CHAPTER IV
A Simple Theory of HRM

4.1 Introduction

One of the objectives set for the present study is to build a simple theoretical model of HRM. The necessity of a theory to facilitate practices on the one hand, and its absence, on the other, prompted the researcher to undertake this exercise of identifying the nature of functional relationship between HRM practices and firm performance, which constitute the core and crux of the theory of HRM. The task involves the identification of the independent variables – HRM practices in the present case – and the dependent variables – competencies of employees, and firm performance, in the present case – and then their interrelationships. In it, one must be able to explain clearly the kind of functional relationship that exists between each and every independent variable and the dependent variables. Whether the dependent variables are a direct function or an inverse function of the independent variables ought to be clear. The relative impact of independent variables on the dependent variables ought to be identified, so that it would be useful to the practitioners to manipulate the appropriate independent variables to effect the required change in the dependent variables. The exercise also involves the identification of the assumptions on which the proposed theory is built. That means, the theory holds good only under certain conditions, not in all conditions. This is the case with the theories of social sciences. That is the reason why all the laws in social sciences are invariably prefixed or suffixed by the qualifying phrase “other things remaining constant”. The “other things”, refer to the factors / variables capable of influencing the
dependent variable but are assumed to remain constant in the given context. Probably, this is the case with theories involving multivariate functions. The theory on hand is also a multivariate function.\textsuperscript{43}

The next step, after identifying the dependent and independent variables that constitute the HRM theory on hand is to explain the functional relationship between each and every explanatory variable and the dependent variable. In other words to build the theory, it is necessary to explain with economic reasoning how precisely each individual independent variable influences or enhances firm performance. And to be of operational use to the SMEs, the explanation should focus on the process how precisely a given change effected deliberately in independent variables by HR persons in bringing about change in the dependent variable, and not to explain the mechanistic relationship between the two. So, the next step is to explain the process of change. But before taking up that step, it is necessary to point out that theoretically there exists a direct relationship between the independent variables and the dependent variables considered in building this simple theoretical model of HRM. Accordingly, firm performance becomes a direct function of the independent variables considered. However, in the absence of empirical data related to the quantitative aspect of the impact, no attempt is made to quantify the changes in the independent variables and also the results and changes in the dependent variable. In sum, the theory can be stated as "other things remaining constant, firm performance, normally varies directly with HRM practices".
4.2 Explaining the Process of Change

As far as the simple theory of HRM is concerned, the process of change referred to above constitutes its core. An attempt is made here to explain the process of how a given change in each of the explanatory variable considered, brings about change in the variable that gets explained. But, before beginning this exercise of the process that lies between HRM practices and firm performance, it is necessary to point out that it takes into consideration both the resource-based view of the firm and the systems view of HRM. And it should also be pointed out that the firm-performance is a highly aggregated variable, too complex to be explained without using the various quantifiable indicators of firm performance, like balanced score card etc. Having had no access to such data and information, the research attempts to explain the directional aspect of the functional relationship, but not its dimensional aspect. Further, it is to be mentioned that the processes through which the relationship between the independent and dependent variables is explained, include such variables as capabilities / competencies, collectively called KSAs, core competencies of employees, human capital of employees and owners, competitive advantages, and innovation and risk-taking (entrepreneurial performance).

HRP and Firm Performance

HRP is the basic variable in HRM. As already discussed, the long term objectives set by strategic planning, and the strategies to achieve the long term goals, with the ultimate objective of augmenting firm performance, cannot be achieved by the strategic planning alone. It needs to be complemented by people factor with which HRP is concerned. HRP acts as a
dependable tool for providing the organization with the required competencies and core competencies to attain the business goals and objectives. With three kinds of linkages, HRP contributes to the competencies, competitive advantage and firm performance.

(1) Linking the planning process: HRP contributes to firm performance by linking itself to strategic planning. It contributes to the success of strategic planning through two ends – front end and back end. The former provides a set of inputs into strategic formulation process in terms of what is possible, that is, whether the types and numbers of people required are available to pursue a given strategy to achieve competitive advantage and firm performance. If there is mismatch between what is required and what is available, that gap can be filled in by pressing into service the other HRM practices like training and development etc. Whereas, on the back end HRP is linked to strategic planning in terms of implementation concerns. Thus, through front end concerned with the formulation, and back end concerned with execution of the strategy, HRP contributes to the competitive advantage and firm performance not directly, but through employees' KSAs.

(2) Mapping organization’s human capital architecture: It is concerned with aligning the two processes namely HRP and strategic planning, and its focus is on the development of core competencies which help the firms to gain competitive advantage over their rivals and leverage this advantage by
learning faster than others. The core competencies which cannot be replicated by the rival firms, contribute to firm performance.

(3) Ensuring fit and flexibility: It refers to the alignment of HR policies and programmes with the requirements of a firm’s strategy. It is referred to as fit and flexibility. Fit has two dimensions – external and internal. External fit focuses on the connection between the business objectives and the major initiatives in HR. On the other hand, internal fit means that HR practices are all aligned with one another to establish a configuration which is mutually reinforcing. And flexibility refers to HRP’s focus on organizational capability to act and change in pursuit of sustainable competitive advantage.

In this background of the connection between HRP and strategic planning, it may not be unreasonable to say that other things remaining constant, firm performance varies directly with the efficiency and effectivity of the link between HRP and the firm’s strategic planning.

Recruitment and Selection

The competitive advantage of a firm and its performance, inter alia, depend on the ability of the firm to attract and absorb the kinds of people actually required for its efficient and effective functioning. It all depends on how precisely the persons recruited and selected are quite in keeping with job specifications and job descriptions. An organization with right people in terms of KSAs required in right places and also with some core competencies, gains competitive advantage and through it, its performance. Thus, we can say that
other things remaining constant, firm performance varies directly with the quality of recruitment and selection.

Human Capital

Human capital, an intangible capital, has direct bearing on a firm’s competitive advantage and its performance. Human capital of a firm affects its performance in two ways: First, directly through the KSAs of people, and second, through its impact on the effectiveness of HRM. Further, it positively influences firm performance not only through the employees but also through the owners / management. It is quite reasonable to assume that owners and employees possessing higher human capital will be able to contribute more to firm performance than the owners and employees of a firm with lower human capital. Thus, it is quite reasonable to say that other things remaining constant, firm performance varies directly with the quantity and quality of the firm’s human capital.

Training and Development

Probably, this is one of the most important HRM practices, that has immense impact on a firm’s competitive advantage and firm performance. Temporally, it has two dimensions – present and future. With all the care taken in recruitment and selection, a firm may not be able to get persons with the KSAs required currently. The gaps in KSAs of employees can be filled by well planned training programmes. Given the changes and challenges occurring in the business world, the KSAs quite apt for the present, may not suit the emerging changes. This aspect is taken care of by the development component of training and development. Thus, employees with the KSAs which a firm demands in the present and in the future would be in a better
position to contribute to the competitive advantage and firm performance. Thus, the need based, well planned, and effective training and development programmes will be positively associated with firm performance. Is it not reasonable to see such a positive association between training and development and firm performance?

Performance Appraisal

Performance appraisal too has its bearing on the competitive advantage and firm performance. On the one hand, it enables the employees to know about the levels of their KSAs as reflected in the tasks or processes which they perform. And on the other hand, the employers come to know the nature and extent of human capital available in the firm. The former use of performance appraisal enthuses the employees. If there is a conducive environment in the firm, to augment their competencies, so that they can attract higher compensation, incentives, rewards, recognition, etc. which contribute more to productivity, competitive advantage and firm performance. On the other hand, the latter use enables the employers to decide about the compensation and incentives-related matters based on employees performance, and more than that, it helps them to define the need, intent, and content of the training programmes, which together in turn, enhance the capabilities, competencies, and productivity of the employees. All these things, put together influence the competitive advantage and firm performance. If performance appraisal is done systematically and regularly at predetermined intervals, it will be able to contribute to firm performance.
Compensation

Compensation is a basic factor which the employers generally use to attract and retain persons with higher levels of KSAs and also core competencies, which, in turn, directly augment productivity, competitive advantage and firm performance. Of late, under the impact of multinationalisation, MNCs have been attracting away the highly skilled persons from the local firms. From the point of view of employees, an encouraging and fair compensation acts as a major incentive for their commitment and determination to work in the direction of enabling the firm to achieve its vision, goals, and objectives, implying improvement in firm performance. So, other things remaining constant and favourable to the firm, compensation will have positive impact on firm performance.

Incentives and Benefits (motivational measures)

In the present work, motivational measures are discussed under "Incentives and Benefits". They have direct bearing on employees’ willingness and commitment to work in the larger interests of the firm. Some of them have cost implications and some of them do not have any cost implications. For example, merit pay, bonus, overtime allowance, free or subsidized commodities and services, food vouchers, cafeteria, free transport, leave travel allowance, leave with pay etc., have cost implications. Whereas, items such as cordial human relations, communication of the goals and objectives effectively, participatory decision-making, public recognition and appreciation of good work, physical and verbal pat, flexi-time, etc., do not have cost implications. But both of them, if planned and managed properly will enhance competency and commitment-based competitive advantage and
firm performance. With some exceptions, these factors promote firm performance, by giving due recognition to the concerns of the employees.

Human Resource Development (HRD) prepares an individual to acquire more knowledge to produce better quality and number of goods in a stipulated period and about the behaviour. Some of the organizations believe in training as a vital tool for individual and organizational development. It boosts the morale of the employees and creates a sense of belongingness which ultimately increases their interest and commitment to the organization.

Nadler (1970) defined HRD as a series of organized activities, conducted within a specified period of time, and designed to produce behavioral change. Some of the common activities he identified within HRD are training, education and development. He identified training as those activities intended to improve performance on the job, education as those activities intended to develop competencies not specific to any one job, and development is preparation to help the employee move with the organization as it develops.

McLean and McLean (2001) have offered the following global definition of HRD after reviewing various definitions across the world:

"Human Resource Development is any process or activity that, either initially or over the longer-term, has the potential to develop adults' work based knowledge, expertise, productivity, and satisfaction, whether for personal or group/team gain, or for the benefit of an organization, community, nation, or, ultimately the whole humanity" (p1067)

The concept of HRD is of comparatively recent origin. HRD is a process which consists of a series of activities conducted to design behavioral
changes in a specific period. Lippitt (1978) points out that HRD as a system depends on:-

1. Work itself which generates a higher degree of responsibility for the employees;
2. the individuals personal and professional growth;
3. the improved quality output as a result of increased responsibility;
4. organization as an open system.

Focus on all these aspects is what HRD is all about. Rao (1985) defines HRD as "a process in which the employees of an organization are continuously helped in a planned way to (a) acquire or sharpen capabilities required to perform various tasks and functions associated with their present and future expected roles; (b) develop their general enabling capabilities as individuals so that they are able to discover and exploit their own inner potential for their own and/or organizational development purpose; and (c) develop an organizational culture where superior subordinate relationships, team work, and collaboration among different sub-units are strong and contribute to the organizational health, dynamism and pride of employees".

HRD as a function consists of various activities related to training and development and performance appraisal. In fact, the appraisal helps in identifying potential through appraisal feedback and interviews and training helps in actualizing the potential. All aspects of appraisal and training, therefore, play a significant role in achieving the individuals growth and development. In this respect HRD is more a proactive supportive function because the organization has to take a lead in helping the people to grow and realize their potential.44
As per the formal interviews conducted with the well-established Training Agencies and also a few HR professionals associated with Garment Companies, it is observed that they are adopting their own HRD systems which are generally need-based and tailor-made, which are as follows:

(i) Skill Development – Generally, the Garment Companies prefer to recruit women with some minimum skill, viz., tailoring skill whereas majority of Companies recruit raw hands and train them on such skills.

(ii) Providing the soft skills like motivation, sense of belongingness, attitudinal development, team work, quality awareness, safety and hygiene practices and so on.

Presently, many international buyers viz., GAP, H & M, NIKE, ADIDAS, LEVIS etc., are insisting on providing training to the women employees especially from the point of view of safety and health and prevention of sexual harassment. Accordingly the requirements as per SA-8000 and COC audits have gained more prominence.

4.3 SA-8000: A vital tool for garment industry

With quota restriction coming to an end with effect from 1st January 2005 the competition in the field of textile business in general & garment industry in particular has increased manifold. Though the quota restrictions are removed non-tariff trade barriers (eg, in the name of consumer safety,
eco-labelling, social accountability, etc) are fast replacing quotas. With introduction of such non-tariff trade barriers, competition in garment sector is no more restricted in terms of cost, quality, and delivery schedule. The overseas buyers (specially the buyers from USA & Western Europe) have become increasingly concerned over ethical sourcing of products and not just price alone. Buyers insist the supplier to conform to certain social responsibility norms, eg, non-engagement of child & forced labour, payment of minimum wage, provision of safe & healthy working environment, etc.

It is needless to say that in this highly competitive market, customers all over the world have become so demanding increasingly in this respect, that very soon meeting this social accountability norms will be no longer a competitive advantage but will become a sheer necessity in getting overseas market access & customer satisfaction. Social accountability (SA-8000) the first global, & voluntary ethical standard about corporate social responsibility. The standard is first published in late 1997 & subsequently revised in the year 2001. Its objective is to ensure ethical sourcing & production of goods and services, through providing assurance of rights of the workers involved in the production processes & promoting standardization of the work places in all sectors of business.

Salient features of SA-8000

The SA 8000 standard & verification system is a credible, comprehensive & efficient tool for assuring humane work places.

- The requirement of this standard shall apply universally with regard to geographic location, industry sector & company size.
• Involvement of stakeholders including participation by all key sector in the SA 8000 system, workers, trade unions, company, socially responsible investors, NGOs & government.

• It governs factory level management system requirements for on-going compliance & continual requirements.

• Harnessing consumer and investor concern through SA 8000 certification & corporate involvement programme by helping to identify and support companies that are committed to assuring human rights in the work place.

Thus SA-8000 is increasingly becoming an essential pre-requisite in market access and customer satisfaction. Accordingly, well-to-do business icons throughout the world have already initiated actions for implementing SA-8000.

Child Labour: This Standard prescribes that a company shall:

• Not engage in or support the use of child labour.

• Undertake remediation programmes for the children working.

• Not employ the young workers during school hours and that combined hours of daily transportation (to & from work and school), school & work time does not exceed 10 hours a day.

• Not expose the children or young workers to situations in or outside of the workplace that are hazardous, unsafe or unhealthy.

Forced Labour: This standard prohibits:

• Engagement of forced & compulsory labour.

• Holding of the personal deposits by the employer, as guarantee.
• Holding up of wages as security.
• Restraining the employees after the shift.

Health & Safety: SA-8000 standard demands:

• Safe& healthy work environment.
• To take adequate measures for prevention of accidents & injury to health.
• Clean bathroom & access to potable water.
• Appointment of management representative responsible for health & safety of all personnel and accountable for the implementation of the health & safety arrangements of these standards.

Religion 6.0 Disciplinary Practices: SA 8000 Standards prohibits:

• Corporal punishment
• Mental or physical coercion

Verbal abuse of workers 7.0 Working Hours: SA-8000 prescribe that a company shall comply to:

• Maximum 48 hours per week.
• One day off for every 7 days period.
• Overtime work shall be voluntary & does not exceed 12 hours per week.
• Overtime work is always remunerated at a premium rate.

Compensation: SA-8000 standard stipulates that the company shall ensure:
• That the wages are paid as per industry or legal minimum standards.
• That the wages are sufficient to meet the basic needs.
• That the wages are paid regularly & in a transparent manner.
• That the wages are not deducted for disciplinary purposes.

Management Systems: This standard warrants that the top management shall:

• Define policy for Social Accountability.
• Periodically review the policy.
• Appoint a senior management representative to monitor the compliance of the standards.
• That the requirements of the standards are understood & implemented at levels.

Certification to SA 8000: Certification is the process by which facilities submit to an independent audit against the SA 8000 Standard. If a facility meets the standard, it will earn a certificate attesting to its social accountability policies, management and operations. Companies that operate production facilities can seek to have individual facilities certified to SA 8000 through audits by one of the accredited certifying bodies.

Implementation methodology: Implementation of SA 8000 in a manufacturing organisation involves following steps:

1. Conducting Awareness Programme: At the very first stage the aspiring company needs to conduct an awareness programme for top, middle &
worker level to make them understand the basic concept of SA 8000, its benefit & role of individuals in the implementation process.

2. Formation of a steering committee & selection of MR who irrespective of other responsibilities shall be responsible for ensuring that the requirements of this standard are met.

3. Survey the existing system against SA 8000 system & gap analysis. This includes survey of workers age, salary, PF, ESI, work environment, etc.

4. Formulation of remedial plan, policy, and documentation of procedure, as required by this standard. The organisation must generate & maintain all necessary records.

5. Identification & provision of required resources and creation of facilities to comply with the various requirement of the standard.

6. Establishing and development of grievance handling system.

7. Review of applicability of various National & State Laws for each requirement vis-à-vis determining customer requirements code of conduct, if any.

8. Implementation of the documented system in a phase wise manner through involvement of all.

9. Gestation period depending on the size & status of the organisation.

10. Conducting internal quality audit by a group of trained auditors. Ensure corrective action for the non conformance identified during audit.

11. Conducting Management Review Meeting to review the adequacy of the company's policy, procedures and performance results & verify the effectiveness of the corrective action taken.
12. Selection of certification bodies (accredited with SAI); pre-certification (optional) & followed by final certification.

The certificate issued is valid for 2 - 3 years subject to Surveillance Audit every six months to one year.

Benefits of Implementing SA 8000: It has been observed by Dr Kawta Rohitartana of Thammasat Business School that an apparel manufacturing unit in Vietnam after certification was able to increase capacity utilisation from 71.8% to 87.6% and reduce overtime by 28% with simultaneous reduction in average cost of stitching a garment by around 11%. Further SA 8000 certified manufacturing facilities definitely enjoy a competitive advantage in getting the access in the global market through creating better corporate image. However there are other reasons also for why SA 8000 is getting increasing popularity at international level. Benefits of implementing SA 8000 are as follows:

Benefits for the business:

- Enhanced company & brand reputation through adherence to this standard.
- Advantage in marketing the product globally, especially in Europe & America who are increasingly purchasing the products from socially responsible suppliers and manufacturers.
- Improved staff morale & creation of a more committed work force.
- Greater employee retention and less absenteeism.
- Better relationship with the unions & other stakeholder.
- Increased productivity due to employee's loyalty & commitment.
- Increased productivity leads to fewer overtime hours, lower overhead costs & lower production costs per piece.

Benefits for the consumers & investors:

- Clear & credible assurance for purchasing decision.
- Identification of ethically made products & companies committed to ethical sourcing.
- Assurance for the investors of the company regarding compliance to the laws of land.

4.4 The apparel industry and codes of conduct:

Transparency

As has been stated in Chapter II, an important issue regarding the implementation of codes of conduct is their transparency, or the extent to which foreign contractors and subcontractors, workers, the public, NGOs and governments are aware of their existence and meaning. Information gathered by Department of Labor officials during field visits regarding transparency of U.S. corporate codes of conduct is reported in this section, grouped around the following issues:

- Is the foreign supplier aware of codes of conduct developed by U.S. garment importers? Is the supplier familiar with the code of conduct of the U.S. garment importer for which it is producing?
- Does the U.S. company that originated the code of conduct hold training sessions with foreign suppliers (contractors, subcontractors, buying agents) to explain the code? Does the U.S. garment importer
require a signed statement/certificate of compliance from the foreign supplier indicating that the code has been received and understood?

- Are codes posted in the factory in places accessible to workers? If the code is posted, is it in English or in the native language of the workers?
- Is there a requirement to inform workers about the code? If so, do workers have to be informed in writing, orally, or both?
- How well has information about the codes of conduct been disseminated to foreign government officials, NGOs and the public in general? Have there been efforts to inform the public about the codes of conduct?

Foreign Suppliers’ Awareness About Codes of Conduct

The voluntary survey of U.S. retailers and garment manufacturers indicated that most U.S. corporations with policies regarding labor standards and child labor had distributed them to their suppliers. A smaller set of respondents indicated that they had actively engaged in communicating their policies to contractors, plant managers, employees, and workers.

In the six countries, Department of Labor officials visited 70 producers of garments currently exporting or producing for contractors who are exporting to the United States to learn their degree of awareness about codes of conduct. The majority of the suppliers interviewed produced for one or more U.S. importers identified, either from the survey described in Chapter II or from other public information as having codes of conduct.

Managers of two-thirds (47 out of 70) of the plants visited that currently
export to the United States indicated that they were aware of codes of conduct prohibiting the use of child labor, particularly of the codes issued by their U.S. customers. Based on the company visits, awareness among managers about codes of conduct was highest in El Salvador (all 8 companies visited knew about the codes) and Guatemala (6 out of 9 companies knew); in three other countries visited - the Dominican Republic, Honduras, and the Philippines, managers interviewed were more evenly divided between those who were aware and those who were not; in India, only 2 out of 7 producers visited were aware of U.S. codes of conduct. However, only 34 of the 47 companies that indicated they were aware of codes of conduct had available a copy of the code of conduct (or contractual provision) that they could show and discuss with the visiting Department of Labor official. Thus, managers at less than half of the plants visited were able to produce a code of conduct upon request.

• In India, Department of Labor officials found only two companies - Ambattur Clothing Company and Orient Craft that were aware of the codes of conduct of U.S. apparel importers, and both had copies. These companies produced for large U.S. apparel suppliers Liz Claiborne, The Gap, Ralph Lauren, Sears, and JCPenney.

The five other Indian plants that were visited which produced for the U.S. market were not aware of U.S. codes of conduct.

Training and Supplier Certification

Several U.S. corporations responding to the survey said that they held training sessions with suppliers about their codes of conduct. Others,
particularly retailers said they inform foreign contractors about their policies/codes of conduct and require each foreign producer to sign a document stating that it has been informed about the code of conduct and its meaning.

Department of Labor officials found that formal training of plant managers and supervisors about the codes of conduct was not common in the six countries visited. Only 14 out of the 47 companies visited where managers indicated awareness about codes of conduct stated that they had received some formal training regarding the U.S. companies' codes of conduct, although it was evident that the intensity of the training varied widely from company to company.

- The clearest example of a formal training program was in the Dominican Republic, where contractors stated that Levi Strauss had conducted training on codes of conduct for managers and supervisors of plants throughout the country and had provided the information in both English and Spanish.

  For example, RK Fashion is a Dominican-owned plant located in Zona Franca La Vega that produces only for Levi Strauss; different levels of managers/supervisors received and continue to receive periodic training from Levi Strauss on the implementation of that company's code of conduct.

- In India, Triburg Consultants, an Indian agent, administers Liz Claiborne's human rights guidelines. Triburg conveys the guidelines to
the supplying company and discusses them with management. Some of Triburg's staff have gone to New York for orientation sessions and total quality management programs conducted by Liz Claiborne. Upon their return, they communicate the information to the Liz Claiborne contractors.

Some suppliers indicated that they had to certify in writing to their U.S. clients that they had received and understood the codes and agreed to abide by them. For example:

- In India, Triburg Consultants, an agent for Liz Claiborne and others, stated that they receive human rights guidelines and mission statements from Liz Claiborne. Agents discuss the guidelines with the suppliers and a common understanding is reached. Suppliers then agree on the guidelines and each signs a document stating that it understands them.

  Associated Indian Exports, an agent for Sears and other U.S. companies, followed similar procedures regarding the implementation of Sears' Vendor Certification.

Posting of Codes of Conduct

A concrete example of transparency of codes of conduct is the voluntary posting of codes of conduct at the workplace, preferably in the native language of the workers. In two of the countries visited, El Salvador and Honduras, there is a legal requirement that companies post their internal regulations, including starting and ending time, rest periods, and disciplinary
rules. These internal regulations tend to be very detailed and instruct workers on a range of issues such as rest periods, talking, use of bathroom facilities, and penalties for offenses such as tardiness, absences, or not meeting their production quotas. Thus, workers perceive internal regulations as rules to which they are bound in the workplace.

- As noted above, posting of codes of conduct was common in El Salvador. Department of Labor officials viewed codes of conduct in Spanish in the following plants:


  Mandarin, a Taiwanese owned and financed factory supplies garments to Eddie Bauer (Spiegel), The Limited, Liz Claiborne, JCPenney, Casual Corner, and The Gap, among others. The Gap, JCPenney and Eddie Bauer account for 70 percent of production. The Gap’s code of conduct is posted at the entrances to the plant.

  Textiles Lourdes Limitadas, a subsidiary of Fruit of the Loom, exports all of its production to the United States. Fruit of the Loom’s code of conduct is posted at the plant.
Hilasal, located in the Export Salva Free Trade Zone, Santa Ana, is a joint venture (50-50) between U.S. and Salvadoran investors. The plant manufactures for Sears, Liz Claiborne, and Hampton Industries; Hampton accounts for 80 percent of the plant's production. Hampton's code of conduct in Spanish is posted at the entrances.

Codes of conduct were also posted at Industrias Caribbean Apparel, S.A. (JCPenney's code of conduct), C.M.T. Industries (Lily of France's and VF Corporation's codes of conduct), and Primo Industries (Liz Claiborne's code of conduct).

The only plant of eight visited in this country where a code of conduct was not posted was Confecciones El Pedregal, a subsidiary of Sara Lee.

Workers' Awareness of Codes of Conduct

Although a significant number of suppliers knew about the U.S. corporate codes of conduct, meetings with workers and their representatives in the six countries suggested that relatively few workers are aware of the existence of codes of conduct, and even fewer understand their implications.

The lack of awareness on the part of workers about codes of conduct may be in part attributable to the relatively low level of effort on the part of producers to inform their workers about the codes. Management regards codes of conduct and compliance with labor law to be a management problem, and approaches monitoring and supervision of these matters as
management responsibilities. Workers are not seen by management as having a role in these activities.

Department of Labor officials were told by management of 22 of the companies visited that they informed their workers about codes of conduct; 13 of the companies indicated that they inform their workers about codes of conduct orally, while only 9 stated that they do so both orally and in writing.

Out of all of the plants that were visited in the six countries, there was only one example of a producer that had an explicit policy of informing workers about the code of conduct of its U.S. customer:

Dissemination of Codes of Conduct

While it is most critical that overseas contractors, subcontractors and their workers be familiar with corporate codes of conduct, knowledge about their existence and implications by others, host governments, NGOs, business organizations can also be helpful in enhancing their effectiveness. Department of Labor officials found a mixed record regarding the extent to which these entities were familiar with codes of conduct and their implications.

- In India, Mr. Bajpai, Executive Director, American Business Council in New Delhi, who represents the interests of U.S. companies in India, indicated that he was not aware of buyers' codes of conduct, and requested more information on them.

  Mr. Anand, Federation of Indian Chambers of Commerce and Industry (FICCI) in New Delhi, said codes of conduct are not shared
at the Chamber of Commerce level. However, at the factory level, companies are trying to comply and implement the codes.

In Punjab, all people interviewed including government officials, factory owners and managers, union officials and workers did not know anything about U.S. companies' codes of conduct, policies or guidelines.

Monitoring

U.S. corporations responding to the Department of Labor survey described a variety of ways their codes of conduct were monitored. Several of the respondents referred to "pre-contract" evaluation of prospective contractors to identify and screen out potential violators of codes of conduct. Others referred to active monitoring schemes conducted internally, externally, and by outside auditors or NGOs. Still other respondents said that monitoring of their codes of conduct is carried out through contractual arrangements, whereby the contractor guarantees or certifies (in writing) that the goods have been produced in accordance with the child labor policy of the importing firm.

Information regarding the monitoring of codes of conduct gathered by the Department of Labor during field visits is reported in this section, clustered around the following issues:

- Are the labor standards components of the codes of conduct, including child labor, monitored? How is the monitoring carried out?

- Are foreign plants subject to on-site internal visits (i.e., visits by U.S. company personnel to subsidiaries and foreign contractors), external
visits (i.e., visits by U.S. importers and foreign buyers/agents to foreign contractors) or auditor visits (i.e., visits by paid auditors or consultants) to monitor their production facilities? What is the purpose of such monitoring? Are monitoring visits announced or unannounced?

- With whom do monitors speak during visits? Do they speak with managerial personnel only, or do they also speak with workers? If they speak with workers, where do they do it? Are managers present when monitors speak to workers? Do monitors speak the native language? Are interpreters used?

Monitoring for Quality

Monitoring of foreign producers including plant visits by U.S. importers is a routine procedure in many industries. The garment industry, where the appearance of a product and timeliness of orders are critical, is well-known for the close monitoring of foreign producers by importers and their agents.

Purpose of Monitoring

All 70 plants exporting garments to the United States visited by Department of Labor officials confirmed that they are subject to regular visits by their U.S. customers or their agents to verify product quality and to coordinate production and delivery schedules. About 90 percent of the companies visited stated that monitors/inspectors verifying product quality generally also examined working conditions in the plant, with emphasis on safety and health issues (climate control, ventilation systems, fire escapes, etc.). Among the exceptions were:
In the Dominican Republic, Bonahan Apparel and Hingshing Textile companies, located in Zona Franca Bonao, received visits from their U.S. customers, including Chaus, Tuxedo Junction, and Jacob Sigel. According to the companies' administrator, Mr. Chunciob Lim, these visits were only related to product quality and did not address working conditions.

In India, Pankaj Enterprises (located in New Delhi) and Chenduran Textiles, Poppys Knitwear, and Yavraj International (located in Tirupur) stated that visits from U.S. customers or their agents were focused exclusively on product quality. Zoro Garments (located in Madras) stated that monitoring dealt only marginally with working conditions and no checklist was used.

Previous Knowledge About Monitoring Visits

Whether monitoring visits are announced or unannounced differs widely from company to company. In 41 of the companies interviewed (58 percent), monitoring visits by the U.S. importer or its agent or representatives were announced in advance, in 13 (18 percent) they were unannounced, and in 16 (23 percent) there were both announced and unannounced visits.

Monitoring for Codes of Conduct

While monitoring for product quality, and even for health and safety conditions, is customary in the garment industry, the field visits by Department of Labor officials suggest that monitoring for compliance with provisions of the codes of conduct of U.S. garment importers dealing with other labor standards
and child labor in particular is not. Where it does occur, the degree to which such monitoring extends to all labor standards addressed by the codes as opposed to exclusively safety and health issues seems to vary widely across suppliers. Foreign suppliers that are wholly owned by a U.S. corporation, or contract directly with a U.S. corporation with a presence abroad, seem to be subject to the most frequent and most thorough monitoring of codes of conduct, including child labor and other labor standards.

Monitoring for implementation of child labor provisions of codes of conduct is a very challenging undertaking. As has been discussed in Chapter II, the garment industry is made up of a complex chain of actors, domestic and foreign.

- On the domestic front, there are apparel manufacturers (which may be producers or buyers of cloth, contractors or subcontractors, and also retailers of finished product), apparel merchandisers, buying agents (which may be located domestically or abroad), and retailers (which may be department stores, mass merchants, specialty stores, national chains, discount, off-price stores, etc.).

- On the foreign front, there are buying agents, company representatives, wholly owned subsidiaries of U.S. companies, U.S or foreign owned contractors that have an established relationship with a U.S. importer ("captive" contractors), contractors which have relationships with more than one U.S. importer, and subcontractors.

Implementation of the child labor policies of U.S. apparel importers
involves communication and interaction between many of these actors. The very long chain of actors and transactions in U.S. importers’ procurement of foreign apparel products is illustrated in Box III-7 with an example drawn from the field visit by the Department of Labor to the Philippines. In the example, the procurement/manufacturing process of apparel imported by a U.S. retailer involved five different actors, each farther removed from the U.S. importer.

Generally, the closer the relationship between a U.S. company importing garments and the actual producer of the items, the greater the ability of the U.S. company to influence labor standards, including prohibitions on child labor, in the production process. Conversely, the longer the chain of procurement/production (five steps in the above example drawn from the Philippines), and the more levels of buying agents, contractors, and subcontractors, the more complex and challenging is the implementation of the labor standards policies and the less the ability of the U.S. importers to influence them.

Monitoring Methods

As discussed in Chapter II, U.S. companies utilize a variety of means to monitor their codes of conduct or policies on labor standards and child labor.

- Many companies use some form of active monitoring - which might include site visits and inspections by company staff, buyer agents or other parties - to verify that suppliers are actually implementing the provisions on labor standards and child labor.
Companies may also use contractual monitoring, whereby they rely on the guarantees made by suppliers, typically through contractual agreements or certification, that they are respecting the U.S. company's policy and not using any child labor in production. This latter form may be seen as self-certification.

Some companies use a combination of the two forms of monitoring, typically relying on contractual monitoring backed up with visits and inspections.

All three of these monitoring strategies were found in the field visits.

Enforcement

As discussed in Chapter II, enforcement of corporate codes of conduct depends on the system used by U.S. corporations to ensure compliance. Corporations responding to the survey indicated that they used a graduated system to respond to violations, including: a) monetary fines or penalties; b) probationary status; c) demand for corrective action; d) providing education (particularly where child labor violations are involved); e) cancellation of an individual contract; and f) severance of the relationship. Positive reinforcement included: a) retention of current contracts; and b) awarding of additional contracts.

Information regarding enforcement of codes of conduct is reported in this section, arranged around the following issues:
• What corrective measures do U.S. corporations use to address violations of their codes of conduct by foreign suppliers?

• What specific mechanisms are used by U.S. corporations to reward suppliers which comply with codes of conduct?