

# How to Implement Code of Conduct? Corporate Social Responsibility for Improving Working Conditions at Overseas Suppliers' Factories

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## Abstract

In this paper, the author suggests several practices and conditions to implement corporate code of conduct successfully in order to improve working conditions at overseas suppliers' factories. Labor-related issues affect global operation of multinational companies. Thus, improving working conditions at overseas suppliers' plants is important for international management. Typical way to regulate the labor practices at overseas suppliers' factories is to adopt corporate code of conduct. However, merely adopting and requiring the factories to comply with the code of conduct is not sufficient. Several practices should be employed along with the code. Specific conditions of plants support better implementation of the code of conduct. Based on prior studies and multiple cases, this paper presents and discusses those practices and conditions. Several limitations of this paper are also discussed.

## Keywords

code of conduct, suppliers' factories, working conditions, CSR procurement, supply chain management

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## **1. Introduction**

### **1.1 Background**

This paper presents some practices and conditions which contribute to improve working conditions at overseas suppliers' factories, by facilitating suppliers' factories' compliance with the buyer firm's code of conduct.

Labor-related issues affect global business significantly. In the last few decades, multi-national companies (MNCs) transferred their production process, mostly labor-intensive one, to low-waged developing countries (Frenkel and Kim, 2004). MNCs seek to maintain profitability by reducing labor-cost, taking advantage of the low wage there. As more and more companies outsourced their production to overseas suppliers; or purchased assemblies, raw materials, or products from worldwide suppliers, working conditions at the suppliers' factories in developing countries have been deteriorated (Yu, 2009). Then, in the middle of 1990s, anti-sweatshop campaign occurred against branded companies, especially in garment (Emmelhainz & Adams, 1999) and footwear (Yu, 2009) industries. A number of non-governmental organizations (NGOs), mass media, consumer groups, and student groups criticized brand-named MNCs for poor working conditions at their suppliers' factories in developing countries (Emmelhainz & Adams, 1999; Pun, 2005; Yu, 2008; 2009). The main concern was in "low wages, forced overtime and long working hours, hazardous and unhealthy working conditions, child labor, sexual harassment, and intimidation and repression of (independent) labor unions" (Yu, 2009, p.234).

Labor-related issues still remain unresolved and affect international operation of companies. For example, in the end of May 2010, ten young factory workers committed suicide at a Chinese plant of Foxconn Technology, a Chinese subsidiary of Taiwanese contract electronics manufacturer; Hon Hai Precision Industry, produces for many

famous global brands such as Apple, Dell, Hewlett-Packard, and Sony. The media reported the cause for the event might be poor working conditions such as low wage for the workers and excessive overtime. The company finally decided to raise wages for its factory workers by 20% (Barboza, 2010; Hille & Kwong, 2010; Tsai, 2010). Japanese leading automakers, too, suffered workers' strikes over and over again in China from the end of May to the end of June 2010. Requiring raising wage level, workers at auto parts plants for Honda Motor and Toyota Motor broke strikes. Assembly plants of both manufacturers in China were forced to close during the strikes because supply from the suppliers' plants stopped.<sup>1</sup> In this way, labor-related issues have significant influence on companies' global operation.

### **1.2 Significance and purpose of this paper**

Most U.S. and European MNCs responded to the anti-sweatshop campaign by adopting corporate codes of conduct (Frenkel & Kim, 2004; Mamic, 2005; Pun, 2005; Yu, 2008; 2009). Corporate code of conduct is a set of guidelines and rules with which suppliers must comply. As discussed later, code of conduct is beneficial to regulate and improve working conditions at suppliers' factories, though it has some disadvantages. However, few Japanese companies have adopted codes of conduct (e.g., Kolk, van Tulder, & Welters, 1999).

Thus, purpose of this paper is to provide some guidelines for Japanese companies to implement codes of conduct successfully to improve working conditions at their overseas suppliers' factories. Some practices and conditions to ensure code compliance by suppliers' factories are drawn upon from findings from existing cases of leading MNCs including Japanese companies.

### **1.3 Definition of main actors**

Buyer or buying company (firm) refers to a company which outsources its production to developing countries, or a firm which purchases parts, raw materials, or products from its contracting suppliers' factories. It is also mentioned as MNC or global

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<sup>1</sup> Honda Motor shut down its plants in China after workers at its three suppliers' plants (namely Honda Auto Parts Manufacturing, Yutaka Giken, and NHK Spring) went on strike (*BusinessWeek*, 2010, May 28; Young & Kim, 2010; Kim, 2010). Toyota Motor suspended production at its assembly plants in China because of workers' strike at Toyota Gosei's (Shirouzu, 2010) and Denso's (Schepp, 2010) plant.

firm (company). Suppliers' factories (plants) are commissioned by the buyer to produce products, parts, or raw materials for the buying company, while owned and operated by supplier company.

#### **1.4 Structure of this paper**

The next section starts with development and definition of corporate codes of conduct. Then, several practices to support code of conduct and to ensure code compliance by the suppliers' factories are presented and discussed. Then specific conditions which assist better implementation of code of conduct are suggested. Those factors are drawn up from findings from prior studies and existing cases. Finally, some limitations of this paper are discussed.

### **2. Code of conduct**

#### **2.1 Definition and development**

As discussed in the previous section, many multinational firms, especially in garment and footwear industry, adopted corporate codes of conduct, responding to the anti-sweatshop campaign against violation of workers' rights at suppliers' factories in developing countries. Corporate code of conduct refers to "a document stating a number of social and environmental standards and principles that a firm's suppliers are expected to fulfill" (Andersen & Skjoett-Larsen, 2009, p.78). As noted in this definition, code of conduct addresses issues related to social as well as environmental responsibility. Labor-related standards include prohibitions on child labor and forced labor, freedom of association, occupational health and safety (Mamic, 2005; Pun, 2005; Yu, 2008), no discrimination in employment, right to collective bargaining (Pun, 2005; Yu, 2008), wage, working hours (Mamic, 2005; Yu, 2008), etc.

Labor-related codes of conduct are adopted mainly in labor-intensive industries (Frenkel & Kim, 2004; Yu, 2008), especially in clothing, footwear, toy (Egels-Zanden, 2007; Yu, 2008), textile, food and beverage (Yu, 2008) industries. At the national level, U.S. and Canadian firms are the most likely to adopt labor-related codes of conduct, followed by Spanish and Australian companies (Egels-Zanden, 2007).

As the number of codes of conduct adopted by MNCs increased, the more studies conducted on how to implement the code of conduct and on the content of the existing companies' codes of conduct.

## **2.2 Advantages and disadvantages of code of conduct**

Code of conduct has some advantages to regulate suppliers' labor practices. For example, corporate codes of conduct are "the most visible element in the approach of large multinational companies" (Andersen & Skjoett-Larsen, 2009, p.77). And Ciliberti, de Groot, de Haan, and Pontrandolfo (2009) argue that code of conduct is useful compared to contracts and trust because contracts cannot regulate unforeseen circumstances, while trust takes time to become a level to govern supply chains. Furthermore, the buyer firm can modify labor relations procedures to suit its own needs; and the firm can receive legitimacy on its products (Frenkel & Scott, 2002).

However, code of conduct is also revealed to have some disadvantages. If a buyer firm adopts code of conduct to supplier's factory, the plant manager focuses on how to comply with it. The buyer company conducts monitoring to assess whether their business partner comply with the provision of the code. Several articles report that managements of supplier factories deceive monitoring organization (e.g., Egels-Zanden, 2007; Jiang, 2009; Pun, 2005; Yu, 2008). In order to receive favorable evaluation, factory managers forge record for under-aged workers, working hours, or wages (Pun, 2005), or conceal actual amount of output (Yu, 2008), or instruct their workers to reply desired answer to the monitors' questions (Egels-Zanden, 2007; Pun, 2005).

Other disadvantages of codes of conduct are that the code can regulate only the first-tier suppliers; and codes exclude important issues for factory workers (Frenkel & Scott, 2002).

As the argument on its benefit of adopting code of conduct is inconsistent, it may be concluded that merely introducing the code is not sufficient; however, some supporting factors are necessary to ensure that suppliers' factories comply with the code and to improve working conditions at factories' workplace.

## **2.3 Present situation of Japanese companies**

Despite code of conduct has many advantages, few Japanese firms have adopted codes of conduct (e.g., Kolk, et al., 1999). In addition, Japanese companies "have limited knowledge over issues of human rights" (p.143), according to interviews with CSR managers of 15 leading Japanese firms (Fukukawa & Teramoto, 2009). Although a large number of Japanese companies establish CSR policy including workers' human rights or labor standards (Welford, 2005), it may be concluded that Japanese firms may not undertake initiatives in practice toward labor-related issues at overseas suppliers' factories (although they established policies). Thus, providing advice on how to implement code

of conduct for Japanese firms is useful.

### **3. Factors to facilitate and ensure code compliance**

In this section, I propose some practices or conditions to facilitate and to ensure compliance with MNCs' codes of conduct by the suppliers' factories. Discussion is based on review on existing cases of leading companies from prior empirical literatures (most of them are exploratory study) and from some online documents.

Numerous studies were conducted on implementing codes of conduct to their suppliers' factories. Drawn from those literatures, some factors were found to contribute to or to support code compliance by the suppliers' factories. Those factors are broadly classified into practices both for the buyer companies themselves and for the factories, characteristics of suppliers' factories, and social context (Table 1).

In order to ensure compliance with the buyer's code of conduct by suppliers' factories, merely adopting and requiring the factories to comply with the code of conduct is not sufficient. Some initiatives or practices should be introduced and undertaken. Those actions are presented and discussed, based on prior studies and relevant cases of major companies including Japanese firms.

### **3.1 Practices to complement code of conduct**

#### **3.1.1 Training and education**

One of the practices which are necessary to ensure code compliance by suppliers' factories is training. Training and education needs to be provided for multiple layers of employees both at buyer firms and at supplier's factories. At the MNC level, training session should be designed and provided for managers, members who are directly involved in code implementation, monitors, and other employees. The training for buyer's personnel is provided to shape common understanding about CSR and socially responsible management of supply chain, relevant skill and knowledge of management and monitoring (Oishi & Terada, 2006).

**Table 1 Factors to facilitate code compliance by suppliers' factories**

| Broad classification                      | Detailed classification   | Existing studies   |
|---|---|--|
| Practices within buyer firm               | Education and training for its own employees  | Andersen & Skjoett-Larsen (2009); Frenkel & Scott (2002); Mamic (2005); Oishi & Terada (2006)  |
| Buyer's practices to suppliers' factories | Buyer's managers visit suppliers' factories frequently and assist for code compliance and improvement | Andersen & Skjoett-Larsen (2009); Egels-Zarden (2007); Frenkel (2001); Frenkel & Kim (2004); Frenkel & Scott (2002); Locke, Kochan, Romis, & Qin (2007); Locke, Qin, & Brause (2007); Locke & Romis (2007) |
|   | Communicate vision of code of conduct   | Andersen & Skjoett-Larsen (2009); Mamic (2005)   |
|   | Share costs arise from implementing code of conduct   | Jiang (2009); Mamic (2005); Yu (2008)  |
|   | Education and training for managers and employees   | Andersen & Skjoett-Larsen (2009); Frenkel (2001); Frenkel & Kim (2004); Mamic (2005); Oishi & Terada (2006); von Weltzien Hoivik & Mele (2007)   |
| Conditions at suppliers' factories        | Small (numbers of employees)  | Frenkel (2001); Frenkel & Kim (2004); Locke, Kochan, Romis, & Qin (2007); Locke, Qin, & Brause (2007)  |
|   | Located near buyer's local office   | Frenkel & Kim (2004)   |
|   | Owned by foreign supplier firm  | Locke, Qin, & Brause (2007)  |
|   | Existence of independent trade union representing workers   | Frenkel (2001); Frenkel & Kim (2001); Pun (2005); Yu (2008)  |
| Social context                            | Stringent enforcement of labor-related legislation and regulation by host-country's government        | Frenkel & Kim (2004); Locke, Kochan, Romis, & Qin (2007); Locke, Qin, & Brause (2007)  |

*MNCs level*

In NEC, training is conducted for those directly involved in code implementation and general employees. This leading Japanese multinational company in IT industry carries out training program for the group companies around the world. For all employees, NEC has been communicating its vision and activities in CSR via the Internet and the Intranet since October 2003. The corporation has also been holding workshops for CSR Promoters, who are responsible for activities at each group companies, in Asia,

China, Europe, and North America since the late 2004 (The Japan Institute for Labour Policy and Training, 2005).

Several expertise are required for monitoring staffs in the field of employment, human rights, occupational safety and health, environment, product safety and quality, etc (Oishi & Terada, 2006). Mizuno, Japanese leading manufacturer of sports equipment and sportswear, entrusts Chinese NGO with developing its auditors to monitor suppliers in China. Four junior Chinese employees, who have expertise in ISO14001, environment, or law and are good at Japanese or English, are trained as monitors (Adachi, 2006).

### *Suppliers' factories level*

At the suppliers' factories level, the workers are the most important target of training program. However, limited numbers of companies provide such training for the factory workers (Mamic, 2005). The aim of the training for factory workers is to inform them of rights which they are granted and guaranteed, and relevant international treaty and local legislation (Oishi & Terada, 2006). If the workers acquire some knowledge about the buyer's code, even if the knowledge is vague, it has a significant influence on the factory management. The managers become careful about the working conditions because the workers will complain to the labor practices using the code, claiming their rights (Frenkel, 2001). In reality, however, some workers are not informed that they hold rights, especially for overtime working hours and freedom of association (Unno, 2006).

Education for factory workers is provided through exhibiting the code (translated into the local language) at the workplace for easy reference (Frenkel, 2001; Frenkel & Kim, 2004; von Weltzien Hoivik & Mele, 2009). For example, Stormberg, a Norwegian small clothing company, translates its code of conduct into Chinese and displays it in public areas throughout suppliers' factories in China, which produces textiles for the company (von Weltzien Hoivik & Mele, 2009). In two cases of U.S. athletic footwear companies, employees have to pass an examination questioning the code of conduct (Frenkel, 2001; Frenkel & Kim, 2004).

Training for managers at suppliers' factories is also an important issue. Factory managers in developing countries usually possess limited knowledge regarding CSR and are confused where and how to make required improvements (Jiang, 2009).

The purpose of training for the factory managers is to develop understanding and awareness about code of conduct. Outline, significance, objectives, and expected outcomes of the initiatives and challenges in management should be provided through



the education program (Oishi & Terada, 2006).

Education to facilitate understanding and awareness among the suppliers' factories managers is offered by many MNCs including Japanese firms. In 2006 TOTO, the world's largest toilet manufacturer based in Japan, explained its CSR initiatives to top managements of approximately 170 suppliers in China (Ikuta, 2008). Another case is Shiseido, one of the Japanese major hair care and cosmetics producers. Since 2006 Shiseido's procurement department has held annual briefing sessions of purchasing policy and section meetings of activity policy sessions in order to communicate the company's idea and principles of CSR activities to providers of raw materials and business partners (Kuwayama, 2006; Shiseido, n.d.). Similar practice is also observed in retailers' activity. AEON, the Japan-based largest retailer in Asia, hosts "AEON Supplier Code of Conduct Individual Support Sessions" to its suppliers and held the sessions twelve times from March 2009 to February 2010 (AEON, n.d.).

### **3.1.2 Assistance for improvements**

#### *Collaboration with the suppliers' factories*

As previously mentioned, managers of suppliers' factories own limited knowledge where and how to accomplish code requirements and make necessary change (Jiang, 2009). Thus, buying companies should provide some assistance for the factories.

Advanced approach to provide assistance is collaborative (Mamic, 2005). Therefore, collaborative relationship between managers of the buyer firm and its suppliers' factories is essential and the close tie is constructed through frequent visits by the MNC's manager and staff at the local office to the factories. Then, jointly with the factory managers, the expatriate personnel attempts to solve problems and to make necessary change of various systems and practices.

This is evidenced by case studies on several large MNCs such as Nike (Locke, Kochan, Romis, & Qin, 2007; Locke, Qin, & Brause, 2007; Locke & Romis, 2007), adidas (Frenkel & Scott, 2002), and anonymous U.S. large athletic footwear company in southern China (Frenkel, 2001) and Korea (Frenkel & Kim, 2004). If the buyer's staff visits the suppliers' factories frequently, the ideology, or vision, of the code of conduct will more likely to be transferred to the factories' managers and employees (Frenkel, 2001; Frenkel & Kim, 2004). Communicating the vision will facilitate commitment by the factories to comply with the code of conduct. In addition, frequent visits by the buyer's personnel build trust between the buyer's staff and its suppliers' factories' managers (Locke, Kochan, Romis, & Qin, 2007; Locke & Romis, 2007).

After the collaborative relationship was built, the buyer's staff and the factory managers can work together to solve labor-related problems (Frenkel, 2001; Frenkel & Kim, 2004; Frenkel & Scott, 2002). In addition, they can also work together to introduce more efficient manufacturing system (i.e., lean-production system), along with several HR practices such as necessary training for workers (Locke, Kochan, Romis, & Qin, 2007; Locke & Romis, 2007), empowerment, involving workers into decision making, or providing workers with great autonomy (Frenkel & Scott, 2002; Locke, Kochan, Romis, & Qin, 2007; Locke & Romis, 2007). Introducing lean production line contributed to more efficient production, resulted in cost savings and enhanced productivity. As a result, the factories could raise wage level and reduce overtime work (Frenkel & Scott, 2002; Locke, Kochan, Romis, & Qin, 2007; Locke & Romis, 2007).

Japanese companies also provide the collaborative assistance for their suppliers' factories. There exist several cases among Japanese companies. The author distributed questionnaire to 409 Japanese companies in Taiwan in various industries. The author found that some companies provide some education or instruction to their suppliers. For example, TI Petrochemicals, a seller of resin, offers technical education and some training for its suppliers. Another case is K Motors. The automobile manufacture gives individual instruction especially about safety by its specialized department.

Education and training delivered by expatriate personnel is a characteristic strategy of Japanese firms' quality control in East Asia (Ito, 2002). Thus, it is evident that Japanese companies own advantage in this action.

### **3.1.3 Sharing costs arise from code implementation**

As well as provide education, the buyer company should share costs arise from code implementation, in order to facilitate code compliance by the suppliers' factories. When implement the global firm's code of conduct, the suppliers' factories have to bear on some cost, such as raising wage, introducing new equipment, or providing education for workers. The buying company should share those expenses to maintain profitability of the suppliers' factories. If the factory cannot sustain its competitiveness, the factory refuses to commit to comply with the code of conduct (Jiang, 2009). This is proved by the study on Reebok's supplier's factory in China (Yu, 2008). When Reebok adopted its code of conduct to the contractor's factory, the footwear company did not share any costs. The factory had to improve its working conditions, for example, raising wage level. At the same time, the plant was also required to meet the demands for producing with lower price, higher quality and timely delivery. As a result, in order to maintain its bottom line,

the factory managers kept its actual payment to the workers below the level where the plant could sustain its profitability. It was achieved by concealing actual output or correcting working hours from the workers, while reporting the desired performance to the monitors from Reebok (Yu, 2008).

The Reebok's case suggests that the global company should share costs arise from upholding wage level or introducing lean manufacturing system.

Other examples of assistance include: development of corrective action plans, guidelines and training materials; conducting joint audits; providing explanations of the local law and having the MNC review the operations of the suppliers' factories to understand the impact of the demand by the code of conduct (Mamic, 2005).

### **3.2 Necessary conditions for better code compliance**

Along with those supporting actions discussed above, specific conditions help ensure that suppliers' factories comply with the buyer's code of conduct. Some characteristics of suppliers' factories and existence of independent trade union are discussed below.

#### **3.2.1 Characteristics of suppliers' factories**

##### *Size*

One of the important factory's characteristics is its size (i.e., the number of employees). The fewer the number of workers is, the more the factory is likely to comply with the provisions of the code. This is argued by a number of scholars (e.g., Frenkel, 2001; Frenkel & Kim, 2004; Locke, Kochan, Romis, & Qin, 2007; Locke, Qin, & Brause, 2007). For example, Locke and his colleagues (Locke, Kochan, Romis, & Qin, 2007; Locke, Qin, & Brause, 2007) analyze the score of M-Audit, which is Nike's in-house monitoring scheme targeting its all suppliers' factories around the world. The data was derived from over 800 factories across 51 countries. Conducting regression analysis of some variables and M-Audit score, they found statistically significant negative relationship between factory size and the audit score, suggesting that "working conditions in smaller factories are better than in larger factories" (Locke, Qin, & Brause, 2007, p.16). They surmised its reason as "smaller factories . . . are easier to control and monitor than larger facilities" (Locke, Qin, & Brause, 2007, p.16).

In contrast to the fact that the smaller factories are more suitable for code compliance than the larger plants, supplier firm should be large (i.e., employing a lot of

workers). This is suggested by a comparative study conducted on a U.S. large athletic footwear company and its four contract plants located in Korea (Frenkel & Kim, 2004).

### *Ownership*

The case study on Nike (Locke, Qin, & Brause, 2007) also found that factories owned by foreign supplier firms receive better treatment than factories owned by compatriot supplier companies.

### *Location*

Location, or proximity, of suppliers' factories to the buyer company's local office is another element of the characteristics. The closer the suppliers' factories are located to the buyer's local subsidiary, the more the factories are likely to comply with the code of conduct. Frenkel and Kim (2004) suggested this trend based on their finding from comparison of contractor's factories in Korea to the plants in China. The buyer company's local office, which is a large U.S. athletic shoemaker, is located in Korea. And compliance with the buyer's code is more likely to be achieved at Korean workplaces than at Chinese factories. The reason behind this phenomenon is explained as the buyer firm's expatriate manager visited Korean workplace more frequently than Chinese workplaces, and it contributed to face-to-face contact between the shoemaker's manager and the Korean plants' manager. This assists the ideology of the company's code in being transferred to the factories (Frenkel & Kim, 2004). In this way, the proximity of the factory is related to frequent visits to the factory by the buyer firm's staff. This leads to better communication of vision of the code of conduct, and help implementation of the code.

Proximity of suppliers' factories to the buyer's office is also important for delivering education for the factories managers. If the suppliers' plants are close to the MNC's site, it makes it easier for the buyer's manager frequently visits the factories. Then, the expatriate manager can visit the factories on a regular basis and provide assistance or education for the suppliers' factories, as discussed in the previous section.

### **3.2.2 Independent trade union**

Independent trade union should exist at the suppliers' factories. Through independent trade union, the factory workers can claim their rights and negotiate for better working conditions with the management. Several studies show the presence of independent trade union representing workers' rights supports suppliers' factories comply

with the buyer's code of conduct (e.g., Frenkel, 2001; Frenkel & Kim, 2004; Pun, 2005; Yu, 2009).

And through independent trade union, workers can participate in formulating code of conduct and reflect their opinion in the code. A case study on Reebok (Yu, 2009) shows that factory worker had an influence on developing code of conduct collectively (as a trade union), especially regarding issues of working conditions. And when workers took part in the code development process, the working conditions for the workers improved. Thus, the existence of independent trade union is crucial for better compliance with the code of conduct.

However, there are some difficulties. Even if trade union exists, several factors limit its effectiveness. For example, selection of representatives is not open; unions are co-opted by management or managers are members of unions (Roberts, 2002).

And in some developing countries, establishment of independent trade union is regulated by the local law. In China, trade union is allowed to establish only under a system of government-sponsored trade unions, namely All-China Federation of Trade Unions (Fujii, 2006).

#### **4. Conclusions**

This paper attempts to reveal factors which contribute to and facilitate compliance by suppliers' factories with the buyer's code of conduct. Based on prior studies and cases of leading companies including Japanese firms, the author proposed some best practices to support code implementation and to ensure code compliance by suppliers' factories. In addition, several conditions which help better implementation of code of conduct were suggested.

The body of discussion is summarized as follows. In the beginning, two practices were presented as a supporting factor for smoother implementation of the code of conduct. The first one is training and education. Training should be delivered both at buyer company and suppliers' factories. At the buyer level, employees those who are directly involved in implementing code of conduct must acquire relevant knowledge and skill. At the suppliers' factory level, the workers should be informed of rights they are granted. The managers of the factory should have great awareness and deep understanding of the code of conduct.

The second practice is to provide assistance. One of the assistances is to offer instruction by the buyer's expatriate personnel regarding change of organization, production system, HR practices; or technical issues. Collaborative relationship between

the buyer's expatriate staff and the factory managers is a key. The buyer's personnel should visit the plants frequently in order to build such relationship. Another assistance is to share costs arise from code implementation.

Along with those practices, several conditions which facilitate code implementation were discussed. Some of the characteristics of suppliers' factories are important. The suppliers' factories should possess small number of workers, be owned by foreign supplier firm, and be located near the local office of the buying company.

Another aspect of suppliers' factories is existence of independent trade union. The factory workers could not claim their rights and negotiate for better working conditions unless the independent trade union was organized at the workplace.

### *Limitations*

Several limitation of this paper should be noted. First, this study focuses mainly on large MNCs. Therefore, some of the findings may not be applicable to small- and medium-sized enterprises (SMEs) due to their limited resources. For example, SMEs may not afford to share costs arise from implementing the code of conduct.

The reason for focusing on large MNCs is that the existing studies addressed implementation of code of conduct is limited to those on large MNCs. Only two articles studied SMEs implementing code of conduct. The one examined four SMEs in Italy and Netherlands (Ciliberti, et al., 2009). These firms are either in garment, consumer products, or construction industry. This article, however, does not address the case of implementing companies own codes of conduct, but studies the case of implementing SA8000, an international standard in which multiple organizations participate.<sup>2</sup>

The other study addressed SMEs implementing code of conduct is by von Weltzien Hoivik and Mele (2009) which addresses a Norwegian small clothing company called

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<sup>2</sup> SA8000 was established in 1997 by an U.S. NGO, and now administrated by an NGO called Social Accountability International (SAI). SA8000 is a voluntary initiative, and multiple stakeholders such as MNCs, international unions, and NGOs participate in it (O'Rourke, 2006). SA8000 sets nine principles: child labor; forced labor; health and safety; freedom of association and right to collective bargaining; discrimination; discipline; working hours; compensation; and management system (SAI, n.d.). A third-party auditor, representing SAI, conducts monitoring facilities (Ciliberti et al., 2009). As of June 30, 2010, over 2,200 facilities are certified of SA8000 (Social Accountability Accreditation Services, 2010).

Stormberg. Stormberg designs and sells outdoor and sports clothing, and commissions 14 factories in China to produce textiles. Although the study reveals that the small enterprise can achieve financial success with the socially responsible behavior at the same time, it does not prove that its initiative led to improve working conditions at the suppliers' factories. Future study is needed targeting code implementation by SMEs.

However, SMEs have some advantages as well. They may not conduct monitoring by in-house auditors because they may not afford to own sufficient employees for the job. Inevitably, they have to depend on independent auditors. Independent monitoring provides transparency and credibility for the monitoring process. Moreover, SMEs have an advantage over constructing collaborative relationships with their suppliers' factories. SMEs are small customer for the suppliers' factories compared to large MNCs in terms of the amount of order. The factories prefer to contract large customers, seeking for higher revenue. Thus, SMEs possess little power and control over their suppliers' factories. Therefore, SMEs cannot simply adopt code of conduct to suppliers' factories and force the factories to comply with the standards. They have to build collaborative relationship with the factories and require them to comply with the provisions.

Another limitation of this paper is that it does not explore the optimum content of code of conduct. Although a number of researchers conducted content analysis of codes of conduct (see Table 2 for examples), those studies merely describe the content of existing companies' codes of conduct, and do not investigate and identify what kind of content is the best to improve working conditions at suppliers' factories.

The third limitation is related to monitoring. This paper does not address monitoring system. That is because no consistent conclusion exists on which type of monitoring is the best to regulate suppliers' labor practices. Debate on monitoring is limited about its transparency and credibility (e.g., Frenkel & Kim, 2004; Mamic, 2005). Internal monitoring is conducted by buyer's in-house auditing staff, while external monitoring is performed by accounting or consulting firm hired by the buying company, or by other for-profit organizations (Yu, 2009). Both of these monitoring processes are criticized for their transparency and credibility. Accordingly, U.S. and European leading apparel companies are becoming to use independent monitoring conducted by organizations which have no relationship with the buying firms, such as NGO (International Labour Organization, 2000; Kolk & van Tulder, 2002b; Yu, 2009). However, the perspective of this discussion is on the validity and social legitimacy of monitoring. Previous studies lack on which type of monitoring system is the best to

improve working conditions at suppliers' factories.<sup>3</sup> It may well be that lack of data makes it impossible to analyze the performance of independent monitoring system (O'Rourke, 2003). That may be because there is no data available to analyze the performance of independent monitoring system (O'Rourke, 2003).

**Table 2: Existing studies on the content of codes of conduct**

| Articles                           | Samples  |
|------------------------------------|--|
| Emmelhainz & Adams (1999)          | Apparel companies on the U.S. Department of Labor's Trendsetters List <sup>a</sup> .<br>n = 27   |
| Kolk & van Tulder (2002a)          | <ul style="list-style-type: none"> <li>• Companies (n = 40 [U.S. and European MNCs, and pioneers in CSR])</li> <li>• International organizations (n = 4)</li> <li>• Non-governmental organizations (n = 5)</li> <li>• Business support groups (n = 6)</li> </ul> Total n = 55  |
| Kolk & van Tulder (2002b)          | C&A, Gap, Hennes & Mauritz (H&M), Levi Strauss, Nike, WE<br>n = 6  |
| Kolk, van Tulder, & Welters (1999) | <ul style="list-style-type: none"> <li>• Companies (n = 84 [U.S. firms in 1997 global Fortune 500 ranking, European firms, and pioneers in CSR])</li> <li>• Social interest groups (n = 13)</li> <li>• Business support groups (n = 24)</li> <li>• International organizations (n = 11)</li> </ul> Total n = 132                               |
| van Tulder & Kolk (2001)           | <ul style="list-style-type: none"> <li>• Companies (n = 88 [Nike, Reebok, Puma, Mizuno; and others from 1997 global Fortune 500 ranking, European firms, and pioneers in CSR])</li> <li>• Business support groups (n = 27)</li> <li>• Social interest groups (n = 16)</li> <li>• International organizations (n = 14)</li> </ul> Total n = 145 |

<sup>a</sup> Trendsetter is a group of U.S. major retailers and manufactures. It was founded, in December 1995, to work together to eradicate sweatshops. As of March 1997, 34 companies are listed (Emmelhainz & Adams, 1999).

<sup>3</sup> O'Rourke (2002) is the only study which examines and reveals limitations of external monitoring system, based on a case study on PricewaterhouseCoopers (PwC)'s monitoring process at garment factories in Shanghai, China and Seoul, Korea. PwC is the world's largest private monitor of labor and environmental practices.



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