

Shoes, Sweatshops, and Sanctions: Comparing the Impacts of Labor Codes of Conduct
on Three Footwear Contractors in China

by

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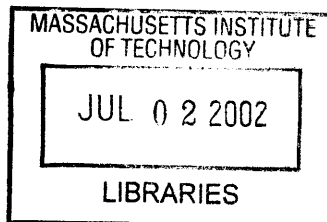
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ROTCH

SHOES, SWEATSHOPS, AND SANCTIONS



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Abstract

In the past decade, a spate of reports has surfaced about the substandard labor conditions in foreign-owned and operated factories located globally that manufacture goods for multinational brand firms. The response of companies under scrutiny for engaging in “sweatshop” practices has been to formulate corporate codes of conduct. The codes serve as sourcing guidelines for the firms and as a set of standards for labor and environmental practices for their subcontractors.

This thesis presents an exploration into whether corporate codes of conduct are effective in improving factory conditions as well as workers’ lives. I investigate the question with a case study of three footwear factories in southern China that manufacture for major multinational brand firms, using a qualitative approach based on interviews with factory managers, supervisors and workers. The findings suggest that brand firms play a vital role in ensuring code compliance, and that carving out a participatory role for workers determines the success of code enforcement strategies. I then propose that an active mode of engagement is more useful for corporations that seek to improve labor standards in China. The paper concludes with policy recommendations for strengthening the efficacy and role of codes of conduct.

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Dedication

to Scott

and in memory of my grandfather,

Dr. Sing-Ging Su

Acknowledgments

First, thanks to my Heavenly Father for all His blessings...for giving me purpose, showing me the way, and keeping me safe and sane (relatively).

To my husband Scott for the countless discussions, suggestions, endless support, faith, patience, words of wisdom and constant encouragement.

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Sean Gilbert and MISTI deserve a big thank you for providing the funding for this research, which allowed me to trek all the way to three countries, take many planes, boats, and trains in search of the people I would eventually meet.

I would also like to thank the managers of the three factories for allowing me in and spending time with me. Thanks to the countless workers at the three factories who generously offered their time, experiences, and gestures of friendship during the time I was in China. I especially enjoyed the meals and the dancing. Many, many, many thanks to Yu-Mei in Dongguan – your generosity and intelligence exposed me to various elements of factory workers' life that I would not have been able to explore on my own. I am so lucky to have found you while I was there.

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Chapter 1

INTRODUCTION: DELIBERATING CODES OF CONDUCT

“A revolutionary principle is embedded in the global economic system, awaiting broader recognition: Human dignity is indivisible. Across the distances of culture and nations, across vast gulfs of wealth and poverty, even the least among us are entitled to their dignity and no justification exists for brutalizing them in the pursuit of commerce. Anyone who claims to hold humane values cannot escape these new connections.”

William Greider - One World, Ready or Not

Introduction

In the past decade, a spate of reports has surfaced about the substandard labor conditions in foreign-owned and operated factories that manufacture goods (particularly apparel and footwear) for multinational brand firms in southern China. Horror stories of the widespread use of child labor, payment of exploitative wages, beatings and other forms of abuse, as well as exposure to dangerous health and safety hazards are reported by the press and widely circulated on the Internet. These reports have provoked outrage among a constellation of actors -- students, consumers, unions, and labor activists -- who form a coalition of “transnational advocacy networks” (Keck and Sikkink 1998:1). The collective reaction has comprised a groundswell of support for measures to enforce workers rights as well as targeted protests against those companies that are seen as perpetuating “sweatshop” conditions.

The demands of consumers, students, and activists fall under several focal concerns, namely corporate commitment to paying workers a “living wage,” decent working conditions, as well as the need for transparency and accountability. “Living wage” concerns are at the hub of the matter, because they touch on quality of life arguments – with the argument that living wages are needed so as to provide workers with a modicum of a “good life” that allows them to pay for housing, childcare, and healthcare, and to lift them out of poverty. The rhetoric also touches on comprehensive goals of achieving social justice and dignity¹ for workers, as well as eliminating worker poverty².

In an attempt to respond to the protests against their labor practices, some firms formulated or enhanced their existing corporate codes of conduct. These firms, such as Nike and the Gap, tended to be those that relied on image to sell their products. They turned to codes of conduct as a way of reassuring consumers that they were socially

¹ “Aren't the workers happy to have the factory jobs? Nike has indeed brought many jobs to Southeast Asia, and workers certainly want jobs. But they want their dignity, too. They don't want to be physically or verbally abused by their supervisors or to work excessive overtime for extremely low wages.” From <http://www.globalexchange.org/economy/corporations/nike/faq.html>, accessed at May 2002.

² “There is huge unemployment and poverty in China. But misery does not give the companies license to exploit” (Kernaghan, 2000:114).

responsible, but mostly they succumbed for fear of tarnishing their name and hence losing profitability (Liubicic 1998; Freeman 1998; Rothstein 1996; Haufler 2001).

This introduction begins with a description of the genesis and role of corporate codes of conduct, then goes on to lay out two debates: one regarding views on codes of conduct, the next concerning the levels of engagement for corporations acting against labor abuses but operating in lax regulatory environments. In this thesis, I investigate how the codes have come to impact contractor factories in reality. I will draw on a case study of three footwear factories that produce for major multinational brand companies. My endeavor is to propose an effective mode of engagement for corporations that seek to improve labor standards in China, and suggest policy recommendations for making codes more effective.

In the Beginning: Corporate Codes of Conduct

What are corporate codes of conduct? These “first generation” codes of conduct (Nadvi and Wältring 2001:23) usually specify a firm’s set of principles governing the actions of its business partners, contractors, and subcontractors, which seeks to maintain certain acceptable standards for labor, environmental, or social practices. Most of the codes’ components of labor rights are based on core International Labor Organization (ILO) conventions governing forced labor, child labor, discrimination, and the freedom of association and collective bargaining. Firms typically monitor their own suppliers internally or hire third-party firms to conduct audits and verify compliance to the corporate codes.³

Apparel and footwear factories have borne the brunt of anti-sweatshop media coverage and firms such as Nike and Reebok have had to deal with accusations that their contract factories exploit workers in the developing countries in which they manufacture. These brands were among the first to formulate codes of conduct⁴, and the most vociferous in proclaiming the effectiveness of their codes of conduct in improving labor

³ Liubicic segregates “internal monitoring” into “corporate” and “agency” models. In the corporate model, the firms’ own employees form internal compliance teams that monitor their suppliers. In the agency model, third-party firms provide the auditing (Liubicic 1998:134-5). For example, Nike, Reebok and adidas employ both corporate and agency models.

⁴ Nike and Reebok formulated their codes of conduct as early as in 1992.

conditions of their factories. These multinational brands' contract factories employ thousands of mostly unskilled migrant workers, and the factories' approach to production is distinctively "low road" (low labor costs due to competition based on price), despite the brand firms' overall emphasis on quality.

The table below presents the contents of the codes of conduct from the three top athletic footwear firms -- adidas, Reebok, and Nike. Reebok's code of conduct is known as the Human Rights Production Standards. adidas' Standards of Engagement (SOE) are a set of "guidelines" for "employment standards, health and safety, environmental requirements, and community involvement." Nike has a set of "policies" in addition to its labor code of conduct. These include the Manufacturing Leadership Standards which specifies details regulating labor practices such as maternity leave for women or methods of wage payment, and the Management-Environment-Safety-Health (MESH) program which provides best practices training for select factories. However, the code and policies contain a certain level of ambiguity. The items commonly found in other codes of conduct, such as child labor, forced labor, or compensation and benefits are grouped under the "Standards of Conduct." On the other hand, its "Code of Conduct" refers to "principles" that "establish the spirit of (their) partnerships."⁵

Table 1: adidas, Reebok, and Nike: Comparing Code Content⁶

Issue	Adidas Standards of Engagement	Reebok Human Rights Production Standards	Nike Code of Conduct
Forced Labor	No forced labor (prison labor, indentured labor, bonded labor etc.). No employee shall be compelled to work through force or intimidation of any form.	No forced or other compulsory labor (includes labor performed under political coercion and punishment). Requires maintenance of hiring and employment records to demonstrate and verify compliance.	No forced labor in any form (prison, indentured, bonded etc.).
Child Labor	Minimum age is 15, or the age for completing compulsory education in the country of manufacture, if higher than 15.	Minimum age is 15, or the age for completing compulsory education in the country of manufacture, whichever is higher.	Minimum age is 18 for footwear production and 16 for apparel production, or local minimum age if higher.
Wages	Minimum wage or the	Local minimum wage or	Minimum wage or the

⁵ <http://www.nikebiz.com/labor/code.shtml>

⁶ See Appendices 1, 2 and 3 for these three corporations' codes of conduct in their entirety.

Issue	Adidas Standards of Engagement	Reebok Human Rights Production Standards	Nike Code of Conduct
	<p>prevailing industry wage, whichever is higher, and legally mandated benefits.</p> <p>Requires payment to employee in the form of direct cash or check or the equivalent. Requires suppliers to provide employees with clear information relating to their wages. Advances and deductions from wages to be carefully monitored, in compliance with the law.</p> <p>Specifies compensation for overtime hours at the premium rate legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate exceeding their regular hourly compensation rate.</p>	<p>prevailing local industry wage.</p>	<p>prevailing industry wage, whichever is higher.</p> <p>Requires that supplier provide for workers clear, written accounting for every pay period; and does not deduct from worker pay for disciplinary infractions, in accordance with the Nike Manufacturing Leadership Standard on financial penalties.</p> <p>Requires provision of all legally mandated benefits (may include meals or meal subsidies; transportation or transportation subsidies; other cash allowances; health care; child care; emergency, pregnancy or sick leave; vacation, religious, bereavement or holiday leave; and contributions for social security and other insurance, including life, health and worker's compensation.)</p>
Hours of Work and Overtime	<p>No more than 60 hours per week (including overtime), or the local legal requirement, whichever is less.</p> <p>Workers entitled to at least 24 consecutive hours off within every seven-day period, with paid annual leave.</p>	<p>Not more than 60 hours per week (including overtime) or legally allowed maximum workweek hours, except in extraordinary circumstances.</p> <p>Workers entitled to at least one day off in every seven-day period.</p>	<p>Compliance with legally mandated work hours.</p> <p>Provision for overtime use if each employee is fully compensated according to local law. Requires informing of each employee at the time of hiring if mandatory overtime is a condition of employment.</p> <p>On a regularly scheduled basis, provides one day off in seven, and requires no more than 60 hours of work per week, or complies with local limits if they are lower.</p>
Discrimination	<p>No discrimination in hiring and employment practices on the basis of personal characteristics or beliefs, race, national origin, gender, religion, age, disability, marital status, membership of</p>	<p>No discrimination in hiring and employment practices (including salary, benefits, training opportunities, work assignments, advancement, discipline, termination and retirement).</p>	<p>Not specified in code of conduct, but in “principles that establish the spirit of (its) partnerships.”</p>

Issue	Adidas Standards of Engagement	Reebok Human Rights Production Standards	Nike Code of Conduct
	associations, sexual orientation, or political opinion.		
Freedom and Right of Association	<p>Recognizes right of workers to join and organize associations of their own choosing, and to bargain collectively. Where restricted by law, requires that employer not obstruct alternative and legal means for independent and free association and bargaining.</p> <p>Requires employer to “implement systems to ensure good communication with employees.”</p>	Recognizes right of employees to establish and join organizations of their own choosing, and to organize and bargain collectively.	Not specified in code of conduct, but in “principles that establish the spirit of (its) partnerships.”
Disciplinary Practices or Harassment	Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.	Requires treatment of employees with respect and dignity. No physical, sexual, psychological, or verbal harassment or abuse.	Not specified in code of conduct, but in “principles that establish the spirit of (its) partnerships.”
Retaliation	Not mentioned.	Requires that factories publicize and enforce a non-retaliation policy.	Not mentioned.
Health and Safety, Working Environment	<p>Safe and hygienic working environment required as well as promotion of good occupational health and safety practices (including protection from fire, accidents, and toxic substances.)</p> <p>Specifies adequate lighting, heating and ventilation systems; access at all times to adequate and clean sanitary facilities.</p> <p>Requires safety and health policies that are clearly communicated to the worker (policies also apply to employee</p>	Safe and healthy workplace required which does not expose workers to hazardous conditions.	<p>Not specified in code of conduct but in MESH:</p> <p>Requires compliance with all applicable local environmental, safety and health regulations.</p> <p>Requires written health and safety guidelines (also apply to employee residential facilities, where applicable).</p> <p>Requires a factory safety committee; requires compliance with Nike's environmental, safety and health standards; limits organic vapor concentrations at or below the Permissible Exposure Limits mandated by the U.S. Occupational Safety and Health Administration</p>

Issue	Adidas Standards of Engagement	Reebok Human Rights Production Standards	Nike Code of Conduct
	residential facilities where provided by employers).		(OSHA); requires provision of Personal Protective Equipment (PPE) free of charge, and mandating of its use.
Community Involvement	Preference for business partners who “make efforts to contribute to improving conditions in the countries and communities in which they operate.”	Not specified in Standards.	Not specified in Code of Conduct.
Environmental Requirements	Requires business partners to “aim for progressive improvement in their environmental performance, not only in their own operations, but also in their operations with partners, suppliers and sub contractors.	Not specified in Standards.	Not specified as separate clause. See Health and Safety, Working Environment.
Documentation	Not mentioned.	Not mentioned as separate clause; see Forced Labor.	Requires supplier to maintain on file all documentation needed to demonstrate compliance with the Code of Conduct. Requires supplier agreement to make these documents available for inspection upon request; and agreement to submit to labor practices audits or inspections with or without prior notice.

Source: Company websites (<http://www.nikebiz.com/labor/code.shtml>; http://www.nikebiz.com/labor/toc_stan.shtml; <http://www.reebok.com/Reebok/US/HumanRights/text-only/business/>; <http://usa.adidas.com/>)

Third-Party Standards, Codes of Conduct and Monitoring

In the midst of growing disenchantment with corporate codes of conduct due to perceived legitimacy, transparency, and efficacy problems, third-party standards and codes of conduct have evolved from individual firm codes to multi-stakeholder initiatives, including the U.S. government, civil society groups, nongovernmental organizations, students, and the corporations under scrutiny. These third-party systems have developed their own codes of conduct, which are also based on and include components from core ILO conventions and the Universal Declaration of Human Rights.

In 1996, President Clinton initiated the formation of the Apparel Industry Partnership (AIP). The AIP was “meant to be a model collaboration between industry and its most outspoken critics, brokered by the US government.”⁷ Its members comprised apparel and footwear manufacturers, labor and human rights advocates, religious leaders, as well as universities. The AIP eventually developed into the Fair Labor Association (FLA) in 1999, with its own “Workplace Code of Conduct.” Its corporate members include Nike, adidas, Reebok, Levi Strauss & Co. and Eddie Bauer. FLA is a brand-based system, where corporate members agree to implement and comply with the FLA code, and are subject to independent monitoring by FLA-accredited auditors of at least 30 percent of their suppliers’ factories during their membership period.⁸

Another third-party system is the Social Accountability 8000 Standard (SA8000), started by the Council on Economic Priorities Accreditation Agency (CEPAA) in 1997. This model was fashioned from international quality standards such as ISO 9000. The SA8000 system certifies individual factories for compliance to its standard.

The Worker Rights Consortium (WRC) was started by college students, universities, and labor rights activists to target labor practices at factories producing university logo-emblazoned apparel. The WRC has also formulated its own Code of Conduct that its university affiliates can adopt. It provides public reports on working conditions at the factories and is “developing a mechanism to ensure that workers producing collegiate goods can lodge complaints about Code of Conduct violations, safely and confidentially, by contacting local non-governmental organizations and the WRC.”⁹

While these third-party systems are increasing in importance, I have decided to focus primarily on the impacts of corporate codes of conduct in my thesis. Although corporate codes and internal monitoring have been around longer than third-party codes, there is very little evaluative data on the extent of the impacts from code compliance, and the general efficacy of corporate codes in improving working conditions.

⁷ From “Hitting the Wall: Nike and International Labor Practices,” HBS Case Study p.7, September 15, 2000.

⁸ From the FLA website: <http://www.fairlabor.org>

⁹ From the WRC website: <http://www.workersrights.org/introduction.htm>

The Debate About Codes of Conduct

Do corporate codes of conduct help or hinder the goal of improving workers' rights and working conditions? Countless views have been taken, but generally fall within two camps. The first group, the code detractors, argue that codes are ineffective because (a) codes lack meaningful enforcement mechanisms by independent entities, or (b) they lessen pressure for needed reforms by covering over or only partially ameliorating, labor violations. The second group, the code supporters, generally argue that (a) at a minimum, codes do no harm and actually improve labor rights and working conditions or (b) they serve to raise awareness of labor rights among the various stakeholders, such as workers themselves, governments, NGOs, firms, and investors. Nuanced views characterized as a hybrid of the two emphasize the need to take into account local circumstances, especially the nature of government and businesses involved. All agree that codes are effective to the degree that relevant stakeholders are committed to, and involved in, their development and implementation.

According to Gordon and Miyake (2000:29), "a major advantage of the corporate code movement is that it brings corporate responsibility issues out into the open and into the arena of public debate. It does this by increasing the transparency of private commitments. Once in the public domain, the commitments can be evaluated, debated and, at least for the more successful codes, imitated." Codes of conduct may lead to greater interaction between private and public spheres, thus codes should be classified among those initiatives that "promote corporate behavior in line with the spirit of the law and thus complement public regulatory efforts"(Diller 1999). In an ILO report on multinationals and codes of conduct, Murray writes that codes can have a significant effect in making multinational companies as well as their subcontractors comply with labor standards. Corporate codes might even be the only alternative for increasing labor standards given the opposition to social clauses in trade policy and failures of other state-level efforts to enforce standards (Rothstein 1996). However, Murray notes that that "in the case of MNEs (multinational enterprises), the code may work contrary to national laws and local norms; even if this is in the interest of attaining international norms, the rights of workers to be informed of and to negotiate over this deviation from their own

country's regulatory regime must be protected wherever possible." Liubicic sounds a positive note for codes when he states that "the mere existence of a coherent, credible code of conduct or labeling scheme may empower the workers that those initiatives are designed to protect, regardless of the problems associated with monitoring compliance" (Liubicic 1998:153).

A side-debate on the role of codes involves what should be contained in the codes. Comments that codes are too narrow and reductive coincide with critiques that codes are not adapted to local environments. In an OECD review of 246 voluntary codes of conduct in a variety of industries, Gordon and Miyake (1999:2) analyzed the relevance of code content in "addressing public concerns". Focusing on 37 codes from the textile and apparel industry (of which 32 were apparel codes listed by companies), the authors discovered that "freedom of association is mentioned in just under half of the codes. Given the importance of freedom of association as a workplace right, it is perhaps surprising that the issue is not mentioned more often" (1999:25). Haufler (2001) made a similar observation on the general lack of inclusion of the freedom of association and collective bargaining clause in corporate codes.

The anti-code constituency comprises many students and activists, the very stakeholders that corporations accused of sweatshop practices were trying to appease by refining their codes, stepping up implementation efforts and initiating monitoring processes for their factories. This camp views codes of conduct as a step backward for workers' rights, as companies can use the pretext of having a code of conduct as a smokescreen to detract from real labor violations, which will never be discovered by unsuspecting consumers. One such comment posted on a Students Against Sweatshops website reads:

"Some corporations in the garment industry have adopted voluntary codes of conduct. These codes often serve as public relations tools, which do more to soothe consumer guilt than to benefit employees. If you are organizing an action that targets the practices of a particular corporation, check out their corporate code of conduct and point out exactly why it sucks. Does it include independent monitoring? What about a commitment to paying a living wage? Expose these documents for what they are."¹⁰

¹⁰ Students Against Sweatshops – Canada, accessed at May 2002:
<http://www.campuslife.utoronto.ca/groups/opirg/groups/sweatshops/codes.html>

On a deeper level, the criticism of codes as a public relations ploy (Rothstein 1996) is linked to the fear that companies who voluntarily self-regulate via the codes end up receiving preferential treatment from local law authorities, resulting in their being able to sidestep local law and continue exploitative practices. In “Credibility Gap Between Codes and Conduct,” Frost and Wong (2001:8) state that “fear that the corporate world would use CoCos (sic, codes of conduct) as public relations tools has more or less proved correct. Apart from a few well-publicized examples of improvements as a result of CoCos, working conditions for most workers have not even kept up with the pitiful standards of 1997; they have actually deteriorated in the meantime. The further danger CoCos now pose is as a tool to privatize labor standards.” Much of the criticism pinpointing the lack of both the legitimacy of codes and the accountability of corporations is based on scathing reports of firms’ efforts to monitor compliance to their own corporate codes of conduct.¹¹ In addition, barriers in certain economic and political environments constrain corporations from being able to claim with complete certainty that their codes are complied all the time (Haufler 2001; Liubicic 1998).

Other reservations about codes of conduct include concerns that codes and NGOs will take over the place of unions in organizing workers (Compa 2001). In addition, codes and their companion monitoring processes pose high costs for firms (Nadvi and Wältring 2001), which in turn could lead to “competitive disadvantage” for corporations (Compa 2000) and limit the effectiveness of monitoring (Block 2000). Others who sound notes of caution about code compliance conclude that even if codes do bring about positive impacts they will be limited to only a few lucky workers (Liubicic 1998).

¹¹ For reports detailing Nike’s efforts to monitor contractors’ code compliance, using professional auditing companies Ernst and Young as well as Pricewaterhouse Coopers, see O’Rourke, Dara, “Smoke from a Hired Gun: A Critique of Nike’s Labor and Environmental Auditing in Vietnam as Performed by Ernst & Young,” report published by the Transnational Resource and Action Center: San Francisco, November 10th, 1997; and O’Rourke, Dara, “Monitoring the Monitors: A Critique of PricewaterhouseCooper’s Labor Monitoring,” white paper, released Sept. 28, 2000.

China: Codes of Conduct in the Footwear Manufacturing Industry

China provides an interesting case study for understanding how codes of conduct fit into developing country contexts. In a push towards economic development after its “reform and opening” in 1980, it created Special Economic Zones (SEZs) to attract foreign investment and boost industrial development. These SEZs are hosts to thousands of foreign-funded manufacturing and assembly enterprises that make products for export. Three of the SEZs are in Guangdong province alone. Much has been written about the particularities of these factories and the labor environments in which they function. Media reports document the ins and outs of the thousands of migrant workers (who are predominantly young and female) who toil in the factories, exposed to high rates of industrial accidents, long hours and low wages, and a generally poor quality of life. Recent reports also describe their marginalization by local officials and factory managers, compounded by the fact that there are few unions to advocate for their rights (Chan 1998).¹²

The workers’ identity as migrants imparts a host of constraints on their existence in the SEZs. As rural-urban migrants, they are not allowed to settle permanently in the place where they work, due to a system of household registration (*hukou*) that requires them to have the necessary permits to reside in the area. They are only allowed temporary work permits, absent which will bring them harassment from the authorities (Solinger 1999). The fact that multitudes of migrants from various provinces come together in these factories also brings to light the negative network effects of “regionalism” or “localism” (Hsing 1998; Lee 1998; Pun 1999). In “Becoming *dagongmei* (working girls): The Politics of Identity and Difference in Reform China,” Pun (1999:7) notes that in one factory, “regional and kin-ethnic differences among workers were further exaggerated and manipulated to divide and rank the work-force. A work hierarchy was developed along the lines of the imagined cultural traits of each individual.” In addition, she remarks “the manipulation of regional and ethnic groups was further tangled by the production regime’s use of them against each other to prevent labor resistance” (1999:8).

¹² See “Workers’ Rights Suffering as China Goes Capitalist” by Erik Eckholm, the New York Times, August 22, 2001.

The workers' identity as females also triggers issues such as vulnerability to harassment and discriminatory employment practices, and lack of bargaining power. Pun asserts that "new social identities are created for these women, taking advantage of rural-urban disparities, and regional and gender inequalities. These distinctions are manipulated by enterprise managers and supervisors in their efforts to create malleable workers" (1999:1).

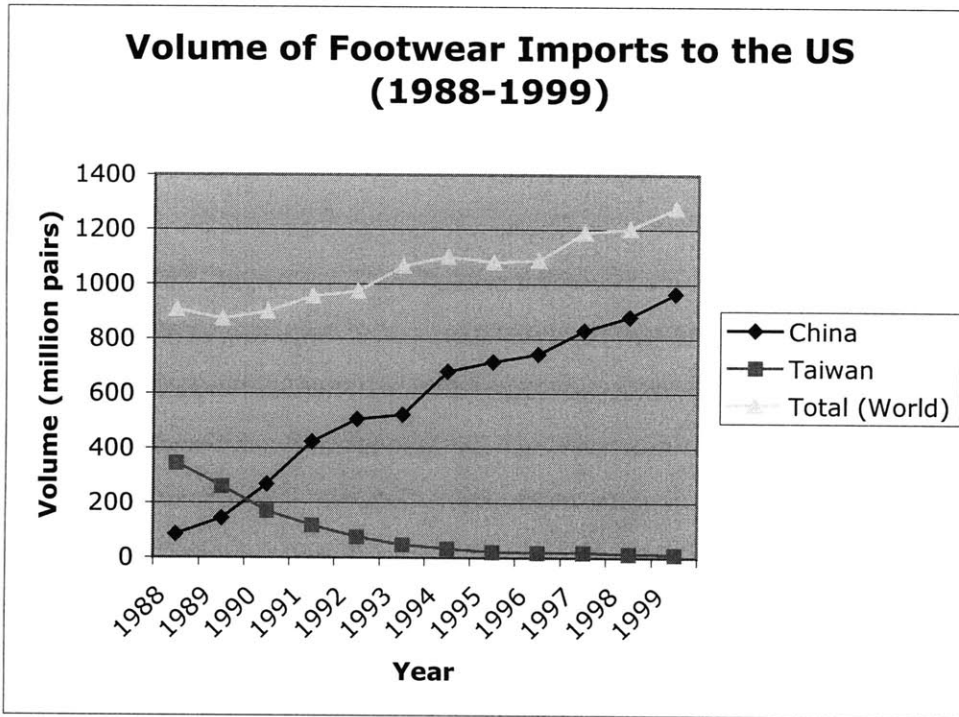
In addition, there are other important contextual issues, such as workers' lack of knowledge about both their legal rights (and lack of legal representation)¹³ as well as unions and organizing. Finally, the overall institutional framework tends to favor management instead of workers. Solinger (1999:222) writes that "various forms of lawlessness, exploitation and self-exploitation" exhibited by the foreign businessmen and local bureaucrats stem from the demands of competition and low returns. She further describes the problem of complicity and corruption between firms and officials, manifested in "multiple petty alliances." She states that "in the bureaucrats' eagerness to attract these operations to their jurisdictions, they 'provide(d) 101 kinds of preferential treatment to foreign businesspeople,' ignored safety standards and national regulations, and discouraged the establishment of trade unions, which if present, they feared, just might ward off the chance for engaging outside capital'" (Ibid).

The footwear industry in China constitutes the ideal industry for studying the impacts of code of conduct implementation, because most major brands source from China and their contractor factories are frequently accused of violating labor regulations. Most of the factories in China are located in Guangdong province, and are owned and managed by Taiwanese entrepreneurs. They moved the bulk of their production facilities there from Taiwan in order to take advantage of cheap labor and land, similarities in language and culture, and the potential to "expand production capacity" and find a new outlet for older machinery (Hsing, 1998:19). The shoes are produced under original equipment manufacturing (OEM) arrangements for the brand firms. The shoes are

¹³ The "Guangdong Labor Law Protection & Aid Network Research Report," a draft report by the Institute of Contemporary Observation, Shenzhen estimates that "there are 5 million migrant laborers in Dongguan, with more than 10,000 labor dispute cases in the past 5 years, but there are only 4 legal aid lawyers in the whole city, which causes a lot of poor workers (sic) to be unable to get legal aid (from the Guangdong Legal Aid Department and Dongguan Legal Aid Center)."

exported to overseas markets, with the US constituting the largest worldwide market (see Figure 1).

Figure 1: Volume of Footwear Imports to the U.S. (1988-1999)



Source: Footwear Industries of America (referenced from Taiwan Footwear Manufacturers Association Statistical Data Booklet, Taipei, Taiwan)

Most brands have claimed in the past that they do not have the power or authority to regulate the labor practices of their suppliers. However, the existence of codes and external pressure (from NGOs and activists) to comply with the codes and improve factory conditions has raised critical questions about how much power, and more importantly, how much responsibility global brands have for their Chinese contractors.

Human Rights, Codes of Conduct, and Levels of Engagement

The issues of codes of conduct and labor standards in China constitute part of a larger context of human rights issues in China. For more than a decade, China has encountered strong criticism of its human rights record. Its reaction thus far has usually been the rejection of international censure as nothing more than impingement on its

internal affairs and the Western world's ploy to prevent it from attaining its rightful status as an important international leader (Weatherly 1999; Davis et al 1995; Chan 2001; Foot 2000). In turn, the U.S. has led the way in attempting to link trade policy with social clauses, for example by drawing attention to human rights abuses in China when it was applying to enter the World Trade Organization (Weatherly 1999). Chan (2001:224) emphasizes that "four years ago it was also unthinkable that the rights of Chinese workers could become a controversial issue in the US, yet this became a factor in the 2000 Congressional debate over whether to grant China permanent normal trade relations (PNTR)." She also implies that labor rights have since moved to the top of the human rights list, citing a congressional speech that listed rights in the order of "labor rights, human rights, environmental concerns, religious rights" (Ibid).

A major part of the debate regarding human rights in China has to do with the issue of cultural relativism. The claim that Asian values are different from the West's perception and understanding of individual rights has been made by a number of leaders of Asian states. However, there is also strong support for the opposite view, that rights are universal and not "culture bound" (Ng 1995).

Without getting into the complicated discourse on what sorts of rights comprise "core" human rights, I will merely point out that labor activists and NGOs have linked the issue of workers' or labor rights to the concept of human rights. Chan (2001:226) emphasizes that labor rights need to encompass more than the five fundamental rights enshrined in ILO conventions, and that "labor rights, including the non-core rights, should be seen as human rights and should be fully integrated into the international human rights discourses and practices." Finally, whether one believes that labor rights should be included in the inventory of universal rights, or whether welfare rights should be de-linked from them, the nation-state cannot and should not encroach on individual political and civil rights in the process of promoting national goals such as economic development (Ng 1995).

With this view then, we need to articulate what sort of approaches corporations can pursue to better labor standards in developing countries (which will protect human rights in the process). Most companies abstain from criticizing national policies in the countries in which they operate, or offer passive views on the necessity of action against

instances of exploitation. Particularly in China, where firms are anxious to develop good connections or *guanxi* with the government in order to facilitate their business needs, they tend to “keep the peace” by holding a cultural relativist view. Ambler and Witzel (2000:108) assert that “the philosophy of rights and ethics...reflect society norms and not some external absolutes.” They even go so far as to state that “the imposition of ethical standards by one culture on another is ethical fascism, in the original sense of ‘fascism’” (Ibid, 104). Members of this “progressive engagement” camp feel that although multinationals have the responsibility to obey the law, they do not have much influence or authority in changing government policies and hence should not “rock the boat.” For example, Santoro claims that:

“Multinational firms are not, however, particularly well positioned to exert economic pressure to enforce human rights. They do not have sufficient economic power to do so, and they are too vulnerable to economic retaliation. Such attempts to impose economic sanctions are best undertaken by international institutions or powerful individual nations that possess the requisite economic leverage. Moreover, multinational firms in China can only pursue limited human rights objectives, in most cases, and certainly in the case of China, multinational firms do not have the clout to do so. Multinational firms are more effective if they uphold human rights on a case-by-case basis as opportunities present themselves” (Santoro 2000:157).

The “active engagement” view on the other hand believes that multinational corporations have a greater duty to ensure minimum standards and stand up against injustice, including labor rights abuses. Haufler (2001) mentions that individual company leaders had an important role to play in the effective implementation of voluntary standards, and their buy-in was a necessary component for success. She also affirms that “...there is no denying that MNCs (multinational companies) are politically powerful, and that the growth in industry self-regulation is one more demonstration of that fact.” (2001:113) Apart from the firms themselves, other important actors that can help mold the progression of labor standards and human rights are the NGOs themselves, whose pressure tactics (on individual companies and even governments) have worked in the past (Davis 1995).

To the extreme of the active and progressive engagement parties are some activists who ascribe to a morally transpired “non-engagement” view, which says that

firms are not to be trusted at all and that multinational companies should pull out of China until it has free trade unions and other indicators of an improved human rights regime. The disadvantage of this tactic is that it leaves out any possibility of joint monitoring or other programs with the corporations under scrutiny.

Do Codes of Conduct Work?

Ultimately, what should be the level of corporate responsibility of firms in subscribing to voluntary regulation? Can codes of conduct make an impact on working conditions in the factories of the corporations' suppliers? Do corporations have the power to change labor standards in China? What level of engagement should corporations undertake: progressive engagement, active engagement, or non-engagement?

In this introduction I have laid out the arguments for and against codes of conduct as tools for improving labor standards, working conditions, and the lives of workers in global footwear factories. Given the considerable debate, I have decided to explore how codes of conduct are actually applied in practice. Thus far, there has been little evaluative data on the efficacy of codes in the facilities that they are ostensibly applied in. Therefore, I have chosen to focus on how the codes affect the Taiwanese contractor firms in the footwear industry, and whether codes really represent an effective form of labor regulation. Answering these questions will assist in understanding the more complicated questions listed above. It is too simplistic to think that corporate codes of conduct will work as long as a company adopts one and expresses some form of public commitment to enforcement. Harnessing the power of codes to regulate contractor behavior and improve the plight of workers is an exigent task, and we will need to explore the complicated environment in which codes are applied in order to seek out factors that help lead to better outcomes for code compliance.

Chapter Two describes the findings from research inside three footwear contract factories in China during 2002. Through the portrayals of the cases I explore the following questions:

- **Do corporate codes of conduct have an impact on working conditions in the factories?**

- **How are the impacts manifested?**
- **What are the factors leading to better code implementation outcomes?**
- **And finally, are the codes effective in improving workers' lives?**

Chapter Three analyzes the data in the three factories, and theorizes factors that bring about better code compliance outcomes. Based on the analysis of the interplay of variables which lead to positive impacts, I conclude in Chapter Four with the policy implications for strengthening code implementation and recommendations for the stakeholders involved and interested in improving workers' lives. Returning to the issue of levels of engagement for corporations, I will argue the case for active engagement based on the results of my thesis research.

Chapter 2

A TALE OF THREE FACTORIES

“To allow the market mechanism to be the sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity “labor power” cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity.....Undoubtedly, labor, land, and money markets *are* essential to a market economy. But no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human and natural substance as well as its business organization was protected against the ravages of this satanic mill.”

Karl Polanyi - The Great Transformation

Code Implementation and Monitoring:

The following are some of the research questions I had in mind before embarking on my visits to the three factories in China, as well as some questions that emerged after I had been inside these firms.

Which party is responsible for enforcing the codes of conduct? Are the brand firms responsible? This might hold because they now include code of conduct implementation and compliance as another demand (in addition to price, quality, and delivery times), and thereby use the competitive insecurities of the first-tier contracting firms vying for business to garner better contract terms. Or are the Taiwanese contractors responsible? After all, they set the tone of the working environment and justify the application of military-style management methods on their workers towards achieving higher efficiency and productivity?

How do the factories contend with the multiplicity of codes of conduct? Given that each contracting firm conducts OEM manufacturing for more than one brand, the variety of the codes to which one must adhere might add to the complexity of implementation on the shop floor, further complicating efforts to comply with them. What are the actual procedures and processes that have changed within the factories as a response to adapting to codes of conduct?

More specifically, what are the steps taken by brand firms, contractor firms' management, and workers to interpret the codes and apply them on the shop floor? Do brand firms run training sessions for contractor firms in order to shed light on ways to achieve compliance? Or does the burden of switching production processes or modifying management cultures rest solely on the contractor firm? What are their processes that brand firms undertake to ensure contractor firms' (management and workers) complete understanding of the codes? More importantly, what is the role of the contracting firm in formulating the content of the codes? Once contractor firm management has "interpreted" the codes and followed through with strategies for compliance, how are factory workers informed or trained about the codes? Are there feedback loops for knowledge sharing among the workers or from workers to management?

Methodology:

To investigate these questions, I conducted a comparative case study involving three first-tier footwear contractors operating factories in China (F1, F2 and F3), to see how labor conditions differed and to what the differences could be attributed. The names of the three companies, as well as the names and gender of the interviewees have been changed or left out entirely in order to protect the identities of the managers and workers that I spoke to.

Fieldwork was conducted over a four-week period in January and February 2002, in Taiwan, Hong Kong, and Guangdong Province, China. Using an ethnographic research approach, I gathered data through interviews that were constructed as guided “conversations.” I listened to and recorded narratives from the factory managers of the three footwear firms, as well as line supervisors and workers. In addition, I interviewed several factory workers outside of the factory surroundings. I questioned them about their awareness of the existence of codes, their knowledge of how codes were translated and disseminated within the factories, and how their responsibilities on the job had evolved to comply with the codes. I was interested in having the interviewees themselves depict what they could remember of the history of code implementation and define which aspects of the codes they felt the factory had followed through with or had brought about significant impacts. I also had them describe the various forms in which the impacts manifested themselves, i.e., in improved working conditions, or in changes in lives, attitudes, management methods or processes. I was most interested in their perceptions of the effectiveness of codes and also their own observations of the changes that could be directly attributed to the codes. At two of the factories, the managers brought me on walking tours to show me the assembly lines and the shop floors.

Prior to visiting the factories in China, I also spent some time in Taiwan interviewing related company contacts (whose names and identities remain anonymous in order to protect their identities), representatives at the Taiwan Labor Front (a labor advocacy group), an academic working on related issues of codes of conduct and Taiwanese labor unions, as well as other professionals in the Taiwanese footwear industry. I went to the site of one of the factory’s worldwide headquarters in Taiwan, but was unsuccessful in getting an audience with managers there. Attempts to reach staff and

management for another major producer for Nike were futile as well. In Hong Kong, I met with several representatives of the Asia Monitor Resource Center and the Hong Kong Christian Industrial Committee (organizations that conduct research on labor issues in China).

Once in mainland China, I visited each factory and had contact with managers and workers for an average of three to four days. Management interviews were conducted in private, behind closed doors in the contacts' personal offices. The interviews were semi-structured and open-ended, in a conversational style that attempted to take away strain or nervousness on the part of the interviewees. The ethnographic research approach allowed me to get acquainted with the factory managers in their own environment, which made them comfortable enough to speak frankly in Mandarin about the challenges and realities of implementing codes of conduct. The limitation to the research approach I elucidated above is the short time period (only two to three weeks) allowed for respondent interviews.

The worker interviews were also private, held without the scrutiny of managers or supervisors. These took place in safe areas that the respondents were comfortable with, such as a trade union office in one instance, or in the office of the counseling center, or at restaurants and other locations outside of the factory compound. Where possible, I tried to meet and talk to factory workers on the weekend, when they were not expected to show up for work and were also more inclined to be relaxed about speaking to a visitor. Most interviews averaged an hour, and were conducted in Mandarin.

At F1, I interviewed a total of six upper-level Taiwanese executives, including two in production, one in charge of the counseling center, and three responsible for shaping and implementing the core program of corporate responsibility within the company. I also spoke to one worker in detail. I was not able to arrange for official interviews with line supervisors or production workers due to management's own reluctance towards exposure and the inconvenience that would have been engendered by having to ask permission from the brand firms for this activity. At F2, I met with one Taiwanese executive (production), one administrator (management side), four supervisors of various ranks (all local), and nine workers, one of whom was a worker turned full-time

trade union representative. At F3, I interviewed one Taiwanese executive (production), one local manager, three line supervisors, and seven workers.

Lack of *guanxi* or connections with key people was a major factor in not being able to conduct interviews with local government officials (Dongguan and Shenzhen, as well as Guangdong Province). The managers at the factories I visited claimed not to have personal contacts among any of the local labor bureaus, and the labor activists in Hong Kong did not have any county or city-level government contacts either.

In the following section, I portray each of the three factories individually. Each story is categorized into sections corresponding to particular code items. These include (but are not limited to) working hours and overtime, wages and benefits, unions and the freedom of association, health and safety, disciplinary practices, and child labor and forced labor. The narratives are based on the interviews and conversations that I had with workers, factory supervisors, and managers at the three factories. Over twenty hours of interviews were taped, transcribed and translated. All translation errors remain my own.

I. F1 (Nike and adidas plants)

Notes on Methodology:

During my time in Dongguan, I spoke to two Taiwanese managers at the Nike compound and four at adidas' factory. My interviewees were chosen by one of the managers in the "corporate responsibility" department, and culled from a variety of posts, from production and operations managers to corporate responsibility managers to the person in charge of the "counseling center" (*fudaoshi*). The counseling center served two roles – to counsel workers if they had personal problems, and to mediate management-worker conflicts.

Requests to speak with line supervisors were politely evaded and laughed off by the managers. As there were no worker interviews arranged, I had to devise a plan for getting worker interviews by myself. Together with a local Chinese acquaintance, I managed to track down and talk to some workers from the Nike factories, who were recognizable from the factory identity tags on their necks. We also chatted with other female workers at a dance club popular with workers from the Nike factories. This experience illustrated how difficult it was to discuss labor issues with workers, as they

were generally afraid to talk about those matters, even though they were out on the town, away from the factory grounds. I was told by some that they had been instructed (as part of factory regulations) not to “speak nonsense” (*luanjianghua*), especially to strangers interested in discussing these matters with them. Despite the impossibility of getting a large random sample, I was able to have one in depth conversation with a worker that lasted for an hour and a half. I found him using the same network ties that migrant workers in China rely upon – the *laoxiang* or “localistic” network¹⁴ – he came from the same hometown as my acquaintance did and therefore trusted her. He was more willing to talk because as a friend of hers, I was considered part of that network of trust.

Description:

Legions of Hong Kong and Taiwanese businessmen have made their transition to conducting business in China via Dongguan, setting up the many factories situated in town. It only takes a three-hour bus ride from Kowloon, Hong Kong to reach central Dongguan. The city’s population is burgeoning, with the steady flows of incoming migrants coming to toil in the factories outnumbering the native residents from Guangdong.

Descriptions of Dongguan by Hong Kong residents do not differ much, usually alternating between “dangerous,” “bad,” and “disgusting”. This outlook is reinforced by the myriad tabloids in Hong Kong that like to spotlight sensational stories about prostitution and the breakup of marriages of expatriate managers sent to Dongguan. Stories of kidnapping and other heinous crimes feature prominently as well, helping to serve up an image of Dongguan as a place with few legal and moral boundaries. Even the mainland Chinese who live and work in the city know that public order and security (*zhi'an*) is bad. Those I had friendly conversations with, like the chambermaid who worked on my floor, or the waitresses serving my meals, warned me constantly of this fact. It’s not a good place to be alone as a woman, especially at night – that’s what I was told.

¹⁴ See Ching Kwan Lee’s “Gender and the South China Miracle,” Berkeley: University of California Press, 1998.

With the premium on security, and the sense of their identities as rich outsiders who need to be protected from bad elements, it is easy to understand why some of the larger factories built by Taiwanese investors look the way they do. F1, the factory that I visited, is only one location out of the company's entire portfolio of shoe factories, which now boast a total of 139 production lines in China alone. F1 refers to the group of production buildings in Dongguan, segregated into two large compounds manufacturing separately for Nike and adidas. Nike employs about 23,000 production workers in two shoe factories and a chemical factory. The adidas facility has almost 30,000 production workers.

Code of Conduct: Implementation History

Managers at both the Nike and adidas facilities recounted the history of how the brands' codes of conduct came to exist for them – in the factory, as a new obligation imposed by the brand firms as a requirement for signing the production contract; and for themselves, as a new constraint and extension of complexity in the execution of their managerial roles. For many, their recollection of the inception of the code had ties to the negative publicity on labor violations that apparel brands such as Nike experienced during 1996 and 1997. One corporate responsibility department manager said:

“In the past, what we called “the incidents” happened, and brought about a lot of attention, from the media, a few journalists. So faced with this situation, of course the brands started to make demands on the factories, and they needed those standards in detail. The first one was Nike's, then like a social movement – the other brands started to have codes.”

Although the factories first heard of the codes as early as 1996, there is general consensus that the brand firms did not really start to push the codes till later on in 1998. In particular, the past two years have been a period in which the factories have rushed to comply with the code, thanks in part to the commencement of independent monitoring efforts. One manager recounted the commencement of the compliance process:

“From what I remember, when the factory widened the lens to focus on its management, it was interesting – all the brand firms were fixated with the factories' management. The factories had to do self-examinations. It was like a husband having to explain himself to his wife.”

For the adidas facility, when the Standards of Engagement (SOE)¹⁵ arrived, it was instructed to begin “SOE departments,” which required the support of each factory’s top management. These SOE departments had to conduct training for the employees in the factory, for both supervisors and workers alike. New hires had to go through classroom training on the concepts in the SOE document. Adidas also brought in its internal compliance team to monitor progress.

Views of What the Code Represented

When asked whether the factory managers and owners should have been involved in the process of formulating the codes of conduct together with the brand firms, the managers all concluded that it was not important for them to have been involved at this seminal decision-making stage. The managers’ perception was that as OEM manufacturers, they were merely suppliers that had to cooperate with the brands, so they never thought to involve themselves in the actual formulation of the codes. They concurred, therefore, that this requirement was not necessary for workers either.

Managers’ views of the codes fell along similar lines. Most of them stated that the codes were just a “concept” and what ultimately mattered was the adherence to local labor laws. Another manager complained that some of the items on the code represented nothing more than “societal values” which were inapplicable in the case of China, or which were not the factories’ responsibility to reproduce. Yet another person believed that each code contained “the basic rights that people need to possess” and that “factories should give workers a good life, that’s the way it should be.”

The factories were instructed to post translated versions of the codes in shared spaces such as the shop floors and the dormitories. Workers also received training about the content of the code when they entered the factory. The worker I spoke to at first confused the code with factory regulations that workers were instructed to abide by, such as having to dress neatly to work (for example, men are not allowed to wear double breasted suit jackets, only jackets with zips or sweaters) and no spitting or littering especially in the dormitories and on the shop floor. Later on he remembered that he had

¹⁵ adidas’ code of conduct is known as the “Standards of Engagement.”

taken classes where they had explained the code of conduct to workers, but he admitted that he had forgotten most of what he learned.

A manager complained about this difficulty of getting workers to truly understand the meaning and concept of the codes.

“Everybody has to have a copy of the code, and memorize it. Yes, in the early days, they had to learn it by heart. But it had no meaning for the workers. Did their lives change? No, they just memorized these eight items on the code -- it had no meaning. Even memorizing the bible would have had more meaning for them. Memorize the phone number for the counseling center -- this is what they should memorize, not the eight items in the code.”

Management-Side Changes

For F1, the whole notion that the codes stood for something really important arrived when internal changes in organizational structure occurred. A corporate responsibility department was set up within the headquarters in Taiwan, and overall ownership and responsibility lay on the management side.

“Our whole corporation – we had discussion meetings in Taiwan and China. All the managers and board of directors were involved. From 1998 onwards, corporate responsibility issues became one of the topics for the meeting. We had to prepare materials on important corporate responsibility issues for the directors.”

These management side changes were ongoing. In 2001, headquarters in Taiwan instituted new procedures that would improve communication and dissemination of company-wide best practices in labor and social issues to all factories in its portfolio, including those in China (such as F1). These new processes included production and distribution of a monthly bulletin that contained a summary of corporate social responsibility (CSR) stories coupled with descriptions of individual factories’ accomplishments in the field of CSR. All factories would receive a copy, with the understanding that factory management would have no excuses not to know that CSR issues were now a new focal point for management, added on to the list of other administrative and production-side issues.

Before and After the Code -- Change in Management Attitudes

The Taiwanese managers at F1 spoke of the impact of the changes in the factory wrought by the code of conduct. They painted a picture of the pioneer production managers that were sent to staff the Chinese factories in the beginning, portraying them as uneducated and unsophisticated types that mandated efficiency through a strict military-style regimen. Enforcing the code at the factory meant changing those persons' mindsets and cultural attitudes towards the mainland Chinese (or firing the code violators and perpetrators of abuse). It also meant exposing them to heavy doses of management training, as the new Chinese factories far outsized the smaller factories they had been used to in Taiwan and therefore required them to tweak their old methods of control.

“For the footwear industry – it’s a labor-intensive industry. And quite frankly, our management was of a different (lower) caliber, a lot of them hadn’t been exposed to too much. They didn’t even attend university -- they started from vocational school and came straight from the industry. In the early years, perhaps in Taiwan the scale of the factories was smaller. Once they came here (to China), nobody said that they should learn some management techniques. It was like “You figure out how to do it yourself.”

My personal view is that for the cultural differences – you need to use special techniques to handle those. I think that the biggest problem for management is that workers are not cultured and they are pretty much peasants. So in the past the Taiwanese managers used military-style methods – they had to go running in the morning. Earlier, this was a point of contention – we used to spend 15 minutes congregating together to do morning exercises. And the brands told us that we needed to pay wages for those 15 minutes because they’re considered working hours. So the factory said, forget it, and now we don’t do morning exercises.”

What were the results of living through the enforcement of the code and training the managers involved in new management techniques? In general, the managers I spoke to claimed that their attitudes towards the workers and towards the new conditions set by the code became more positive. The feeling was that although the inception might have been painful, the changes brought on by the process, the raising of management and factory standards, and the raising of employee productivity were worth it. In reality, it is hard to discern whether the attitude changes (if any) are genuine, because the interviewees were cautious about not putting the brand or themselves in a bad light. Their guarded responses ran the gamut from “employers should have a feeling of responsibility towards workers,” to “the change has been immense, especially in the past

two to three years. Workers are very clear about what they should have and what they're entitled to." Managers said that as a result of their learning to "pay attention to workers" (*zhongshi yuangong*), workers were happier to stay at the factory and as a result, the employee turnover rate was reduced.

Despite the rhetoric, my own personal observations confirmed that the managers' general opinion about workers was the notion that the vast majority of workers were uneducated peasants who were difficult to teach and got into a lot of trouble:

"Our workers – their ideas and opinions haven't been upgraded. What do they do after work? You know there are a lot of people here, and they do a lot of funny things. Workers might get robbed, threatened, take drugs and so on – it happens all the time. It becomes a kind of pressure for us and makes us afraid."

Working Hours and Overtime

Across the board, managers mentioned that the most obvious changes in the factory as a result of the codes had been in the area of working hours and overtime. Where once the managers could dictate that workers put in overnight hours until the desired output was reached, the new rules stipulated that the workweek could not exceed 60 hours (including allowable overtime). Real change in the working hours started to happen during the period 1997-1998.

Previously, the factory had only been expected to abide by local laws that stipulated a 40-hour workweek with no more than 36 hours of overtime a month. However, the code effectively allowed the factory to exceed the number of working hours per week. The managers were matter-of-fact about this reality. Their view of the law was explained this way:

"China's labor laws are very strict. There are so many detailed laws. But China has the "rule of man", not rule of law (*renzhi bushi fazhi*). The laws are for us to look at, not to follow. Every month, you're not supposed to exceed 36 hours of overtime. So every week that's nine hours of overtime. So every night we can do overtime for two hours. The brands have their own agreement – don't exceed 60 hours a week, including regular working hours. That means that you can do 20 hours of overtime. These 20 hours are agreed to by the brand. I think that the codes have this restriction on overtime because in the past we didn't (follow the local law) -- you could do overtime through the night."

The Taiwanese managers themselves recall putting in a lot of overtime hours during the years leading to 1998. They confessed to finishing work for the night any time between 9pm and 11pm, sometimes even working overnight in order to meet delivery deadlines set by the brands, with no rest on Saturdays or Sundays. Supervisors and managers had to accompany the workers in putting in their fair share of overtime. The interviewees also declared that working constantly under those deadlines was bad for their productivity and even worse for guaranteeing the quality of goods delivered. When excessive overtime hours were required for the production cycle, the incidence of defective goods went up. One manager revealed:

“Quite frankly our working hours were very high. When we requested a 60-hour workweek, all the supervisors said that it would be impossible. Our material flows were messy and chaotic. Every model would be on the production line for weeks.”

On the other hand, worker productivity seemed to rise when the code was adhered to. Another manager said:

“Workers need adequate rest in order to be productive. In the past they needed so many hours to complete a task. Now they only need eight hours to do it. These things – when you look back to analyze it – the statistics tell the story. With regard to the code of conduct, the factory has been the beneficiary because productivity has risen.”

Management buy-in also grew when they realized that profits, and not just productivity improved as a result of the new rules. Their initial resentment at having to follow the code changed to gradual acceptance. Their ability to “succeed” in making the necessary adjustments also became a point of pride, as if to show that their factory was superior because of its ability to adapt to the new manufacturing constraints. Whether the brand firm had applied pressure on the factory and what form that pressure might have been manifested as was unclear. The managers merely alluded to one of the brand’s support during the period of code compliance.

“The area of working hours -- this was a huge challenge. But Nike gave us enough support. If it was a small brand, there would be no way that it could (make those changes happen). It would raise costs by too much. In reality, many factories regret it. In the beginning many factories wanted to change but couldn’t

change. In the same period, there were so many demands (given by the brand). Only the better factories could make the changes.”

In addition, they recognized that adapting to the challenges of following the code became a new test for management, requiring them to upgrade their management skills and methods. The standards for compliance to the working hours clause seemed to ratchet higher, and I was told that their new aim was to limit the workweek to no more than 48 hours. The different manufacturing sections now had to apply in advance if they were going to make workers do overtime, and approval had to be granted a week in advance. I witnessed this process myself while chatting with one of the managers. We were interrupted by an administrative staff person trying to get a signature from the manager to approve overtime. The manager got upset because the application had come in late, and he grumbled, “If they want to do overtime, they have to tell me and make it clear to me why they have to do overtime. They can’t just tell me that they couldn’t finish and they have to do overtime.” The process of filing applications ensured that management had documentation of the number of overtime hours granted to each production section within the limits prescribed by the code.

Wages and Benefits

As managers did not volunteer the topic of wages and benefits as an area where improvements due to the code had been made, it is reasonable to assume that they did not want to draw attention to any of the impacts (or the lack thereof). There was very little evidence on what benefits were provided to workers – in the form of insurance or otherwise.

A worker I spoke with said that his factory rarely made a mistake in calculating wages and did not withhold his wages either. He definitely understood what each wage deduction was for and how his salary was calculated.

When I brought up the living wage argument (which many activists champion as a necessary requirement for workers), the managers criticized it on the basis that there were no universal standards on which a “reasonable” living wage could be calculated. Therefore they dismissed it as mere ideology from the activist camp.

“Frankly, there are standards for wages. As an enterprise, we need to evaluate what sorts of wages are appropriate for the situation. What we do is fair and is within the law. This is why we don’t have a problem finding new employees. Some people and their plans – it’s difficult to achieve what they want. Here, we can achieve a goal, appropriate to the local context.”

Unions and the Freedom of Association

Unions were a touchy topic. The managers tried not to bring it up unless asked about it. Their responses fell into neat categories of “organizing unions is illegal in China” to “it’s not practical for us.” One manager summed up the situation:

“We will not explain to workers (the clause on freedom of association). How do we explain this to the brands? We don’t have unions, and workers can join unions. Up till now, as far as I know, the only brand factories that have...none have trade unions. But they do have units that represent the unions. They’re very conflicted. They want to allow unions but they don’t want them to advance. For F1, in the early stages it was like that as well. I think this portion needs education – we need to educate the workers about what the union can do for them. Workers don’t trust the union.”

One manager claimed that organizing unions given China’s current cultural context was not possible:

“Unions – in most corporations they don’t wish to have unions. Here, China requires that for every 25 people there is one union representative. These people are under the command of the Communist Party. So as far as workers are concerned, unions are not too important to them. They’d rather not involve Party members in resolving their disputes.

China is not very “open” (*kaifang*) regarding unions. This could be done in Taiwan or in Western countries, but not in China, because the officials would not let this happen. Workers have freedom to organize, but not the freedom to conduct activities.”

The manager also spoke about the lack of education among workers regarding the true nature of unions. He pointed to examples of when the factory had tried to set up the union, as well as “food committees” to deal with workers’ complaints about the quality of the food – according to him, workers themselves had not been willing to be nominated as union representatives, and very few workers showed up to vote.

“I’m saying that this is not practical. For example, more than a year ago, we set up a poll, more like an election actually. You can’t really call that a union. In

the factory itself, we were hoping for better union representation -- the union choosing its own union members. That was really interesting -- we went to promote it. We opened the process up for them to do it themselves -- they could choose their own union representatives. Turns out only about 600 people voted. We promoted it, but nobody went.

They don't have this culture. Today, we want to choose a food committee. Too many complaints, okay. So I thought, fine, let's choose -- but you choose your own committee members. We told them we would give them (the workers) the money, and better yet, make sure they spend it all. But when it came to choosing members, nobody wanted to do it."

One manager also complained that the new union law stipulated that corporations had to fork out two percent of total wages of all employees as a "union fee," to be paid to the All China Federation of Trade Unions. In his opinion, this represented nothing more than another opportunity for corruption from the local bureaucrats.

The worker I spoke to felt that there was no time to participate in union-organized activities because he was usually too tired after work. He knew that the union advertised its activities publicly (on the bulletin boards) -- these included services for workers such as fixing bicycles or mending clothes. He did not think that it was especially important to join in. The managers agreed that in general, the brands did not really push them to produce results in this particular aspect of the code.

Disciplinary Practices

When the managers alluded to disciplinary actions that had been common before the enforcement of the code, they usually talked about physical or verbal abuse used to punish workers for production faults. One mentioned:

"Workers' basic rights need to be guaranteed. This factory also needs to do this. If they don't do it, it means that there's a problem. This is a change in the environment -- in the past when they (workers) couldn't do their work, we would scold, really abuse them, throw shoes at them. Now we need to use management based on reason (*lixinghua de guanli*)."

They also mentioned the practice of monetary fines tied to a system of warnings and demerit points (*jiguo*), where workers would have RMB30¹⁶ deducted for a "minor

¹⁶ China's currency is pegged to the US dollar at a rate of about US\$1: RMB (*renminbi*) 8.3.

offense” (*xiaoguo*) or RMB90 for a “major offense” (*daguo*) in addition to having the punishments recorded in their case files. All of them maintained that this custom had been abolished at or around 1999 for two reasons – because it was not effective, and because it went against the code’s stipulation on disciplinary fines and practices. One manager said, “In the beginning we would warn (*jinggao*) the workers, give them demerit points, and we’d even fine them. Now they find that it doesn’t work.” The managers had conflicting views about the nature and origin of the “demerit and fine” system. The managers claimed that they were used to the *jiguo* system in Taiwan, but not the aspect of fining. Only when they had moved to China did they link the two systems together.

“Fining is part of (mainland) Chinese culture. In Taiwan we don’t have fines, we have *jiguo*. Now we still have *jiguo* but it doesn’t involve money. We used to deduct fines from wages. But now it’s not possible to have this monetary fining system.”

Contrary to the comments made by managers, all the workers I spoke to confirmed that the fining system was alive and well. They unwittingly shared comments that indicated the continuation of the practice, providing unprompted responses regarding the details of the types of fines to my question about what would happen if they failed to reach their production quota. One worker elucidated the details of the practice, stating that he himself had been warned three times and thus had a total of RMB30 deducted from his wages. He mentioned that all employees entering the factory for the first time were taught about the warning and fines system by their supervisors. According to the worker, either the worst performer on the line or the entire section would get warned if they did not reach their quota. Just that week, the worker and five of his colleagues had gotten warned (and therefore fined RMB10 each) because they had not reached their quota for three days.

Health and Safety

Managers bragged about the newest investment that Nike had “suggested” the factory pay for – a new, latest-technology wastewater treatment plant. The top-ranked manager dared activists and health and safety professionals to come and inspect it,

crowding, “Our wastewater treatment plant is more modern and advanced than anything in Taiwan.”

Managers also credited the code with bringing about other efforts to better health and safety conditions. These included improving air quality with new ventilation systems, replacing solvents with high volatile organic compound (VOC) content with water-based ones (according to one manager’s account, the VOC content of solvents was reduced from 70 percent to 39 percent). However, managers reported varying dates for when the changes were required – some said that the switch started in 1999 while others claimed that the VOC requirements came in 2001 and only then did they start to calculate the “VOC capacity of a pair of shoes.”

I was shown a “summary” of occupational accidents and injuries by month – on average there were only about four or five cases a month. However, a brand representative complained that although he had requested that the factory supply him with data and reports about major accidents and injuries, the factory sent him information on every single incident instead, including details on falls or cuts. This amounted to thousands of cases per month.

Child Labor and Forced Labor

The issue of forced labor was not brought up at all in the conversations with the factory managers. The topic of child labor also tended to be brushed aside, owing to its “insignificance.” Some managers were more defensive about the factories’ record on child labor, claiming that they had never had a problem with having hired under-aged workers. Instead, they blamed the practice of workers having their identity cards forged in order to enter the factories as new employees.

“Child labor – we’ve never used it. But China’s personal identification cards – it’s unbelievable. We require local proof that you’re of the required age. It’s an administrative burden but we have to do it.”

Community Involvement

Nike and Adidas purport to create and support programs that benefit workers, such as evening classes that provide high school certification for workers. One manager explained:

“Nike – they have a sum of money that they use for the factory. WorldVision – it has a three-year plan at the factory. The factory and Nike will each pay half. We’ve asked WorldVision to do a worker project – to do training. I think Nike’s been more generous in this area. I guess they make a lot more money, you just have to shake them (like a tree) and money comes falling out. They’re planning an evening school. That’s also Nike forking out some and we pay the rest. The workers can use evenings to study, and in two years they can receive a high school diploma. Of course the scale of this is not very big – every year there’ll be about 100 students.”

Employment-Related Issues

One manager mentioned that a large number of workers had been let go during the non-peak season when the volume of orders had come down. The worker I spoke to confirmed that when orders were high in October 2001, the factory brought in two hundred new workers. However, when orders decreased in January, a proportion of workers were forced to take “vacations” from January 20th till February 16th, 2002.

Summary of Findings:

- The area of working hours and overtime was identified as having undergone the biggest transformation since the implementation of the codes of conduct.
- Wages and benefits were not generally offered up as an example of where impacts (of the code) had appeared. Some managers took the opportunity to decry the “living wage” argument, referring to it as a case in point of the unrealistic tendencies and naiveté of various labor nongovernmental organizations (NGOs), as well as their ignorance in understanding business management and general shop floor issues.
- Although managers claimed that disciplinary practices outlawed by the code, such as the practice of monetary fines, had been abolished since 1998 or 1999, workers I spoke to brought it up spontaneously, pointing to it as a punishment for production errors (such as quality-related rejections of output).
- Collective bargaining efforts are nonexistent. With regard to freedom of association, a branch of the official union exists (All China Federation of Trade Unions) but no independent organizing efforts have been documented.

Management pointed to local laws that forbid the formation of independent trade unions.

- When asked about health and safety, management pointed to examples of improvements in physical infrastructure in the factories, such as the addition of a new wastewater treatment plant.

II. F2 (Reebok plant)

Notes on Methodology:

I arrived at F2 on a Saturday so that I would be able to chat with workers freely on the weekend. During my three days there, I spoke with four line supervisors, nine workers (some of whom were trade union members) as well as two managers – a vice president and the manager of the factory’s “counseling center” (hereafter referred to as CC). Management interviews were held in a conference room while worker interviews were conducted in the trade union activities room (which is usually open to all workers) as well as the counseling center. The CC manager, whose job is to counsel workers and serve as an intermediary between workers and management, shares a fair amount of rapport with the worker population and the trade union members¹⁷. The manager had asked various groups of workers (those who frequented the library and trade union activities room) if they were interested in volunteering to talk to “a visiting American student interested in their lives at the factory.” The eventual participants were those who willingly showed up to spend time chatting with a perfect stranger. I spoke to supervisors individually and workers in pairs, so that the women would feel more comfortable (in all the interviews the CC manager was absent). I was also able to stagger the interviews according to the year that they entered the factory, so that I could distinguish the responses between those who had been there before the Reebok Human Rights Standards and those who arrived after. There was also some participant observation from spending time with some of the workers who took me out dancing, and having meals and other free time with the CC manager.

Description:

F2 is situated in Longgang, Shenzhen and manufactures exclusively for Reebok, having done so since 1990. It is smaller than the other factories I visited, with almost four thousand production workers. About 95 percent of the workers are female.

The factory exuded a certain relaxed friendliness (perhaps because it was the weekend), which was noticeable from the moment I entered the workers' compound, situated in the back section of the factory. The guards seated at the back entrance knew the workers and they called out to and teased each other as the workers passed by to go towards their dormitory room. The counseling center is a tiny office building next to the dorms, and all workers have to pass through the guard section and this counseling center to get to their rooms. The counseling center faces the basketball courts, where free movies are played on the weekends. The worker dorms had a festive feel to them, thanks to the multi-colored wash hanging outside of the actual dorm rooms that painted the buildings a riotous mix of bright colors.

Music permeated the dormitory area that entire weekend, and some workers told me that they were free to put on their new CDs and blast songs for everyone to hear. The factory was abuzz with activity, from people playing ping-pong to those watching a movie or playing badminton.

I ate at both the Taiwanese managers' dining area and the supervisors' cafeteria, and was shown the workers' dining area. In general the workers felt that the quality of their meals was good. One said, "It depends on your taste. In such a big factory, even in a family, people have different tastes. But anyway, it's really better than before."

A proportion of factory employees choose to live outside in rented apartments instead of staying in the factory's dormitories. Those who live in the dormitories said that they were happy with their rooms and the number of roommates they had.

The Code and Human Rights:

¹⁷ Based on my own observations in the three days that followed, which included time spent with the CC manager in and outside of the factory, during meals, conversations, and excursions with workers.

According to the factory manager, Reebok started to implement the Human Rights Production Standards (its code of conduct) in 1997. The Reebok Human Rights Production Standards (hereafter referred to as the HR Standards) are commonly denoted in the factory as simply “human rights” (*renquan*). The beauty of this label is that the code then is not just limited to the labor standards but rather includes much greater and loftier aims. *Renquan*, when the factory preaches it, tells workers that as people and as humans, they are entitled to their rights; that the factory is not merely abiding by the laws set by the government or the brand.

Many of the workers and supervisors at F2 had been with the factory for many years. I interviewed workers who, although they had never moved up the ranks to become supervisors, were nevertheless very happy with their work and did not want to leave. Several had had prior work experience at factories. As such, they were able to compare their previous work environments with the present one at F2. Most of them described their former workplaces as breeding grounds for worker abuse, where excessive overtime was widespread. One said:

“I worked in a shoe factory before as well. It was also Taiwanese owned – but there is no comparison to F2! It was very small. It was 1991 – the factory environment was so chaotic, and I didn’t even know what human rights were. I didn’t know what was going on. We did overtime till one or two in the morning. If the boss wanted you to do overtime, you just did it -- you had no choice. After all you needed to make money.”

Everyone spoke of their networks of friends and acquaintances from their home provinces that told them about F2. These network ties painted a much better picture of working conditions at F2, which prompted them to try to get hired by the factory. They were very happy when they finally made it. Some responses include:

“I’ve never thought of leaving F2. Of course we compare F2 with our friends who know of other factories. In Longgang itself F2 is considered pretty good.”

“I used to work in a private factory -- it was a toy factory. I also worked in a shoe factory. Yeah, I used to do overtime and it was quite common. I worked overtime after 6.30pm, sometimes till about 11pm. So I heard about F2 and I told myself, if I got into F2 I would be so happy. Because everybody said that F2 wasn’t bad -- there are rest days on the weekends! I really hoped and wished that I would get in! I really treasure my job. I honestly don’t think I’ll have a problem if I have to work here for seven or eight years. Really, there’s nothing (in this factory) to be picky about.”

How did the process of implementing the HR Standards start out? According to the managers, Reebok discussed the language and items contained in the Standards with managers and supervisors:

“Of course they did. They couldn’t possibly just give us a piece of paper. We had meetings with the Human Rights managers. There was training on Reebok’s Human Rights Standards. At first we thought, “It’s just Reebok talking.” We never thought that in the year 2000 or 2001 Reebok would prize human rights more than they did production. They didn’t threaten us (with taking away the contract). They treated the Human Rights stuff as “golden rules.” From working hours to accommodations -- they considered everything.”

Workers were informed about the HR Standards through posted notices on bulletin boards and through daily “publicity” after their morning exercises and before work -- supervisors used a loudspeaker to discuss issues in the code such as working hours. Some workers could only associate the HR Standards with specific items such as the non-discrimination clause. Some even linked factory regulations with the code, explaining that they had been instructed to pay attention to their health and safety, and to make sure that the dormitories were clean. Interviewees who had worked for a shorter time at the factory had a better depth and breadth of understanding of the code. For example, they were able to list most of the items in the HR Standards, including working hours of not more than 60 hours, the prohibition of child labor, and non-discrimination etc.

When did change start to occur? One supervisor confessed, “I think in 1996 and 1997 they mentioned it (the HR Standards) but nobody really went and did anything. Real outcomes happened in the past three years -- 1998 or 1999, they started to really push it from all sides, with publicity and the elections for the trade union.” What then were the factors that led to factory improvements? One manager was convinced that any impacts were due to the code, and the fact that Reebok tied code compliance to getting future contracts:

“I’ll tell you frankly. The main reason was still due to Reebok’s HR Standards – if you didn’t do it you wouldn’t get Reebok’s orders. If not for that, it would be impossible to do this in a factory here. In China, to have a factory like F2 is really not bad.”

The local supervisors I spoke to had all worked their way up from “common worker” (*putong yuangong*) status. These supervisors had several years of experience, some of them having worked almost ten years in the factory. They believed that in the process of code implementation and enforcement, their own managerial practices had changed for the better. They shared personal comments about the impacts of the code on their own attitudes at work:

“I used to have a bad temper. I wouldn’t scold workers harshly, but I would have a word with them once or twice. But now we’ve changed -- now we actually communicate, we have a conversation and talk about the problems. We talk about why workers didn’t reach their goals. It’s better than it was previously. I think it’s because when I used to scold them, they didn’t feel good, and I didn’t feel comfortable either. Now we all feel much better.”

Some supervisors alluded to a belief that the HR Standards were just mirroring a societal trend in corporate governance and improved labor practices. They assumed that the factory was going through a natural phase of gradual improvement. To point this out, they mentioned that the factory had already instituted many improvements even before Reebok started to push the HR Standards: “Society is improving -- times are changing -- the Standards are a big help but not the sole cause of factory improvement.”

An oft-repeated remark made by management and the local supervisors was that the Standards themselves had “raised the quality” of the workers (*tishen suzhi*). Management attitudes towards the workers might have changed, but more importantly, the standards had transformed workers into better employees, raising their own awareness of workers’ rights. One said:

“The quality (*suzhi*) of workers has changed a lot -- workers know how to protect themselves. From working hours to other issues -- they themselves know that they can’t work for over 15 hours or something -- they know how to protect themselves. They also know how to go through the union to ensure this protection. In the past two years, front line workers -- those who have been here for five to six years, they’ve really grown and “their quality has been raised” (*tishen suzhi*). Previously we had to keep telling them how to do different things. But now after pushing the HR Standards, they now recognize these things for themselves.”

Similarly, the workers talked about increased cognizance of issues affecting them, and also pinpointed the most important impact that the process of implementing the HR

Standards had brought about – a heightened sense of security about their lives at the factory:

“Of course I feel that the HR Standards – with respect to us workers, has its benefits. At the very least, we’re laborers working here, and in the past we didn’t really talk about or deal with issues like overtime, health and safety and so on. But now, with the factory pushing the HR Standards, everybody, including new workers now recognizes the importance of these issues – they’re not as naive as before. They know all the details and consequences – they know how much they work and how much they should get paid. I think the biggest impact is the sense of security that the HR Standards gives to workers.”

Working Hours and Overtime

Many of the workers and supervisors I spoke to acknowledged that one of the biggest impacts of Reebok’s Human Rights Production Standards had been in the reduction of overtime hours worked. Workers mentioned having to work 60 to 80 hours a week in the past, especially if they were rushing orders. Workers also stated that the factory became stricter about enforcing overtime rules in 2000, and most said that their overtime was limited to working till 8.30 p.m. (two hours). However, there were conflicting accounts about current working hours. Some mentioned doing two extra hours a night (from 6.30pm till 8.30pm) while others on a different shift mentioned working overtime from 5.30 p.m. till 8.30pm (three hours). When I asked a manager if Reebok’s allowance of a 60 hour work week goes against Chinese labor law which specifies a 40 hour work week and not more than 36 hours of overtime a month, he responded “Technically it goes against Chinese law, but we’re headed in the right direction. This year we’ll continue to shorten the number of working hours.”

In addition, one supervisor inadvertently revealed that “helping out” when orders were being rushed was not considered overtime, so workers could be denied their legally mandated overtime wage (150 percent of the regular wage on weekdays and 200 percent of the wage on weekends).

“There was lot of pressure when we had to rush orders. We told them, if you have to rush orders, you have to tell us in advance. We now give suggestions – if you can’t finish, supervisors will tell one group to stop and help the other group to do 1,000-2,000 pairs. Another group has to help out. This is not counted as overtime.”

No one complained about being forced to work overtime. One worker said that they just had to notify their supervisors if they did not want to work overtime. Another said that most workers chose to work overtime. Both workers and supervisors said that they were happy to have more spare time, because it enabled them to spend more time with their family or partake in leisure activities like dancing, reading, or playing chess. On the other hand, it is easier for line supervisors to be appreciative of the shorter hours as they get paid much more in general.

Other examples of the benefits of reduced working hours cited by interviewees were: a decrease in the number of occupational injuries and an increase in productivity:

“We used to do 40,000-50,000 pairs a month. Now we don’t even do that much overtime, and we can do 60,000 pairs. That was our productivity quota for one month, at least 40,000 pairs. At first, we weren’t used to the HR Standards. But Reebok’s HR manager came to talk to us and communicate with us, and slowly we got used to it.”

Wages and Benefits

Managers mentioned that the issue of wages had been a particularly challenging one, without actually declaring that they had raised wages drastically after the implementation of the code. Before the Standards came into place, the factory did not rely on the minimum wage system to calculate workers’ wages, but used a strict piece rate system.

Wage Hierarchy

Supervisors made much more than workers did, and each supervisory level had several wage scales. While the average wage for a worker was about RMB750, section supervisors could expect to make at least RMB1,500, assistant line supervisors RMB1,500, regular line supervisors RMB1,700, foremen RMB2,000 or more and coordinators about RMB2,800. Three out of the four supervisors I spoke to were male, and with their salaries they were able to bring their spouses and children over to Guangdong to live. The female spouses usually took care of the children at home and did not work. On the other hand, the nearly all of the production workers I spoke to were

single females. One worker who was married and had a child lived in the dormitory, while her husband lived and worked in their home province. Her parents (also in the village) were caring for their one-year old child.

I asked workers how much they made and what they thought about their wages (whether it was adequate). None complained about the monthly piece rate system, and seemed to think that it was fair to rely on one's abilities and skill in reaching their production quotas. Some mentioned that even with the recent reduction in orders, they were satisfied that the factory would supplement their wages. If there were production interruptions due to a shortfall in materials and workers did not have to work, they said that they were still given a daily supplement of RMB23:

“Wages – we’re paid by the piece, so what you can earn is based on what you make. We think this is fair. If there are no materials, the factory guarantees a minimum wage for that day. I usually make between RMB600-700 a month, sometimes even RMB800-900. If there are enough materials, I can make RMB800-900, even more than RMB1,000. If there aren’t enough materials then I make less.”

However, a couple of workers mentioned that they were still unclear as to how their wages were calculated. It was an issue that troubled them, but they did not have the courage to bring it up to their supervisors, the union, or even the counseling center, because of the fear of retaliation:

“I feel that it would still be useless even if I went to talk to the trade union. Because even if you went to talk to them, they’d look for your supervisor and your supervisor would know that you went to complain -- your life would still be difficult!”

Remittances and Savings

Most workers sent money back to their parents, regularly waiting till they accumulated larger sums (such as RMB1,000) before remitting the money. They did so out of filial piety, or as one worker said, “because our parents took care of us.” Some sent money only when their parents requested help, or remitted their savings so that their parents could help save the money for them.

Disciplinary Practices

Although most of the workers stated that they had good working relationships with their supervisors, some of them talked about psychological pressures or scolding inflicted on them by their superiors.

“If the quality isn’t good, the supervisors will scold you, and ask you to do better and improve. Or if you didn’t achieve your quota, they would keep giving you a lot of pressure till you do what they want. If you don’t finish today you’d better finish tomorrow. Quite frankly, all of us are laborers (migrant workers), so of course we are already trying our best. Actually they don’t need to use those methods to punish us. They use psychological tactics – psychological harassment really -- they’ll give us a dirty look -- they don’t need to scold you or hit you. When supervisors give us pressure, sometimes they threaten that they’ll fine us if we don’t do what they want...but they don’t do it (fine us). It’s just to scare you a little. They don’t really fine us here. They just use psychological pressure.”

Everyone confirmed that the practice of fining ceased to exist. Supervisors and managers admitted that it had happened in the past, as a punitive measure to “repay” the factory for losses incurred due to product rejections. The fines were calculated based on the cost of materials. This was an example of how the code had forced them to change:

“In 1997 we had the HR Standards. At first we weren’t used to it. We used to have our own system, for example with punishments – we used to fine RMB10 or RMB20, and all of a sudden, they (Reebok) said no fines. All the Taiwanese merchants – practically more than 98 percent of them use monetary fines, because they are the most effective! So we were using monetary fines. But then they said no fines, so all of us were trying to figure out how to refrain from fining. So then we used another system – the demerit (*jiguo*) system. These changes happened slowly, one bit at a time. So was the change good? Yes. There are less of the bad and more of the good.”

Unions and the Freedom of Association

Perhaps the most significant impact of the code had been the election of an “independent” union at the factory in July 2001. Where did the impetus for this come from? One manager stated, “It should be said that Reebok had this desire, and they discussed it with the factory. The factory looked at the situation and felt that it had to accommodate them (Reebok) on this matter.”

The entire process was initiated and led by the brand and the factory. The same manager explained the details:

“First we decided when we would have the election. Then we decided how many representatives to elect. We decided to choose one for every 500 people in the factory. Now the union has 25 members, and the Chinese government appoints the highest-level member. July 21st – the election and the votes. In the afternoon -- we counted the votes, that was it.”

Workers could nominate themselves as union representatives. They had to register and then make public speeches. How did the workers know whom the representatives were and whom they wanted to vote for? One union representative that I spoke to described the process:

“We had to go on stage and make speeches. I said to the voters, “Trust in my abilities!” and “I can do things for the workers!” I’m not one of those who had a long speech. But many workers have known me for a long time, because I have written many articles for the factory journal¹⁸.”

After the election, the brand arranged for two Hong Kong-based NGOs to conduct training for the union representatives. Over four Saturday mornings, the elected union representatives were trained on strategies such as improving communication with managers, and had lessons on China’s laws relating to unions.

Union representatives were elected to two-year terms. The representatives were also assured that their wages would not be affected. Although the factory had a branch of the official All China Federation of Trade Unions, workers disparaged the notion that it had been a true union. One person said of it, “The upper level supervisors and managers handpicked the representatives -- it wasn’t a democratic process.”

In addition, the inception of the independent union meant that all employees now had to pay “union fees” of RMB 4 a month. None of the interviewees complained about the monthly deduction. A union representative justified the payment, saying:

“All this money goes to buying stuff like the ping-pong bats etc. The union pays for it. Birthday cakes, birthday parties, birthday presents, all this comes from the money! Some workers don’t understand why they have to pay RMB 4. But we

¹⁸ F2 publishes a monthly journal that contains a mix of news about the factory, educational articles (on the HR Standards, health and safety, and ISO standards), interviews of managers, and stories written by workers themselves.

could ask them – where would the entertainment come from? Where do they birthday cakes and presents come from?”

What were the positive impacts of having the union? Managers and supervisors mentioned that they had to deal with fewer worker complaints, because the union served as a buffer for resolving issues. In the past, workers had to go to the Reebok Human Rights representative to file complaints, but now the union could handle all manner of grievances. Workers also named conflict mediation as a specific benefit of having the union:

“The union is a good thing. In the past, if you suffered from some injustice you really didn’t know where to go to complain. Really, sometimes the supervisors would just act up and scold you. And if you have a grievance, even though it’s not good to complain here, it’s still better to say something to someone. Because if you’ve suffered an injustice, your parents are so far away from here, and if you mentioned some small problem to them, they would worry. Now the union might help to mediate the conflict, that’s a very good thing.”

Unfortunately, the union could also be used as a tool for management purposes. A manager described an example of a scenario where the union served an unusual intermediary function:

“I’ll give you an example – we have one worker – she was married. She got divorced, and she argues and fights with other workers. But now she’s pregnant. She says she’s sick and she needs money. But the union representatives told me – this worker’s usual attitude is not very good. At least three of the union members knew what this worker is like. If she was hardworking, of course we should give support. But if she says she’s sick and we lend her RMB500, but she doesn’t go to the doctor... at least we know now that she’s not a good character. The union tells us.”

Through the process of electing their union representatives, workers gained a sense of power and a voice. They knew that the union was to be accountable to them. The workers also expressed satisfaction in knowing that they had brought about positive changes for themselves by participating in the voting process:

“We do have a feeling that we accomplished this by ourselves, and we can do all things by ourselves. For example, if we feel that there should be some types of books in the library, we can give our suggestions to the union. We have a lot of bulletin boards, so we can also check to see if they’ve answered our requests.”

Other workers praised the union for improving the supply of amenities such as the library and activities room, while others appreciated the serious role that a union could play in improving their working conditions:

“The union can help us deal with issues on the job, for example occupational injuries or arguments between workers, anything – they can investigate, and help to solve the problem. It’s not just recreational items that they’ve brought about – if there are conflicts, they can help.”

Health and Safety

Supervisors and managers mentioned that health and safety improvements had been made after the introduction of the HR Standards. They cited examples such as cleaning the shop floors, clearing the passageways, and purchasing new and safer machines as examples of the outcomes and efforts made to raise standards. More importantly, they claimed, operators and workers paid more attention to what they were doing, which reduced the occupational injury rate.

Workers pointed out that in the previous year, a female worker had her long hair caught in a machine, and as a result, everybody wore protective caps. They maintained that they had always been assigned protective gloves and masks, and had gotten used to wearing them.

One worker, however, described a particularly harrowing experience with electrical hazards on the shop floor. She was still upset over the ordeal and faulted her supervisor for not recognizing the problem when it first occurred.

“One time, I had a mild electric shock while working. But at the time, I couldn’t work and the supervisor wanted me to take a break. At the time I really wanted to come in here (the counseling center) and talk to someone. Also, the supervisor said that what I had didn’t really count as an occupational injury. So I asked him what counted as an occupational injury? That’s what I told the supervisor. I said what if I was electrocuted and died or I broke my bones, how would you fix that?”

It was a cable on the stitching machine that was live. The machine was broken. At first I mentioned it and they kept dragging their feet for over half a month and didn’t replace it. At first it wasn’t even leaking and then the electricity started to leak. It was broken and I had to keep using it so of course it got worse and started to leak. How was I supposed to know that it was leaking electricity? So I touched the broken part by accident. They said it didn’t count as an occupational injury. I went to the clinic here. They said they had to fix the machine but the

repairman wasn't from the factory. That was that. I really wanted to come and say something. I couldn't work for four days and they gave me paid leave up to a week, the company reimbursed me RMB100. At that time I really want to come in and talk about it, but in the end I didn't."

The code and the communicative channels put in place to deal with incidents such as these failed in this instance. Despite the existence of multiple grievance channels such as suggestion boxes and the presence of a "counseling center," the worker in question still did not get the attention and feedback she required.

Discrimination

Although Reebok's code mentions discrimination and requires that those "who make decisions about hiring, salary, benefits, training opportunities, work assignments, advancement, discipline, termination and retirement (do so) solely on the basis of a person's ability to do the job," a couple of female workers I spoke to equated discrimination with the effects of "localism" on promotional opportunities. For example, they complained that in some cases supervisors would give preference to the workers who came from the same province that they were from, passing on the chances for job advancement to those lucky few. They also mentioned that supervisors discriminated on the basis of looks, giving the prettier workers more chances to climb the job ladder.

Summary of Findings:

- Although the HR Standards were brought in earlier (1996-1998), real changes did not start to occur until a few years after (2000 onwards).
- Reduction of excessive working hours and overtime, the formation of the trade union, and the raising of worker "quality" were cited as the most important impacts of the introduction and implementation of the HR Standards.
- A positive outcome (mentioned by both managers and workers) of code implementation was that workers had gained greater awareness of their own rights and as a result, felt more empowered about their own lives and future.

III. F3 (Nike plant)

Notes on Methodology:

Although I repeatedly requested to speak to Taiwanese supervisors and factory managers, I was only able to interview one manager who was put in charge of the whole factory when the chief executive left the factory for a few days. In addition, I spent plenty of time observing and interacting with two other upper-level managers as well as the corporate responsibility (CR) department manager.

The process of choosing workers for interviews was challenging. Not wanting to pull workers out of the production lines during the weekdays, the CR manager and I walked towards the dormitories past the sports field in search of workers who were not working. The first two women that the manager approached claimed they were too busy and did not have time to talk. When we reached the dormitories, the CR manager passed me off to the “dormitory manager.” A menacing figure, she alone is in charge of all the keys to the rooms and has the power to open the doors (which are locked during working hours) and sweep in at a moment’s notice. She did precisely that in an effort to show me which of the rooms had workers who were presently in. One by one, I found two female workers who were willing to invite me over to sit on their bunks and chat, although the first worker was very fearful of talking. My conversations with them took place privately (or so I thought) with the doors closed. The second worker I spoke to became very emotional when describing her son and husband, who live in another province. She was only able to see them a few times a year, and was very moved that she could share her thoughts and emotions with another woman. The next day however, I was accused of “causing a worker to cry” with my interview questions – apparently the dormitory manager had seen the worker crying and went to file a complaint with the CR manager. So the next day I was advised not to go to the dormitories by myself, and instead, the CR manager selected my interviewees. The interviews were held in a small office room in the quality control building. Fortunately, in addition to the pre-selected interviewees, I was also able to choose and speak with four employees whom I had met half a year before.

During the time that I was there, the Nike manufacturing manager asked the top managers if I was an auditor. The manager was curious about the presence of a stranger,

and assuming that I was an auditor, had expected that the factory managers would have asked him permission first for me to enter the factory. He was reassured that I was not an auditor, but the incident was just another of many that threw the management into a tizzy.

Description:

The F3 compound lies in a peaceful section of Panyu City, which is just a half hour drive from Guangzhou, the bustling capital city of Guangdong province. Panyu is accessible by high-speed ferry from Hong Kong's Harbor Terminal. The trip takes about an hour and a half and is a relatively pleasant ride. Most of the passengers on the ferry are businessmen who make the same trip weekly. In recent years Panyu has also developed as a tourist destination, due to its proximity to Guangzhou and its own reputation as an ideal location for retirement homes for land-starved Hong Kong citizens.

Panyu's idyllic setting straddles the rural and the urban. Interlacing networks of streams and small rivers crisscross the landscape. The F3 factories seem to be an anomaly amid the green fields and small trees lining the streets of the area.

F3 manufactures footwear for many multinational brands, including K-Swiss, Merrell and LL Bean, but Nike is its most important brand. Of the eight factory buildings, only five are currently used in production. F3's worker population has recently shrunk from 15,000 to about 12,000.

The dining area for the Taiwanese managers is set in a smaller building behind the main office buildings. It clearly is a dining area that the factory can be proud of, resembling the inner sanctum of a fancy hotel restaurant, replete with carved dark wood and tables with lazy susans piled with dishes. Workers, in contrast, have to pay cash for every meal at the factory cafeteria. They are, however, given a food subsidy of at least RMB150 per month for base workers (subsidies increase according to your job ranking). Some workers I spoke to found the cash system inconvenient, but others did not seem to mind. Some also mentioned that in 1996 the factory had provided meal cards from which they deducted the cost of meals every month, but that system had been revised to the pay-as-you-go system.

Knowledge of the Code:

When asked if they knew about or had heard of the code of conduct, workers in this factory provided a variety of responses. More than one worker I spoke to could not fathom what I was referring to. Those that could recall having been exposed to it tended to associate it with general factory regulations such as having to keep their dormitories clean, or with curbing specific violations such as verbal abuse.

All employees were given a card that was meant to have spelled out the code of conduct. However, upon closer scrutiny it appears that the actual document specified as Nike's code of conduct does not appear printed on the card. Rather, the "code" on the card refers to a select list of actions and "fair treatment" that the Nike guarantees its workers at this factory:

- "a safe and comfortable working environment, free of mistreatment and sexual harassment;
- allowing you to have the right to join all sorts of social groups and the right to freedom of association;
- employees' wages and promotions are to be decided based wholly on their personal work capabilities;
- a complete system of benefits, including various subsidies to support employees;
- in order to guarantee workers' health, there should be a limit to continuous workdays or total number of hours worked."

The factory was required to publicize the information in public places such as bulletin boards, the shop floors, and even the dormitories. While a couple of workers mentioned having undergone "training" for the code of conduct in the form of classroom training and written exams, another worker testified that the factory's method of educating workers about the code was less than rigorous.

"They just posted the information, and requested that we go and take a look. Just go and look at it yourself, and remember it, they said. Nike's code of conduct. That was it."

Disciplinary Actions and Verbal Abuse

Employees at this factory tended to associate the code of conduct with curbing verbal abuse and other derogatory treatment of workers on the job. All the employees I spoke to (workers, line supervisors, and managers) referred to the factory's training in

getting supervisors to cut down on “verbal abuse and worker mistreatment.” Verbal abuse, in their words, consisted of using crude and vulgar language to berate workers for production errors or any mistakes occurring during working hours. The use of abusive scolding and uncouth phrases was admitted to by supervisors and was especially disliked by the workers, some of whom claimed that this sort of abuse had not stopped entirely. Workers mentioned that there was no need for them to be treated in such a disrespectful manner since it did not spur them on to do better. Besides, many of them said, everybody (including supervisors) had the status of migrant worker and they all understood what was expected of them, so all that was needed was a little respect and patience.

“The code says you must respect human rights. But in this factory, as I said before, it could be a management issue -- some top-level supervisors, including the Taiwanese managers -- they use dirty, crude and abusive language. Although workers are just basic laborers, they still have dignity and character, right? You shouldn’t use abusive language -- if there’s a problem you need to explain everything carefully. I think that most of the workers would understand. If you wanted something... we would just work harder. We should just speak to every one in a cool and calm manner...Yes, it (verbal abuse) happens very often.”

Although this sort of behavior was purportedly rampant, both workers and managers alike said that the “working environment” as it pertained to this area had improved (though not eradicated) since the inception of the code of conduct.

Workers also described a system of warnings and demerits that prevailed in the factory (similar to that in F1):

Table 2: A Point System for Behavior

Punishments		Rewards	
Warning (<i>jinggao</i>)	- 1 point	Bonus (<i>jiajiang</i>)	+1 point
Minor demerit (<i>xiaoguo</i>)	- 3 points	Minor merit (<i>xiaogong</i>)	+3 points
Major demerit (<i>daguo</i>)	- 9 points	Major merit (<i>dagong</i>)	+9 points

Source: Interviews

Employees could be fired if they accumulated a total of -27 points within two years. Previously, there were monetary fines associated with this system, a practice that was stopped after 1999 in an effort to comply with the code of conduct. At the time, a

warning was associated with a monetary fine of RMB11. Accordingly, a small offense carried a fine of RMB33, and perpetrators of larger offenses would be fined RMB99. What sorts of offenses might merit a warning or recording of an offense in an employee's file? The supervisors and managers possessed all the power to make these decisions.

Wages and Benefits

Pay scales differed in the factory. For example, stitching workers on the piece-rate system got RMB 5 per base number of completed pairs (*jishu*), usually taken to be thirty pairs. On the other hand, those doing handwork (*shougong*) only received RMB 4 per *jishu*. A normal workload consisted of eight hours of *jishu*, which meant completing 240 pairs. Those in the stitching department thought that their pay level was satisfactory, as it averaged from RMB800 to RMB900 depending on the volume of orders. On the other hand, non-production workers, such as those responsible for the cleanliness or security of the dormitories, could receive a much lower wage of about RMB500 per month. These workers found it difficult to subsist on such a wage, especially after food and other living costs at the factory were deducted. In general, production and non-production workers who were not married tended to think that pay was equitable while those who had to support children or spouses living in their home villages were inclined to have a more pessimistic view.

One worker said:

“When I first entered the factory, wages were so-so. At the time, workers could make at least RMB1,000 or thereabouts, compared to other factories in this area it was okay. But afterwards, in the past two years, maybe because productivity has been low, wages have been getting worse and worse. For us migrant laborers, we come out to make money, so it doesn't matter what kind of benefits you have, but the most important thing for us is to earn money. But I feel that in the past two years, wages have been relatively poor.”

One supervisor explained that the general dissatisfaction with the wage system stemmed from the fact that the managers frequently changed the way workers were compensated. The factory had moved from a strict piece-rate system to one where employees with longer tenure earned more:

“Stitching used to be paid by piece-rate. Workers work hard under this system -- if they work harder they get paid more. I don’t know what managers thought about it. But in June they changed it to a basic wage system. If you were good, they paid you RMB28. But those that just arrived in the factory only got RMB18 or RMB20. But there were a lot of discrepancies. Some people got paid by the hour, some were paid by the piece.”

According to this supervisor, many people left the factory after getting paid for the month, because they were not satisfied with the wage scale and did not like the insecurity embodied in the changes. Discovering that employees were unhappy with the system, management switched back to the piece-rate system. Some workers were not sure whether the economic downturn or mistaken management changes regarding workers’ wages and benefits were to blame for the general discontent about wages in the factory. However, most of those interviewed agreed that wages were not high enough, particularly if you had periodic episodes of forced “holidays.”

“I think that most of us migrant workers on the bottom rung, we all wish that our wages were higher. I think that now...this Nike...Nike is a famous company, and their benefits and wages for workers should be slightly higher than other factories. But I feel that Nike and other brands...I think that Nike pays even less than some of these other brands. This is my own personal view. Since Nike is a famous brand, and from what I understand does much better in various areas than most other brands, they should, for example in production workers’ benefits and welfare, increase the wages by a little more, if not there’s not much of a comparison. It’s like that now. About 80 percent of workers here feel this way -- coming out of their villages to work, they need to earn a little more money.”

Vacation Days and Mandatory Leave

Random “holidays,” where workers were instructed to take the day off and not show up at work, resulted from glitches in the production planning processes, such as not having enough materials for a production run or having too few orders to justify running a section of the production line. On the day that I arrived (Tuesday), the only people in their dormitories in the afternoon were those who had been forced to take one of these “public holidays” (*gongxiu* or *gongjia*) because their supervisors had told them that there were not enough materials. I was told that no one got paid during these *gongxiu*, even though management or uncontrollable circumstances caused the production interruptions. Other workers also off-duty on that day had an “adjusted holiday” (*tiaojia*), where they were told that they needed to return to work on Sunday and hence received that weekday

off. The workers would not receive legally mandated overtime pay for working that Sunday.

Workers also expressed solidarity and concern for others who suffered from the effects of having too much forced leave, as they might not have received enough income for a particular month to survive. They also expressed frustration at the code's declaration on the provision of minimum wages, saying that it was too general and helped to obfuscate its true intent.

“Does this refer to a monthly minimum wage guarantee or some daily wage guarantee? Because if I work for one day, I do get that day's wage. But those on “holidays” (*gongxiu*) don't get paid. And if I don't work for a whole month (*paijia*) I don't get paid either.”

On the opposite end of the spectrum was the fact that others were not allowed to use their mandated paid leave. One supervisor complained that supervisor-level staffs were forced to work during public holidays, such as Chinese New Year. In addition, they were not compensated at the legal overtime wage for work performed on national holidays (300 percent of normal wages).

“We have public holidays, and if you work on those holidays, you're supposed to get three times the normal wage rate. But here, they don't do that. They just adjust it so that they give you another vacation day another time. For example, we have to work on Chinese New Year. You have to work -- you have no choice. And they don't give us the overtime rate. According to Nike's code of conduct, on these Chinese public holidays like May 1st (Labor Day) or Chinese New Year, you're supposed to get three times normal pay, it doesn't matter if you're a worker or a supervisor. For Chinese New Year, workers are on holiday but supervisors have to work. They need us to work because there are fewer security guards and they're afraid that people might set fire to the factories.

We can't go back home for the holidays, as long you're male and you're an upper-level supervisor. You'd have to apply for permission if you want to go back, and you have to do it one to two months in advance. But it's really difficult to get permission, you have to apply and get a signature from the general managers. So in terms of holidays, this factory doesn't perform very well. Nike says that every year, you get paid vacation.

I get seven days of vacation per year. And I have to use it within January to June of each year. Nike doesn't have these sorts of rules. The factory is trying to cheat us -- if you don't take the vacation, you don't get the days off later. But most people can't take those days off in the first half of the year, so they have to forfeit them. It really is ridiculous.”

Remittances

When asked about remittances to their families, some workers mentioned that they usually tried to send money their families during the busy harvest or planting seasons (*nongmang*).

About half of the people I spoke to at the factory were married or had children. Those with spouses were more likely to live in their own apartments off the factory premises. All of those who had children mentioned that their parents were caring for the children. The children and grandparents all lived “at home,” in the rural interior provinces from where the migrant workers originated. None of the mothers could see their children more than twice a year, because of the long travel times, cost of travel, and tedious procedures of having to apply for vacation days. The money sent home to the workers’ parents helped to pay for the expenses of raising their children.

Working Hours and Overtime

Workers mentioned that their overtime hours had been reduced dramatically in the past few years. Those who could remember what it was like stated that from 1996 till 1998 workers still had to do regular bouts of overtime till 10pm or 11pm at night. Only in 1999 did the factory start to cut down on extra overtime hours.

“In the past, we had to do more overtime. When I first entered, we did overtime till really late, till about 11pm or so. That was the way it was then, we were rushing orders (*ganhuo*). Now we can’t do that. Even if you’re *ganhuo*, you still can’t exceed 36 hours. They’ve regulated it. Now -- 36 hours -- on the whole it’s one hour of overtime a day, at least.”

When asked whether they preferred reducing their overtime hours or doing more overtime in order to increase their earnings, some workers responded that they preferred not having to work too much overtime. They tended to compare their current jobs with previous employment in offending factories where forced overtime was rampant, and complained that such a lifestyle was unsustainable.

However, most of the other workers voiced the serious concern that at some factories in the compound (non-Nike production lines), workers who did overtime were not getting compensated for it, either in regular wages or overtime wages. The pressure accruing from the restriction of overtime hours directly caused these violations. With

fewer hours left to fulfill the same heavy production quota, first-line supervisors were depriving workers of their earned overtime income by lying about or ignoring the extra number of hours they worked. For example, a worker that did 90 hours of overtime might only get 30 hours of overtime reported. Often, if the total number of overtime hours exceeded 36 hours a month, the managers would not sign the slips indicating that those overtime hours were worked.

“Nike’s code of conduct has helped workers a lot. Over at the other brands, nobody checks – if there’s overtime (and there is), their codes of conduct are not implemented as strictly – there is a lot of overtime and forced holidays. The problem might be with the first-line supervisors, and managers don’t know it. At the same time, these first-line supervisors are doing it under company orders.”

Unions and the Freedom of Association

No one at this factory initiated the topic of unions or freedom of association when discussing changes that had occurred as a result of the code of conduct. In response to a question about grievance channels and whether they had or would resort to union-led mediation, workers said:

“We have suggestion boxes. No, we’ve never used them. They have them everywhere, in the manager’s offices, in the dorms. Anyway, you can put in your suggestions if you want. They lock the suggestion boxes – they can check it. I think they check every two days. They must check it, if not it would be pointless to put in a suggestion. The supervisors usually say that they’ll handle the cases for you.”

Industrial Action

A wildcat strike took place in early 2001 at the chemicals and rubber processing units of the entire factory.¹⁹ The half-day long strike was held to protest the lower wage scale of workers at these factories – a monthly salary of RMB500-600 as compared to other production workers who earned at least RMB700-900. The striking workers also felt compelled to resort to industrial action because they perceived their work as harder and more tiring than other operations, which justified higher pay and not smaller wages. Another factor for the strike was to protest the apparent inequitable treatment by first-line supervisors who favored those who originated from their own provinces. This treatment

included reporting more hours (and hence wages) for workers from the supervisors' own hometowns and villages.

How did the factory bosses react to the strike?

“The factory’s highest-level supervisors came to solve the problem. They adjusted the wages. They didn’t fire anybody. In this respect, the managers did a good job. Well, the incident happened because of their own weak management anyway, when they were calculating wages. It’s what they did that made the workers feel that the situation was unfair.”

Supervisors and workers alike were not impressed with the official union at the factory, especially given the fact that it had not used its role to help the striking workers:

“I don’t really know much about the union because I came to the factory in 1998. I don’t even know when the union started, but from what I know, I don’t think the union has done very much – in many things -- like last time when there was the strike, the union didn’t do anything. With this problem – workers should have looked for the union, right? But workers didn’t look for the union because they didn’t think it was of any use and it was as if it didn’t even exist. Another thing is that the union didn’t even come out to say things on behalf of the workers or anything. They didn’t deal with it. Our factory’s union doesn’t have any effect. It is quite useless.”

Health and Safety

Workers mentioned that they had been trained and had attended classes on health and safety issues such as fire safety, where they learned to operate fire extinguishers. Local supervisors responsible for the security and safety of the factory compound taught these courses. Workers also mentioned having to put on their personal protective equipment (PPE), such as masks and gloves. The ones I spoke to associated the effectiveness of such training with the security that came with knowing that they would at least be able to protect themselves if such a situation occurred. However, the same workers said that although they knew that the materials safety data sheets (MSDS) contained information about the chemical components of the solvents, they were not really sure what chemicals existed in the solvents they were using and specifically what hazards those chemicals posed to their health.

¹⁹ One worker informed me of the incident in private, and a supervisor later confirmed it.

“The glues should be chemicals, right? They’re made of different chemicals. We don’t really know what chemicals are in the glue.”

They were not even sure if the solvents were water-based or not. But they acknowledged that supervisors were strict about enforcing their use of PPE.

“Usually you have to put on two gloves. We can’t just wear one. We’re not allowed to cut off the tips of the gloves. The company regulates it – if the supervisors saw it they would say something to them (the workers), and correct it. The supervisors have to come to the assembly line to take a look, they can’t be sitting in their office all day, they have to understand what’s going on!”

On the other hand, another worker praised what he saw as Nike’s good behavior in terms of trying to phase out powerful chemical solvents with water-based solvents. He noted that the other brands (that are also clients of the factory) had made no such efforts, and still use regular solvents in production.

Most people were far less sanguine however, on the prospect of management becoming truly concerned about workers’ health and safety issues. One example involved the handing out of PPE. Workers in a section of the factory that was particularly polluted requested more frequent changes of PPE because of the excessive levels of dust and noise. The workers even knew that factory regulations stipulated that their PPE be replaced twice a week. However, the workers’ PPE failed to get replaced as quickly, or the ones they were given did not fit the standard. One worker said of his colleagues:

“When they returned home their clothes were completely black, they had to shower every single day – they were black from head to toe - all the dust had squeezed in. As long as there is some air, the dust will squeeze right in. So although we kept requesting that they make improvements, and although the factory has been working on this, there are many areas that still need improvement, particularly for the laborers’ working environment.”

Child Labor and Forced Labor

The issue of child labor did not materialize during discussions about the contents of the code. When pressed about it, workers were vaguely “sure” that the factory did not employ child labor and did not seem to worry about the issue that much. One worker attested to the efficacy of such a line item in the code, explaining that she had been turned

down for employment at the factory a few years ago because she had been a few months shy of her 18th birthday, and had to come back later.

Summary of Findings:

- Verbal abuse ranked high on the list of problems at the factory. Some said that the code had brought about slight improvement in this area but the practice was still prevalent.
- Workers were forced to take leave when there were production interruptions, but were not compensated the wages for those days. Workers expressed concern for those who earned significantly less, and there was general dissatisfaction with the level of wages and changes in the system of earning wages (piece rate vs. time rate)
- Excessive overtime had been curbed but workers expressed concern for those whose income had been drastically reduced as a result.
- Some workers had participated successfully in a strike to raise their wages and improve working conditions, although without the help of the official union at the factory.

Chapter 3

ASSESSING THE IMPACTS OF CODES OF CONDUCT

The previous chapter delved into the history, processes and impacts of code of conduct implementation in three similar yet unique footwear factories. Some of the observations include:

- Reduction in excessive overtime hours appeared to be the largest immediate impact of the codes;
- Workers and supervisors relished their increase in spare time, because it allowed them to take part in activities outside of work. However, working less overtime presented new problems for some of the workers, who saw their incomes reduced;
- “Forced leave” with no compensation was a still problem for one factory, but instances of “forced leave” were compensated in another factory;
- In terms of the freedom of association clause in the code of conduct, one factory responded by conducting elections for an “independent” trade union. Managers at the other two factories pointed out that independent trade unions were illegal and with implicit consent of their brand clients, ignored the clause;
- Monetary fines featured prominently in the discussion on disciplinary practices – although all the factories claimed that they had wiped out the practice, workers at F1 affirmed that it still took place;
- The discrimination clause in the code is often taken to refer to age discrimination. An unexpected insight was that employment discrimination, for example for job promotions, by supervisors against those not from their native regions was perceived by workers to be more prevalent and unscrupulous;
- The harassment and retaliation clauses were difficult to measure because of a lack of standard indicators – the factories gave no indication of how they adhered to these clauses, and workers’ evidence was anecdotal;
- All factories claimed that they fully complied with the child labor and forced labor clauses in the codes.

Additional Observations

Does the proliferation of codes of conduct lead to confusion? F1 produces for other brands such as Reebok, Lotto, Saucony, and Avia (interview with manager at F1) in addition to Nike and adidas. F3 in turn manufactures for K-Swiss, Merrell, Nautica, L.L.

Bean, Danner, LaCrosse and Brooks.²⁰ Given that F1 and F3 are OEM manufacturers for more than one brand, the variety of the codes to adhere to added to the complexity of implementation on the shop floor, and hence further complicated efforts to comply with them. In addition to the multiple company codes of conduct, all three factories are currently (or have at one time) undergoing the certification and audit process for FLA membership and SA8000 certification. As it turned out, having to deal with so many codes at F1 and F3 led the managers to view the codes as merely a “concept” to think about, with greater importance attached to local regulations. Hence, the contractors were not concerned about the shades of variation embedded in the content of the codes. Code compliance meant making changes to the items that the brands specifically wanted them to deal with first. There was less of a collaborative nature to the relationship with the brands, which might have allowed the contractors more autonomy and more opportunities to comply based on their own belief in the system. Also, headquarters at both F1 and F3 developed their own versions of codes of conduct as a response to lessening the complexity of dealing with multiple codes. The F1 company code was disseminated to all factory managers for their own information and for use in factory sites where the brands did not impose their own codes of conduct, as well as to subcontractors informing them of the company’s new standards (interviews with CR managers at F1). The F3 code was framed and hung on a wall in a conference room inside the management office building (personal observation).

In terms of third-party auditing, the factories are more resistant to talking about the results of external (FLA and SA8000) audits than they are to pointing out the pitfalls or benefits of company code implementation efforts. Also, the concept of third-party codes and their concomitant monitoring and verification processes is more esoteric for both factory managers and workers. Some managers stated that they simply did not see the purpose of FLA audits, beyond the fact that the brands were members of the organization and thus had obligations to open their factories to audits. A brand representative stated that he wished the auditors would conduct their ratings based on the brand’s own efforts to improve conditions and enforce compliance from the factory, instead of just inspecting whether conditions fell below the standard. Managers also

²⁰ Information from the company’s corporate brochure.

complained that they were not involved in the process, that they received word that unannounced visits would take place. However, at one factory a manager admitted that although their FLA audit was supposed to have been unannounced, they received a warning from the brand client who knew that the auditors would be coming. This left them time to prepare for the impending assessment.

In addition, some managers felt that the third-party auditors had incentives to discover petty violations during their factory audits, because this would imply that they were doing their job. One manager described the auditors' glee and probably relief at finding minor infractions as "joy that comes from discovering precious treasure." The factory managers acknowledged their distrust of the auditors, especially given their suspected lack of industry knowledge and professionalism.

Workers from all three factories were confused in general about third party auditing and their factories' attempts at achieving SA8000 certification. They were not aware of what the FLA was, and had no idea that the SA8000 standard related to labor issues. Those who had heard of it referred to SA8000 in the same breath as ISO 9000 and ISO 14000, and indicated that they understood that their factories working hard to get certified in these standards.

Although the three factories shared similar organizational characteristics and structure, subtle variations in their relationships to the brand firms as well as differences in the processes of initiating and maintaining code compliance led to vastly dissimilar outcomes. I shall show in this chapter that in their current form and under certain conditions, labor codes of conduct did bring about limited positive impacts on working conditions in the three separate footwear factories, although there was much room for improvement.

Similar Codes, Similar Factories, Different Outcomes

The information gleaned from the data in Chapter Two tells us something striking, that within the same region (Guangdong) and the same industry (footwear manufacturing), the three factories that shared comparable subcontracting relationships with brand firms differed significantly in enforcement of codes of conduct. The necessity of code implementation engendered different strategies by the brands and contractor

management for introducing codes to the factories. The three factories also employed diverse processes for code implementation, which then led to unique outcomes with varying levels of impacts. These outcomes comprised “fixes” of violations and improvements in working conditions. In the case of F2, the outcome of code implementation also encompassed deeper and unexpected positive ramifications for workers.

The table below illustrates a matrix of organizational variables across the three factories, to show the similarities and differences in the setup as well as some “institutional” changes that were visible after implementation of the code.

Table 3: Matrix of Select Factory Characteristics

ISSUE		F1	F2	F3
SELECT FACTORY CHARACTERISTICS	Size of factory	30,000 and 23,000	4,500	12,000
	Factory ownership	Taiwanese	Joint Taiwanese and Hong Kong	Taiwanese
	Brand structure	Multiple clients	Single client	Multiple clients
	Existence of Corporate Responsibility (CR) department	Yes, seven-member team coordinating CR for all factories in China.	None designated as such. Labor issues handled by brand representatives, local managers, and trade union.	Yes, three-member team.
	Presence of counseling center (grievance channel separate from corporate responsibility staff)	Yes, headed by Taiwanese management.	Yes, headed by local manager.	No, workers need to go straight to the CR manager.
	Organization of workers entertainment activities and amenities	Management	Workers	Management

Although the factories were similar in that they were owned and operated by Taiwanese management (there was joint ownership of F2 with Hong Kong investors, operational managers were Taiwanese), some key differences lay in the relationships with their brand clients. F1 had multiple factories in different sites in the same locality (Dongguan), each factory manufacturing “exclusively” for one brand alone. F2 occupied one location and manufactured exclusively for one brand. F3 manufactured for different

brands but the production processes for each brand were segregated by buildings (F3 was situated in one locality).

Implementation of the brand codes of conduct led to different results in each of the three factories. All of the factories reported that the greatest impact had been in the reduction of working hours and excessive overtime, and there had been some measure of change in both management' and workers' attitudes towards the codes and towards each other. However, large differences were registered in their responses to the freedom of association clause (only F2 purported to have an independent trade union), in disciplinary actions (there were discrepancies in F1 between managers and workers regarding the monetary fines, while F2 and F3 allegedly stopped the practice), and in respecting the dignity of workers (employees in F3 reported that this issue still deserved attention). Regarding wages, there were differences in actual compliance to the code, and in attitudes towards wage levels and payment systems. F3 withheld overtime wages and played games with adjusting work days and vacation days, while F2, which dealt with the same problems with production planning did pay workers for the "forced holidays." Although workers at F2 did not make marginally more than their counterparts at F3, they were far happier with their wage amounts and systems of calculating total pay.

Other differences lay in the degree of institutionalization of code implementation efforts – some changes were led by the brand while other efforts were spearheaded by the factories themselves: F1 hired staff for its new "corporate responsibility" department while F3 diverted existing staff towards its corporate responsibility efforts, although it played more of a public relations role than at F1. Reebok stationed local managers in F2 who were solely responsible for its "Human Rights Standards" and workers' issues. adidas required SOE departments in factories, which had to provide training to managers and workers.

Positive Changes

More importantly, there were several unanticipated positive impacts at each of the factories:

- Managers and supervisors in F1 and F2 brought up productivity enhancements as examples of impacts from complying with the reduction in excessive overtime hours;
- There were perceived management-side attitudinal changes regarding code implementation efforts at F1 and F3, from reluctance to more of a wait-and-see approach, which ostensibly provided more legitimacy for the process. At F2 the change was more pronounced, with observed attitudinal changes from managers and supervisors towards workers, and within individuals themselves;
- In F2, workers and supervisors both felt that there had been positive changes in the “quality” of workers. There were also improvements in on-the-job attitudes, and more workers were aware of their rights at the workplace.
- The process of electing union representatives in F2 led to feelings of empowerment of workers, because they participated in the process and could demand change and accountability. Even the excitement in seeing what the union representatives could do and the activities they could join in made several workers want to join the union and play a part. They also learned that they had a place to turn to for mediating conflict and thus felt that their lives at the factory were more secure.

Factors Determining the Level and Quality of Code Impacts

I. Brand Commitment to Change

A number of possible variables can be used to explain why the code impacts at F2 seemed more substantial, and why the factory as a whole seemed to perform better than the others. Charismatic and persuasive leadership in the form of Reebok’s lead (and expatriate) Human Rights manager embodied the heavy commitment of the brand to making an impact, especially at the ground level (interviews with supervisors). In addition, F2 manufactured solely for Reebok at one site. The exclusive nature of the relationship meant that Reebok was able to “dictate” the type and pace of change at the factory, from installing water heaters to deciding on the date of the union election. The depth of the changes, for example actually committing to the freedom of association clause, also showed that Reebok possessed a commitment to creating positive impacts

(interviews with F2 supervisors). In a move that further demonstrated this commitment (to managers and workers alike) to the HR Standards, Reebok established a constant presence at F2 by hiring two local Human Rights managers (only one manager remains now) who are solely responsible for workers' affairs. Although these staff live and work at the factory, they are clearly Reebok employees. This provides a measure of separation for workers who are not comfortable addressing factory staff with their grievances -- they can approach Reebok directly.

On the contrary, at both F1 and F3 it is primarily factory-appointed staffs in the form of corporate responsibility managers that attend to day-to-day labor-related issues and are the "go-to" personnel for worker complaints or employee conflicts. Nike's manufacturing managers are also given labor-related responsibilities, but the primary function of manufacturing managers is to ensure adherence to production and quality standards, not merely compliance to the code of conduct. Nike's internal compliance officers conduct periodic audits, but they are not permanently stationed at the factory sites. adidas also relies on factory-appointed "SOE staff" from the contractor side to monitor compliance on a daily basis, with regular checkups performed by adidas' labor and health and safety managers.

Degree of Financial Support

The level of financial support from the brands in paying for the administrative costs of code compliance was viewed by the contractors as an important indicator of the brand's commitment to making the codes work, apart from the extent of "public endorsement and approval" of the contractors offered by the brands via their internal supplier ranking systems. It is unclear how the costs of physical improvements were divided exactly between F2 and Reebok, but on the whole, administrative costs (which include extra time spent on enforcement activities) for ensuring "code compliance" were overwhelming borne by the contractor factories. Managers at F1 reported that adidas did not provide much in the way of financial support. An adidas representative confirmed the view that the brand should not have had to cover certain costs of compliance. For example, when adidas demanded that F1 install new machine guards, it did not claim responsibility for the costs, saying that F1 should have made the changes to begin with:

“We gave them six months to make the changes. They had to bear the costs (by themselves) – those are their machines! It is to protect their own workers... honestly we are not asking for anything. I think so far we are quite reasonable, we are not asking them to put in lots of expensive equipment. They can just go out and ask some of the local suppliers to make the guards as long as they fit the purpose. That’s fine for us. We don’t ask them to go back to the original machine supplier to make expensive guards.

You can say that they have to bear all the costs for machinery guards or fire safety protection, but that is for their own good. Even if we don’t tell them to do it, they should have them in place rather than having us ask them to do it.”

In turn, F1 complained that they had paid up to US\$200,000 to institute the changes that adidas asked for, and indicated that Nike, their other important client, showed more commitment and support by jointly paying the costs of several programs (such as the provision of evening classes and high school certification for workers). One manager concluded:

“adidas doesn’t have much of a plan. Nike -- in some areas such as environmental protection – they spend money to hire technical professionals. The MESH system – it can even exceed ISO 14000 and OSHA (requirements). They have a program, and they have a plan to get ISO14000 certification. adidas doesn’t have this sort of plan. They don’t have the professionals.”

On the surface, Nike matched its public commitment to code compliance with monetary support for some of its contractors, as well the design and utilization of compliance systems that harbored more of a “professional” outlook.

II. Nature of Brand-Contractor Relationship

Which is more powerful – the brand firm or the contractor firm? The answer lies in the ability of brands to regulate contractors and subsequent subcontractors, or the ability of contractors to resist this particular form of labor regulation. Although management at F1 typically stated that all the brands’ goals and methods of achieving “corporate responsibility” were similar, further questioning brought out subtle notes of dissent regarding each brand’s attitude and strategies. The managers at all three factories were hesitant to declare that their own factory’s relationship with its main client might have been the most intimate compared with other contractors that their brands worked

with, but they “hoped” that the relationships were close and profitable. As noted above, F1 perceived that its relationship with Nike was “better” than its relationship with adidas, because it received more support (financially and otherwise) from Nike. Summarizing F1’s relationship with Nike, a manager said:

“Our company on its own – do you think it would do a lot of things by itself? Big changes – that would be difficult. Even for visitors to come and see our factories, we have to ask permission from Nike, because our factories belong to Nike. We are not independent.”

The competitive tension allowed F1 to “play sides,” by comparing adidas’ efforts at code compliance with Nike’s. adidas might have possessed the same level of “commitment” as Nike (or even more) to ensuring factory compliance with its SOE, by exerting constant pressure on F1 to pay for and institute physical upgrading and conduct regular SOE training for workers. However, in adidas’ internal compliance department’s annual ranking of footwear suppliers, F1 had never made to the top of the list or won an award. The adidas representative attributed one of the reasons for this to the fact that F1 was “too slow” in implementing changes it asked for:

“Sometimes I’m not really satisfied because they move forward really slowly. In terms of progress, we ask them to change, to implement the action plan. Most of the other factories have finished (what we told them to do) already. But the last time we visited F1, we found out that some of the machines were not properly guarded. It made me a bit irritated. Maybe they are a little too big, but they should put in more resources to make this thing work.”

In turn, F1 expressed its dissatisfaction at adidas for constantly ranking it below other suppliers, despite its perception that it had made numerous efforts to improve factory conditions. It blamed the results on an unfair process of grading, which was conducted by different personnel in each supplier site and therefore highly subjective. On the other hand, F1 praised Nike for having a better supplier ranking system that assigned points for each area of compliance.

F1 is Nike’s largest footwear contract manufacturer in China. It is adidas’ largest footwear contract manufacturer in China as well. However, although adidas might have made more determined efforts to ensure compliance to its SOE, this commitment was mitigated by F1’s resistance to adidas’ demands and preference for Nike’s “style” of

doing things (its tendency to cover part of the financial burden of implementing programs and code implementation in place of applying stringent pressure on other aspects of factory management).

Frenkel and Scott define a “compliance”-type relationship as one typified by brand initiation and enforcement of code compliance, while a “collaboration”-type relationship signifies a greater sense of partnership between brand and contractor, where “the code constitutes a basis for continual improvement of workplace performance and worker well-being.” (Frenkel and Scott 2002:9) It would appear on the surface that Reebok’s relationship with F2 demonstrated a slight improvement beyond a “compliance”-type relationship, to an association with “collaboration” characteristics. Management freely espoused their views (to the brand) on the difficulties and challenges of code implementation, while retaining some measure of autonomy and showing initiative in solving labor-related problems. For example, one manager mentioned an issue regarding wage differentials between two groups of workers that had prompted some unhappiness among one group. With the code in mind as a standard for gauging compliance with wage regulations, he revealed that he had been trying to think of a remedy to inject more fairness into the current wage situation. Mentioning that he felt that management always received brand support regarding all types of issues, he knew that if he could not figure out the solution by himself, he could always engage the brand in discussions regarding the problem. Instead of approaching the brand instantly without having thought through the issue and relying on the brand to dictate the solution, he displayed initiative and a willingness to experiment with deriving solutions within the bounds of the code, which exemplifies a facet of the collaborative relationship.

III. The Process of Code Compliance

We can turn to another factor that could explain why the outcomes of code compliance were different and some factories seemed to have better execution than others – the actual process of code compliance, divided into the discrete components of brand contributions and contractor obligations.

Although both Nike and Reebok formulated their codes of conduct in 1992, accounts of the history of code compliance in the individual factories revealed that

renewed attention to labor issues and visible changes such as the reduction in overtime hours only happened in the past two or three years. Although it is unclear what the actual factors were that led to the sudden move to code compliance during that period, several factors can be attributed to the phenomenon, such as the increase in media scrutiny on factory labor violations in China or the initiation of independent monitoring (each of the three factories have also submitted to FLA and SA8000 audits).

Procedural Operationalization

The Factory's Side of the Process

The factories differed in their processes for beginning and maintaining code compliance. Due to the increasing importance of a few key clients, management of the departments in F1's headquarters and the factories in China are not organized by location but by which brands are serviced. When efforts to initiate code compliance started, one of the first moves was to create corporate responsibility (CR) departments. The CR departments were considered management-level, superceding the human resources department. F1 also appointed factory managers to be SOE counterparts to the adidas SOE representatives. With the cooperation of Nike, F1 and F3 set out to "educate" workers about the code of conduct by printing out laminated cards that contained a variant of the contents of the code and distributing these to workers. F1 also printed out cards for adidas' workers, except that its SOE card also contained details on F1-specific regulations and admonishments.

On the contrary, F2 did not print out these cards for workers. It employed similar strategies as F1 and F3 to disseminate code information to the workers – daily "publicity" before starting the workday, posting versions of the code in all public spaces and bulletin boards. Yet its workers seemed to have a better understanding of what the Reebok Human Rights Production Standards entailed, and genuinely appeared to believe in its broader impact on their lives, exemplified by an increased recognition of their rights in the factory.

The Brand's Side of the Process

F2 seems to have performed better in code compliance merely by dealing with one of the most difficult aspects of the code – the article on freedom of association. In undertaking the effort, Reebok surpassed the other brands' efforts in “allowing” the right of workers to organize freely. The Nike code of conduct does not even mention freedom of association in its code of labor conduct. Instead, this item is misleadingly grouped under a general statement about best practices that it hopes its partners will have, and “the rights of free association and collective bargaining” are included under the rubric of “management practices.” Neither F1 nor F3 had made overt efforts to create an atmosphere conducive to the organic formation or tolerance of independent trade unions.

In the process of forming the union at F2, Reebok sought the help of Hong Kong-based nongovernmental organizations that are actively involved in labor rights and trade union advocacy. These groups conducted training for the new union representatives on issues such as the functions of trade unions and improving worker-management communication. This inclusion of civil society groups brought the process of code compliance to a deeper dimension. Mandating that the choice of union members would come about by a democratic election of worker representatives increased the legitimacy of union development efforts by both the brand and the factory. The process also signaled the brand's effort in building the capacity of workers, which led to greater feelings of empowerment for the workers and union leaders. This has greater implications for the ability and willingness of workers to push other boundaries in their lives and to protest other imposed constraints (due to their identity as migrant workers or women), and could ostensibly lead to greater political awareness and participation. Perhaps another more subversive, but no less important side effect of the creation of the union was the education of the factory managers -- witnessing the conflict-free election process and working with the new union representatives showed them that unions did not necessarily have to rely on adversarial approaches to management, and increasing workers' political power did not disrupt their daily production and personal routines but rather enhanced them.

Why did each brand or contractor put in the level of effort that they did in adhering to the codes? Why did some choose to address certain clauses rather than

others? In the previous section I explained that brand commitment plays a large role in distinguishing between “good” and “better” efforts at code compliance. Returning to the case of F2, we might also ask why Reebok had the impetus to do better by leading efforts to create the trade union. A main driver could have been a concern with preventing bad publicity or an obsession with generating good publicity due to constant consumer scrutiny and pressure. However, following this logic would imply that Nike should have performed much better and that its factories (F1 and F3) should have experienced the greatest positive impacts. We could also raise the question of whether Reebok would be able to replicate this model across all of its factories, or even whether it is even willing to. Unfortunately, there is very little evaluative data in this area, and only time and more media reports will indicate whether Reebok will pursue such a strategy.

IV. Focus on Worker Participation

Perhaps the most significant factor that distinguished code compliance efforts at F2 as compared to F1 and F3 relates to Reebok’s single-minded emphasis on the workers’ role in shaping compliance, particularly in the clause relating to freedom of association. The efforts to form the union converged on the brand’s belief that workers could make a difference in the process. Not only was their direct participation believed to be necessary in maintaining the legitimacy of the process for outsiders, it was also understood to be essential for ensuring that code compliance efforts themselves would not fail. In turn, the workers came to believe in their own power to make a difference.

Acceding power to the workers meant more than just allowing them to vote. Upon the election of the union, representatives had real autonomy in planning and dictating changes, organizing activities (such as an Autumn Festival banquet), and balancing the budget. Workers could inform their union members of what recreational facilities they would like to have, such as ping-pong tables and a reading room with magazines. Workers and supervisors were free to use the amenities in their spare time, and they did so with heavy frequency. Aside from the physical space allotted to them for leisure activities, an imperative to inducing their feelings of empowerment came from the provision of a metaphysical space, where they had freedom to engage in and organize their own activities.

In contrast, F1's factory management, and not the workers, organized leisure activities and dispensed factory amenities. F1 should not be faulted for attempting to initiate worker-related activities that were not required by either the brand or codes, such as social visits to the elderly in retirement homes or to children in orphanages. However, the prevailing attitude was that such activities were organized for the workers "out of the kindness of their (managers') hearts." A corporate responsibility manager informed me that the wish was for workers to participate in these social activities so as to ingrain them with the concepts of gratitude, respect, or care for others – qualities that the workers allegedly did not possess and needed to be taught.

V. Management Attitudes

Management attitudes towards the codes as well the workers dictated which philosophies for engaging workers -- paternalistic vs. participatory – would be used in the process of code compliance. As described in the previous chapter, management's attitudes towards the codes might have changed, and managers might have been convinced that the codes brought about productivity improvements. However, there were marked differences in the three factories in managers' and supervisors' attitudes towards the workers. Preconceptions about the workers as nothing more than uneducated peasants did not change at F1, and management exhibited a paternalistic view of them. The managers I spoke to complained that the anti-sweatshop activists and sometimes the brands themselves had failed to consider the low educational levels of workers and the challenges that this brought to factory management and the ability to comply with the code of conduct. They also used these factors to justify their belief that things had to be done for the workers instead of having workers participate actively in efforts at code implementation (such as involving workers in the code formulation and upgrading process), because workers were incapable of doing things for themselves. One manager tried to explain the "mentality" of workers in his factory:

"For a lot of things -- they don't even know what's best for them. For example, there are differences between a child and an adult. The adult can think, "I can't ask for everything." But the child won't be able to make that distinction. You need to tell him and teach him. I think that (our) workers now have not reached

that stage, I feel that they're not at that level where they can distinguish between what they want and what they need..."

At F2, both managers and supervisors had a sense that workers were clearer about their rights and responsibilities, and they acknowledged how this had led to production-related improvements. The prevailing view among workers was that the managers were good to them and treated them well. Supervisors in turn felt that workers were capable of making change happen, and that the input of workers during production processes or otherwise was necessary and beneficial. The level of verbal abuse, which only proved to them that managers and supervisors did not respect them, distressed workers at F3. Not surprisingly, code compliance efforts at F3 paled in comparison to F2.

The attitude that the managers harbored towards their employers -- whether they were workers or local supervisors -- served as an subconscious guiding force with regards to the process and outcome of code compliance, in addition to influencing the general atmosphere in the factory as well as generosity level in providing benefits and amenities not governed by the scope of the code.

VI. Communication of Key Concepts

The concept of codes of conduct, and their purpose and value, remain inchoate and imprecise even for those that conduct research on them. The notion of codes belongs to the current zeitgeist regarding corporate social responsibility, and for most factory managers and workers, remains embedded in a foreign culture and context that is incomprehensible. While the three factories made strides in introducing the codes to employees, some did not acknowledge the inherent difficulties in translating the true intent of codes or the challenges in adapting the concept to a form that was understandable in the local context.

Some managers at F1 talked about having to make workers memorize the items of the code. They admitted that this might not be useful if the workers did not actually understand the context and meaning of the code, but the managers did not want to get into trouble with compliance monitors who interviewed workers to check their knowledge of the code. Pressure to live up to that aspect of code compliance thus forced the contractors to resort to immediate measures to solve the problem. At both F2 and F3,

some workers confused the brand codes with independent certification systems like SA8000 or ISO 9000. The workers also commonly associated the brand codes with factory regulations. I do not believe that their confusion of the types of codes with the certification systems or factory regulations meant that factory efforts to train them in code content failed per se. However, it is a compelling argument that even at F2, where some workers also confused the content of the HR Standards with other certification systems, most of the workers still knew that the intent of the code was to improve working conditions and their lives at the factory. It might have been easier for F2 workers to associate the code with more tangible personal aspirations because the concept of “human rights” made more sense to them than the concept of a “code of conduct” or “standards of engagement.”

Summary

The following table presents a synopsis of the analysis -- an evaluation of the degree to which the factors that influenced the outcomes of code implementation were in place in each of the factories.

Table 4: Key Factors and Features for Shaping Code Implementation Outcomes, (S = strong; W = weak)

Factor	Feature	F1	F2	F3
Commitment of brand	Willingness to pay for compliance costs	S and W²¹	S	S
	Public commitment to code compliance	S	S	S
Influence of brand on contractor	Collaboration relationship	-	S	-
	Compliance relationship	S	-	S
Operationalization of processes for compliance	Creation of management roles and responsibilities for code and labor compliance	S	S	S
Attitude of factory management	Sensitivity to workers' capacity for involvement and participation in code compliance	W	S	W
	Openness to experimenting with new ideas for improvement	W	S	W
Focus on workers' participatory role	Transmission of code enforcement processes to worker level	W	S	W
	Creating space for workers to organize own activities and amenities	W	S	W
Communication of key messages	Commitment to improving workers' understanding of code concepts	W	S	W

²¹ This depends on which brand we are referring to (at F1).

In this chapter, I discussed the ways in which code implementation outcomes differed in each of the factories. I postulated that several major factors accounted for the differences in the outcomes, including the brands' commitment and influence, the focus on workers' participation and involvement, and the attitudes of factory management. Given the lessons that we have learned from analyzing code compliance factors and outcomes, I will lay out in the concluding chapter some of the limitations and challenges to implementing and enforcing codes of conduct in foreign-funded enterprises in China. In addition, I will present some implications for improving code compliance based on the knowledge of the factors necessary for achieving successful outcomes. Lastly, I will provide some policy recommendations for various stakeholders interested in strengthening the enforceability of codes of conduct. I then return to the issue of raising labor standards in China introduced in Chapter One, in order to make a case for the notion of active engagement based on the positive (and limited) results of code implementation in the three factories.

Chapter 4

Conclusion: Codes and Change

I. Making Codes of Conduct Work

China's labor regulations ostensibly protect workers from bad working conditions, but corruption, complicity with foreign firms, and resource limitations severely constrain the local government's ability to monitor and sanction law-breaking firms. I have shown in this thesis that the process of implementing corporate codes of conduct can provide positive impacts for workers in an environment where government enforcement is lacking. In the previous chapter, I documented a variety of impacts in the factories. In all three factories, management reduced excessive overtime and working hours for workers. This might have had unintended impacts on workers' wages, but most workers acknowledged that they preferred having more leisure time. Limited improvements were also noted in the areas of health and safety and disciplinary practices. There were wide disparities in the way factories pursued the freedom of association clause, and in the ensuing outcomes. Wages were not notably higher because of the implementation of the codes. The corporate codes of conduct worked to a limited extent, in that they forced the contracting firms to improve certain physical conditions at the factory.

One factory stood out in particular. What is most significant is that in the case of F2, implementing the code of conduct led to positive changes beyond the intended scope of correcting labor violations. F2 aggressively pursued the freedom of association clause by instituting an election for a trade union. In the process of doing so, workers and managers were educated about the role of the union. Union representatives received training on how to represent workers at the factory. Concomitantly, the workers reported more satisfaction in their lives at the factory. They were empowered to take action by asking their union to provide them with better amenities. They also pursued outside interests and activities with more gusto.

Under severe competitive pressures and in a tough economic environment, merely arguing the moral necessity of corporate social responsibility was not enough to convince the factories to do what was right. A combination of key factors was critical to implementing the code, including: brand commitment, using the right processes, and focusing on worker participation and empowerment. Reebok showed a commitment to change in the factory by addressing the part of the code that was the most difficult to

implement. It did it the “right” way by engaging with NGOs who had the expertise to provide union-based training for factory employees. As opposed to forcing employees to merely memorize the words printed on the code, these measures went beyond the duty of clarifying the intent and content of the code. Also, the brand and factory management gave workers freedom to organize activities and make autonomous decisions. This in turn gave them strong feelings of empowerment that spilled over to other areas of their lives.

Other factors played a part in making the codes work in F1 and F3. Brand commitment as exemplified in the form of financial support from the brand not only paid for the costs of upgrading infrastructure and providing services (evening classes etc.), but also “proved” to the contractor the level of the brand’s seriousness in making the factories comply with the code. When the brand (as in the case of Nike) used a clear and transparent process for ranking its suppliers, this was perceived by the contractors as being “fairer,” which also made them more willing to acknowledge their faults and work towards better solutions. Management attitudes also affected the outcome of compliance to the code. When managers had paternalistic and patronizing attitudes towards workers, overall code compliance was likely to be less successful.

II. Limits and Challenges to the Codes of Conduct

Scope and Scale: Micro-Level Changes, Macro-Level Problems

The impacts described in Chapter Three were specific to the three footwear factories. The limitations on the size of the sample, and the anecdotal nature of the data means that the results cannot be generalized for all footwear factories, or all foreign-funded enterprises, let alone all factories operating in China. The outcomes showed that limited improvements from the code can come about slowly, but only on a factory-by-factory basis. In addition, the number of workers who receive the benefits of code improvements remains small in relation to the total number of migrant workers toiling in state-owned or other enterprises in the same region. The effects of the codes are limited to those factories that respond to brand pressure, and the benefits of the codes do not reach the rest.

Free-Riding and Limits to Influences on Other Firms' Behavior

Factories often produce for multiple brands. However, the rules to ensure the impacts of implementing the major brands' codes might not spill over to sections of the factories (or other sites) that produce for brands with no codes of conduct. These divisions do not come under the same level of scrutiny as the sections producing for a major brand like Nike, for example. Then smaller and less famous brands can essentially free-ride on the major brand's efforts but not have to incur the administrative costs nor exhaust resources for conducting their own internal compliance or third-party monitoring.

Contextual Constraints

The concept of codes is still confusing for workers and managers in China, and the codes do not figure prominently in the lives of most workers. Parallel to this is both managers' and workers' lack of understanding of the role of unions and freedom of association. Chan (1998:125) points out that the Asian investors of joint venture or foreign-funded enterprises in China do not have a collective bargaining tradition. In addition, the officially sanctioned All-China Federation of Trade Unions (ACFTU) is a "weak bureaucracy" under close supervision of the Communist Party (1998:136), and theoretically all subsidiaries of unions belong under the administration of the ACFTU. The Party connection potentially undermines its legitimacy in the eyes of the workers. The ACFTU has been trying to speed up its unionization goal in foreign firms in Guangdong province since the 1990s (1998:135), but has not been particularly successful because it suffers from a lack of resources (1998:136). It is difficult to believe claims by corporations that their codes of conduct effectively promote an environment typified by freedom of association and collective bargaining, when they have not introduced training for factory employees on how their concept of unionization should be, or allowed even the ACFTU to open branches in the factories.

Legal Flux and Government Complicity

Managers in the three factories complained that the rules governing enterprises differed for each locality in Guangdong. In addition, the laws are upgraded periodically

and companies have to respond to new requirements, for example for minimum wage levels or trade union taxes. Added to the mix is a lack of government resources to monitor and regulate the enterprises effectively, and the reality that larger factories that bring in a lot of investment to the area have the power to lobby for a reduced level of regulation by local authorities. One supervisor mentioned:

“For ‘minor’ issues, the government cannot do anything, so there is no way you can sanction the companies. You can only make concessions (*tuirang*), because my factory is set up here and it’s brought a lot of benefits and advantages to the town, so in matters of policy you can only make concessions. For example, working hours – so what if I make workers work more than 36 hours overtime? So what if it’s 100 or 200 hours? The government has no choice in the matter, it can only give in (*rangbu*). This includes Panyu -- even Panyu District will give in to the businesses. It can only turn a blind eye (*zheng yizhi yan bi yizhi yan*).”

Over-Reliance on the Brands

In spite of the affirmative effects of the HR standards that occurred at F2, naysayers can still fault the code compliance process for being brand-led. The brands wield their clout as major clients to push recalcitrant contractors to comply. Reebok in particular relies on a charismatic and driven manager who desires change and motivates subordinates to produce results. What would happen if this manager or other key players resigned and left the company? Would the quality of compliance be sustained?

Stakeholder Fatigue

The brands featured in these contractor factories are large multinationals sensitive about image and reputation, and therefore relatively more responsive to stakeholder concerns than other factories in general. Yet, Rothstein alludes to the problem of consumer fatigue when the approach to protesting code efforts involves tackling individual firms and challenging each violation. He maintains “...there is a limit to consumers’ ability to juggle multiple boycotts, while code violations by distinct companies or in distinct countries are too numerous to count. Separate public campaigns around several simultaneous violations will inevitably conflict and confuse.” (Rothstein 1996:41)

“Fatigue” might also be registered in corresponding “corporate fatigue.” Here, companies fed up with the high costs (time and money) of administering code of conduct implementation and the lack of recognition for their efforts to improve factory conditions might be driven to avoid being monitored and attempt to shield themselves from scrutiny.

III. Implications for Improving Labor Standards

The lessons that we have learned about codes, and the factors for making them work substantiate the argument that corporations have a responsibility to play an active role in raising labor standards. They can do this by stepping up their level of efforts in enforcing code compliance. A laissez-faire approach, coupled with a lack of communication with factory management does not automatically lead to code compliance. Brand firms instead need to take the active engagement approach in addressing labor problems, because they wield tremendous power to make changes and bring about improvements. The amount of capital and investment they bring in via their supplier networks, and their connections with the government make them well placed to ask for and expect improvements not just in the sphere of labor rights but human rights as well.

Policy Recommendations

1. Making it Work for Workers

The code compliance process can only work with the involvement of workers themselves. Workers should be allowed the freedom to play a part in ensuring their own health and safety at the factories and improving their quality of life. They need education about their labor rights, as well as training on the roles and functions of union and collective bargaining. The content of the code should also be presented in terms that they can understand given the local context, not merely translated into the language.

The current monitoring process treats workers as victims. The process of conducting random interviews during audits only allows a passive role for the workers. Instead, to figure out what workers really need or whether codes are working, brands need to have real conversations with workers and engage them in dialogue about how to improve conditions.

2. Making it Work for Contractors

It is necessary for the brand to have a system of disseminating information on labor-related best practices and even expectations across all contractor factories, so that brand goals are clear. The contractors are starting to disseminate their own information on “best practices” as an internal mechanism for training management, but these efforts need to be promoted and standardized by brand firms for all contractors so that there is a clearer understanding of what is expected of the contractors.

Provide Training

Although Nike’s MESH system purports to train factory managers on specific management issues including labor-related concerns, the managers from F1 complained that they lacked practical suggestions on how to solve problems that they had been criticized on. They did not blame the brands for the lack of information. Rather, the managers leveled the blame on activists, charging them with being too strident in their censure of the brands and yet lacking in pragmatic solutions. The managers claimed that what they really needed were descriptions of actual, workable ideas which had been tested in practice, for example on how to create independent unions within the factories when the government considered them illegal. The difficulty, according to the factory managers, also lay in the fact that they were subjected to an ever changing roster of demands, often by people “unqualified” to make judgments or people who had no business experience and hence no real value or realistic ideas to offer.

Right now, the codes only talk about the minimum standards which contractors should aspire to or which should be achieved. The codes also describe a set of internally imposed regulations that cannot be violated. Factory managers (and workers) need to be consulted on updates and revisions to the codes, so that the rationale behind such changes, and the challenges faced by the contractors to implementation can be discussed. Brand firms also need to provide “training” on informing and educating management about unions and their roles in the factories.

Tie Code Compliance to Real Incentives and Real Support

Brands need to offer real incentives to reward contractors for instituting change and improving conditions. These should be reflected in better pricing terms on the production contracts, with assurances of continued or increased orders for firms with better code compliance performance. Beyond exhorting their contractors and suppliers to enforce the codes of conduct, brands also need to increase their level of financial support for code compliance efforts, so that the administrative costs do not become a burden especially for smaller factories.

Enforce Standardized Measures

Brands need to develop or refine their systems of benchmarking factories for code compliance, using standard metrics and auditing procedures that contractors can understand and agree with. Brands also need to offer clear performance measures and institute punitive measures for unresponsive suppliers, so that other factories will know that brand is serious about achieving code compliance

3. Making it Work for the Public

The public's enforcement power lies in its purchasing power. Consumers have the right to be able to make decisions on buying products based on information regarding how the products were sourced and under what conditions they were made in. As such, there is a marginal utility of good labor practices that affects consumer choice. While consumers and activists can continue to press corporations for change, they need and expect more transparency and accountability from the firms. What they need is information in order to wield their buying power. Brand firms should make public comparative measures of worker conditions and indicators, which reflect issues that consumers care about, such as:

- The level of benefits such as health and social insurance;
- Frequency of workplace accidents;
- The level of wages and bonuses;
- Scope and number of recreational facilities;
- Workers' opportunities for promotions.

In addition, NGOs or local civic groups that workers trust need to be a part of the independent monitoring process, and brand firms would do well to initiate dialogue with these groups in order to discuss possible implementable solutions for long-term code issues. The aspects of the code such as the clauses on discrimination, harassment, or freedom of association require training and long-term remedial processes in order to be effectively addressed. Given the relative inefficacy of the monitoring and auditing process, there are no guarantees that all brands and contractors alike will succeed in the effort to comply with these aspects of the code which are more difficult to comply with. This is where the public can exert pressure on the corporations by exposing their practices and bad behavior.

Through the research data, we have come to get a glimpse of the reality of code implementation in factories in China. Codes can be an implement to force recalcitrant contractors to improve their labor practices. Codes can also address some egregious violations that can be remedied relatively quickly. However, exploring these issues has produced seeds of possibilities for other research in this area, where longitudinal data (if available) would aid in furthering our understanding of codes' effectiveness. Among the most important questions that remain are: How can the role of local government be strengthened? How should independent trade union efforts be coordinated with the role of the ACFTU? How can the involvement of NGOs be assured and who is to determine the legitimacy of these groups?

Codes are an important step in responding to controversies over global working conditions. However, codes only work under certain conditions, for example when the brands push for enforcement and when workers are involved. There needs to be commitment and participation from multiple actors. Brand firms need to take responsibility for implementing these codes. However, as the research has shown, it is only through the combined energies and efforts of multiple stakeholders that codes – and broader efforts to improve workers' lives – can be more effective, credible, and ultimately sustainable.

Appendix One: Nike's Code of Conduct

From <http://www.nikebiz.com/labor/code.shtml>

NIKE Inc. was founded on a handshake.

Implicit in that act was the determination that we would build our business with all of our partners based on trust, teamwork, honesty and mutual respect. We expect all of our business partners to operate on the same principles.

At the core of the Nike corporate ethic is the belief that we are a company comprised of many different kinds of people, appreciating individual diversity, and dedicated to equal opportunity for each individual.

Nike designs, manufactures and markets products for sports and fitness consumers. At every step in that process, we are driven to achieve not only what is required, but also what is expected of a leader. We expect our business partners to do the same. Specifically, Nike seeks partners that share our commitment to the promotion of best practices and continuous improvement in:

Occupational safety and health, compensation, hours of work and benefits standards

Minimizing our impact on the environment.

Management practices that recognize the dignity of the individual, the rights of free association and collective bargaining, and the right to a work place free of harassment, abuse or corporal punishment.

The principle that decisions on hiring, salary, benefits, advancement, termination or retirement are based solely on the ability of an individual to do the job. There shall be no discrimination based on race, creed, gender, marital or maternity status, religious or political beliefs, age or sexual orientation.

Wherever Nike operates around the globe, we are guided by this Code of Conduct. We bind our manufacturing partners to these principles. Our manufacturing partners must post this Code in all major workspaces, translated into the language of the worker, and must endeavor to train workers on their rights and obligations as defined by this Code and applicable labor laws.

While these principles establish the spirit of our partnerships, we also bind these partners to specific standards of conduct. These standards are set forth below.

Forced Labor: The manufacturer does not use forced labor in any form – prison, indentured, bonded or otherwise.

Child labor: The manufacturer does not employ any person below the age of 18 to produce footwear. The manufacturer does not employ any person below the age of 16 to produce apparel, accessories or equipment. Where local standards are higher, no person under the legal minimum age will be employed.

Compensation: The manufacturer provides each employee at least the minimum wage, or the prevailing industry wage, whichever is higher; provides each employee a clear, written accounting for every pay period; and does not deduct from worker pay for disciplinary

infractions, in accordance with the Nike Manufacturing Leadership Standard on financial penalties.

Benefits: The manufacturer provides each employee all legally mandated benefits. Benefits vary by country, but may include meals or meal subsidies; transportation or transportation subsidies; other cash allowances; health care; child care; emergency, pregnancy or sick leave; vacation, religious, bereavement or holiday leave; and contributions for social security and other insurance, including life, health and worker's compensation.

Hours of Work/Overtime: The manufacturer complies with legally mandated work hours; uses overtime only when each employee is fully compensated according to local law; informs each employee at the time of hiring if mandatory overtime is a condition of employment; and, on a regularly scheduled basis, provides one day off in seven, and requires no more than 60 hours of work per week, or complies with local limits if they are lower.

Management of Environment, Safety and Health (MESH): The manufacturer has written health and safety guidelines, including those applying to employee residential facilities, where applicable; has a factory safety committee; complies with Nike's environmental, safety and health standards; limits organic vapor concentrations at or below the Permissible Exposure Limits mandated by the U.S. Occupational Safety and Health Administration (OSHA); provides Personal Protective Equipment(PPE) free of charge, and mandates its use; and complies with all applicable local environmental, safety and health regulations.

Documentation and Inspection: The manufacturer maintains on file all documentation needed to demonstrate compliance with this Code of Conduct; agrees to make these documents available for Nike or its designated auditor to inspect upon request; and agrees to submit to labor practices audits or inspections with or without prior notice.

Appendix Two: Reebok's Human Rights Production Standards

From <http://www.reebok.com/Reebok/US/HumanRights/text-only/business/standards.html>

A Commitment To Human Rights: Reebok's devotion to human rights worldwide is a hallmark of our corporate culture. As a corporation in an ever-more global economy, we will not be indifferent to the standards of our business partners around the world. We believe that the incorporation of internationally recognized human rights standards into our business practice improves worker morale and results in a higher quality working environment and higher quality products. In developing this policy, we have sought to use standards that are fair, that are appropriate to diverse cultures and that encourage workers to take pride in their work.

Application Of Standards: Reebok will apply the Reebok Human Rights Production Standards in our selection of business partners. Reebok will seek compliance with these standards by our contractors, subcontractors, suppliers and other business partners. To assure proper implementation of this policy Reebok will seek business partners that allow Reebok full knowledge of the production facilities used and will undertake affirmative measures, such as on-site inspection of production facilities, to implement and monitor these standards. Reebok takes strong objection to the use of the force to suppress any of these standards and will take any such actions into account when evaluating facility compliance with these standards.

Non-Discrimination: Reebok will seek business partners who do not discriminate in hiring and employment practices, and who make decisions about hiring, salary, benefits, training opportunities, work assignments, advancement, discipline, termination and retirement solely on the basis of a person's ability to do the job.

Working Hours/Overtime: Workers shall not be required to work more than 60 hours per week, including overtime, except in extraordinary circumstances. In countries where the maximum workweek is less, that standard shall apply. Workers shall be entitled to at least one day off in every seven-day period. Adherence to this Reebok Standard is a sign that factory management efficiently organizes its production planning and workflow.

No Forced Or Compulsory Labor: No factory making Reebok products shall use forced or other compulsory labor, including labor that is required as a means of political coercion or as punishment for holding or for peacefully expressing political views. Employers will maintain sufficient hiring and employment records to demonstrate and verify compliance with this provision. Reebok will not purchase materials produced by any form of compulsory labor and will terminate business relationships with any sources found to utilize such labor.

Fair Wages And Benefits: Reebok will seek business partners committed to the betterment of wage and benefit levels to the extent appropriate in light of national practices and conditions. Reebok will not select business partners who pay less than the minimum wage required by applicable law or who pay less than the prevailing local industry wage.

No Child Labor: Reebok will not work with business partners that use child labor. The term "child" refers to a person who is younger than 15, or younger than the age for completing compulsory education in the country of manufacture, whichever is higher.

Freedom Of Association: Reebok will seek business partners that share its commitment to the right of employees to establish and join organizations of their own choosing. Reebok recognizes and respects the right of all employees to organize and bargain collectively.

Non-Harassment: Reebok will seek business partners that treat their employees with respect and dignity. No worker will be subject to any physical, sexual, psychological, or verbal harassment or abuse.

Safe And Healthy Work Environment: Reebok will seek business partners that strive to assure employees a safe and healthy workplace and that do not expose workers to hazardous conditions.

Non-Retaliation Policy: Factories must publicize and enforce a non-retaliation policy that permits factory workers to express their concerns about workplace conditions without fear of retribution or losing their jobs. Workers should be able to speak without fear directly to factory management or Reebok representatives.

Appendix Three: adidas' Standards of Engagement

From <http://www.adidas-salomon.com/en/overview/>

Standards of Engagement

Authenticity. Inspiration. Commitment. Honesty.

These are some of the core values of the adidas brand. We measure ourselves by these values, and we measure our business partners in the same way.

Consistent with these brand values, we expect our partners - contractors, subcontractors, suppliers, and others - to conduct themselves with the utmost fairness, honesty, and responsibility in all aspects of their business.

These Standards of Engagement are tools that assist us in selecting and retaining business partners that follow workplace standards and business practices consistent with our policies and values. As a set of guiding principles, they also help identify potential problems so that we can work with our business partners to address issues of concern as they arise.

Specifically, we expect our business partners to operate workplaces where the following standards and practices are followed:

I. General Principle

Business partners shall comply fully with all legal requirements relevant to the conduct of their businesses.

II. Employment Standards

We will only do business with partners who treat their employees fairly and legally with regard to wages, benefits, and working conditions. In particular, the following guidelines apply:

Forced Labor: Business partners shall not employ forced labor, whether in the form of prison labor, indentured labor, bonded labor, or otherwise.

Child Labor: Business partners shall not employ children who are less than 15 years old (or 14 years old where the law of the country of manufacture allows), or who are younger than the age for completing compulsory education in the country of manufacture where such age is higher than 15.

Discrimination: While we recognize and respect cultural differences, we believe that workers should be employed on the basis of their ability to do the job, rather than on the basis of personal characteristics or beliefs. We will seek business partners that share this value, and that do not discriminate in hiring and employment practices on grounds of race, national origin, gender, religion, age, disability, sexual orientation, or political opinion.

Wages and Benefits: Business partners shall pay their employees the minimum wage required by law or the prevailing industry wage, whichever is higher, and shall provide legally mandated benefits. Wages shall be paid directly to the employee in cash or check or the equivalent, and information relating to wages shall be provided to employees in a form they understand.

Advances and deductions from wages shall be carefully monitored, and shall comply with law.

Hours of Work: Employees shall not be required to work more than sixty hours per week, including overtime, on a regular basis and shall be compensated for overtime according to law. Employees shall be allowed at least 24 consecutive hours off per week, and should receive paid annual leave.

Right of Association: Business partners shall recognize and respect the right of workers to join and organize associations of their own choosing.

Disciplinary Practices: Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

III. Health and Safety

Business partners shall provide a safe and healthy working environment, including protection from fire, accidents, and toxic substances. Lighting, heating and ventilation systems should be adequate. Employees should have access at all times to sanitary facilities, which should be adequate and clean. When residential facilities are provided for employees, the same standards should apply.

IV. Environmental Requirements

Business partners shall comply with all applicable environmental laws and regulations.

V. Community Involvement

We will favor business partners who make efforts to contribute to improving conditions in the countries and communities in which they operate.

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