

## CORPORATE CODES OF CONDUCT IN A GLOBALIZED ECONOMY PART III

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In the past two issues of *Starting Points* we began exploring several aspects of corporate codes of conduct and the role that they play in the global economy. We examined how corporate codes of conduct came to be, and explored several of the key components of a corporate code. In this insert, we will examine the issue of responsibility for conditions within a factory, and the role played by the codes and the systems of implementation of the codes.

Over the past decade it has become an established principle that corporations are responsible for conditions along their supply chain. This has been established in the footwear and apparel industries and is in the process of being established in the automotive, electronics and other industries, including most recently the agricultural and restaurant sector. Readers may be aware of the campaign focused on Taco Bell and the relationship of Taco Bells' parent corporation (Yum!) to the situation of the workers in Immokalee, Florida, who pick the tomatoes that end up in Taco Bell products.

This awareness of accountability is the result of long and hard work by shareholders, activists, and NGOs in many parts of the world, including the United States. The corporation's acceptance of this responsibility has not appeared overnight.

As codes of conduct have been established over the years, it has become obvious that simply having the codes posted in factories did not in any way mean that enforcement would take place. Even when companies placing orders in the factories specifically told factory owners that these were the standards they wanted, there was no penalty or reward for doing so.

At the present time there are several elements used by different companies to ensure compliance by the factories with the codes and the standards stated in the codes.

*Element One: Internal Compliance Systems.* Various companies have an internal compliance system in which compliance staff inspect factories. What varies is whether this is done once a year or more often, and whether this compliance inspection is done before orders are placed or after. Some companies insist that compliance must be met before an order can be placed while for others compliance is investigated after the order is placed. Compliance officers use various means including inspections, interviews with workers, examination of records, etc. to ensure compliance. There are several concerns in terms of internal compliance systems:

1. What happens when the compliance officer is not present.
2. What happens when more than one company sources in a factory, and myriad codes of conduct or standards are posted.

*Element Two: External Audits.* Many companies, hampered by the lack of sufficient personnel to inspect thousands of factories where they place orders, often hire auditing companies to do the factory inspections. This use of auditing companies raises several concerns:

1. Inspectors are in and out of a factory, often with no continuity in terms of who returns to a factory the next time.
2. Many of the companies that have sprung up to do audits are off-shoots of accounting companies, raising serious questions about whether adequate training is given to understand the complexities

of what has become known as social audits. There are various levels of training given to the auditors. Sensitivity to culture and gender are often lacking.

3. The money earned by the auditing companies accrues outside the community and often the country where the factory is located. This further weakens the tax base of the country where production takes place.

*Element Three: Independent Monitoring.* Independent monitors are trained persons and teams from the local community. They come from the human rights, labor rights, educational and religious sectors. Independent monitoring includes many of the aspects found in internal compliance and auditing systems: inspections, interviews, and examination of records. What independent monitoring adds to the process is

1. Cultural sensitivity
2. Ongoing availability to the workers so that issues can be addressed when they arise, not if they happen to be found during inspection
3. The resources spent on independent monitoring remain within the local community, thereby contributing to the economic functioning of the community.

There is a strengthening of civil society within the community and the country wherever independent monitoring takes place. The voice of the NGOs doing the monitoring is heard and is increasingly recognized as authentic by solidarity groups and shareholders of the corporations. Their authority thus increases and when they speak, the corporations and the government listen. This is power that is within the community. It does not come from outside.

Independent monitoring is not a substitute for the role of organized labor and for unions. However, in many countries the ability of unions to organize, be recognized and to enter into collective bargaining is an on-going struggle. Independent monitoring is an interim substitute to address the immediate challenges workers face in the globalized economy. The underlying issues are decent healthful working conditions, and wages and benefits that enable workers to achieve a decent standard of living, whether these issues are addressed by unions of organized workers or by an independent monitoring system.

One way of evaluating any of these systems is to ask:

1. Where does the power reside?
2. Where do the benefits of the moneys being spent accrue?

In past issues of *Starting Points* we raised the issue of the dual role that corporations are playing in the enforcement of standards: on one hand they are held responsible when standards are not met; and on the other hand they are looked to as the socio-political-economic power within a factory that can bring about change. Independent monitoring assists in moving the power back to the community by recognizing the right of the community to demand that national and local law and standards be met.

Sustainability is a key contemporary issue. Many times people focus on environmental sustainability. An equally important focus is economic sustainability, having the benefits of economic functioning remain within a community. In the present form of the globalized production system, profits accrue outside the local community. Corporate codes of conduct and independent monitoring of sourcing factories by local NGOs are steps in the process of bringing justice and sustainability into the globalized economy.