



Code of conduct

Inspections and Compliance

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Abstract

In many of the developing countries the working conditions are poor and unfair. Many of the clothes are bought from these countries where murder, violence and arresting of the workers are common. Neither the employers nor the employees know the laws of their countries entirely and therefore have no knowledge of fundamental rights.

The purpose of the dissertation has been to study the inspections and the compliances of the codes of conduct. Companies use codes of conduct to improve the working environment at the supplier. Furthermore, it is a contract from the company to the supplier, containing what to be expected of the supplier. The dissertation also describes what the differences are between being a member or not of the organization Business Social Compliance Initiative (BSCI).

The research questions were answered through interviews. The contacted companies were Swedish textile companies with suppliers in developing countries.

No noticeable differences between being a member of BSCI or not were found. Therefore, we added the last research question that contained the relationship between the selected companies and their suppliers.

A conclusion regarding the relationship can be drawn from our empirical material. A satisfactory relationship with the supplier is vital when inspecting a code of conduct. The suppliers should be an active part in the work with codes of conduct to improve them in the future.

Keywords: code of conduct, inspections, textile industry, BSCI, relationship

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CHAPTER 1

Introduction

In the first chapter the background of the dissertation is presented. Further, the problem is discussed and the purpose is stated. Limitations and research questions are described and the outline is shown.

1.1 Background

Since we study international business we wanted our dissertation to be connected to this area. The state of the working conditions in the developing countries is a relevant issue in today's business. For most people it is obvious that the working hours should not exceed 40 hours per week and that equal jobs should pay equally. It should also be obvious that children should not need to work to support the family. Unfortunately this is not the case everywhere in the world; in many developing countries the reality is another. The working environment, and further the working conditions in developing countries such as China and India interested us.

Social responsibility has become more noticed, especially concerning the textile industry which daily causes published articles around the world. Companies have developed different types of codes of conduct as an action towards being more socially responsible. However, despite all codes of conduct it seems that the working conditions are still bad in the factories. Swedish companies have problems to assure that their factories comply with the ethical rules in the code of conduct concerning the working conditions.

Most Swedish buyers make inspections of their code of conduct but almost 80 per cent of the suppliers cheat with bribery and double accounting. The factories in China also violate the Chinese legislation on working hours, minimum wage and insurances (<http://www.dn.se>, 2005).

Many independent organizations for example Business Social Compliance Initiative (BSCI), International Labour Organisation (ILO) and United

Nations (UN) work to design guidelines. The organizations can offer external inspections of the companies' suppliers, but this does not ensure that the clothes are made under fair conditions. After all, the guidelines are just recommendations.

Our dissertation contains the code of conduct, and further, the inspections and compliance of it. The differences between being a member or not of BSCI are stated and the relationship between the company and its suppliers is discussed.

1.2 Discussion about Problems

Many questions and thoughts arose during discussions about our subject, and some of them are stated below. Unfortunately, we did not have time or resources to answer all questions. The questions we focused on are stated as our research questions.

We have not found any theory that supports the inspections of code of conduct. Therefore, the code of conduct is used as a model in this dissertation. A code of conduct is a kind of contract between the company and its supplier. However, theories about the relationship between a buyer and a supplier have been used such as Principal-Agency Theory (PAT) and Corporate Relationship Management (CRM).

One problem is the non existing rules on how to check the code of conduct. Therefore, it may be difficult to know how to make the inspections. Examinations are also difficult to make because of all the hush-hush in the textile industries. It may be easy to write a code of conduct but it may not be easy to follow it and check it.

There are also consequences with inspections of the codes of conduct. The inspections may have an effect on the business relation with the supplier and may also affect the trust between the company and the supplier. Moreover, thoughts about the dependency within the business relationship also arise.

Who is the independent part? Who is the strong part? Who demands? Are the inspections of the code of conduct connected with the relationship to the supplier? Are there any differences between large and small companies regarding the relationship with their supplier? Do smaller companies have a more personal relationship with their suppliers than larger ones? Can smaller companies more easily inspect their suppliers?

The difficulties of the inspections of the code of conduct are based on the codes' nature. Since the code of conduct regards the working situation at the supplier it can be difficult for an outsider to check the working situation by just paying the supplier a visit. Thus, can companies take other possible actions?

Companies have pressures from all their interested parties and media. As a result of this, companies are pulled in different directions and have conflicting wishes to satisfy.

Are the codes of conduct only promotion for the companies? What do the companies earn from the codes of conduct? Are the consumers also paying a price for the companies' use of the codes of conduct?

Trading over the borders always result in culture clashes. The public authority of the supplier's country makes conditions for the native companies. The conditions regard salary, working hours etc. Are these conditions followed? Can global agreements be an alternative to code of conduct?

BSCI started its business in 2004 and is therefore a rather new actor in the field of code of conduct. One large question is if BSCI is enough developed for its purpose. Furthermore, what kind of relationship does BSCI have with the suppliers it inspects? BSCI inspects the supplier, but who inspects BSCI?

Further thoughts: Is it better to be a member of BSCI? Is BSCI more effective concerning the codes? Can BSCI write a more detailed code of conduct than the private companies? Are the inspections at the supplier better for members of BSCI since they are conducted by auditing firms educated in SA8000¹? Do the suppliers find it easier and better to work with one code of conduct instead of several from different companies?

We have not found any certification system for the codes of conduct. If an organization is able to certify a supplier, may the certification be trustworthy?

1.4 Purpose

One purpose with this dissertation was to make a comparing study. We examined the differences between being a member and a non-member, of the organization BSCI. Another purpose was to investigate the relationship between the investigated companies and their suppliers. We want the dissertation to be a help for companies that work with the code of conduct and to companies that consider adopting it.

1.5 Limitations

The chosen subject was wide and therefore limitations were needed. The largest problem for us was the time limit but also the financial limitations. Our empirical study was limited to Swedish companies within the textile industry which import goods from developing countries. The selected companies were, as members of BSCI: KappAhl and JC and, as non-members: Indiska and Filippa K.

Culture is an important subject when dealing with this area, but because of the time limit we could not take culture into consideration. However, some parts of the culture are mentioned but no major focus was set on this.

¹ Social Accountability 8000

We limited the dissertation to only involve the organization BSCI because two of the four chosen companies are members of this organization.

1.6 Research Questions

The dissertation is based on the research questions.

- How are codes of conduct inspected?
- What are the differences in the inspection between being a member and not being a member of BSCI?
- How will codes of conduct be used by BSCI-members and non-members in the future?
- How do companies create a trust that will make the supplier adhere to the requirements of codes of conduct?

1.7 Outline

The outline for our dissertation is as follows.

Chapter 2 The method, including research approach, philosophy and strategy, is presented.

Chapter 3 The theoretical framework is presented. Firstly, we investigated globalization, social responsibility, and trade unions. Secondly, all organizations influencing the codes of conduct are explained. Thirdly, a description of the code of conduct is made. Fourthly, global agreements, Principal-Agency Theory and Customer Relationship Management are presented. Finally, our own model is introduced.

Chapter 4 The empirical method is introduced. The research strategy, sample and limitations are explained. Furthermore, a declaration of the interviews with the response rate and the interview questions are shown. In the end, the credibility including reliability, validity and generalisability is presented.

Chapter 5 Short introductions of the companies and compilations of the interviews are made.

Chapter 6 The empirical analysis is presented. A comparison between members and non-members of BSCI is made. The importance of the relationship is also analysed. Furthermore, our own model is discussed.

Chapter 7 A conclusion of the dissertation is made. The findings are presented and summarized. Furthermore, the applicability and modification of our model, practical implications and further research are discussed.

CHAPTER 2

Choice of methodology

An exploratory study will be applied when studying the differences between being a member and a non-member of BSCI. We adopted an interpretivistic philosophy with a touch of realism. The data collection will be made by interviews and literature.

2.1 Research approach

As described in the introduction, our purpose was to examine the differences between being a member and a non-member of BSCI. We started to investigate social responsibility and thereby the working conditions. Furthermore, we studied the meaning of a code of conduct, the appearance of it in the selected companies and how the inspections and the compliance of the code of conduct were made. We found that the Principal-Agency Theory (PAT) could be of use in a part of our problem, but this theory is not fully developed for our purpose. The theory was therefore not used to explain the situation. Instead, it was used to give further understanding in the area of code of conduct. Another theory is the Customer Relationship Management (CRM). We used a part of this theory to explain the relationship between a company and its supplier. However, the theory presents the relationship between a company and its customers, but we reversed it. As a result, the relationship between a company and its supplier is presented.

Our dissertation is an exploratory study where the task was to investigate the differences between the inspections made by a member and a non-member of the BSCI. We studied the situation that existed and to understand “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light” (Saunders *et al.* 2003, p 96). Three ways to make an exploratory study are to search for literature, talk to experts on the subject and conduct focus group interviews.

There are two other alternatives, explanatory and descriptive study. The explanatory study is used when the researcher want to explain the relationship between variables. The descriptive study is used when the purpose is to describe exact a persons, events or situations (Saunders *et.al.* pp 97).

The deductive approach is a testing theory, where an existing theory and hypotheses are the foundation. The research strategy is developed to test the hypotheses. When an inductive approach is applied the data collection is a starting point and a theory is developed based on that information (Saunders *et al.* 2003, pp 86). We started by collecting data and investigating existing theories, and in the end we created a new model. For this reason, our dissertation is a mix of deductive and inductive approach.

2.2 Research philosophy

Positivism, interpretivism and realism are three principles of research philosophies. Positivism means that the researcher is independent and does not affect the subject. The observations will be made objectively and by quantifiable data on an observable social reality. In a positivistic research philosophy generalisation can be made as a result.

Interpretivism argues the complexity of the social world and that generalisations cannot be made. Here it is important to understand what is happening behind the reality to understand the social constructionism.

The principle of realism is that the reality is not dependent on the thoughts and beliefs of humans; instead it is the social world that affects the action of humans (Saunders *et al.* 2003, pp 83).

Due to the aim of the dissertation, we have an interpretivistic philosophy where motives, actions and intentions were studied. The studied companies are in a complex environment and the result is therefore difficult to generalise. Elements of realism appear because of the social influence of the

subject. The companies' decisions may be affected by the interested parties' pressure on companies.

2.3 Research strategy

There are several research strategies to select from: experiment, survey, case study, grounded theory, ethnography and action research. We used two of them to answer our research questions.

A multi-method was used for the research approach and strategy, because we used different methods for different parts in our dissertation and various data collection methods (Saunders, *et al.* 2003, p 99). Our choice of multi-methods were case study and grounded theory. Case study implies mainly “*an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence*” (Saunders, *et al.* 2003, p 93). It also generates answers to the question why, what and how. Grounded theory means a combination of a deductive and an inductive approach. It also includes that the theory is grounded on a data collection (Saunders, *et al.* 2003, p 93). In the preliminary investigation secondary data was used to receive a wider understanding of the subject. This information was collected from literature. The primary data was collected from interviews with the selected companies.

Since we studied a phenomenon at a specific time the cross-sectional time horizon was used. Another reason for this choice was the time limitation of the dissertation. The longitudinal studies were not relevant for our dissertation because they are used over a long period of time, like a diary, instead of snapshots as in the cross-sectional time horizon.

2.4 Data collection

Our dissertation consists of two kinds of data, primary and secondary.

2.4.1 Primary data

Primary data is new data that is to say data that has not been published or recorded before (Saunders *et al.* 2003, p 188). Our primary data is data from our interviews

In order to get the companies' point of view we contacted a number of companies within the textile industry. First, we sent out e-mails to the companies. If they did not respond we sent a follow-up e-mail and this approach resulted in a high response rate. Unfortunately, we only got four companies that were interested in helping us with our dissertation and take part in interviews. Luckily, the interviewed companies were divided into two categories; two companies that are members of BSCI and two that are not.

We conducted one interview with each of the four companies. The questions were created to understand why the companies started their work with the code of conduct, how they work with it and how they ensure compliance. Before the interviews the companies received information about our dissertation and the main interview questions in order to be prepared. It was important for us to explain to the companies, before the interviews, that the purpose was to receive a wider understanding of how the codes of conduct work in reality.

2.4.2 Secondary data

Secondary data is information that has already been written down or recorded. This can be divided into three classes: documentary, survey and data from multiple sources. These data are both raw material and compiled data, and further both quantitative and qualitative data. However, it is important to be critical to secondary data in case the author may have slanted the written piece (Saunders *et al.* 2003, p 189).

We started our investigation by searching the Internet for information about codes of conduct in general. We used search engines to find relevant Internet pages regarding our topic. While looking for this information we

found many sources to different organizations which work with social responsibility and codes of conduct. Since the use of codes of conduct is relatively new we needed to receive a wide range of information and aspects. Also, we could have narrowed the subject along with the process to finally be able to answer our research questions. Even though the work with codes of conduct is new, the interest for the subject has existed for a long time. At the beginning of our work we focused on understanding the origin of the code of conduct and what it was.

The information of the organizations and the companies were taken from each organizations' and each companies' home page. As a result the information became one-sided. In order to get a balance to the partial information of the company's own website we read published articles and books with an opposite angle. Companies tend to make a beautiful picture of the working conditions and journalists tend to worsen it. Likely, the truth lies somewhere between those two extremes.

CHAPTER 3

Theoretical framework

This chapter will give a short view of globalization and social responsibility. Organizations regarding codes of conduct will be presented. The chapter also includes a description of codes of conduct and an introduction of the Principal-Agency Theory and the Customer Relationship Management.

3.1 Globalization

Globalization is one reason to why our clothes are made in, for example developing countries, where the working conditions are not always satisfactory. Many poor countries have ended up in a debt crisis, which means, that they cannot pay back their debts to their lenders, such as the International Monetary Fund (IMF) and the World Bank. The only way out according to these lenders is to increase trade and export (Carlström, 2002, pp 62).

Governments are pressured by international agreements to facilitate the export. The IMF and the World Bank demand poor countries to follow their rules concerning human rights, in a so called structured adaptation programme. These programs claim, among other things, state owned companies to privatize and the public sector to reduce.

One example of what poor countries do to facilitate for foreign investors is economical free zones. In these free zones foreign companies can carry out their activities without paying any duty and often no tax. Human rights are violated and trade unions are often forbidden here. Furthermore, the country's own laws and rules are not applied (Carlström, 2002, pp 62).

Economies that are global are described as not having national characteristics and that a company does not have a national or regional home base. Due to deregulations, liberalizations and free trade agreements,

the world economy is not national but global. This situation is confirmed by new information and communication technology. Moreover, by political decisions concerning international trade rules, for example World Trade Organization (WTO).

The advantage of globalization for workers in developing countries is that they can do what they are good at, for example, clothes and shoes and then sell them to the industrialized countries (Carlström, 2002, p 71).

Globalization is a changing process whereby states and society all over the world are tightened into mutual dependent relationship (<http://www.ne.se>, 2005).

From the first of January 2005, the international textile and clothing agreement expired. According to WTO's regulations, the same trade regulations that are valid for industrial products are also valid for textile products. This means that no quotas² should be allowed on textiles and clothing. The EU has abolished all quotas between WTO countries but for trade with China an import license is still needed (<http://www.eu-upplysningen.se>, 2005).

3.2 Corporate Social Responsibility

Companies exist in a world with demands from many interested parties, for example media, consumers, investors and public authority.

In the Green Paper, published by the EU, Corporate Social Responsibility (CSR) is defined as “*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*” (<http://europa.eu.int>, 2005). In other words, companies involve CSR in both its business operation and in the relationships with its stakeholders. Furthermore, it is how the company

² Regulations on quantities.

can handle the pressure from its stakeholders (<http://www.mallenbaker.net>, 2005).

One part of social responsibility is human rights. Human rights are not easy for a company to supervise. As a result of the demands from consumers and other interested parties, companies have created so called codes of conduct. These include, among other things, human rights and working conditions. The adoption of the code of conduct is voluntary for companies, but the purpose of code of conduct is only effective when it is well imitated and controlled.

The companies we investigated have their suppliers in developing countries where human rights violations are common. This makes it difficult for the companies because they must consider what their responsibilities are and what the countries' governments' responsibilities are. The companies must also be aware of the countries' laws.

CSR is a relatively new area and has, in the long-term, not yet been evaluated. But, companies believe that taking responsibility can lead to better results, such as a larger profit and stronger growth. Furthermore, CSR is an important aspect for companies that want to be recognized as a well-working company from a social point of view. Still the interested parties can influence the company in a negative way by harm the reputation of its main assets such as the brand and the image (<http://europa.eu.int>, 2005).

3.3 Freedom of association

Some workers do not have any trade unions that can fight for them, because some employers refuse their employees to organize in trade unions. Furthermore, trade unions do not work properly in all countries. Workers that are active in trade unions sometimes constitute a threat to employers and governments, either via political power or via economic competition. According to International Labour Organization (ILO), freedom of association and collective negotiations do not constitute any threats. It is

proved by research and analysis that the rights to organize in trade unions are important for a well-working economical development (LO-TCO, CD-ROM, 2005, p 5).

3.3.1 China

Trade union rights are not respected in China. The trade union legislation forbids workers to join independent organizations and All-China Federation of Trade Unions (ACFTU) is the only legal organization for salary. According to the constitution ACFTU should accept the Chinese communist party's directions. Furthermore, the law gives ACFTU authority to practice economic control over all trade unions.

At the moment there is no legislation about collective negotiations, only rules about collective agreements. As a precaution to independent negotiations, collective consultation was introduced by the law. The purpose was to solve conflicts between employers and employees. The government pushed ACFTU to consult the employers concerning the employees.

The background to uneasiness on the labour market is the privatization because it is united with massive corruption (LO-TCO, CD-ROM, 2005, pp 155).

3.3.2 India

Workers in India can join a trade union, but still there are barriers in the legislation for example limited rights to strike. Moreover, the rights for the public servants are limited. Also, trade unions are not allowed in the free zones, the admissions to the free zones are limited to the employees.

The rights to collective negotiations are not statutory, therefore the employers are not willing to negotiate. Furthermore, the employers do not want to negotiate with the trade unions chosen by the workers.

There are large differences in what the law says and what is actually happening in practice. Many cases concerning the labour rights, the right to

organize in trade unions and human rights are reported (LO-TCO, CD-ROM, 2005, pp 141).

3.4 Organizations

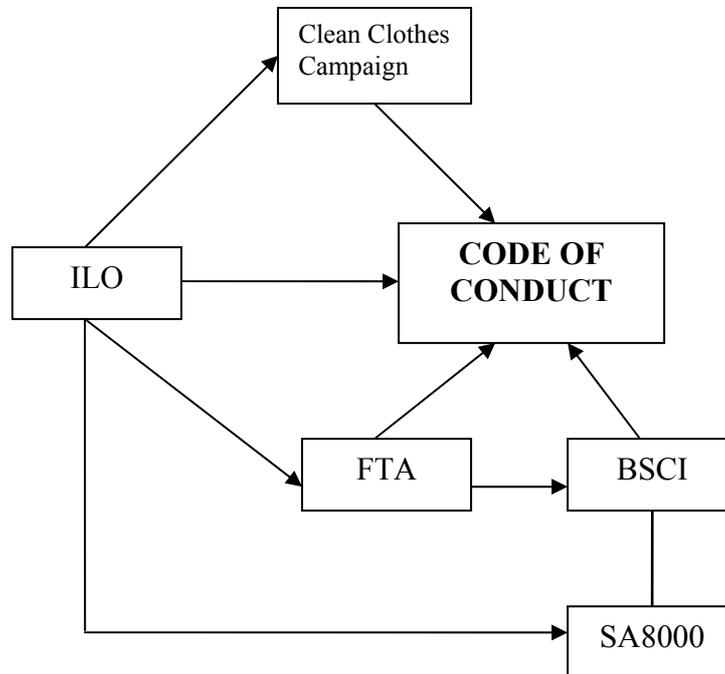


Figure 3.1 Our own model of the connections between the organizations.

3.4.1 Explanation of the model

The Clean Clothes Campaign was the starting point for many Swedish companies' work with the code of conduct. This campaign was influenced by ILO's conventions. Furthermore, ILO acts as a foundation of all codes of conduct and for this reason Foreign Trade Association (FTA) is also based on ILO conventions. FTA has created the Business Social Compliance Initiative (BSCI). Both FTA and BSCI have their own codes of conduct but BSCI uses SA8000 certified auditors for the inspections of codes of conduct. The SA8000 is also based on ILO.

To sum up, the conventions of ILO was the foundation of Clean Clothes Campaign, FTA, BSCI and SA8000.

3.4.2 International Labour Organization

In 1919, ILO was created on the basis of three main motivations: humanitarian, political and economic motivation. Another base was social justice. The ILO constitutions were written at the beginning of 1919 by the Labour Commission which was composed by representatives from nine countries. Furthermore, the ILO constitutions were included in the Treaty of Versailles.

The conventions and the recommendations, from ILO, are guidelines on policy, legislation and practice. The conventions are binding obligations to implementation but the recommendations are non-binding obligations. The first adopted convention included the working hours which contained for instance the eight-hour day and the forty-eight-hour week (<http://www.ilo.org>, 2005).

In 1926 International Labour Conference (ILC), created a supervisory system on the application of standards. Still, this system exists and it requires each member state to present a report on the taken measures and also to send one copy to the workers' organization and one to the employers' organization. As a result of this there is supervision of the countries' implementations of the conventions, both in law and in practice. A special supervision system was set up in the 1950's for the declaration of freedom of association. ILO also helps to establish labour inspection systems for the observance of the labour protections laws.

The declaration of Philadelphia was adopted in 1944 and changed the aim and purpose of ILO. It included principles, such as labour is not a commodity, non-discrimination and freedom of expression. After that, freedom of association was adopted, which comprised the right for workers and employers to freely and independently organize. Furthermore, adoption of fundamental principles and the right to work was made (<http://www.ilo.org>, 2005).

Today, the strategic objectives of ILO are:

- "To promote and realize standards and fundamental principles and rights at work
- To create greater opportunities for women and men to secure decent employment and income
- To enhance the coverage and effectiveness of social protection for all
- To strengthen tripartism³ and social dialogue"

(<http://www.ilo.org>, 2005)

3.4.3 Foreign Trade Association

A non-profit association with its headquarters in Brussels is Foreign Trade Association (FTA). Its management is composed of international experts, and its members are national retail trade associations and individual firms from nearly all European countries. Besides its members, FTA works with other organizations and associations such as EuroCommerce, International Chamber of Commerce and the European Consumer Federation. The foreign trade interest of the European trade is represented by FTA, which is specialised in this area (<http://www.fta-eu.org>, 2005; <http://www.eurocommerce.be>, 2005).

In 2001, FTA together with EuroCommerce created a code of conduct with guidelines for European companies on the ethical procurement of goods worldwide. Similarly to FTA, EuroCommerce represents retail, wholesale and international trade sectors in Europe and works for free and open markets.

The goal with the guidelines is to help companies create their own codes of conduct. The codes of conduct must be on the basis of the ILO conventions and in accordance with the national law. They should include paragraphs on child labour, forced labour, discrimination and other actions violating the human rights. The application and implementation should be made by dialogue, cooperation and

³ Employers', workers' and governments' representatives have equal influence within the UN.

unanimity. If the code of conduct is not followed the company should take immediate action and enter negotiation with the supplier to find a way to solve the problem. If a solution cannot be found within a reasonable time, the business relation may be ended (<http://www.fta-eu.org>, 2005; <http://www.eurocommerce.be>, 2005).

3.4.4 Business Social Compliance Initiative

In 2002, FTA started to work out a common foundation for European codes of conduct and supervision systems. During 2002 and 2003 retailing companies held workshops to form a framework and in March 2003 FTA founded Business Social Compliance Initiative (BSCI) “*for the purpose of developing the tools and procedures for the European Business Social Compliance Programme*” (<http://www.bsci-eu.org>, 2005).

BSCI:

- “offers a common approach for European commerce
- provides standardized Management Tools for all countries
- supplies a database: information pool to optimise coordination of the process
- is open to retailers, importers and manufacturers
- covers all consumer goods
- is transparent
- involves stakeholders in Europe and supplier countries”

(<http://www.bsci-eu.org>, 2005)

Members of BSCI are retail companies and associations, importers and producing companies. The annual fee for BSCI’s members is based on the turnover of the company. The interested parties have access to information about who is involved in the system, the criteria and how the BSCI is implemented.

The members are responsible for all activities carrying their name, but the responsibility may extend to all employees making products for a BSCI member, including the subcontractor.

BSCI's criteria are on the basis of the ILO conventions, the UN's universal Declaration of Human Rights, the UN's conventions on children's rights and elimination of all forms of discrimination against women. The code of conduct includes areas such as legal compliance, compensation, working hours and workplace safety. The aim is to continuously improve the social performance of the suppliers and the working conditions world wide (<http://www.bsci-eu.org>, 2005).

The know-how and the experience from the companies involved and the association AVE⁴, were used as building blocks while developing a supervision system. In spring 2004 the system was finished and the next step was to implement and to expand it.

Although BSCI works to improve the social business environment the duty must also be taken by national and local governments, international non-governmental organization and employee representatives.

BSCI members should think about their suppliers as partners and therefore make the implementation of the code of conduct via dialogue and cooperation. It is the suppliers' responsibility that the subcontractors follow the code of conduct. In conclusion, it should be a win-win situation for all involved parties.

The code of conduct was developed to make an impact on the working conditions and to promote socially acceptable production conditions. All BSCI members must follow the code of conduct and with the help of it achieve continuous and sustainable improvements. The requirements stated

⁴ AVE Außenhandelsvereinigung des Deutschen Einzelhandels e.V. (Foreign Trade Association of the German Retail Trade).

in the code of conduct are minimum standards (<http://www.bsci-eu.org>, 2005).

BSCI members define and implement appropriate procedures and supervisions for the compliance of the codes of conduct. Furthermore, if the code of conduct is violated BSCI members search, together with the supplier, for solutions and they also assist the supplier when resolving the problem. If a solution cannot be found or agreed upon the business relation may be ended.

The audits are made by independent external auditing firms accredited by the organization Social Accountability International (SAI) and the standard SA8000. The aim with the audits is to form a clear picture of the social performance in the production facilities.

Auditing is the first step, when inspecting the code of conduct, followed by the corrective action plan. The auditor bases the corrective action plan on his or her findings. It is a detailed plan that explains what measures to implement in order to improve the social performance. The last step is the qualification of the supplier. If the supplier fulfils all the requirements, a qualification is made by BSCI's members or other experts in the field. However, even though the supplier becomes qualified it is not certified because BSCI is not a certification system. This step is important because many suppliers need help in order to implement the correct action after an audit. The corrections should be made to continuously improve the suppliers' social performance (<http://www.bsci-eu.org>, 2005).

3.4.5 SA8000

Social Accountability International (SAI) is a non-governmental, international and multi-stakeholder organization that works to improve workplaces and communities. Furthermore, it works with, for example trade unions, local non-governmental organizations, fair trade and environmental organizations. SAI is a non-profit human rights organization that develops and implements social responsibility standards. It also accredits

organizations when they fulfil the requirements of the standards (<http://www.sa-intl.org>, 2005).

In 1997, SAI developed a social standard called the Social Accountability 8000 (SA8000). It is a system for improving social performance in the whole business chain and is, among other things, based on ILO conventions. The system includes management tools and it is a voluntary standard for workplaces. The guidance document comprises the nine elements of the standard and is used as a field guide. It helps the auditors to focus on the most important parts of the auditing process. Furthermore, the guidance document is an implementation guide in order to adopt the SA8000 system.

Two purposes of SA8000 are to develop, maintain and enforce policies and to demonstrate the policies, procedures and practices to interested parties.

Companies can implement SA8000 in two ways, either by a certification or by an involvement in the SA8000 Corporate Involvement Programme (CIP) (<http://www.sa-intl.org>, 2005).

3.4.6 Clean Clothes Campaign

In 1990 a campaign called Clean Clothes was founded. It started in the Netherlands and is today an international campaign (<http://www.traditionsfairtrade.com>, 2005).

The main focus is to improve working conditions in the global garment and sportswear industry. This is done by putting pressure on companies to take responsibility, supporting the workers, making consumers aware of the situations, and exploring legal possibilities.

The guidelines for Clean Clothes Campaign are based on ILO conventions and these are:

- “1. Freedom of association
2. The right to collective bargaining
3. No discrimination of any kind

4. No forced or slave labor
 5. A minimum employment age of 15
 6. Safety and health measures
 7. A 48 hour work week, with a maximum of 12 hours overtime
 8. A living wage and a viable contract”
- (<http://www.traditionsfairtrade.com>, 2005)

In the late 1990s a campaign against four textile companies in Sweden was made. The companies were: Lindex, KappAhl, H&M and Indiska. The campaign's purpose was to make the companies realize that they have a responsibility regarding the working conditions at their suppliers, and furthermore they should use a code of conduct. The Clean Clothes Campaign had requirements on the code of conduct. This resulted in textile companies applying different codes of conduct but with the same content. The Clean Clothes Campaign wanted to create an independent inspection body with auditing made by a special organization. The result from the auditing should be public to the unions and human rights organizations. While the Clean Clothes Campaign went on, media put pressure on the companies. The negative publicity and the consumer awareness made the companies respond by creating their own codes of conduct (<http://www.cleanclothes.org>, 2005).

3.5 Codes of conduct

Companies' values regarding the working conditions have been collected in the concept code of conduct. Furthermore, companies must implement the code of conduct, work for it to be obeyed and inspect it. The code of conduct is voluntarily developed rules on how the companies' supplier should act in the business environment. Moreover, the codes of conduct state the qualifications of the supplier (<http://www.fairtradecenter.se>, 2005).

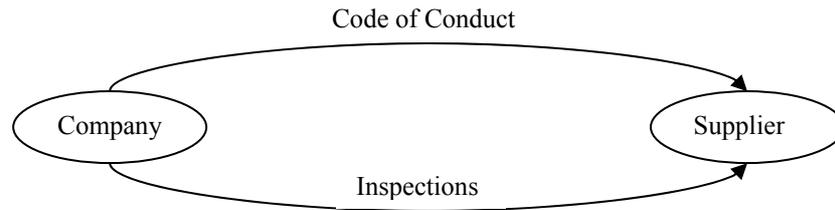


Figure 3.2 Our own model of code of conduct

The suppliers need information about the code of conduct in an early stage, because they undertake these rules. In addition, suppliers often need to take actions to be able to fulfil the code of conduct.

The code of conduct needs inspections, both internally and externally, and it should be both notified and not notified. The workers at the suppliers are the central part of the inspection. Furthermore, the workers are often frightened, do not know their rights and do not have knowledge about the code of conduct. The workers and the organizations must be able to report violence against the code of conduct (<http://www.fairtradecenter.se>, 2005).

A code of conduct should include the following:

- Freedom of association
- Prohibition against child labour and forced labour
- Prohibition against discrimination
- Assurance of regulated working hours
- Proper employment
- Secure working environment
- Proper salary

3.6 Global agreements

Instead of using a code of conduct, which is a contract from the buyer to the supplier, a global agreement may be used. A global agreement is a kind of a collective agreement made globally. The agreement is made between two parties; a multinational company and a trade union, representing the supplier (<http://www.renaklader.org>, 2005; LO-TCO, 2005, pp 47).

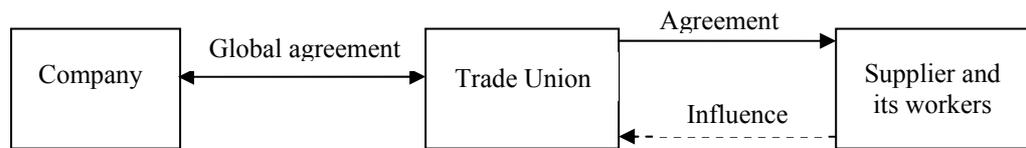


Figure 3.3 Our own model of global agreements

An agreement contains directions on implementation, follow-ups and inspections, and minimum conditions in the social area. The global agreements should be a minimum limit to the regional, national and local parties when adjusting the global agreements to the circumstances in their countries. Global agreements give the employers and the employees influence and responsibility. Since the agreement is made between two parties countermeasures may be taken if one party breaches the agreement.

The agreement is also a protection against social dumping. Social dumping is when a company moves its business to countries with lower salaries and unfair working conditions. Dumping occurs when companies pay less for a product in a foreign market than the real price in that market is (LO-TCO, 2005, p 47; Hill, 2005, p 186).

The pursuance of the agreement should be checked by the workers, but not all workers have the possibility to be in a trade union. Therefore, they do not have the chance to supervise their rights. This is why the global agreements, just like the codes of conduct, must be inspected. It is also important that the workers get information about their rights (<http://www.renaker.org>, 2005; LO-TCO, 2005, pp 47)

So far, around 30 agreements have been made with Swedish companies. These are among others Skanska, IKEA, SKF⁵ and SCA⁶. These agreements contained working protection, equal salary and prohibition against forced

⁵ Svenska Kullagerfabriken

⁶ Svenska Cellulosa Aktiebolaget

labour. Furthermore, implementation, follow-ups, and inspections of the global agreements were also included (<http://shc-campsite.mdlf.org>, 2005).

3.7 Principal-Agency theory

A relationship between two parties, the company (principal) and their suppliers (agents), is the foundation for the Principal-Agency Theory (PAT). The principal delegates missions to the agents.

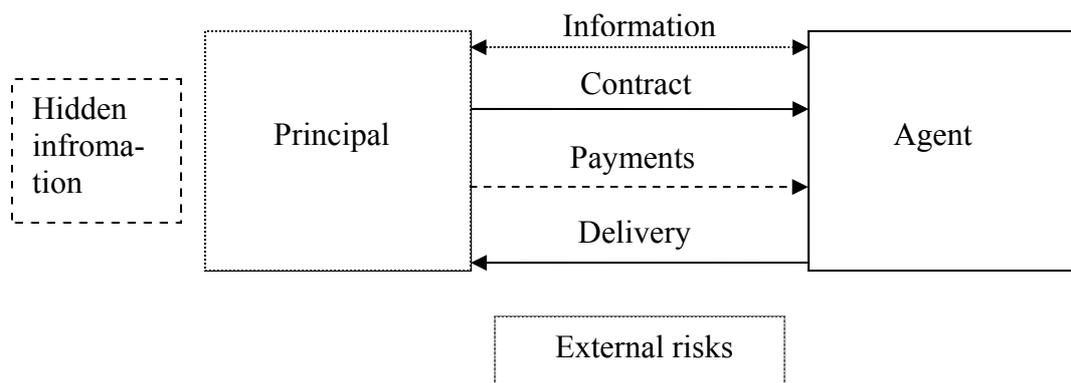


Figure 3.4 Principal-Agency Theory (<http://www.plan.se>, 2005)

The PAT was developed from the contract theory. This theory arose during the 19th century, and during this time it was used between the state or government and the individuals (<http://www.wikipedia.org>, 2005). As a result, The PAT is based on a contract. In this contract the risks can be divided. The supplier chooses if it wants to sign the contract or not. The theory's main focus is to make an optimal contract between the principal and the agent (<http://amadeus.management.mcgill.ca>, 2005).

The agent should not bear all risks or costs because the agent is risk-averse. This means that he or she will choose for example the payment with the lowest risk (Roberts, 2004, pp 127). The agents should act in the way the principal wants them to and towards the principal's goals. Asymmetric information is when somebody knows more than the other. This can make it difficult for the parties to do business together. Asymmetric information may twist people's incentives and this may result in important inefficiency (<http://www.economist.com>).

There are two problems with PAT: moral hazard and adverse selection. If there are no incentives moral hazard may arise. Moral hazard means that people tend to not want to do anything that exceeds what they need to do, if they do not receive extra benefits from it (<http://www.infra.kth.se>, 2005). Therefore, motivation is the main problem with moral hazard and a large problem in the PAT. In other words, problem with PAT is to motivate one person or an organization to act on behalf of another. The principal should negotiate a contract by motivating the agent. The agent is more tolerant of the risks than the principal. This means that the agent bear almost all risk (Milgrom *et al.* 1992, pp 214).

Adverse selection is the inability of buyers to differentiate between the qualities of certain products (<http://www.economyprofessor.com>). Furthermore, it is when doing business with people that should be avoided. Adverse selection often occurs when asymmetric information exists. People, who know that they have a higher risk of claiming, will buy the goods whereas those who think that they have a lower risk do not think it is worth buying the goods. One way to reduce adverse selection is to make the buying of the goods obligatory.

Agency costs may arise when the principal hires the agent to do a task and the interest of the agent differs from the interest of the principal. An example of this can be the relationship between the shareholders that owe a public company and the managers that run it. Perhaps the owners would like the managers to run the company in a certain way. For example, the shareholders want the managers to maximize the value of the shares, but the managers want to build up a business empire through mergers and acquisitions which are not increasing the shares. There are two ways to reduce the costs: for the principal it is to supervise exactly what the agent does, so that he does what he is hired for. Unfortunately, this may also be costly. However, it may be impossible to define the agent's work in an effective way. The other way is to make the agent's interests more equal to the principal's. An example can be to pay the managers both with shares and share-options in the company. The managers will then get more

incentives to act in the interest of the owners. They may, for example, maximize the values of shareholders. However, this is not the best solution. It may happen that managers that have lots of share-options are engaged in accounting fraud to make the value of the share options increase (<http://www.economist.com>).

3.8 Customer Relationship Management

This relationship can be described as *”making managerial decisions with the end goal of increasing the value of the customer base through better relationships with customers, usually on an individual basis”* (Peppers *et al.* 2004, p 33).

Relationships have many different characteristics. Firstly, relationships entails mutuality, this means that it must automatically be two-sided. Secondly, information is exchanged in a relationship. A relationship is driven by interaction, this also implies in mutuality. Thirdly, relationships are repetitious and this implies in continuing the relationship. It also generates convenience benefit to the customer. Fourthly, customer relationships gain both parties. In other words, it will be driven by an ongoing benefit to both parties. Fifthly, both parties must be able to change their behaviour in order to continue. Sixthly, every relationship is unique and must be separately treated because relationships remain of individuals, not of populations. Finally, a relationship is built on trust and trust can be defined as: *”one party’s confidence in the relationship member’s reliability, durability, and integrity and the belief that its actions are in the best interest of and will produce positive outcomes for the trusted party”* (Peppers *et al.* 2004, p 43).

*”In order for a firm to build customer value through managed relationships, the company must **identify** customers, **differentiate** them, **interact** with them, and **customize**”* (Peppers *et al.* 2004, p 63). CRM means that different customers must be treated differently. A company must be able to identify and recognize different individual customers. Furthermore, it should know

what characterize one customer from another one. The company must also be able to individually interact with any customer and it must be able to change its behaviour to meet the specific needs of that customer. The company must act in the customer's best interest, as well as in its own, to build trust. Customer information gives a company the capability to differentiate its customers from each other. The customer information is an economic asset, and it has the capability to improve the company's productivity and also to reduce its costs. Since customer information is based on individuals, it is most useful for its scope than for its scale.

CRM is a business strategy and is based on a satisfactory relationship with the customers. It is a marketing theory where relations, networks and interactions, between the customer and its supplier, are in the centre. In this dissertation the customer is the company who buys from the supplier. Furthermore, the relationship is between the company and its suppliers instead of the company and its customer. From now on, the customer will be named as company (Gummesson, 2002; Storbacka *et al.* 2000).

A contact may lead to relations and therefore should all contacts be regarded as potential relations. Relations and contacts are not the same thing. In the beginning of a relationship the aim should be to increase the value of the relationship. When a satisfactory relationship occurs with the supplier, better results can be achieved because the marketing costs decreases and the incomes increases.

There are five phases when building a relationship. First, initial contacts are important. These contacts are developed towards a communication that is more intimate and has a more sincere character. Furthermore, something must be found for the relationship to be based on, so the relationship may continue. Second, it is important to find common areas that will make the foundation for the continued relationship. This means that the parties should look into each others' sphere of interest which consists of values and norms. Third, the common sphere of interest is developed, where opinions, values and norms are exchanged. Fourth, the maturity phase, with a common

communication form and at least one common sphere of interest for the relationship to be based on, is reached. Last, the relationship will be changed to a more friendly and personal level. Furthermore, intimate confidences are exchanged (<http://www.nkja.se>, 2005).

The company has to estimate and draw conclusions of the supplier's fundamental values and then see if the supplier is trustworthy. If the company believes in the supplier; it gives the supplier its trust and commitment. Moreover, the control of the other party should be eliminated.

There are three different approaches when creating a business relationship. The first strategy is when the company has to adapt itself to the supplier. In contrast, the second strategy is where the supplier has to adapt to the company. As a compromise between these two, the third strategy is where both the supplier and the company have to adapt to each other. The latter is most likely to create a win-win situation because the exchange of information is broad and honest (Gummesson, 2002; Storbacka *et al.* 2000; <http://www.expowera.com>, 2005).

A relationship is based on at least two parties. The exchange of feelings, knowledge and resources should be two-sided and mutual. Since all suppliers are different, relations are developed in different ways. Therefore, no relationship can be treated in the same way as another relationship since every relationship is unique. Unfortunately, many companies treat all their relationships in the same way. Today more companies choose to develop closer relationships with its suppliers. Many companies want to decrease the number of suppliers to gain a more intimate relationship. A relationship will also grow stronger as time goes by. Therefore, there will always be a need for interaction where the exchange of information is important. The information should flow freely between the company and its suppliers. Information is essential for the relationship to work (Gummesson, 2002; Storbacka *et al.* 2000; <http://www.expowera.com>, 2005).

In the end a win-win situation will be created through CRM and this can be achieved when the relationship is well developed. It requires a long-term cooperation to create a win-win situation. The aim of a win-win situation is to lower the costs, but to create it is expensive.

Satisfactory relationships are important for a company's long-term success. When a satisfactory relationship is developed the chance to reach a mutual friendship is easier. To keep and to develop a relationship is costly but it is even more expensive to create a new relationship with a new supplier. Therefore, friendship with a supplier is good to have (Gummesson, 2002; Storbacka *et al.* 2000; <http://www.nkja.se>, 2005; <http://www.expowera.com>, 2005).

3.9 Our own model

Instead of a one-way contract where companies inspect their supplier, a contract from a business-to-business (B2B) point of view may be considered. Therefore, we have created a model out of the B2B relationship. The model is called Code of Conduct Relationship Model. This model is built on the above mentioned code of conduct, global agreements, Principal-Agency Theory and Customer Relationship Management. The contract part is based on codes of conduct and the two-way relationship idea appeared from global agreements. PAT influenced us to concern the interested parties and the goals of the companies and the suppliers respectively. Furthermore, common goals and the information refer back to CRM.

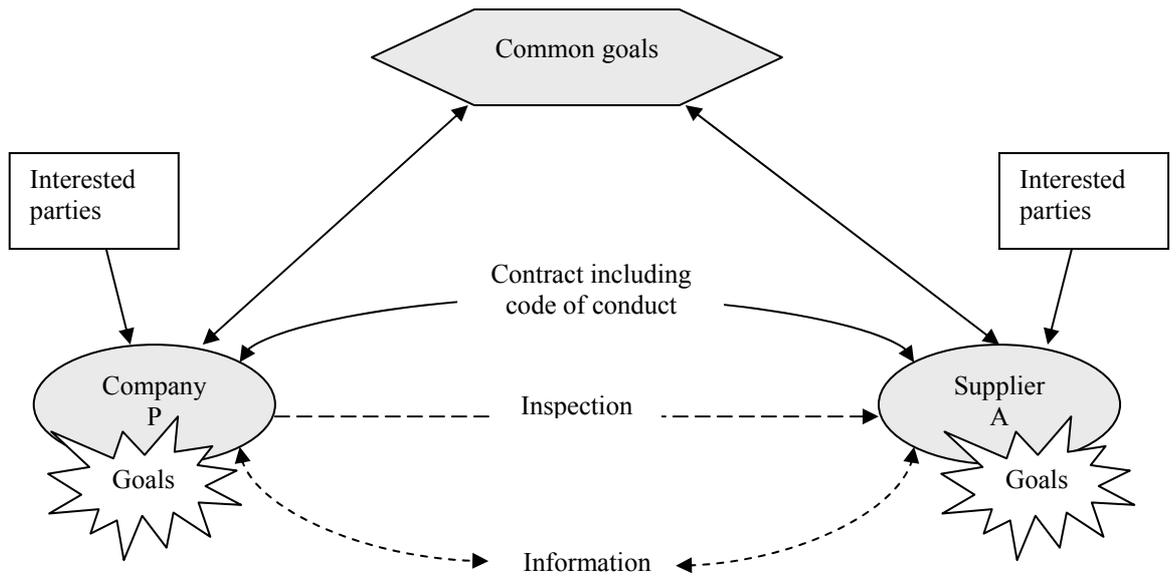


Figure 3.5 Our own Code of Conduct Relationship Model

The company (P) and the supplier (A) contact each other and together they establish a contract. The contract is a business contract which also includes the code of conduct. Furthermore, goals and common goals (the sphere of interest) are taken into consideration. There are influences from the interested parties that both the supplier and the company must consider.

Since the contract is a two-way relationship inspections should be eliminated along with the developing of the relationship. Furthermore, the supplier will follow the code of conduct in its own interest and not in the interest of the company.

Information is constantly flowing between the company and the supplier and vice versa. There should be transparency between the parties regarding the information.

This model can also be referred to a marriage model. This because a marriage is built on trust and the essential part in our model is trust. In a marriage there has to be compromises and in our model compromises must be made when agreeing on the common goals. Goals are the man's and

woman's own goals in life. What they want to achieve both professionally and with the family. In our model the goals are the companies' own goals. Interested parties may be referred to relatives and friends. They may influence and affect the marriage. In a marriage no person should inspect the other one. The need for control should not exist in a marriage or in our model. There should be equality between the man and the woman and in our model none of the parties should rule the other part. Communication is important for the marriage to work and also for the relationship in our model. Furthermore, both parties should have access to the same information.

CHAPTER 4

Empirical method

This chapter includes the research strategy, how the researched companies were collected and furthermore the discussions about the interviews. The credibility of the dissertation is also included. In short, the chapter is a description about our way towards answering our research questions.

4.1 Research strategy

The purpose of the dissertation was to find differences between being a member and not being a member of BSCI. Furthermore we wanted to understand the concept of the code of conduct and how it is checked and complied. Along with the dissertation we became more interested in the relationship point of view instead of the inspection point of view regarding the codes of conduct. We wanted to see if the inspections could be connected to something else for example global agreements or the relationship between the company and its supplier. The reason for this was that we found a connection between the relationship and the inspections of code of conduct when we analyzed our empirical material.

We applied multi-methods in our dissertation, because we used both case study and grounded theory. In the empirical investigation a case study was used and throughout the whole dissertation the grounded theory was applied (Saunders, *et al.* 2003, pp 93). The case study was chosen because our dissertation mostly is based on an empirical investigation. Moreover, the case study helped us answer the questions starting with why, what and how. The grounded theory was used throughout the whole dissertation and is connected to the combination of an inductive and a deductive approach (Saunders, *et al.* 2003, p 93). This was suitable for us since we in the beginning applied a deductive approach which along with the dissertation changed into an inductive approach.

We set up a list over potential companies to investigate and contacted these via e-mail, with information about our dissertation and a request for an interview. Four companies answered and interviews were made with these. The interview questions were a mix of structured and semi-structured interviews. The reason for this was that the questions were standardized and identical but they were not asked exactly in the same order in all interviews. Furthermore, the discussion of each question varied both in time and extent. This resulted in the contents of the answers differed and certain questions received more detailed answers from some companies.

Pilot testing helps the researcher to assess the validity and the reliability of the questions. Unfortunately, we did not have the possibility to pilot test our questions on companies. Instead we sent out the questions in beforehand via e-mail to our selected companies. The reason for this was partly to eliminate the risk of misunderstandings concerning the questions and partly to give the companies opportunity to contact us in case they did not understand a question. This could also give them a chance to be prepared, which would save us time and avoid any surprises for the companies during the interviews. However, it could also result in a withdrawal from the companies. The companies would have time to find answers that would idealize its standpoint. We believed that discussions about the interview questions in person might reduce possible misinterpretation of the questions. Moreover, the questions were asked in order to answer our research questions and for that purpose the interview questions were designed. After the interviews, copies of the compilation were sent to the companies for comments to ensure the reliability of it. Some companies wished to withdraw and change a few answers from the interviews, but not much were changed. Since we wanted to show the companies' angles we changed this information in the compilation of the interviews.

Our empirical study was a foundation for the answers to our research questions. Therefore, the empirical study was the starting-point for our analysis.

4.2 Sample and Limitations

We needed to choose a few companies within a close geographical area to be able to conduct the interviews. Therefore, our own choice was to use Swedish companies. Limitations due to industry were made to reduce the number of companies, and the chosen industry became the textile industry. Since we study International Business, we wanted to make a dissertation based on trade across borders. The final choice was Swedish textile companies that are importing from developing and newly industrialized countries.

A further requirement was that the companies had to use a code of conduct. Moreover, we needed both companies that created their own code of conduct and companies that were members of BSCI and used BSCI's code of conduct. This was needed because we wanted to make a comparison between being a member and a non member of BSCI. Therefore, we searched through the companies' web page to see if they used a code of conduct. The chosen companies were Filippa K, Indiska, KappAhl and JC. The companies are, more or less, medium sized. Furthermore, BSCI's web page was used to find if the companies were members of the organization. Companies that did not have a web page were taken away from our search for companies because it was difficult to collect information about them. Further, we contacted BSCI via e-mail to confirm the answers from KappAhl and JC. The interview questions were sent out via e-mail, due to BSCI's location in Brussels.

Limitations for the dissertation regarding time and budget resulted in a sample selection in the type of multi-stage. The initial stage is choosing a geographical area. The next step is the choice of simple random, systematic or stratified random sampling (Saunders, *et al.* 2003, pp 150). We chose the multi-stage because we needed to overcome geographical problems when we conducted the interviews. Therefore, the choice was Swedish companies because this market was closest and more suitable regarding the time and financial limitations. Afterwards, we used stratified random sampling where

the population is divided into two or more strata. A stratum is a group that has common features which each other. We divided our population, that is to say Swedish companies, into different types of industry and from that we selected the textile industry.

4.3 Response rate

The total amount of sent out e-mails was fourteen and from that we received eleven answers. This results in a response rate of about 79 per cent. However, only four companies had time and interest in participating in an interview. We chose not to send out e-mails to companies in the categories of ineligible and unreachable. Since our dissertation handles codes of conduct, we did not send e-mails to companies that did not apply codes of conduct. These companies were therefore not included in the calculation.

A few of the contacted companies did not have an e-mail address. Instead they had an online form to fill in, in order for customers to get in contact with the company. Even though we made more than one attempt, not everyone responded.

The reasons for non-responding may be a lack of interest in the subject or a lack of interest in working with students. Further reasons for non-responding may be that the companies did not have the time to answer, or that the e-mails were filtered out as spam (Saunders, *et al.* 2002, p 157). This resulted in a reduced number of participants and a narrower range of answers.

4.4 The interview questions

We visited the selected companies at their respective head office. In this way the respondents would be in their home environment. All three of us participated in the interviews, together with one representative from the respective companies. Therefore, we could all be a part of the discussions that arose during the interviews; further all three of us would get the same knowledge about the empirical material.

Our choice of the amount of questions was due to the time limit for the interviews. We set up one hour as a time limit for the interviews, but this was exceeded. Furthermore, we chose to have seven main questions with belonging sub-questions. We chose the sub-questions to get a deeper understanding within each area.

The questions to the companies can be found in appendix 1 and to BSCI in appendix 2.

4.4.1 Company

The first question was asked to receive information about the origin of the code of conduct. It was also asked to understand the reasons why the code of conduct was developed and what its purpose is.

The second question was asked for several reasons. The first reason was to get a wider understanding of the relationship between each company and its suppliers. Furthermore, how a supplier is chosen and what the agreements look like. A further reason for the asked question was if the companies can easily change their supplier and what the companies do if they have problems with their supplier. The last reason for the question was to see if the relationships could be connected to the Principal-Agency Theory and the Customer Relationship Management. The question was also asked to understand the use of the theories in reality and how the theories could be linked to practice.

The third question is connected with our first research question. The purpose of this question was to get a picture of how the inspections are made in practice. The question comprises the whole area of the inspection of the code of conduct. The question includes the inspectors, how frequently the inspections are made, if the inspections are notified in advance and if every level at the supplier has information about the code of conduct.

The fourth question regards language difficulties and if the company uses an interpreter when visiting the factory. This is important because the interpreter must be trustworthy. It is essential for the companies to know that the interpreter translates everything correctly in a conversation.

The fifth question is about what kind of measures the company takes if the code of conduct is not followed. Moreover, the question treated problems the companies must deal with in the follow-up of the code of conduct.

The sixth question was asked due to articles we have read about double accounting. The articles mostly concern working hours and salary lists in China. We wanted to get an overall picture of how widely spread and known this particular issue is. The question dealt with the issue if the companies suspect double accounting and what they do about it.

In the brochure “Guide för Rättvis Handel” the author mentions that a global agreement could replace the code of conduct. For this reason our last question was asked. We wanted to hear the companies' view on this matter and if the companies use global agreements.

4.4.2 BSCI

Question number one and three to seven were similar to the questions asked to the companies and were therefore asked for the same reasons.

Question number two was asked to see if BSCI customized the code of conduct to the different companies or if the code of conduct is the same to the companies and the suppliers. The question also concerned if BSCI classifies or ranks the suppliers regarding how well the code of conduct is followed. Furthermore, we wanted to see how well the suppliers behave according to the code of conduct.

4.5 Credibility

Reliability, validity and generalisability are three parts of the concept credibility. All three are stated below.

4.5.1 Reliability

“Reliability refers to consistency, stability, or the repeatability of results” (Christensen, 2004, p 182). The same result should appear in the same studies but on other occasions and by other observers. The level of reliability is high when the variations in the result are small.

Threats to reliability are subjectivity, partiality, participant error, and observer error (Saunders *et al.* 2003, p 101). The answers received from the Swedish companies had subjective characteristics. It was difficult to know if the answers from the companies were trustworthy because they probably consider their own interests before the whole truth. A further participant error is at what time the interviews were made. Two of our interviews were made on a Thursday and the other two on a Tuesday, in the morning and afternoon respectively. The respondents' state of mind, the day of the interviews, may also affect the answers. Since we did not conduct interviews with the suppliers, due to the location, the answers to the questions are one-sided. The answers from the interviews were angled to the companies' advantage. This problem could be difficult to solve due to the non-existing interviews with the suppliers. Since we did not interview the supplier we did not have the suppliers' angles and therefore it was easy to take the companies' side when the suppliers' voices had not been heard. It might occur that the interview participants did not take the time to look up the information to the answers and therefore the answers might be incorrect.

Observer errors are likely to occur because the compilation of the interviews may be twisted by us. The information may have been slanted along with the compilation of the interviews. We chose to interview our companies face to face to be able to minimize misunderstandings that might occur when questionnaires are used.

In short, the reliability of the whole dissertation is high because we have balanced our empirical material with our theoretical framework.

4.5.2 Validity

“Validity refers to the correctness or truth of an inference” (Christensen, 2004, p 185) and occurs when the findings measure what it is supposed to measure. Validity can also be referred to as internal validity. High reliability is necessary to get high validity, but high reliability is not a guarantee for high validity.

If the study includes variables the relationship between two variables should be causal. One threat is that a found causal relationship may be the wrong relationship (Dahmström, 2000, p 263).

Threats to the validity of our dissertation were that we only viewed one part of the situation and that is to say our empirical material is one-sided because we only received answers from the companies and not the suppliers. Other threats are that the questions might have been misleading, wrongly asked or easy to misinterpret. Even if our questions were asked to answer our research questions we could not be sure that the answers measure what we wanted them to measure. In short, if the questions are not asked in the right way, the result can be misleading.

If a relationship is new, the companies may not yet have experienced all possible situations with its suppliers for example the inspections of the code of conduct. Therefore, some of the answers of our interviews might have been built on different know-how concerning the codes of conduct.

To sum up, the validity is high in our dissertation because our empirical material answers our research questions.

4.5.3 Generalisability

An extension to validity is external validity, also known as generalisability. If the result can be generalised it can be applicable to other similar research situations (Saunders *et al.* 2003, p 102).

Conclusions can seldom be generalised. Therefore, it should always be claimed that generalisability cannot be made. In our dissertation we could not make a generalisation because the result was based on a small number of companies within a large industry. We only wanted to extend our knowledge in the area of the code of conduct. In addition, our dissertation could perhaps be a help for companies that work with and want to work with the code of conduct.

CHAPTER 5

Compilation of the interviews

The four companies, Filippa K, Indiska, KappAhl and JC, are introduced. Furthermore, compilations of the interviews with the companies and BSCI are presented.

5. 1 Filippa K

In 1993 Filippa Knutsson founded a fashion company with clothes connected with style, simplicity and quality. The clothes are intended for both men and women and should be well-fitting and comfortable. Filippa K wants to create beloved clothes to wear over and over again.

Today there are stores in Sweden, Norway, Denmark and the Netherlands. Each store has an architecture developed for just that location. Straight lines, clean surfaces and simple colours should represent the timeless and sophisticated aspects of Filippa K (www.filippa-k.se, 2005).

The clothes are represented by 600 retailers from around the world. All retailers are chosen for their quality, integrity and ability to represent Filippa K as a brand. 120 people are currently working in the company and the turnover is around SEK 240 million.

The clothes are made in Portugal, Turkey, Italy, the Baltic States and China, with Portugal as the premier production country.

Filippa K recently started with codes of conduct and therefore no information is available for customers, neither on its homepage nor in the stores. But, labels with the manufacturing country are always shown in the clothes. However, Filippa K is willing to spend capital on this issue and will in the future also have its own department for the code of conduct (www.filippa-k.se, 2005).

5.2 Indiska

Clothes, accessories, interior decorations, and utility goods are Indiska's assortment. The products are inspired by India and the Orient. Therefore, its main import comes from India where the company has 71 % of its suppliers. The remaining suppliers are situated in China, Sweden, Denmark, Turkey and Vietnam.

Indiska is a company with a long history. It started in the beginning of the last century when a business woman brought home products from a trip to the Middle East and India. These goods were then sold in a store in Stockholm. In the 1950s the company was sold to Åke Thambert and the company has remained within this family.

The company exists in Sweden, Denmark, Norway and Finland. There are totally 69 stores and the company has a turnover of SEK 700 million. Indiska has approximately 600 employees (www.indiska.se, 2005).

Indiska was one exposed company of four during the Clean Clothes Campaign in the end of the 20th century. It was during this attention, from the campaign and media, that Indiska began its work with codes of conduct.

Indiska is nowadays aware of the situation at its suppliers and is working towards better working conditions in the factories. It has come a long way with its work and a brochure with its trade philosophy is available in all Indiska's stores (www.indiska.se, 2005).

5.3 Interview – non-members

On the 13th of October we conducted two interviews in Stockholm. First, we visited the head office of Filippa K and second, the head office of Indiska. We had the opportunity to meet Anna Nygren, who is a buyer at Filippa K and Renée Andersson, who is responsible for ethics and environment at Indiska. The compilation is an intertwining of both interviews. If the answers differ from each other, they will be emphasized. Anna Nygren

works with the Turkish market and therefore the answers from Filippa K will mostly be related to this market.

5.3.1 Creation of code of conduct

At the time of the interview Filippa K had an internal code of conduct with guidelines and rules for the suppliers. The concept of code of conduct is relatively new for Filippa K since the company has only worked with its new code of conduct for six months. Furthermore, Anna Nygren has recently participated in the training of SA8000, but Filippa K will not use the SA8000 system. Instead, the training will help to get a wider understanding.

In the end of 1990, during the Clean Clothes Campaign, media put pressure on companies regarding their working conditions. As a result of the negative publicity and the consumer awareness, companies responded by creating codes of conduct. Indiska was one of the exposed companies and therefore, it had to improve its code of conduct. The code of conduct has been used since 1998.

5.3.2 Goals with code of conduct

Filippa K's goal with the code of conduct, is to make the suppliers realise the importance of the code of conduct and how to improve themselves. Furthermore, the supplier should implement the code of conduct, but how the implementation is made is a decision for the supplier to make. The information of the code of conduct will in time be available for its interested parties. "Commandments" with basic demands will be set up and implemented at the suppliers.

Indiska's goal is to make the supplier understand how it can gain from following the code of conduct and how it can improve the working conditions. It wants the supplier to realise that it is a win-win situation and also that the supplier has the "right thinking".

5.3.3 The inspections of code of conduct – Filippa K

Since Filippa K is in the beginning of its work with the code of conduct the inspections are not yet developed. The inspections regarding the code of conduct will be done by Filippa K until the supplier applies a standardized inspection made by an organization. However, Filippa K will firstly try to implement the “commandments” and the way of thinking at the suppliers.

Filippa K is willing to invest more capital in the inspections. At this moment the company has combined the buying and the inspection. In other words, the employees that are responsible for one product range are also responsible for the suppliers of that specific product. The responsibility includes inspecting the quality of the product as well as the working conditions in the factory. However, in the future the aim is to have a separate department for quality where the code of conduct is included.

In the beginning of Filippa K’s work with the code of conduct, questionnaires are sent out to the suppliers regarding the code of conduct. The meaning of the questionnaires is to make the suppliers understand the situation. Afterwards the company compiles the result and estimates the circumstances. On the basis of this an action plan will be made. A comparison between the answers from the questionnaires and the findings from the inspections is made to see if the suppliers’ answers are trustworthy. As a result, Filippa K will state what is good and what improvements that are needed in the factory.

If the code of conduct is not followed the approach will be to make the company understand the importance of the codes. Moreover, Filippa K does not want to tell the supplier what to do, instead it will give the supplier a new line of approach. In conclusion, the importance for Filippa K is to make the supplier understand why the code of conduct should be followed. A problem is the suppliers’ willingness to cooperate, but this can vary from country to country.

The inspections are made at least once per season at each supplier by Filippa K. These inspections are made according to a checklist. The checklist contains information about the appearance of the factory for example if toilets exist, how the ventilation works, and how the working conditions are. An employee from every department at the supplier is also invited to participate in a meeting so he or she can be involved in the whole production chain. In this way the managers, employees and Filippa K work as a team and share the same “spirit”.

Before every inspection Filippa K informs the supplier about the visit. The inspections will be made at the same time as the production is inspected. However, inspections at the subcontractor are never notified.

Filippa K does not demand the supplier to show their documents, but if the documents are available Filippa K inspects them. Filippa K does not want to cause any damage to the relationship with the supplier and therefore it wants the supplier to join an organization. The choice of inspecting the documents is then up to the organization.

The work with the code of conduct will continue in the same way for Filippa K. It thinks it is important with a uniform procedure in the beginning of the work.

5.3.4 The inspections of code of conduct – Indiska

At first Indiska bought the inspections from independent auditing firms, but nowadays it makes them on its own. Indiska has its own quality controllers and sub-offices that work as its eyes and ears. Furthermore, Indiska gains a closer relationship with its supplier when making its own inspections, when it has a dialogue with the suppliers. Another reason for Indiska not buying the inspections from independent auditing firms such as KPMG is that Indiska does not believe that such inspections provide as much as the personal ones. Indiska’s experience is that personal contacts generate faster and longer lasting improvements.

Sometimes workers at the supplier do not know about the code of conduct. In order to manage this issue Indiska has a poster at the supplier, describing the code of conduct. This poster is provided with pictures and words both in English and the native language. The poster contains all ten points in Indiska's code of conduct for example when the salary should be paid, that children must go to school and that discrimination is forbidden. Moreover, the poster should be placed on a visible spot so all workers can see it, for example by the time clock. In large factories there should be one poster on every floor.

Indiska has made around 250 inspections in two and a half years, including follow-ups. An inspection is made every other month in India because it is the main supplier. Indiska often notifies the supplier before a visit but rarely notifies the subcontractor.

During the inspections in the factories details, on what is missing and what to improve are written down. Besides the physical parts of the factory Indiska inspects the documents. According to the code of conduct, Indiska has the right to see the documents concerning salaries and insurances. Quality controllers are visiting the production several times a week. Simultaneously, checks of visible things are made for example toilets. However, the quality controllers never go through the documents, that is only for the ethical manager to do. According to Indiska, the roles have to be clear and the tasks have to be separated from each other for example that a buyer is a buyer and not an inspector. However, the different departments may help each other regarding the code of conduct.

If the supplier violates the code of conduct Indiska must take actions. A detailed action programme is made during the inspections. This includes everything that has to be done during a specific time. If the deadline is three months away and the actions are not taken before that, the time period for improvements is shortened in the follow-up report. Health and security questions are known as immediate actions.

Indiska has four types of ranking when inspecting the suppliers: unacceptable, acceptable, satisfactory and good. Indiska does not try to work with suppliers that are classified as unacceptable. However, an unacceptable supplier will have chance to improve. If so, a new audit is conducted after the improvements are made. The supplier has to be rated acceptable before Indiska orders from it again.

Attitude is difficult to change and it is not possible to force the suppliers to work in a specific way. Instead, Indiska must listen to the suppliers and understand their conditions, and on basis of that find ways to help them change attitude. This has to be done in a respectful way; a lot of knowledge about the culture in the country and the ways of thinking in the company is needed. It is also important to know the laws of the supplier's country.

The success of the work with the code of conduct will be continued in the same way for Indiska. However, new things are constantly found that may improve the work with code of conduct. In the long-term the code of conduct will become the suppliers' responsibility. Until then, Indiska has ideas on how to go on with the work with the code of conduct.

5.3.5 Language issues

Both Filippa K and Indiska use different types of interpreters to overcome language issues. Filippa K uses its native agents who act as interpreters.

Indiska has no language problems in India because the majority speaks English, but in China English is not widely spread and therefore an interpreter is needed. Indiska has a Chinese employee at its head office who is the interpreter and the guide into the Chinese culture and society.

5.3.6 Suppliers

Inspections at the suppliers have been made from the start of Filippa K. Filippa K has close, long-term relationships with its suppliers and knows them well because many of the suppliers only produce for Filippa K. When a supplier works for more customers, Filippa K is one among others and that

makes it more difficult to work with the said supplier and make it become part of the company. Filippa K believes it is an advantage when the suppliers think of themselves as part of Filippa K.

Filippa K takes good care of its suppliers' entrepreneurial spirit and wants the suppliers to share its feeling and engagement. If the company has problems with its suppliers, either actions must be taken or the relationship will end. However, Filippa K prefers improving current suppliers instead of getting new ones. It is not easy to start a relationship with a new supplier and it takes at least one year before the new supplier is working properly. When the company searches for a new supplier it starts by creating a general view of the interesting country. First, the buyer pays a visit at the new supplier, second the production manager visits the supplier, and third the quality manager pays a visit. If the supplier is approved Filippa K orders clothes samples.

Filippa K uses agents because of their knowledge about the country's culture and mentality. So when problems occur, it is the agent's task to find new suppliers who have the right "feeling". However, the agent cooperates with Filippa K, which also makes the final decision. In spite of this, Filippa K does not use agents in all countries. In China, for example, they have both agents and so called direct factory contacts. The direct contact is often applied in factories that have been consulted for a long time. Agents, on the other hand, are a help when starting up new projects and when there is a long entrance for new markets.

An exact description, of where the different parts for the orders are produced, is demanded by Filippa K. Anna Nygren goes to the suppliers in person to see if everything is followed, but it is also important that she can trust the supplier. One example of mistrust is that Filippa K suspects child labour. Anna Nygren has seen a boy at the subcontractor who always works when she visits them. The supplier says that the boy is 14 years old and this means he is allowed to work 4 hours a day according to the domestic law. Filippa K claims that things like this only happen at the subcontractor and

that is why it demands that the suppliers take responsibility for the subcontractors.

The relationship, with its suppliers, is close and long-term and this is considered as an advantage. In India a business is usually family owned and since Indiska is a family business, it is possible for Indiska and a supplier to get a feeling of knowing each other. The suppliers in China are state owned, half state-owned or private.

If the supplier does not fulfil the requirements in the code of conduct it is given a certain time to settle the problems. If said supplier does not do anything about the problem during this time, Indiska is most likely to end the relationship.

Indiska checks both the supplier and the subcontractor, but the supplier vouches for the subcontractor. New suppliers may be found at fairs, but Indiska prefers growing with the existing suppliers. In this way, both the supplier and Indiska will gain from it.

5.3.7 Double accounting

A supplier is seldom aware of its country's own laws and may therefore think that they must live up to the Swedish standards and legislation, instead of its country's own laws.

Double accounting is a problem in various countries and concerns among other things working hours, salaries and taxes. This is not suspected by Filippa K, but it is questioned.

Indiska knows double accounting exists in China. This was discovered by DressCode⁷ after having interviewed the employees outside work. The interviews were risky both for the employees and the interviewer because they did not know what the consequences would be if the supplier found out

⁷ A proposal for a common code of conduct and a control system for the clothing industry.

about the interview. One interviewed worker had a good salary according to the document showed by the supplier, but this was not the case. Therefore, a non notified visit together with an SA8000 authorised accountant, was made in order to find out if the truth lied in the document or in the answers of the interview. In this case the truth was in the interviews.

Indiska has, through the experiences of the DressCode project, discovered a supplier who printed two different copies stating two amounts of the same employee's salary. In order to fight this kind of problem, Indiska needs to cooperate with other companies. Contrary to China, double accounting is not common in India, although Indiska has suspected a supplier saying that the employees did not work at night. One suggested solution of this problem is to go there by night and investigate the situation.

5.3.8 Global agreements

Filippa K does not use global agreements. In fact, Anna Nygren has never heard of it.

Global agreements are suggestions from the trade unions. Unfortunately the trade unions have no information and do not see what is happening in the factories. Indiska would in this case present its suppliers to the International Textile Garment and Leather World Federation (ITGLWF) in Brussels. Since the ITGLWF have contacts in many countries where certain trade unions are approved, they will make agreements with these trade unions. According to Renée Andersson, Indiska does not want the suppliers to be represented by a trade union. Further, the worker should have the right to join a trade union if he or she wants to, but they should not be forced to it by the Textile International in Brussels. Many trade unions in Asia are affiliated to political parties.

5.4 Summary of non-members

Filippa K and Indiska make the inspections on their own. They always notify the supplier before making an inspection. Filippa K has combined the

buying and the inspection, but aims to have a separate department for quality where code of conduct will be included. Furthermore, the inspections are made on the basis of a checklist. In comparison, Indiska has employed one specific person to make the inspections of the code of conduct.

Filippa K and Indiska pay the supplier a visit in person. They inspect the working conditions and documents to get a general view of the working condition and on the basis of this, help the suppliers to improve the working conditions.

If the supplier does not follow the code of conduct both Filippa K and Indiska must take actions. The action programme, which is written during the inspections, is applied and this programme contains everything that has to be done in a specific period of time.

None of the companies uses global agreements.

5.5 Interview with BSCI

The interview with BSCI was conducted via e-mail. We contacted Lorenz Berzau at BSCI in Brussels and asked if he would be able to answer our questions. Luckily, he approved of this.

5.5.1 Code of conduct

BSCI was developed for companies who wanted to make a joint approach to improve the social standards in the production facilities. Therefore, uniform management instruments were needed. By this, a single process helps to provide comparable results. The aim of the system is defined and determined on the basis of a code of conduct. The management instruments are based on the criteria specified in the code of conduct.

BSCI's code of conduct is compiled to one document from single companies' and organisations' codes of conduct. Furthermore, BSCI has built its code of conduct on basis of relevant ILO Conventions, the UN

Universal Declaration of Human Rights, the UN's convention on children's rights and the elimination of all forms of discrimination against women. The code of conduct of BSCI is also influenced by the code of conduct of Migros⁸ and the AVE⁹ Sector Model. Due to the uniform and joint approach, the code of conduct is the same to all BSCI members. The rule is to use the same management instruments.

Information about BSCI's code of conduct must be posted visible to all workers in the factory. BSCI checks this when conducting interviews with the management and the workers during the audit.

5.5.2 The inspections of the companies

When becoming a member of BSCI the company must sign an agreement. The BSCI Representative Committee makes follow-ups on the implementation of the system by each member to be able to see how it has been implemented and that the system has been implemented by all members. The follow-up is also used to avoid free-riding and window-dressing. However, this is not a rating system, it only ensures the implementation of the system by all members.

5.5.3 The inspections of code of conduct

The audits are exclusively made by SAI accredited auditing companies and by auditors entitled to conduct an SA8000 certification audit. In order to make the inspections the auditors must also fulfil SAI's conditions, otherwise they are not accepted or recognised.

The inspections made by BSCI follow a specific scheme visualized in the picture.

⁸ A federation of cooperatives

⁹ AVE Außenhandelsvereinigung des Deutschen Einzelhandels e.V. (Foreign Trade Association of the German Retail Trade).

Process of BSCI Social Audits

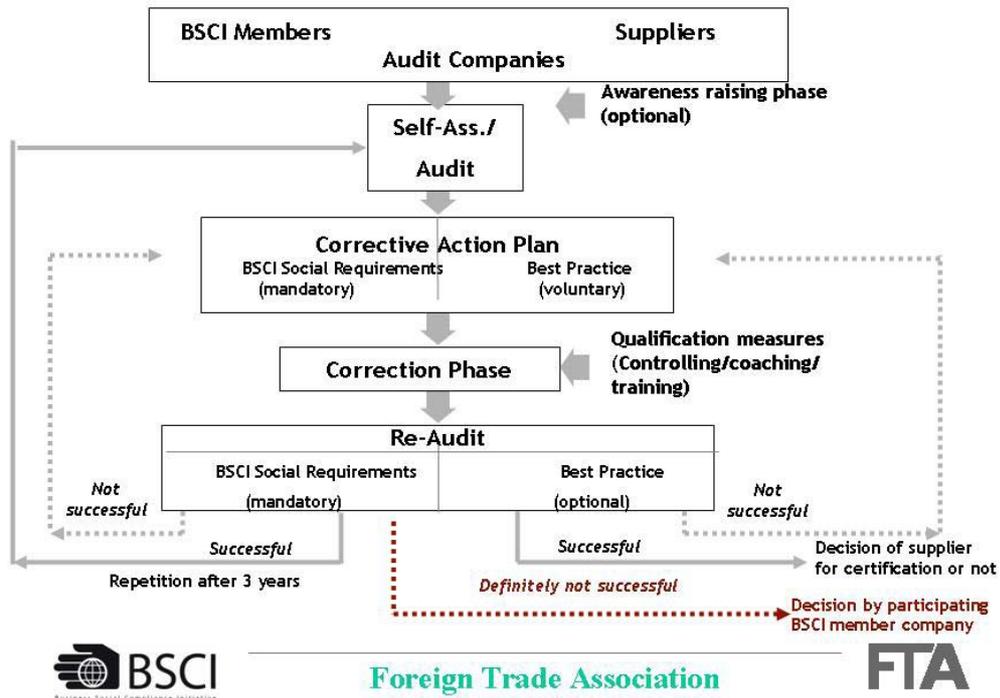


Figure 5.1 Process of BSCI Social Audits (www.bsci-eu.org, 2005).

The BSCI member and the auditing company always notify the supplier before an audit to ensure that the necessary documentation is provided and responsible management is available. BSCI has not found any differences between notified and not notified visits.

The supplier begins to fill in a self assessment which is a form with basic information, such as addresses, production, number of employees, and insurances. Furthermore, the self assessment is complemented with information about the factory and health and safety.

If the code of conduct is not followed the auditor makes a detailed corrective action plan which is agreed upon with the management. The plan describes each action's deadline and the measures to be taken. Follow-ups are made by auditors and BSCI members and it is important to see the commitments and that the improvements are made. If the supplier is not cooperative, actions will be taken by BSCI members and business relations

may be ended. BSCI does not intend to do this, but if improvements are not made nor is about to be made ending business relation is the last solution.

BSCI has a classification system for the suppliers: critical, improvements needed and good. The criteria are divided into two parts – BSCI Social Requirements (part B) and Best Practise for Industry (part C). A corrective action plan is made both for Social Requirements and Best Practise for Industries from the inspections. The implementation of the corrective action plan for part B is obligatory, whereas the corrective action plan for part C is voluntary. Part C has not any critical judgment. In order to have passed the audit, the suppliers must be assessed as “good” in part B, that is to say a re-audit or another re-audit is not necessary.

The re-audits are made within one year after the initial audit, but further re-audits are possible to make. The next complete audit is made three years after the last initial audit. Initial audits are practically made more than once in three years including the time for the corrections, qualifications and re-audits within this period. Furthermore, inspections of documents on salaries and working hours are made. During the audits the health and safety are always checked. In fact, these issues are an extensive part of the audit since they are large problems in most countries.

BSCI does not use interpreters, because it uses local auditing firms. That is why the auditor must speak the local language. Furthermore, the auditors must also be familiar with the respective local circumstances and culture.

Code of conduct will be continued in the same way, with a few changes, for example more conventions might be considered.

5.5.4 Double accounting

Double accounting is not tolerated by BSCI. In order to change the attitude of the company’s management, local meetings are held together with local stakeholders in countries. This is made to discuss non compliances like double, or even triple, accounting, which is widely spread.

5.5.5 Global agreements

BSCI does not use global agreements. However, employment contracts are required. According to Lorenz Berzau there is no particular reason for why global agreements are not used. Global agreements are difficult to use in the united approach of retailers in different countries with different products.

5.6 Summary of BSCI

A joint approach to improve the social environment resulted in the creation of BSCI. All members of BSCI use the same code of conduct.

The audits must be made by SAI accredited auditing firms. Furthermore, the audits are always notified to ensure that all documents are compiled. The initial audits are made on a three-year interval, but the re-audits are made within six months after the initial audit.

If the code of conduct is not followed BSCI makes a corrective action plan. The plan includes details on what improvements to be made and within what timeframe. In addition, the classification of the supplier is divided by three steps; critical, improvements needed and good.

5.7 KappAhl

It all started in 1953 when Per-Olof Ahl opened a store for coats. The store was named KappAhl and it did not take long before it became popular for its low prices and high quality. The business idea was later developed to include other clothing as well.

In 1990 the business was sold to Kooperativa Förbundet (KF)¹⁰ and in 2004 to Nordic Capital¹¹ and Accent Equity Partners¹². Still, the business idea remains: *"We want to give as many people as possible the opportunity to be well dressed"* (www.kappahl.com, 2005)

¹⁰ A co-operative association with 60 co-operative societies founded in 1899

¹¹ A private equity company

¹² A middlesegment in the market of risk capital

The target group is women aged 30 to 50 with families in Sweden, Norway, Finland and Poland. There are totally 3,200 employees within the company and the profit in 2004 was SEK 223 million. Today, 235 stores exist in the countries mentioned above, and the suppliers are located in Europe and Asia, with the majority in Asia.

The work with a code of conduct started in the same way as it did for Indiska: the Clean Clothes Campaign. A few years later KappAhl was a part of the creation of BSCI.

For KappAhl it is important that the working conditions at the suppliers are followed and that this information is reached out both to its suppliers and its customers. A brochure called *Fashion and Ethics* is available on the Internet. Moreover, KappAhl was the first fashion chain in the world awarded with the ISO14001¹³ (www.kappahl.com, 2005).

5.8 Jeans & Clothes, JC

This company is divided into three chain stores: JC (Jeans & Clothes and Boys & Girls), Brothers and Sisters. JC is the oldest, with roots back to the 60s. Brothers started in 1990 and Sisters in 2000. Since 1988 the company can be found in Norway and since 1999 in Finland. JC has a market share of 4 per cent and is by that the fifth largest clothing firm in Sweden. Today the company consists of 261 stores and in 2004 it had a profit of SEK 179 Million.

In 1962 a purchasing cooperation started between some shopkeepers. As time went by more shops joined this co-operation and after a few years the assortment was expanded to contain girl- and child clothing. In 1999 it was decided to shift from the retail association to become a retail trade chain with own stores and franchise stores (<http://www.jc.se>, 2005).

¹³ An environmental certificate

The business idea is as follows: *“JC should develop and operate concepts for fashion stores in the Swedish and the international clothing markets. Each concept has its own well-defined target group and position”* (<http://www.jc-online.com>, 2005).

JC has been a member of BSCI since 2004 but has had its own code of conduct since 1998. JC has its own production offices but also cooperates with external agents and production offices. JC’s offices are located in its largest production markets: Turkey, Hong Kong, and Italy. The external production offices are located in India, Shanghai and Bangladesh (<http://www.jc.se>, 2005).

5.9 Interview – Members of BSCI

The third and fourth interviews were conducted on the 18th of October in Gothenburg. On this day we focused on two companies which are members of BSCI. We started with Ann-Marie Heinonen at KappAhl and then Katarina Ekeroth at JC. Ann-Marie Heinonen works as Manager Information and CSR and Katarina Ekeroth as Quality Manager.

5.9.1 The creation of the code of conduct

As written earlier KappAhl was one of the companies the Clean Clothes Campaign was mainly pointed at. To respond, Ann-Marie Heinonen worked out a code of conduct which was applied in October 1997. A few years later she was a part of the group that developed BSCI Management System including for example the manuals and codes of conduct. KappAhl became a member of BSCI when it started in 2004 and the same applied for JC.

5.9.2 Goals with code of conduct

KappAhl’s and JC’s goals with the code of conduct are similar. To begin with, the suppliers should fulfil the requirements. The working environment and the working conditions must be good and the salary must be sufficient to live on. Finally, the companies should know that the products are made under fair conditions.

5.9.3 The inspections of code of conduct

We decided to intertwine the answers from both companies because they use the same organization and therefore the same inspection system.

BSCI holds information-meetings where the suppliers and the buyers are invited. These meetings inform about the requirements stated by BSCI. They also create opportunities to form new business relations. The suppliers receive a manual containing all information about BSCI.

Both the supplier and the buyer may require an inspection by BSCI. These inspections are made by an independent auditing firm, which is educated in SA8000 and situated in the supplier's country. In addition, KappAhl and JC make their own inspections besides the inspections by BSCI. In some cases, JC joins an audit that is conducted by the independent auditing firm. BSCI makes inspections at the subcontractors if they are the one producing the clothes. Furthermore, BSCI demands the supplier to inform the subcontractor about the demands in the code of conduct. Since the supplier vouches for the subcontractor, the supplier has to change subcontractor if the subcontractor violates the code of conduct and also if no improvements are made.

KappAhl still has its own inspections, but it will in the future transfer to use only BSCI. During this transitional period KappAhl will have parallel inspections. But, KappAhl will always make the inspections on its own when entering a new market or implementing new products.

In contrast, JC will in the future be a part of BSCI's inspections and in addition make its own inspections. However, the company will always make its own inspections before hire a new supplier. JC makes the inspections in purpose of helping the supplier before a BSCI audit and when something is indicated to be wrong. JC has not the possibility to inspect all subcontractors; instead it demands its suppliers to tell their subcontractor to fill in a self assessment. This form is also filled in by all the suppliers. After

the suppliers have filled in the self assessment, JC helps the suppliers with the improvements that are needed before an audit.

Firstly, KappAhl begins an inspection with a walk inside the factory where the physical environment, such as safety, emergency exit and lodging, is checked. Secondly, some of the workers are interviewed; these are chosen by the supplier or interviewed on the spot. The interviews are made in private without any managers and the workers are anonymous. Thirdly, documents from different departments, such as timecards and salary documents are checked and finally compared with the interviews made with workers. It makes no difference if the inspections are notified or not, because the suppliers cannot make any radical improvements before the visit. Instead, it is better to give the supplier time to make improvements before the inspection is made. Hence, some problems could be directly fatal and therefore fundamental problems have to be solved immediately since it concerns safety and hygiene. Other problems are the compensation for overtime and the difficulties in joining a union.

The inspections made by JC are always notified in advance. Measures on basic safety are immediate. JC has during some inspections found that simple rules have not been followed but when the inspections are made there has been a change. These rules often concerns ear protectors and protection gloves. Therefore JC finds it important to explain why the workers must follow these rules. Another problem, JC faces in the follow-up, is the overtime which can be difficult to solve during a short period. A large part of the problem with overtime belongs to the supplier and therefore it must take own responsibility when planning the production.

KappAhl has purchase offices all around the world. At the purchase offices there are employees educated in SA8000 that make the inspections. Further, a coordinator attends the inspections as well as the information meetings. However, the coordinator's main tasks are to manage the internal inspection system, to be updated on laws of the current country and to inform the suppliers.

JC has cooperation with agents and production offices in India, Shanghai and Bangladesh. These agents and production offices also work for other companies. JC has own production offices, situated in its largest markets Turkey, Hong Kong and Italy, where Quality Controllers (QC) works. QC's main task is to check the orders and products before the delivery, but if they notice something wrong about the working conditions it reports directly to JC instead of BSCI.

KappAhl has a detailed action plan for the suppliers to use if they do not fulfil the code of conduct. It must be clear in the action plan what the supplier should do and when the measure should be taken. All suppliers checked by BSCI are stored in a data base with different levels of ranking: approved, improvements needed and not approved. Most of the suppliers are in the ranking class improvements needed. If the supplier is unwilling to make improvements the supplier will be taken away from the data base. If a BSCI member already has made an inspection other members can find the information in the data base, and in this way double inspections may be reduced.

None of the companies believe that forced labour or child labour is a main problem.

KappAhl's future for the code of conduct is to work entirely with BSCI's code of conduct and inspections. KappAhl will also help the suppliers to implement the required improvements.

In the future JC will go on in the same way as before with the work with code of conduct. A consideration is in mind to inform the workers at the supplier. The information will contain the labour legislations in the country, how to count overtime, and how to control the received salary.

5.9.4 Language issues

BSCI engages an independent auditing firm from the country where the supplier is situated. Therefore, language issues are not a problem. If JC needs interpreters it hires them externally.

5.9.5 Suppliers

Both JC and KappAhl intend to reduce the number of suppliers to be able to create satisfactory and long-term relationships. Both the buyer and the supplier want to earn from the long-term relationship although each part wants the highest profit as possible. It has to be a win-win situation where no part can make unreasonable demands on the other part. The buyer must have confidence in the supplier. None of the companies wants to be dominant at one supplier. When a company is dominant at one supplier, the supplier may be in trouble when the company stops doing business with them.

The choice of a new supplier for KappAhl depends on the trade politics in the specific country because KappAhl wants to have a satisfying supervision in the country it buys from. The suppliers are chosen by the purchasing offices and then checked by the supply and source department. KappAhl tries to avoid second hand treatment and therefore it does not choose suppliers used by important competitors.

JC evaluates the supplier before the cooperation and informs on what to be expected of the supplier. Information about BSCI and the code of conduct is also given to the supplier. JC wants its suppliers to fulfil the quality level regarding the production, the machines, the conditions for producing products and the working environment. During low season JC tries to order other products from the supplier in order to even out the production.

The inspections conducted by KappAhl are made both at the supplier and at the subcontractor. These inspections are almost always notified. The inspections are conducted every third year if the supplier is approved.

Depending on the state of the factory, the re-audits are conducted after a certain time, often three to six months after the first inspection.

JC's quality controllers visits some suppliers several times a week and some once a month. They can report if they see something that is not appropriate and JC may check the problem and initiate an additional inspection.

If a supplier refuses to cooperate and implement necessary changes that are required according to BSCI's code of conduct, the relationship between JC and their suppliers may end.

5.9.6 Double accounting

KappAhl knows that double accounting exists. A basic standard at KappAhl is honesty; the company prefers correct documents before forged ones. On the basis of the correct documents, KappAhl will work towards improvements of the working hours and payments. Many suppliers forge documents but KappAhl will in the end always find out about it.

JC has not earlier checked the documents on working hours and salary; therefore it has not found any double accounting.

5.9.7 Global agreements

Neither of the companies uses global agreements.

KappAhl does not want to make agreements above the supplier. Furthermore, KappAhl will not decide what agreements the supplier should have, and it cannot force the workers at the suppliers to join a trade union. A properly working trade union is rare in some countries and these unions are sometimes owned by the state or a political party. This may lead to internal conflicts such as strikes and riots. Therefore, the suppliers do not want the workers to join trade unions. On the other hand, well working trade unions exist, but the agreements are not global.

JC does not know how to administer global agreements. Further, it does not know how to establish contacts with trade unions in other countries. Global agreements may turn into a political question and therefore someone else has to run it.

5.9.8 Member of BSCI or not

KappAhl has not noticed any differences, between being a member or not, at the supplier. Instead of making inspections of its own the company can concentrate on helping the supplier and inform about BSCI. KappAhl can encourage its suppliers to become qualified and take their own responsibility. The subscription fee of being a member of BSCI is high but KappAhl believes the money is well spent. The fee depends on the turnover of the company. Since BSCI is a relatively new organization it is difficult to see if the membership has been profitable or not. KappAhl has paid for all the inspections so far, but there are cases when the supplier either pays or the amount is divided. Although the supplier pays for the inspection KappAhl will have access to the protocol from the inspections.

For JC the membership in BSCI has implied in higher costs, such as the membership fee and independent inspections. Hopefully, the costs will be returned in the future: the quality will become better and the suppliers will become more responsible. Suppliers working with BSCI-members find the membership of BSCI to be an advantage. In spite of this, no differences in the behaviour of the suppliers, which does not work with BSCI-members, have been shown.

5.10 Summary of BSCI-members

KappAhl makes its own inspections parallel with BSCI's inspections. These inspections will in the future be reduced. JC on the other hand will in the future still do inspections besides BSCI's. KappAhl has coordinators at the purchasing offices situated around the world, and JC has Quality Controllers to backup the inspections. During the inspections KappAhl conducts interviews, checks the physical parts of the factory and checks the

documents. JC on the other hand does not check the documents or conducts interviews. Both KappAhl and JC notify the supplier before an inspection.

KappAhl has a detailed action plan for the suppliers to use if they do not fulfil the code of conduct. It must be clear in the action plan what the supplier should do and when measures should be taken.

None of the companies uses global agreements.

CHAPTER 6

Empirical analysis

The material from the interviews is analysed and discussed. Answers to our research questions will be stated and on basis of our result our own model will be described.

6.1 Comparing members and non-members of BSCI

Company Characteristics	Non members		Members		BSCI
	Filippa K	Indiska	KappAhl	JC	
Inspection of Code of conduct	Own	Own	BSCI Own	BSCI Own	BSCI
Who makes the inspections	Buyers Inspectors	Inspector QC	Coordinators	QC	Auditing firms
What is checked during the inspections	Health and safety Documents	Health and safety Documents	Health and safety Documents Interviews	Health and safety	Health and safety Documents Interviews
The code of conduct in the future	Continue in the same way	Continue in the same way	Delegate code of conduct to BSCI	Continue in the same way	Continue in the same way
The relationship with the supplier	Personal	Personal	Via BSCI Personal	Via BSCI Personal	Via auditing firms
Inspections at the supplier	Notified	Often notified	Notified	Notified	Notified
Inspections at the subcontractor	Never notified	Rarely notified	Mostly notified	Never inspected	Mostly notified
How often are the inspections made	1 time at each supplier every season	1-2 times at each supplier every year. Re-audits after 3-6 months	BSCI every third year Re-audits after 3-6 months	BSCI every third year Re-audits after 3-6 months	Initial audits every third year Re-audits after 3-6 months
Global agreements	Not used	Not used	Not used	Not used	Not used

Table 6.1 Compilations of the interviews

6.1.1 The inspections of code of conduct

A code of conduct is a collection of rules, norms and morals. Furthermore, a code of conduct is a voluntary one-way agreement for the company where the company tells the supplier what is expected regarding the working conditions. The company writes an action plan on what it thinks should be improved at the supplier. The action plan is influenced by, among other things, the companies' interested parties. For some companies codes of conduct may be a way to expose themselves as good companies. Therefore, we think the code of conduct may be used as promotion. If the supplier does not agree to sign the code of conduct, the company does not want to work with the supplier, even though the code of conduct is meant to be a voluntary agreement. However, the supplier often agrees on the improvements suggested by the company.

We do not think it matters whether a company is a member or not of an organization, because codes of conduct include the same things. Since the supplier, in most cases, does not have the knowledge of the laws and rights in its country an inspection system has been developed. This inspection system will supervise the code of conduct and its compliance. Furthermore, the function of the code of conduct is inspected.

The four interviewed companies check their codes of conduct through inspections. They agree that the code of conduct should not be considered a law, instead a list of suggestions for improvements. The members of BSCI, KappAhl and JC, use an external SA8000 certified auditor to make the inspections. Furthermore, these inspections are made within a certain interval. KappAhl and JC use these auditing firms for their inspections unlike Filippa K and Indiska. Until BSCI has received more experience in this area KappAhl will have its own inspections. On the other hand, JC will in the future keep its own inspections besides BSCI. Filippa K has a combined buying and inspection department, but will in the future have one department especially devoted to the code of conduct. Indiska has a specific person for everything that concerns the code of conduct, but also a quality

controller that may examine the physical parts while checking the production.

Both the members and the non-members more or less inspect the same things such as health, safety and documents. To confirm these facts KappAhl and BSCI conduct interviews with workers. JC only inspects the factories concerning health and safety. However, Filippa K does not conduct interviews with workers, it only checks the documents if the suppliers want to show them. Indiska checks both the documents and the physical parts, concerning health and safety, of the factory. All four companies will in the future continue their work with code of conduct in the same way. However, KappAhl will delegate all work with codes of conduct to BSCI in the future.

6.1.2 The relation to the supplier

All four companies want to have a personal relationship with their suppliers, but KappAhl and JC also have, besides the personal relationship, a relation to its suppliers via BSCI. However, we think a relationship between the auditing firm and the supplier might not get a personal characteristic, since it is not the same auditor that inspects every time. In this way the auditor and the supplier might not develop a close relationship. All interviewed companies are looking for a long-term relationship with their suppliers. They also wish to have as few suppliers as possible because they want to take extra care of these relationships. However, it seems important for the company not to be the dominant buyer at one supplier. This will make the supplier dependent on the company's orders. If the company withdraws orders the supplier may end up in trouble due to the lack of orders. Our opinion is that long-term cooperation may lead to good relationships because the parties have got to know each other over the years. The relationship with the supplier is an important factor concerning how the companies inspect codes of conduct. The supplier and the customer create a value together. We think that the best case scenario is when the relationship is so good between the supplier and the company that the inspection can be reduced in the future.

The investigated companies do not wish to act as the police with the code of conduct. Instead, the companies' aim is helping the suppliers to improve the working environment, but if the suppliers do not follow the codes of conduct or are unwilling to make improvements, the companies will end the relationships. In this way the companies will rule the suppliers. Furthermore, the suppliers will be forced into different situations because of the requirements from the company. The suppliers cannot make their own opinion heard and that is why the suppliers should not let the companies take over. In order to solve the issue we think that the companies and the suppliers should create a better dialogue between each other and by this make it easier to get along and discuss the problems. A satisfactory relationship will also make it easier to compromise. Furthermore, the relationship will make greater efforts. However, a pleasing relationship can also lead to too much trust. As a result, the company may forget or may not care to check the code of conduct. The relationship should not be ended if a small setback occurs since it cannot always be harmonious. From the reasons stated above we think the inspections of code of conduct are connected with the relationship with the suppliers.

We think that another aspect to the personal relationship with the supplier may be the size of the company. Indiska is a family company which buys its main parts from family companies in India. According to this, Indiska has noticed that it is an advantage to do business with other family companies. The companies may feel a connection and a confidence with each other since the companies have something in common. Companies that have a more similar build-up may find it easier to cooperate since they can feel more familiar with each other and they can recognize the procedure.

Smaller companies may have a more familiar relationship with its suppliers and take better care of the relationships. Larger companies may be shallower and may have more and larger suppliers, therefore the relationship with their suppliers may not be that close. Large companies may also have personal relationships with their suppliers. Therefore, we do not think that

the relationships depend on the size of the company. Instead, it may be how well the company can recognize itself with its suppliers.

6.1.3 The inspections at the supplier

The inspections are notified at the supplier independent of whether it concerns a member of BSCI or not. When the non-members check the subcontractor the inspections are rarely or never notified. BSCI and KappAhl inspect the subcontractor and the inspections are mostly notified. JC does not inspect the subcontractors on its own. Instead, the suppliers should be responsible for the subcontractors.

Filippa K visits its supplier every season and Indiska at least one time every year. Indiska also makes re-audits after three months if the supplier is acceptable. The members of BSCI make inspections every third year when the supplier is approved. If improvements need to be made, re-audits are conducted after three to six months. JC make re-audits every month with the help of its quality controllers.

We think that the inspections should be reduced, because the relationship should be mutual and no part should supervise the other part. Furthermore, the supplier should realise on its own what improvements to make regarding the working environment.

6.1.4 Global agreements

Global agreements are not used by any of the investigated companies. Opinions differ about the global agreements. Indiska and KappAhl are against them, but literature brings out the advantages more than the disadvantages. The codes of conduct should be eliminated and replaced with global agreements. It is also argued that a new form of global agreements is needed. This agreement should be a global collective agreement which may replace all codes of conduct and statements regarding corporate social responsibility (Lindström, 2004, pp 224).

According to us, the advantage of global agreements is that it is a two-way relationship between a company and a trade union. Code of conduct is a one-way relationship which is a disadvantage. Both in the global agreements and in the code of conduct the company works towards its own goals and not those of the suppliers.

As the situation is at the moment, concerning trade unions, we do not think global agreements are relevant. Many countries' trade unions are not working properly, the legislation is not followed and much corruption exists. Global agreements are defective because minimum demands are not always included, neither are the ILO conventions. It is satisfactory that the agreements are between two parties. Unfortunately it is between the wrong parties since it is between the company and the trade union, instead of the company and the supplier or all these three parts. Therefore, we do not think global agreements can be used instead of code of conduct.

If the trade unions world-wide work as they are meant to do, global agreements would be a good complement to the codes of conduct. The agreements from the trade unions give both the employer and the employees influence and responsibility. The employer and the employees are not a part of the global agreements since they are agreements where a trade union represents an employer. Furthermore, it is not right to force someone to join a trade union. Instead, we suggest that everyone should have the possibility to choose a union by its own or the choice not to choose a trade union.

6.2 Answers to our research questions

RQ1: *How are codes of conduct inspected?*

If a company is a member of BSCI the code of conduct is inspected by an auditing firm educated in SA8000. For the non-members the inspections are made by the company. The persons inspecting the factory go through the documents and look over the health and safety parts. KappAhl and BSCI also conduct interviews with the workers.

RQ2: *What are the differences between being a member and not being a member of BSCI?*

The main difference is that the inspections are made by auditing firms educated in SA8000, instead of the companies conducting them on their own. Furthermore, the BSCI-members must use a code of conduct made by BSCI. The code of conduct is the same for all members.

RQ3: *How will codes of conduct be used by BSCI-members and non-members in the future?*

At this moment the work with the code of conduct will continue in the same way, because no better alternative exists.

RQ4: *How do companies create a trust that will make the supplier adhere to the requirements of codes of conduct?*

Companies can create a trust by personal contacts to the supplier. Trust is, among other things, built on a satisfactory relationship. Furthermore, a long-term cooperation may be the foundation to a close relationship with the supplier.

6.3 Code of Conduct Relationship Model

The Principal-Agency Theory describes a one-way relationship, with a contract from the principal to the agent. Both the principal (company) and the agent (supplier) are working towards their own goals to create profit and these goals can vary between them. In order to sell more, the principal must sell clothes made under fair working conditions and the agents must be able to produce cheap clothes. The way towards profit is therefore different for the parties. For that reason, it can be difficult to check what the agent really is doing. It may also be difficult to know if the agent is telling the truth about the working conditions. Therefore, the Principal-Agency Theory will not be enough to explain if the code of conduct is connected with the relationship between the supplier and the company.

In order to complement the Principal-Agency Theory, the Customer Relationship Management is used. CRM cannot fully be used to explain the relationships that influence the code of conduct, for the reasons that some factors are missing and that CRM only shows the relationship between the company and its supplier. It is not connected to the code of conduct. However, some parts of it can be used to give further understanding about the relationships.

Our opinion is that companies should focus on a business-to-business (B2B) relationship, instead of a one-way relationship. Therefore, we have created a model out of the B2B point of view. This model is built on codes of conduct, global agreements, Principal-Agency Theory and Customer Relationship Management.

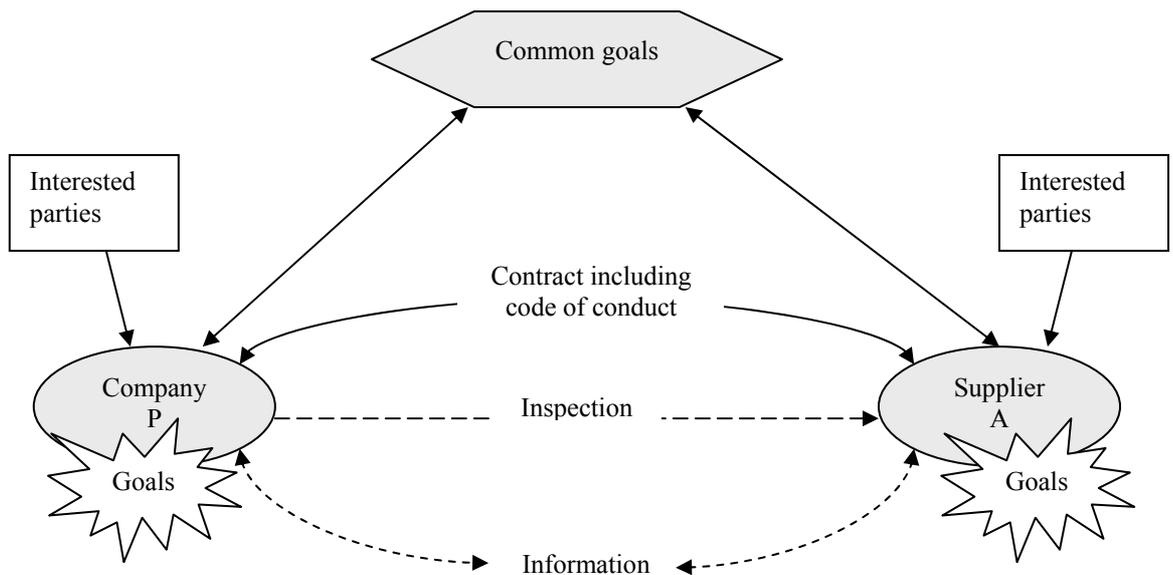


Figure 6.1 Our own Code of Conduct Relationship Model

Instead of companies inspecting the supplier, we think the inspections should be eliminated and the companies focus should be on the relationship and the trust. Therefore, in order to gain the best possible relationship, the company and the supplier must work towards a common goal. The common

goals, also known as the sphere of interest, regard the code of conduct and the relationship. The contract and the goal should be equally important to both parties. The improvements needed for achieving the goals should be discussed and the approach should be agreed upon.

The supplier should be an active party of the agreement and should not feel supervised by the company which can easily become the case with a code of conduct. Both the company and the supplier should work with the contract in its own interest. In other words, the company and the supplier should work independently, but still together. It is important that no part runs over the other one, since they both have their own goals to consider. Furthermore, pressures from all interested parties have to be respected.

It is important that the contract is bilateral and that symmetric information exists. This means that both parties should have access to equal information. No part should hold back information from the other part. The information should flow naturally between the company and the supplier. It must be a win-win situation regarding the giving and the taking of information, so called transparency of information.

In our own model trust is essential for a satisfactory and long-lasting business relationship. After a while inspections should be reduced, because it should not be necessary to supervise the business partner. The supplier should, on its own, be able to realise what improvements have to be made. Furthermore, suppliers should understand that a good working environment may result in better performances by the employees. In this way, motivation will rise and moral hazard may be avoided. If the motivation is low the workers may not want to do anything extra besides what they need to do, and the work may not be well performed.

The trademark will be stronger if the company is recognized as a company that takes care of its suppliers and its employees. It is also good for the supplier to be known as a company with a satisfactory working environment. A good reputation may lead to more customers buying from

them and therefore companies and the suppliers need a good reputation to grow.

The purpose of the model was to show how a company and its supplier could agree on a common goal, and explain how they could gain by achieving it. It is not certain that the company and the supplier want to reach the same goals, but they may have to compromise. Furthermore, we wanted to illustrate how a B2B and a two-way relationship might look regarding the code of conduct. It is important that both parties have equal influence in the relationship. The common goals should reflect what both parties want.

It is also important that the suppliers, in an early stage, understand that the improvements of the working conditions are for their own sake. When the suppliers have realized this, the company can concentrate on helping them to improve instead of supervising them.

In conclusion, it should be a two-way relationship between the company and its supplier. Information should flow freely and considerations should be taken to the interested parties. The inspections of codes of conduct should be reduced, but the content of code of conduct should remain. The parties should also work towards a common goal.

CHAPTER 7

Conclusions

The result of the dissertation is summarized. The applicability and the modifications of the model are discussed. Finally, further research is suggested and practical implications are presented.

7.1 Summary of Dissertation

Globalization is, among other things, when companies buy clothes from developing countries for example China and India. This has extended over the past years and nowadays almost all of our clothes are imported from those countries. Unfortunately, the treatment of workers is not as good in developing countries as it is in industrialized countries.

Nowadays, interested parties have more information about the working conditions at the textile industries. Interested parties such as customers, organizations and stakeholders affect and put pressure on companies to buy from suppliers with decent working environment in the factories. Therefore, a creation of codes of conduct has been made to reduce unfair working conditions.

Many organizations have developed codes of conduct to guide companies. All codes of conduct are entirely or partly based on the conventions of ILO. The conventions contain, among other things, freedom of association, abolition of forced labour and equality of treatment. Other organizations that campaign for better working conditions are FTA and Clean Clothes Campaign. In 2003 BSCI was developed by FTA and retailing companies. This organization works as a tool to manage the code of conduct. Companies can hand over the work with their codes of conduct to BSCI and it will make the inspections through auditing firms educated in SA8000.

We developed four research questions which concerned the inspections of code of conduct, differences when being a member of BSCI or not and the

continuous work with code of conduct. How a satisfactory relationship between the company and the supplier can be achieved was also considered.

In order to investigate if there are any differences in the inspections between being a member or not, we conducted face-to-face interviews with four Swedish textile companies. The selected companies buy their clothes from suppliers in developing countries and work with codes of conduct. Two of the four companies are also members of BSCI and therefore a comparison was made between the members and the non-members to see the differences. The relationship between the companies and their suppliers was also taken into consideration. The companies were Filippa K, Indiska, KappAhl and JC. To confirm the answers from the members, we also contacted BSCI via e-mail.

The result of the differences between being a member of BSCI or not, did not show any significant outcome. The main difference was that BSCI hire SA8000 certified auditing firms when making the inspections. According to this, BSCI have external inspections while non-BSCI members have internal inspections. However, it is difficult to draw a conclusion what is the best inspection, since the companies think their own way is most suitable. Unfortunately, we could not get the suppliers' point of view.

It seems that codes of conduct are not working properly since, among other things, it is a one-way contract from the company to the supplier. Many interested parties may think the code of conduct is working better than it really is. It is easy to create a code of conduct but not as easy to follow it. Therefore, inspections are necessary. None of our selected companies wish to be the police when inspecting the suppliers, instead the very best would be if the supplier actually wanted to be inspected. The companies want the suppliers to be independent and take their responsibility regarding the working conditions and the improvements of the factory.

The idea with the code of conduct is good but since it is not the best alternative other possibilities such as global agreements were taken into

consideration. After analysing the possibility for global agreements to replace codes of conduct, we found that global agreements were not suitable because trade unions do not work correctly in all countries. Furthermore, the supplier is not included in the global agreements since it is between a trade union and a company. In other words, the trade unions should represent the employees. All employees cannot join trade unions, because in some countries the suppliers prohibit the employees. Sometimes the employees do not have information about the trade unions.

Based on our empirical material we investigated the relationship between the company and its suppliers. In order to see how a satisfactory relationship can be achieved we examined if the size of the company was important. The result is that it is not decisive for the relationship with the company's suppliers, instead it is a matter of recognition. In short, the size does not matter regarding how personal a relationship is and how easy inspections can be made. We also examined if the relationship with the supplier is connected to the inspections of codes of conduct, and we found out that a connection existed. It is easier to create a good cooperation regarding codes of conduct if a satisfactory relationship exists between the company and its suppliers. However, too much trust may lead to the company forgetting or leaving some parts out of the inspection.

Theoretical framework and empirical material are a foundation in our own model. The purpose of the model is to make the code of conduct a two-way relationship. We want the supplier to be active in the creation of the contract which includes the code of conduct. Both the company's and the supplier's respective goals and their interested parties must be taken into consideration when creating a contract. A common goal must be worked out and all relevant information should be moving freely between the two parties. However, our own model still contains the code of conduct with the same contents, since the code of conduct is concerning the minimum standards that must be achieved.

7.2 Summary of findings

We did not find any significant differences between being a member or not of BSCI and therefore, we focused on other aspects such as the relationship. A connection between the relationship and the code of conduct was found. Our opinion is that the inspections should be eliminated because the supplier should realise what improvements to make. Unfortunately, the inspections are necessary as the situation is today. The Code of Conduct Relationship Model was created with the aim to describe a two-way relationship from the code of conduct's point of view. The code of conduct should be implemented by a dialogue between the company and its suppliers.

7.3 Applicability of the model

Our own model includes two main parts, the company and the supplier, in which the company acts as the principal and the supplier as the agent. Each party has its own goals and pressures from interested parties. Furthermore, a contract, where both the company and the supplier have equal influence, is prepared. The company and the supplier contact each other and create the contract together. Own goals and common goals are taken into consideration when creating the contract.

Our hopes are that the relationship should be so strong between the company and its suppliers that no inspections would be needed. They should be able to trust each other and work in a business-to-business relationship. A mutual interdependence between the company and the supplier should exist. Neither of them should work as the police and force the code of conduct on the other part. Instead, both parties should work to improve the working environment in their own will. Therefore, the supplier will follow the code of conduct in its own interest and not in the interest of the company. However, there are influences from the interested parties that both the supplier and the company must consider. Asymmetric information should not exist and information should flow naturally between the two parties. In short, the information should be transparent.

A relationship should not be started if the parties do not consider each other's goals. If one part, for example the company, ends the relationship based on the fact that the other part does not want to fulfil the company's goals, the company rules the relationship. The Code of Conduct Relationship Model aims at a two-way relationship and therefore no part can rule the other part.

The Code of Conduct Relationship Model may be applicable since we have not found any model for this specific purpose which is the relationship and the code of conduct. On the other hand, different organizations have attempted to create codes of conduct and global agreements, but this has not worked properly and in some cases guttered out. The Code of Conduct Relationship Model is an attempt for guidance when making global contracts. It should also be a model that eliminates, along with the developing of the relationship, the inspections of the codes of conduct. However, this does not say that codes of conduct should be taken away. They should remain, but in the company's and the supplier's own interest respectively, since the codes of conduct are minimum demands of the working conditions. The Code of Conduct Relationship Model is guidance towards improving the work with codes of conduct in which the companies' inspections should be replaced. The suppliers should come to an understanding that they should strive towards improving the working conditions.

7.4 Modifications

Since the code of conduct is a relatively new subject, no model has been developed. Because of this, we have created our own model, the Code of Conduct Relationship Model. We wanted to create a model that included both codes of conduct and relationships. Unfortunately, the time-limit hindered us from testing it, therefore we do not know if it is applicable in reality and further to other industries and markets.

Because of the pressures of the interested parties, our own model may be difficult to implement in reality. That is to say, our model may not be applicable because both the company and the supplier must consider pressure from outside. Furthermore, the international competition that will remain, due to globalization, is a dilemma for the suppliers in developing countries. It may also be difficult for the suppliers to create a common goal with one company when they have other customers and interested parties to consider. What is more difficult is if the company and the supplier do not have the same goal regarding the financial part.

The party that gains most in this model is the supplier. In other words, the company will lose some of its advantage to the supplier. On the other hand, the interviewed companies do not wish to be the police for the suppliers. Therefore, the Code of Conduct Relationship Model may suite both parties well.

Even though we have found that there is a correlation between relationships and codes of conduct, we do not know if relationships are the best base for the model.

7.5 Methodological Criticism

Our research was conducted by a case study and a grounded theory. The interviews helped us evaluate the research questions and also to create our own model. However, the empirical material may be questioned since we only interviewed four companies.

The interviewed companies had not worked with the code of conduct for the same amount of time. Therefore, the companies were on different levels and not equally versed in the code of conduct. The companies' individual phase in the work with code of conduct should have been investigated before we chose the companies. If we had known this we could have found companies on the same level. This would have simplified the interviews and the result could more easily have been compared.

The companies received the main questions in advance so they could prepare the answers to the questions. Yet, some of the companies were not sufficiently prepared and therefore the interviews developed differently. The interviews were more or less discussions. Therefore, the questions were not asked in the same order and because of this, the questions had not the same angle in each interview. The main questions were asked in the same way, but some of the sub questions were more or less discussed, regarding time and extent, with the different companies. We sent out the compilation of the interviews to each company to eliminate misunderstandings, and some of the companies wanted us to change a few answers. A disadvantage for sending the compilation was that the companies could slant it to a better perspective. Their answers might be seen as promotion. Perhaps it would have been better to send a questionnaire instead of making interviews to receive more reliable answers. But, in that way we would not have gained the personal contact we created with the interviewed companies. Furthermore, there is a possibility that we as the interviewers let our hopes and expectations influence the result of the interviews and, consequently, the research.

Due to distance, time-limitations and financial aspects we have only been able to interview companies in Sweden. Therefore, we have not received the suppliers' point of view and because of this, we only got one-side of the situation. Another reason for not interviewing the suppliers or the worker at the suppliers was that the answers probably would not be true and honest. The suppliers were not interviewed because we think that they would withhold information about the true working conditions in the factories. We have read that workers are afraid of participate in interviews because they might loose their jobs (Carlström, 2002). The one-side interpretation of the situation is reflected in the empirical material, the analysis and the conclusion.

7.6 Practical Implications and Future Research

The Code of Conduct Relationship Model may contain the most practical implications for companies in the textile industry that buy from foreign countries where codes of conduct are needed. The model is most suitable in the textile industry because it was developed on basis of this industry. It may be used as guidance for companies that wish to create a better relationship with their suppliers. The Code of Conduct Relationship Model was created to reach an extensive understanding for the work around the code of conduct. It should also include the social aspects in the relationships.

Another aspect of the model is that it can be of help when improving relationships. Furthermore, it shows how to avoid violations and bulldozing of the other partner. The model should be a help when creating a relationship with the supplier and also when analysing the supplier.

One specific part of the model may not be used, because all parts are included in a business-to-business relationship. Instead, parts may be added to fit the specific company. The model is a foundation that in the future may be extended with the company's specific components.

As mentioned in the problem area, there are many problems and aspects regarding the code of conduct. These problems and aspects may be a foundation for further research in the areas of corporate social responsibility, code of conduct and the business relationship between the company and the supplier. Furthermore, it would be interesting to test if our model is appropriate in reality.

Future research may be based on the following:

- Since we cannot generalise our results it would be interesting to make the same investigation on other markets and industries. In other words, to test if codes of conduct can be used in general, how they are applied

and to see if the results would be the same. Furthermore, analyse the differences and similarities that might occur between two different industries or markets.

- While we did not have time to test and apply our own model in reality, it would be interesting to investigate if the Code of Conduct Relationship Model is applicable both in reality and to other industries and markets.
- We have based our model on the relationship as the main thing for the code of conduct to work better. However, since we did not have time to test our model, we do not know if our choice for the base is most suitable. Another factor may be more suitable to create a well working code of conduct with improved working conditions in developing countries.
- Today some products have a certification or a marking regarding the quality. These certifications exist to know what quality level the products have. Instead of having a code of conduct, is it possible to develop a certification system that is applicable to the textile industries? Furthermore, can a certification be trustworthy?
- Another topic for further research can be if codes of conduct can be replaced by global agreements. This topic would be interesting because the opinion on global agreements has varied among our resources. Furthermore, can a solution be found that will suit every involved part of global agreements?

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Appendix 1a

Original interview questions to companies

- 1) Varför började ni med uppförandekoder?
 - a. Hur har ni kommit fram till detta regelverk?
 - b. Vad är ert mål med uppförandekoden?

- 2) Vilken sorts relation har ni med era leverantörer?
 - a. Hur väljer ni era leverantörer? Kriterier.
 - b. Vad har ni för förtroende för era leverantörer?
 - c. Hur långa avtal har ni med era leverantörer?
 - d. Hur gör ni om ni har problem med era leverantörer?
 - e. Är det lätt att byta leverantör?

- 3) Vilka typer av kontroller använder ni er av för att kontrollera uppförandekoden?
 - a. Gör ni egna kontroller eller använder ni er av inspektionsgrupper/organisationer?
 - b. Hur ofta kontrolleras uppförandekoden?
 - c. Hur går ni tillväga med kontrollerna i praktiken?
 - d. Gör ni oanmälda eller anmälda besök?
 - e. Kontrollerar ni att alla arbetare hos leverantören har information om uppförandekoden? Om ja, hur? Om nej, varför inte?

- 4) Vad gör ni åt eventuella språkproblem?
 - a. Har ni någon tolk?
 - b. Om ja, anlitar ni den själva eller är det leverantören?
 - c. Kan ni lita på tolken?

- 5) Vad vidtar ni för åtgärder om uppförandekoden inte följs?
 - a. Vad använder ni för tillvägagångssätt?
 - b. Vilka problem stöter ni på vid uppföljningen av uppförandekoden?

- 6) Misstänker ni att det förekommer dubbel bokföringen vad gäller arbetstider och löner?
 - a. Om ja, vad gör ni åt det?

- 7) Använder ni er av globala ramavtal t.ex. anställningsvillkor?
 - a. Om ja, i vilken utsträckning?
 - b. Om nej, varför inte?

Appendix 1b

Original interview questions to companies translated into English

- 1) Why did the company start with the code of conduct?
 - a) How did the company create these rules?
 - b) What is the company's goal with the code of conduct?

- 2) What kind of relationship does the company have with its supplier?
 - a) How does the company choose their supplier? Criteria.
 - b) What kind of trust does the company have for the suppliers?
 - c) For how long time is the agreements made with the suppliers?
 - d) What does the company do if there are problems with the supplier?
 - e) Can the company easily change the supplier/suppliers?

- 3) What kind of check does the company use regarding the code of conduct?
 - a) Who makes the inspections?
 - b) How frequent are the inspections of the code of conduct made?
 - c) How are inspections performed e.g. visits, interviews etc?
 - d) Does BSCI inform about the inspections in advance or are the inspections made randomly?
 - e) Does BSCI check if employees on every level at the concerned company have information regarding the code of conduct? How?

- 4) What does BSCI do about language issues when interviewing native speakers?
 - a) Does BSCI use an interpreter?
 - b) Who is the interpreter?
 - c) Do you trust the interpreter?

- 5) What measures does the company take if the code of conduct is not followed?
 - a) What approach is used?
 - b) What problems does the company come across in the follow-up of the code of conduct?

- 6) Does the company suspect that there is double accounting regarding working hours and salaries?
 - a) If yes, what does BSCI do about it?

- 7) Does the company use any global general agreement e.g. employment contracts?
 - a) If yes, to what extent?
 - b) If no, why not?

Appendix 2

Interview questions to BSCI

- 1) Why did BSCI develop the code of conduct?
 - a) How did BSCI develop the code of conduct?
 - b) What is the code of conduct based on?

- 2) Does BSCI use the same code of conduct to all the companies or is the code of conduct customized for each company's needs?
 - a) Does BSCI have any classification or ranking concerning how well the code of conduct is followed by suppliers that are members of BSCI?
 - b) How do the suppliers behave according to the code of conduct?

- 3) What types of inspections does BSCI use when it examines the code of conduct?
 - a) How are the inspections made, practically e.g. visits, interviews etc?
 - b) Does BSCI inform the industries about the inspections in advance or are the inspections made randomly?
 - c) How frequent are the inspections of the code of conduct made?
 - d) Does BSCI check if the employees, on every level at the concerned company, have information regarding the code of conduct?

- 4) What does BSCI do about language issues when interviewing native speakers?
 - a) Does BSCI use an interpreter?
 - b) Who is the interpreter?

- 5) What measures does BSCI take if the code of conduct is not followed?
 - a) What approaches does BSCI use?

- 6) Does BSCI suspect that there exists double accounting regarding working hours and salaries?
 - a) If yes, what does BSCI do about it?

- 7) Is BSCI using any global general agreements e.g. employment contracts?
 - a) If yes, to what extent?
 - b) If no, why not?

Appendix 3

Relevant ILO Conventions

- Hours of Work (Industry) Convention, 1919
- Unemployment Convention, 1919
- Maternity Protection Convention, 1919
- Night Work (Women) Convention, 1919 (shelved)
- Minimum Age (Industry) Convention, 1919
- Night Work of Young Persons (Industry) Convention, 1919
- Weekly rest (Industry) Convention, 1921
- Workmen's Compensation (Accidents) Convention, 1925
- Workmen's Compensation (Occupational Diseases) Convention, 1925
- Equality of Treatment (Accident Compensation) Convention, 1925
- Inspection of Emigrants Convention, 1926 (shelved)
- Sickness Insurance (Industry) Convention, 1927
- Forced Labour Convention, 1930
- Old Age Insurance (Industry, etc.) Convention 1933
- Invalidity Insurance (Industry, etc.) Convention, 1933 (shelved)
- Survivors' Insurance (Industry, etc.) Convention, 1933 (shelved)
- Night Work (Women) Convention (Revised), 1934 (shelved)
- Workmen's Compensation (Occupational Diseases) Convention (Revised), 1934
- Unemployment Provision Convention, 1934 (shelved)
- Underground Work (Women) Convention, 1935
- Forty Hour Week Convention, 1935
- Maintenance of Migrants' Pension Right Convention, 1935 (shelved)
- Recruiting of Indigenous Workers Convention, 1936 (shelved)
- Holidays with Pay Convention, 1936
- Minimum Age (Industry) Convention (Revised), 1937
- Reduction of Hours of Work (textiles) Convention, 1937 (withdrawn by the ILC-decision of 15 June 2000)
- Conventions concerning Statistics of Wages and Hours of Work, 1938

- Contracts of Employment (Indigenous Workers) Convention, 1939 (shelved)
- Penal Sanctions (Indigenous Workers) Convention, 1939 (shelved)
- Migration for Employment Convention, 1939 (withdrawn by the ILC- decision of 15 June 2000)
- Medical Examination for Young Persons (Industry) Convention, 1946
- Final Articles Revision Convention, 1946
- Labour Inspection Convention, 1947
Protocol of 1995 to the Labour Inspection Convention, 1947
- Social Policy (Non-Metropolitan Territories) Convention, 1947
- Labour Standards (Non-Metropolitan Territories) Convention, 1947
- Right of Association (Non-Metropolitan Territories) Convention, 1947
- Labour Inspectorates (Non-Metropolitan Territories) Convention, 1947
- Contracts of Employment (Indigenous Workers) Convention, 1947 (shelved)
- Freedom of Association and Protection of the Right to Organise Convention, 1948
- Employment Service Convention, 1948
- Night Work (Women) Convention (Revised), 1948
Protocol of 1990 to the Night Work (Women) Convention (Revised), 1948
- Night Work of Young Persons (Industry) Convention (Revised), 1948
- Labour Clauses (Public Contracts) Convention, 1949
- Migration for Employment Convention (Revised), 1949
- Right to Organise and Collective Bargaining Convention, 1949
- Equal Remuneration Convention, 1951
- Social Security (Minimum Standards) Convention, 1952
- Maternity Protection Convention (Revised), 1952
- Abolition of Penal Sanctions (Indigenous Workers) Convention, 1955 (shelved)
- Abolition of Forced Labour Convention, 1957
- Indigenous and Tribal Population Convention, 1958
- Discrimination (Employment and Occupation) Convention, 1958

- Final Articles Revision Convention, 1961
- Social Policy (Basic Aims and Standards) Convention, 1962
- Equality of Treatment (Social Security Convention, 1962
- Employment Injury Benefits Convention, 1964
- Invalidity, Old-Age and Survivors' Benefit Convention, 1967
- Medical Care and Sickness Benefits Convention, 1969
- Minimum Wage Fixing Convention, 1970
- Holidays with Pay Convention, 1970
- Workers Representatives Convention, 1971
- Minimum Age Convention, 1973
- Human Resources Development Convention, 1975
- Migrant Workers (Supplementary Provisions) Convention, 1975
- Labour Administration Convention, 1978
- Collective Bargaining Convention, 1981
- Occupational Safety and Health Convention, 1981
Protocol of 2002 to the Occupational Safety and Health Convention,
1981
- Workers with Family Responsibilities Convention, 1981
- Maintenance of Social Security Rights Convention, 1982
- Termination of Employment Convention, 1982
- Vocational Rehabilitation and Employment (Disabled Persons)
Convention, 1983
- Labour Statistics Convention, 1985
- Employment Promotion and Protection against Unemployment
Convention, 1988
- Indigenous and Tribal Peoples Convention, 1989
- Night Work convention, 1990
- Protection of Workers' Claims (Employer's Insolvency) Convention,
1992
- Part-Time Work Convention
- Worst forms of Child Labour Convention, 200

(<http://www.ilo.org>, 2005)