The following extract from GAP's 2005-6 Social Responsibility Report provides a flavour of the kind of commitments made by companies via social reporting media and also indicates the similarity with the kinds of commitments made within some annual reports. Gap comment:

> "Today, companies and organizations throughout the apparel industry monitor factory conditions according to their own standards. The slight distinctions between these codes often complicate factory efforts to improve working conditions. In our 2003 and 2004 Social Responsibility Reports, we stated our desire for a uniform industry code of conduct that is consistent with the standards of the International Labor Organization (ILO).... In 2005 and 2006, we continued to support the ILO's Better Factories Cambodia (BFC) program. We worked closely with ILO staff on the ground, and continued to review ILO monitoring reports of Gap Inc.-approved factories regularly....We are extremely supportive of the ILO's plans to build on the Cambodian experience and consider expanding this highly innovative and successful program into other countries."

Our review of the reports indicated that while Reebok and Nike were the first companies to introduce stand-alone reports in the early 2000s many companies in our sample have subsequently produced independent corporate social reports.

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[5] Before collecting stand-alone reports for the review, we primarily depended on annual report to find a reference to the publication of stand-alone report. Hence, availability of stand-alone report was primary confirmed by the review of annual report. For example, to collect NIKE's stand-alone report, we initially reviewed NIKE's annual reports and we got reference to the publication of CSR report. In 2000's annual report NIKE mentioned: "we are about social responsibility......we have set the highest standards of conduct and practices in the industry. We have the responsibility to let the rest of the world see this and know it as well. That's why we are releasing a full corporate responsibility report this fall, it's a strong beginning"

Figure: 2 workplace social standards adopted and disclosed by multinational clothing and retail companies within stand-alone social responsibility or sustainability reports.

Major global clothing and retail clothing companies disclosing ILO's workplace social standards and related performances (Total companies, N=18)

While the majority of codes and annual reports contain commitments to workplace social standards, the majority of stand-alone social reports contain substantively more disclosure on these issues along with details of how pledges to respect the workplace social standards have been translated into practices. Some of the stand-alone reports include third party assurance statement by large accounting firms such as *KPMG*, *Pricewaterhouse*e*Coopers and Earnest and Young*.

All available stand-alone reports (55 reports) surveyed revealed that adherence to standards as the core part of stand-alone reports. The coverage of workplace social disclosures ranged from 30% to 90% of all stand-alone reports surveyed. As the number of companies publishing stand-alone reports increased over the period, so did the quantity of disclosure on workplace social standards.

Figure 2 shows a sharp increase in the number of companies disclosing the adoption of the workplace social standards and related issues within the stand-alone reports - the reports have come with extensive workplace social disclosures including performance information regarding freedom of association, elimination of child labour, elimination of forced labour, elimination of all forms of discriminations,

providing a safe and healthy work environment. In 2007, 83 percent (15 companies) of the 18 major global clothing and retail companies published workplace standards and associated performance as a core part of stand-alone responsibility reports, compared with only 13 percent (3-companies-Nike, Adidas and Timberland) in 2001. The increased level of companies making workplace disclosures within stand-alone reports interestingly coincided with the concerns associated with the employment of child labour, health and safety issues and empowerment issues in multinational clothing companies. Based on the finding of this study it would seem that there has been a significant increase in the volume of disclosure on the ILO's workplace standards and this disclosure has been most extensively reported through new stand-alone corporate social reports since 2000.

Considering both stand-alone reports and annual reports, 89 percent of major global clothing companies (16 out of 18 major companies) disclosed workplace social standards, either as a core part of a stand-alone report or as part of the annual report, in 2007, compared with 44 percent in 2001. Moreover, as we already know, the majority of companies published their workplace social performance commitments as core a part of their social responsibility codes of conduct. Hence, considering overall reporting media, all companies disclosed their workplace social standards using at least one of the three reporting media - social responsibility codes of conduct, annual reports or standalone social responsibility reports.

Table 4: Auditing of workplace social standards by multinational clothing and retail companies, year 2007

Companies	Codes			Annual reports		
	*Appointing external auditor (NGOs or Acc. Firms)	Appointing internal auditor	Provision of sanction against suppliers for breach of standards	Appointing external auditor (NGOs or Acc. Firms)	Appointing internal auditor	Provision of sanction against suppliers for breach of standards
EU companies (N=9)	6	9	6	6	6	6
US companies (N=9)	4	9	9	2	3	2
Total (18)	10	18	15	8	9	8

*Those have external auditor have internal auditor too.

5.1.4. Auditing of workplace social standards

Table 4 provides a summary of US and EU based companies that provide guidelines and disclosures about how workplace social standards were enacted and audited in 2007. The following extract from Wal-Mart's 2006 report on standards for suppliers interestingly employs the language of rights to express Wal-Mart's "right to audit" suppliers.

> "The Ethical Standards team works diligently to continually strengthen the code and its adherence by Wal-Mart's suppliers. Today, the Standards for Suppliers include provisions for health and safety, environment, compensation, hours of labor, seventh day of rest, forced/prison labor, underage labor, discrimination, compliance with applicable local laws and regulations, freedom of association and collective bargaining, rights concerning foreign contract workers, and the right of audit by Wal-Mart at its discretion." [*Wal-Mart report on standards for supplier, 2006*]

Two specific issues are discussed in this section: firstly, how social standards are audited and by whom and secondly whether the sample companies impose sanctions on their suppliers for non-compliance with the social standards.

In relation to the auditing or monitoring of suppliers workplace social practices, the majority of global companies demonstrated that they utilised either internal or external auditors or both. While the codes seem to an important vehicle for disclosing specific information about monitoring practices, the annual reports provide more general information on the monitoring process. Six of the nine EU based companies clearly specify the monitoring and auditing process, (either by audit firms or by independent NGOs) within their codes. All of the EU companies specified the process of internal auditing within their codes. Consistent with disclosure in the code, the annual reports of 6 out of 9 EU based companies disclosed that companies have both internal and external auditors to monitor operating activities of suppliers and to see whether the suppliers comply with the standards. In contrast to EU based companies, only 4 of 9 US based companies clearly specified the monitoring process including criteria for assessment by external auditors (either by audit firms or by independent NGOs) within their codes. All of the US based companies did, however, specify the process of internal auditing within their codes. Only 2 US companies disclosed

information relating to the external auditor of the workplaces standards and only 3 US based companies disclosed information relating to internal auditor for monitoring purposes within their annual reports. Considering both codes and annual reports, most of the US based companies appear to monitor by internal auditors, where as EU companies appear to rely more on independent NGOs or audit firms. Taking the results together, it would seem that all companies specify either in their code or in their annual report that they undertake either external or internal monitoring of suppliers in relation to workplace standards. Some high profile multinational companies such as Wal-Mart, Nike, H&M, Gap, Carrefour interestingly provide specific guidelines in their published codes of conduct about auditing and recording results. Carrefour, for example, commented,

> "Before any new collaboration, a visit from Carrefour, potentially accompanied by external observers, on the production lines, will enable it to get a view of the production conditions. This visit will be the subject of a report which will ascertain the respect, by the supplier, of the obligations contained in the charter herein. During this visit, the charter is presented to the supplier. Before any order is placed, the supplier commits to respect the aforementioned principles, to display the charter in the local language and in a visible place, to distribute it to all its employees and to the unions present in the company and to ensure these commitments are respected by all its subcontractors. An external audit on the respect of the Charter's commitments is carried out by independent audit firms. These visits are the subject of a report, together with a corrective action plan to be implemented by the supplier. One or several re-audits may be organised. The supplier authorises Carrefour, or any other person authorised by virtue of the internal and external audit mechanism initiated by Carrefour, to carry out unannounced audits on the respect of its commitments made through the signature of the charter herein and the defined corrective action plan further to the audits carried out. The supplier also commits to accept the organisation of training courses by local NGOs, both for the workers and the management."
> [*Supliers code: Charter for Commitment to protect human rights, viewed in2007*]

For the companies in our sample, stand-alone reports have became an important source of information about auditing process while the annual reports provide more general information on the process. Ten of 15 available stand-alone reports specified the monitoring process including criteria for assessment by external auditors (through either NGOs or accounting firms). An example of Nike's monitoring process is provided in Appendix 3. Big accounting firms such as *KPMG*, *PricewaterhouseCoopers* and *Earnest and Young* served as external auditors or assurance providers in relation to workplace standards by some of the high profile

clothing companies. All stand-alone reports disclosed that companies have internal control systems for auditing suppliers' workplace practices. Some high profile clothing and retail companies such as Wal-Mart, Nike, H&M, Gap, Carrefour, Marks & Spencer interestingly provide explicit results of social and environmental performance including the suppliers' workplace social performance through their auditing and monitoring systems. The summary of the performance results were often incorporated within social audit reporting.   Three examples of social audit reports are provided in the Appendix 4.

The second part of the table 4 documents the number of EU and US based companies that have disclosures of specific guidelines about sanctions on their suppliers in case of non-compliance with the workplace social standards. Within codes of conduct, 15 of 18 companies included a brief statement on sanctions in the form of the termination of business relations or the cancellation of orders. 6 were EU companies (out of 9) and 9 were US companies (out of 9). As Carrefour codes of conduct stated:

> "Furthermore, the Consulting Committee supports the Carrefour approaches in favour of reinforcing the international legal instruments on the responsibility of companies (in particular the ILO conventions and the United Nations Standards on responsibility in terms of Human Rights of trans-national companies) and audit mechanisms. The commitments made by the supplier constitute substantial conditions of the business relationship. In the event of a serious breach of these commitments, Carrefour reserves the right to terminate the outstanding orders and suspend all business relations." [*Supplier code: Charter for commitment to protect human rights, viewed in 2007*].

JCPenney's codes of conduct similarly stated:

> "If there is credible evidence indicating that one of our suppliers, or one of their contractors, is violating the legal compliance (*including human rights)* provisions of our contracts, JCPenney may take one or more of the following actions: Suspend current business activity until the supplier or the contractor is in complete compliance and we are assured the supplier has taken the steps necessary to prevent future violations; Cancel outstanding orders; Place the violating factory on our suspended factory list prohibiting use by a JCPenney supplier; Terminate our relationship with the supplier; or Report illegal activity to the appropriate legal authorities." [Supplier Compliance code, viewed at:
> *http://www.jcpenney.net/about/social_resp/resp_sourcing.aspx , viewed in 2007*]

Within annual reports, 8 of 18 companies disclosed sanctions on suppliers for non-compliance with standards, of which 6 were EU based and 2 were US based. Within

all stand-alone social reports (15 reports) detailed accounts for violations of codes and subsequent actions were provided. A list of issue related suppliers' violations within Wal-Mart's 2006 Stand-alone report on Ethical Sourcing is provided in Appendix 5. While US based companies appear to prefer to disclose statements of sanctions in codes of conduct, EU based companies disclose this information in both annual reports and codes of conduct. Taken together (considering both codes and annual report) it would seem that disclosure on the effective monitoring or auditing of workplace social standards and appropriate actions for non-compliance with standards has emerged more recently as a concern for multinational garment producers.

Taking the results together, it seems at least plausible to that the evolving corporate reporting on workplace conditions evidenced within this study is indicative of a process of responsive regulation, where large multinational garment producers respond to the expectations of the global community as expressed through the ILO's standards. The major multinational companies in our sample adopted the workplace social standards as per the expectations of ILO and the standards provided within codes and annual reports have become increasingly consistent. We contend that the homogeneity between the disclosures of EU and US based could be indicative of a process of coercive isomorphism.

6. Concluding remarks

The objective of this paper was to explore the level of disclosure on the ILO's workplace human rights standards by major multinational companies that source products from developing countries. The results of our content analysis indicate that the companies in our sample appeared to adopt and report on the ILO's workplace human rights standards in increasing numbers over the period studied. The corporations reported on the extent of their adoption of these standards through a range of reporting media including social responsibility codes of conduct, annual reports and stand-alone social responsibility reports. The number of companies disclosing ILO's workplace human rights standards has significantly increased since 1998 – the year ILO's workplace social standards was confirmed and accepted by the global community. The study also found similar or isomorphic behaviour among

companies in addressing ILO's workplace human rights standards within their reporting media. This study therefore indicates that the discourse of human rights has found its way into the voluntary disclosures made by multinational garment manufacturers in relation to their corporate responsibility.

The evidence provided in this paper does suggest that the ILOs standards, when combined with NGO and media pressure, did seem to emerge as a significant regulatory mechanism in shaping the practice of multinational corporations. Consistent with a responsive regulation perspective, we found that evolving corporate reporting on workplace conditions is indicative of a process of networked regulation, where large multinational clothing and retail companies respond to the expectations of the global community as expressed through the ILO's standards against the backdrop of the threat of greater legislative regulation in the form of the UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights. Consistent with an institutional theory perspective, we found that many multinational clothing and retail companies (despite their differences in size and origin) adopt similar social standards such as the ILO's fundamental principles and rights at work. This may be because all of the companies experience similar sustained pressures from NGOs and the media (see Islam and Deegan, 2008, 2010; Deegan and Islam, 2009).

As an IGO, the ILO appears to emerge as an influential body because of the globally accepted nature of the standards it promotes and also because its networked relationship with NGO's and news media coalesce to hold multinational corporations accountable. This network of regulatory nodes serves to fill out the terms of the "social contract" between global communities and multinational companies (Muchlinski, 2003). Expectations of the global community in relation to global companies are not static. As economic activity becomes more globalised and therefore, more difficult for national governments to regulate, the capacity and power of IGOs and NGO becomes more important in influencing multinational companies to comply with global standards of acceptable behaviour.

Yet despite the obvious impact of the ILO and the increasing commitments and disclosure in relation to human rights violations by multinational garment manufacturers, the question remains as to whether or not the incorporation of human rights into the narrative of corporate responsibility will result in any substantive progress in the lot of workers and children.

Human rights theorists highlight the distinction between legal and moral human rights. As a legal category, human rights carry with them the prospect of legal enforcement however, as a moral category they remain normative aspirations (Douzinas 2007). It would seem quite clear that the reason why corporations seem more willing to engage with the ILO's standards as opposed the UN Norm's is because the ILO's Declaration on the Fundamental Principles and Rights at Work enables corporations to espouse workplace human rights as a normative aspiration and avoid the kinds of legal obligations that are normally associated with States. As long as the property rights of capital owners enjoy legal status and the human rights of workers do not, it would seem obvious that the former will be given managerial and organisation priority over the later. Having said this however, this argument presents a rather simplistic view of the law and the distinction between the hard law of juridical statues on the one hand and the soft law of societal expectations on the other. It seems clear that the ILO's standards have taken on the form of a soft law which can result in some quite severe penalties at the hands of consumers.

Having said this however it is not yet clear how the interests of labour might be served by invoking the language of human rights. While there are many instances where the appeal to human rights has operated as an effective strategy in the opposition of power and oppression, the construction of workers as rights bearers may just lead to their addition to an existing group of rights bearers. The problem here, might be that once labour is brought into the sphere of human rights, their rights simply become one of many competing claims, including the rights of the corporation. As Douzinas (2007 p.33) comments, "The rhetoric of Human Rights seems to have triumphed because it can be adopted by left and right." How then, are we to mediate

between conflicting rights? Neither is it certain that we would want to legitimise the corporation, at least not in its current form, by ascribing them the role of protector and promoter of human rights.

In *Natural Law and Human Dignity*, Ernst Bloch, contends that, "Human rights are part of a long and honourable tradition of dissent, resistance and rebellion against the oppression of power and the injustice of law." Whether the emergence of human rights commitments by multinational garment manufactures, as evidenced in their commitment to the ILO's workplace standards, is part of an effective form of resistance that will see substantive shifts in the socio-economic system remains to be seen, however what is certain is that we will not know either if it is, or how to shift the corporate discourse on human rights so that it is, until much more research has been undertaken by critical accounting academics in this much overlooked area.

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Appendix 1: List of Multinational clothing and retail companies

Carrefour, France	GAP Inc. ,USA
Lindex, Sweden	H&M, Sweden
IC Companies, Denmark	JC Penny, USA
The Body Shop, UK	Inditex, Spain,
Timberland., USA	Liz Claiborne, USA
Wal-Mart, USA	Levi Strauss, USA
Adidas Group(Reebok , Adidas and Taylor made), Germany	Nike, USA
	Puma, Germany
Target, USA	Marks & Spencer, UK
MACY's Inc., USA	

Appendix 2: The meaning of each category of workplace social standards

Workplace social standards	Meaning of each category
1. Freedom of association	Freedom of association in the workplace in accordance with the recommendations of ILO. We expect our suppliers to respect the right to free association and the right to organize and bargain collectively without unlawful interference.
2. Elimination of child labour	Elimination of child labour in the workplace in accordance with the recommendations of ILO. We don't accept child labour. Factories shall employ only workers who meet the applicable minimum legal age requirement or are at least 14 years of age, which ever is greater.
3. Elimination of forced labour	Elimination of forced labour in the workplace in accordance with the recommendations of ILO. Use of forced labour is not permissible. Under no circumstances do we accept that our suppliers or their subcontractors use corporal punishment or other forms of mental or physical disciplinary actions or engage in sexual harassment.
4. Elimination of all forms of discrimination	Elimination of all forms of discrimination in the workplace in accordance with the recommendations of ILO. No worker should be discriminated against because of race, gender, religion or ethnic background. Female workers should be given their stipulated maternity leave in case of pregnancy.
5. Providing a safe and healthy work environment	Providing a safe and healthy work environment in the workplace in accordance with workplace safety standards. No hazardous equipment and unsafe building are accepted. The factory should have clearly marked emergency exits on all floors. Exits should not be blocked by cartons, fabric rolls and should be well lit. An evacuation plant should be displayed in the factory, the fire alarm should be tested regularly and regular evacuation drills are desirable.

Appendix 3: Factory Compliance Life Cycle: Factory monitoring process: (Nike FY2004 corporate responsibility report, pp. 18-19)

One way to understand our compliance programs for contract factories is to use the analogy of a life cycle. At the beginning stage, we follow a six-step New Source Approval Process (NSAP) to select factories. Once a factory is approved and begins active production for Nike, the compliance team focuses on monitoring and assisting factory remediation of compliance issues that inevitably arise. Factories with whom we have longer-term relations may also benefit from Nike-supported training and other forms of capacity building to help the factory develop its own CR management capabilities. When business circumstances change and we end our orders with a factory, we may also apply a factory exit process. Like the New Source Approval Process, the exit process has a series of defined steps. And it is usually applied only when our exit from a factory could create significant dislocations for the workforce. It is within the context of this life cycle that our strategy – focused on business integration and multi stakeholder initiatives – is implemented.

Stage One: New Source Approval Process
A multi-step process is required when a Nike business unit seeks to add a new factory to the source base.
The steps include the following:
- Factory profile
- Inspections for quality
- Environment, safety and health and labor inspection (SHAPE – described below)
- Third-party labor audit
- A review of the need for a new factory
- Approval by the compliance department

The process is intended to weed out unnecessary additions to the supply chain, or factories that do not have CR performance at a sufficient level. In FY04, 57 percent of factories that had the basic inspections performed were approved for production. The disapproval rate of 43 percent, and the fact that almost every factory required significant remediation before approval, underscores the fundamental challenges of working conditions in the industry. Since the New Source Approval Process was instituted, all factories with which Nike places orders directly should receive an initial environment, safety and health assessment (SHAPE) and a third-party labor audit, at a minimum. There are times when a factory is not authorized, but manufacturing product for Nike. As a result, unauthorized factories may not have been audited. We also know from anecdotal experience that approximately five percent of our audited factories in FY04 were found to use contractors that had not been formally approved. Unauthorized subcontracting is prohibited by our Code of Conduct

Stage Two: Monitoring and Factory Remediation
We have three levels of monitoring: Basic ESH monitoring (SHAPE), in-depth M-Audit and independent external monitoring through the FLA (all are described in this section). Factory remediation and capacity building are described more completely in the section below.

Stage Three: Addressing the Impacts of Factory Exits
In 2002, we decided for a variety of business reasons to cease placing orders with the Indonesian footwear factory, Doson, for whom Nike was the sole customer. As the decision was implemented, ultimately more than 7,000 people lost their jobs. We worked with the factory so they could take a series of steps to ease the impact, including investing in extended health care coverage and job re-training for workers. All workers ultimately received the severance payments owed to them. But we found ourselves making up the exit steps as we went along. After that experience, we developed a standard factory exit process. Today, when a significant number of workers may be affected by our decision to end our business with a contract factory – a decision that can be driven by a host of business issues including changing consumer demand and falling factory performance – we try to apply this standardized exit process, which was developed in FY04. The Factory Exit Response Plan calls for Nike to
- Support workers receiving all entitlements from the factory as set out in the labor law
- Advocate to contract factory owners to fulfil all severance requirements as set out in the labor law
- Leverage a wide range of contacts to help move a factory owner toward fulfilment of legal obligations
- Explore worker support programs if the owner fails to meet legal obligations

Given the criteria for applying the factory exit process, i.e., in factories where a reduction in orders would affect a significant number of workers, we have not had to apply this process often. It is possible that we miss some situations where our share of production is sizable enough that a decision to end orders has an impact on worker employment. (This may be particularly true for factories producing Nike products through agents and licensees, where we have less visibility.) But our intention with this process is to apply a high level of responsibility throughout the life cycle of a factory's business relationship with Nike, and to encourage the factory to do the same. We also recognize the relevance that this process may have in the future as we work with Nike product teams to monitor sourcing decisions in the post-MFA world.

Nike employs several basic monitoring tools

The SHAPE inspection, our oldest monitoring tool, used since 1997, provides a basic gauge of a factory's compliance performance including environment, safety and health. The SHAPE inspection is typically performed by Nike's field-based production staff and can be completed in one day or less. The goal of the SHAPE audit has been to provide a broad picture of our factory base, in contrast to our other main auditing tool, the M-Audit, which provides a deeper assessment of the labor management practices. Although it has been difficult for us to meet this target, our goal in the past was to have two SHAPE audits conducted on each active factory each year. Independent audits conducted by the FLA and our own in-depth environment, safety and health assessments indicate that much work is needed to improve compliance with ESH. Until now, health and safety issues have been covered by our SHAPE audit. We are currently evaluating our auditing process around environment, safety and health based on in-depth audits conducted in FY04..

Appendix 4: Examples of social audit reports

Example A: FLA Independent External Monitoring Findings (Nike FY2004 corporate responsibility report, p.23)

The figure above displays the percentage breakdown by Code Provision of the total non-compliance issues reported by FLA independent monitors in Nike applicable facilities, which Nike addressed through remediation in Year Two. Non-compliance findings relating to Health and Safety were the most frequently reported issues, making up 54 percent of the total non-compliance issues identified. The most commonly reported and remediated Health and Safety issues related to inadequate postings and evacuation procedures, and personal protective and safety equipment. Issues related to Hours and Wages were also common, with a total of 24 percent of all findings relating to Wages and Benefits (12 percent), Hours of Work (seven percent) and Overtime Compensation (five percent). The top Hours and Wages issues that were reported by FLA monitors and taken up by Nike through corrective action plans were related to overtime limitations, overtime compensation and worker awareness of their wages and benefits. There were no findings of underage workers in facilities producing for Nike. Issues categorized under the Child Labor provision (two percent of all non-compliance reported) mainly related to factories having inadequate documentation for workers' ages in factory records, as required by the FLA. There were no findings of forced or bonded labor in these facilities. Most non-compliance issues categorized under the Forced Labor provision (one percent of all non-compliance reported) related to factories keeping inadequate records to demonstrate compliance with all FLA benchmarks for this provision.

Example B: Carrefour Group's key performance highlighted in sustainability report 2006 and independent audit report:

The Carrefour Group Support and respect the protection of internationally proclaimed human rights in its sphere of influence The Carrefour Group is committed to voluntary policy of respecting the basic rights set out by the ILO and ensuring that its suppliers do the same………... All of Carrefour's suppliers are contractually bound to the Group's Social Charter. To ensure that suppliers comply with the charter, Carrefour strengthened its social audit policy in 2003. By the end of 2007, 2,069 social audits had been performed. Since 2006, in the framework of the CIES, Carrefour has been working towards a convergence of voluntary social audit initiatives. 2,067 social audits performed over 7 years.……..

External audit: Statement on the systems and procedures implemented for social and environmental reporting:

At the request of Carrefour group, we have conducted a review of the systems and procedures implemented for social and environmental reporting, as described in the 2006 Sustainable Development report.

Nature and scope of the work

Based on the agreed-upon procedures, we have performed the following work:

      1. We have conducted interviews with the Director of Sustainable Development, and the Group coordinator for social and environmental information, in order to obtain up-to-date details on the existing systems.

      2. We have reviewed the Sustainable Development protocol drawn up by the Carrefour group, which was used as a basis for producing the 2006 report.

3. We have carried out on-site work in three Business Units, which represent 46% of Carrefour group sales ("Hypermarché France1", "Supermarché France" and "Hard Discount DIA Espagne") in order to ensure that the procedures have been both understood and correctly implemented and to review their Sustainable Development reporting information.
4. We have conducted interviews with the Internal Audit Director to assess the role of Internal Audit in verifying the social and environmental information reported by the subsidiaries.
5. We have reviewed the Internal Audit reports and findings.
6. We have reviewed the consolidated social and environmental information and in particular the figures reported by the Business Units.

Findings

As the work we carried out does not constitute an audit, we do not express any assurance on the figures provided in the 2006 Sustainable Development report. However, we are able to report the following findings:
- A Sustainable Development Department, created at Group Management level, is in charge of drawing up the protocol for environmental and social data and coordinating reporting within the Group.
- Directors of the main corporate functions involved have been appointed to take part in drawing up the Sustainable Development protocol, which has been communicated to the subsidiaries in the Group's three working languages: French, English and Spanish.
- The Group reporting procedures and dedicated reporting system have been fully understood and correctly implemented in the three Business Units ("Hypermarché France", "Supermarché France" and "Hard Discount DIA Espagne") that we tested.
- Our review of the Sustainable Development reporting documents provided by the three Business Units that we tested did not reveal any material misstatements.
- The Internal Audit and KPMG conducted either individual or joint on-site work in the three Business units representing 73% of the 2006 consolidated sales of the Carrefour group and verified on the basis of this scope, all the key performance indicators set out in the 2006 Sustainable Development report.
- We have noted that the findings issued by the Internal Audit in the 2006 report on social and environmental data have been taken into account.
- Our review of the consolidated key performance indicators in the 2006 Sustainable Development report did not reveal any material misstatements.

Paris, La Défense, 28 March 2007
KPMG Audit, Department of KPMG S.A.

Example C: Gap's Public Reporting Working Group Statement (Gap's 2005-2006 Social Responsibility Report):

We applaud Gap Inc.'s continuing commitment to an impressive array of projects designed to improve factory working conditions at a time when the company is experiencing significant business challenges. Several years ago, we approached Gap as shareholders, seeking a public report that would allow stakeholders to measure annual progress toward improving conditions in the factories around the world that manufacture its products. That engagement produced what was widely regarded as a groundbreaking report, setting a high bar for the apparel sector. It has been a privilege to serve as a sounding-board for the company on these reports, providing comments and critiques on each. This new report continues to set the pace for public reporting about global labor standards compliance. It is disappointing that three years after Gap's first report, so few companies have issued anything approaching the credibility and transparency of Gap's initial effort. With few exceptions, the state of public reporting on supply chain compliance has changed very little, with many companies remaining silent. Public reporting serves two important purposes; it provides public accountability to stakeholders, and analysis of disclosed data provides a vehicle for continuous improvement of compliance efforts. It can also help investors to mitigate risks stemming from poor labor standards compliance. Without such data, stakeholders cannot evaluate a company's commitment to enforcement of its code of conduct, or to key activities like capacity building and factory level training which can improve the lives of workers. We continue to challenge Gap's competitors to demonstrate their commitment to social responsibility and accountability by following its lead. Gap continues to demonstrate a dynamic approach to factory compliance, focusing on auditing as well as a broader framework including worker empowerment, capacity building, and long-term partnerships to reduce the impact of factory relocations. The report could be strengthened in some key areas. For example, we encourage Gap to develop metrics and data on the business benefits of social responsibility to match the performance data provided on factory monitoring. In past reports, Gap identified working with other companies on a uniform code of conduct as a high priority. There is no discussion of progress made toward this goal or reasons for the lack of such progress.

We also encourage the company to look deeper into its supply chain to reach the workers that produce the cotton and other raw materials that go into Gap's products. We would also like to see more analysis of the overall effectiveness of Gap's efforts to improve factory working conditions, and to address systemic compliance issues. This analysis should deepen Gap's ability to move from a corrective action system addressing individual violations, to making permanent changes in factory culture and practices, which are urgently needed to improve the lives of workers.

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Appendix 5: A list of issue related suppliers' violations (Wal-Mart 2006 Stand-alone report on Ethical Sourcing)

(Only human rights related issues included here)

Health and Safety – Fire Safety Management
Evacuation plan not written in languages spoken by the work force
Inadequately marked and lit exits
Fire exit door opens inward
Locked and/or blocked exits/evacuation routes
Inaccessible fire safety equipment and/or exit
Inadequate evacuation plan posted or marked on the floor
Inadequate number, distribution, and/or maintenance of fire fighting/safety equipment
Inadequate number of exits based on the workforce
Inadequate fire drills
Employees not trained in emergency evacuation and fire fighting
No evacuation plan posted or marked on the floor
No fire alarms, emergency lighting, sprinkler systems, fire extinguishers, and/or smoke detectors
Partially blocked exits/evacuation routes

Health and Safety – Material Handling
Material handling equipment used beyond rated loads/for other than designated purposes
Employees lifting greater than allowed loads
Material handling equipment not inspected before use

Health and Safety – Personal Protective Equipment
Employees not trained on the proper use of personal protective equipment
No eye protection available where appropriate
No hearing protection available for noisy operations
No respiratory protection available where appropriate
Other protective equipment not available

Health and Safety – Sanitation
Clean water basin not provided with soap and running water
Cleaning supplies/cleaning agents found in food preparation or eating areas
Eating and drinking in areas where hazardous materials are used or stored
Inoperable, un-segregated, or insufficient number of restroom and/or bathing facilities
No drinking water available
Insufficient access to drinking water
Pest infestations
Unsanitary food preparation/eating areas
Lack of access to drinking water

Health and Safety – Work Area Design and Maintenance
Factory conditions are crowded, disorganized, and unsanitary
Elevated surfaces with no railing
Insufficient safety mechanisms on elevated surfaces/surfaces where engulfment hazards exist
Work area poorly ventilated
Working areas present safety hazard

Health and Safety – Worker Accommodations
Improper chemical storage in housing
Excessive curfew restrictions
First aid equipment not available, inadequate and/or inaccessible
Inadequate capacity for housing/poorly maintained housing facilities
Inadequate fire safety systems
Inadequate lighting
Insufficient restroom and bathing facilities
Inadequate security measures
Inadequately marked and lit exits
Lack of fire evacuation plans

Not segregated by gender
Locked and/or blocked exits
Inadequate fire drills
No first aid or medical program on site
Poor electrical safety practices

Labor Practice – Benefits
Childcare facilities not on site (as per local law)
Legally required benefits with monetary value not paid
Legally required benefits with non-monetary value not paid
Maternity and paternity rights not upheld

Labor Practice – Underage Labor
Age violation – 1 or 2 underage workers observed
More than 2 underage workers
Workers children allowed on production floor

Labor Practice – Discrimination
Illegal pregnancy testing
Non-promotion and pay restriction based on personal characteristics or beliefs
Pregnant women denied jobs or dismissed

Labor Practice – Employment Practices
Verbal abuse
Physical abuse
Excessive recruitment fees
Excessive restrictions on movement
Job applicants falsifying age documents
Health examination not provided to young workers and/or workers who work with hazardous processes/chemicals
Illegal/unreasonable terms in contract/factory rules and regulations
Numerous discrepancies in age verification records
Incomplete/expired and/or missing workers contracts
Minors with inadequate work documents
Improper working conditions for minors
No hiring procedures to ensure compliance
Wal-Mart Standards for Suppliers not posted

Labor Practice – Forced Labor
Terminating or disciplining workers who will not work overtime hours
Involuntary labor
Purchasing supplies from state entities using prison labor
Terminating workers who will not work overtime hours

Labor Practice – Freedom of Association and Collective Bargaining
Factory does not recognize labor unions as a party in collective bargaining
Factory does not respect the right of employees to choose whether or not to associate with any group, as long as such group is legal in their own country
Factory does not provide a mechanism for employees to voice their opinions and suggestions
Workers do not have the right to form or join trade unions of their choice

Labor Practice – Labor Hours
Egregious hours
Excessive hours
Minors working beyond legal limits
Violation of Wal-Mart's seventh day of rest policy
Working off the clock

Labor Practice – Management Commitment to Employee Programs
Environment, health, and safety training unavailable
No employee environmental, health and safety committee
Training and documentation not provided in local languages

Labor Practice – Migrant Workers
Minimum wage and benefits not paid

Workers application for visa or work permits in process
No/expired visa or work permit
Migrant workers are kept in their work after completion of the contract period
Migrant workers do not understand the terms and conditions of their contracts
Withholding of travel documents/residency permits without workers permission

Labor Practice – Wages
Delaying payment of any portion of wages
Failure to pay minimum wage/applicable wage
Failure to pay legally required overtime premium
Illegal payroll deductions
Manipulation of payroll
No pay slips for workers
Training wages paid longer than legal probation
Wages cannot be verified/wage system not clear
Right of Inspection
Inappropriate business license
Violation of Wal-Mart's Gift and Gratuity Policy
Denied access
No business license
Factory fails to provide all relevant information

Right Of Inspection – Subcontracting
Undeclared subcontractors used for Wal-Mart production