

From Executive Suite to Factory Floor: Truly Translating Codes



It is clear that to restore trust, companies have to demonstrate that our presence, particularly in the poorer countries and the emerging market economies, is a source of human progress. [. . .] The standards have to be set by example from the top – from the Board, from the Chief Executive from senior management, reaching down through the executive teams. They have to give life to the rules and the values of a company. They have to lead.

John Browne, Group CEO, BP plc¹

Overview

The last 10–15 years have witnessed an increased degree of scrutiny and interest in the way that multinational companies (MNCs) manage their supply chains with regard to social issues such as working conditions. Codes of conduct have been one important mechanism by which companies have sought to integrate more responsible working practices into their supply chains. In this article, we argue that, in order for companies to truly translate their codes of conduct from something that is developed at headquarters to something that has meaning and impact on the factory floor, there are a number of steps that must be taken and factors to consider. Implementing a code of conduct is something that requires time and resources.

Furthermore, it has broad implications for operational practice. Our central argument is that, in order to be truly effective, the code must be core to business operations. As such, the need for top-level commitment with regard to implementation of a company's code – the type of commitment expressed by John Browne, CEO of BP – cannot be underestimated.

Introduction

Implementing a code of conduct throughout a supply chain can be a challenging and daunting task, particularly if your supply chain is vast and your suppliers number several thousand. We provide here a short summary of the steps required to implement a code of conduct developed at the headquarters of a multinational corporation to its

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¹ 'Leading Toward A Better World? The Role of Multinational Corporations in Economic and Social Development of Poor Countries', speech by John Browne, CEO of BP, Harvard, 3 April 2002. Found at www.bp.com.

supplier factories, highlighting the implications that this process has on overall operations. It is based on extensive research and factory-level training programmes conducted by the authors.²

Through this work, we have identified some common elements that can be used by companies in translating their codes into practice, namely:

- Creating a shared vision;
- Developing understanding and ability;
- Integration into operations;
- Measurement, feedback, improvement and remediation.

A permeating theme throughout all of these elements is dialogue, both internally across different departments but also externally with suppliers and other important stakeholders.

Creating a shared vision

The creation of a shared vision refers not just to the development of the code of conduct itself but also, more broadly, to what the company hopes to achieve through the implementation process. In our experience, initially, it is usually external pressures or fears thereof that push an organisation to take

action. In practice this involves the CEO and senior management of a company committing the organisation to the development and implementation of a code of conduct through its supply chain by allocating resources (human and financial), educating those involved and affected by the process and ensuring steps are taken so that it is integrated fully into operations.

You have to consciously make a decision about what your company values are. Not just talk about them. They have to be strong enough to make improvements in product, how you lead and you have to demonstrate how they impact on you.

*Footwear Manager, MNC
Headquarters*

It is this final point that can often be the most difficult due to conflicts that can arise between the compliance/CSR department and other departments, notably sourcing. To truly stand by the principles enunciated in a code of conduct, senior management must be willing at times to make difficult decisions and set examples both for the MNC staff and the supplier factories. We will discuss this potential conundrum in further depth later in this article. For now, the main point is that it is not sufficient to

² For more information, see I. Mamic, *Implementing Codes of Conduct: How Business Manage Social Performance in Global Supply Chains* (Sheffield, UK: Greenleaf Publishing and ILO, 2004, www.tloftp.org).

“One of the greatest challenges for large MNCs with vast supply bases is identifying the starting point”

simply have a vision; you must make the necessary decisions to translate that vision into a reality.

In our experience, for all but a few supplier factories, it is generally the MNC that pushes its vision through the factory. However, the role of top-management commitment even at the supplier level is crucial in order to ensure realisation of the code's objectives. The most common way to obtain buy-in is through the business case, or, in simple terms, linking the granting of orders/business with the commitment to adhere to the code of conduct.

The way to do this is to first let the factory know that they have to do this to get business and then, if they implement the code, they could use this to get more business.

MNC Director

One of the greatest challenges for large MNCs with vast supply bases is identifying the starting point. For these companies, this means identifying all their suppliers and determining exactly how far down the supply chain they wish, or are able, to implement their code of conduct. Based on the experience of companies that have been implementing their codes for many years now, we would

suggest starting small – commencing with first-tier suppliers, followed by second-tier suppliers and so on.

It is important to bear in mind that the creation of a vision is not necessarily a sequential process, or necessarily structured or complete prior to starting the implementation process. This is particularly the case with regard to the need to integrate. In our experience, working with a wide variety of brands and retailers, we have yet to find a firm that has completely developed a vision that has been integrated into all operations.

Developing understanding and ability

Increasingly, most firms, both buyers and suppliers, have some understanding of codes of conduct. At the very least they know what a code of conduct is and what it attempts to achieve. Ten years ago, this was not the case for both MNCs and suppliers. However, the development of understanding and ability requires more than a simple awareness of the existence of the code of conduct. It requires an understanding of the implications for each individual's own area of work or operations. In practical terms this means that, at both the MNC level and the supplier level, people need to be trained to understand the code, in terms of what

“the integration of the code of conduct into operations often presents the greatest challenges to companies”

The following highlight some of the most important points to consider with regard to training:

- Consistency and clarity of message
- Translation of the code and training materials into local language
- Incorporating the code as part of the general induction programme
- Considering who to train – the general trend presently is to train those responsible for carrying out the changes required
- Providing concrete examples where possible via 'on-the-job' training
- Considering from the very outset who will bear the cost: that is, the MNC or the supplier?
- Determining what are the training needs – the most commonly cited need for training is with respect to understanding of the local labour law.

it will and will not do and why it is important in today's marketplace. Specific explanation of the purpose and intent of the code for a particular manager or worker's location and function should be given. Finally, there should be a clear enunciation of senior management's vision of and commitment to the objectives embodied in the code.

There are various ways that this can be achieved including training and the development of clear guidelines, standards and goals. These tools need to be supported by consistent views from all parts of the organisation. At the supplier level, when training is conducted, care must be taken to

ensure that it takes into account the demographics of the workers and managers. This should have the specific focus of building the supplier factory's capacity in the long term to take ownership of the code implementation programme. Once again, we must point out that there are resource implications to this (both in terms of finances and time), to the MNC and the supplier factory.

Integration into operations

As stated earlier, the integration of the code of conduct into operations often presents the greatest challenges to companies. It requires a number of important considerations including

the structure and assignment of responsibilities, integration with other corporate and job function, as well as the development of mechanisms for feedback and remediation. While feedback and remediation mechanisms are discussed separately in the next section, we raise them here to highlight the need to ensure that they too are integrated into operational performance.

What must be pointed out is the interlinkage of each of these processes – with decisions made in one process directly impacting others. For example, decisions made regarding budgets, size and structure of compliance, or code of conduct implementation teams, can directly affect the possible choices regarding training, mechanisms for feedback and consequently the overall success of code implementation.

a. Structure and assignment of responsibilities

There is no simple template with regard to determining the structure of the CSR/code of conduct department. Generally, the decisions made by suppliers appear to be driven by what is specifically or contractually mandated of them. At the MNC level, the decisions will be impacted by the size of the company, existing

reporting arrangements, available budget, and the overall structure of the organisation, its history and culture. The two general approaches are centralised and decentralised but whichever approach is adopted, in our experience, field personnel are an integral component for any proper functioning of a MNC code implementation programme. The nature of the responsibilities that may be allocated to regional staff is extensive including:

- Communication;
- Scheduling of audits;
- Approving vendors/suppliers;
- Monitoring of supplier factories;
- Development of in-factory teams, etc.

However, it must be remembered that having effective CSR/code of conduct staff including field personnel requires an investment in full-time positions with a suitable level of professional competency. There tend to be very few companies that regard their field compliance staff as professionals in terms of providing definitive job descriptions, performance appraisals, bonuses for good performance and opportunities for advancement. Furthermore, some companies do not even have these things for their headquarters CSR/code of conduct staff. This often

leads to challenges of staff retention as well as accountability for non-performance, further escalating the integration challenge and decreasing the likelihood of effective implementation.

b. Integration with other corporate and job functions

Understanding and taking account of the implications that code implementation may have on corporate functions in general, and consideration of how code responsibilities might be integrated with these functions, tends to pose the greatest challenges to companies in implementing their code of conduct effectively. The reason for this can be traced to a conflict of priorities. For instance, if you are a sourcing manager, whose performance is judged solely on your ability to obtain products at a lower price, you will have very little interest in code of conduct principles that may force you to work with suppliers that have higher prices. This is not a new phenomenon for companies.

Management has always faced some degree of conflict with their suppliers: for example, quality versus price versus delivery time. In order to overcome this challenge, the organisation as a whole, with the senior management's backing, must require the code of conduct to be a top

priority. It is only when company representatives rank code of conduct adherence as high as their requirements for quality standards, price and on-time delivery, that we can say integration has truly been reached.

Truly integrating a code into an organisation requires the organisation to consider the potential impact of all jobs on achieving the vision embodied by the code. Often in our experience, global enterprises focus their considerations on the CSR or compliance team, ignoring other crucial actors. In Table 1 we list a few positive and negative examples we have seen of how a company's vision of impact with regard to compliance can have far-reaching and far-away consequences.

We do not have the space in this article to discuss the role of all the various departments in-depth. We have already outlined the factors traditionally of concern to those determining sourcing and highlighted the need to ensure that code of conduct requirements are added to this list. At the same time, it is worth mentioning a few other departments, which can be party to the conflict scenario outlined above.

Typically products are designed in the R&D department with designers

**Table 1. Impact of non-CSR staff on MNC CSR programmes:
examples from the field**

Action	Impact
CEO In annual CEO statement, sets cost cutting as company's primary goal for year, making no mention of compliance	Clear message to staff at all levels, particularly sourcing, on priorities in coming year that do not include ensuring compliance
Product manager Requests rush order of production samples in order to test out a minor modification in shoe design	Involuntary overtime and work hours, exceeding code limits of 60 hours a week
Designer Develop a new design requiring stronger adhesives	Factory violates organic compounds (VOCs) agreement, exposing workers to carcinogens
HR manager Modifies annual performance objectives, setting 20% of results to be based on supporting compliance	Sourcing personnel at the national level increasingly recognise the value of ensuring compliant suppliers
IT manager IT develops new database with real-time information on audits accessible by sourcing	Sourcing confirms factory audit before completing purchase
Legal advisor Approves code of conduct that allows 'flexibility' of suppliers on freedom of association	Factory supplier blocks workers' association rights but still meets code requirements and passes audits
Country manager Discourages QC inspectors from incorporating limited compliance concerns into daily responsibilities	Compliance personnel visit factory only once every two years; QC staff ignore blatant safety problems
Account manager Communicates to upper management pressures from university clients, leading firm to join multi-stakeholder initiative (MSI, e.g. Fair Labor Association)	MSI requires increased transparency regarding supply base, increasing pressure at all levels for better compliance

and/or marketers making changes to the product throughout the production process. These changes, such as a change in the shape of a shirt pocket or the sole of a sports shoe, can have huge ramifications at the factory level in terms of hours worked – something usually limited by the code of conduct. Similarly, the push for ‘just-in-time’ manufacturing of products can leave little time to integrate or take account of code issues. Our advice is to identify and recognise from the very outset when embarking on a code implementation process that there will be implications for corporate functions other than the CSR/compliance department and to take these into account when designing and planning the compliance programme with clear directions on how to resolve the conflicts that will inevitably arise.

Measurement, feedback, improvement and remediation

The backbone of any code of conduct programme rests with performance measurement, feedback, and subsequent improvement and remediation systems. The core of these processes is the factory audit.

We do not need to describe this here as there is a great deal of literature available. The key point is the need to collect data and to use it to make difficult decisions, which might

involve in some instances deciding to cease working with a supplier.

[The] bottom line for us is – if you don't comply, we don't do business with you.

MNC Country Manager

However, we fully understand the challenges that companies face in making a decision of this nature. In the early 1990s, based on data that it had collected demonstrating the potential code of conduct violations and the risks of sourcing from China, Levi's decided to stop doing business there.³ However, among major brands, it was for the most part alone in making this difficult decision. It was unsurprising that, a short while later, when faced with the business pressure to be competitive, Levi's began to source from China once again. The free-rider dilemma is a real one for companies that have taken steps to implement their codes of conduct. These companies not only need to collect data to demonstrate their viability internally to the company at large but also externally to answer their critics.

Conclusion

While we have outlined the steps required for code of conduct implementation, we recognise the reality that quality, price and

³ K. Schoenberger, *Levi's Children: Coming to Terms with Human Rights in the Global Marketplace* (New York: Grove Press, 2001).

“In our increasingly competitive, globalised marketplace, will the market *really* reward companies with high degrees of code of conduct compliance?”

delivery/reliability of suppliers still drives purchasing decisions. At the very best, compliance/code of conduct issues come in at a poor fourth on this scale. This raises questions concerning the business case of implementing a code of conduct. In our increasingly competitive, globalised marketplace, will the market *really* reward companies with high degrees of code of conduct compliance? Will companies begin rewarding their sourcing managers for working not with the cheapest suppliers but with the most compliant? If the answer to these questions is no, we are faced with a serious challenge. The model that we have outlined in this article provides a foundation on which companies can build and adapt their code of conduct programmes. Daniel

Vasella, Chairman and CEO of Novartis, puts the reasons for taking such an integrated approach in a broader context.

We are convinced that it not only makes sense from a humanistic point of view, but is also of sociopolitical benefit to integrate universal principles and shared values into corporate activity.⁴

If this is the case, if for sociopolitical reasons the integration of core labour and other universal principles into corporate practice is best for society, then the challenge is clear. To do so will require the dedication of knowledge, skills and particularly resources.

4 Found at www.novartisfoundation.com.