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STRENGTHENING IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY IN GLOBAL SUPPLY CHAINS
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October 2003
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Acronyms and Abbreviations

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AVE</td>
<td>Foreign Trade Association of the German Retail Trade</td>
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<tr>
<td>BSR</td>
<td>Business for Social Responsibility</td>
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<td>CCC</td>
<td>Clean Clothes Campaign</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DIHR</td>
<td>Danish Institute for Human Rights</td>
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<td>ETI</td>
<td>Ethical Training Initiative</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FLA</td>
<td>Fair Labor Association</td>
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<td>FWF</td>
<td>Fairwear Foundation</td>
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<tr>
<td>GRI</td>
<td>Global Reporting Initiative</td>
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<tr>
<td>ICTI</td>
<td>International Council of Toy Industries</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>KFC</td>
<td>Kenya Flower Council</td>
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<tr>
<td>NGO</td>
<td>Nongovernmental Organization</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>PwC</td>
<td>PricewaterhouseCoopers</td>
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<tr>
<td>SAI</td>
<td>Social Accountability International</td>
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<tr>
<td>SASA</td>
<td>Social Accountability in Sustainable Agriculture</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-size Enterprises</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<tr>
<td>WRC</td>
<td>Worker Rights Consortium</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Amidst the ongoing debate on how best to achieve good social and environmental practices in global supply chains, the World Bank Group commissioned a study on barriers to the achievement of better social and environmental performance in suppliers, and also on the options that hold the greatest promise for overcoming those barriers and enabling future improvement.

Specifically, in the words of the Bank Group, the overall objective of the study is to “. . . contribute to a broader goal of removing unnecessary barriers to CSR compliance at the supplier level in global supply chains, enabling more suppliers to implement CSR standards more easily.”

The specific objectives of this study are to:
- Identify the key barriers to improved implementation of codes of conduct at the level of suppliers.
- Identify and prioritize viable options for addressing these barriers.

BACKGROUND AND PROCESS

This report is based on the perspectives collected in consultations with close to 400 individuals, including almost 200 workers and 200 representatives of organizations and companies, and the subsequent analysis of the project consortium on the feedback received.

The study focuses attention on the apparel and agriculture sectors, and draws upon consultations in China, Honduras, India, Kenya, the United States, and Europe. The project consortium met with a diverse range of parties in these locations, including suppliers, stakeholders (nongovernmental organizations [NGOs], trade unions, multistakeholder initiatives, business networks and public officials), buyers (multinational companies), and workers. Consultations were conducted during a 10-week period between May and July 2003.

The identification of key barriers to improved implementation of codes of conduct departed from the testing of a select group of key barriers (key challenges and underpinning assumptions) identified by the World Bank in its Terms of Reference for the study. The three key challenges put forward by the Bank are:

1. “The plethora of individual buyer CSR codes is now generating inefficiencies and confusion.” The statement suggests the need to readjust and fine-tune the present system of implementation. It accepts the view that codes of conduct are an essential tool in the pursuit of better social and environmental conditions, and therefore does not question the trajectory, but rather implicitly calls for a need to adjust it and make it work more efficiently, possibly by promoting increased standardization of existing principles.

2. “An increasing number of buyers are recognizing that traditional top-down CSR strategies are not achieving improved CSR implementation.” In contrast to the first, this second statement does question the established implementation process. It casts doubt on whether the present system, being driven by buyers from a distance, will ever be able to generate the desired out-

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1 The Bank Group’s CSR Practice has chosen to define corporate social responsibility (CSR) as “The commitment of business to contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development.” When employing the term CSR in connection with codes of conduct in global supply chains, we use a more narrow interpretation in referring to social and environmental practices and standards.
comes in terms of sustainable compliance and improved working conditions. Is fine-tuning required, or an entirely new approach?

3. “[Suppliers] have an insufficient understanding of the business benefits associated with making the required investments in CSR.” This statement addresses a key premise for any business activity, that is, the need for a perceived business case.

This report assesses the validity and importance of these barriers, as well as others raised by participants during consultations. It also presents options for future progress. Options are presented with reference to the barriers, as well as to broader problem areas identified through the consultations and resulting assessment.

**SUMMARY OF FINDINGS**

Consultations revealed numerous commonalities among the many consultation groups’ analyses of the barriers to improved implementation of CSR practices. However, when identifying ways forward, the consensus was less pronounced except for the nearly unanimous call for more responsible local government action.

Consultations also showed that environmental issues, although placed on equal footing with labor issues in the Terms of Reference, went largely ignored during the consultations. There remains less awareness, concern, and external pressure to address environmental matters than labor issues. Furthermore, virtually no attention was given to human rights issues other than labor rights, even though the overall human rights climate in many locations is a critical factor determining whether, or how, labor rights are respected.

Although suppliers in different national and industrial settings seem to face many of the same challenges, important local and industrial specificities need to be taken into account when designing ways forward. Partly for this reason, the study advocates an approach that emphasises local ownership and industry-specific initiatives.

Overall, the consultations, and subsequent analysis, indicate that while meaningful progress has been made in apparel, and to a lesser degree in agriculture, the existing “system” of implementation may be reaching its limits in terms of its ability to deliver further sustainable improvements in social and environmental workplace standards. This in some ways is natural when one considers that current approaches are not the result of a systematic effort to marshal the forces of the public and private sectors, trade unions and NGOs, and workers. Instead, it is clear from the consultations that current efforts are the result of a series of steps often taken through ad hoc and isolated decisions.

The way forward will lead to a greater degree of success if future decisions are made with fuller regard for collaboration and systemic approaches. All parties involved must employ other means of implementation, including capacity building and worker empowerment, to ensure improved workplace standards.

**THE KEY CHALLENGES**

In terms of the first key challenge suggested by the Bank, the vast majority of participants questioned the degree to which the growing number of codes presents a significant barrier to CSR implementation. Although there is broad dissatisfaction with the growing number of codes, most participants cautioned against overstating the resulting impact. The main concern expressed by participants is that, while codes themselves have in many ways converged in content and form, inconsistent interpretation and application of the provisions presents the greatest source of confusion and inefficiency. Most participants believed that the imperfections and inconsistencies of the present system should be addressed, and that doing so could result in some improvements. They did not, however, express great enthusiasm for concerted work on a single, harmonized base code.

In terms of the top-down approach, identified in the second key challenge, participants noted that although this approach had probably been essential in beginning to raise awareness and achieve progress, it nonetheless was insufficient and even inefficient in achieving further real and sustained improvements. Participants broadly agreed that such improvements required the implementation of capacity building and worker empowerment programs, although many acknowledged the difficulty of such embarking on such projects given the current absence of a comprehensive and account-
able means of engaging workers as well as their unions. At the same time, participants recognized that pressure from the top down would remain a necessary catalyzing feature of efforts to address CSR in supply chains for some time. Indeed, workers consulted for the study confirmed this perception by noting that top-down pressure was necessary to enable the implementation of worker empowerment.

On the third key challenge, participants agreed that the business case—or how it is perceived and understood—plays an important role in determining the willingness and motivation of both suppliers and buyers to undertake investments in CSR practices. While this challenge therefore would seem to be a significant barrier to further adoption of CSR practices by suppliers, there are mixed perceptions of the degree to which the business case actually exists.

**ADDITIONAL CHALLENGES**

In addition to the three key challenges identified by the Bank, many participants pointed to structural barriers to CSR implementation relating to the overall business environment. In particular, several representatives from each consultation group pointed to the very structure of the buyer-supplier relationships in the apparel and agriculture industries, distinguished by complex, shifting, and “anonymous” supply chains, as presenting a barrier to implementation of social and environmental standards.

Some of the barriers articulated by participants in the study took the form of inaction, rather than affirmative steps that do not further the process. Virtually all participants noted that the absence of action by local governments presented a significant barrier; not only as a barrier to the achievement of good practice generally, but also as a barrier to the implementation of codes of conduct and other critical steps taken by nonstate actors. The consensus on this point was so overwhelming that it was taken into consideration despite the fact that the focus of the present study, as formulated in the Bank’s Terms of Reference, was intended to be on the private sector rather than on the public sector.

Finally, it is important to note that some stakeholders do not accept the basic premise at the core of this study—that codes of conduct are a useful mechanism for addressing the social and environmental issues. Trade unions in particular contend that public enforcement of laws, and collective bargaining agreements, are a far more effective and accountable system for ensuring that labor principles, and to some degree environmental principles, are honored. It is, in fact, possible to extrapolate from this view that codes themselves are a barrier—an important countervailing opinion that is worth considering as options for future progress are developed.

**OPTIONS FOR GOING FORWARD**

When considering options for strengthening CSR implementation in supply chains, it is essential to remember that individual initiatives are more likely to be successful if undertaken with full regard for other steps than if they are undertaken in isolation. Under the best circumstances, a coherent framework would blend a broad range of public and private efforts: those taken by business alone with those involving partnership between sectors, and those that look both at social and environmental issues. Such an approach would reflect a necessary and natural maturation process as the first generation of efforts to address CSR in supply chains comes to an end, and would likely lead to the more sustainable progress that all parties to this debate are seeking.

The study also has revealed characteristics of successful approaches that should be considered to help ensure the success of future efforts. These include collaboration between interested parties, local “ownership,” an effort to balance the ongoing need for innovation and experimentation with the desire to achieve scalability, and a renewed effort to identify ways that private and civil society efforts draw upon or take note of the potential for government involvement.

It should be noted that no single solution emerged from the study. Unlike the early to mid-1990s, when numerous parties coalesced around monitoring as the primary means of addressing labor issues, the next generation of efforts is likely to draw on a variety of approaches that, taken together, can make a substantial contribution toward the goals at the heart of this study.
The options presented in the report are arranged around six categories; a brief summary of each is given below. In chapter 3 the suggested options are addressed to six categories of actors: suppliers, buyers, host governments, home governments, international organizations, and civil society.

- **Public Sector Engagement**: Although public sector options were not the focus of the surveys conducted for this project, participants almost unanimously called on the public sector, especially host country governments, to enhance their contribution to upholding social and environmental standards in supply chains. Real, systemic progress will not happen unless governments get involved more vitally, and this was perhaps the area of greatest agreement among those consulted. A greater commitment to the enforcement of existing standards, to the degree they are consistent with international norms, is viewed widely as having value in itself, and in supporting the efforts of private sector actors and civil society to promote better social and environmental practices. Note that the Bank has anticipated from the start of this project that it would sponsor subsequent research concerning the roles of the public sector.

- **Standards and Harmonization**: This issue received significant attention in the course of consultations. While some, especially a number of suppliers, assert their desire for a universally applicable base code of conduct, the investment needed to refine the relatively small differences present in today’s codes may prove too costly. Efforts to reach agreement on a single global framework risk getting bogged down in extensive technical and political questions. Instead, more successful and impactful steps toward harmonization can be taken through initiatives to develop comprehensive approaches at the national and industry level. The mechanisms for achieving this may vary; however, the development or enhancement of national, multistakeholder initiatives focusing on specific industries appears to hold particular promise, as do the adaptation or replication of certain existing pilot models, although the scalability of some of these efforts remains in question. In addition, there is a need to expand attention paid to environmental issues in existing and future codes.

- **Capacity Building**: In the view of most, local capacity building remains a critical ingredient in making both current and future steps more effective, particularly capacity building focusing on workers, suppliers, civil society, and social auditors. The options suggest a focus on social infrastructure that will deliver value, not only in terms of better performance on the more immediate labor and environmental principles, but also on supporting and contributing to broader development goals.

- **Worker Empowerment**: Further progress will be made by providing more and better education to workers concerning their rights, and strengthening mechanisms through which they can protect those rights—whether through access to public systems for redress of problems, participation in representative trade unions, dialog with local civil society organizations, or participation in private efforts to implement codes of conduct.

- **Research**: Research leading to enhanced knowledge and understanding of CSR can also contribute to progress. Initial focus should be placed on whether the business case for CSR exists, and if so, how it can be strengthened. In addition, the consultations illustrated the need to build greater understanding of how to achieve worker empowerment in the multiple operating environments to which apparel and agriculture supply chains extend, with due concern for the types of workers involved.

- **Removing Economic Barriers to CSR**: To be successful, the options presented will need to address, or at least take note of, structural economic barriers to the wider adoption of CSR. These barriers include (a) the very nature of supply chains themselves, which, especially in the apparel industry, may contain inherent disincentives to the adoption of good practices; (b) the lack of a level playing field, which means that companies at both the buyer and supplier level face de facto penalties for adopting practices that transcend significantly those undertaken by competitors; and (c) the mixed messages and incentives buyers sometimes send to suppliers, who are faced with dueling demands from compliance staff requiring good conditions, along with merchandisers who often demand lower prices, faster deliveries, and shorter lead times.
ADDITIONAL OBSERVATIONS GOING FORWARD

The following overall observations about the study and its findings are noteworthy and should be kept in mind when going forward:

- Much more attention was given to issues in the apparel industry than in agriculture. In addition, the input received concerning agriculture highlights the fact that it is not a single industry but rather a collection of several commodity-driven industries that have distinct structures and supply chains. Reaching generalized solutions across subindustries with diverse economic and social structures may not be easily achieved.
- Monitoring of codes of conduct, a subject that has received intense attention in recent years, was not at the center of the discussions. Instead, participants focused on other issues, or noted that monitoring should evolve to concentrate more on education and less on policing. Although few parties suggested that private monitoring would disappear, there was an understanding—at least on an implicit level—that monitoring should and would be deemphasized in the near term.
- The numerous multistakeholder initiatives in place received relatively little attention, although they were considered by some (mostly buyers and many Northern stakeholders) to be an important part of future solutions, in particular in the area of harmonization and standardization of codes of conduct.
- The identified need to expand attention to environmental issues, especially in the apparel industry, is important. Unlike on labor issues, there are few broadly recognized international environmental standards; therefore, a different approach may be needed to address this.
- Perspectives varied by location, in part because of the considerable differences in economy, culture, and economics. While the implicit goal of this project and many efforts in the field is to develop options that can be adopted globally, these solutions will need to take local factors into account if they are to have the desired impact.
- Some observers worried that the move toward strengthened social and environmental requirements would disadvantage the small and medium enterprises (SMEs) that are needed to generate greater economic growth in the developing economies.
- There remains a lack of critical mass of buyers strongly engaged in CSR issues. Consultations tended to involve a self-selected group of the more active buyers, some of whom cautioned against the adoption of guidelines and options that could raise the cost of entry for newly active parties, thereby missing the opportunity to engage more companies in CSR practices.

As noted above, the study broadly confirms the underlying assumption of the Bank Group that the present system of implementation of codes of conduct is insufficient and even inefficient in achieving further real and sustained improvements in social and environmental standards in global supply chains. It identifies a number of barriers as well as points to ways forward for overcoming those barriers, most notably by emphasizing the need for local ownership and collaborative, national and industry-specific multistakeholder initiatives. It is noteworthy that, with the exception of a small number of consulted organizations, participants generally welcomed change as well as the opportunity to work with parties across institutional and geographic borders.
Since the early 1990s multinational corporations have increasingly addressed social and environmental issues arising in their global supply chains. This development has been driven by, inter alia, a growing concern among consumers and other key stakeholders as well as business itself about social and environmental conditions in the production of consumer products for export from developing countries.

A number of multinational corporations have responded to this concern by developing codes of conduct that stipulate social, environmental, human rights, and ethical requirements with which suppliers are obliged to comply. In general, codes are intended to complement local legislation by implementing those standards and, often, internationally accepted principles such as ILO Conventions where applicable laws are inconsistent with international principles.

To date, codes have been applied most widely in the apparel, footwear, and toy industries, and to some degree in agriculture. Increasingly, however, codes are being implemented in other manufacturing industries, including household goods, electronics, and automobiles.

The overwhelming majority of codes of conduct focus on labor issues, including health and safety issues, and to a lesser extent include provisions on the environment. Codes have been implemented primarily through a system of monitoring by multinational companies, commercial service providers, and in some cases civil society organizations.

1.1 BACKGROUND OF THE STUDY

The present, informal voluntary “system” of code implementation has been in operation for a little less than a decade. Although full agreement has yet to be established on the achievements of codes of conduct, many observers believe that codes make some contribution to the enjoyment of labor rights and, to a lesser degree, good environmental practice.

In addition, and as noted in the World Bank Group Terms of Reference for the present study, it may be argued that such efforts also have implications for governance generally, and in the best case can help to deliver a public good beyond those individual firms involved directly.

At the same time, many also believe that current approaches may not be sustainable, and that other methods of achieving these goals are needed to augment the impact of codes and to address issues that the codes have not.

This study seeks in large part to make a broad assessment of the types of barriers present in the current system that might prevent achievement of better social and environmental performance on the part of suppliers, and also the options that hold the greatest promise for future improvement.

This project was undertaken with a deeply held appreciation for the progress made on these issues in recent years, and with admiration for the grass roots development of a broad-based global community that has committed itself to finding ways to ensure that business is conducted in a manner that

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2 The term “codes of conduct” is often used to mean different things. For the purposes of this study, the term is defined to mean a mechanism by which multinational companies establish social and environmental guidelines for their suppliers. Codes that deal with issues such as corruption, fair competition, and customer service are not addressed here.
contributes to the wider enjoyment of human rights, the extension of the economic benefits of globalization, and the achievement of environmental improvements.

Indeed, this study could not and would not have occurred 10 years ago, and many positive changes have taken place in this time: businesses (both suppliers and buyers) now have functions dedicated to addressing human rights, labor, and environmental issues; many civil society organizations globally have staff focused on achieving better business performance on human rights, labor, and environmental issues; and in some cases, new institutions—especially those with multistakeholder characteristics—have been developed and have deeply enriched the debate and contributed to real improvements.

Many participants in the consultations undertaken for this study—buyers, suppliers, and stakeholders alike—shared this observation, noting that the timing of the study was well chosen. In addition, this study can provide particular value to the ongoing debate on implementation of social and environmental standards in global supply chains in that it explores and brings together the views and perspectives of a wider community of companies, organizations, and workers involved with implementation of CSR in global supply chains, including the often nonvocal actors such as suppliers and workers.3

The participants consulted in the course of this study contributed a wealth of valuable and pertinent information and perspectives that will hopefully stimulate the debate and provide additional impetus to developing options for strengthening of CSR implementation among suppliers in global supply chains.4

1.2 STRUCTURE OF THE REPORT

This chapter describes the background of the research, its scope, methodology, and the sources of information relied upon for the research.

Chapter 2 pertains to barriers to the implementation of social and environmental standards in global supply chains. The three main barriers, which were presented by the Bank Group at the outset of the study, and which were subsequently used as the basis for further consultation in the research, are dealt with in three separate sections. Each section attempts to discuss the originally defined barrier in more detail, exploring how the various parties consulted during this study perceived each barrier: Did they think the problem was defined too narrowly or broadly? Was it merely a symptom of a larger problem? Or, indeed, was it not a barrier at all? Another section discusses additional barriers that were identified in the course of the consultation process. These additional barriers are given the same consideration as the three original ones, and form an equal part in the analysis and the subsequent consideration of options in the remainder of the study.

Chapter 3 covers the various options that could help contribute to further and more sustainable implementation of CSR in supply chains. The options are presented in six broad categories: public sector action, harmonization and standardization of private sector approaches, capacity building, worker education and empowerment, research, and removing economic barriers to CSR.

Annex A lists the three key challenges and their associated assumptions that were presented by the Bank Group at the outset of the research. These were the result of an earlier brief round of informal consultations conducted by the Bank with a select group of suppliers and stakeholders. Through the subsequent research and formal consultation process conducted by the consortium, the barriers were later refined and expanded.

Annex B provides the names of the organizations that took part in the consultation process. Participants are divided into categories based on their country and organization type.

Annex C contains a glossary of terms used throughout the report.

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3 A number of Southern and Northern stakeholders, as well as some suppliers and buyers, however, expressed a certain degree of skepticism with reference to the Bank Group and the Bank’s policies in other development areas, including structural adjustment programs.

4 The study was undertaken by a consortium consisting of Business for Social Responsibility (BSR), the Danish Institute for Human Rights (DIHR), and PricewaterhouseCoopers Denmark (PwC-Denmark).
A further four annexes D-G report on the findings of the consultation processes for the various groups of participants. These are not included in the printed version of the report, but can be found in the version available on the World Bank’s website. Annex D covers suppliers, annex E presents buyers’ views, annex F represents what was heard from stakeholders (including NGOs, intergovernmental organizations, unions, and multistakeholder initiatives), and annex G relates the views of workers. In each, the emphasis is on reporting, in clear, straightforward terms, what was heard from the various groups consulted, without adding the views of the consortium. The analysis and interpretation of the consultants is restricted to the main body of the report.

1.3 ABOUT THE STUDY

The overall objective of the present study is to “...contribute to a broader goal of removing unnecessary barriers to CSR compliance at the supplier level in global supply chains, enabling more suppliers to implement CSR standards more easily.”

The specific objectives of this study are:

- To identify the key barriers to improved implementation of codes of conduct at the level of suppliers.
- To identify and prioritize viable options for addressing these barriers.

The study was thus initiated under the premise that real and sustained implementation of codes of conduct will help ensure an effective compliance regime, which, in turn, will contribute to improving the working conditions of laborers at the level of suppliers and possibly beyond to the communities that support them.

The study was undertaken mainly through a consultative process focusing on the apparel and agriculture industries. During the course of three months, consultations were undertaken with 194 individuals representing 164 institutions, as well as 199 workers, in four exporting countries: China, Honduras, India, and Kenya, as well as in Europe and the United States. Consultations focused on suppliers, buyers, stakeholder groups (NGOs, trade unions, international institutions, multistakeholder initiatives), workers, and a small number of public officials.

The project consortium reviewed the input and presents this report on the basis of those consultations, as well as the consortium’s analysis of those discussions. Annexes D-G (only available on the website version of this report) contain summaries of the views expressed by suppliers, stakeholders, workers, and buyers.

The reliance on in-person consultations yielded unique perspectives that in many cases depended on the location and experiences of those consulted. This approach necessitated a qualitative assessment of the issues discussed, whereas a more formal approach might have produced more easily quantifiable commentary on the issues at hand. As a result, the report seeks wherever possible to indicate the degree to which the various parties consulted for the survey held common views, rather than a precise numerical assessment of opinion.

1.3.1 Barriers/Key Challenges

The identification of key barriers to improved implementation of codes of conduct was undertaken by testing a select group of key barriers (and underpinning assumptions) already identified by the Bank Group in the Terms of Reference to the present engagement.

In the view of the Bank Group, these key barriers (key challenges) are reasonably well documented and constitute an emerging consensus about areas that prevent progress from being furthered. As such, the study started by testing these challenges/barriers—and the assumptions that underpin them—with the organizations participating in the consultation process. Based on the findings of the consultations, the challenges and underpinning assumptions were revised and added to, and finally, options (solutions) for addressing the challenges were identified, as described in further detail below.
The three key challenges, which are outlined in detail in annex A, are:

1. The plethora of individual buyer CSR codes is now generating inefficiencies and confusion.
   - **Inefficiencies** have emerged as a result of the overlap and repetition among buyers’ CSR programs. Suppliers assert that this imposes unnecessary burdens both on buyers and suppliers. The challenge is to minimize these inefficiencies, in ways that make sense for buyers and suppliers and that bring desired benefits to all, notably to workers.
   - **Confusion** refers to supplier claims that the diversity of CSR requirements among buyers serves as a barrier to entry to suppliers who do not know which route to follow to demonstrate their commitment. Furthermore, confusion resulting from discrepancies and inconsistencies in the details of CSR implementation can undermine consistent CSR practice in the workplace.
   Here, too, the challenge is to minimize this confusion with a view to mutual benefit.6

2. An increasing number of buyers are recognizing that traditional top-down CSR strategies are not achieving improved CSR implementation. The challenge is to adapt strategies in light of current supplier-level experiments that acknowledge the importance of participation, empowerment, and capacity building targeting a variety of stakeholders.

3. The reticence of some suppliers to undertake CSR compliance reflects a view that there is insufficient understanding of the business benefits associated with making the required investments, including a failure on the part of suppliers to understand standards as a part of the contractual relationship, rather than a debate over Western values. The challenge is to be clear about the business benefits at the supplier level, and to develop business practices that maximize those benefits.7

Although the study remains focused on addressing this set of barriers and challenges, other barriers and challenges brought up by participants during consultations have been reviewed and analyzed, and are summarized in the report.

### 1.3.2 Development of Options

The consultations conducted in the course of the study also focused attention on the development of options to address the key challenges outlined by the Bank and others noted in the course of the consultations.

In particular, the Bank requested that options be explored with the following considerations in mind:

- **Business needs of the buyer** (including organizational structures, risk management, reputational assurance), and whether these needs make the adoption of the option more or less likely.
- **Risk of the option contributing to a lowering of standards.**
- **Costs**, in terms of time and money, required to implement the option, and whether or not the different stakeholders would be willing to make the required investment.
- **Feasibility of implementation of the option**, and in particular, what roles are required of particular institutional actors, and are the actors willing to undertake such roles.
- **Implications for public sector roles**, including those of industrial country donors and developing country governments.

In addition to the five criteria established by the Bank, the consortium also considered the impact of the options, as well as the degree to which the options would reinforce the success of other initiatives, when assessing the value of the suggested options.

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6 “CSR implementation” refers to the specific practices of a code of conduct expected of suppliers by buyers; these practices are frequently communicated through detailed guidelines that accompany codes of conduct, and by company monitors who conduct site visits and work with suppliers on remediation plans.

7 In the Terms of Reference, the Bank Group notes: “It should be clear that by promoting the business case, this is not an attempt to absolve companies of their obligation to comply with legal obligations, but merely a mechanism for improving compliance.”
In contrast to the more structured consideration of the key challenges, the consultations exploring various options were kept relatively open. The reasoning for the more open exploration was two-fold:

- The consortium was asked to consider options on several levels, ranging from narrow options that addressed only one or two problem areas of code implementation, to options that attempted to present more comprehensive solutions to the problem as a whole.
- The consultations on the key barriers revealed that most stakeholders believed that the problem was too narrowly defined, and that solutions/options at a wider level were required to tackle the issue properly.

### 1.3.3 Study Scope

As mentioned above, the study was undertaken as an extensive and comprehensive consultation process engaging a wide range of companies and organizations in two industries, apparel and agriculture, in China, Honduras, India, Kenya, the United States, and Europe.

The two industries were selected on the basis of their relevance to the issues addressed in this study. The apparel sector was one of the first industries to work with codes of conduct, and therefore it represents an abundance of experience and perspective. The inclusion of agriculture reflects the view of the Bank and the project consortium that relevant social and environmental issues are present in that sector’s supply chains. In addition, the nonindustrial mode of much agricultural extraction means that the findings may be sufficiently different so as to enrich the results of the study. Finally, our selection of industries was guided by the preferences expressed by the Bank Group.⁸

The four exporting countries involved in the study were selected on the basis of their relevance to the industries involved in the study, geographic diversity, and their interest to various stakeholders as well as the Bank Group.⁹ Consultations were carried out in the United States and Europe because of the disproportionate presence in those two locations of buyers with codes of conduct, stakeholder groups, and international institutions active on CSR issues.

The following categories of institutions were consulted during the course of the study:

- Workers in the agriculture and apparel industries.
- Suppliers in the agricultural and apparel industries in the four exporting countries.
- Local NGOs in the four exporting countries.
- International NGOs in the United States and Europe.
- Local trade unions in the four exporting countries.
- International trade unions in the United States and Europe.
- Industry organizations in the four exporting countries and in the United States and Europe.
- Multinational companies’ representatives in China, India, the United States, and Europe.

In addition to these key groups we consulted a number of representatives from each of the following groups: government and intergovernmental organizations, multilateral development institutions, multistakeholder initiatives, research institutions, and professional services companies.

In table 1.1 we provide an overview of the consultations with the various stakeholder groups in the respective industries and countries.

### 1.3.4 Consultation Methodology

The consortium consulted a substantial number of suppliers, workers, trade unions, and NGOs in the four developing countries and buyers’ representatives in China and India, as well as in the United States and Europe. Group consultations (workshops) with workers, suppliers, buyers, and stakeholders were the primary means of consultation. Annex B contains a complete list of consulted organizations and companies.

The group consultation form allowed the study to harness the perspectives of a critical mass of participants and generally yielded highly interactive discussions, as participants responded to perspectives and opinion held by others. However, we

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⁸ In the request for proposal, the Bank Group required the inclusion of the apparel sector as well as encouraged the inclusion of agriculture.

⁹ In the request for proposal, the Bank Group requested a minimum of three countries representing distinct regions, including China.
acknowledged that some participants may have felt uncomfortable about offering their views in such a setting. To reduce the potential that such concerns could limit the participation of some parties, we established a secure website as an alternative means for participants to express their views confidentially and anonymously. In a few cases, where it was believed that participants would not be able to speak freely in a group setting, the consortium conducted individual interviews. Individual interviews were also conducted in situations in which the participants were believed to hold a unique or highly specialized perspective, or when scheduling conflicts prevented participation in group meetings. Of the 194 individuals\textsuperscript{10} consulted for the purpose of this study, 43 people representing 40 institutions were interviewed individually, and the remaining 151 individuals representing 122 institutions were consulted in group sessions.

In advance of each consultation, participants were briefed on the purpose of the study, the objectives of the consultations, and the agenda for the meetings, via a letter of invitation and/or a telephone call. In addition, all participants received a one-page description of the study, a brief narrative of the key challenges and, upon request, the full description of the key challenges.

Workshops were facilitated by a minimum of two project staff with at least one person being a local national. Except in the United States and Kenya, a minimum of two of the institutions represented in the project consortium was present at all convenings.\textsuperscript{11} Workshops were conducted in the local language (Cantonese, Mandarin, Spanish, or English, as appropriate). All staff involved throughout the study have extensive experience with the issues at the heart of the study as well as experience in conducting workshops. All facilitators and note-takers were provided with a detailed facilitator’s guide, a report format, and an analytical framework to be used for preparing the final report.

In general, consultations focused on (1) input and perspectives on the key challenges and assumptions outlined in the Terms of Reference, (2) the opportunities present for improving the implementation of CSR in global supply chains, and the development of concepts and options (solutions) that could lead to more effective and sustainable solutions to the issues that form the core of the study.

### 1.3.5 Worker Methodology

A separate methodology was developed for consultations with workers. The consultations with workers were conducted by locally based representatives of civil society organizations: the Institute for Contemporary Observation in China, the Equipaje de Monitoreo Independiente—Honduras in Honduras, a former staff member of the Global Alliance for Workers and Communities in India, and the Kenyan Human Rights Commission in Kenya.

### Table 1.1 Consultation Figures

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AP, apparel sector; AG, agricultural sector.

Note: Annex B contains a complete list of consulted organizations and companies.

\textsuperscript{10} This figure excludes the consultations with workers, which involved 199 individuals.

\textsuperscript{11} PwC’s Kenyan and South African offices conducted the consultations in Kenya, and BSR conducted the consultations in the United States.
The methodology for worker consultations specified one or more focus group meetings depending on whether, for example, gender issues or relations between casual workers and regulars were better dealt with in separate groups. In addition, a limited number of individual interviews were conducted to solicit the input of vulnerable groups, such as women and migrant workers. We consulted a total of 199 workers. The objective was not to make an in-depth quantitative survey based on structured interviews with many informants, but rather to get an overall impression of benefits, constraints, and processes of implementation and monitoring from the point of view of workers on the floor.

1.3.6 Identification of Participants

Participants were identified through the consortium’s existing international and local networks.

The following criteria guided the selection of participants:

- Knowledge of the subject matter.
- Interest in the development of more effective and sustainable solutions for addressing CSR in global supply chains.
- Willingness to engage in a consultative, collaborative process.
- Credibility in the field of CSR.
- Ability to engage within the timeline of the project.

The study consulted first-tier suppliers. While the implementation of codes of conduct in the supply chain has implications beyond that of the first supplier level, to date only a limited number of multinational corporations are effectively implementing codes of conduct at the level of subsuppliers and beyond.

12 Some companies and organizations declined to participate in the consultations. Most indicated a problem either with the narrow time frame for participation, or that they had taken part recently in studies of a similar nature.
Codes of conduct establishing guidelines for global supply chain partners of multinational enterprises have existed for approximately a decade, generally emerging as one response to concerns about social and environmental practices. During this time, the application of codes of conduct has contributed in varying degrees toward wider and deeper implementation of social—and to a lesser extent environmental—standards, mainly in developing countries.

The implementation of social and environmental standards through codes of conduct has relied on a fairly rudimentary and straightforward system of code development, implementation, monitoring, and remediation. The system relies heavily on private monitoring of code compliance as the principal means of ensuring compliance with the code provisions. These approaches have not been the result of systematic analysis, with the result that the whole system does not appear to exceed the sum of its parts.

During this decade, the principal policies, strategies, and procedures related to codes have evolved: many codes have become more consistent with internationally agreed principles; implementation guidelines for broad principles stated in codes have in many cases been established; auditing and monitoring procedures have increased in quantity, and to some degree in quality; and there has been increasing engagement between the private sector and civil society. At the same time, many observers believe that fundamental conditions remain in need of substantial improvement.

Much of the original impetus for codes of conduct came from the United States and Europe, with multinational corporations and civil society organizations in these regions being more involved than institutions in exporting countries. Companies’ efforts are widely viewed as reflecting a mixed motive of seeking to protect the rights of workers and environmental concerns, while also seeking to protect their reputations and brand equity.

In the mid- to late 1990s several collaborative initiatives involving other stakeholders emerged, bringing together a number of companies and stakeholders around common codes and implementation measures. These efforts, referred to in the report as “multistakeholder initiatives,” developed for a number of different reasons. In general, these initiatives have sought to develop and reflect a wider consensus around code content and implementation mechanisms, engage knowledgeable and credible parties from civil society, provide a means for greater coordination and collaboration, and share costs of implementation. Although these multistakeholder initiatives and industry-wide efforts can be seen as an enhancement of the initial generation of codes developed by individual companies, they are nonetheless part of the same trajectory that has guided the implementation of social and environmental standards so far.

2.1 TIME FOR A CHANGE?

As implied in the Terms of Reference for this study, there is now an emerging consensus by many observers of this approach that, while recognizing the advances made under the present system, there is a need to approach these questions differently to achieve better working and environmental conditions in global supply chains.

As noted earlier, the World Bank identified three key challenges to be considered as possible barri-
ers to the attainment of better social and environmental conditions. While the three key challenges address distinct problems, they are also closely interrelated. Taken together, the three key challenges suggest that the present system of implementation needs to be reconfigured.

Thus, the first key challenge, "the plethora of individual buyer CSR codes is now generating inefficiencies and confusion," suggests the need to readjust and fine-tune the present system of implementation. It accepts the view that codes of conduct are an essential tool in the pursuit of better social and environmental conditions, and therefore does not question the premise, but rather implicitly calls for a need to adjust it and make it work more efficiently, possibly by promoting increased standardization of existing principles.

The second key challenge, "an increasing number of buyers are recognizing that traditional top-down CSR strategies are not achieving improved CSR implementation," instead questions the established implementation process. It reasons that the present system, being driven by buyers from a distance, will not in itself be able to generate the desired outcomes in terms of sustainable compliance and improved working conditions, even if fine-tuned to the greatest extent possible.

The third key challenge, "[suppliers] have an insufficient understanding of the business benefits associated with making the required investment," addresses a key premise for any business activity, that is, the need for a perceived business case.

In addition, the consultations conducted for this study also revealed additional challenges, which in some cases were considered more important than the three key challenges identified here.

The following sections reference how participants consulted throughout the study commented on the key challenges outlined by the Bank, present additional challenges raised by the parties consulted, and provide an analysis of these perspectives.

2.2 OVERALL OBSERVATIONS

By and large, participants in the consultations confirmed the underlying assumption of the study, that while the present system of implementation has resulted in some improvements, some of them substantial, it possibly has reached its limits, and may not be positioned to bring about further real and sustainable improvements in social and environmental workplace standards in developing countries without meaningful adjustments.

In terms of the first key challenge suggested by the Bank, most participants questioned the degree to which the plethora of codes presents a significant challenge. For the most part, participants pointed not to the basic provisions of codes, which they view as having largely converged to a significant degree. Instead, there is a widespread impression among those working in the field that the inconsistent interpretation and application of codes presents the greatest confusion and inefficiency. Accordingly, many questioned whether efforts to achieve code harmonization would yield real and sustained improvements in social and environmental workplace conditions. Nonetheless, most participants believed that the imperfections and inconsistencies of the present system should be addressed, and that doing so could result in some improvements.

In terms of the top down approach also identified as a potentially significant barrier, participants noted that although this approach had probably been essential in the beginning to raise awareness and achieve progress, the present top-down approach was insufficient and even inefficient in achieving further real and sustained improvements. It is important to note, however, the widely held view that the top-down approach remains important in many circumstances, and that engagement from buyers and other institutions in the North would continue to be part of the picture, and could reinforce needed bottom-up strategies for capacity building, worker empowerment, and government enforcement of laws. Indeed, workers consulted for the study confirmed this perception by noting that top-down pressure was necessary to enable the implementation of worker empowerment.

On the third key challenge, participants agreed that the business case—or how it is perceived and understood—plays an important role in determining the willingness and motivation of both suppliers and buyers to undertake investments in CSR practices. The business case was described
Barriers and Key Challenges

alternately as related to obtaining or losing orders on the basis of CSR, as well as the inherent business value of implementing social and environmental practices. While this challenge would seem to be a significant barrier to further adoption of CSR practices by suppliers, there are mixed perceptions of the degree to which the business case exists. Many participants, including suppliers, buyers, and NGOs, appear to hold the view that implementation of social and environmental standards in many instances tends to generate costs and provides a relatively low return on investment.

In addition, many participants pointed to structural barriers to implementation relating to the overall business environment. In particular, several representatives from all consultation groups pointed to the very structure of the buyer–supplier relationships in the apparel and agriculture industries, including complex, shifting, and anonymous supply chains, as presenting a structural barrier to implementation of social and environmental standards.

Several other barriers were raised in addition to the three key challenges in the Terms of Reference. Some of the barriers articulated by participants in the study took the form of inaction, rather than affirmative steps that do not further the process.

Virtually all participants noted that the absence of action by local governments presented a significant barrier. It is essential to note that government inaction was viewed not only as a barrier to the achievement of good practice generally, but also as a barrier to the implementation of codes of conduct and other critical steps taken by nonstate actors.

In a similar way, consultations also showed that environmental concerns beyond those related to occupational health and safety have yet to enter fully the agenda of most groups consulted in the study, including buyers, NGOs, and trade unions. An exception to this is in the agricultural sector, where the consulted workers stated that codes had reduced the environmental (health and safety) risks in working with pesticides and other chemicals.

Finally, it is important to note that some stakeholders do not accept the basic premise that codes of conduct are a useful mechanism for addressing the social and environmental issues at the core of this study. Trade unions in particular contend that public enforcement of laws, and collective bargaining agreements, are a far more effective and accountable system for ensuring that labor principles, and to some degree environmental principles, are honored. It is, in fact, possible to extrapolate from this view that codes themselves are a barrier, and this view provides an important countervailing opinion that is worth considering as options for future progress are developed.

2.3 KEY CHALLENGE 1
The Plethora of Individual Buyer Codes Is Now Generating Inefficiencies and Confusion

In the Terms of Reference, the Bank Group estimates that 1,000 buyer codes exist today. The Bank suggests that the increasing number of codes, and the variety of standards they contain, is a source of inefficiency and confusion that may limit their effectiveness. In addition, it is unclear to what extent the 1,000 codes identified by the Bank are supported by the substantial implementation systems that are required to provide reasonable assurance that the standards are met.

In the Terms of Reference, this proliferation of codes is argued to have two distinct sets of consequences:

- First, the duplication of codes disrupts or even prevents full implementation of social and environmental standards at the level of the individual supplier.
  - The individual supplier becomes too preoccupied with meeting the different requirements of his/her buyers to be able to offer time and resources to address real implementation.
  - The duplicative requirements of buyers put unnecessary financial and managerial burdens on suppliers.
  - Suppliers “get caught” by buyers’ different and, at times, conflicting requirements, thus remaining in a “compliance limbo.”

The term “code of conduct” is often used to mean different things. In this report the term is used to refer to guidelines established by buyers to establish social and environmental performance for their suppliers. It is not certain whether the Bank’s estimate of the number of codes of conduct applies this definition and, if not, what impact it would have on the estimated figure.
Second, to the degree that duplicative and inconsistent codes create barriers to entry for suppliers aspiring to produce for international companies, this could have implications for national economies because such issues have the potential to interrupt the development of local participants in the benefits of global trade. In citing this potential factor, there is no suggestion that those implementing codes intend this result.

In addition, the duplication of codes may present a case of industrial suboptimization since the same (or better) end result (that is, compliance with social and environmental requirements) could be achieved with fewer resources through greater coordination and cooperation between buyers.

This means that all concerned, including buyers, suppliers, and workers stand to lose: buyers because they are not given the level of assurance sought; suppliers (and buyers) because they waste resources and are not able to harness the potential benefits of CSR; and workers because they do not benefit from improved working conditions.

2.3.1 Overall Observations

With the exception of suppliers, who have mixed views, participants overall expressed skepticism about whether the plethora of codes in itself was a source of real inefficiency and confusion, although they did agree that the duplication of codes did cause some additional burdens to suppliers. On the whole, participants pointed instead to inconsistent application of codes as presenting a significant barrier to the implementation of CSR practices in global supply chains. This view was widely shared across the different participating groups, although dissenting voices came out in almost all groups, most notably among suppliers, some of whom did see the number of codes as a problem in itself. One of the main reasons cited for contesting the notion that the explosion of codes presented a problem was the general observation that most codes have the practical impact of restating local laws, and that codes adopted by the most visible buyers reflect a strong and growing convergence around core International Labour Organisation (ILO) conventions, and also frequently reference the principles embraced in the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.

Thus, while participants believed that the inconsistent application of codes was a problem, including duplicative and inconsistent monitoring efforts, many of those consulted also directly and indirectly cautioned against an overdramatization of the scale and scope of the challenge. A number of suppliers also seemed to acknowledge implicitly that many of the difficulties could be overcome relatively easily. Some stakeholders asserted the fact that the implementation of codes is no different from the implementation of other standards, such as quality control or new management systems.

Furthermore, the vast majority of participants did not believe that the proliferation of codes acted as a barrier to entry for suppliers aspiring to produce for buyers focused on CSR performance, hence rejecting part of the rationale for citing this as a challenge.

Although several anecdotes are raised frequently to illustrate an overburdened system of duplicative monitoring visits, there is currently no way to determine whether this is the exception or the rule. Most parties to the discussion, however, generally acknowledge that the current system is not coordinated to achieve a planned result and that unnecessary duplicative monitoring should be dealt with.

2.3.2 Inefficiencies and Confusion

As noted, consultations revealed that participants broadly questioned whether the plethora of codes in itself was a source of real inefficiencies and confusion, pointing instead to the application of codes as the source of the problem. Specifically, participants in the consultation pointed to the following:

- **Multiple Auditing:** Some suppliers report having been subjected to more than 30 to 50 audits per year, and sometimes having been monitored by the same auditing company on behalf of different buyers. Suppliers state that audits divert management time and resources, disrupt workflow, and challenge planning processes. Most participants agreed that multiple
auditing was inefficient, although some Western and local NGOs and buyers argued that this problem was overstated and that the potential benefits of multiple auditing (maximizing pressure, better total monitoring, and so forth) outweighed the actual costs. It was also noted that the overall reliance on monitoring created a system in which the suppliers’ main objective is to pass the audit, rather than address the substantive issues that are the focus of the audit. Many workers believed that better and more uniform monitoring procedures would facilitate implementation of codes.

- **Auditing Procedures**: Some suppliers claimed that different auditing procedures are a source of inefficiency. Often, auditors are left to determine methodologies, such as the use of documentation, visual observation, and interview, and these may vary substantially between and within institutions. Also, some suppliers (and Western stakeholders) believed that the quality of auditing varied greatly among auditing organizations, and even within such organizations. These issues are perceived to apply to a range of monitoring organizations, regardless of whether buyers’ personnel, commercial third parties, or civil society organizations perform monitoring functions.

- **Supplier Implementation**: Different codes often are backed by different implementation requirements, through which suppliers are asked to demonstrate how they manage and implement the standards contained in codes. Some of these requirements relate to management systems; some relate to performance, and many combine the two.

- **Supplier Performance Requirements**: Many buyers in recent years have responded to their own concerns and those expressed externally by developing more detailed guidance on the specific meaning of code provisions. This should generally be considered an important step toward the implementation of code provisions. At the same time, suppliers in particular note that these implementation guidelines may often have different provisions on particular issues, such as details of health and safety provisions (for example, the location of the first aid box and fire extinguishers), compensation of piece-rate workers, and so forth. Such variations can raise the risk that one buyer could consider a supplier in compliance on one day, and the same supplier could be determined noncompliant by another buyer on the next day. It is worth noting that although many parties raise the oft-cited example of the supplier that is required to move fire extinguishers a few centimeters higher or lower depending on the buyer and the auditor, others have challenged the degree to which such “requirements” actually are enforced and determinative of outcomes, or whether they are used to exaggerate the weaknesses in the system.

- **Supplier Management Requirements**: In addition, suppliers are sometimes required to maintain different types of documentation of their performance, and processes for implementing good environmental and social performance. Indeed, as some buyers seek to shift from the top-down to a bottom-up approach, more of these process requirements may be established. There is a similar risk, cited again by suppliers, that inconsistencies in process requirements will distort the investments made in ensuring good conditions toward administrative requirements which, if inconsistent, will retard rather than promote improvements. This was a particular problem for SMEs lacking the necessary management systems and capacities, although also a source of added costs for larger suppliers.

- **Remediation**: Buyers often have very different approaches to remediation. This too is possibly less a consequence of the absolute number of codes than of differing means of applying codes. Given that the ultimate goal of codes and other labor and environmental requirements is to achieve performance improvements, the question of remediation (that is, what must be done to address shortcomings in performance) should be given prioritized attention in future efforts to improve the impact of codes. It should be noted that many buyers raised the issue of their institutional need to make final decisions on whether and on what terms they would work with a particular supplier based on remediation efforts, and that these decisions tend to be highly individualized.

The question remains about the extent to which the identified inefficiencies and confusion cause real
obstacles to implementation of CSR, as well as the extent to which this places unreasonable burdens on suppliers. Not surprisingly, this is an issue on which perspectives tend to vary between suppliers and buyers in particular. As such, a summary of views from each is presented below.

**Suppliers’ Perspectives**

The assertion of suppliers that multiple codes are a source of inefficiency and confusion would to a large degree stem from the overall context in which social and environmental requirements have been developed, that is, from the fact that codes in their view have been imposed on them with little or no consultation. Given that different participation groups expressed somewhat different perspectives on these issues, an examination of some of these views may reveal valuable additional nuances to the discussion:

- Comments suggested that most suppliers are yet to embrace fully the objective of implementing social and environmental standards. Apparel suppliers in India acknowledged this, noting that a change of mindset was needed to see a more proactive attitude toward CSR, which indicates that additional costs stemming from code implementation also would be seen as unwanted. Some apparel suppliers confessed that they skillfully had developed the art of seeming to be in compliance without making changes. For example, prior to announced audits they would instruct employees to wear required protective equipment, the factory would be swept clean, and so on.

- Many suppliers are still finding it hard to deal with the “new” social and environmental requirements contained in the codes of conduct. For instance, according to apparel suppliers in China and India, the overriding challenge is still how to deal with compliance provisions on overtime, and in many cases they also have to address inconsistent application of code interpretations of overtime requirements. On the other hand, buyers’ assertions that the “multiple codes argument” is being used as a pretext for evading compliance may have some merit, noting that some apparel suppliers confessed that “compliance, except for overtime and compensation, was not a problem; it is only that we are not paid for it.”

The above observations should not, however, invalidate the assertion made by suppliers that the implementation of multiple codes does cause real inefficiency and confusion. On the contrary, these inefficiencies are real, stemming at times from multiple audits, different requirements concerning management systems, the time and resources devoted to comply with various requirements, and other issues. It is unclear whether the magnitude is of central importance in itself, or whether they are the source of additional frictions in an already strained relationship.

**Buyers’ Perspectives**

While many buyers also acknowledged the inefficiencies arising from multiple codes, they did not see this as a problem of the magnitude that suppliers did. Indeed, some buyers felt that duplicative monitoring served the beneficial purpose of reinforcing the message that suppliers needed to attend to these issues more carefully. Not surprisingly, buyers see a different set of inefficiencies in the system than do suppliers:

- Buyers consulted in the course of the study generally acknowledged that the costs of monitoring are becoming increasingly high and in the long run are not sustainable. This is particularly true as some buyers have started to look beyond the first tier of suppliers, opening up the possibility of monitoring many more suppliers. Accordingly, buyers are looking to solutions that would allow cost sharing, especially in this area, which is seen as noncompetitive. Moreover, a number of buyers would like to avoid duplication as much as suppliers, and in many cases have either helped to launch or have expressed interest in monitoring “cooperatives.” This is already taking place not only via some of the multistakeholder initiatives but also on a more informal basis between groups of buyers.

Increasingly, buyers are recognizing that the traditional approach to compliance is not generating the desired results in terms of improved

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14 One European buyer did note that while field staff assert frequently and convincingly that buyers in practice are aware of each others’ suppliers, many headquarters staff continue to believe that sharing factory information risks the surrender of business sensitive information, and is therefore too risky. This clash of perceptions could present a barrier to further sharing of monitoring information.
social and environmental standards. For obvious reasons, buyers are looking to solutions that will give a better return on the investment. Some buyers also note that the external pressure they face to protect their brands leads them to interpret code guidelines individually, with the potential idiosyncrasies that result.

Accordingly, while buyers by and large share suppliers’ concern that the application of codes of conduct may generate some inefficiency and confusion, buyers have a slightly different focus, preferring to look for ways to achieve similar or increased results through greater coordination of effort and investment. A number of buyers, however, did argue that the suppliers’ claim that the duplication of codes caused inconsistent implementation practices often was a pretext to evade compliance.

Stakeholders’ Perspectives

The stakeholders surveyed in the study are a diverse group with different levels of experience, perspectives, and interests.

Taken as a whole, however, stakeholders agreed that the inconsistent application of codes of conduct was a source of inefficiency and confusion, although many NGOs remained skeptical about the degree to which this was as real a problem as professed by suppliers and buyers. For instance, stakeholders in the United States, including NGOs, trade unions, and representatives of multistakeholder initiatives, asserted that this challenge was “a bit of a red herring put forth by suppliers and major brands.” This group believed that the focus on this issue (unfortunately) tended to distract attention from the more critical issues faced by workers, such as hazardous conditions and discriminatory treatment. Likewise, a representative of one of the European multistakeholder initiatives thought that the burdens caused by multiple audits were exaggerated.

However, stakeholders did acknowledge that the proliferation of codes could be a significant problem for SMEs, which often have such poor management systems in place that it proves more costly and difficult for them to comply with codes. In this way, codes could act as a barrier to entry.

As to the question of confusion, stakeholders overall agreed that suppliers are generally not confused, but know perfectly well how to demonstrate compliance. Confusion, in the few cases where it does exist, is not so much a result of the actual number of codes, but rather stems from the fact that the provisions in many codes are simply too vague.

Workers’ Perspectives

Workers generally did not express strong opinions on the extent to which multiple codes and their (inconsistent) application was a source of inefficiencies and confusion. Given that the consultations with workers demonstrated an overall lack of awareness of codes and their impact, this is perhaps not surprising. However, many workers believed that implementation of codes of conduct would be facilitated by the development of more uniform and improved monitoring practices. Some workers also noted that management seemed at times too preoccupied with accommodating the different requirements of buyers.

2.3.3 Code Content Convergence

In the eyes of most participants, the labor content of most codes restates the provisions of applicable local laws or, if higher, the principles stated in relevant ILO conventions. Many participants, including buyers, suppliers, and NGOs, dismissed the discussion of duplicative code content referencing “the fact that most codes today are built upon the ILO conventions.”

A notable exception to this prevailing view was an intergovernmental organization well positioned to comment on this issue. Referencing its own research, it claimed that although code content was overlapping and most often did refer to ILO conventions, the coverage was insufficient and often failed to take into account core labor standards such as freedom of association and the right to collective bargaining.

15 Research recently undertaken by the Bank Group will be released shortly, and will address the question of whether a majority of codes converge around the core ILO conventions.

16 According to representatives of multistakeholder initiatives, recently initiated discussions have indicated that the content of a common code is not a source of contention. It is argued that a common code could be defined easily. Noting that the multistakeholder initiative codes generally aspire to high standards, this would not necessarily suggest that nonmembers of the multistakeholder initiatives would agree to such a code.
In the eyes of participants, code convergence would not in itself guarantee greater uniformity or effectiveness, since implementation practices today vary even among companies using identical codes. The fact that the major multistakeholder initiatives have yet to mutually recognize each others’ systems would seem to support the view that “the devil is in the detail,” that is, in the implementation and interpretation of code provisions.

It should be noted also that some participants, notably those in India and China, reported that local laws are not always interpreted consistently even by government officials, and that local laws are considered in some cases to be “archaic” and in need of an overhaul.17

2.3.4 Code Convergence in the Field of Human Rights and Environment

In the Terms of Reference to this study, the Bank Group presents the assumption that if code convergence in labor content does take place, referencing ILO conventions, this would hold implications for convergence in the field of human rights and the environment; that is, code convergence should be achieved by referencing international standards.

As noted elsewhere, consultations showed that provisions relating to the environment and human rights beyond that of labor rights appear not to receive much attention in codes of conduct in the two sectors surveyed. However, according to some workers, certain environmental issues are addressed in the agricultural sector, such as use of pesticides. Similarly, human rights issues, apart from labor rights, are generally not part of codes of conduct for suppliers.

The observation that environmental issues went largely ignored throughout consultations might reflect that so far there is less awareness, concern, and external pressure to address environmental matters than labor issues in global supply chains. However, this may also reflect particular industry characteristics, since environmental issues feature more prominently in the supply chains of other industries, including the automotive industry.

Convergence on environmental principles in codes for suppliers does not appear to be feasible, largely because of the lack of relevant international standards designed to apply globally. The level of detail and specificity agreed in the ILO conventions cannot be found in any relevant environmental convention or declaration. The principles cited in the United Nation (UN) Global Compact do not constitute a sufficient basis for designing enforceable standards, even though they may provide overall guidance. None of the consulted participants expressing a view on the subject believed that it would be possible to develop an environmental code on a broader global level; they noted that environmental provisions would be company-specific or, at the very least, industry-specific. Indeed a number of buyers—but also suppliers—believed that if environmental codes could be developed it should be on an industrywide basis allowing for a substantial degree of local customization. However, most participants did not feel qualified to comment on this issue.

In the field of human rights, the situation should in principle be similar to that of labor, given the existence of the Universal Declaration of Human Rights (UDHR) and numerous human rights conventions, which provide an adequate and relevant basis for such principles. However, consultations uncovered a lack of knowledge of and interest in human rights issues related to supply chain apart from labor rights issues. Participants did not anticipate that human rights, beyond those of labor rights, would achieve a more prominent position in codes of conduct in global supply chains.

2.4 KEY CHALLENGE 2

An Increasing Number of Buyers Are Recognizing That Traditional Top-Down CSR Strategies Are Not Achieving Improved CSR Implementation

As noted in the previous section, most participants believed that if real implementation of CSR standards was to be achieved it would require new approaches to implementation that were “outside” the present system of enforcing codes of conduct. In that light, an important initial qualification of the phrasing of Key Challenge 2 would seem to be that not only buyers, but also suppliers, NGOs,
trade unions, and other stakeholders are seeing a need for alternative and complementary approaches to CSR implementation.

2.4.1 Bottom-Up and Shared Ownership

In the Terms of Reference, the Bank Group referred to assertions by buyers that the so-called top-down approach to CSR implementation in global supply chains is not achieving improved CSR implementation. In using the term “top-down” the Bank Group implies that new approaches to CSR implementation would have to move in the direction of bottom up, that is, implementation strategies that to a greater extent rely on the positive engagement of suppliers, workers, and local stakeholders through shared ownership.

In the Terms of Reference, the Bank Group points to three basic types of strategies that have been employed by some buyers to promote improved implementation:

- A focus on clarifying the business rationale to generate bottom-up demand for CSR implementation. This would appear to be based on an assumption that CSR implementation drives business benefits.
- A focus on capacity building at the supplier level, for management, workers, and stakeholders alike. This presupposes that suppliers, including their workers and stakeholders, do not possess the skills and knowledge necessary to secure implementation of social and environmental standards.
- A focus on the role of workers or other key stakeholders as guarantors of CSR implementation, presuming that more fully empowered workers are key to ensuring implementation of CSR standards.

The above proposed alternative and complementary approaches to CSR implementation in global supply chains seem to rest on some important assumptions. In the course of testing this overall challenge, Key Challenge 2, we emphasized clarification of the following:

- Do participants overall agree that the so-called top-down approach is not generating the desired outcomes?
- In a similar way, it seems important to test whether participants agree that suppliers broadly speaking are lacking important skills that hinder the implementation of social and environmental standards? And, if so, what kinds of skills are missing?
- Do participants agree that more fully empowered workers are critical to the implementation of CSR standards?

2.4.2 Overall Observations

Overall, participants from various perspectives agreed that, whatever the historical or present benefits of a top-down approach, there were real limits to the value this approach would generate going forward. However, consultations also broadly showed that in spite of the present concerns about the top-down implementation model, it would and should remain an element in the overall process of improving CSR workplace practices in developing countries.

As noted above, a primary impetus for action to address conditions in global supply chains was a series of episodes given great attention in the United States and Europe in the 1990s, and the resulting concern expressed by buyers, stakeholders, consumers, and the media. There was no similar outcry in many of the exporting countries. Some participants also pointed to the unwillingness or lack of capacity of governments in exporting countries to address issues, and that the tenuous existence of civil society in several developing countries also limited the development of locally based solutions. Therefore, there was greater initial energy both from commercial and noncommercial entities from the North, with the top-down approach being an outgrowth of this situation.

Notwithstanding the reasons the situation developed as it did, several parties now see the top-down dynamic as having various negative features. Suppliers tend to see the top-down approach as problematic because it does not involve them sufficiently in the development and implementation of codes. Buyers pointed to the fact that a top-down approach cannot and will not be sustainable over time. Workers noted that they were not aware of or involved in efforts to achieve better labor and environmental practices. And stakeholders have come to lament the lack of indigenous roots for the solutions. In all cases, it should be noted that there are often fundamental differences in perceptions
between buyers and stakeholders depending on whether they are based in the North or the South. Apart from these real barriers to implementation of bottom-up approaches, many participants also pointed to other structural barriers, such as the actual business models including the transient nature of sourcing in the apparel sector, and the reticence of suppliers to embrace social and environmental compliance. In addition, some participants, including buyers, emphasised the possible lack of commitment to CSR among many buyers as a challenge, noting that the implementation of bottom-up approaches required the commitment of both financial and managerial resources as well as a commitment to developing more long-term relationships. Many workers expressed skepticism of the motives of buyers and management, noting that implementation often was done without commitment and conviction.

Overall, there is a broad-based consensus that implementation efforts other than top-down efforts have to be pursued; however, most participants seem still to be in the process of considering viable, scalable, and sustainable approaches. There appeared to be a strong desire to move away from top-down approaches, and continued questioning about whether and how to do so.

**Are Top-Down CSR Strategies Achieving Sufficiently Improved CSR Implementation?**

The vast majority of participants recognized that the present system of enforcing codes of conduct is not generating the desired level of implementation of CSR standards at the level of suppliers.

The above conclusion should, however, be interpreted carefully. The substantial majority of buyers, and also most of the NGOs and other civil society organizations consulted, believed that the present top-down system had achieved improved CSR implementation, but that further real and sustainable improvements required new approaches. As one buyer put it: “The question is not whether or not the top-down approach has achieved improved CSR standards but whether it has done so efficiently.” While suppliers were less ready to attribute credit to the present system—although they did not discredit it—one Indian apparel supplier echoed by others professed that buyers’ efforts in this area had achieved more in a few years than the Indian labor inspectorates had in 30 years. A number of suppliers in both India and Honduras acknowledged the buyer perspective by noting that the supplier mindset had to change fundamentally, seeing this as potentially the greatest barrier to the enactment of bottom-up, shared ownership–driven approaches. In the words of a Honduran supplier: “Suppliers lack a culture of compliance.”

There is also the question of whether codes insert standards from the outside, or from the top down.

While many suppliers did believe that codes were imposed on them, they did not perceive codes as Western-centric, noting that codes most often merely restated local laws. Nor did suppliers perceive codes as a new barrier to trade, given that sourcing—irrespective of individual suppliers’ CSR performance—would take place with other suppliers in the same country or region. However, some suppliers in both apparel and agriculture did believe that buyers were not sufficiently sensitive to local realities in their application of codes. Apparel suppliers in China and India, referencing the challenge of overtime, frequently mentioned this latter point. Stakeholders from the exporting countries expressed similar concerns, and the Kenyan stakeholders specifically cited the “unreasonable” child labor standards in many codes as an example.

**Is Top-Down Necessary?**

While noting that this was the prevailing view, participants still had mixed views of the relevance and appropriateness of the top-down approach.18 Suppliers in particular, and some NGOs and trade unions from sourcing countries, expressed the greatest concerns about the top-down approach. A number of suppliers and some stakeholders from sourcing countries complained that codes were being imposed, that insufficient consultation had taken place, and that the buyer–supplier relationship was characterized by a lack of equity. Some believed that codes should be negotiated bottom up, noting that this was the only way to secure a

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18 One intergovernmental organization believed that a great many ongoing activities contradicted the generalized description of the top-down approach. Other participants, who in general did not reference ongoing activities beyond that of small pilot projects, however, did not confirm this observation.
sense of shared ownership. Unions, international as well as local, believed that a bottom-up approach, characterized by genuine freedom of association that allows workers to organize and bargain collectively, is the only way to improve working conditions.

Many of these complaints by suppliers appeared to stem from an overall sense of powerlessness that is underpinned by a perception that suppliers are asked to shoulder the costs of compliance, whereas buyers receive the benefits. First, there is a general sense from most suppliers that they lack trust in the motives of buyers for implementing CSR standards in their supply chains. Second, code-of-conduct requirements have been developed at the same time that suppliers have faced substantially increased pressures to lower their prices and speed their delivery of goods. This is closely linked to the observation by all suppliers (and acknowledged also by a substantial number of buyers’ representatives and many NGOs) that buyers send mixed messages about the importance of CSR vis-à-vis other buying requirements such as price and delivery. This latter issue is further explored in the discussion of Key Challenge 3, as well as chapter 3 of this report. In addition, given that supplier–buyer relationships often shift substantially, and that many buyers have not yet embraced CSR in a serious manner, suppliers’ unwillingness to embrace CSR fully themselves can be seen as a response to the fact that the market does not yet send a consistent message about the importance of CSR.

The majority of buyers and NGOs tended to take a more balanced view, asserting that the top-down approach has been important in making initial progress, and yet is unsustainable in the long run as a stand-alone strategy for implementation of social and environmental standards. Indeed, this is an area in which buyers, suppliers, and stakeholders are in agreement, wanting to see local approaches elevated to greater importance in coming years. However, it is unrealistic to assume that suppliers, in particular in industries such as apparel that are characterized by short-term, shifting relationships, would take the initiative to implement CSR standards on their own. The fact that this has not occurred yet lends weight to this argument. The top-down approach will remain a prominent feature even in the years to come, and even as most parties to this debate seek more bottom-up solutions.

2.4.3 Lack of Local Capacity as a Barrier

Many buyers and NGOs contended that the reason for top-down approaches is the lack of capacity or will to adopt solutions locally. More importantly, however, few suppliers acknowledged the need for capacity building at the level of management and middle management. They did not see (managerial) skill deficits as a barrier to implementation, but rather turned the attention to the need for capacity building at the level of local government. Suppliers in fact opined that the lack of direct communication/consultation with buyers was a barrier to implementation, noting specifically that the use of third-party monitors risked externalizing part of the buyer–supplier relationship. In general, the fact that few parties came forward with details about how to increase capacity may reflect a barrier in itself. Buyers also expressed concerns about the degree to which they could be directly involved in capacity building across their entire supply chains.

19 In consultations in China and Hong Kong, commercial parties noted that prices have been falling in absolute terms in recent years in the apparel industry, and numerous agricultural commodities have faced similar deflationary pressures.
Limitations to the Bottom-up Approach

Although consultations showed a general consensus on the need for a combined approach to implementation, they also evidenced two questionable assumptions of a structural nature inherent in this thinking.

Echoing the view of many buyers and Western NGOs, one international organization argued that the top-down approach was inevitable in industries or supply chains with short-term, shifting relationships. In these industries it was impossible to expect buyers to commit to more shared-ownership-type approaches.

In addition, greater involvement of buyers in bottom-up approaches would also seem to rely on the questionable assumption that buyers are truly committed to implementing sustainable CSR practices in global supply chains, even though such approaches may be more costly and time-consuming. This point is worth considering given that the study involved a disproportionately high number of CSR-receptive buyers, and the general community of buyers may not adopt such approaches as readily.

Others noted the lack of incentives that currently exist for local governments to enforce local laws. As the system currently works, governments may perceive an advantage in lax enforcement because this allows them to attract foreign investment from both companies that do and do not care about these issues; relying on those companies that do care to enforce provisions on their own.

Finally, as noted in the Terms of Reference, one of the factors inhibiting local approaches is the general dearth of service providers from civil society, the commercial sector, academia, and public institutions at the local level.

Worker Education and Empowerment

Many participants in the survey noted that workers, and workers representatives, had not been part of the solutions, and that this was one important aspect of the top-down barrier. This question has many dimensions: (1) many codes were developed with little involvement by workers; (2) trade unions often operate in environments in which their actions are sharply curbed by government and business; (3) the roles of NGOs and trade unions with respect to workers are frequently subjected to different and often irreconcilable views; and (4) in an increasingly feminized and informal work force, questions are sometimes raised about the unions’ ability to represent workers fully and fairly. In addition, some participants, from both buyers and stakeholders, noted the substantial costs of worker education, at least as it has been undertaken to date in pilot projects and through multistakeholder initiatives.

Some buyers, suppliers, and stakeholders also noted barriers in specific contexts: the oversupply of labor and reliance on migrant labor in China, and the presence of migrant labor and the importance of the informal sector in India.

Most unions strongly emphasised that codes should not become a substitute for collective bargaining, noting that codes were welcomed only if they promoted union rights including creating a space for local consultation. The majority of unions were firmly opposed to seeing NGOs in the role of training and empowerment of workers; even in situations where local unions were unable to do their job. Although some international union federations acknowledged that local unions did not always represent vulnerable groups, such as women workers and migrant workers, the alternative was not to bypass unions but rather to work with unions to make them better.

NGOs, on the other hand, remained skeptical about the ability of some local unions to take on the responsibility of training and engaging with companies, noting that some unions were caught up in political strife or corruption. Both NGOs and unions agreed that commercial service providers should not carry out these activities nor should multinational companies sponsor their activities in this field.

Workers, for their part, presented mixed perspectives on the role of unions; some showed a lack of faith in unions, noting that they were too politicized or corrupt. Others saw the right to form unions and engage in collective bargaining as a central aspect of codes, second only to provisions on health and safety. As noted elsewhere, consultations with workers showed a general lack of knowledge of codes, reinforcing the view expressed by buyers and stakeholders that workers’ needs and potential are not adequately addressed.
2.5 KEY CHALLENGE 3
Insufficient Understanding of the Business Case

The business case for CSR in general is and will continue to be widely debated. This also holds true for implementation of good social and environmental practices in global supply chains.

As phrased, Key Challenge 3 and its underpinning assumptions imply that implementation of good social and environmental practice by suppliers does generate business benefits. The basic business case is generally understood to have two main elements:

- Compliance with social and environmental standards will help suppliers maintain existing business and secure new business. Suppliers risk losing business if they show an unwillingness to move toward compliance.
- Compliance with social and environmental standards generates business benefits through, inter alia, lower rates of absenteeism, higher productivity, and more satisfied workers.

However, the essence of Key Challenge 3 is whether suppliers acknowledge that the business case exists. This is the question that formed the basis for consultations on this barrier.

2.5.1 Overall Observations

Consultations revealed considerable skepticism among suppliers about whether the business case actually exists. Furthermore, given that some buyers themselves do not unequivocally recognize the existence of the business case (for suppliers), suppliers may not acknowledge or act upon the business case for CSR for some time to come. Therefore, the most that can be concluded is that the business case remains unproved rather than disproved.

Accordingly, Key Challenge 3 would seem to be a significant barrier to further adoption of CSR practices by suppliers.

All participants agree that the business rationale—and how it is perceived and understood—plays an important role in determining the willingness and motivation of suppliers to undertake investments in CSR practices. This came out explicitly when discussing Key Challenge 3 as well as implicitly when discussing, not least with suppliers, other key challenges. Stakeholders in general held the view that this challenge was the most important of the three identified by the Bank Group.

Suppliers, buyers, and stakeholders alike believe that the business case for investing in CSR is not a simple one-size-fits-all question. Indeed, most participants seem to agree that investing in certain elements of CSR does translate into (long-term) business benefits, whereas investments in other CSR aspects offer a negative or at best a neutral return on investment. Participants also held mixed views on whether good CSR performance helped suppliers maintain or secure business. Suppliers in particular did not see a direct link between CSR performance and obtaining or keeping contracts, except in a handful of cases in which buyers were genuinely involved with CSR practices of suppliers.

Many participants also pointed to the nature of supply chains as a factor that sometimes sharply limits the realization of business benefits from investments in social and environmental performance. In the apparel industry, the most frequent model is of buyers shifting orders between numerous suppliers, often maintaining only short-term relationships. Although some buyers contested this view, noting that supply chains were not as transient as frequently claimed, there is substantial evidence that many suppliers do not see the advantage in such investments when they have no guarantee of ongoing business from buyers. Similarly, in agriculture, the fact that much sourcing takes place via auctions or wholesalers also tended to make the business case less apparent to the individual supplier.

2.5.2 The Business Case for CSR Implementation

Overall, participants questioned the phrasing of Key Challenge 3, although most agreed that the business case played an important role in determining the willingness and motivation of suppliers to undertake CSR investments. Some suppliers in China and Honduras believed that the phrasing was somewhat patronizing, whereas others implicitly noted that not only suppliers, but also others (including buyers), failed to understand the possible business case for CSR.
Does CSR Implementation Generate Business Benefits?
Consultations did not reveal a clear picture of the possible business benefits associated with CSR practices.

Among suppliers, views varied substantially concerning the existence of the business case. The views presented by the suppliers consulted demonstrate the range of opinions on this subject. The majority of apparel suppliers in Honduras and China rejected the idea that CSR implementation would produce any business benefits. They argued that if business benefits were present, they would already have implemented such standards. Indian apparel suppliers took a more balanced view, noting that selected aspects of CSR practices, most notably health and safety practices, held the potential for business benefit. Agricultural suppliers in Kenya and India noted that good working conditions were essential to retaining the work force as well as its productivity. Nonetheless, this group saw codes of conduct as placing requirements much beyond what could generate any business benefits.

Buyers also had mixed opinions on whether the benefits of addressing CSR were either present or well understood. Opinions ranged from not seeing any implications for business, to seeing them mostly through anecdotal evidence and pilot projects, to seeing growing acceptance by some suppliers that benefits do exist. Some buyers, however, professed that CSR actually made suppliers less competitive, because of costs incurred in improving social and environmental performance. Many buyers' representatives noted that there was no existing methodology for demonstrating the business case in a comprehensive and methodologically rigorous manner, and many questioned whether such a framework could be developed and made useful.

Stakeholders took a mixed position, with the division of opinion not following any clear geographic or institutional pattern. Approximately half of the stakeholders believed that suppliers (and buyers) have insufficient understanding of the business rationale and believed that greater clarification would increase the willingness to undertake the required investments. Some added that given tight margins many suppliers did not have the opportunity to explore the potential benefits. The other half of stakeholders questioned whether the cost of investment outweighed the benefits, noting the issue was less one of awareness and more the lack of actual incentives. In general, stakeholders did see some business benefits associated with certain issues, such as health and safety and reasonable working hours (higher productivity, fewer products returned, less absenteeism, and so on), whereas it was much more questionable if compliance with other social and environmental standards translated into business benefits.

Do Buyers Reward CSR Compliance?
Although the vast majority of participants accepted that CSR had become part of the contractual relationship between buyers and sellers, much less agreement existed on whether suppliers' good CSR performance translated into new or more stable business. The majority of participants, including most buyers, acknowledged that unresolved tensions among price, quality, and delivery time on the one hand, and CSR requirements on the other risked undermining the credibility of the business case.

In general, suppliers argued that their CSR performance did not have a significant impact on their relationships with buyers. In their view, compliance and good CSR performance did not result in longer or more committed buyer relationships, nor did it provide any real advantage in the process of securing additional business. This was further exacerbated by the unresolved tensions between product requirements and CSR requirements, which all suppliers saw as a pertinent issue.

The perspective of buyers was less clear on this issue, although for obvious reasons buyers argue that CSR performance is an important element of the contractual relationship. Nonetheless, many buyers acknowledged that their organizations send mixed messages about the balance between commercial and CSR requirements. Headquarters representatives in the United States and Europe most often voiced this view, whereas several local buyers' representatives in China and India often believed that suppliers used this argument as a pretext for evading CSR compliance. Many buyers consulted also claimed that the vast number of buyers not committed to CSR further undermined
the business case for CSR and their own efforts to demonstrate the benefits.

Stakeholders generally agreed that buyers send mixed message about the importance of CSR versus commercial requirements. However, many stakeholders drew attention to the inherent barriers in the present business model in the apparel industry that relies heavily on shifting supply chains and short-term shareholder returns. Constant demand for lower prices and new product lines keeps pressure on production and distracts from social and environmental concerns. Stakeholders noted that CSR investments were long term, whereas the present business model forced suppliers to think short term. Buyers acknowledged this conflict between long-term benefits and short-term thinking although they saw the short-term management of suppliers less as a result of the business model and more as a consequence of suppliers’ inability to plan long term.

All participants agreed that buyers should work to overcome the unresolved tensions, for example, by integrating CSR within sourcing practices and business policies. Many stakeholders, however, were skeptical that this would be sufficient to address the tension, in light of the larger structural flaws in the existing business model.

2.6 OTHER KEY CHALLENGES

Throughout the consultations, participants raised a number of other issues and challenges that they believed should form part of the overall analysis of key barriers to improved implementation of CSR practices at the level of suppliers.

Stakeholders most frequently raised other challenges to be addressed. However, buyers—and to a lesser extent suppliers—also pointed to key challenges outside the Terms of Reference. As noted elsewhere, many NGOs agreed that the three key challenges identified by the Bank represent the main barriers to implementation when considered in a more immediate perspective of the buyer–supplier relationship. However, when turning to the wider and longer perspective, the NGOs believed other issues had to be addressed within a broader framework.

In general, many participants made the observation that real and sustained implementation of CSR practices in global supply chains requires actions beyond those taken at the micro business level. In particular, a number of participants, including buyers and stakeholders, pointed to broader issues, such as the international trading regime, the international financial system, the behavior of consumers, and the present business model in many industries. Some of these issues are further explored below, although we note that a good number of them are discussed at only a superficial level and they remain outside the scope of the present study.

2.6.1 Other Key Challenges at the Micro Level

Lack of Buyer Commitment

Many stakeholders expressed the view that one fundamental barrier is the lack of serious commitment to CSR practices from the business community. The lack of commitment was exposed in two marked ways.

First and foremost, many multinational corporations were considered by stakeholders to be negotiating with government and local authority with a view to be (partly) exempted from government regulation in several areas, including taxation, the environment, and labor standards. Unions in particular argued that many multinational corporations refuse to take part in employer organizations and do not participate in the normal tripartite structures, thereby undermining these organizations’ credibility and effectiveness.

Second, a number of stakeholders—and also buyers—noted that the problem of free riders was a serious issue, pointing to the vast number of companies that still did not embrace CSR. This further contributes to the syndrome of sending mixed signals to suppliers, undermines the efforts of CSR-progressive buyers, and renders the entire business community vulnerable to criticism. Interestingly, a number of buyers observed that some peers were directly undermining the credibility of the more committed part of the business community by not “walking the talk.” However, negative peer pressure is not only an issue among buyers. Several NGOs drew attention to the similar dynamic, which they believe persists among suppliers, particularly in export processing zones.
Reliance on Monitoring

Suppliers in particular believed that the use of third-party monitors acted as barrier between buyers and suppliers, leaving suppliers no opportunity for engaging with buyers on more difficult compliance issues. Throughout the consultations, reference was made to the overall reliance on monitoring as a mechanism for achieving change. Concerns were expressed about:

- The proficiency and credibility of monitoring.
- The degree of resources invested in what is sometimes no more than a “cat and mouse” game that inserts or reinforces suspicion between buyers and suppliers.
- The failure of monitoring to address qualitative labor issues or achieve effective means of engaging in dialogue with workers.
- The “excuse” monitoring provides for governments not to invest in enforcement efforts.

Although most participants also recognized the value of monitoring, there was a broad view that monitoring as currently implemented does not make a sufficient contribution to improved social and environmental conditions.

Stakeholder Responsibility

A number of stakeholders, including representatives of unions and intergovernmental organizations, argued that some NGOs reinforce some of the less useful aspects of the current system. In particular, by not being sensitive to the long-term nature of CSR, stakeholder campaigns have sometimes led companies to cut ties with noncompliant suppliers, resulting in negative consequences for workers and communities. In recent years the intent of such campaigns has tended away from the severing of commercial relationships for precisely this reason.

In addition, some stakeholders as well as buyers expressed the view that NGOs should devote less attention to the small group of high-profile buyers who are making great efforts to implement CSR and yet remain at the center of NGO criticism. It was suggested that a better focus of energy and attention would be on the vast number of companies that are less active. A number of buyers noted that the continued criticism of what were generally considered “leading” CSR companies could have the unintended effect of discouraging other buyers from addressing CSR practices in their supply chains.

Code Coverage

This study only addresses implementation of CSR practices at the level of first-tier suppliers in global supply chains. However, a number of stakeholders noted that the study should go beyond the first level to include subcontractors as well as home workers. This issue was also raised in consultations with buyers, who professed that this was an almost insurmountable challenge, and that looking too far down supply chains could itself create a barrier to implementation of CSR.20

Stakeholders also noted the challenge of extending the coverage of codes to include the informal sector, the principal economic dynamic in many developing countries. Finally, stakeholders emphasised the need to make CSR more accessible to SMEs that have more limited capacities and narrower profit margins than other suppliers.

2.6.2 Other Key Challenges at the Macro Level

As noted above, throughout consultations many participants pointed to broader and more long-term challenges related to the overall environment in which CSR practices are implemented. Some of these are outlined below.

Lack of Consumer Commitment

A vast number of participants, buyers, stakeholders, and suppliers alike pointed to the lack of consumer commitment to CSR as a key barrier to implementation. There is widespread mistrust of polling data suggesting that consumers will pay extra for products created in accordance with good social and environmental practices. This is further corroborated by the price pressure many buyers feel coming from low-cost retailers, whom they criticize for failing to address CSR practices as fully among their suppliers. The lack of faith many have in the commitment of consumers helps to undermine the business case.

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20 Many buyer codes of conduct cover subcontractors and home workers typically by requiring suppliers to ensure that subcontractors are compliant with code provisions. Relatively few buyers, however, have started to enforce codes beyond the first level of suppliers through, for example, monitoring.
The International Trade Regime

A number of stakeholders observed that the present international trade regime acts as an important barrier to implementation of social and environmental standards in global supply chains. In the eyes of some stakeholders, World Trade Organization (WTO) rules are inconsistent in that they allow focus on the impact of products on consumers, but not at the point of production. This makes it eventually more difficult to implement public procurement policies that favor products and services manufactured and delivered in a socially and environmentally responsible manner.

The Present Business Model

In most consultations the question of the present business model in supply chains was raised as a key issue; however, not all agreed that the analysis was black and white.

As noted previously, the business model of the apparel sector, with short-term, shifting buyer–supplier relationships, was perceived as a major barrier to improved implementation of CSR practices. A number of stakeholders, suppliers, and buyers explicitly and implicitly noted that the business model did not provide sufficient incentives and structures to allow for a commitment to CSR beyond the existing implementation system (monitoring). Whereas CSR implementation generally is seen as long term, business relationships often are short term, margins are small, and suppliers too small (and financially squeezed) to take up CSR seriously. Many saw these structural characteristics of the apparel sector as being further reinforced by the advent of Internet-based auctions, the increased pressure on brand retailers to launch multiple collections every year, and the competition from low-cost retailers.

However, a small number of buyers did not agree fully with this analysis, noting in particular that they did not see their prevailing business relationships relying on short-term supplier links. Thus, in the apparel sector the overall buyer–supplier relationship may develop simultaneously in several different directions, possibly with an overall emphasis on transient relationships.

Other buyers noted that although the above description may generally fit the apparel sector—and possibly parts of the agricultural sector—the same pattern was not evident in other industries such as the shoe industry and similarly specialized industries. In these industries buyers and suppliers were often linked over the long run, becoming mutually dependent. This provided greater incentives and opportunities for addressing CSR through the relationship.

The above observations were also made in respect of the agricultural sector, noting that often buyers and suppliers interacted only via auctions or wholesalers. This tends to make implementation of CSR practices more difficult. Exceptions do exist, however. A number of buyers in certain subsectors, such as tea and coffee, have developed relationships directly with the larger plantations and even smaller growers.

NGOs, particularly those involved in campaigning, put the question of the business model in a wider perspective, noting that the business case tends to apply more to companies concerned with brand image. In contrast, those producing products directly for other companies rather than the public (which represents the vast majority of business) have less motivation and are less susceptible to NGO pressure.

In sum, while anecdotal evidence and much management literature today would seem to suggest an overall trend toward buyers reducing their supply base and developing longer-term relations with a smaller number of suppliers, the other picture, that of more transient relationships, also holds true. In view of the results of these consultations, there is no doubt that the business model does indeed play a major role in providing a structural framework for addressing CSR; however, it may be an enabling as well as an inhibiting progress.

Barriers to Local Public Action

Some also cited a complex mix of perceptions concerning the role of local governments, often focusing on whether and how they could and should engage in collaborative work with buyers and other institutions outside their borders. Consultations revealed mixed perceptions of the appropriateness of certain forms of public–private partnerships.

Suppliers rejected outright the idea that buyers and monitors working on their behalf should work more
closely with local labor inspectorates, arguing that the latter in most instances were both inefficient and corrupt. In addition, some suppliers in Honduras saw such collaboration as “imperialistic” in that local government could be perceived as “working for” foreign companies. Ironically, however, some suppliers argued that if only buyers exerted as much pressure on governments as they exerted on suppliers, implementation of CSR practices would proceed more efficiently.

Likewise, many stakeholders challenged the idea of buyers working with or supporting local government, asserting that governments should focus on enforcing their own public laws rather than spending resources on the development and enforcement of private law.

Buyers, for their part, did not make a strong call for working with government; indeed, some buyers saw a need for shifting the buyer–supplier relationship in the field of CSR to a supplier–government relationship, maintaining that the ultimate responsibility for promoting (and enforcing) CSR practices in the workplace belonged to government.
This chapter outlines potential options that would help contribute to the achievement of greater social and environmental performance in global supply chains.

The options presented here have been developed on the basis of the input received from the participants in the consultations described above. They also have been based on review and analysis by the project team, taking into account the various ideas presented by those who were consulted during the study, the project team’s assessment of developments in the field, and consideration of the assessment criteria established in the Terms of Reference and assessment criteria that arose in the course of the consultations. As requested in the Terms of Reference, these options are presented in light of the barriers described in the previous chapter. They also address issues not explicitly raised through the three key challenges, in recognition of the views of some participants that the barriers outlined in the Terms of Reference did not address the most critical issues in the field.

In all project consultations, participants were asked what changes they would recommend to achieve the commonly held goal of improving conditions for promoting CSR in global supply chains. It is important to note that in many cases participants presented suggestions that called on other parties to adjust their approaches to social and environmental issues in supply chains (for example, buyers looked to suppliers, suppliers to buyers, stakeholders to buyers...), rather than suggesting changes to their own approaches. The overall results of the survey indicate, however, that for truly sustainable progress to be made all parties will need to adjust their approaches and reconsider perspectives that in some cases are strongly held. In addition, the steps outlined below seek to insert a greater appreciation of the need to develop approaches in the context of the overall set of efforts, rather than replicating the often-isolated decisionmaking and policy development that has marked the first 10 years or so of work in this area.

These options are presented below with recognition and respect for the steps taken in recent years, and also reflecting the widely held view that the system for addressing social and environmental issues in supply chains may well have reached the limits of its effectiveness. If implemented, the options presented have the potential to contribute both to a deepening of the progress made to date, as well as to the establishment of new frameworks that will make existing work more effective and sustainable, and new initiatives that will build upon the experience gained in recent years.

### 3.1 SUMMARY OF OPTIONS

In presenting these broad categories of options, it is essential to note that each of the initiatives suggested is likely to be more successful if undertaken with full regard for other steps than if they are undertaken in isolation. Under the best circumstances, there would be a coherent framework that involves efforts to blend:

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21 Two notable exceptions to this were buyers, many of whom acknowledged the inherent tension and mixed messages sometimes sent concerning commercial, social, and environmental concerns, and Northern stakeholders, many of whom acknowledged that the strategy of focusing most attention on the same small number of companies, which are also among the most active in this work, may be proving counterproductive in some ways.
Public sector commitment to create an environment in which local laws are effectively and fairly enforced.

Buyers’ efforts to clearly and consistently work in partnership with suppliers to achieve better performance against social and environmental principles.

Engagement with civil society organizations, including trade unions, to seek practical solutions consistent with international principles.

Dialogue with and engagement of workers and their representatives in pursuit of these goals.

Such an approach would reflect a necessary and natural maturation process as the first generation of efforts, often unconnected or inconsistent to address a complex set of global issues, evolves toward a more systematic approach.

The study also has revealed characteristics of successful approaches that should be considered to help ensure the success of future efforts, including:

- Collaboration between interested parties, or local “ownership.”
- An effort to balance the ongoing need for innovation and experimentation with the desire to achieve scalability.
- A renewed effort to identify ways that private and civil society efforts draw upon the potential for government involvement.

It is striking that, in the course of the study, substantially less time was focused on activities that have been at the forefront of efforts to date, especially monitoring. Given that many of the most knowledgeable observers of the issues now acknowledge that the next generation of efforts should move “beyond monitoring,” one could conclude that currently 80 percent of time, resources, and thought are devoted to a subject that may reflect only 20 percent of the potential for progress. While few of those who participated in the consultations predicted or advocated the end of monitoring, there appears to be a rough consensus that monitoring needs to evolve and that other activities may hold the greatest potential for progress.

The options are arranged around the following broad categories, which are presented below with a brief initial summary:

**Public Sector Engagement:** Real, systemic progress will not happen unless governments get involved more vitally. Virtually all the parties consulted, including companies, NGOs, and trade unions, called on governments to enforce their laws more widely and effectively. A greater commitment to the enforcement of existing standards, to the degree they are consistent with international norms, is viewed widely as having value in itself. In addition it would support the efforts of private sector actors and non-commercial organizations to promote better social and environmental practices. The options make note of broader policy questions that, while beyond the scope of this particular study, were identified by many who were consulted as having meaningful impact on the issues at the core of the study.

**Standards and Harmonization:** This issue received significant attention in the course of consultations, and participants generally viewed harmonization as a critically important goal. While some, especially suppliers, asserted their desire for a universally applicable base code of conduct, the investment needed to refine the relatively small differences present in today’s codes may prove unwise. An effort to create a single global framework risks getting bogged down in extensive technical and political questions. Instead, more effective steps toward harmonization can be taken through initiatives to promote comprehensive approaches at the national and industry level. To the degree that opportunities also exist for the harmonization and improvement of approaches to implementation of codes and of social and environmental monitoring and verification, these may present the potential for substantial progress, because these are the areas where the multiplicity of approaches seems to create the greatest tension and confusion. A different challenge emerges concerning environmental issues, where establishment of broadly agreed principles is needed, as opposed to the harmonization of existing standards concerning labor.

**Capacity Building:** The options presented reflect the broadly held view that capacity building remains a critical ingredient in making both current and future steps more effective. In particular, we present options that focus on the needs
and opportunities related to capacity building for workers, suppliers, civil society, and social auditors. The options suggest a focus on social infrastructure that will deliver value not only in terms of better performance on social and environmental principles, but also in terms of building social infrastructure that is better able to support and contribute to development goals.

- **Worker Education and Empowerment:** Further progress will be made by providing more and better education to workers concerning their rights, and strengthening the protection of those rights. This should take place through such means as access to public mechanisms for redress of problems, participation in representative trade unions, dialogue with local civil society organizations, and participation in private efforts to implement codes of conduct.

- **Research:** There appear to be discrete areas in which additional research would make a substantial contribution toward future progress. As noted above, there is a lack of consensus, and even a lack of common reference points, about whether the “business case” for CSR in supply chains exists. Additional research about the costs and benefits of attending to social and environmental principles more fully would help illuminate this oft-cited but poorly understood aspect of the broader debate. Any such research should take care to distinguish between the business rationale for suppliers and buyers, which diverges in some significant ways. Research in this area would be most valuable, especially to the extent it looks at the business case from the suppliers’ perspective in exporting countries, to ensure maximum relevance and uptake of the findings. In addition, the consultations illustrated the need to build greater understanding of how to achieve worker empowerment in the multiple operating environments to which apparel and agriculture supply chains extend. In conducting such research, it would be valuable to more fully illuminate the specific problems faced by different types of workers (for example, seasonal, migrant, and home workers) so that all parties to this issue can take action consistent with the experiences and perspectives of these different groups. Finally, research may be able to help promote greater inclusion of environmental and human rights issues into CSR efforts in global supply chains, because the level of understanding and commitment is currently relatively low.

- **Removing Economic Barriers to CSR:** In some cases, note was taken of structural economic barriers to the wider adoption of CSR in supply chains. To be successful, the options presented will need to address, or at least be developed with some regard for, these structural barriers. Some cited the very nature of supply chains themselves, which, especially in the apparel industry, may contain inherent disincentives to the adoption of good practice. Numerous parties cited the lack of a level playing field, which means that companies at both the buyer and supplier level face de facto penalties for adopting practices that transcend significantly those undertaken by competitors. In addition, buyers should address the mixed messages and incentives they send to suppliers, who respond to compliance staff promoting adoption of good labor conditions, and also merchandisers who often demand lower prices, faster deliveries, and shorter lead times.

### 3.2 OVERALL OBSERVATIONS

In presenting these options for consideration, several overarching points provide valuable context, including the following:

- No single “answer” emerged from the study, the perspectives received, or the subsequent analysis. Unlike the early to mid-1990s, when numerous parties coalesced around monitoring as the primary means of addressing labor issues, the next generation of initiatives is likely to draw on a variety of efforts that, taken together, can make a substantial contribution toward the goals at the heart of this study.

- Environmental issues, although placed on equal footing with labor and social issues in the Terms of Reference, went largely ignored during the consultations. There remains less awareness, concern, and external pressure to address environmental matters than there is to address labor issues. Greater parity between these issues is needed. Furthermore, virtually no attention was given to human rights issues other than labor rights, even though the overall human rights
climate in many locations is a critical factor determining whether and how labor rights are respected.

Similarly, significantly greater attention was given to issues in the apparel industry, as opposed to the agriculture industry. In addition, the input received concerning the agriculture industry also points to the fact that agriculture is not a single industry but rather a collection of several commodity-driven industries that have distinct structures and supply chains. Achieving generalized solutions across such subindustries with diverse economic and social structures may not be easily done.

Monitoring of codes of conduct, a subject that has received intense attention in recent years, was not at the center of our discussions. Instead, participants tended to focus on other issues, which they believed to hold the key to future progress. When monitoring was discussed, the focus was more on education and less on policing. Although few parties suggested that private monitoring would disappear, there was an understanding—at least on an implicit level—that monitoring should and would be deemphasized in the near term.

The numerous multistakeholder initiatives in place received relatively little attention, although they were considered by some to be an important part of future solutions, in particular in the area of harmonization and standardization.

The question of whether and how diffuse supply chains themselves influence the achievement of CSR goals is central to the question of barriers and options.

The perspectives of those who were consulted varied by location. There are considerable differences in the relative positions of the public sector, the private sector, and stakeholders in each of the countries involved in the survey. While the implicit goal of this project and many efforts in the field is to develop options that can be developed globally, these solutions will need to take local factors into account if they are to have the desired impact. In some cases, specific challenges also vary from location to location, and addressing these issues might bring these views into greater harmony.

Some observers worried that the move toward strengthened social and environmental requirements would disadvantage the SMEs that are needed to generate greater economic growth in the developing economies.

A small number of those consulted, especially trade unions, retain considerable skepticism about whether codes of conduct themselves are a useful framework for furthering good social and environmental practice in global supply chains. In their view, strengthening worker representation, and removing public and private sector barriers to the exercise of freedom of association and collective bargaining, can make greater progress.

It is important to note that there is still something less than a critical mass of buyers who are strongly engaged in these issues. Our consultations involved a selected group of the more active buyers, some of whom cautioned against the adoption of guidelines and options that could raise the cost of entry for newly active parties, thereby missing the opportunity to engage more companies in CSR practices.

Few buyers appear to see efforts on these issues as areas where competitive concerns present significant barriers to forward action. Indeed, many buyers noted that commercial concerns might now be driving them more forcefully toward collaboration, as the costs and benefits of acting in isolation are becoming clearer.

3.3 PROPOSED OPTIONS

In presenting potential options, it is critical to clarify the question that is being presented by this study. If the question were presented simply as “How can codes of conduct be made to work better?” this would lead to a certain set of answers. The more relevant question is that which the Bank presented: “How can CSR (that is, labor, human rights, and environmental principles) be more fully implemented in global supply chains?”

This question is more comprehensive, and incorporates the opinion of many who were consulted for this study, who expressed the view that codes of conduct are a means to the end of achieving good social and environmental practice, not an end in itself. Based on this question, it is hoped that the options address ways to make codes of conduct more effective, and also identify other possibilities to maximize and coordinate the respective contributions of government, the pri-
vate sector, workers and their representatives, and civil society, on the basis of the unique contributions each is best able to make. Codes of conduct, and efforts to monitor and verify performance against codes, remain important. The study, however, suggests that greater priority should be placed on the development of coherent frameworks, with local ownership, that facilitate the application of codes of conduct. It should do so in the context of public sector engagement, worker education and empowerment, engagement with civil society organizations, and other means of achieving progress.

Although the goal of maximizing compliance remains critical, it is also worth considering the value of developmental approaches suggested by some, notably stakeholder groups. Indeed, some organizations and individuals consulted for this project questioned the very notion that “compliance” was the proper framework for addressing the social and environmental questions presented here. Some are of the opinion that the creation of a binary model of “pass/fail compliance” distorts efforts to develop better practice over time. It does not appear to be feasible or desirable to remove altogether the compliance dimension, especially where core labor rights are currently unenforced. However, the options presented here seek to reflect a consistent and deliberate shift away from a compliance-only model, and toward alternative models that may have greater and more sustainable potential, such as that undertaken in partnership via the International Cocoa Initiative, or through the Global Alliance for Workers and Communities.

3.3.1 The Assessment Criteria

The options were developed in light of the criteria presented by the Bank, and those developed through the course of conducting the study. The criteria were as follows:

- The likelihood of adoption and possible constraints that could inhibit adoption of the proposed option.
- The risk of lowered standards.
- The feasibility of necessary investments, and likelihood that different stakeholders would make needed investments of time and resources.
- The feasibility of implementation, including the roles that would be required of relevant stakeholders.
- Possible implications for public sector roles, including industrial country donors and developing country governments.

In the course of the discussions, additional criteria were developed both by the project team and those who were consulted. The first, the impact of proposed solutions, is arguably implicit in the other criteria; however, several people who were consulted noted that it should be made explicit. In addition, the degree to which proposed options reinforce other initiatives is also important. For example, government initiatives have the benefit not only of their own independent impact, but also in the creation of a context in which other initiatives undertaken by civil society and the private sector can flourish.

These criteria have not been applied mechanically, but have instead been used to make a qualitative assessment of the degree to which the options could and would be implemented widely, and the degree to which they would achieve intended results. In some cases, it appears that further study is needed to determine the practicability of implementing various options.

3.4 PUBLIC SECTOR ENGAGEMENT

The Terms of Reference of this study did not seek input on the role of governments, because the Bank had envisaged that to be the focus of a later research project. Notwithstanding, the parties consulted felt compelled to voice their opinions on the subject. Their statements reflected strong agreement for the basic principle that governments should enforce local laws concerning social and environmental matters more fully and effectively. While it is likely that different groups have differing motivations for the common assertion that governments can usefully enhance their role in these issues, the fact that the view is so widely shared has great significance. It is also noteworthy that many parties believed that their own individual efforts would be more effective in an environment in which governments took a more active and visible role.

In addition to the support by suppliers, buyers, and stakeholders, the fact that workers interviewed for
this project did not seem familiar with codes of conduct suggests that a renewed focus on the enforcement of local laws could engage workers more fully in the process. While some of those consulted for the survey expressed skepticism that the public sector in some locations would act more forcefully to enforce existing standards, this was viewed as a hurdle to address rather than a reason not to seek an expanded role for the public sector.

The question of how governments can engage more fully was not discussed extensively in most convenings, again because of recognition that this will be the subject of subsequent work. In general terms, most parties simply focused on the need to ensure that local laws were enforced more fully. More attention was given to the need to interpret laws consistently than to the need to change laws, with the exception of the sentiment expressed among some buyers based in exporting countries, as well as some suppliers, who argued for the reduction of “unrealistic” legal obligations. In addition, it is important to note that it may be counterproductive to ask governments to assume responsibilities that are more naturally and efficiently carried out by commercial actors.

The Bank has developed a framework including four different types of actions within the sphere of government as it relates to issues such as those that are the subject of this study (that is, mandating, endorsing, partnering, and facilitating). This framework provides a useful way to analyze options for state action.22

Accordingly, while additional work is needed to develop an approach to this question, it is clear that this is a high priority for the broad range of parties consulted for this project.23

3.4.1 Host Government Actions

The following steps could be taken to enhance the influence of host country governments’ attention to CSR issues:

- Host country governments may promote trade and investment—especially sustainable trade and investment—by the more thorough implementation of their laws.
- Reconsideration of provisions that allow export processing zones to operate without application of legal obligations applicable elsewhere. Without reviewing or conducting economic analyses of whether such zones contribute to economic development, the broadly stated desire to maintain consistent standards suggests that the maintenance of production zones where basic labor and environmental standards do not apply is contrary to this goal.
- As noted below, host country governments can make a substantial contribution to the goals outlined here by helping to catalyze local multi-stakeholder initiatives.
- Host country governments, in seeking to allocate available resources to the enforcement of their laws, can create tools and incentives for private actors to increase their commitment to enforcing applicable standards. Governments can combine increased efforts to monitor legal compliance with programs similar to those created by the U.S. Occupational Safety and Health Administration to promote business’ own implementation of such efforts. This program is noteworthy in that it also makes available the same information to civil society organizations, trade unions, workers, and community groups to facilitate community policing. Other efforts that provide technical assistance to employers, workers, and others to self-police allow governments to allocate enforcement resources to the worksites where they are most needed.
- Establishment of dispute resolution mechanisms, such as that undertaken by the Costa Rican government, which has established a tribunal to hear environmental disputes. It was suggested by some stakeholder groups that this model illustrates how public and private efforts can reinforce one another. Some noted that such exercises serve the dual purposes of solving problems and also creating political will to prevent disputes. It

22 This framework is elaborated in the report “Public Sector Roles in Strengthening Corporate Social Responsibility—A Baseline Study,” developed for the Bank Group by the International Institute for Environment and Development, October 2002.

23 In calling on governments to play a more active role, there was little suggestion that any of the other parties should disregard or reduce their efforts to address the questions involved in this study. On the contrary, public sector action is widely viewed as a predicate for effective action by others.
is also noted that these mediation systems are present in many countries, and that they do not always function effectively or efficiently. A review of how to make existing systems function better may also be a useful investment.

3.4.2 Home Country Governments

In addition, the following steps could be taken by or with home country governments to enhance the effectiveness of codes of conduct and other efforts to ensure implementation of social and environmental practices. These steps have been developed with consideration of the four elements of public sector action on CSR developed by the Bank Group:

- Governments have in recent years played a critical role in the establishment of multistakeholder processes, and this catalyzing role could be replicated and applied to other efforts. Both the Fair Labor Association (FLA) and the Ethical Training Initiative (ETI) resulted from government initiatives in the United States and United Kingdom, respectively, and the European Commission also has sought to support similar efforts financially. Governments could similarly play a role in launching or supporting the multistakeholder national initiatives described above.

- Capacity building by international institutions (for example, the ILO) and home country governments of buyers (for example, OECD nations) to strengthen and create incentives for local enforcement of laws (as discussed above).

- Governments also have the opportunity to influence the debate by incorporating social and environmental provisions in public procurement practices. There have been some initial efforts in this regard, in UN agencies and in various jurisdictions in the United States and European Union (EU).

- As noted below, bilateral and other trade agreements involving home country governments have incorporated provisions related to labor and environmental issues that can help to promote good practice. Such an approach, however, may have other consequences.

- OECD member states have used the platform of national contact points to facilitate dialogue concerning a range of social and environmental issues, among others, with the private sector, and this could be extended.

3.4.3 Broader Policy Issues

Several participants in the consultations raised policy questions related to the study topics. While these questions were not included in the Terms of Reference, they reflect the policy questions or concerns of some—especially Northern stakeholder groups—who provided input through the consultations.

- Several participants stated the need to have social and environmental provisions included in multilateral trade agreements and more widely included in bilateral agreements. At the very least, those supporting this approach sought the removal of trade agreements that consider such provisions to be anticompetitive, and the further inclusion of social and environmental considerations in multilateral funding and lending practices.

- It was also suggested that local governments could undertake more vigorous and consistent review of facilities’ export licenses, tied to exporters’ compliance with national laws. This would be one step to create market incentives and penalties promoting greater compliance with environmental and social standards.

- Some focused attention for binding international provisions on corporate accountability, citing specifically the Draft UN Norms on Human Rights Principles and Responsibilities for Transnational Corporations and Other Business Enterprises, which were seen as a mechanism for the possible harmonization of standards.

- It was suggested by some buyers that home country legal provisions requiring that imports meet existing social and environmental standards would help to create a level playing field among buyers. It could prevent or severely restrict the “free rider” syndrome in which a relatively small number of higher-profile companies undertake substantial efforts and other companies escape scrutiny and cost. Asia-based representatives of buyers’ firms, among others, proposed this.

In addition, the general view meets most of the criteria against which options are being assessed. Government action has the benefit of rationalizing market forces by creating a “level playing field”; it spreads costs across the breadth of society, provides a formal and public means of recourse when
standards are not met, creates an environment in which other initiatives can be tried and can succeed, and should avoid the lowering of standards.

3.5 STANDARDS AND HARMONIZATION

One of the main areas of focus for this study was whether substantial confusion and barriers had been created by the proliferation of codes of conduct in the past 10 years. While differing views were expressed on this question, the prevailing view appears to be that the greatest differences exist in the application of codes as opposed to the basic content of the codes themselves. Among the diverse range of parties consulted in the course of this project, there was a rough consensus around the idea that most codes embraced applicable laws, with ILO conventions being applied where applicable laws were inconsistent with ILO conventions.24

3.5.1 A Universal Base Code?

The proposal by some that a universal base code should be established is not included in the options presented. The broadly held opinion among those consulted for this study is that the number or content of standards is far less critical to further progress than is the consistent enforcement of existing standards. It was not clear either from the direct comments received from study participants, or subsequent analysis, that the substantial investment needed to develop a common base code would result in corresponding benefits.

Many of those consulted took note of the efforts of multistakeholder initiatives to harmonize their approaches to standard setting and enforcement. Specifically, there have been discussions in the past several months among the Clean Clothes Campaign (CCC), ETI, FLA, Fairwear Foundation (FWF), Social Accountability International (SAI), and the Worker Rights Consortium (WRC) to consider how their various initiatives might collaborate. Similarly, in the field of agriculture, there have been efforts under the auspices of Social Accountability in Sustainable Agriculture (SASA) to develop guidelines for social auditing and standard setting in sustainable agriculture; examine the impact on and responsibilities of supply chain actors with respect to certification of social justice issues in agriculture; address the particular needs of smallholder producers in the development of social guidelines for sustainable agriculture; and explore the possibilities of mutual promotion of complementary systems. These efforts may well yield valuable results, and yet the broad consensus in the consultations appeared to be that while this work should continue and be supported, additional efforts to achieve greater harmonization or progress through other means also would add substantial value.

Several views presented in the consultations point in this direction, in addition to the finding presented above that the proliferation of codes in itself has not led to great confusion, or that the confusion presented is not the primary barrier to progress. This is for several reasons:

- First, while many suppliers who were consulted expressed the desire to see greater harmonization of standards and the application of standards, some buyers believed that this was a “red herring,” and believed that any duplication of effort would fade away quickly once suppliers demonstrated a greater willingness and ability to comply with local legal standards.
- Second, even with a common base code, the overwhelming likelihood that national law (wherever consistent with ILO conventions) would remain the prevailing standard, means that without greater clarity on the meaning of local law, substantial interpretation would remain necessary.
- Third, neither the consultations nor the subsequent analysis suggested that there is a likely basis for addressing environmental issues in a base code.
- Fourth, as stated above, the process of developing a global base code that would earn the support of all relevant parties would likely be extremely time intensive. Experience to date of the time needed to develop multistakeholder codes with broad applicability reinforces this view. It may be more productive to focus time, energy, and resources on other efforts less tied to codes and monitoring.
- Fifth, if application is the primary question, it would be advantageous to focus attention on

24 While frequent note was taken of the fact that freedom of association and collective bargaining were not possible in China, harmonization of codes was not seen as the most effective means to address this issue.
industry-specific guidelines, to ensure that variations in work force, industrial process, and supply chains are taken into account fully.

Finally, many participants, especially those in the stakeholder community, expressed the view that the broadest possible efforts to harmonize standards would achieve this goal only at the expense of reaching a lowest common denominator standard, which would be directly inconsistent with one of the assessment criteria presented by the Bank.

For these reasons, the options presented propose a greater focus on the development of more effective and sustainable means of ensuring application of existing standards, rather than a major investment in the development of a single code.

### 3.5.2 Harmonizing and Strengthening the Application of Standards

While a common base code does not appear to be the highest priority for action, there is substantial interest in finding other ways to harmonize approaches, as well as significant opportunities to achieve more substantial results through harmonization and collaboration.

There are opportunities for coordinated efforts to address a range of fundamental needs in the field, including:

- Implementation guidelines.
- Training and education of suppliers.
- Monitoring procedures.
- Information sharing.
- Improvements.

Each of these categories will be familiar to those who have followed the debate over CSR in supply chains in recent years. This section of the report focuses on how to blend the ingredients of the existing system to develop more sustainable and meaningful solutions. To accomplish these goals, it is proposed that collaborative initiatives be undertaken at the national level, the industry level, and the pilot level over the next three years. These steps do not depend on a “grand master agreement” being developed; however, it is likely that they could feed the learning on collaboration needed to make such progress possible in future years.

### 3.5.3 Environmental Standards and Practices

The relative inattention to environmental standards by many of the most active participants in the debate concerning supply chain practices merits attention. The challenge here is not to harmonize existing principles, but rather to generate additional action on the subject. Steps that are of value include: (1) companies could and should include environment more explicitly in their codes of conduct and begin to monitor against these provisions; (2) multistakeholder initiatives should also add environmental provisions and begin to engage with environmental organizations as part of their coalitions; (3) home governments, which already engage in substantial funding of environmental improvements in aid packages, should target consumer product supply chains for this work; (4) workers should be educated in environmental risks, about which they may be even less aware than labor issues, and (5) identification of environmental issues that could be addressed more effectively in industry-specific contexts.

### 3.5.4 National Initiatives

In terms of harmonization, the practitioners and observers consulted for the project spoke loudly and frequently about the value of greater clarity of standards as applied. Several buyers, suppliers, and stakeholders alike noted that standards are applied within the context of specific industries and specific jurisdictions, rather than through global arrangements.

As a result, pilot projects to establish implementation guidelines in distinct locations, for example, in specific country contexts, appear to hold considerable promise. Such efforts have the advantage of (1) engaging local stakeholders (not least local public officials) working within a common legal framework; (2) reducing the time and effort needed to establish agreement concerning base standards; (3) creating a level playing field for suppliers; and (4) creating business advantage by building a favorable climate for inward investment based on greater assurance that social and environmental concerns important to consumers and others in the North are being addressed seriously.

While the precise shape of such initiatives might vary, the basic contours would involve the estab-
lishment of local multistakeholder processes to establish and implement a comprehensive local effort to enable the achievement of good social and environmental practices in factories exporting from the given country. As one Hong Kong–based stakeholder group noted in the convening for this project, the best solutions in this area to date have been the result of “localized actions and negotiations.”

Participants in such an initiative likely would include local government officials, notably labor and environment ministries; suppliers, possibly represented through employers’ organizations; relevant trade unions or confederations; and knowledgeable NGOs. In addition, it would be important to ensure connection to the export markets that are critical to the development of the industries in question.

This role could be supported by home country governments and the main multistakeholder initiatives that have developed in Europe and the United States in recent years. In particular, the engagement of the multistakeholder initiatives in such pilots could help to facilitate the ultimate development of broader global solutions and harmonization of their work. In addition, it would be valuable to engage buyers in some way with such initiatives, in an effort to ensure that commercial opportunities result from the investments made in such initiatives.

The selection of countries for such an initiative would depend on the willingness and availability of the types of parties described above to participate. It is anticipated that up to four countries, focusing on an individual industry of relevance to that country, could pilot such a process over a two-year period, and that the lessons learned from such pilots would then be applied to a process with wider application.

The basic elements of such an initiative could include the following:

- **Implementation Guidelines:** A national initiative would begin to develop what would amount to a “user’s guide” to local labor and environmental laws. This would accomplish two goals.
  - First, a formal process would reduce, if not eliminate, questions concerning the interpretation of local legal provisions. In consultations for this project, several participants noted that there was considerable confusion over the meaning of local laws, and this needs to be addressed regardless of the options ultimately pursued.
  - Second, the process of engaging different stakeholders in this process would establish a recognized “roadmap” for all parties wishing to see these principles applied more fully and consistently. This proposal is made in full recognition of the fact that such a process may be contentious, time consuming, and that it will not lead to clear resolution of all issues. Regardless, if all parties needing to understand the basis for social and environmental practice achieve substantially greater clarity as a result, performance would almost certainly improve.

- **Training and Education of Suppliers:** As a result of the process of clarifying implementation guidelines, suppliers could be provided with training and education with significantly greater definition than has been provided to date. Training efforts to date occur in a highly decentralized manner, involving trade associations, monitoring organizations, buyers’ compliance staff, NGOs, and others. One of the organizations in the project consortium has been informed numerous times by suppliers that they are willing to apply standards as defined, but that they do not receive sufficient guidance on what such standards are. Ideally, the development of such training would occur simultaneously with the development and delivery of technical assistance to suppliers, to assist them in the process of implementing people, process, and environmental management procedures.

- **Monitoring and Verification Procedures:** This should help to build local capacity for law enforcement, with this being the ultimate objective over time, with self-policing, government enforcement, and verification by companies, commercial providers, workers’ representatives, and NGOs. This process also would have the benefit of establishing common frameworks for monitoring and verification of compliance with existing standards. The virtue of engaging the
public sector in such a process is that it could lead to an enhanced role for public sector enforcement of local laws, consistent with the nearly universal call for such steps during project consultations. In addition, a process that leads to more consistent understanding of how private monitoring (whether performed by buyers, commercial service providers, or civil society organizations) should be undertaken would address one of the concerns stated forcefully and often by suppliers consulted: that such monitors are one of the sources of confusion because of the inconsistent procedures and interpretations applied in their work.

**Information Sharing:** A country pilot could have the further advantage of providing a common information network with data about suppliers’ performance. Such a mechanism would respond to essential needs stated during the consultation process by both suppliers and buyers. For suppliers, a data network that made available information on the frequency and result of monitoring and verification activities would decrease the likelihood that they would be subjected to unnecessary monitoring visits. For buyers, this would create a more transparent process that would allow them to deploy their resources more carefully and usefully, and reward suppliers that achieve good practice. Buyers, who would receive the benefit of information gathered by others, and who also would benefit from the reduction in duplicative factory visits, could support such a system financially, at least in part.26

**Improvements:** Based on consultations conducted for this study, there is also a desire on the part of suppliers to harmonize the approach taken to achieving improvements identified as necessary through the monitoring process. Many suppliers identified the remediation process as one part of the process where buyers and monitors often send inconsistent messages. The development of implementation guidelines either could include remediation guidelines, or be used as a mechanism for clarifying expectations about how to address particular shortcomings. The focus of making improvements should be on efforts to build capacity to maintain good working and environmental conditions, and could draw upon emerging local networks to support such efforts, as well as of multiple buyers working with shared suppliers.

There is ample evidence from existing and nascent projects that such an approach can be effective. During the course of the project, several examples were cited of useful country-level projects with some or all of the attributes suggested here, including:

- **Cambodia:** Several observers have cited the benefits to the local apparel industry—and to apparel industry workers—of the bilateral trade agreement between the United States and Cambodia that has included training and education, and also monitoring of workplace conditions, under the auspices of the ILO.

- **Vietnam:** SAI has recently undertaken a pilot project to train export factories with a view to their achieving performance consistent with local laws and the international provisions reflected in the SA8000 code of conduct. This project is also being operated on a multistakeholder basis, with a Vietnam advisory board, and involves a research function as well.

- **Morocco:** Employers have consolidated various codes of conduct into an “ethical charter” thereby strengthening local ownership of code implementation. This effort, cited by an international organization, was seen to have certain weaknesses, namely the lack of reference to freedom of association. Currently, consideration is being given to involving local NGOs in the process as well, and to broadening out reference to include freedom of association and all issues typically contained in codes.

- **Sri Lanka:** The ILO Management and Corporate Citizenship Programme has established a multisupplier training program for the development of local managers’ capacity in the areas covered by the ILO Declaration on Fundamental Principles and Rights at Work as well as quality and productivity—supporting the business case for good labor practices at the factory level. The program has involved 10 to 12 factories for a six-month training and factory-level consulting/improvement program.

26 In proposing information sharing, it is important to note that some such efforts have been considered and developed in recent years, and that there may be legal and competitive issues to address in making any such system work effectively.
The creation of a small number of national initiatives would make a major contribution not only to the achievement of CSR in the factories and farms of suppliers in the countries involved in such efforts, but also to the global understanding about how best to make progress. To the degree that one accepts the principle that the ultimate creation of a single approach to this set of issues will result from the coming together of separate streams, it is important to seed the creation of comprehensive demonstration projects that can be replicated or brought to scale. The national initiatives described here are believed to hold that potential.

3.5.5 Industry-Specific Initiatives

The research conducted as part of this study also points in the direction of supporting industry-specific initiatives.

The features of such approaches may be quite similar—possibly identical—to those described in the section above concerning national initiatives, and therefore these are not repeated here. It is likely that industry groups that cut across national lines can take these initiatives. Note also that “industry initiatives” need to involve not only industry associations, and indeed some of the examples cited below are multistakeholder initiatives. It is also hoped that the industry approaches currently being taken can to a greater extent evolve to include local industry groups more fully, as opposed to the current situation, in which Northern buyers drive many of these initiatives. Indeed, this report makes the basic argument that for wider national and industry initiatives to become truly successful and sustainable they need to rely to a great extent on local capacities and resources in the exporting country.

The opportunities presented by industry approaches include:

- A degree of focus unavailable through other means.
- The ability to address the business case through the achievement of common standards and practices.
- The ability to engage in a coherent way with public sector, civil society, and workers’ representatives.
- The ability to fully integrate social and environmental concerns into business operations.

The risks associated with industry initiatives include the potential for not engaging with civil society; the lack of credibility possibly associated with industry-led initiatives, and the track record of some industry initiatives of not fully embracing international standards on all issues, notably freedom of association and collective bargaining. Given that nearly any sort of initiative presents risks and opportunities, these issues are best applied as important considerations rather than barriers to action.

In considering possible new industry initiatives, it should be noted that in the time since the first codes of conduct were developed, several new initiatives have been launched, and these newer initiatives may well provide useful models or learning experiences that should be reviewed carefully. Various examples, including the Global Reporting Initiative (GRI), the Kimberley Process on conflict diamonds, the Voluntary Principles on security and human rights in the energy industry, the Equator Principles concerning lending practices’ impact in social and environmental performance, and others, have come about since many of the individual and multistakeholder initiatives on supply chain were begun, and the next generation of supply chain efforts would almost certainly be enhanced by a review of subsequent developments. These initiatives take a range of approaches, including reporting; certification, and collaborative learning, and elements of these initiatives and others may well be useful platforms to consider.

In reviewing existing industry initiatives and considering potential new industry initiatives, the following characteristics appear to be important in ensuring the success of such efforts.

- Critical mass is important to ensure that there is no “free rider” problem and that no economic advantage accrues to those who do not participate.
- Collaborative industry efforts to address social and environmental issues that involve a stakeholder dimension would seem to be more effective and credible than those that do not.
- There must be adherence to prevailing standards consistent with international principles. Any initiative that is viewed as having the purpose or impact of lowering standards will be neither effective nor credible.
In addition, industry initiatives, to be fully effective, will include a capacity-building element. The reason for this is that evolution toward “local ownership” of any and all initiatives is essential for long-term success.

In the past year, several industry initiatives have been developed that have varying degrees of promise, and which might serve as useful models if developed further themselves or adapted by different groups. The following is a short, illustrative list of industry initiatives that are instructive in terms of possible steps forward in this area:

- **Better Banana Project**: This initiative, operated by the Rainforest Alliance and its partners in the Sustainable Agriculture Network, develops guidelines through a transparent and participatory process that involves numerous stakeholders, including scientists, conservationists, community leaders, industry members, government agencies, research institutions, consumers, and farmers themselves. The Rainforest Alliance certifies coffee, banana, cocoa, orange, and cut flower and fern farms according to environmental and social standards. As of 2002, 474 farms and cooperatives in Brazil, Costa Rica, Colombia, Ecuador, El Salvador, Guatemala, Hawaii, Honduras, Mexico, Nicaragua, Panama, and the Philippines have been certified. This initiative is one of the few cited in this report that includes substantial elements both of social and environmental criteria.

- **Foreign Trade Association of the German Retail Trade (AVE)**: This system is based on the SA8000 code and relies upon monitors certified by SAI. This initiative is unique in that in addition to addressing labor issues, it also includes attention to a set of environmental factors, something that is often excluded from the initiatives described here. The AVE initiative is further unique in its dimension of providing development assistance to suppliers judged to need such help. This assistance is supported in large part through the German Ministry of Economic Cooperation and Development (BMZ), working with a stakeholder council and seeking to build local, broad-based technical support networks. This combination of both a compliance and development approach is consistent with the approach suggested in this report.

- **French Retailers (FCD) [Federation des Entreprises du Commerce et de la Distribution]** Initiative: Twelve major French retailers have instigated a process through which factory audit results can be shared through a database that all participating companies can access. This too presents a model that is straightforward in its operation and which offers enhanced possibility of reducing duplication; enhancing the business case for suppliers because multiple clients or potential clients will see the results of the audits of their factories. It is also a process that could lead over time to the development of a common approach to the definition of standards, as described above in the national initiatives section.

- **International Cocoa Initiative**: This initiative brings together several industry associations with NGOs and the international trade union IUF [International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Association] to (1) support field projects and act as a clearinghouse for best practices that help eliminate abusive child and forced labor in the growing of cocoa; (2) develop a joint action program of research, information exchange, and action against abusive child and forced labor practices through the enforcement of internationally recognized standards in the growing of cocoa; and (3) help determine the most appropriate, practical, and independent means of monitoring and public reporting in compliance with these labor standards. The ILO serves as an adviser to this project.

- **International Council of Toy Industries (ICTI)**: In 2003 this industry group has launched an effort to create a common monitoring protocol for factories in China producing toys for export. This initiative is based on the notion that consistent monitoring processes will help to drive greater consistency in performance and assessment. One Hong Kong–based stakeholder cited this as a “potentially positive” example because the harmonization of monitoring will “mean fewer auditors have to be hired and that will reduce the involvement of the monitoring industry.”

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27 As noted elsewhere, this list is for illustrative purposes only, and is not intended to constitute an endorsement, or to diminish the value of other initiatives.
Kenya Flower Council (KFC): This initiative has developed a strong code of practice that includes rigorous environmental provisions. The KFC has noted in its website its view of the benefits of undertaking locally based industry codes, making the following points: "(1) Indigenous codes such as that developed by KFC not only audit against ethical and environmental criteria but also spread best procedural and managerial practices and help producers reduce costs; (2) Growers, supermarkets and consumers would gain nothing if a price increase designed to compensate growers for their compliance costs caused a substantial decline in sales; (3) It may be counterproductive if codes quantify wage levels: KFC’s stipulation that its members should merely pay workers above the legal minimum wage has led workers to earn three times the national minimum, and (4) It is not right or just that buyers in the UK should bear no costs associated with code of practice compliance.”

These examples are not cited as models that are without the need to expand, adapt, or improve. They do, however, illustrate several of the advantages of industry initiatives, and some of the ways that they can evolve, as each of these efforts is different. In some cases, the very laws themselves differ according to industrial sector—in several jurisdictions, different laws sometimes govern agricultural work and factory-based work. In addition, the application of standards is often quite different depending on the production processes in place; this is true between the apparel, toy, and agriculture sectors and, in many cases, this is true even within these sectors. The nature of the work forces present in these industries also can be quite different, with agriculture relying more often on a migrant or seasonal work force than other industries. In some industries, there is great dependence on certain locations for sourcing, as is the case with toys and China, while other industries, such as apparel, are more dispersed geographically. One of the signal advantages, therefore, of industry-specific approaches, is that they can be tailored to the prevailing work force, standards, and locations.

To achieve the goal of broad-based, locally managed industry initiatives, it is likely that support from donor agencies will be needed. At the same time, it is important that these and other initiatives demonstrate their financial viability over a reasonable period of time.

3.5.6 Discrete Initiatives

While the focus in the convenings and subsequent analysis was on systemic changes and improvements, there are also several discrete steps that could be taken to improve social and environmental performance in supply chains. Some of these steps involve actions that have not become part of the fabric of efforts to influence supply chains, and some involve the adaptation and replication of efforts undertaken in limited circumstances.

In overall terms, there is a clear need to consider environmental issues more fully. In the apparel and agriculture industries, various chemicals may present risks to workers and communities; water quality and availability also are affected, and migration patterns tied to apparel and agricultural employment also impact environmental quality. These topics received little or no attention in the convenings for this study, and are generally understood not to receive the same attention as labor issues. To achieve the goals stated in the Terms of Reference, increased attention to these issues is needed.

In addition to the proposed examples of comprehensive national and industry initiatives described above, the consultations for this study revealed numerous illustrations of good practice that could be referenced, adapted, or adopted by others seeking to identify improved ways to achieve CSR performance in their supply chains. While an exhaustive survey is beyond the scope of this study and report, we cite selected examples below to help build an understanding of the kinds of steps that can contribute to the objectives stated by the Bank.28 Most of the examples cited below have in common the involvement of multiple stakeholder groups, and do not rely solely on a compliance model, but rather seek to adopt some combination of skill building and verification of performance.

Global Alliance: This partnership between companies and NGOs has undertaken widespread

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28 In citing these examples, the authors of this study do not intend to suggest any endorsement of such efforts. Nor do the authors intend to diminish the accomplishments associated with other initiatives not mentioned here.
interviews of workers to develop needs assessments. As described by the Global Alliance, the first step in that process is to ask workers themselves about their needs and aspirations—through a process of in-depth interviews, focus groups, and surveys. The Global Alliance selects independent, in-country, and university-based organizations to conduct these needs assessments. The findings of that assessment process are then used to design and deliver programs and expanded opportunities that respond to workers’ needs.

**FLA in Central America:** This multistakeholder initiative seeks to respond to widespread reports of systematic discrimination and blacklisting in Central American factories. In cooperation with FLA participating companies, NGOs, and universities, the FLA will work with suppliers to improve their capacity to institute good practice regarding hiring, firing, discipline, and grievance procedures in El Salvador, Guatemala, and Honduras.

**Union Election in China:** Reebok helped to facilitate a free election for union representatives, with independent observers, in a Chinese factory producing its products under contract with a supplier.

**Impact Work Hours Study:** A group of buyers in cooperation with local Chinese organizations has initiated a pilot project to improve working conditions in a handful of apparel factories in China. The project focuses on working hours as a key issue and has provided productivity consultancy, human resources training, and communication workshops to improve performance.

**Collaboration between Buyers through Informal Networks:** In China and India in particular, note was taken in the consultations of free form buyers’ networks that have served to spur collaboration.

**IKEA and Transportation Chain:** Ikea has begun work to extend its definition of supply chain to include the transport of products from point of manufacture to point of sale. This effort represents one of the first expansions of the definition of supply chain in recent years.

### 3.6 CAPACITY BUILDING

Consistent with the view that all parties involved in supply chains have the opportunity and obligation to promote the wider application of CSR, many participants noted the need for capacity building on an across-the-board basis. It should be noted that suppliers did not widely recognize the need for skill development, although the desire to enhance the skills of suppliers to address these issues effectively was widely raised by other participants in the dialogues. The need for capacity building is thoroughly understandable given that what is called for in this report is a more complete approach to the implementation of social and environmental standards on the part of suppliers, the majority of which are SMEs in developing economies.

In outlining possible areas of action to promote capacity building, there remains the need to conduct a thorough analysis of needs—areas where there is the greatest receptiveness to capacity building and identification of appropriate and available resources—and then a subsequent matching of needs and resources to achieve better social, environmental, and economic performance.

Based on the perspectives presented, and the subsequent analysis, the following efforts appear likely to make the greatest difference:

**Host Country Governments:** Consistent with the broadly stated desire to see governments play a more forceful role in enforcing their own laws, technical assistance from public and international organizations to host country governments to build greater capacity for enforcement of labor and environmental principles in a manner that is tied to increased foreign investment is critically needed. The ILO may have a particular role to play in this regard with respect to labor issues, given both its tripartite nature and the fact that it can access those with knowledge of public labor law enforcement. Governments of countries importing significant apparel and agriculture products and commodities can play a role in providing not only technical assistance, but also in influencing policy to create an environment in which enforcement of social and environmental provisions is at the core of development strategies.

**Workers:** Awareness raising and skill development is needed to strengthen workers’ ability to defend their interests and seek redress where their rights are not respected. This work should be carried out through workers’ representatives,
civil society organizations, tripartite institutions, and multistakeholder initiatives. In addition, there is an increasing desire among some to see additional collaboration between companies and workers’ representatives. This has been stated most strongly by trade unions, but has also been noted by some of the buyers consulted during the project. (See additional comments below specifically about the education and empowerment of workers.)

- **Suppliers:** Suppliers would benefit from additional training in human resource and environmental management. It was noted throughout the consultations that capacity building is especially needed at the line manager or floor supervisor level. Development agencies, academic institutions, business organizations, and stakeholder groups are well positioned to provide this assistance. In addition, there would be value in establishing local “centers of excellence” in managing social and environmental practices for SMEs engaged in production for export. Such centers would be locally based and draw on a broad range of institutions able to deliver training, tools, and education in a manner that could be implemented in local environments. There is a substantial need for local resources that can aid these enterprises in the development of management practices that raise awareness and expertise devoted to the creation of increased economic performance tied to positive impacts on labor and the environment. At the same time, there may be an advantage to exploring skill transfer in areas such as human resource management and environmental management, two areas where substantial resources are present in buyers, other multinational companies, the public and independent sectors, and academic institutions in the industrial economies.

There may also be opportunities for direct cooperation between groups of buyers and suppliers in this area, although this would probably require fairly long-term relationships. One major European buyer has recently initiated a comprehensive process to identify other buyers with whom it shares suppliers with a view to initiating cooperation in the area of capacity building.

- **Social Auditors/Verifiers:** Although many of the parties consulted for this project were in agreement that worksite monitoring should be deemphasized in coming years, there remains a consensus that some form of monitoring will be a significant part of the equation in the near term. Monitors, as noted above, would benefit from the development and refinement of additional skills, notably in the areas of reviewing performance against qualitative social indicators, on issues such as freedom of association and collective bargaining, nondiscrimination, and disciplinary practices. A variety of means may be available to support such efforts. The public sector can contribute in light of its role as the ultimate enforcement agency, and international institutions, notably the ILO, may have a substantial role to play in the development of a more robust core of social auditors and verifiers. In addition, the need to incorporate social concerns more fully into this process suggests a strong role for civil society organizations focused on this area. Finally, a more complete understanding of the ways that trade unions can be factored into the process of monitoring and verification also would be valuable.

### 3.7 Worker Education, Empowerment, and Representation

Many of those consulted in the course of the study noted that workers have not been placed at the center of efforts to ensure good practice, even on—or particularly on—labor issues. The worker interviews conducted in the course of this project generally supported this view, although there was some evidence that, in a limited way, workers were aware of and positive about the results of codes or related activities. The results of the interviews with almost 200 workers in four countries suggest, however, that additional means of educating and enabling workers are needed to make the next generation of efforts to promote CSR in supply chains more effective, and this conclusion is also supported by consultations with buyers and stakeholder groups.

In addressing the education and empowerment of workers in a global study such as this, it is also important to ensure that generalized definitions of “the work force” are not allowed to erase important local and industry differences that have a substantial impact on the terms and conditions of
employment. The consultations performed for this study, especially the worker interviews, underscored the degree to which the apparel and agriculture industries employ a large number of casual workers, domestic and foreign migrant workers, and workers employed in export processing zones. In many of these circumstances, workers do not have the same legal protections, experience de facto limits on their rights, or elect not to pursue legal and practical steps pursued by workers employed in more traditional contexts.

Whereas stakeholders generally agreed that efforts had to focus on workers, they were much less in agreement on how this should take place. Worker empowerment was key to the improvement of standards as it would enable workers to improve standards on their own, working with their representatives where such relationships exist. In the long run such an approach was considered more effective in raising standards than codes themselves.

Several people who were consulted for the project also noted broad social and cultural characteristics, such as the caste system in India, widespread global discrimination against women, and the generally weak nature of civil society in China, as having significant influence on whether and how workers are engaged on their own behalf, or whether workers’ representatives were able to vindicate workers’ rights effectively. Quite obviously, efforts to address the needs of workers should be tailored to the particular context in which they work and live, and this is a further reason why options tailored to particular geographic regions or industries appear to hold distinct promise.

To further workers’ ability to engage on their own behalf, additional efforts to educate workers in export factories and agricultural production about their rights, with a focus on local laws, are critical to the further effectiveness of current and future efforts to ensure good social and environmental practices. Such efforts have the greatest impact when provided in a manner consistent with workers’ educational levels, and with a focus on providing workers with information about how they can seek additional information and redress for concerns they might have about violations of their rights, whether through dispute resolution processes at the worksite level, including their workers’ representatives and worker advocates in the community, or public dispute resolution processes.

In addition to the medium of communication with workers, choosing which parties engage in this education is also important. Relying on a mix of civil society organizations, trade unions, government officials, and possibly academic institutions would be most beneficial. As noted by several participants in the consultations, donor institutions have an important role to play in providing the resources needed to undertake a broad-based effort to educate workers in export industries, as this effort would help to cement the role that increased export production plays in skill and knowledge transfer to those working in such industries.

While such noncommercial institutions are critical to effective educational efforts, suppliers and buyers also have a critical role to play in helping to create an environment in which worker education and empowerment is respected and translated into better workplace communication. It is not assumed that workers currently enjoy a workplace environment in which they would be able to act upon a greater understanding of their rights relating to labor, environmental, and other issues.

This can be addressed in part by replicating the efforts of some buyers to reorient their monitoring away from a model often referred to as “policing” workplace conditions, and more toward a model that supports education. To support a transition to systems that focus more attention on direct dialogue and engagement with workers, monitoring and verification processes could focus increased attention on how well informed workers are about prevailing workplace standards and practices. A well-informed work force, combined with evidence of a functioning worker–management communication system that results in workplace improvements, constitutes a strong indicator of a healthy workplace, and should be given greater priority in monitoring and verification efforts. This step would help to address the view of many of the workers consulted in the study that monitoring practices are currently tilted toward the perspective of management, and would create an environment in which workers are placed more at the center of these processes. In addition, buyers have an important role to play in that they are considered by many—including some buyers’ representatives—
as having the ability to communicate to governments about their own desire to see workers’ rights better protected.

Buyer consultations showed an increasing interest in addressing workers, although China-based representatives of buyers did not share the enthusiasm for this concept, concluding that the vast oversupply of labor, and the predominance of migrant labor in China will counteract any effort to empower workers, since workers will conclude that the risks of acting on their rights will be too great. One agricultural buyer that adhered to the SA8000 concept believed that empowerment of workers was very important, having successfully pursued this concept in some countries, but also recognized that this required substantial investments and long-term efforts involving local unions and representatives of local communities. Overall, many buyers recognized the role of unions in empowering workers, although many also noted the difficulties of working with local unions that at times lacked necessary capacities or a cooperative attitude.

3.7.1 Worker Representation and Trade Unions

The question of worker education is intimately linked to worker representation, and freely chosen trade unions play a critical role in educating and empowering workers. In determining how to strengthen worker representation, there is at times a divide between the views of observers in industrial and developing countries. In consultations for the study, there was substantial support, especially among stakeholders in the North, for a strengthened role for trade unions, while numerous parties based in the South expressed greater skepticism about how well this goal could be reached.

Discussions with local parties, that is, workers and suppliers, revealed views that ranged from support to ambivalence to outright opposition to trade union representation. Numerous observers noted formal and informal barriers to the formation of independent trade unions on the part of local governments. In this light, the most effective means of promoting greater respect for freedom of association and collective bargaining would be a legal environment in which local authorities uphold and protect these principles, such that employees wishing to exercise these rights have the full ability to do so.

One participant in the study consultations, representing an international institution, observed that: “To support greater worker empowerment, institutional changes are needed at several levels: (a) changes in the workers’ organizations themselves, (b) changes in the company attitudes towards unions, and (c) changes in local legislation (strengthening freedom of association).” This view probably reflects most carefully the range of opinions expressed, and presents a useful framework for addressing this question.

3.8 RESEARCH

While research per se did not arise directly out of the consultations conducted as part of the project, it appears likely that several issues discussed in the course of the study could be advanced through more, or more rigorous, research. This should be evident given that global efforts to ensure good social and environmental practice in supply chains are still relatively young. Much of the learning that has occurred in the field has resulted from trial and error or, in the words of the ETI, “Learning by Doing.”

While these practical steps have great value, there is likely a need to test some of the assumptions expressed by practitioners through more rigorous analysis, which was beyond the scope of this study. This view is reinforced by the fact that many of the people consulted for the project tended to present deeply held views that often appeared to be tied to their institutional positions. It appears that all parties in this debate would benefit from formal assessment and analysis, and that such work would enrich efforts to identify and implement sustainable solutions. This report does not present detailed research plans, but rather identifies four broad areas in which the collection, analysis, and transmission of information would be helpful, and in many cases tie directly into the capacity building agenda described above.

3.8.1 The Business Case

In particular, the barriers associated with a lack of understanding of the business case for CSR would
benefit from further research. Several of those consulted noted that they were able to point only to anecdotal or isolated cases of business benefit, apart from the widely cited example of the threat that suppliers could lose customers and business if they did not comply with social and environmental standards. As one stakeholder in the United States noted, “telling someone to do something or they lose business is not the same as demonstrating benefit.”

However, some noted that there had been insufficient benchmarking to allow for comparisons to be made. While noting that some efforts are currently under way to assess the impact of codes of conduct, such as one sponsored by the ETI and another recently completed for the World Bank, additional research should be conducted to identify whether the costs of achieving broadly agreed labor and environmental goals are financially advantageous to suppliers. In making this suggestion, it is worth noting that several of those consulted for this project rejected the need to make economic arguments to convince suppliers to move into compliance, stating in essence that there should be no need to convince businesses to comply with applicable laws. Regardless, there is a rough consensus that resolving the question of whether and how the business case exists is of critical importance.

### 3.8.2 Worker Empowerment

A second area in which additional research could be valuable is in the area of worker empowerment. In particular, there appears to be a knowledge gap concerning the nature and interests of various groups of workers, and without a clear sense of the context in which workers are employed, efforts to enhance their understanding of their rights may not be as successful as possible. There is wide disparity of understanding of these distinctions, and more than likely this translates into insufficient tailoring of efforts to address workplace issues. Migrant workers both foreign and domestic, seasonal workers, and home-based workers all comprise significant percentages of the work force in apparel and agriculture, and greater understanding of their needs is needed. The surveying work performed by the Global Alliance for Workers and Communities is a useful example of applied research that could be expanded.

### 3.8.3 Environmental Standards

Additional transmission of research illustrating how to make environmental improvements also would be beneficial. This set of issues reflects an area in which existing information should be more widely disseminated to raise awareness and capacity. There is an information gap in many supply chains concerning ways to ensure that chemicals are used, stored, transported, and disposed of properly. Similarly, there is a need to engage suppliers, local governments, and others in building awareness of the impact of water use in the apparel and agriculture industries. There is an opportunity to weave the understanding of environmental issues into research on the business case, given that other industries have in many cases been able to link resource management into both environmental protection and cost savings. Noting the existence of a number of internationally recognized process standards such as the ISO 14000 series, this should be an area where progress can be made. And, as noted above, the development of broadly applicable environmental standards, given the lack of provisions analogous to ILO conventions, likely will require further study, although the OECD Guidelines for Multinational Enterprises do contain broad principles that could be applied in the development of stronger approaches to environmental management of supply chain practices.

### 3.8.4 Consumers

Several participants in the study consultations rejected the widely cited research showing that consumers are willing to pay a premium for products made under decent conditions, arguing that such data reflect sentiments not actions. Given the importance of the business case, and wide skepticism concerning the existing reservoir of research, this area would benefit from further study as well.

### 3.9 REMOVING ECONOMIC BARRIERS TO CSR

Although this study did not attempt either a macro- or microeconomic analysis of supply chains, it was
clear that several strong economic currents are inhibiting the uptake of CSR in supply chains.

At the macroeconomic level, some nations are reluctant to support CSR strongly for fear that this will adversely impact investment. For multinational enterprises, price pressure has grown more intense in recent years, notably in the apparel and agriculture industries, where prices consumers pay for some items have fallen in real terms. These price pressures are widely agreed to have been passed along to suppliers, many of whom are SMEs operating in developing economies, with little ability to control the ways that this occurs. Finally, and importantly, workers themselves—especially in labor-intensive industries where little formal education is required for employment—are often least able to shape economic outcomes.

One economic issue arose with some frequency: the question of the “mixed messages” many believe buyers deliver as they push for improved supplier performance on commercial issues, while at the same time they are also seeking improved social and environmental performance. Many of those consulted for this project stated that buyers need to come to terms with the sometimes-conflicting imperatives that they place on suppliers. There was wide recognition, including by some buyers’ representatives themselves, that some of their staff reinforce the message about social and environmental practices, while other staff create economic pressures related to price, quality, and delivery deadlines that are mutually inconsistent. Note that local buyers in India and China were not in full agreement with this.

There appears to be no single “solution” for this issue, although broad recognition and discussion will help, as will clarification of the value of the business case.

Viewed from the perspective of buyers, the public pressure to create “independent” labor compliance offices has perhaps had the unintended effect of decoupling social and environmental concerns from commercial issues. The fullest possible integration of commercial, social, and environmental concerns likely will lead to the greatest progress, and arguably reduce some of the confusion buyers propound and suppliers experience.

From the perspective of suppliers consulted through this project, there is a substantial need to create a level playing field, based on their view that suppliers that fail to invest in CSR now have an unfair economic advantage over those who do. In addition, many suppliers expressed the view, heard frequently also by consortium members outside the scope of this project, that suppliers would be far more willing to invest in CSR if they had greater certainty that they would maintain their business with buyers over an extended period of time. One of the chief advantages of looking at these issues in a bottom-up manner is that the impact of shifting supply chains diminishes, since a single supplier can be assured that its performance would meet the concerns of all buyers.

Buyers likely would create greater incentives for suppliers to act if they sought to create a smaller and more stable set of suppliers. Some buyers have already implemented this, to some degree. As was reported in the convening with Chinese suppliers, “Participants complained that achieving compliance does not create any loyalty on the part of most buyers/brands. Even if a facility were to be in compliance, participants said that most brands would move orders elsewhere if they could find a better price.” However, this could also lead to the unintended consequences of reducing the SMEs engaged in CSR efforts, and the risk of creating a two-tiered set of producers, with some focused on domestic markets with poor standards, and a small number of companies producing under decent conditions for the export markets.

3.10 OPTIONS FOR ACTION

This report proposes a wide range of options to be considered in the quest for improving social and environmental standards in global supply chains.

While the report notes the critical importance of collaborative action, a number of proposed actions are specifically addressed to, inter alia, buyers, suppliers, and host governments. Some of these steps can be acted upon in conjunction with initiatives by other actors; others can be pursued in isolation.

The following provides a summary of the proposed options and how they relate to different groups of actors: suppliers, buyers, host governments, home governments, civil society organiz-
tions (NGOs and trade unions), and international organizations. The proposed options are categorized according to the principle of who should take responsibility for initiating each action, bearing in mind that many actions require cooperation and joint implementation by at least two different sets of actors.

3.10.1 Suppliers
Real and sustainable implementation of good social and environmental practices in global supply chains will not take place unless embraced and supported in full by suppliers’ owners, managers, and supervisors. In the end, only suppliers can ensure the proper implementation of CSR practices in line with local law and international standards. In addition, business organizations representing suppliers should also actively promote good social and environmental practices.

In particular, individual suppliers can:
- Accept social and environmental requirements as part of the contractual relationship with buyers.
- Adopt good social and environmental practices in the workplace and engage more fully with workers, and their representatives and organizations, when implementing these practices.
- Ensure that their staffs have the requisite knowledge and support to implement policy and practice consistent with social and environmental principles.
- Seek to engage buyers in a dialogue on how to develop processes and procedures that ensure compliance.
- Participate in local employers’ organizations and tripartite structures.

The business organizations that represent suppliers can:
- Actively promote social and environmental practices by adopting relevant policy statements, business guidelines, and so on.
- Develop relevant training modules in the application of local law, human resource management, environment, and health and safety management systems. Such services can be developed in partnership with local labor inspectorates. Training-of-trainers programs can also be developed.
- Establish industry-specific forums for learning and exchange of information in the area of implementation of social and environmental practices.
- Engage governments with a view to promote better enforcement of local law and other steps governments can take to facilitate and support improved performance.
- Engage in multistakeholder national initiatives for harmonizing and strengthening the application of standards.
- Engage in constructive dialogue with trade unions and NGOs to build greater understanding of the issues, and to build a greater foundation for implementing options.

3.10.2 Buyers
Buyers are increasingly acknowledging the need for new approaches to implementation of codes of conduct in order to secure real and sustainable CSR practices in their global supply chains. There was a strong desire expressed by buyers for the development of “sustainable” solutions to supply chain issues, and collaborative efforts to achieve this goal. Buyers can adopt a wide range of measures some of which can be pursued individually, although the likelihood of sustainable impacts is greatly enhanced through collective action with other buyers.

In particular, the individual buyer can:
- Ensure that a uniform message is presented to its suppliers and stakeholders. This could take place by, inter alia, integrating CSR requirements in procurements policies, including training of procurement officers in CSR issues, and adjusting possible reward systems to include CSR aspects.
- Work to reorient monitoring away from a policing model toward one that supports education and capacity building.
- Address environmental issues more fully in its codes of conduct and the implementation thereof.
- Engage more fully with workers and their representatives, as well as local and international NGOs working knowledgeably to promote good practice.
- Communicate to governments and local business organizations the desire to see social and environmental practices improved.
- Contribute to the building of greater capacity among supply chain partners to implement social and environmental principles.
- Critically assess the present business model (especially in apparel) with a view to developing
a business model that better facilitates the proper implementation of social and environmental standards.

- Participate in local employers’ organizations and tripartite structures in order to strengthen cooperation with local governments and trade unions.

Collectively, buyers can:

- Coordinate and harmonize implementation, monitoring, and remediation when sharing individual suppliers.
- Work to harmonize codes of conduct and associated implementation mechanisms through, inter alia, participation in multistakeholder initiatives.
- Work to promote collective (cross-border) industry initiatives based on a common code of conduct, shared monitoring, implementation, and remediation. Such initiatives should conform with the guidelines outlined in the preceding section, including in particular the need for building local capacities and ownership through local partnerships.
- Identify environmental issues on an industry-wide basis to be addressed in supply chains.
- Agree on viewing CSR as a noncompetitive aspect of business development.
- Develop standards for CSR-sensitive procurement policies, including industrywide training programs for procurement officers.
- Encourage their suppliers to participate in local employers’ organizations and tripartite structures.

3.10.3 Host Governments

As noted previously, consultation participants were nearly unanimous in wishing to see governments enforce local laws concerning social and environmental matters more fully and effectively. In addition, proposals were made for governments to undertake additional initiatives with a particular view to facilitating the implementation of social and environmental practices.

Broadly speaking, the role of government falls into four categories: mandating, facilitating, partnering, and endorsing.30 While noting that the role of the public sector is likely to be the subject of a separate study commissioned by the World Bank, this report nonetheless attempts to flag a number of options falling in particular within the categories of facilitating and partnering.

In terms of mandating, host governments should ensure that local laws are consistently interpreted, implemented, and corroborated by proper enforcement. Such efforts could be complemented by the development of local dispute resolution mechanisms, the development of implementation guidelines, and so forth. Governments are also encouraged to reconsider policies that, de jure or de facto, allow export processing zones to operate without the legal obligations that are applicable elsewhere as well as provisions that deprive particular labor groups of certain rights and levels of protection, including in particular migrant labor. Host governments also can ensure that applicable laws are consistent with internationally accepted principles in cases where they currently are not, and provide substantially more definitive guidance on the application of laws, which currently are considered by many to be interpreted inconsistently.

In its role as facilitator, the host government should develop penalties and incentives that provide a proper framework for compliance with labor and environmental legislations. Such mechanisms could be linked to relevant export licensees, export credit schemes, and so forth. Governments can also act as the principal convener and facilitator of multistakeholder national initiative processes mentioned earlier as well as facilitate (and possibly provide initial capital to finance) the development of local industry initiatives. Host governments could provide financial resources to general awareness programs directed at suppliers as well as workers to inform these groups of their rights and obligations in the area of CSR. Such programs should be implemented by civil society organizations. Host governments could also include CSR considerations in public procurement purchasing criteria. Host governments should also work actively to strengthen local tripartite structures as a means to facilitate cooperation among the most fundamental stakeholders, namely the representatives of workers and businesses, as well as strengthen local dispute resolution mechanisms.

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30 This framework is elaborated in the report “Public Sector Roles in Strengthening Corporate Social Responsibility—A Baseline Study,” developed for the Bank Group by the International Institute for Environment and Development, October 2002.
Host governments should engage in various partnerships with the private sector, civil society, and international organizations. In particular, governments could work with bilateral and multilateral donors as well as civil society to build capacity for standard setting, enforcement, and technical assistance programs in local labor inspectorates. Likewise, host governments could form partnerships with donors and the private sector to set up programs that train suppliers in environmental management and management of health and safety practices. Host governments also should develop partnerships with the private sector and civil society in the process of implementing multistakeholder national initiatives.

The host government can endorse local business initiatives that seek to promote better social and environmental practices in the workplace. Host governments could consider endorsing certain codes of conduct and implementation steps, which would allow companies using officially sanctioned schemes to be reviewed less frequently by government enforcement staffs.

3.10.4 Home Governments

Developed country governments may employ a number of measures to stimulate better workplace practices at the supplier level in developing countries. Some of these will impact through buyers; others will be directed at the supplier level.

In its mandating role, home governments can consider the pros and cons of introducing social and environmental clauses in their trade policies. They may also promote the consistent application of internationally agreed-upon social and environmental legally binding instruments.

Home governments may facilitate better social and environmental practices at the supplier level by means of linking CSR supply chain performance to public procurement purchasing criteria, export credits, and other international financing credits (including investment guarantee programs and joint capital for investment projects in developing countries), and by explicitly addressing CSR issues in bilateral development assistance programs. Home governments have in a number of countries played a crucial role in facilitating national multistakeholder initiatives (that is, the ETI, AVE, and FLA processes), and these could be replicated in other industrial countries. Likewise, home governments may facilitate and act as partner to the development of buyer industry initiatives (see above under buyers). The national contact points for the OECD Guidelines for Multinational Enterprises may act as an appropriate channel for public–private discussion and debate on responsible supply chain practices.

The role as facilitator often requires a complementary role of partner. The report proposes a number of partnership roles for home governments. These include the role as partner for host government through bilateral development assistance programs that focus on capacity building in enforcement and the provision of technical expertise in labor inspectorates. Home governments may also act as an important partner for groups of buyers, for example, as in the Cocoa initiative or the German AVE initiative, which seek to promote good social and environmental practices in global supply chains.

Home governments can endorse efforts made by industries or individual companies to promote CSR practices in global supply chains. In a similar vein, home governments can promote international standards and guidelines such as the OECD Guidelines for Multinational Enterprises, the UN Global Compact, the ILO core conventions, and relevant international conventions and declarations. Finally, home governments can play an important role in stimulating socially responsible consumer behavior, for example through the development, refinement, and harmonization of social labels.

3.10.5 Civil Society Organisations (NGOs, trade unions, and multistakeholder initiatives)

Civil society organizations can be pivotal in the process of strengthening implementation of CSR in global supply chains. In particular, NGOs and international and local trade unions are central actors; but in addition, the multistakeholder initiatives, which are the uniquely placed agents between civil society, government, and business, have a key role to play. The multistakeholder initiatives should be encouraged in their recently initiated efforts to find common ground on the content, implementation, and monitoring of CSR standards. Despite the general observation among
the research participants that a common base code should not be the first, nor the primary, step toward improving CSR standards, it was nonetheless recognized that such a code would likely serve as an important benchmark for the further development of more focused and applicable industry-specific and country-specific standards.

Trade unions, another pivotal actor in civil society on the CSR issue, could:

- Take a lead role in the process of training and empowering workers.
- Build capacity to train workers and engage with business in the process of implementation of codes of conduct.
- Engage in multistakeholder national initiatives.
- Engage in industrywide initiatives such as the German AVE initiative.

NGOs, for their part, could:

- Engage in multistakeholder national initiatives.
- Undertake research to clarify the nature and extent of the public expectations of corporate social responsibility.
- Engage in public awareness campaigns to raise consumer interest in CSR issues.
- Assist in the training and empowerment of workers, particularly in areas where trade unions and other forms of worker representation are outlawed.
- Campaign to pressure governments, businesses, and other actors to play a role in strengthening the implementation of CSR.

3.10.6 International Organisations

Although this study was not designed to identify particular roles for international organizations, these institutions nonetheless have important roles to play in the process of strengthening implementation of CSR in global supply chains. As with governments, international organizations can mandate, facilitate, partner, and endorse various initiatives and efforts. Some of the most important would seem to be:

- Develop pro-CSR procurement policies as well as incorporate CSR requirements in other policies and programs, including export credits, loan guarantee programs, investment credits, as well as social labels with a wider geographical application, and so forth. This would apply to all international organizations, not least the World Bank Group, the UN system, and the EU.
- Develop multilateral development assistance programs that support capacity building in enforcement of local laws, including the pivotal role played by local courts, the provision of technical assistance, and standard setting. Such programs could also focus on the strengthening of local tripartite structures. The UN agencies and the World Bank Group would be appropriate actors.
- Facilitate and provide cofinancing for multistakeholder national initiatives. The UN Global Compact, the United Nations Development Programme (UNDP), and the EU may have particular roles to play here.
- Initiate and finance research and development that focuses on how to address environmental issues more fully in global supply chains, including developing appropriate guidelines for industry-specific environmental codes of conduct. The multistakeholder process resulting in the GRI guidelines could be replicated, giving in particular the United Nations Environment Programme (UNEP) an important role to play.
- Develop guidelines and tools that help companies address labor and human rights issues in global supply chains in line with internationally agreed principles such as the core ILO conventions and the Universal Declaration of Human Rights. The ILO, the UN Global Compact, and the Office of the United Nations High Commissioner for Human Rights, among others, would be relevant organizations.
This annex outlines in detail the key challenges and their underpinning assumptions as they were identified and phrased by the Bank Group in the Terms of Reference to the present study.

**KEY CHALLENGE 1**

The plethora of individual buyer CSR codes is generating inefficiencies and confusion. The challenge is to minimize inefficiencies and confusion in ways that make sense for buyers, suppliers, the workforce, and other key stakeholders.

- **Inefficiencies** have emerged partially as a result of industry structures frequently characterized by (a) shifting contractual relationships among suppliers and buyers with a lack of long-term business relationships and (b) suppliers with multiple buyers. Increasingly, each buyer has its own code of conduct, CSR training requirements, buyer monitoring, and external verification audits. The result is significant overlap and repetition; suppliers assert that this imposes unnecessary burdens on buyers who have to allocate time to address an overlapping stream of CSR-related activities.

- **Confusion** results from the variation in CSR requirements among buyers and CSR initiatives and poses two separate challenges for suppliers. First, it serves as a barrier to entry for suppliers wishing to be proactive in addressing CSR as a means of attracting or retaining clients: it is not sufficiently clear to suppliers how they can best demonstrate compliance to a range of potential CSR-sensitive buyers. Second, confusion can undermine CSR implementation: despite increasing convergence in the content of codes of conduct (particularly in labor content), significant discrepancies in the details of implementation remain, revealed through variation in the quality and content of monitoring and auditing processes and personnel and remedial action.

### Assumptions Underpinning Key Challenge 1

1a) The multistakeholder code initiatives have already started a process to improve practical collaboration and to consider coordination; this study is unlikely to add much value to that process, other than encouraging the participants in their endeavors. Instead, this study is likely to be most useful by focusing on the much larger number of individual buyer codes. It is also likely that some of the findings regarding implementation consistency may contribute to the separate discussion taking place among multistakeholder code initiatives.

1b) Labor content of codes (multistakeholder codes plus leading individual buyer codes) is slowly converging around ILO core conventions. It is likely that this convergence will facilitate solutions to the challenge of inefficiencies and confusion, as well as the third challenge of capacity building.

1c) If assumption 1b) about labor content of codes is correct, it is likely that this has implications for the utility of content convergence in other content areas, such as environmental standards and human rights. It further implies that content convergence should derive from internationally agreed standards such as those represented by the ILO conventions, international declarations, or agreements of UN agencies or the OECD.

1d) It is likely that the presence of multistakeholder initiatives have had a significant indirect influence in shaping firm decisions about the con-
tent of their codes, even among firms that are not members of these initiatives. This may have implications for the role that multistakeholder initiatives can play, both directly and indirectly, with regard to addressing the three key challenges listed in the Terms of Reference.

1e) The area where the majority of confusion exists is in the activities associated with the implementation of standards, that is, differences in the quality and specifics of monitoring, auditing, and remediation efforts. There appears to be significant inconsistency at the basic level of CSR implementation, that is, how standards are to be interpreted into everyday business practices and subsequently monitored. This is said to be true at all levels: within companies, across companies, within multistakeholder initiatives, and across multistakeholder initiatives and other factory certification programs. It is likely that removing unnecessary inefficiencies in this area will not stifle innovation or ongoing development of CSR initiatives. Efforts to standardize or harmonize elements of these initiatives should be quite straightforward: as one executive of a major apparel company put it, fake books are fake books.

1f) There is a risk that consolidation of individual buyer code content may lead downwards to the lowest common denominator, but this need not be the case, especially if content is derived from internationally agreed standards.31 There is a related assumption that CSR can be made more accessible or economically viable to SMEs without lowering standards, for example, through increased capacity building. It is possible, however, that in some industry sectors, CSR combines with other buyer demands to the advantage of larger enterprises.

1g) It is likely that businesses have concerns about explicitly adopting internationally agreed standards that have prevented them from doing so. Possibilities include fears of legal liability, desire to use individual CSR policies as a branding element, and a desire to maintain flexibility in terms of CSR commitments.

1h) It is likely that governments, especially host country governments, have a key role to play in clarifying expectations and helping reduce confusion and inefficiencies, but it is important to identify where the private sector may willingly play this role and where it may have a comparative advantage to do so.

### KEY CHALLENGE 2

Buyers are recognizing that traditional top-down CSR strategies are not achieving improved CSR implementation. The challenge is to identify best practice from the many pilot initiatives that acknowledge the importance of stakeholder participation, empowerment, and capacity building.

The evidence seems clear that a top-down policing approach to CSR compliance is insufficient or even inappropriate: a supplier who is only implementing CSR standards because of buyer insistence can find ways to evade compliance without too much fear of detection. A number of buyers have concluded that this implies a need to address the challenge of achieving shared ownership for the implementation of CSR standards throughout the supply chain. New strategies have included:

- A focus on clarifying the business rationale to generate bottom-up demand for CSR implementation, including development, dissemination, and promotion of frameworks to analyze the costs and benefits of implementing CSR (revealing productivity and quality gains and potential increased market share).

- Capacity-building support at the supplier level, for management, workers, and stakeholders alike. Many suppliers lack the management expertise to address challenges associated with bringing their workplace into compliance with CSR codes of conduct. These skills include operations management, knowledge of environmental practices, human resource management/industrial relations, health and safety, and knowledge of other systems that ensure sustainable production through a fundamental change in business systems.

- An emphasis on the role of workers or other key stakeholders as guarantors of CSR implementation. Trade unions have long argued that empowered workers are key to ensuring implementation of CSR standards because of their continuous presence at the worksite and their stake in the outcome. Similar arguments have been made about local communities and envi-
environmental protection. A small number of buyers and suppliers are undertaking experiments to increase the involvement of workers in their CSR implementation strategies. Some focus on NGO-style participatory techniques as a means of improved communication. Less common, but important, experiments include supporting an active role for trade unions.32

Assumptions Underpinning Key Challenge 2

2a) The top-down approach to CSR code implementation has been buttressed by the growth of externally provided inspection and audit services, on a commercial basis. It is likely that a capacity-building approach to CSR code implementation will require the growth of equivalent quality CSR support services, for example, such as those provided by properly trained auditors, empowered workers, well functioning and independent trade unions, and multistakeholder organizations. These are not currently available beyond relatively small-scale experimentation, and it is likely that the lack of widespread availability results in relatively high market prices and inconsistent implementation.

2b) It is likely that the organizations best positioned to lead implementation of empowerment strategies, capacity building, and training services would be unions (for labor issues) or multistakeholder organizations using participatory techniques. It is also likely that such activities would be better situated to offer complex or shared financing arrangements involving contributions from a variety of stakeholders and thereby altering the unit cost of CSR implementation and therefore the financial viability of participation for some companies such as SMEs (cost-benefit outcome). Similarly, it seems likely that the role of host governments will be significant in endorsing and enforcing standards, providing social services, and supporting worker empowerment.

2c) Despite the growing practice of consultancy (capacity building) services by some commercial CSR auditing agencies, which currently constitute a large portion of the small community of private sector experts experienced in CSR management systems, this is likely to present a conflict of interest with their external verification and auditing services.

2d) It is likely that public–private collaboration over the capacity-building challenge would be made easier if mechanisms for collaboration with relevant public sector inspectorates were in place, for example, if the results of buyer audits or remediation plans could be shared with labor inspectorates, although clear disincentives currently exist in this regard.

2e) It is likely that coordination among buyers sourcing from shared suppliers would increase compliance by suppliers through the creation of a united front and, ideally, a consistent message regarding implementation guidelines.

2f) It is likely that “initiative fatigue”—which describes the saturation of involvement in a variety of CSR initiatives by leading companies in this field—may serve as an obstacle to their engagement in the options presented by this study. It is also likely that additional ambivalence may stem from institutional constraints, such as a vested interest in existing organizational structures and policies.

KEY CHALLENGE 3

The reticence of some suppliers to undertake CSR compliance reflects a view that there is insufficient understanding of the business rationale for making the required investments. The challenge is to be clear about the business benefit at the supplier level and to develop business practices that maximize those benefits.

An associated challenge is the likelihood that for some suppliers, the business case does not exist, that is, in the absence of legal enforcement, the risk of market sanction and the benefits of CSR implementation are not sufficient to motivate suppliers to engage in CSR.33

32 The Global Alliance for Workers and Communities and CARE/Timberland have implemented projects to empower workers using participatory techniques. Reebok has facilitated trade union elections in two factories in China.

33 Many suppliers operate on extremely thin margins and short-term business horizons. This is partially because of the nature of the industry (margins are slim), low barriers to entry in many labor-intensive industries leading to overcapacity in the supply chain, and underdeveloped capacity of management to operate profitable businesses.
There are unresolved tensions between the delivery time and price of CSR-sensitive buyers. Suppliers, who are often less skilled in the area of contract negotiation, claim that unrealistic contract requirements drive them to make tradeoffs between accepting profit losses and violating CSR compliance obligations.34

A misunderstanding of codes as a nontariff trade barrier rather than the contractual obligation of the business relationship may focus suppliers unnecessarily on their perception of the content of the codes rather than the challenges of implementation.

Assumptions Underpinning Key Challenge 3

3a) It is likely that clarity on the apparent conflict between price and delivery, on the one hand, and CSR on the other, will be the primary contribution of this study, permitting individual buyers to make more informed choices about the tradeoffs involved.

3b) It seems likely that other tensions may be resolved, or decreased, through improved integration of CSR policies within individual buyers firms. For example, coordination of design and purchasing departments enabling longer lead time may decrease likelihood of overtime violations.

3c) It is likely that a primary obstacle to greater awareness of the business rationale for engaging in CSR is the absence of a simple and credible framework for analyzing the business case, and therefore a lack of quantifiable evidence of the costs and benefits of CSR to suppliers, despite significant anecdotal evidence indicating a positive business case.35

3d) Increased transparency around CSR, driven by a system of improved and credible reporting, can be a key determinant of some categories of business benefit, creating a mechanism through which free riders are exposed and CSR-sensitive buyers and suppliers are increasingly likely to be rewarded by CSR-sensitive clients and consumers. It is likely that various stakeholders, including the public sector, can take steps to influence the business case for CSR by influencing the potential benefits and costs.

3e) There is both a lack of critical mass of buyers with serious interest in CSR and limited engagement on the part of many buyers in living up to the commitment implied in their codes. This sends mixed messages to suppliers and appears to limit the ability of buyers who are serious about CSR to more successfully engage suppliers on CSR.

3f) Because most codes of conduct have been created in industrial countries by multinational firms and frequently represent the culmination of an effort by industrial country civil society activists to increase implementation of standards, the standards are often perceived as Western-centric. It is likely that the perception of these standards as foreign may be influencing local acceptance and implementation of codes by suppliers.

34 This may be a function of a market constrained by a variety of issues: CSR-sensitive buyers competing with non-CSR-sensitive buyers; overcapacity in the industry driving prices down to unsustainable levels; or lack of awareness and coordination among the CSR and sourcing departments within individual firms.

35 The Bank Group is currently testing a framework for evaluating the cost and benefits of CSR programs in a number of factories where programs supported by the Global Alliance for Workers and Communities are being implemented.
## List of Participants Consulted in the Study

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<tr>
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List of Participants Consulted in the Study

<table>
<thead>
<tr>
<th>Buyers</th>
<th>Group</th>
<th>Interview</th>
<th>No. of Participants</th>
</tr>
</thead>
</table>

**Buyers in the United States**

- Cutter & Buck
- Disney
- Eddie Bauer
- Gap
- Global Social Compliance
- Jones Apparel
- Levi Strauss & Company
- Liz Claiborne
- L.L. Bean
- Mattel
- McDonald’s
- NIKE
- Nordstrom
- Phillips Van Heusen
- Polo Ralph Lauren
- Proctor & Gamble
- Reebok
- Starbucks
- Wal-Mart
- Wolverine Worldwide

**Buyers in Europe**

- adidas-Salomon
- Chiquita
- Coop Denmark
- H&M Hennes & Mauritz
- IKEA International
- John Lewis - Waitrose
- Karstadt Quelle
- Littlewoods
- New Look
- PPR Group
- Safeway
- Somerfield
- Tetley
- Unilever

**Buyers in India**

- Gap
- H&M Hennes & Mauritz
- Li & Fung
- Triburg Sportswear
- Wal-mart
<table>
<thead>
<tr>
<th>Buyers in Hong Kong</th>
<th>Group</th>
<th>Interview</th>
<th>No. of Participants</th>
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<tr>
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<td>Debenhams</td>
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<tr>
<td>Disney</td>
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<td>Eddie Bauer</td>
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<td></td>
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<td>Hallmark</td>
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<td>Li &amp; Fung</td>
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<td>Sears</td>
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<td>Skips de Honduras</td>
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<td>Eveready Industries India Ltd.</td>
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<tr>
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<td>Gupta Exim</td>
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<td>Moran Tea Co.</td>
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<td>Neetee</td>
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<td>Orient Craft</td>
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<td>Rangi International</td>
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<td>Rossel Tea Limited</td>
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List of Participants Consulted in the Study

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<th>Interview</th>
<th>No. of Participants</th>
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<td>Williamson Tea Kenya Ltd.</td>
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<td>Starite</td>
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<td>XC</td>
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<td>YY</td>
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</table>

164 organizations | individuals | 194 |

(In the table above, ‘ag’ stands for agriculture and ‘ap’ stands for apparel).

Table F1 Summary Figures of Consultations

<table>
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<tr>
<th></th>
<th>Hong Kong, China</th>
<th>Honduras</th>
<th>India</th>
<th>Kenya</th>
<th>United States</th>
<th>Europe</th>
<th>Totals</th>
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<td>Buyers AP</td>
<td>24 (49)</td>
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<td>7 (10)</td>
<td>20 (50)</td>
<td>9 (35)</td>
<td>60 (144)</td>
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<td>Buyers AG</td>
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<td></td>
<td>3 (19)</td>
<td></td>
<td>5 (15)</td>
<td>8 (34)</td>
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<td>10 (59)</td>
<td>10 (15)</td>
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<td>28 (124)</td>
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<td>Suppliers AG</td>
<td>2 (24)</td>
<td>7 (14)</td>
<td>5 (15)</td>
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<td>14 (53)</td>
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<tr>
<td>Stakeholders</td>
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<td>4 (24)</td>
<td>8 (17)</td>
<td>13 (15)</td>
<td>17 (35)</td>
<td>36 (45)</td>
<td>84 (145)</td>
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<tr>
<td>Workers</td>
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<td>60</td>
<td>21</td>
<td>60</td>
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</table>

AP, apparel; AG, agriculture. The number in parentheses indicates the number of invited participants in each category. We consulted a total of 194 individuals representing 164 organizations and companies. Of these, 43 individuals representing 40 organizations were interviewed either in-person or telephonically. The remaining 151 individuals representing 122 organizations were consulted in group sessions with two or more participants. Participants were consulted in 11 locations in 9 countries on 5 continents.

Table F2 Buyer Consultations

<table>
<thead>
<tr>
<th></th>
<th>San Francisco</th>
<th>New York</th>
<th>London</th>
<th>Hong Kong, China</th>
<th>New Delhi</th>
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<td>7 (25)</td>
<td>8 (50)</td>
<td>24 (49)</td>
<td>7 (10)</td>
</tr>
<tr>
<td>Interview</td>
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<td>5</td>
<td>6</td>
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</tbody>
</table>

The consortium invited approximately 160 buyers to participate in the consultation process; of these 68 were consulted in course of the study. The number of agricultural and apparel buyers was 8 and 60, respectively.

Table F3 Stakeholder Consultations

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Honduras</th>
<th>India</th>
<th>Kenya</th>
<th>United States</th>
<th>Europe</th>
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<td>8 (15)</td>
<td>13 (15)</td>
<td>14 (35)</td>
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<td>(2)</td>
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</tbody>
</table>

In the United States, stakeholder group consultations were held in San Francisco and Washington D.C. In Europe, stakeholder groups consultations were held in Amsterdam, Brussels, Geneva, and London. The consortium invited approximately 143 stakeholders to participate in the consultation process; of these, 84 were consulted, the vast majority being NGOs and trade unions. The remainder makes up a diverse group, including a number of government officials, representatives of international organizations, and commercial service providers.

Table F4 Supplier Consultations

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Honduras</th>
<th>India</th>
<th>Kenya</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group</td>
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<td>12 (83)</td>
<td>11 (29)</td>
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<td>Interview</td>
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</tbody>
</table>

A total 177 suppliers were invited to participate in consultation; of these, 42 suppliers were consulted, of which 14 were agricultural suppliers and the remaining apparel suppliers.
The CSR Practice advises developing country governments on public policy roles and instruments they can most usefully deploy to encourage corporate social responsibility.

STRENGTHENING IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY IN GLOBAL SUPPLY CHAINS

October 2003