

# Codes of Conduct

## The real Impacts of Codes of Conduct in the Garment Industry in Tirupur



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# Acknowledgements

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# Executive Summary

## Background

In the last decades the world has changed in significant ways; one ongoing process of change is the way by which regional economies, societies, and cultures have become connected through a globe-spanning network of communication and trade. Although globalization has created lots of opportunities, new development chances and benefits it has also created new unbalances and new problems within the world. However, globalization and the emergence of global value chains have not only affected power relations, caused shifts in sourcing strategies of TNCs and retailers, but also influenced the labor market.

Unemployment, underemployment and low productivity jobs raised, inequality and disparity amongst workers have deepened. The labor market deformed and became more vulnerable, flexible and competitive. Workers rights degrade in this process. Reforms of deregulation and liberalization, falling prices, removing of trade barriers and subsidies affect workers situation enormous. Firms try to keep production costs down, to remain competitive in the new “uneven” trade system, however, mostly at the expense of the working conditions of their labors. A common phenomenon is the transformation of formal, permanent jobs into casual, temporal, seasonal and contract positions to increase production flexibility. These workers have to face with problems such as lack of non-employment benefits, low wages, insecurity, no contracts or social protection. They are not recognized or protected under legal and regular frameworks. But these jobs are increasing. In many cases, these workers are even not covered by the national labor laws. For example, in 2002 the ILO stated that in India around 55% of the total employees were working in the informal sector (ILO, Decent work, 2002).

This development is mainly caused due to a lack of international governance. Social and political institutions have missed to become global at the same rate as economy. The International Labor Organization tries to cope with these problems already since its foundation in 1919.

A reaction to the lack of social and political governance, evolving consumer awareness and a growing concern by civil society organizations about a downward spiral in labor standards within global value chains, poor employment conditions and increasing violations of worker rights have led to the introduction of Codes of Conducts, a key instrument of Corporate Social Responsibility.

Addressing labor standards has become an important strand in the rise of Corporate Social Responsibility. Codes of Conduct have become key instruments in ensuring minimum labor standards in global production. Most Codes of Conduct take place in industries, which are labor

intensive, involve low levels of worker skills and are concentrated in developing countries. These characteristics are in place in the global textile and apparel industry. Many Codes of Conduct and other CSR initiatives are extra founded to address labor conditions in the textile and apparel chains. In 2000, the OECD measured that out of 246 Codes of Conduct, 37 are applied in the textile and apparel industry, for example, the Codes of Conduct from the member organization of the Joint Initiative on Corporate Accountability.

However, although Codes have spread around all different kind of industries and have created a general awareness of the importance of social, environmental and labor standards, critics about the concept have also increased. The core debate is concerned with the question if Codes of Conduct “meet their primary objective of benefiting workers in global production systems through improvements of employment conditions” (Barrientos, 2007: 714).

The aim of this paper is to contribute to this debate, by exploring the way Codes impact labor conditions and how workers benefit from them. Further information about the impact of CSR instruments is necessary to increase its effectiveness, because if Codes of Conducts will not improve, the concept could become in danger. For this purpose, the real impacts and effects on workers have to be identified.

### **Research design**

In order to get information about the implementation and impacts of Codes of Conduct on workers, a research study was conducted in the garment industry of Tirupur, a city in the South of India. The garment industry in Tirupur was chosen due to its suitable conditions to explore impacts of Codes of Conducts. The industry in Tirupur faces with most of the problems and critics of CSR and Codes and is also an industry, where all sorts of Codes of Conduct are applied.

The main research purpose of this study was to identify the real impacts of CSR and Codes of Conduct on workers in garment companies in Tirupur. The focus on the study was on:

- Working conditions of garment worker
- Codes of Conduct applied in the garment sector in Tirupur
- Different benefits of Codes
- Factors, which influence success or failure of Codes

The sample size of the research study included four companies which are mainly producing for European/Dutch brands, which all stated that Codes of Conduct are implemented and contribute to an improvement of the working conditions. In addition to that, 30 workers from

factories run by these companies were conducted to get their perspectives on working conditions, especially to get information about more sensitive issues such as working hours, discrimination, and wages, in order to check claims from companies with their workers perspective. Furthermore, interviews with four local social auditors were conducted. Social auditors certify Codes of Conduct in the factories, as well as monitor their implementation a few times a year. These interviews were essential for the research question, due to the fact that on the one hand social auditors get good insight into the factories and the reality behind the regulations and on the other hand audits are heavily criticized to contribute to the ineffectiveness of Codes.

### **Summary of the findings and Conclusion**

The research study in the garment industry in Tirupur came up with interesting findings. One important result was that there have been benefits and impacts for workers due to implemented Codes of Conduct. However, the impacts have been uneven across Codes principles. The study could identify that there have been greater overall impacts on more visible issues such as health and safety than non visible like the right to collective bargaining. Particularly, the main impacts could be identified in areas of health, safety and minimum wages. In these aspects all companies had an overall good performance. These changes can be credited to the implemented Codes of Conducts within the factories. All company managers mentioned that due to Codes, improvements in health, safety and minimum wages have been recorded for the workers.

No significant changes could be recognized in relation to paid overtime and working hours, although these aspects are also part of the more visible issues. This is surprisingly, because it is stated that Codes have an influence on these aspects.

Further results of the study show that there have been little to no impacts or improvements on process rights for workers such as freedom of association, the right of collective bargaining, and discrimination or promotion. Another important finding was that social audits are too superficial to uncover the less visible issues.

The empirical data from the research reflected many critics and doubts in the scientific debate about the effectiveness of Corporate Social Responsibility and its main instruments of which Codes of Conduct is a part. The findings of the research confirmed that Codes of Conduct meet their primary objective of benefiting workers in the production system but in a limited way. There is gap between what Codes intent to improve and what they really achieve.

One reason for these results could be the dominance of a technical or compliance perspective on Codes within the private sector. It seems to be that buyers, agents, suppliers and even auditors

see Codes of Conduct as a technical tool to achieve social compliance based on outcome standards, such as technical standards do the same for quality. There is a lack of understanding that Codes of Conduct also intend to enhance the process through which workers claim their rights.

A further reason for the limitation of Codes' benefits could be the failure of audits to measure non visible aspects such as discrimination. This argument follows Barrientos and Smith (2007) who explain that "Social Auditing is able to identify visible aspects of codes, such as health and safety provisions and wages, but less able to identify less visible or more deeply embedded aspects relating to workers' rights and discrimination" (Barrientos, 2007: 725). This supports the rising criticism that social audits fail to fully monitor Codes of Conducts.

The findings from the research study in Tirupur show that Codes of Conduct have positive impacts on workers environment, but these are mostly limited on outcome standards such as health and safety. Codes of Conduct seem to be inadequate to enhance process rights of workers. Reasons for this have been found in the failure of social audits. However, if this argument could be verified, it would also mean that not Codes of Conduct themselves are inadequate to improve working conditions, but that the monitoring system fails to ensure sustained improvements in working conditions. A further reason for Codes' limitations is the wrong approach of most stakeholders involved in the chain, who see Codes as a business.

## Abbreviations

<b>BSCI</b>	Business Social Compliance Initiative
<b>CCC</b>	Clean Clothes Campaign
<b>COC</b>	Code of Conduct
<b>CSR</b>	Corporate Social Responsibility
<b>EDI</b>	Electronic data interchange
<b>ESI</b>	Employee State Insurance
<b>ETI</b>	Ethical Trading Initiative
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FLA</b>	Fair Labor Association
<b>FWF</b>	Fair Wear Foundation
<b>GRI</b>	Global Reporting Initiative
<b>GVC</b>	Global Value Chain
<b>HDI</b>	Human Development Index
<b>ILO</b>	International Labor Organization
<b>ISO</b>	International Organization for Standardization
<b>NGO</b>	Non-Governmental organization
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>OHSAS</b>	Occupational Health & Safety Advisory Services
<b>PF</b>	Provident Fund
<b>SAAS</b>	Social Accountability Accreditation Services
<b>SAI</b>	Social Accountability International
<b>SAVE</b>	Social Awareness & Voluntary Education
<b>TNC</b>	Transnational Corporation
<b>UN</b>	United Nations
<b>WRC</b>	Workers Rights Consortium
<b>WRAP</b>	Waste & Resources Action Programme

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## Chapter 1: Introduction

In the last decades the world has changed in significant ways; one ongoing process of change is the way by which regional economies, societies, and cultures have become connected through a globe-spanning network of communication and trade. Although globalization has created lots of opportunities, new development chances and benefits it has also created new unbalances and new problems within the world. Globalization and the emergence of global value chains have not only affected power relations, caused shifts in sourcing strategies of TNCs and retailers, but have also heavily affected the labor market.

Unemployment, underemployment and low productivity jobs raised, inequality and disparity amongst workers have deepened. The labor market deformed and became more vulnerable, flexible and competitive. Workers rights degrade in this process. Reforms of deregulation and liberalization, falling prices, removing of trade barriers and subsidies affect workers situation enormous. Firms try to keep production costs down, to remain competitive in the new “uneven” trade system, however, mostly at the expense of the working conditions of their labors. A common phenomenon is the transformation of formal, permanent jobs into casual, temporal, seasonal and contract positions to increase production flexibility. These workers have to face with problems such as lack of non-employment benefits, low wages, insecurity, no contracts or social protection. They are not recognized or protected under legal and regular frameworks. But these jobs are increasing. In many cases, these workers are even not covered by the national labor laws. For example, in 2002 the ILO stated that in India around 55% of the total employees were working in the informal sector (ILO, Decent work, 2002).

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characteristics are in place in the global textile and apparel industry. Many Codes of Conduct and other CSR initiatives are extra created to address labor conditions in the Textile and Apparel chains. In 2000, the OECD measured that out of 246 Codes of Conduct 37 are applied in the textile and apparel industry, for example, the Codes of Conduct from the members of the Joint Initiative on Corporate Accountability.

However, although Codes have spread around all different kind of industries and have created a general awareness of the importance of social, environmental and labor standards, critics about the concept have also increased. The core debate is concerned with the question if Codes of Conduct “meet their primary objective of benefiting workers in global production systems through improvements of employment conditions” (Barrientos, 2007: 714).

The aim of this research is to contribute to this debate, by exploring the way Codes impact labor conditions and how workers benefit from them. Further information about the impact of CSR instruments is necessary to increase its effectiveness, because if Codes of Conduct will not improve, the whole concept could be in danger. For this purpose, the real impacts and effects on workers have to be identified.

To achieve the purpose, the paper takes the garment industry in Tirupur India as a case study to measure Codes impacts, implementation and audits. The Indian garment industry is a classical example of an economy, where labor right violations occur on a large scale. The research results are mostly based on interviews with the different stakeholders involved in the garment industry in Tirupur. These stakeholders include garment workers, companies’ manager, social auditors, NGOs and local trade unions. The analysis of the research results gives further information about impacts and weaknesses of Codes of Conduct. This information is used for the broader controversial debate about CSR and its instruments.

The paper is structured in the following way:

1. Thematic and Theoretical Framework
2. Regional Framework
3. Methodology
4. Case Study in Tirupur
5. Discussion of the findings
6. Conclusion
7. Recommendations, references and annexes

## **Chapter 2: Thematic and Theoretical Framework**

The emergence of Corporate Social Responsibility, Codes of Conducts and its impacts needs to be understood within the broad picture. Therefore, the effects of globalization and Global Value Chains have to be explained, they build the context where CSR and Codes are embedded.

### **Globalization, Global Value Chains and the Garment Sector**

In the last decades the world has changed in significant ways; one ongoing process of change is the way by which regional economies, societies, and cultures have become connected through a globe-spanning network of communication and trade. This complex phenomenon is called globalization. In most cases, the term globalization refers to economic globalization, which means the integration of national economies into the international economy through foreign direct investment, other capital flows, trade, migration and new technologies. The three key characteristics of economic globalization are the liberation of international trade, the expansion of foreign direct investment (FDI) and the emergence of massive cross-border financial flows (ILO, 2005: 24). This development has resulted in an increasing competition in global markets between countries, companies and societies. However, economic globalization is more than just the rise of capital flows; globalization has also divided the labor force into low paid work in the south and high paid work in the north. Due to the emergence of global value chains, work activities have intergraded in new places around the world.

Although globalization has created lots of opportunities, new development chances and benefits, it has also created new unbalances and new problems within the world. Too many people do not profit from the wealth of globalization, especially people who live and work in the informal economy suffer from globalization, because in most cases they have no formal rights, particular in developing countries (ILO, 2005: X).

In fact, globalization itself is not a new phenomenon, but tempo and scale of the current globalization and especially the associated phenomenon of offshoring and outsourcing are new. To increase efficiency and decrease costs, production is shifted to new, cheaper locations in other countries or parts of the production process is subcontracted to specialized firms in the same country or abroad (OECD, 2007). Nowadays, most value chains are not anymore locally narrowed, but global. Global value chains include like “local” value chains the whole process of producing a product from “conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use” (Kaplinsky, 2000: 8). However, the

globalization of value chains has increasingly segmented these production steps. Now, each process is based on questions where the necessary skills and materials are available at competitive cost. Trade economists describe the new phenomenon as a fragmentation of production, which “describes the physical separation of different parts of production process” (Gereffi, 2005: 79), which means that the production occurs in different countries within or between firms. Global value chains have also created a rise in Transnational Corporations (TNCs), corporate brands and retailers which source not anymore “through distant markets” (Barrientos, 2007: 716), but from “in-house multinational production, and more recently to direct sourcing through a network of agents and suppliers” (Barrientos, 2007: 716). TNCs play also a crucial role in the global economy due to their strengths of knowledge-based assets like management and intellectual property, which “allow them to take advantage of profitable opportunities in foreign markets by setting up subsidiaries and affiliates abroad” (OECD, 2007: 3). Although TNCs are the big players in global value chains, small and medium firms get more and more involved into global value chains too, due to the transformation of international business. Global value chains create new opportunities for small and medium firms to enter the world economy. Like above mentioned, the current production systems are characterized by fragmentation, more specialization and decentralization. Specialization is the opportunity for many firms to enter global market and upgrade into higher value export activities (CAREC, 2007).

Due to an increased development of global value chains more developing countries are becoming part of the global economy. Despite the growing integration of developing countries into the global economy, OECD countries account still for almost 80% of global value added manufactured products (OECD, 2007). However, in many developing countries the manufacturing production has increased dramatically and is expected to continue. For example, China has become the second largest trading nation in the world and the largest exporter of goods, whereupon manufactured goods play an important role. Furthermore, foreign direct investment (FDI) among developing countries is rising too, like in China, as the largest recipient of FDI inflows among developing countries (OECD, 2007). However, investments are uneven distributed, for example countries in Africa do not benefit a lot from these changes. In addition, an increasing number of developing countries invest abroad, but still on a low level.

Till the beginning of the 21<sup>st</sup> Century, international economic networks have been distinguished between producer-driven and buyer-driven networks. However, nowadays, this distinction is obsolete. The current emphasis is on five different types of how value chains are governed. Gary Gereffi, John Humphrey and Timothy Sturgeon, some of the leading scientists in the area of global value chains analysis, explored five different analytical types of global value chain

governance: markets, modular value chains, relational value chains, captive value chains and hierarchy (Gereffi et al., 2005). These new five types are more useful to explain governance patterns in global value chains than the older distinction. However, in the following paper, the old distinction between buyer driven and producer driven value chains will be used, because global value chain issues will be examined in more general aspects in the context of CSR.

Producer driven value chains are dominated by large, usually transnational, manufactures which coordinate almost the whole production networks. These value chains occur typical in industries which are capital and technology intensive such as aircraft, computers, automobiles, semiconductors and heavy machinery. In producer driven chains firms belong in most cases to international oligopolies. These firms have control over most of the whole chain, they decide where, when and how manufacturing take place and what happens at each stage. They control backward linkages with component suppliers and raw materials as well as forward linkages like distribution and retailing (Gereffi et al., 2003). The companies in producer driven chains control key technology and production facilities (Riisgaard, 2008). However, it has to mentioned, that over time, some industries change into buyer driven chains. For example, for decades the computer industry was a producer driven chain, but transformed into a buyer driven chain due to the fragmentation of the production networks and the “explosion” of quantity and quality.

Large retailers, marketers and branded manufactures play the essential role in buyer driven value chains by putting up decentralized production networks in different exporting countries, mostly located in developing countries. Industries in buyer driven value chains are labor intensive, less sophisticated in technology and producing mainly consumer goods like garments, toys, handicrafts, consumer electronics or footwear. Production of these goods takes place in developing countries by networks of third-world contractors. These products are ordered by large foreign retailers or marketers which give the instructions and specification according the product (Gereffi et al., 2003). The bargaining position of producer in buyer-driven value chains is really weak, which finally creates further pressure on the workforce in the factories. Corporate Social Responsibility and especially Codes of Conduct intend to improve this situation. CSR activities take often place in buyer-driven chains, due to its characteristics that it is a chain with high pressure for the producers and labors. Due to this high pressure, labor violations occur on a big scale.

Large retailers or marketers like Wal-Mart or Nike fit into buyer driven value chains. They do not produce the branded products they order, they generally design or market it. Design and marketing is separated from the physical production of goods, which make the retailers

“manufactures without factories”. The factory systems in buyer driven value chains are globally decentralized and highly competitive with low entry barriers. Profit is made from the consolidation of design, sales, high-value research, marketing and financial services, which enable marketers, designer and retailers to connect overseas factories and traders with product niches in their consumer markets (Gereffi et al., 2003).

The garment industry is an ideal example to exemplify, issues of globalization, dynamics of a buyer driven value chain and an industry where CSR applies its instruments like Codes of Conduct. Furthermore, these aspects need to be understood, because the research study took place in this context.

The textile and garment industry was one of the first ones, which became global (Dicken, 2003: 17). Nowadays the garment industry is geographically dispersed across developed and developing countries like never before and unlike any other industries (Gereffi et al., 2003). Three decades of protectionism by developed countries has created a diversity of garment exporters in developing countries. For developing countries it was for a long time the only entry into export-oriented industrialization (USAID, 2005). Due to many forward and backward linkages the sector employs more than 40 million people worldwide (Hale et al., 2005). Especially the garment sector is characterized by large retailers, brand-name merchandisers and trading companies based mostly in developing countries with decentralized production networks. Despite some changes in the last years, the sector is still fragmented organized with low sophisticated technology and remains labor intensive. Subcontracting in the garment sector is a key characteristic.

The garment value chain is structured around five main parts (Gereffi et al., 2003). The first part is the raw material supply which includes natural and synthetic fibres, the second one is the provision of components like fabrics and yarns, which are manufactured by textile companies; the third part contains production networks of garment factories, which includes their domestic and overseas subcontractors; in the fourth part trade intermediaries establish export channels; and at least the marketing networks on retailing levels which provides the stores with products (Gereffi et al., 2003). See Figure 2.1.

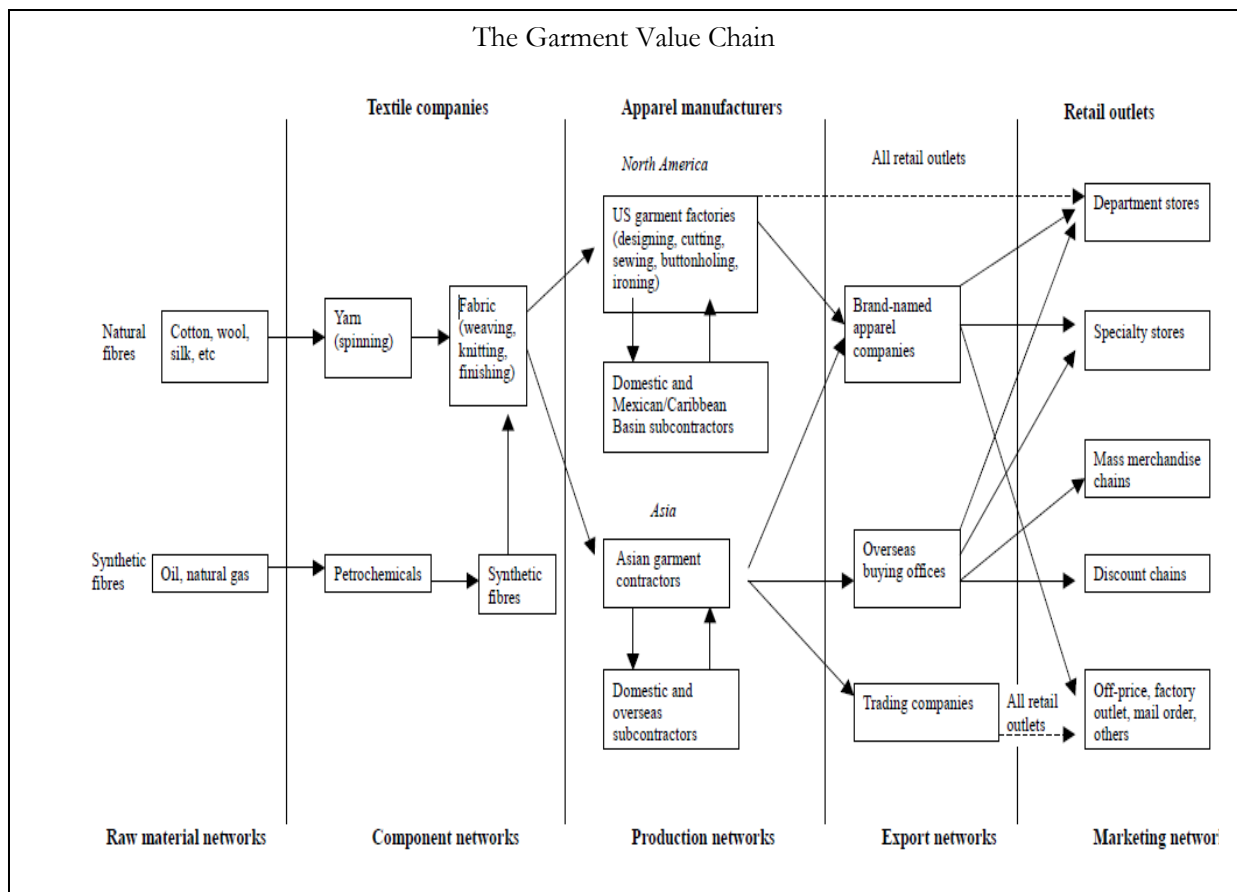


Figure 2.1

Within the global garment chains, the growing power of retailers has to be highlighted due to their enormous influence and leverage over textiles and garment manufactures. These retailers have to be distinguished between major multiple retailers and the growing specialist garment retailers. Major multiple retailers like Wal-Mart, K-Mart, Karstadt, Kaufhof or C&A assess the garment demand to a huge level by their purchasing policies (Dicken, 2003). They supply the mass market with basic garment products at low cost. However, since the 1960s, there has been a change within the retailers. Specialist garment retailers emerged, which started to focus on segmented markets like age or income groups. Retailers like ZARA, H&M, GAP or the Limited spread around Europe and the US. Since the 90s, in all developed countries specialist retailers and their policies have started to influence the whole garment chain significantly (Dicken, 2003). The emergence of these new retailers had profound implications for the whole textile and garment manufactures because it changed the relations between retailer and supplier. For decades, the market was controlled by large mass retailers. The relation between retailers and manufactures was characterized by a garment chain that produced large, cheap amounts of apparels, usually seasonable. The delivered products were stored at huge warehouses, from where individual stores were supplied. Painstaking and manual comparisons between sales records and physical counts of items served as inventory controls. Within this system, manufactures had only

to supply a number of products within a clear timetable. With the appearance of specialist retailers the “lean retailing system” emerged. The idea of lean retailing is a model of “frequent shipment by suppliers to fill ongoing replenishment orders by retailers, based on real-time sales information collected at the retailer’s stores on a daily basis”(Gereffi et al, 2003: 6). Between 1985 and 1994 retailers started to practice “lean retailing” due to a changing market (Abernathy et al., 1999). There is not one factor which caused this shift, but different such as the development of several key information technologies like bar coding, point of sale scanning or electronic data interchange (EDI). Furthermore, the market became more differentiated as well as more frequently fashion changes (Gereffi et al., 2003). A result of this development was that the factor time became as important as cost. In the new system, which displaces the traditional system more and more, suppliers have to deliver frequently smaller quantities of more diverse products. This development creates also more pressure on the suppliers and their workers. It leads often to violations of worker rights. Companies violate workers rights because in many situations it is the only way to fulfill orders

In addition, they have to work at a greater level of accuracy in satisfying orders and meeting delivery standards (Abernathy et al., 1999). This development within the garment chains displaced traditional manufactures as the leaders in the sector by retailers and marketers. Even the large retailers have started to implement lean retailing policies in order to compete with specialist retailers. Analysis of the performance of lean retailers and traditional retailers showed that the lean retailers sell their products more efficiently and with less risk than the normal retailers (Abernathy et al., 1999).

This development of the garment industry creates on the one side a positive change for developing countries to get access into major markets and for local producers to grow. On the other side there are negative impacts too; the lucrative sections of the global chains are controlled by the major retailers and brands and it is almost impossible to enter these sections by developing countries.

The global value chains approach state that national development requires a connection with the most important lead companies in an industry like the garment sector. But like above shown, lead firms are not necessarily traditional vertically integrated manufactures or firms which are involved in producing finished items. The analysis of the global garment chains illustrates that fashion designers or private label retailers can be lead firms, even if they are only involved in the chain upstream or downstream from manufactures. What makes these firms to leading firms is their control over key resources such as new technologies, product design or consumer demand (Gereffi et al., 2003).

The above part has shown the effects of globalization, mainly on the economy and production systems. Due to globalization, value chains became global. With the emergence of global value chains new global players such as transnational corporations, large retailers or corporate brands have started to change and influence international trade for the benefit of them. As a result many industries transformed into buyer driven value chains to remain competitive, such as the garment sector. Large retailers and marketers displaced traditional manufactures as the leaders in the sector and altered the dynamics within the chains. However, globalization and the emergence of global value chains have not only affected power relations, caused shifts in sourcing strategies of TNCs and retailers, but also influenced the labor market.

Unemployment, underemployment and low productivity jobs raised, inequality and disparity amongst workers have deepened. The labor market deformed and became more vulnerable, flexible and competitive. Workers rights degrade in this process. Reforms of deregulation and liberalization, falling prices, removing of trade barriers and subsidies affect workers situation enormous. Firms try to keep production costs down, to remain competitive in the new “uneven” trade system, however, mostly at the expense of the working conditions of their labors. A common phenomenon is the transformation of formal, permanent jobs into casual, temporal, seasonal and contract positions to increase production flexibility. These workers have to face with problems such as lack of non-employment benefits, low wages, insecurity, no contracts or social protection. They are not recognized or protected under legal and regular frameworks. But these jobs are increasing. In many cases, these workers are even not covered by the national labor laws. For example, in 2002 the ILO stated that in India around 55% of the total employees were working in the informal sector (ILO, Decent work, 2002).

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## **Cooperate Social Responsibility**

After the previous chapter illustrated the environment of where CSR takes place, the following chapter begins with the origin of CSR, Codes of Conduct and multinational stakeholder initiatives. In addition to that, CSR relevant issues in the garment industry are shown. The chapter ends with the main criticisms of CSR and the ETI assessment study.

### **Introduction to CSR**

The Concept of Corporate Social Responsibility occurred the first time during the 1920s in a debate about the need of company managers to take into account the interest of stakeholders and not just shareholders. However, this debate was overshadowed by the Great Depressions of the 1930s. The discussion about CSR issues started again in the 1960s and 1970s, due to an increasing importance of multinational enterprise activities. Mainly the International Labor Organization (ILO) and the Organization of Economic Co-operation and Development (OECD) concerned with the issue. They passed two important “declarations”, the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) and the OECD Guidelines for Multinational Enterprises (OECD Guidelines), which impacted the following debate about CSR issues significantly. The CSR concept has its roots in the definition of sustainable development by the World Commission on Environment and Development in 1987, which defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Sustainable Development through the Global Compact, 2007: 2). However, the present concept of Corporate Social Responsibility evolved during the Rio Conference on Environment and Sustainable Development in 1992. The United Nations and multinational enterprises assumed a commitment towards society and the environment by including provision to protect basic human rights, worker rights and the environment. Nowadays, Corporate Social Responsibility is defined by the ILO as “a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with law” (Sustainable Development through the Global Compact, 2007: 1). Although, the ILO, the OECD and the UN were instrumental in defining the concept of CSR and bringing it up on the global agenda of countries and TNCs, without the growing engagement and influence of NGOs, which are active in the field of working conditions, human rights and environmental degradation, CSR would not be that

much on the agenda of the “global community”. Less TNCs and governments would be engaged in the process in seeking greater fairness in international trade, better working conditions and the safety of the environment. In addition to that, a growing number of companies have started to invest more in CSR activities. Many companies have identified clear benefits by investing in CSR. Scientific research projects have shown companies that CSR helps them to reduce their production costs, use resources more efficiently, reduce levels of pollution and risk, produce safer and cleaner products, attract and retain talented staff, attract foreign clients and financiers and improve the image of companies. However, many companies are still not investing into CSR activities, due to a lack of knowledge about CSR benefits (Yperen, 2006). Finally, a growing number of consumers are interested in the social and environmental conditions under which products are produced. Consumers are more aware about CSR relevant issues and have started to mobilize their purchasing power to create pressure on companies. As a result of this, companies are more concerned about how their image is perceived by consumers and have begun to engage themselves in CSR relevant issues. Since the early 1990s, numerous CSR initiatives have been developed to address labor, social and environmental issues.

### **Codes of Conduct, Corporate Codes of Conduct and Multi-stakeholder initiatives**

The first international Code of Conduct for multinationals was developed by the International Chamber of Commerce in 1937. The purpose of this Code and following was mainly to regulate competition between Multinationals. In the context of Anti-apartheid policies in South Africa during 1940 and 1964 the first “governmental and intergovernmental guidelines for multinationals” were created by the ILO. Countries like the United States, Great Britain or the European Community passed during this time Codes of Conducts regarding the Anti-Apartheid context (ILO, Codes of Conduct for Multinationals). In the early 1970s, most intergovernmental guidelines for multinationals corporations emerged. Most multinationals were criticized for their unethical business behavior in developing countries by the host governments and labor organizations. They claimed them that their activities are not in harmony with local economic, social and political objectives (Zimmerman, 1992). Backgrounds of these criticisms were interrelated developments such as decolonialization or new movements of developing countries. As a reaction to the growing pressure from developing countries, several international organizations and human right groups created ethical guidelines which addressed the behavior of Multinationals. The OECD adopted its Declaration on International Investment and Multinational Enterprises which included the OECD Guidelines for Multinationals Enterprise, the ILO passed the Tripartite Declaration of Principles concerning Multinational Enterprises in

1977 and the World Health Organization adopted the International Code of Marketing of Breastmilk Substitutes (ILO, Codes of Conduct for Multinationals). These codes were conducted to cover multinational operations on a range of topics, such as labor standards. Although all of these codes include mechanisms for reporting abuses and problems, weak spot of all of them is that none are legally binding and the organizations are not able to enforce their guidelines due to its voluntary character. Despite these deficits, they serve as a basis and examples for upcoming Codes of Conduct (U.S. Department of Labor, 1996).

The origins of the current emphasis of Codes of Conduct for Multinationals emerged during the late 1980s early 1990s in a new flow of Social Responsibility. Were previous codes concerned with disparities between developed and developing countries, the Codes of Conduct for Multinationals of the 90s emerged in the context of Globalization. Areas of work which were considered to public sector actors and civil society such as social policy were more and more influenced by the private sector. As a result, private actors contributed to the extent of self-regulation practices and public-private partnerships (Sustainable Development through the Global Compact, 2007: 2). As business and its effects had greater global impact, expectations rose that multinationals react responsible for its consequences. Codes became more oriented in social aspects. The development of the more recently Codes are more industry-specific, mainly in the consumer goods industries. Most of the Codes take place in industries which are labor intensive, involve low levels of worker skills and concentrated in developing countries. Many of these Codes appeal to consumers and have been created in developed countries.

In the last two decades initiatives to address CSR relevant issues have been grown and diversified dramatically. NGOs, multi-stakeholder-initiatives, companies, trade unions, governments and international organizations have developed standards, guidelines, declaration and conventions, which deal with various aspects of CSR. However, there is a rights-based approach tendency recognizable. All of these initiatives are founded on the Universal Declaration of Human Rights 1948 and the Convention on Rights of the Child 1989 by the ILO.

The two key instruments of CSR and the most known are Corporate Codes of Conduct and Codes of Conduct for multinational corporations, which both were first introduced in the 1990s (Barrientos, 2007: 713). Both are similar in its goal, however, are different in its characteristics. The ILO defines Corporate Codes of Conducts as “individual company policy statements that define a company's own ethical standards” (ILO, Codes of Conduct for Multinationals). Furthermore, Corporate Codes of Conduct are voluntary and vary in format and issue, for example worker's rights or workplace issues. In addition to that, companies decide about the

implementation of them. Founder of the Codes are diverse, they vary from a board of directors, top management, consultants to legal departments. The Conference Board (A not-for-profit, non-advocacy business membership and research organization) differ three kinds of formats:

1. “Compliance codes: direct statements giving guidance and prohibiting certain kinds of conduct
2. Corporate credos: broad general statements of corporate commitments to constituencies, values and objectives.
3. Management philosophy statements: formal enunciations of the company or CEO's way of doing business.” (ILO, Corporate Codes of Conduct)

Codes of Conduct for multinational corporations differ from Corporate Codes of Conduct, they are externally defined and not by the companies, they are also imposed to some degree. Furthermore, these codes are not an agreement between the companies and the entities; sometimes the companies are involved in the drafting process. A huge difference to Corporate Codes of Conduct is the implementation of them which causes often complications, because the codes are externally defined which could create problems for the companies. However, also these codes are just recommendations, have not an international law status and are not capable of enforcement. Nevertheless, some organizations insist on the fully acceptance, before they give away a membership or licensing agreements (ILO, Codes of Conduct for Multinationals). The issues of these codes vary from labor matters, environmental standards, relations between world market and multinationals to health and safety problems. Codes of Conduct focus mostly either on labor issues or environmental issues. Codes of Conduct which have the environment as a focus are mostly applied in the north, due to the fact that most of these countries have already high labor standards. In the south, mostly codes with a labor focus are implemented.

If Codes of Conduct are credible and sincerely depends on the “nature of the substantive provision of the code” (ILO, Codes of Conduct for Multinationals), the monitoring process and “the governments that have adopted them or the companies that have subscribed to them” (ILO, Codes of Conduct for Multinationals).

Brand companies like Nike, GAP, LEVI, Adidas or Strauss have developed their own Corporate Codes of Conduct on Social Responsibility due to an increased pressure from different stakeholders (Yperen, 2006). Most of the international Codes of Conduct for multinationals address either environmental issues like the codes from the International Organization for Standardization (ISO), occupational health and safety issues like codes from Occupational Health & Safety Advisory Services (OHSAS) or labor standards like codes from Social Accountability

International. Beside these codes, guidelines from the United Nations Global Compact, OECD, World Business Council on Sustainable Development, Global Reporting Initiative (GRI), the Kyoto Protocol or the ILO Core principles are often used to define CSR performance of companies (Blowfield, 2007).

The most important Codes of Conduct for Multinationals regarding labor conditions are from Social Accountability International, Fair Labor Association (FLA), Workers Rights Consortium (WRC), Clean Clothes Campaign (CCC), Ethical Trading Initiative (ETI), Waste & Resources Action Programme (WRAP), Business Social Compliance Initiative (BSCI) and the Fair Wear Foundation (FWF).

The Joint Initiative on Corporate Accountability and Worker's Right (Jo-In) is the first effort to bring the different codes and initiatives together to common guidelines "on aspects of monitoring and implementing the provisions of voluntary codes of labor practice" (Blowfield, 2007: 691). Their main goal is to maximize the effectiveness and impacts of codes. The Joint Initiative is a reaction to the enormous spread of codes and initiatives all over industries in the last ten years. Brands and retailers are confronted with multiple industry standards and suppliers are overstrained by all the different initiatives and codes (Joint Initiative on Corporate Accountability and Workers' Right). The FLA, WRC, CCC, FWF, ETI and SAI form the core organizations of the initiative. All six organizations believe that improvements in the working conditions in the global supply chain is only possible if all different stakeholders such as civil society, governments, trade unions and employers' associations are imbedded in the implementation process of Codes of Conduct.

### **CSR issues and the Textile Industry**

Like in the above part described, most Codes of Conduct take place in industries which are labor intensive; involve low levels of worker skills and are concentrated in developing countries. These characteristics are in place in the textile and apparel industry. Many Codes of Conduct and other CSR initiatives address mainly labor conditions in the textile and apparel chains, especially, since global textile and apparel chains have changed into buyer-driven value chains. Consequently, working conditions have suffered greatly under this development.

In the year 2000, a study by the OECD examined a total of 246 Codes of Conduct, whereby 37 are applied to the textile and apparel sector (OECD, 2000a; Scheren /Grevén 2001: 78-82). In general, the most frequent issues in the textile supply chain are related to working conditions and

labor rights. However, many environmental issues are also included in many Codes of Conduct for the textile and apparel industry.

During the 1990s the Codes of Conduct were mostly concerned about child labor within the industry, next to the ecological ones in the North. Lots of US companies adopted these codes, which prohibit the use of child labor. Nowadays, Codes of Conduct which address labor standards are enhanced by other workplace issues. In most manufactures, working overtime is a common phenomenon, wages are too low to live, health and safety of workers is not granted, employment security does not exist for most workers, discrimination and harassment against workers especially women is often the case and many manufactures and companies refuse workers the right to organize and collective bargaining. Codes of Conduct from the members of the Joint Initiative on Corporate Accountability and Workers' Right (FLA, WRC, CCC, FWF, ETI and SAI) address all labor standards, however, Waste & Resources Action Programme, Fair Labor Association, Workers Rights Consortium, Clean Clothes Campaign and Fair Wear Foundation concentrate their activities particular on the apparel sector.

In addition, Codes of Conduct for Multinationals which are dealing with environmental issues are growing too. Especially the environmental impacts of the textile and apparel production are enormous. At each stage of the production there are impacts for the environment, for example emissions during the production of synthetic fibres. Most associated problems with the textile and apparel industry is the pollution of water. Codes of Conducts like Organic Cotton, Oeko-tex standard or the European Commission and Integrated Pollution Prevention Control are used to measure companies' environmental performance (Yperen, 2006).

These are the most common issues in the textile and apparel industry, with which CSR and Codes of Conduct are concerned. In the following chapters, CSR initiatives and Codes of Conduct, which concentrate on labor standards and working conditions, will be the focus, due to limitations of the paper.

## **CSR and its critics**

In the last 15 to 20 years, Corporate Social Responsibility has seen a rise in its acceptance in most industries, societies and governments around the world. Particularly, Codes of Conduct have spread around all different kind of industries and have created a general awareness of the importance of social, environmental and labor standards. However, different critics have also been raised in the last years. One of the current debates about CSRs relevant issues concerns with the effectiveness of Codes of Conduct. Critics doubt their effectiveness to improve labor

standards and benefit workers (IDS, 2007). The question is if Codes of Conduct “meet their primary objective of benefiting workers in global production systems through improvements of employment conditions” (Barrientos, 2007: 714). It is emphasized that Codes effectiveness suffers from the double drawback of being voluntary, private initiatives and not being legally binding (Fichter, 2002). This debate is further “supported” by recent statements from large buyers, which recognized limitations of their own codes. In addition to this, critics have been involved about the process of implementation, monitoring and auditing of codes. Audits of Codes are blamed to be superficial and miss to uncover less visible issues like discrimination or harassment. Moreover, Codes are also blamed to be weak in terms of workers’ rights to organize and collective bargaining and not to be gender and racial sensitive. Furthermore, CSR-initiatives are criticized that they are designed in Western countries for developing countries without taking into account the local realities. It is called the Northern bias of Codes of Conduct. In addition, it is argued that CSR even helps companies to avoid boycotts of brands and increase consumer loyalty. CSR is used “to prevent harm being done to a brand, rather than to promoting a positive brand image” (Blowfield, 2007: 690). Moreover, some argue that codes can only be successful and effective in image-sensitive branding industries like the apparel industry (Scherrer et al., 2001: 129). Critics have also argued that codes are used to avoid effective and comprehensive controls and the introduction of an internationally recognized public regulatory regime (Köhnen, 2002).

Finally, the ILO, one of the cofounders and strongest advocate of fundamental standards in work is criticized as the “toothless tiger” due to its lack of enforcement power. Although the ILO has increased its effectiveness in monitoring its norms, in the end, the ILO depends on the willingness and cooperation of governments to support the ILO’s rectification program (Fichter, 2002: 371).

### **The ETI Impact Assessment**

The above critics demonstrate how controversial the concept of Corporate Social Responsibility remains or became and that after years of a “CSR-Hype” the critical voices become louder and subject of many debates. Between 2003 and 2006, one of the multi-stakeholder initiatives and the Ethical Trade Initiatives, conducted an impact assessment to examine whether Codes of labor Practice have benefiting impacts for workers in global production system or not. The study provides according to the ETI “the most comprehensive evidence to date on the effectiveness of Codes for improving labor practices in global production systems”. (Barrientos, 2007: 718). However, the study can also be seen as an evidence to date the ineffectiveness of many aspects

of Codes for improving labor practices in global production systems, because it also confirms many critics about codes.

Before addressing the issue of the ETI study, some aspect of the ILO has to be highlighted regarding the above mentioned critics. Despite obvious weaknesses of the ILO such as the inability to enforce the implementation of labor standards, it has also achieved considerable recognition and made improvements in its capacity to monitor. Furthermore, the ILOs' monitoring and technical assistance programs contributed to a climate of compliance. Without the existence of the ILO which means its political and institutional global framework, there would be less awareness about labor violations, less initiatives on the part of MNCs and firms to increase and implement Codes in networks of production and commodity chains (Fichter, 2002).

The ETI study was conducted with companies, which had implemented the ETI Base Code; the Code is founded on Core ILO and related Conventions. The surveys with the companies provided detailed information about their global supply base, company codes and an assessment of different management approaches for their code implementation. Furthermore, comparative case studies with suppliers and workers in garment, footwear and agriculture production were conducted to assess the impact of companies' codes on worker (ETI, 2006).

The study differs between outcome standards, defined as the product of "negotiation and / or access to legislated entitlements", and process rights, "as embodied in Core ILO Conventions, [...] viewed as intrinsic principles of social justice that enables workers to claim their rights" (Barrientos, 2007: 721). This distinction shall be also used in the following chapters, due to its reasonable differentiation between visible and less visible issues.

The study showed that Codes of labor practice have benefits to workers on outcome standards. The clearest benefits were on health and safety, for example through improvements of fire safety, safer use of chemical or introduction of training on emergency procedures. These improvements included also casual workers. Furthermore, Codes have led to a reduction in working hours. However, these changes were not received as a positive change from all workers, due to the fact that this meant a reduction in daily wages. Moreover, Codes had positive effects on wages in terms of ensuring payment of the minimum wages or provision of state insurance and pensions (ETI, 2006). Research in Costa Rica identified that due to Codes, workers awareness about their rights increased and led to better communication about concerns with management. However, despite these improvements, the study remarked that "Codes have not led to a substantial increase in income in terms of guaranteeing a living wage" (Barrientos, 2007: 722). NGOs and trade unions described Codes as an instrument to assure workers' rights in global

production. Finally, the study found that Codes support to increase supplier awareness about national labor legislation.

Except from these positive impacts on workers, the study provided evidences to date the ineffectiveness of Codes to address less visible issues like freedom of association or discrimination. The study did not discover any improvements or an increase in joining unions due to Codes. In addition to that, the research could not come across with any establishments of a collective bargaining agreement as a result of Code implementation. Furthermore, little or no change was noticeable regarding impacts of Codes on discrimination in hiring, training and promotion of women, migrant workers, ethnic or religious groups (Barrientos, 2007: 723). Another important finding was that casual and migrant workers and especially workers employed by third-party labor contractors were almost not benefiting at all from the implementation of Codes. In fact, these workers had to face the greatest problems of Code violations. In general, they have no employment security, receive no state protection or insurances and are often target of harassment or abuse by contractors (ETI, 2006). Permanent and regular workers were more likely to benefit from Codes, although mostly only in relation to outcome standards (IDS, 2007).

The ETI study contributes useful information to the critics and the debate about Corporate Social Responsibility and Codes of Conduct but also demonstrate positive impacts of Codes for workers. It reflects the above debate, because it confirms many of the above mentioned critics and doubts about CSR. There have been some clear benefits from these Codes, however on outcome standards and less impacts on process rights of workers.

The above given overview about critics of Corporate Social Responsibility and Codes of Conduct show how divided the belief in the benefit of CSR and Codes of Conducts is. Although the ETI study provides important information according the question of benefits and improvements of Codes, it is essential to continue to explore the way Codes impact labor conditions. For this purpose, the thesis takes the garment industry in Tirupur India as a case study to measure the codes impact, implementation and auditing. It will be interesting to see, like in the ETI study, whether impacts of codes differ between process rights and outcome standards or if codes impacts have changed and improved and have a greater influence on both, process rights and outcome standards.

## Chapter 3: Regional Framework

The following chapter provides background information for the research study in India. It presents the circumstances, in which the study took place. This information is necessary to put CSR, Codes of Conducts and the garment industry into place. The chapter starts with a general overview of India, what are the characteristics of India, what are India's challenges, problems and future changes. In addition to that, the State Tamil Nadu and the District Tirupur are described, location of the research study. The chapter continues with information about the Global Garment Industry, followed by an overview of the garment situation in India and Tirupur. Furthermore, the most important labor legislation and rights are outlined. The last part of the chapter concerns with Global working conditions and how they differ to Indians working conditions.

### Country profile

India, officially the Republic of India, is the biggest country in South Asia. India is bordering the Arabian Sea and the Bay of Bengal, between Burma and Pakistan. With more than 1,1 billion inhabitants India is the second most populous country in the world. India is a republic consisting of 28 states and seven union territories with a parliamentary system of democracy (CIA, 2010). Although India has a diverse religion culture most Indian people are Hindu (80%) followed by Muslim (13,4%), Christian (2,3%) and Sikh (1,9%)(CIA, 2010). With around 71% of Indian's population, the majority still lives in rural areas.



Source: CIA World-Fact Book

Although neither the Constitution of India nor any Indian law defines any national language, Hindi is the official language and most spoken language in India. However, English as the secondary official language enjoys the status as the most important language for national, political and commercial communication (CIA, 2010). Next to those two languages there are 14 other official languages.

India became an independent nation in 1947 after a mostly non violent movement for independence. Before India's independence the country was mostly under the control of the British East India Company from the early eighteenth century and colonized by the United Kingdom from the mid-nineteenth till its independence. Although India gained its independence in 1947, the current Republic India and its constitution emerged after its separation from Pakistan in 1950. The years between 1950 and today were marked by different challenges from naxalism, religious violence, casteism, terrorism and regional separatist insurgencies, especially in Jammu and Kashmir and Northeast India. The permanent strains with Pakistan resulted in wars in 1947, 1965, 1971 and 1999. A disputed Himalayan border was the main pretext for the Sino-Indian War between China and India in 1962 (Metcalf, 2002).

Neo economic reforms since 1991 have transformed India's economy away from a socialist-inspired to a market-based system and are now one of the fastest growing economies (Ganguly-Scrase, 2008: 43). India's economy growth rate has averaged around 7% since 1997 (CIA, 2010).

India's diverse economy includes traditional village farming, modern agriculture, a wide range of modern industries, handicrafts and a multitude of services. Although around 60 % employees work in the agriculture sector, the service sector is the major source of economic growth with only one-third of its labor force. It makes up to 54% of the GDB, upward trend especially in the information and technology (IT) industry as well as in the newcomer bio-technology industry (BpB, 2007; Chai, 2007). Another sector which has grown fast in the last years is the textiles and readymade garments industry. Around 38 million people are employed in the Textile/Garment sector, the second largest employment sector after agriculture. It accounts 26% of manufacturing output.

Although India's economy has grown fast in the last decade, economic growth is heavily split between successful industries and rural poor who do not benefit from this growth. Furthermore, the economic growth in India has increased the gap between rich and poor. In addition to that, since India's economy has started to become a market-based system and international competitive, the labor market has also started to become more vulnerable, flexible and competitive. Reforms of deregulation and liberalization had not only positive effects on the economy, it degraded the already poor labor situation, mostly affected are the agriculture industry and other manufacturing industries like the textile and garment industry.

Even though India is classified as a newly industrialized country, per capita income in India is still little with around \$ 770 dollar. India still suffers under high levels of poverty, environmental degradation, widespread corruption, malnutrition, disease and illiteracy. India's long term

economy challenges include inadequate physical and social infrastructure, a limitation of employment opportunities and an insufficient basic and higher education opportunities (CIA, 2010). Most of these mentioned problems will increase with a growing population in the long run. Furthermore, India's political and social institutions cannot keep pace with the economic growth, this means social and political rights are lacking, especially labor securities. Due to this development, activities in the area of Corporate Social Responsible have grown in India in the last years. Even though, the awareness of CSR relevant issues are still low, some industries like the textile and garment industry have just started to react.

### **State Tamil Nadu and the District Tirupur**

The State Tamil Nadu is located in the South of India. Tamil Nadu is the fifth largest contributor to India's GDP and is also the most urbanized state in India. It has the highest number of business enterprises in India, compare to the population share. It is one of the foremost states in the country in terms of overall development. The State was the third largest economy among all states in India in 2007-2008. The economic activities in the State are mostly divided by three main industries, the services sector with 45%, the manufacturing industry with 34% and the agriculture industry with 21%. One important part of the manufacturing industry is the textile and apparel sector. Tamil Nadu is long known for the development of the textile industry since colonial times. Even in the post-reforms era which witnesses the demise of several textile areas such as Ahmedabad or Mumbai, the state has seen a rapid growth in almost all parts of the sector. The State counts for one-third of textile output. Tirupur is referred to as the Dollar City of India due its position as the country's largest exporter of knit wears. The city has gained the most in the post-quota textile boom. In 2004, Tirupur reached the export turnover of \$ 1000 million. Today Tirupur has grown as the largest cluster in terms of production and export. Around 60% of India's total knitwear exports come from Tirupur. Exports have increased by 70% in two years since 2006. The positive economic growth has however also brought challenges for environment and humans. Today Tamil Nadu and especially Tirupur have to face with problems like environmental pollution (water pollution) and poor working conditions.

### **The global textile and garment industry and the end of the Multi-Fibre Arrangement**

Since 2005, the global textile and garment sector has been in a state of flux, due to the end of the Multi-Fibre Arrangement (MFA) quota system, which has governed the textile and clothing (T&C) industry for almost four decades. A result of the end of the quota system is that many

developing countries have to deal with an increased competition and downward pressure on prices and workers as the global garment industry consolidates around a relatively small number of winners.

The purpose of the quota system was to place limits on exports from a number of low-cost countries into the US and the European Union. Their domestic industries could not compete against the low-cost overseas products. Countries such as India, Pakistan or Bangladesh and more recently China, high-volume producing countries, received enormous restriction on their exports. The end of the quota system had enormous changes in all groups of countries around the world as a result of positive and negative production shifts. For many developing countries, the end of the quota system meant the opportunity for economic growth and industrialization, mainly Asian countries benefited from it. The textile and clothing industry is considered to be a chance for industrialization of developing countries in low value added goods. The industry requires a large number of unskilled workers, including a high share of female workers, because women are seen as cheap labor. Lots of developed countries of today used the textile and clothing industry as a springboard for their development. Therefore, the textile and clothing industry offers countries to participate in world market. However, the phasing out of the MFA made the textile and clothing industry also more transparent and open and lead to intense price and quality competition between exporter countries. Some countries, which could only survive under the MFA, lost completely out their position in producing due to the increased competition. These countries, many small OECD countries, had to diversify their economy, looking for new sectors of specialization. Moreover, intense price competition forced many companies to reorganize their structures to achieve cost reductions, by putting downward pressure on wages and working conditions (Nordas, 2009).

Today, the global textile and garment industry creates a significant component of world trade flows, particularly for many developing and some developed countries the industry accounts for a large amount of their total exports. According to the World Trade Organization, the textile and garment industry generated US \$ 612 billion in world exports and accounted for 3.9 per cent share in global merchandise exports in 2008 (World Trade Organization, 2009). The textile biggest exporter is the European Union (if including intra-EU trade), followed by China. Overall, Asia counts for 50% of world textiles exports, followed by the European Union with 37% in 2008. The US and the European Union are biggest importers of textiles. A similar picture is seen in the clothing industry, the EU is biggest exporter (including intra-EU exports), followed by China with a share of 24% of world garments exports. Other countries like Thailand, Turkey or India are far behind, but still among the top 15 clothing exporters (McNamara, 2008). Also here,

overall Asia counts for 52% of world clothing exports in 2008. Major importers of clothing are the US and the EU (World Trade Organization, 2009).

### **India's Textile and Garment Industry**

The textile and clothing sector in India is one of the most significant industries due to the fact that it is the second largest provider of employment in India after the agriculture sector. The Indian textile industry is also one of the leading textile industries in the world. The sector was predominately unorganized, but started to change due to the liberalization of the Indian economy in 1991. It contributes to industrial output, employment generation and the export earnings of India (Prithiviraj,; 2). The textile and clothing industry contributes nearly 14 % to the total industrial production, 14 % to the manufacturing sector as well 14 % of total exports of goods and around 4 % to the Gross Domestic Product (CITI, 2010). The textile and clothing industry is in terms of foreign exchanges one of the biggest revenue earners with around 12 % (SAVE, Overview of Textile Policies in India-2009: 1). In 2007-08 the textile exports contribute US \$ 12.7 billion and the garment exports around US \$ 9.7 billion to the foreign exchanges earnings (CITI, 2009). The latest WTO data states that India shares 4.3 % in the global textile trade and 3.3% in clothing in the year 2006. Furthermore, India ranks 7<sup>th</sup> in world textile trade and 5<sup>th</sup> in world clothing trade (CITI, 2010). Garment is the most exported product in the Indian textile and clothing industry, it counts for 43 % of the total T&C export in 2007-08, followed by Made-ups with 16 %, Yarn with 14 % and Fabric with also 14 % (CITI, 2009:18). With 33 % in 2007-08 the European Union with its 27 members is the largest export market for Indian T&C products, The United States the second largest market with 21 %. China, UAE, Italy, Bangladesh and Japan share 46 % of Indian export products. The three largest importers of textile and clothing products in the world, the EU27, US and Japan accounting for 46 % of world textile imports and 76 % of world clothing. Recent economic slowdown has affected the T&C market of these three large importers. A result of the recent slowdown has also witnessed a downward impact on the Indian T&C industry as one of the major exporters of textile and garments (CITI, 2009:19)

The textile and clothing sector in India is the second largest provider of employment after agriculture with over 35 million and up to 45 million indirect employments. Furthermore, the sector is extremely important from the perspective of inclusive growth due to the large number of skilled and unskilled activities in the industry.

The production in the textile sector for export has increased constantly in the last years. In the year 2000 India's export textile products were US \$ 11 billion, US \$ 22.13 billion in 2007-08 and

it is planned that India's textile export revenue shall achieve the goal of US \$ 50 billion by 2020 (SAVE, Overview of Textile Policies in India-2009: 1). The growth in the export revenues is over 100 % in the span of 8 years. Sales in the textile and clothing Industry generated in the year 2008-09 an amount of around US \$ 55 billion; US \$ 34 from domestic market and US \$ 21 billion from export (CIT, 2010). The domestic market in India has seen a significant growth in consumption as well; probably it will increase to US \$ 60 billion till 2012 (SAVE, Overview of Textile Policies in India-2009: 1). Due to a young population, a rapid growth in organized retail and an increase in disposable incomes the textile and apparels market in India can grow that much. Due to the textile and clothing industry foreign investment worth of US \$ 850 million has been attracted during 1991 and December 2008 (SAVE, Overview of Textile Policies in India-2009:1).

### The Tirupur Garment Industry

Tirupur, the “Knitwear capital” of India is a city in the District of Tirupur in the State of Tamil Nadu in the South of India. Tirupur, included its suburban areas has a population around 600.000 thousand people. Tirupur is the seventh largest city in Tamil Nadu and is one of the fastest developing cities in the state. The change in Tirupur came when it started to produce for the export market in the 1980s. The garment industry in Tirupur contributed 60 % to Indians' knitwear garment export in the year 2000 (Gaasterland, 2009: 11). Today Tirupur has grown as the largest cluster in terms of production and export. Mostly known is the city as the garment valley in India, due to the fact that Tirupur is one of the largest foreign exchange earnings cities in India. The knitwear industry,



the soul of the city, employs

around 350000 people

directly and for all class and age of people and has emerged as the knitwear capital of the

country in only three decades. Tirupur has gained attention as the leading source of Hosiery, Knitted Garments, Casual Wear and Sportswear. Recently, many of the world's largest retailers like C&A, Wal-Mart, Switcher, Diesel, Tommy Hilfiger, Otto, Woolworth or H&M sourcing many clothing and textile items from Tirupur city (Gaasterland, 2009: 11). Most international brands which source from the manufactures in Tirupur are from the United States of America and Europe. Around 350.000 workers are regularly employed and additional 150.000 irregular workers are seasonal employed. The workers in the sector are locals and migrants, which are attracted by the growth of the industry. In the last decades, the whole industry started to become an attractive place for young women. Most companies started to promote young girls due to the fact that the wages of them are less than that of men. Today, more women work in the sector than men.

Today, around 10,000 small, medium and large textile mills, garment manufacturing units, weaving and handloom units spread around Tirupur and Coimbatore (Save, Concept note: 1). Apart from the formal sector, there are different manufacturing processes which take place in different "job work" units. The ILO describes them as follows: "They usually employ fewer than ten workers. Entry and exit are easier than in the formal sector and capital investment is generally minimal. The work is mostly labor intensive, requiring low-level skills, which workers learn on the job. The employer-employee relationship is often unwritten and informal, with little or no appreciation of industrial relations and workers' rights" (ILO, 2008). The decentralized structure of those work units makes it easy for the owner to violate labor laws.

## **Labor Regulations and Rights of Garment Workers**

The following part gives an overview about the most important national legislation concerning working conditions and the rights of labors in India. This overview is necessary for the analysis of the empirical data of the research study in Tirupur. With this background information it will be possible to explore to what extent working conditions in India even violates own national law.

### **The Factories Act, 1948**

The Factories Act regulates working conditions and the interest of labors in India. It seeks to ensure minimum standards of safety, welfare and health inside factories as well as regulates the number of working hours, leave with the wage, holiday, overtime and employment terms. The agency which is responsible for implementing the Act and rules is the Factories Inspectorate, which are working for the State governments.

According to the Factories Act, no adult workers are allowed to work more than 48 hours a week (The Factories Act 1948, Chapter VI). Furthermore, Chapter VI, Sec 54 includes that “no adult worker shall be required or allowed to work in a factory for more than nine hours in any day” (The Factories Act 1948, Chapter VI, Sec 54). “Where a worker works in a factory for more than nine hours in any day or for more than forty-eight hours in any week, he shall, in respect of overtime work, be entitled to wages at the rate of twice his ordinary rate of wages” (The Factories Act 1948, Chapter VI, Sec 59).

### **The Minimum Wages Act, 1948**

The Minimum Wage Act provides fixation and enforcement of minimum wages in all types of daily employment. The Act aim is to prevent exploitation of labor through payment of low wages. The Wages differ from state to state, calculated on the basis of consumer price index. Furthermore, wages differ from industry to industry and base of the collective bargaining in these sectors.

### **The Industrial Disputes Act, 1947**

The Industrial Disputes Act from 1947 regulates conflict situations through negotiations. The Industrial Act is applicable to all industrial sectors all over India. The Act ensures that any worker who has worked for more than one year gets one month of notice in case of a retrenchment. Apart from its main purpose to find conflict resolution it also provides rules for compensation in case of a retrenchment. For each year of service, a worker has to get compensation of 25 days of his old salary.

### **The Employee State Insurance Act, 1948**

The Employee State Insurance permits workers to get access to health services from specified government facilities. It covers cases of sickness, maternity (Singh, 2009), “temporary or permanent physical disablement, death due to employment injury resulting in loss of wages or earning capacity” (ESIC, 2010). In one of these cases, the employee is entitled to get half of his daily wage for 56 days per year. Furthermore, the Act provides medical care to workers and their immediate dependants (Kizhisseri, 2006).

### **The Employees’ Provident Fund Scheme, 1952**

The Provident Fund is a mandatory requirement for employer and serves as a savings plan for retirement and emergencies for workers (EPFINDIA, 2010) The Central Government administrates the Provident Fund through the Provident Fund Commissioners. All

establishments in India which employ 20 or more workers have to contribute 8-10 percent of basic salary to the fund monthly (Kizhisseri, 2006).

The above mentioned labor laws of India are only the most important ones out of a complicated and comprehensive legislation. In general, the labor legislations of India are seen as relatively strong by all different stakeholders such as trade unions, employer, employee, Auditors and NGOs. However, the legislations are considered as disastrous in terms of implementation, monitoring and enforcement. In general, labor laws are applicable to all industries in India, including the garment and textile sector. Furthermore, there are certain extra legislations to specific industries. The labor legislation in India is very complicated with multiple legislations and multiple enforcement agencies. Furthermore, in the wake of globalization and liberalization of the economy since the early 1990s, a major overhaul of labor legislation is underway (Latheef, 2006). Around 200 odd central and state labor laws are applicable in Tamil Nadu. However, like the majority of the country's workforce remains in the unorganized sector, most of the laws remain on the paper with limited implementation through enforcement agencies. In addition to that, most labor enactments passed by the Central and State Governments, for example for the welfare of workers, cover mostly only the organized sector and have little impacts for workers of the unorganized sectors. However, few social enactments have been legislated for these workers.

## **Labor standards**

The following chapter deals with international labor standards by the ILO and how they apply for national legislations. In addition to that, the situation of India according international labor standards is drafted. The two overviews are given, because most CSR activities and Codes of Conducts are based or refer to the international labor standards by the ILO.

## **International Labor Standards**

International Labor standards are conventions, rules and principles aimed to eliminate unjust and inhumane labor practices. Although lots of different labor standards exist, the ones refer to as the core labor standards are the labor standards outlined by the Declaration on Fundamental Principles and Rights at Work by the International Labor Organisation (ILO). These labor standards are accepted and ratified by the most countries world-wide. The ILO, a specialized agency of the United Nations deals with all aspects of work. The main goal of the ILO is to create international labor standards in the form of conventions, declarations, guidelines and recommendations and to supervise their implementation in member states (Sustainable

Development through the Global Compact, 2007). Except from the Declaration on Fundamental Rights, all ILO conventions are only legally binding when the member country ratify them. A weakness of the whole process is that ratification of a convention is voluntary. However, if ratified, governments are obliged to implement the Convention in their own national policy. Further national legislation setting standards cannot be below the ILO ratified conventions. Despite the process of ratification, all adopted ILO conventions are considered as international labor standards regardless of how many governments have ratified them.

The core principles of the Declaration on Fundamental Principles and Rights at Work aims to guarantee that social progress goes hand in hand with economic progress and development. It intends to (1) eliminate all forms of forced or compulsory labor; (2) effectively abolish child labor; (3) eliminate discrimination in respect of employment and occupation; and (4) ensure the freedom of association and the right to collective bargaining (ILO, Fundamental Rights at Work, 2010). These four principles are outlined by the Fundamental Human Rights Conventions, identified by the member States. See Box 3.1. Although the Declaration on Fundamental Principles and Rights at Work is binding for all member states, there are still nations who do not have ratified the fundamental human rights conventions. Member

**Box 3.1: Fundamental Human Rights Conventions**

1. Freedom of Association and Protection of the Right to Organize Convention (No. 87), 1948
2. Right to Organize and Collective Bargaining Convention (No. 98), 1949
3. Forced Labor Convention (No. 29), 1930
4. Abolition of Forced Labor Convention (No. 105), 1957
5. Minimum Age Convention (No. 138), 1973
6. Worst Forms of Child Labor Convention (No. 182), 1999
7. Equal Remuneration Convention (No. 100), 1951
8. Discrimination (Employment and Occupation) Convention (No. 111), 1958.

States that have not ratified one or more of the core conventions are requested each year to report on the status of the relevant rights and principles within their borders, noting impediments to ratification, and areas where assistance may be required (ILO, The Declaration, 2010).

The ILO and its conventions do not only play one of the most important roles in defining international labor standards, it plays also a fundamental role in CSR initiatives, including Codes of Conducts. Most CSR activities and codes refer to the core principles of the ILO. Almost all Codes of Conducts are based on the Declaration on Fundamental Rights at Work. ILO Conventions are also used in international trade by the private sector. Many social requirements on labor conditions are based on the ILO Conventions.

## **Labor Standards in India**

In India, international labor standards are still sensitive issues. Although India has made different commitments according labor standards at Singapore, Geneva and Doha in the WTO Ministerial Declaration and in the ILO Declaration on Fundamental Principles and Rights at Work, India has not ratified all eight core labor conventions of the ILO. India has not ratified the two core ILO conventions on child labor and neither the two core conventions on freedom of association and the right to collective bargaining. A possible reason for this is that India has still serious problems of child labor and forced labor, as well as restrictions on the trade unions rights of workers and discrimination in employment.

Trade unions rights are generally respected for workers in formal employment, but the majority of India's workforce is not in formal employment, therefore, not covered by legal provisions (ICFTU, 2002). Furthermore, child labor in India is still a serious and widespread problem, although India has national acts such as the Child Labor Act, the Factories Act, the Minimum Wages Act and National Child Labor Projects, which prohibits employment of children less than 14 years. Even though, India has ratified the two core conventions on forced labor and the two conventions on discrimination, forced labor and discrimination still occurs in most parts of India.

India does still not meet most of the international labor standards, although it has committed itself to most them. This becomes even clearer, by the problems most Codes of Conduct and other CSR initiatives have to face with in India.

## **Chapter 4: Methodology**

The present chapter describes the methodology used for the study in India. First of all, research objectives and the main research question and its sub-questions are exposed. The chapter continues then to describe the research techniques, procedures, measures and gives an overview about the sample size of the research. Finally, the chapter provides a conceptual model.

### **Research Objective and Questions**

In order to get new information about the implementation and impacts of Codes of Conduct on workers, a research study was conducted in the garment industry of Tirupur, a city in the South of India. The Garment industry in Tirupur was chosen due to its suitable conditions to explore impacts of Codes of Conducts. The industry in Tirupur faces with most of the problems and

critics of CSR and Codes and is also an industry, where all sorts of Codes of Conduct are applied. The objectives of the study were:

- Working conditions of garment worker
- Codes of Conduct in the garment Sector in Tirupurs' companies
- Impacts of Codes on process rights and outcome standards
- Factors, which influence success or failure of Codes

The research proposed to analyze to what extent CSR-programs with a focus on Codes of Conduct are implemented and improving the working conditions in the Garment Sector in Tirupur.

***What are the real implementation and impacts of CSR-programs and Codes of Conduct on workers in garment companies in Tirupur?***

In addition to the central research question, three sub-questions have been identified for further understand and supplement:

- What are the benefits for workers?
- To what extent are Codes of Conduct implemented?
- What hampers impacts of Codes of Conducts?

## **Procedures and Measures**

To answer the research question and its sub-questions, different information and data collection methods were used. As a reason to expected limitations of time, sample size and low budget the research mostly focused on qualitative methods. Secondary data and literature related to CSR, Codes of Conduct and the Garment industry provided a basis for the research.

The main research methods used during the field work were semi-structured and unstructured interviews. Interviews were the most important method to gather information, because they were the best opportunity to examine processes, motivations and reasons for success and failure. Most interviews were semi-structured, because they provided a tool to gain in depth information from the respondents. Furthermore, semi-structured interviews gave respondents the feeling that they could express themselves fully without feeling intimidated as in a group discussion. During the interviews with the Companies, structured questionnaires were used. Questionnaires with NGOs, the Labor Department and the Social Auditors were semi-structured, which offered the

possibility to give space for discussion on some aspects of the questions. Interviews with garment workers were more unstructured depended on the situation.

The sample size of the research contained four companies, which are mainly producing for European/Dutch brands, which all state that Codes of Conduct are implemented and contribute to an improvement of their working conditions. Interviews with the management of all four companies were conducted to obtain a general profile of the company, implemented Codes of Conduct, as well as to obtain their perspective on problematic issues of Codes of Conduct, labor standards, and their relationship to their retailers. All interviews took place in facilities of the companies; factories were on the same company area, which allowed seeing some of the workplaces. The questionnaire aimed to get information on:

- Production capacity
- Type of garment products
- Number of workers
- Type of workforce
- Clients
- Working conditions
- Implemented Codes of Conducts
- Trade union situation within the factories
- Changes before and after implementation of Codes of Conducts
- Motivation for Codes of Conducts
- Social Audits

Furthermore, interviews with 30 workers from factories run by these companies were conducted to get their perspectives on working conditions as well as to get information about more sensitive issues such as working hours, discrimination, and wages, in order to check claims from companies with their workers perspective. The interviews with the workers were conducted outside the factories after their shifts, because most of the companies would not allow their workers to speak with foreign people inside the factory and workers felt more comfortable and secure to talk about their experiences at work. Most of the interviews took place at the worker's homes, with the help of a translator.

The questionnaires based on the Core Principles of Work from the ILO. The questions included following points:

- Worker profile

- Working hours
- Wages
- Health and Safety
- Labor welfare
- Freedom of association and collective bargaining
- Training and promotion
- Verbal Abuse and Physical Violence
- Codes of Conducts and Social Audits

In addition, interviews were held with four local Social Auditors. Social Auditors certify Codes of Conduct in the factories, as well as monitor their implementation a few times a year. These interviews were essential due to the important role of Social Auditors; they have a good insight into the factories and the reality behind the regulations.

Furthermore, members of the Tirupur Steering Group, an informal assembly of trade unions and NGOs which seeks to make social audits in the garment sector more effective in addressing labor and environmental issues, were interviewed. Finally, the local labor department, Tirupur Exporter's Association (TEA) and local Trade Unions were visited to obtain information about general problems the sector is facing, as well as to get their perspective about the development of Codes of Conduct and its impacts in the garment sector.

In a last step, an interview with the ILO and Partners in Change was conducted in New Delhi to get a broader perspective on labor rights, Codes of Conducts and Cooperate Social Responsibility in India. To have an overview about the Sample Size, see Annex.

In addition to the data and information from the interviews with the workers, factories, trade unions, social auditors and NGOs, secondary data like statistics about the garment sector were collected from books, reports, research studies from institutes or NGOs like the ILO or Partners in Change. A lot of useful information like background material was also found by internet research. Furthermore, the host-organization provided lot of information from previous studies, which served as a good basis.

## **Conceptual Framework**

The impacts Codes of Conduct have on working conditions remain still controversial. Critics blame Codes of Conduct to have less positive impacts on working conditions than stated in theory. In theory, Codes such as SA8000 pronounce to influence outcome standards and process

rights, which lead to improved working conditions. Critics see impacts of Codes only on outcome standards such as safety, health, wages or working hours. In addition to that, there are factors which seem to influence Codes impacts, such as audits, the perspective of companies on Codes, labor laws or the political and social environment where Codes take place. The following conceptual model (figure 4.1) illustrates this relationship as well as the research question of the field study in Tirupur.

**Conceptual Model**

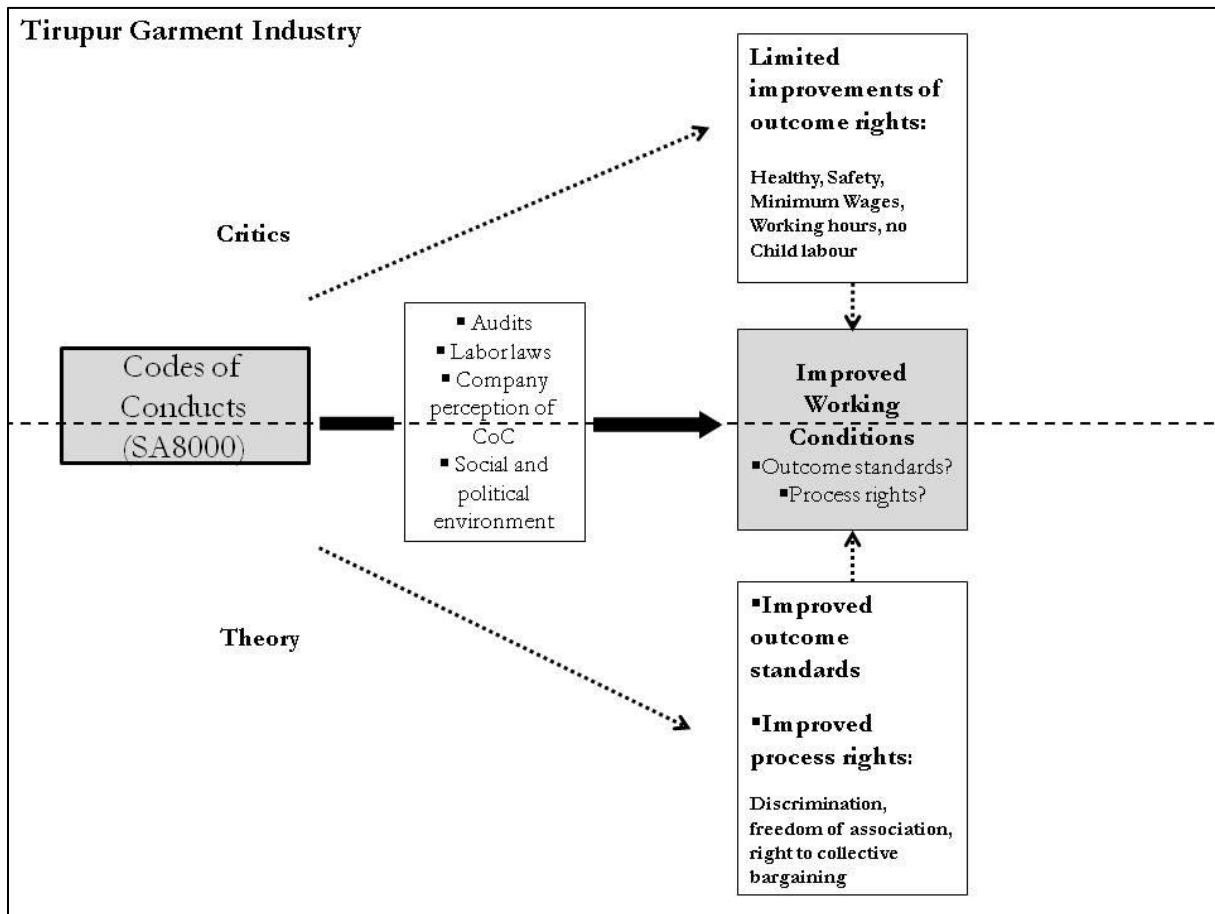


Figure 4.1

## Chapter 5: CSR and Working Conditions in Tirupur

In the last years there has been a trend that many garment retailers and brands were selling their products as ones which are produced under responsible conditions towards workers and environment due to implemented Codes of Conduct. However, the reality in the factories from which the retailers are sourcing is often different than proclaimed. The following study was

conducted to detect the real working conditions, to what extent Codes of Conduct are implemented and to discover the proposed benefits of Codes of Conduct for worker.

The following chapter presents the empirical information of the research study in Tirupur, which was conducted during February and May 2010. In the first place, the profile of the suppliers and the workers are exposed as well as a description of the workforce and the gender distribution of the companies. The chapter continues by outlining the explored working conditions in the factories, which will be essential to evaluate the real benefits of Codes of Conduct for workers. This information should give the opportunity to assess impacts, benefits, weaknesses and other aspects of Codes of Conduct.

### **Suppliers / Retailers Profile**

The research study focused mainly on companies producing for Dutch brands and retailers. Therefore, four companies have been identified. All four companies have buyers, retailers or brands in the Netherlands; however they are producing also for other big brands and retailers mainly in Europe and some in the US.

The names of the companies will not be mentioned, because it would be not in the interest of the workers. Although all interviews with the workers were outside the factories, in most cases at their homes, they still could get into trouble. Therefore, in the following chapters, companies will be named as company A, B, C and D.

Company A and B are producing mainly for C&A Netherlands and V&D but also for other retailers and brands like Jack and Jones, Wal-Mart, Merrell or Walt Disney. Factory C and D are suppliers of Albert Hein, Rabobank, M&S, GAP, Otto and Primark. All companies have different Codes of Conduct in place; the most common one is SA8000, a Code from Social Accountability International, one regulation for companies engaged in export production. India is the world leading country in the number of workers employed in SA8000 certified facilities, with have over 260,225 workers in 361 facilities (SAI, 2010). In this context it is important to mention that the Code SA8000 is based on the core labor standards by the ILO. Apart from other international Codes of Conduct such as WRAP or ISO: 9001, all companies have to implement Codes of Conduct from brands they are producing for to get orders.

**Company A** produces only for the export to Europe and the US. The factory processes vary from spinning yarn, knitting, dyeing, printing, embroidering, cutting or sewing. They produce all types of garments for women, men and children like Polo T-Shirts, Skirts, Pullovers or Sportswear. At their homepage the company describe themselves as a responsible business house which is deeply committed to creating a pollution-free environment. They are certificated with ISO: 9001: 2000, SA8000 and OKO TEX standard 100.

**Fair-trade Labeling Organizations International (FLO)** coordinates Fair-trade labeling at an international level. It develops and reviews the Fair-trade standards. These standards secure a better deal for producers. Furthermore, FLO supports producers in gaining Fair-trade certifications, by providing training and guidance. Independence and transparency of the Fair-trade certification and labeling system is ensured by the division of FLO into two independent organizations: FLO International (see above) and FLO-CERT, which monitors FLO certificated producers and traders (FLO, 2010).

**Company B** is also only export oriented and has their main clients in Europe, the US and the UK. The company operates more than 20 years for the export with a profit around US\$ 18 million per annum in 2000. Their product range includes Night wear, Pyjama Sets, short sets, slips and boxes and others. The company claims to produce around 5 million pieces per year. Company B has implemeted ISO9001, OEKO-Tex, SA8000 and Certificatet Codes from brands like the Compliance Certificate from the Walt Disney Company.

**Company C** states themselves as one of the leading garment exporters as well as a large vertically integrated apparel company, engaged in manufacturing and marketing readymade knitted garments, knitted fabrics and cotton yarn. They are producing only for Europe. There are producing around 6 million piece of readymade knitted apparel per annum. Factory C constitutes themselves as a company which is highly responsible against their workers, society and the environment. They are certificated with ISO: 9001, ISO 14000 and SA8000.

**Social Accountability International (SAI)** is a global, human rights multi-stakeholder, which sets standards to improve workplace and communities. SAI established SA8000, a social standard, which give employers the possibility to measure their own performance and responsibly manage their supply chains. The ILO core principles, the UN Convention and an ISO-style management system served as bases for the SA8000 standard. SA8000 is applicable to all different industrial sectors. Organizations which conduct certification audits for compliance to SA8000 are audited by the Social Accountability Accreditation Services (SAAS), which is independent from SAI (SAI, 2010).

**Company D** has their clients mainly in Europe like the Netherlands, Germany and Island. Around 95% of their products are for the export. The company's products include all kind of men, women, kid and even baby clothes. The company present themselves as a company that treats all their stakeholders equally, care about the environment and behave responsible to the society they live in. They are certificated with SA8000, ISO: 9001, FLO and GOTS.

**International Organization for Standardization (ISO)** is an international-standard-setting body, composed of representatives from various national standards institutes. The ISO sets worldwide industrial and commercial standards, which often become law by national standards or treaties. Furthermore, the ISO publishes Technical Reports, Technical Specifications, Technical Corrigenda and Guides. Two of the most widely known and used standards are ISO: 9000 and ISO 14000. The ISO: 9000 standards are used for quality management systems. The ISO 14000 standards are used for designing and implementing an effective environmental management system (ISO, 2010).

**Company E** is a conglomerate of many smaller companies in Tirupur. The company's profiles are similar to the above ones. Although there were no interviews with these companies, the interviews with the workers will be included in the report, due to the fact that their working situation are similar to the others and therefore are useful to get an overview about the working conditions in Tirupur.

**Global Organic Textile Standard (GOTS)** is the worldwide leading textile processing standard for organic fibres including ecological and social criteria. The standard unify organic standards within the industry, it enables producers to export their products under one certification, which is accepted in most countries. To monitor the participating companies, GOTS has a dual system consisting of on-site auditing and residue testing to check compliance (GOTS, 2010).

## Workforce and Gender Distribution

Company A employs 1200 workers in total and 300 staff members. Out of the 1200 workers, 650 are women. Company B has a textile unit with around 500 workers, only 50 of them are women. In the garment factory are 400 workers employed, 160 of them are women. In Company C work almost only women, just 5% of the 3000 workers are man. Company D employs 456 workers, 50% of them are women. See figure 5.1

Factory	Total	Male	Female	% of female workers
Company A	1200	550	650	54%
Company B	500	450	50	10%
Company B	400	240	160	40%
Company C	3000	150	2850	95%
Company D	356	228	228	50%

Figure 5.1

The data from the workforce and gender distribution in Tirupur represents the general large-scale feminization of labor force in the garment sector. Feminization of labor force, especially in the informal sector and the garment sector reflects the general shift in many global value chains. Many men jobs are replaced by women, due to the fact that women are cheap labors. These dynamics have a close relationship to the increasing profits rates and the low wages in the labor intensive manufacturing sectors like the garment industry. Like the data show, the feminization of the workforce in the garment clusters is also a predominant factor in Tirupur. The exception from Company B and its textile units is due to the fact, that textile units are dominated by men.

## Workers Profile

Most of the workers which were interviewed were female migrants (67%). Furthermore, around 83 % of these migrants came from places in Tamil Nadu; only 17% were from neighbour states like Orissa or Kerala (17%). The age of the workers vary between 18 and 40 years, however, most of them were in their early 20ths. Most of these workers came to Tirupur due to famine and poverty in their rural communities. A lot of the workers were employed in the agriculture sector before they came to Tirupur. Due to scarcity of water in the last years, jobs in the agriculture sector got rare. Therefore, most of them migrated to Tirupur for jobs in the textile/garment sector. Most of the young workers, work for some months in Tirupur, go back home to their families for few weeks before they leave again back to Tirupur. For most of them, jobs in the

garment sector are the only possibility to earn money and feed their families. The interviewed workers are employed in the garment/textile sector between some months and 15 years.

*“I came here with my mother from our village to find work here, because in our village were no jobs anymore. Before, I worked with my mother on the field, but since years there are fewer jobs due to lack of water. Now, I am here with my mother to earn money for our family at home, I have five younger brothers and sisters at home who are dependent on us.”*

*Malar Kodi, a 20 year old woman, works in one of the factories since 4 years.*

The workers profiles confirm on the one hand the general observed picture of garment workers in Tirupur and India<sup>1</sup> — female young migrants from impoverished rural areas— and on the other side it reflects a general development of India. India has seen an enormous rise in urbanization in the last years, reason for this may be the globalization and liberalization of India. Under globalization, survival and existence of the poor are affected as well as liberalization permits cheap import of goods which ultimately negatively affects rural economy, household industry on which rural poor survives. Most of the interviewed workers moved from their impoverished villages to Tirupur due to a negative development in the agriculture sector. India faces already with a decreased rural growth and increased pressure on agriculture resources.

## **Working conditions**

In the next chapter, different issues of working conditions will be analyzed. All these topics are aspects of what Codes of Conduct intend to improve. In this sense CSR should be understood; therefore, working conditions have to be analyzed to understand to what extent CSR has an influence on the working conditions and to answer the questions what are the real benefits for workers.

Almost all factories had the Code SA8000 from Social Accountability International implemented. The Code is shown in details in figure 5.2; this offers the possibility to compare the working conditions in the factories with the “should be” conditions by the Code.

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<sup>1</sup> See other reports on garment workers in India such as the report by SOMO “Richer Bosses, poorer Workers. Bangalore’s Garment Industry” or “The reality behind the Codes. Working Conditions in garment factories producing for Vendex KBB”.

“**The SA8000 Standard** is an auditable certification standard based on international workplace norms of International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the UN Convention on the Rights of the Child.

1. **Child Labor:** No workers under the age of 15; minimum lowered to 14 for countries operating under the ILO Convention 138 developing-country exception; remediation of any child found to be working
2. **Forced Labor:** No forced labor, including prison or debt bondage labor; no lodging of deposits or identity papers by employers or outside recruiters
3. **Health and Safety:** Provide a safe and healthy work environment; take steps to prevent injuries; regular health and safety worker training; system to detect threats to health and safety; access to bathrooms and potable water
4. **Freedom of Association and Right to Collective Bargaining:** Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining
5. **Discrimination:** No discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation, or age; no sexual harassment
6. **Discipline:** No corporal punishment, mental or physical coercion or verbal abuse
7. **Working Hours:** Comply with the applicable law but, in any event, no more than 48 hours per week with at least one day off for every seven day period; voluntary overtime paid at a premium rate and not to exceed 12 hours per week on a regular basis; overtime may be mandatory if part of a collective bargaining agreement
8. **Compensation:** Wages paid for a standard work week must meet the legal and industry standards and be sufficient to meet the basic need of workers and their families; no disciplinary deductions
9. **Management Systems:** Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices” (See SA8000).

Figure 5.2

### Direct Worker, Contract, Identity Card

In total, 64% of the workers in the factories responded that they are direct workers, which means they do not have any contract. However, they had an ID-card, which they needed in order to enter the workplace. Only 17% of the workers explained that they have a contract from the company. However, these 17% did not have an ID-card. Most of the workers without an ID-card got gate passes which are given to them when they enter the factories. None of the interviewed workers could response that they have a contract as well as an ID-card. Around 37% of the workers did not have any contract, an ID-card or another sort of identification. They explained that they go to the factories everyday to get work for the day. See figure 5.3

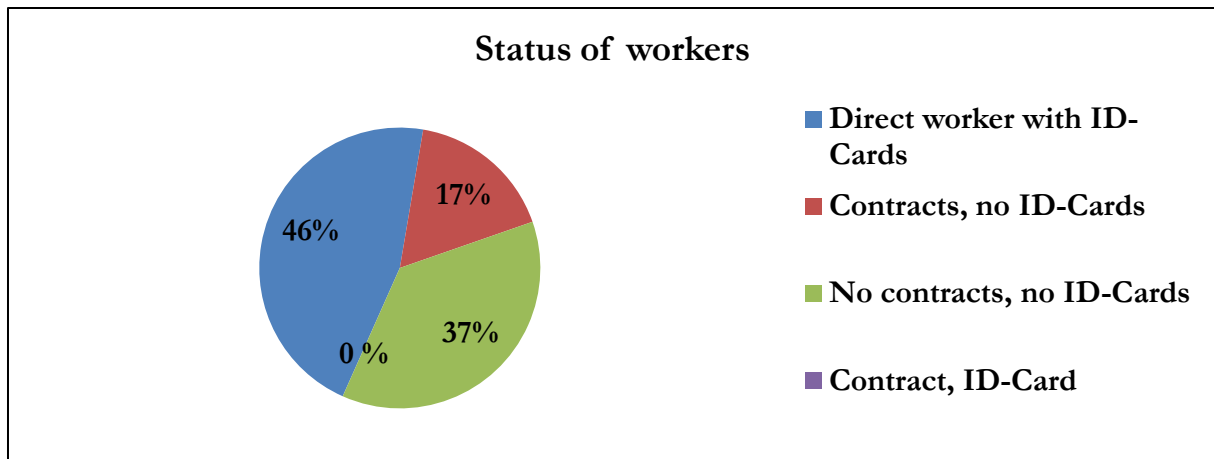


Figure 5.3

Factory A was the only one where all seven workers were issued with ID-cards. All laborers were direct workers. In factory B 43 % of the workers had neither a contract nor an ID-card; they only received daily gate passes. The remaining 57% of the factory were direct workers with ID-cards. Factory D did not provide their labors with any contract or ID-card. The workers from factories E offered 62, 5% of their workers contracts; 37, 5% were direct workers without ID-cards.

These information shows that a great deal of the workers were informal workers, which reflects the typically picture of most garment workers. Like in the theoretical chapter discussed, Codes of Conduct are criticized not to reach informal or casual workers or only in some aspects such as health and workplace safety. The fact that most of the workers in the study were informal workers, has to be taken into account, when looking on the areas of working conditions and benefits for workers, to give statements according the scope of Codes.

### **Working hours and wages**

According to the Factories Act from 1948, no adult workers are allowed to work more than 48 hours a week (The Factories Act 1948, Chapter VI). Furthermore, Chapter VI, Sec 54 includes that “not adult worker shall be required or allowed to work in a factory for more than nine hours in any day” (The Factories Act 1948, Chapter VI, Sec 54). “Where a worker works in a factory for more than nine hours in any day or for more .than forty-eight hours in any week, he shall, in respect of overtime work, be entitled to wages at the rate of twice his ordinary rate of wages” (The Factories Act 1948, Chapter VI, Sec 59).

The regular working time in the factories differ a little bit, but normally it is between 8.30 a.m. and 5:30 p.m. The factories give in general between half up to an hour lunch break and two times 15 minutes tea breaks, which ends up to 9 hours of working in the factories. However, in many

factories workers are either forced to work longer than 9 hours, if not they are threatened with losing their jobs or they decide to work more than 9 hours due to the facts that in most cases the salary of 9 hours is not enough to feed their families. In general, most workers work additional three hours per day, which ends up to a 12 hour day. In most cases, these extra hours are not recorded as overtime, like they have to be, prescribed per law. In Tirupur, it is normal that workers work 1, 5 shifts a day which makes 12 hours. The Agreement from the Tirupur Exporters Association (TEA) allows 1, 5 shifts, however, the agreement includes only a tea allowance for overtime, instead of the overtime payments prescribed by the Factories Act (Latheef, et al. 2006). Only a few companies abide with the law and pay the statutory overtime bonus of 100% extra. The average working hours of the 30 interviewed workers was 9, 9 hours per day and 59, 4 per week. This average was taken from the four factories. In factory A, an average working day was 8, 2 hours, in factory B workers had to work an average of 11 hours per day, in factory D it was 10 hours per day and in factory E 10, 3 hours per day. See figure 5.4.

Factory	per day	per week	per month	average of all factories per day
Company A	8,2 h	49,2 h	196,8 h	9,9 h
Company B	11 h	66 h	264 h	
Company D	10 h	60 h	260 h	
Company E	10,3 h	61,8 h	247,2 h	

Figure5.4

The analysis according working hours shows clearly that all companies violate the SA8000 Code regarding working hours. In all four companies labors work more than 48 hours per week. The Code of Conduct could not reach its goal. A common statement by the social auditors was that most workers are willing to work long, because they are never certain whether they would get work next day or week, due to the fact that the garment industry is a seasonal sector and jobs are rare. If more workers would have permanent contracts, there would be probably a decrease in violations against working hours; however, the previous part about the situation of workers showed another picture. In addition to that, many workers could not supply their families if they would not work more, due to the low wages and high living costs in Tirupur.

**Wages:** The whole situation according minimum wages in India, Tamil Nadu and Tirupur is really complicated, due to the fact that different views of minimum wages exist. First of all, the Tamil Nadu Government publishes minimum wages for the tailoring industry which includes for example cutting, knitting or ironing. Secondly, the Tripartite Wage Agreement negotiated, by TEA, the Trade Unions and the Labor Commissioner in 2003, serves as a base for minimum

wages. Furthermore, there exists the general perception concerning living wages in Tirupur by local organizations like SAVE. Finally, there is also the Second National Labor Commission, “which is the bare minimum applicable to any category of industrial employment, without considering skill levels” (Kizhisseri, 2006). Please See Figure 5.5

**Overview about different perspectives on minimum wages by area and source**

Basis	Source	Daily Wage for 8 hours	Month salary
Tripartite Wage Agreement	TEA Agreement 2003	97 Rs.	2910 Rs.
Tamil Nadu minimum wages	Department of Labor and Employment, Tamil Nadu	108.77 Rs.	2105,7 Rs.
Second Labor Commission	Policy	150 Rs.	45000 Rs.
Living wages	SAVE and other NGOs	200 Rs.	6000 Rs.

Figure 5.5

(Source: SAVE, Tamil Nadu: Minimum Wages)

According to the Indian law, regional agreements like the Tripartite Wage Agreement are binding. Therefore, the Tripartite Wage Agreement is binding in Tirupur, although this agreement has to be seen critical, due to the fact that the agreed wages are below the general perception concerning living wages and below the minimum wage prescribed by the Second National Labor Commission. Furthermore, the Tirupur Export Association (TEA), which was the major stakeholder during the negotiations next to all major Trade unions, represents only less than 1000 establishments of the existing 10000 in Tirupur. In addition to that, trade unions leader, NGO leaders and environmentalists state that even TEA members do not implement the Agreement conditions properly. Apart from these facts, most disputes about wages are dissolved within the factories and just in few cases labor officers are involved.

The following data are taken from the interviews with the workers from the factories. In the analysis about minimum wages, the TEA-agreement will serve as the base.

**Awareness of minimum wages:** Only 30% of all interviewed workers were aware that there are rules and laws about minimum wages such as from the government or the TEA-agreement. Most

workers (70%) did not know anything about their right of a minimum wage. In factory A, all interviewed worker were not aware of minimum wages as well as in factory D. Only in factory B all workers were aware of it and 25% in factory E.

**Wages:** In the following two different sets of data will be presented. The first set was analyzed correctly according the TEA-agreement. The second set presented another picture of the minimum wages, in which the wages were a bit higher than the prescribed minimum by the TEA-agreement and were not counted as minimum wages.

Workers who received a minimum wages according the TEA-agreement were 93, 3 % and only 6, 7% who did not get a minimum wage of 97 Rupees per 8 hours. However, if wages, which were just a bit higher than the 97 Rupees like 100 Rupees (111 Rupees was the maximum which was counted as no minimum wage) were not counted as minimum wage, the picture of workers who receive a proper salary was much different. In this case, only 63, 3 % got a minimum wage and 36, 7% did not get a minimum wage.

In factory A, 100 % of the workers got a minimum wage, only 71% in the second case. In factory B 86% of the workers received the minimum wage and 14% less than the prescribed 97 Rupees. In the second case only 29% got the minimum wage and 71% who received less. In factory D all workers got the minimum wage as well as in the second case. In the last factory D, 87, 5% got the minimum wage and only 12, 5% less, however in the second case only half of the workers received the minimum wage. See Figure 5.6 and Annex 2 for more details.

Factory	Minimum wage +	No Minimum wage -
Factory A	100%; (71%)	0%; (29%)
Factory B	86%; (29%)	14%; (71%)
Factory D	100%; (100%)	0%; (0%)
Factory E	87, 5%; (50%)	12, 5%; (50%)

Figure 5.6

The data about minimum wages show that the overall performance of the companies was positive, even in the second case, where the data were quite different. A convincing reason for this could be the implemented Codes of Conduct of all companies. This argument is supported by the case of factory D. Factory D is the company with the most implemented international Codes of Conducts. In both cases, the salaries of the workers were considerably higher than the prescribed minimum wage. A correlation between Code of Conduct and minimum wage is presumably. However, Codes of Conduct could not create a general awareness about minimum wage, even not in the case of factory D.

**Overtime:** From the 30 workers, only 36% of them explained that they are paid extra if they have to work longer. Exactly 64% of the workers answered that they just get their normal wages for overtime. See Figure 6. In addition to that, not all of the 36% of workers who got extra money for overtime received the prescribed double salary.

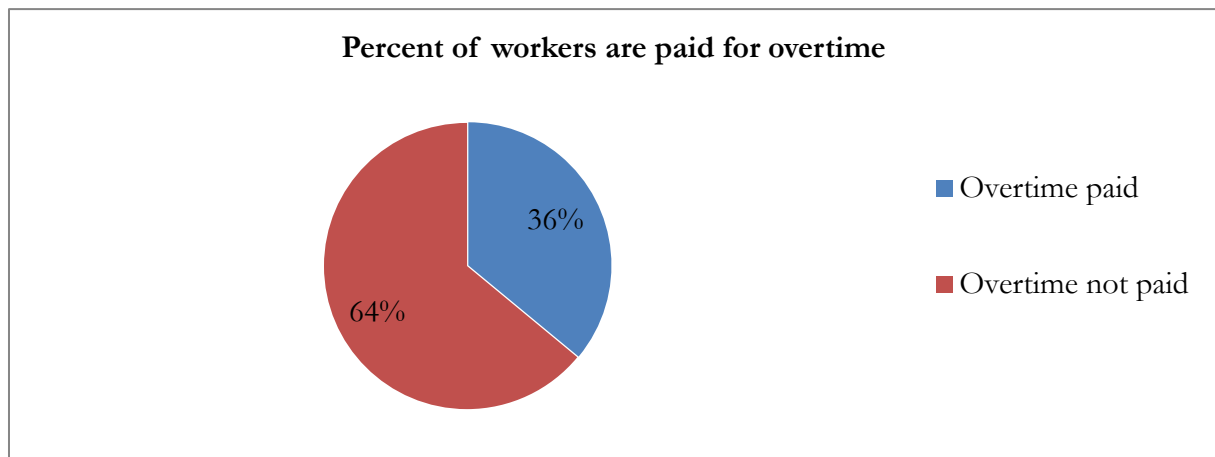


Figure 5.7

In factory A, none of the workers got overtime paid. In factory B, 29% of the workers got overtime paid. Factory D pays overtime for all interviewed workers. In factory E, 12, 5% of the workers received the extra money of overtime and 87, 5 % are not paid extra. See Figure 5.8

Factory	% of workers getting overtime paid	% of workers getting overtime not paid
Factory A	0%	100%
Factory B	29%	71%
Factory D	100%	0%
Factory E	12,5%	87,5%

Figure 5.8

The information about overtime represents the overall situation regarding overtime in Tirupur. In most companies, overtime is not paid at all or not as prescribed per law. Apart from the data from the study, auditors confirmed these results and mentioned that if they would report violations regarding overtime, they could not certify most of the companies. A correlation between Codes of Conduct and paid overtime cannot be seen, except from factory D, where all workers received overtime payments, however, this was only one case.

## Health and Safety

Most of the workers said that their workplace is safe and well equipped. In all four factories, caps, masks and gloves are provided. Workers said that fire exists are properly marked as well as fire

equipment. Furthermore, all workers mentioned that in each working section are persons who get training in case of fire. The number of trained persons differed to each factory, but was still sufficient. Clean drinking water is provided by the factories. In all factories, machines are equipped with accidents buttons, which stops immediately all machines in case of an accident. None of the interviewed workers complained that it is dangerous to work with some machines or some working processes. Except from factory D none of the factories offer their workers monthly health checks, which is necessary to guarantee full work capability of the workers and avoid accidents. Factory D offers weekly checks as well as the possibility to make use of the hospital van, which comes once a month to the factory. In all factories, first aid boxes and medical facilities are available, although some could only offer the way to the hospital in case of serious accidents instead of having proper first aid rooms. Two of the workers explained that they have due to the work some health problems like asthma or other respiratory problems. For more details, see Figure 5.9

<b>Factory</b>	<b>Are monthly health checks provided?</b>	<b>Are the proper medical facilities in case of accidents?</b>
Factory A	No regular health checks	First aid boxes and a first aid room
Factory B	No regular health checks	Yes
Factory D	Every 15 days a hospital van is coming to the factory	Have good medical facilities, in case of a critical accident the factory offers to bring them to the hospital
Factory E	No regular health checks	First aid boxes, some first aid rooms or just the option to go to the hospital

Figure 5.9

The health and safety aspects were in all factories positive. However, differences between the companies exist. Like in most other aspects on working conditions, factory D has to be pointed out due to its particular excellent performance according health and safety aspects. This can be again referred to its large assortment of implemented Codes of Conduct. The overall positive performance of the factories is likely due to the implemented Code. Like the theoretical discussion mentioned, improvements in health and safety aspects are one of the most common impacts of Codes of Conduct. Therefore, even in the case of this study, the implemented Codes of Conduct can be called to account.

## Labor Welfare

Indian workers have not many possibilities to protect themselves against accidents, illness or disability. The Provident Fund (PF) and the Employee State Insurance (ESI) support most workers. The Provident Fund is a mandatory requirement for employer and serves as a savings plan for retirement and emergencies. The Employee State Insurance permits workers to get access to health services from specified government facilities. See chapter 3 “the Employee State Insurance Act, 1948”. Workers need the account number of the deposit, because without the account number, workers can neither withdraw the funds nor have any proof of the deposit itself. Some management pay the prescribed amount into the PF but do not provide the workers with the account number, which results that workers cannot take advantage of it. In some cases, companies even do not provide PF at all to their workers. Around 80% of all interviewed workers received their account number and the factories were paying to the PF. Only 6, 6% of the workers did not get their account number. However, there were 13, 4% who did not have access to PF at all. See Figure 5.10

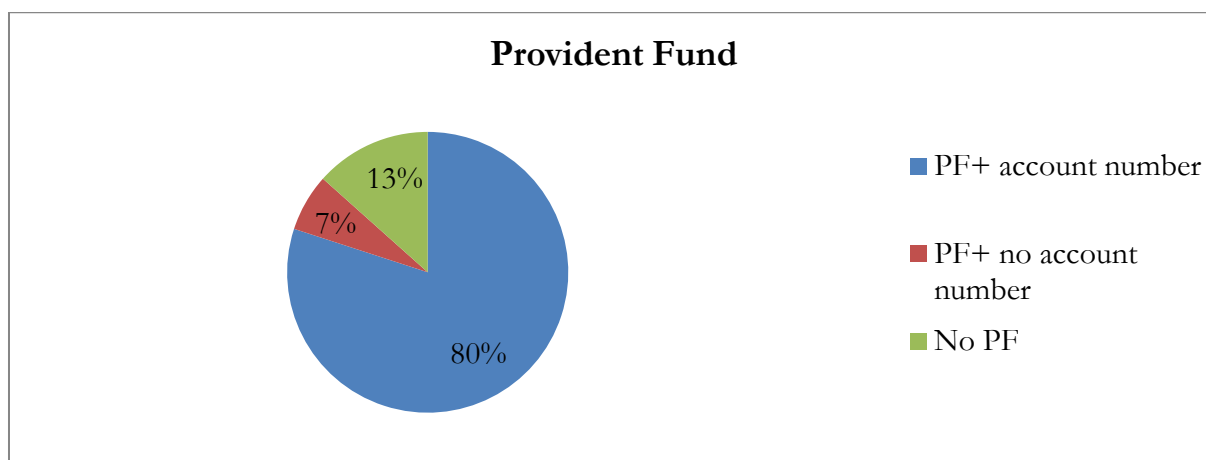


Figure 5.10

According to the data from the interviews, the majority of the workers received the Provident Fund and only 20 % had problems or no PF. On the one hand, these results follow the previous ones about health and safety issues and therefore are nothing surprising, however, if taking into account that 83% of the workers had no contract, these results are quite interesting. Most previous studies like the ETI impact assessment study found out that most benefits or impacts were only measured for permanent workers.

The following figure shows the details for each factory.

Factory	Total of worker (%)	Aware of Provident Fund (%)	Payments by Company and giving workers account number (%)	Payments by company but not giving account number to worker (%)	No PF (%)
Factory A	7	100%	100%	0%	0%
Factory B	7	100%	71%	29%	0%
Factory D	8	100%	100%	0%	0%
Factory E	8	50%	50%	0%	50%

Figure 5.11

Only half of the 30 interviewed workers reported that they have the Employee State Insurance. However, also these results are surprisingly for the same reason like with the PF, the fact that around 80 % are permanent workers. See Figure 5.12 for the details of each factory.

Factory	Total of worker (%)	% of workers reported to have ESI	% of workers reported not to have ESI
Factory A	7	71%	29%
Factory B	7	86%	14%
Factory D	8	39%	61%
Factory E	8	12,5%	87,5%

Figure 5.12

## Training and Promotion

Training and promotion in the garment sector is not common, even it is necessary. Workers from factory A explained that the management employs only workers who are already trained and do not need an extra training. However, in case the factory introduces a new machine, new working processes will be explained and showed. In factory B, workers get training before they start to work, even if they are not skilled at all. In factory D, they also get full training before they start their work. Two workers from factory E, who were working in a higher position, explained that they were trained the first six months; however, they did not get the full salary for this time. Other workers from factory E confirmed the same like factory B and D that they get proper training before they start to work. None of the interviewed workers could respond to the question if there is a system of promotion or if they ever received some bonus.

In general, the Tirupur garment and textile industry is lacking programs and trainings to enhance workers productivity. However, the above data show that there is a tendency to train workers

before they start their position. This can be traced back to a growing awareness that a skilled work force is an essential element for the growth of any specialized industry. Codes of Conduct support this development. The fact that none of the interviewed workers could response to the answer about a promotion system can be answered by the nature of the industry. The global garment value chain is like many other global manufacture industries highly fragmented and sub-contracting is also a common practice in these industry. Therefore, to integrate a system of promotion is difficult, if a worker is employed in a factory, where only few steps of the production process of apparels are done.

### **Verbal Abuse and Physical Violence**

None of the interviewed workers complained about verbal abuse like yelling, shouting or sexual harassment by supervisors or physical violence. In addition to that, on the supplier side, all managers explained that due to implemented Codes, the incidence of verbal abuse or physical violence has been reduced.

Although none of the interviewed workers complained about verbal abuse or physical violence, previous studies have proven that it still occurs on a high level in factories (see Children's Rights International; SAVE-Women workers in a cage).

The "positive" information about this issue has to be seen critical, due to the mentioned facts. Furthermore, it is also difficult to say to which extent implemented Codes are responsible or not (in case that the incidence of verbal abuse or physical violence has been reduced) for improvements.

### **Gender and other Discrimination**

All workers stated that in their factories is no discrimination based on sex, religion, caste, language, ethics, political ideology, trade unions or age. However, six workers from factory E mentioned that women get lower wages than men for the same work as well that men are preferred for the same work or for the better paid jobs like packing or labeling. The other interviewed workers responded that they believe that men get better wages, because they do harder manual work than them, which is often not the case. Furthermore, the study could not find any woman, who was charged as senior supervisor or even or a manger position. Data from other reports or papers (See: Oldenziel, 2001)reflect even a more negative perspective on this topic that men are better paid in many cases for the same work. Although, company A and C

employed equally men and women, it is difficult to attribute this directly to Codes, rather to the fact that women are seen as more productive in some process steps than men.

Finally it has to be mentioned that although the interviewed workers denied the presence of any real discrimination, especially female workers were shy and almost ashamed to respond to questions about discrimination, particularly in respect of discrimination based on religion, caste, sex or ethics.

From these results two scenarios can be concluded: Codes of Conduct are responsible for a decrease in discrimination against workers; or that Codes of Conduct have little to no impact on discrimination. The latter is more likely, due to the fact that previous studies corroborate this (see ETI-impacts assessment).

### **Freedom of Association and Collective Bargaining**

During the last years, the right of collective bargaining as well as the freedom of association is recognized in India but trade unions are still not accepted in the reality. Although freedom of association and collective bargaining exist legally, there are still enormous doubts and even fears on the employee and employer sides. Even the manager of the companies expressed that they see trade unions rather as something negative. For them trade unions are redundant, they refer that their supervisor are doing the same task, therefore worker do not need to be a member of a trade union. Furthermore, most of the manager would not agree that the right of collective bargaining or the freedom of association belong to labor standards.

Most of the workers responded that they do not know if their factory has a trade union or if they are allowed to join/form a trade union. They explained that in case of a problem they can visit their supervisor, who helps them. However, most of the workers explained that they do not care if trade unions exist, because they either do not know what a trade union could improve for them or they are even not aware what a trade union is. Furthermore, many workers, who were aware of trade unions, had a negative opinion on the existing trade unions. Only 1 of the 30 interviewed workers was a member of a trade union. The negative picture of trade unions, even from the workers, is caused by mainly two reasons. First of all, company managers try to prevent that workers become members or form a trade union by not supporting it or even prohibiting it. Second, trade unions, especially in Tirupur, miss credibility due to political affiliation as well as a high level of corruption (see Oldenziel, 2001).

It is clear, that freedom of association remains still a significant issue, even with implemented Codes of Conduct. Also the results from this study have shown that unionization occurs still on a low level in industries such as the garment industry. Even Codes like SA8000 have little impacts on freedom of association and the right to collective bargaining, although it is a central part of the Code.

### **Codes of Conduct and Social Audits**

One part of the research study was to gather information about the awareness of Codes of Conduct by workers, to get information about the implementation of Codes of Conduct and how the codes are monitored by social auditors. Managers from all four factories explained that they have different codes implemented and that they are monitored by social auditors, some from International Auditing agencies others from brand internal auditors. In the case of SA8000 the Social Accountability Accreditation Services (SAAS) audits the Code. SAAS is an accreditation agency founded to accredit and monitor organizations as certifiers of compliance with social standards. All four suppliers stated that Codes of Conduct are properly implemented and that they creating awareness of the Codes of Conduct to their labors. Furthermore, managers explained that due to implemented Codes of Conduct, the company itself is more aware about their duties against worker and environment. Moreover, workers are informed about the Codes of Conduct, at the beginning of their employment and through copies of the Codes on notice boards within the factories.

*„Due to Codes of Conducts, we know better which basic rights workers should have. Because of our Codes, the whole workplace for our workers is improved. We believe that workers benefits a lot from Codes of Conduct“*

*Company manager*

However, these statements differed from the answers received from the worker interviews. Although, 60% of all 30 interviewed labors were aware that their factory has Codes of Conduct, only 30% of them explained that they know what a Code of Conduct mean or what actually is included in it. Around 10% of the workers did not know at all what Codes of Conduct are or mean. See Figure 5.14. Except from company D, where all workers were aware of Codes, the distribution about awareness of Codes was quite similar like the overall performance of all companies.

Workers mentioned that they were not specially informed about Codes or what they mean. In case they knew, they explained that there are big boards in English and Tamil with rules and rights, but they said that they are not interested in it or cannot read it due to illiteracy.

Many workers stated that they do not care about things like Codes of Conduct, worker rights or trade unions as long as they get their salaries. The aspect of their salaries seemed to be one of the most important motives not to complain, due to the reason that they were afraid of losing their jobs in a state where employment is scarce.

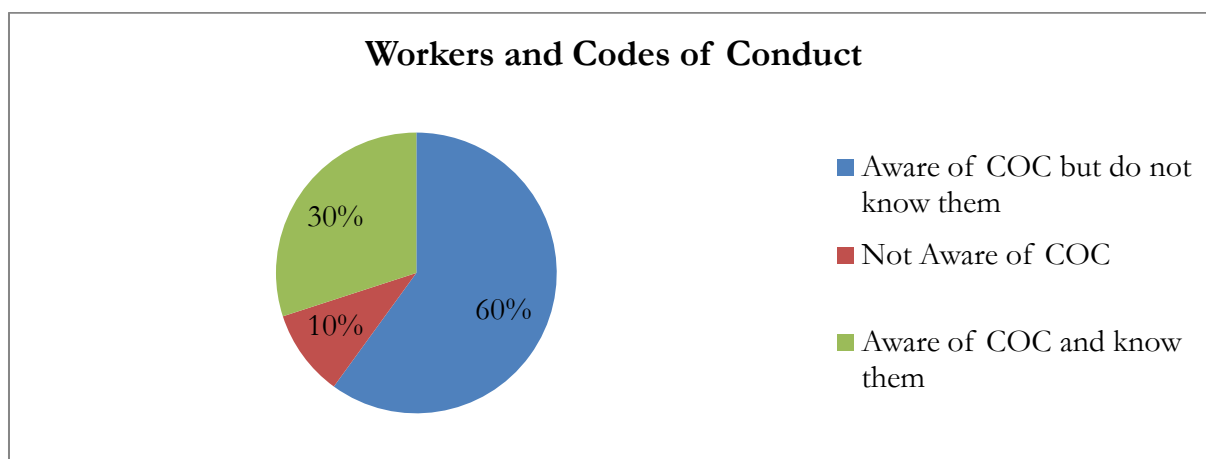


Figure 5.13

All four factories are audited by Social Auditors, who monitor the implementation of the Codes of Conduct. Either the buying company send their own auditors to the factories in case of brand/retailer implemented Codes or factories are visited by professional external auditing agencies such as SAAS. The purpose of these audits is to control the implementation of the Codes. In general, auditors visit the factories to control the several aspects of Codes which include the mentioned aspects above such as minimum wage, working hours, safety of the workplace etc. An important aspect should be the possibility by the Auditor to talk to the workers. Unfortunately, most of the audits are announced, so Auditors explained that it is a common practice that factories prepare themselves for the audits. This means that workplaces are properly changed and workers are trained what to say to the auditors or even threaten not to say anything critical about the factory's conditions. As a result, workers often do not tell the truth about the more sensitive issues like for example freedom of association or discrimination. However, there are also unannounced audits which answer the real purpose of the audits. In case of the four factories of the research, around 77% of the workers mentioned that they are allowed to speak with the auditors and only 23% of the workers stated that they are not allowed to talk to them. However, only 52% of the labor of the 77% who are allowed to speak with the auditors explained that they have a chance to talk to them. The remaining 48% explained that they do not have the chance to talk to them because managers avoid that worker and auditor meet. See Figure 5.14

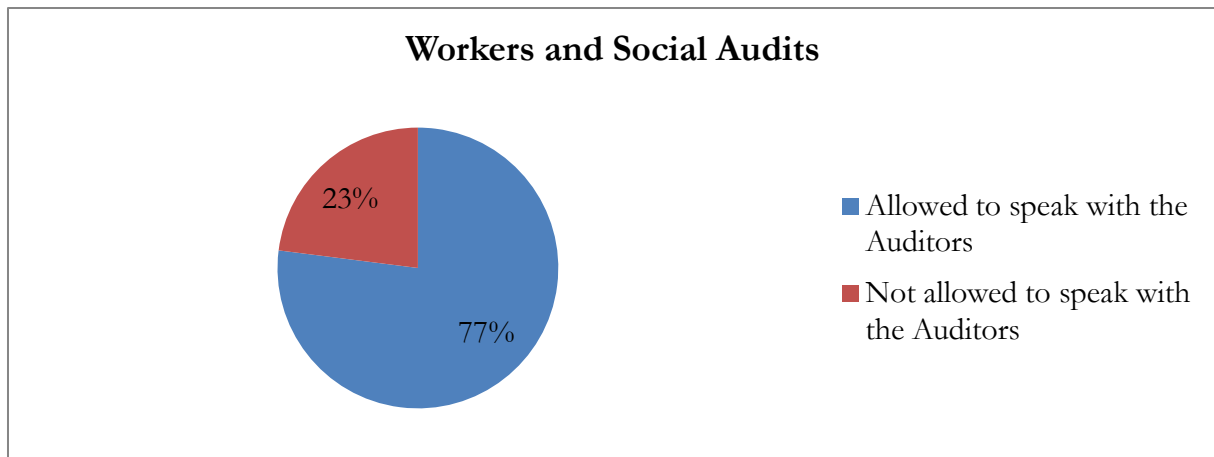


Figure 5.14

According to the social auditors, companies see Codes of Conduct in different ways. They explained that most of the supplier companies use Codes just as a business tool and do not understand the real nature of them. Therefore, in most companies there is a huge deficit in the process of implementation. The interviewed social auditors in Tirupur stated that almost none of the visited factories pass the actual guidelines of the different Codes and that they just pass because they give them time to improve weaknesses.

However, all auditors gave rather positive feedback about the codes itself. Due to an increasing demand for them from the buyer side, even small scale companies have started to implement Codes of Conduct, even when it costs them a lot of money. In their perspective workers benefit the most from them, because companies have to take care of legal laws,

*„If we would audit all factories exactly according Codes requirements, none of the factories would pass one of the Codes and we could not certify one of them“*

*Social Auditor, Tirupur*

social benefits and minimum wages among others. Although suppliers and buyers use Codes as a business tool to get more orders, work under legal conditions, and sell the products for a better price, in the end workers benefit too. All social auditors agreed that actually the Indian Labor Law is really comprehensive and sophisticated, but unfortunately due to government ambiguity, the monitoring process is not effective and Codes of Conduct, with their control systems, are necessary to guarantee labor standards.

The positive perspective from the auditors has to be seen in a critical way as well, because they work more in favor of the companies than of the workers, due to the fact that auditors view Codes of Conduct as a business too. They are interested that companies continue to implement Codes of Conduct and do not stop due to the high instance of failure rates.

These results show that a development on companies and buyers side exist according Codes of Conduct. Suppliers and buyers have realized that they need Codes of Conduct, to stay competitive, answer the growing pressure from multi-stakeholder-initiatives and satisfy consumers' demand for responsible produced products. However, the results have also shown that on workers side there is a huge lack of awareness about Codes and their rights.

Finally it has to be mentioned that not all impacts, which were measured, were results of the implementation of Codes. It was not always possible to separate changes caused by Codes from other influences.

## **Chapter 6: Discussion of findings**

In summary of the above shown findings of the undertaken research of the garment industry in Tirupur, we can see that there have been benefits for the workers due to implemented Codes of Conducts. However, their impacts have been uneven across Codes principles. The study identified that there have been greater overall impacts on outcome standards than on process rights. Particularly, the main impacts could be identified in areas of health, safety and minimum wages. In these aspects all companies had an overall good performance. These changes can be credited to the implemented codes of Conducts within the factories. All company managers mentioned that due to these codes, improvements in health, safety and minimum wages have been recorded for the workers. No significant changes could be recognized in relation to paid overtime and working hours, although these aspects are also part of outcome standards.

Furthermore, the results of the study show that there have been little to no impacts or improvements on process rights such as freedom of association, the right of collective bargaining, and discrimination or promotion.

The following part will discuss the results, by pointing out the main findings and their meaning related to Codes of Conducts and CSR. It will be divided by outcome standards and process rights.

**Outcome standards:** Across all suppliers, the research study could identify positive impacts for workers on health, safety and salaries.

**Health and Safety:** As previously mentioned in the findings chapter, in all companies workers reported a greater sense of personal security as a result of changes made. Company managers stated that due to codes safety and health issues have undergone a number of changes in the factories. These improvements can be directly credited to the implemented codes.

Another aspect related to health, were the employment benefits the workers received. The case study collected information about the access to PF and ISE by workers. It was discovered that the majority of the workers received at least one of each. This information is another confirmation that Codes of Conduct have measurable impacts on workers. However, what is even more interesting and exceptional is the fact that most of them were casual and non-permanent workers. This aspect conflicts with findings from previous studies, because they stated that non-permanent workers are less likely to benefit from implemented Codes of Conduct. The ETI study found that positive benefits are mostly limited to permanent workers. Reasons for this development could be the fact that these workers were not employed by third-party contractors. However, this argument could not be verified, therefore has to be seen with reservation and needs further research. It has to be acknowledged that due to limited time and resources this aspect could not be explored further.

**Salaries:** The results on minimum wages have also shown a positive performance in all four factories. All suppliers stated that due to codes, they have to now pay the prescribed minimum wage, as it is also indicated by SA8000 Code. Of course, state laws prescribe minimum wages too, but the enforcement is poor due to corruption and inefficiency. A correlation between Codes of Conducts and minimum wages is presumably, even if no proof was found, that codes led to a substantial increase of income. In this case no measurable differences were recorded between casual and permanent workers.

Furthermore, the findings of the study showed that the greater number of Codes of Conducts a company has implemented, the greater seem to be the benefits for the workers. Company D of the study represents this position as they had the best benefits for workers out of all.

**Process rights:** The study could not identify benefits or improvements regarding the right of collective bargaining, freedom of association or changes with regard to discrimination based on issues such as gender or ethnicity. There was no evidence detected that Codes of Conduct had an impact on workers in forming or becoming members of trade unions. The information received by the interviewed workers reflected the general picture in Tirupur in terms of unionization. Only 30% out of 350,000 workers are members in one of the trade unions. This is a very low number in comparison to other countries as well as manufacturing industries such as the fruit industry in South Africa (see Kizhisseri, 2006).

The study showed that no impacts or benefits of codes could be measured regarding discrimination. The factory workers interviewed reported that there were no issues of discrimination that they knew of. It is important to mention that the women were afraid they

might lose their job, and were not necessarily telling the whole truth. Previous research has indicated that discrimination in these factories is a reality, but regardless the findings from the ETI study state that Codes of Conduct do not have an impact on discrimination issues.

Similar findings in terms of outcomes, have been discovered by a research study on working conditions in Sri Lanka and India by the Center for Research on Multinational Corporations (SOMO) and the Clean Cloth Campaign in 2001 (Oldenziel, 2001). The case study in India was also conducted in Tirupur. Main improvements took place in areas of health and safety, and the most obvious violations were found in parts of working hours and overtime. Also in this study the results showed clearly that the right to collective bargaining and the freedom of association were barely implemented at all within the management policy and either in the workforce of the factories. The study also confirmed that most improvements are primarily related to physical aspects, which are the visible conditions of outcome standards. There are other research studies about working conditions in the garment sector such as a study by SOMO “Richer Bosses, Poorer Workers - Bangalore’s Garment Industry” from 2009. Most such studies have come up with similar results saying that benefits for workers are mostly limited on outcome standards and that Codes are lacking in terms of improving process rights.

One reason for these results could be the dominance of a technical or compliance perspective on Codes within the private sector. It seems to be that buyers, agents, suppliers and even auditors see Codes of Conduct as a technical tool to achieve social compliance based on outcome standards, such as technical standards do the same for quality. There is a lack of understanding that Codes of Conduct also intend to enhance the process through which workers claim their rights. However, there are also actors which have realized that enhancement of process rights is essential for better working and environmental conditions. See Box 6.1

A further reason for the limitation of codes’ benefits could be the failure of audits to measure non visible aspects such as discrimination.

*„There is not really an understanding on companies but either on peoples side why to behave responsible against environment and humans. Companies and people behave to selfish. That is why Codes of Conduct have so little positive effect. But we have to change our behavior and take more responsibility against environment and our society. We need more rights for workers which allow them to represent their positions”*

Box. 6.1

This argument follows Barrientos and Smith (2007) who explain that “Social Auditing is able to identify visible aspects of codes, such as health and safety provisions an wages, but less able to identify less visible or more deeply embedded aspects relating to workers’ rights and

discrimination” (Barrientos, 2007: 725). This supports the rising criticism that Social Audits fail to fully monitor Codes of Conducts.

The discussion of the findings from the research study in Tirupur, and other studies, shows that Codes of Conduct have positive impacts on workers environment, but these are mostly limited on outcome standards such as health and safety. Codes of Conducts seem to be inadequate to enhance process rights of workers. Reasons for this have been found in the failure of Social Audits. However, if this argument could be verified, it would also mean that not Codes of Conducts themselves are inadequate to improve working conditions, but that the monitoring system fails to ensure sustained improvements in working conditions. A further reason for codes’ limitations is the wrong approach of most stakeholders involved in the chain, who see codes as a business.

In the case of the garment industry in Tirupur, two things became clear. On the one hand, Codes of Conduct and their implementation and monitoring are faced with a lot of problems, while on the other some improvements have taken place, which contributes to a development of the industry and society. Better implementation of Codes of Conduct will not only effect the situation of workers in the factories, but also have positive impacts on the growth Tirupur as a whole. CSR initiatives integrate environmental and social considerations into the business of companies, which in turn benefit the society.

## **Chapter 7: Conclusion**

The aim of this exploratory research was to examine the effects and impacts of CSR-initiatives on workers in Tirupur, with a special focus on Codes of Conduct. The broader purpose of this research was to contribute to the current debate about the effectiveness of Corporate Social Responsibility initiatives. In order to address the research goal, the example of garment workers in India-Tirupur served as a case study.

Via the obtained data in the Tirupur study, a re-evaluation of the theories and analysis of general background information, the main research question could be answered:

What are the real impacts of CSR-programs and Codes of Conduct on workers in garment companies in Tirupur?

Corporate Social Responsibility initiatives and Codes of Conduct effected workers in the Tirupur garment industry mostly in relation to outcome standards, but had little to no impacts on process rights.

Conclusively, the empirical data from the research reflected many critics and doubts in the scientific debate about the effectiveness of Corporate Social Responsibility and its main instruments of which Codes of Conduct is a part. The findings of the research confirmed that Codes of Conduct meet their primary objective of benefiting workers in the production system but in a limited way. There is gap between what codes intent to improve and what they really achieve. An important finding was that Codes of Conduct are weak in terms of improving process rights and that social audits are too superficial to uncover the less visible issues. These findings follow the argumentation of Barrientos and Fichter.

One criticism of the debate was that CSR initiatives and codes fail due to the fact that they are designed in Western countries and do not take into account local realities and local stakeholders. The Northern Bias of Codes of Conduct could not be confirmed. Instead this study points out that it is not content and design of Codes that fail to address local realities, but rather that locals in charge are not capable to implement and transfer the Codes' contents properly. There is a lack of awareness about what stands behind the idea of CSR. A misunderstanding of CSR intensions and the outcome of this leads to failure. However, this should not be restrained on local stakeholders. Companies and brands use CSR instruments in most cases as a business or image tool, which does not aim at improving their employees working conditions as the main goal. Rather these companies focus on making a profit via the newly developed image of the company. Suppliers, buyers and retailers prioritize commercial imperatives and take a technocratic approach to Code compliance. This has little impacts in challenging embedded social relations or business practices that undermine labor and environmental standards.

CSR and its instruments evolved among other reasons, because social and political institutions have missed to become global at the same rate as the economy. However it seems to be that even CSR initiatives have to face with a lack of international governance of its own.

Apart from those negative aspects, it has to be highlighted that if codes are implemented properly, positive effects for workers will appear. Even though, the measured benefits for workers in Tirupur were only on the site of outcome standards, the improvements affected the health and safety situation of many workers on a large scale. A good example are the workers from company D in the research study, who stated that due to codes their life situation changed in terms of better health, safety and more money. Even though this is just one example, it is enough to show that codes can work.

In the future, the challenge will be to increase and improve the effectiveness of Codes of Conducts and other CSR programs on process rights. Furthermore monitoring systems need to

be strengthened or rethought. Awareness of worker's rights needs to be raised and the process of standardizing Codes of Conduct needs to continue. Finally, a system of effective sanctions needs to be included in order to make it more difficult for companies to violate laws and harm workers.

Further research will be necessary in identifying the factors which hamper the implementation of CSR-initiatives and especially Codes of Conduct. Moreover, the concept of social audits has to be revisited as it seems to be the case that parts of codes are not convertible into the reality due to the fact they are unable to measure these aspects. There is a further need to explore why Codes of Conducts affect mainly only outcome standards and less process rights. In addition to that, the economic, social and institutional context in which production takes place needs also additional research to measure factors which constrain worker's access to rights such as the right to collective bargaining.

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## Annexes

### Annex 1 - Sample Size

Respondents	Aims	Number of interviews
Factory workers	Explore their perspective on working conditions in the factories; obtain information of changes in the last years.	30
Company manager	Obtain a general profile of the company, implemented Codes of Conduct, as well as to obtain their perspective on problematic issues of Codes of Conduct, labor standards, and their relationship to their retailers.	4
Social Auditors	Get information about the process of monitoring and implementation of Codes. Further information of benefits of Codes	4
Trade unions, Tirupur Exporter's Association (TEA)	Obtain information about general problems the sector is facing and their perspective about the development of Codes and its impacts.	4
Staff members of SAVE	Get a information about Labor conditions, Codes of Conducts, problems, Companies profile and state legislation	3
Local Labor Department	Receive Information about state labor legislation and Labor Inspectors	1
Tirupur Steering Group	Get information about Social Audits	1
ILO, Partners in Change	Get a broad perspective on labor rights, Codes of Conducts and Cooperate Social Responsibility in India	2
<b>TOTAL</b>		<b>49</b>

## Annex 2 – Detailed Wages

Factory	Minimum wage +	No minimum wage -
Factory A	5p. 180Rs.(8h); 2p. 111Rs.(8h): 100% (71%)	0% (29%)
Factory B	2p. 167Rs.(8h), 4p. 100Rs.(8h): 86% (29%)	1p. 92Rs.(8h): 14% (71%)
Factory D	8p. 170Rs.(8h): 100% (100%)	0% (0%)
Factory E	2p. 625Rs.(8h), 1p. 200Rs.(8h), 1p. 150Rs.(8h), 3p. 100Rs.(8h): 87,5% (50%)	1p. 86Rs.(8h): 12,5% (50%)

p=person; h= hours; Rs. Rupees

## Annex 3 - Example Questionnaires

### Workers Questionnaire

- How old are you?
- From where are you? Which State, Region, City
- Are you married?
- Why have u decided to work here in Tirupur?
- How long have you stayed here already?
- Do you have a contract or are you direct worker?
- Do you have any contract paper, identity card, which proof that you work in the company?
- Working hours:** How many hours do you have to work each day?
- How many hours do you have to work per week?
- Do you have lunch/tea breaks? Are they paid
- Are you forced to work more than 8 hours per day
- Do you want to work more than 8 hours ?Why
- Do you have night shifts? How many?
- If yes, does the factory offer transportation to get home?
- Do you have to work on Sundays and national holidays too sometimes?
- Are there hostels facilities for workers? Are hostels proper to live?
- Do workers have to stay at the companies hostels?
- 18. Wages:** What is your wage per shift? Per day? Per month?
- Are you aware that there is a minimum wage, dictated by the State law?
- Do you get the double rate of wages for overtime as per law?
- Are the wages enough to run the family? If not why
- 22. Gender and other Discriminations:**
- Do women get lower wages than men?
- Are men preferred for better positions?
- Is the company providing proper provisions like maternity leave, child care etc for women? If you leave do you get your salary?
- Are there other discrimination? Because of: different cast, religions, language, ethics, political ideology, because of member of a trade union, age?
- 27. Health and Safety:**
- Insures the company that the workplace is safe?
- Do they provide you with caps, masks or gloves?
- Are there enough toilets for the workers? 10 for 100 workers?
- Is there good drinking water provided by the company?
- Are there fire equipments?
- Are the fire exists open? not blocked
- Gives the company training how to react in case of fire?
- Are the machines save to work with, or are there cases where it is dangerous?
- Are there monthly health checks for the workers provided from the company?
- Are the proper medical facilities in case of accidents?
- Are there first aid boxes? Is there enough medicine in? How many?
- Is a doctor available?
- Is there a Health and Safety Committee in the company?
- Do you have any health problems because of your work?

**42. Labour welfare:**

43. Are you aware of the Provident Fund (mandatory requirement for employer and meant as a savings plan for emergencies and retirement)? 5 years
44. Do you get the account number for the PF?
45. Is the company deducted PF?
46. If the company deducted PF from workers wage, does the company contribute the prescribed double rate of what workers contribute?

Factory	PF cutting and giving workers Account number (%)	PF cutting but not giving Account number to worker (%)	PF not cutting (%)	Total of workers (%)

47. Do you have Employee State Insurance (ESI) (that enables workers to get health services from specified government facilities)?after 3-6 months

Factory	% of workers reported to have ESI	% of workers reported not to have ESI	Total (%)

**48. Freedom of association and collective bargaining:**

49. Has your factory a trade union?
50. Are you member of a trade union?
51. Can you form a form of trade union to complain against irregularities from the company?
52. What is the company doing to avoid that workers form unions?
53. Were there any strikes of manifestations in your company?
54. Are you aware of the labour laws by the government?

**55. Training and promotion:**

56. Is the company providing work training before you start your work?
57. If the company implements new machines is the company given training for them?

**58. Verbal Abuse and Physical Violence:**

59. Are the forms of verbal abuse or physical violence?
60. Do you have to meet hourly production targets?
61. Are supervisors yelling and shouting at you?

**62. Codes of Conduct and social audits:**

63. Are you aware of Codes of Conduct of your company?
64. Does the company explain the workers about the COC?
65. When the social auditors are coming, do you have the chance to talk to them?
66. Is the company training you what to say when the auditors are coming?
67. Is the company forbid you to talk with the auditors?
68. Is the company chancing things just for the auditors?
69. What is the company doing outside the company? Supporting schools? Building hospitals? Planting trees? Supporting communities?

### **Company Questionnaire**

#### **Facts about the factory:**

1. Are you producing only for the export market or also for the domestic market?
2. How many square feet. do you have?
3. How big is your production capacity of garments per year?
4. What are your areas of specialization?
5. For which brands/countries do your factory mainly produces?
6. How many workers do you employ? How many workers are women?

Factory	Total	Male	Female	% of female to total workforce

7. From which states are most of your workers?
8. Do you know to which religion your workers belong? Hindu, Muslim?

#### **Discussion questions:**

9. How have you received the idea of Corporate Social Responsibility/Codes of Conduct/Social Auditing in your company?
10. If not, why? Go to question 27.
11. If yes, what is your perception of CSR?
12. What have you implemented because o CSR?
13. Which Certification or Codes of Conducts is your company using? (Worldwide Responsible Apparel-Production, Social Accountability International (SA8000), Fair Labour Association (FLA), Ethical Trading Initiative, Fair Well Foundation, Workers Rights Consortium, Joint Initiative on Corporate Accountability and Worker's Right).
14. Is your company using Social Auditing to review the Implementation/Codes?
15. Who is doing the Social Auditing?
16. How would you describe the situation before implementing CSR (Codes, Certifications) and Social auditing and now?
17. Has the company's situation improved or changed because of CSR?
18. Do you think there are negative aspects of CSR?
19. Do you and your workers benefits from it?
20. What are the main changes? Which areas, aspects have changed?
21. How much do you spend for social Auditing?
22. Do the Brands support Social Auditing? If yes, how?
23. What do you think how should be the future according Social Auditing and the contribution of the brands in this process?
24. What do you expect from the buyers to improve labour standards? How should they be involved in this process?
25. What do you think the buyers could offer your employees?
26. What would you like to offer your workers?
27. Why have you not received the Concept?
28. What hampers it?