

**Beneath Corporate Codes of Conduct:  
What Drives Compliance in Two Mexican Garment Factories?**

by

**Monica Romis**

Universita' degli Studi di Napoli "Federico II"  
Laurea, Business and Economics, 2000

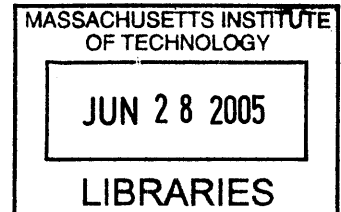
Submitted to the Department of Urban Studies and Planning  
In partial fulfillment of the requirements for the degree of  
Master in City Planning

at the

Massachusetts Institute of Technology

June 2005

© 2005 Monica Romis. All rights reserved.



The author hereby grants MIT permission to reproduce  
and to distribute publicly paper and electronic  
copies of this thesis in whole or in part

Author \_\_\_\_\_  
Department of Urban Studies and Planning  
June 3, 2005

Certified by \_\_\_\_\_  
Professor Judith Tandler  
Department of Urban Studies and Planning  
Thesis Supervisor

Accepted by \_\_\_\_\_  
Dennis Frenchman  
Chair, MCP Committee  
Department of Urban Studies and Planning

**ROTCH**

Beneath Corporate Codes of Conduct:  
What Drives Compliance in Two Mexican Garment Factories?

by

Monica Romis

Submitted to the Department of Urban Studies and Planning  
In partial fulfillment of the requirements for the degree of  
Master in City Planning

**ABSTRACT**

This thesis addresses the question: under what conditions do corporate codes of conduct work? To answer this question, I develop two case studies of subcontracting factories that are subject to a multinational company's (MNC) code of conduct. These two factories have many similarities—both are in Mexico, both are in the apparel industry, and both produce for the same MNC. In addition, on the surface, they appear to have similar labor practices. They have comparable policies vis-à-vis their workers in terms of recruitment, promotion system, grievance system, and benefits. However, upon conducting fieldwork at the plants, I found that, despite similarities on paper, there are significant differences in actual labor conditions. One factory complies with the code of conduct and the other does not. I argue that the code of conduct, and other similar policies, are “filtered” by the management, which results in different labor conditions. Four factors influence the way managers treat their workers and interact with the MNC—external labor markets, product markets, cultural and language conditions inside the plants, and values of management. These factors influence the management style of the plants and their relationship with the MNC, which result in different implementation of the same policies, and, in turn, different labor conditions.

**Thesis Supervisor:** Judith Tandler  
**Title:** Professor of Political Economy

## ACKNOWLEDGEMENTS

I would like to thank the two professors that supported me during my research, and during my two years at MIT: Judith Tandler, my advisor, and Richard Locke, my reader. I feel incredibly lucky to have had Judith Tandler as my advisor. She challenged me with her insightful comments and she taught me to always ask *why* something happened, *why* in some cases and not in others, and *why* we should care about it. I am also extremely lucky to have had the chance to work with Richard Locke, who became a good mentor, giving me precious advice and continuous encouragement in my work. I am also grateful to him for inviting me to participate in the research project from which this thesis was born, and providing the support for my fieldwork in Mexico and the United States.

I sincerely thank the wonderful people at the MNC and the plants for answering my countless questions and making my fieldwork a pleasant adventure. I am particularly grateful to the workers, who took the time for sharing their stories with me. Without them, this research would have not been possible.

I would also like to thank my professors in Italy Liliana Bàculo, Luca Meldolesi, and Nicoletta Stame, for transmitting to me their passion for fieldwork and giving me the self-confidence to embark on this adventure.

I am profoundly grateful to my mother and father, who always encouraged me to follow my dreams and believed in me every single moment.

Finally, I would like to thank my boyfriend Matt, who tolerated my moments of despair and spent an immeasurable amount of time with me discussing the findings of my research.

# Table of Contents

<b>ABSTRACT</b>	<b>2</b>
<b>ACKNOWLEDGEMENTS</b>	<b>3</b>
<b>Chapter 1: Introduction</b>	<b>6</b>
<b>1.1 Labor Standards and Globalization</b>	<b>6</b>
<b>1.2 Multinational Companies and Labor Standards</b>	<b>7</b>
<b>1.3 A Tale of Two Factories</b>	<b>8</b>
<b>1.4 What drives compliance with the code of conduct?</b>	<b>12</b>
<b>1.5 Methodology</b>	<b>14</b>
<b>1.6 Organization of the Thesis</b>	<b>19</b>
<b>Chapter 2: Setting the Stage</b>	<b>20</b>
<b>2.1 Introduction</b>	<b>20</b>
<b>2.2 Multinational Companies and Corporate Codes of Conduct</b>	<b>20</b>
<b>2.3 Benefits and Limitations of Corporate Codes of Conduct</b>	<b>22</b>
<b>2.4 Conditions In Which Codes of Conduct Are Effective</b>	<b>26</b>
2.4.1 Economic Factors	26
2.4.2 Causes of Labor Violations and Management Perceptions	28
<b>Chapter 3: Compliance in the Apparel Sector</b>	<b>31</b>
<b>3.1 Introduction</b>	<b>31</b>
<b>3.2 The Apparel Sector</b>	<b>31</b>
<b>3.3 The Global Buyer: WorldSport</b>	<b>35</b>
<b>3.4 WorldSport in Mexico</b>	<b>38</b>
<b>3.5 WorldSport and Compliance with Labor Standards</b>	<b>40</b>
3.5.1 A New Grading System	48
<b>Chapter 4: Labor Conditions in Plants A and B</b>	<b>55</b>
<b>4.1 System of Production</b>	<b>61</b>
<b>4.2 Systems of Production in Plant A and Plant B</b>	<b>64</b>
<b>4.3 Workers</b>	<b>70</b>
4.3.1 Workforce Composition and Communication	79
4.3.2 Overtime	82
<b>4.4 Worker Voice</b>	<b>83</b>
<b>4.5 Worker Benefits</b>	<b>89</b>
<b>4.6 Compliance with WorldSport's Code of Conduct</b>	<b>91</b>
<b>4.7 Summary and Final Remarks</b>	<b>95</b>
	<b>4</b>

<b>Chapter 5: Conditions for Compliance</b>	<b>97</b>
5.1 What drives compliance with the code?	97
5.2 Two styles of management	107
5.3 The relationship between WorldSport and the plants	115
5.3.1 Perceptions of the Code of Conduct	121
<b>Chapter 6: Conclusion</b>	<b>123</b>
6.1 About the assessment	123
6.2 About the conditions	126
<b>Appendix</b>	<b>129</b>
Appendix 1: WorldSport's Code Conduct	129
Appendix 2: Internal Labor Market	131
Appendix 3: Plant Policy	137
Appendix 4: List of Interviews	138
<b>References</b>	<b>141</b>

# Chapter 1: Introduction

## 1.1 Labor Standards and Globalization

Many have argued that competitive pressure imposed by international competition leads to a deterioration of labor standards and social conditions in developing countries. Competition induced by globalization—they claim—leads firms to ignore or fail to comply with labor standards in efforts to cut costs. From this perspective, globalization weakens national efforts to impose labor standards. Even if countries are successful in passing legislation in favor of labor standards, global pressure may undermine compliance with these standards. Not all agree with this view; others have argued that the effects of globalization on developing countries are not always negative. Defenders of globalization point to the gains that foreign investment brings to developing countries, including, rising standards of living, economic growth, and modernization (Haufler, 2001). Multinational companies can bring new technologies and market access to previously less developed areas, and they may help process of industrial development by creating backward and forward linkages in less developed countries (Hanson, 2001).

In an attempt to minimize any negative effects of globalization, the international community agreed on a set of working conditions, which are recognized as necessary to ensure fundamental rights to workers. In 1998, 175 members of the International Labor Organization (ILO) agreed on four principles and rights at work. The member countries agreed that all countries, regardless of their level of development, should respect and promote: (1) freedom from forced labor; (2) nondiscrimination in the workplace; (3) effective abolition of child labor;

and (4) freedom of association and the right to organize and bargain collectively. The international community expects all members to respect these labor standards. International labor standards require all countries to play by the same rules—thereby leveling (in theory) the economic playing field. When followed, labor standards provide all workers with acceptable working conditions.

The intense focus on international labor standards in the past decade has engendered a variety of responses. On one hand, some argue that imposing labor standards on developing countries is a form of protectionism that hurts the interests of the poorest, whose competitive advantage is their cheap labor force (Bhagwati, 1995). On the other hand, some claim that improved labor conditions will lead producers in developing countries to upgrade their production processes and up-skill their workforce, and thus enhance their competitiveness in the long run. Between these two extremes a third position claims that globalization could bring significant benefits, but there is a need for new norms and institutions at the global level to ensure a broader distribution of the benefits of economic integration (Fung, O'Rourke, and Sabel, 2000). In addition, there is a debate about which actors are best equipped to govern globalization and, as a part of globalization, labor standards. National governments, international organizations, multinational companies, NGOs, and groups of students and activists in developed countries are all potential candidates. This thesis focuses on the ability of one of these actors, multinational companies (MNCs), to govern labor standards.

## **1.2 Multinational Companies and Labor Standards**

MNCs have taken advantage of the increased integration of the markets by organizing their production worldwide. Today, there are over 60,000 MNCs with more than 450,000

subcontractors around the world (Haufler, 2001). They are the world's largest employers, and they establish the wages and working conditions of workers located in a variety of countries. Human rights groups, consumer associations, and social justice campaigners believe that MNCs undermine national regulatory systems and worsen labor standards because, as they claim, MNCs try to keep the cost of production low, including labor, to increase their profits. In order to respond to these accusations, MNCs are increasingly adopting policies that address labor and social issues. There are a variety of programs in MNCs' suite of tools to address these issues. These programs range from corporate codes of conduct, to monitoring systems, to partnerships with NGOs and governments. One particular tool that has received much attention are corporate codes of conduct. Codes of conduct are "voluntary expressions of commitment made by an organization to influence or control behavior for the benefit of the organization itself and for the communities in which it operates" (Gordon and Miyake, 1999). Despite this attention, the extent to which codes of conduct have been successful thus far is relatively limited. My research addresses the question: under what conditions do corporate codes of conduct work?

### **1.3 A Tale of Two Factories**

To answer this question, I develop two case studies of two subcontracting factories that produce for a global buyer, leader in the apparel and footwear sportswear sector (WorldSport) and have to comply with its code of conduct. These two factories (Plant A and Plant B) have many similarities—both are in Mexico, both are in the apparel industry, and both produce for the same MNC. In addition, on the surface, they appear to have similar labor practices. They have comparable policies vis-à-vis their workers in terms of recruitment, promotion system, grievance system, and benefits. Further, they both have similar compliance issues with WorldSport's code



of conduct that have been identified by WorldSport under one auditing system. To an external observer, Plants A and B appear to have no significant differences in labor conditions. However, my research at the plants found that, despite similarities on paper, there are significantly differences in actual labor conditions.

Two short stories illustrate the significant variation in labor conditions. The first story is about overtime work. Despite the fact that both plants have to respect the code's limitation of a maximum of 60-hour work weeks and that both are required to pay overtime by Mexican law, the two plants have different policies regarding overtime. In Plant A, overtime is voluntary and, according to my interviews, the management asks its workers to work extra hours only in rare occasions. In Plant B, overtime is mandatory and an everyday practice. This difference illustrates that—despite the same policies, same country, same MNC buyer, and other similarities—the practice of overtime at these two plants varies significantly.

The second story is about the grievance systems at the plants. Both plants have a suggestion box through which workers can voice their grievances and questions to the management of their plant. However, the way this system is implemented in Plant B actually reduces worker voice rather than increasing it, which is the intent of the grievance system. In Plant B the management posts the questions submitted to the suggestion box, including the name of the workers that submits them, in a public area in the shopfloor. This practice discourages workers from expressing their opinions by compromising the anonymity of the comments. In Plant A, instead, worker questions remain anonymous, a fact that encourages their voice and protects them by any punishment. The suggestion box is an example of how managers in the plants implement the same policy in ways that have different impacts on labor conditions.

Overall, workers in Plant A labor under better conditions than workers in Plant B. In Plant A, employees are more satisfied, less absent, safer, and more productive. In Plant B, workers are not satisfied with their job, do not wear equipment protection, and their productivity is low compared to workers in Plant A. A recent strike in Plant B illustrates employees' low morale and high distrust of management. The differences between Plant A and B, however, are not black and white; there are some grey areas in between. For example, while Plant B provides its workers with a daily childcare service, Plant A does not. Given the high number of female workers in the garment industry—in both plants, the ratio female/male is 4 to 1—it is significant that women workers in Plant A do not have this benefit. In summary, Plant B does provide better working conditions in some areas, but these are by far the exceptions, and, overall, the conditions are better in Plant A than in Plant B.

Plant A's better labor standards than Plant B are surprising for four reasons. First, the results of labor audits conducted by WorldSport's inspectors are very similar for both plants. Both plants had high scores from the audits, which indicate high levels of compliance with the code of conduct. One would expect, given similar results in these audits, to find similar labor conditions in the two plants. However, as described above, the labor conditions are significantly different, a fact that shows that this indicator is inadequate in capturing the real conditions in Plant B, which actually has poor labor conditions and poor compliance with the code. Second, the two plants in my study do not conform to all of the predictions of the literature on labor conditions. It has been argued that, across countries and time, foreign firms pay their workers higher wages, have higher productivity, are more intensive in capital, and employ skilled labor compared to their domestic counterparts (Hanson, 2001). Therefore, one would expect in this

case the foreign-owned factory to have better conditions than the Mexican one. In my study, the domestic plant performs better than the foreign one.<sup>1</sup> The third surprise is also a departure from the literature. It has been argued, using empirical evidence, that plants that produce a large volume for a global buyer are more likely to comply with the code of conduct (Frenkel, 2001). In this line of argument, the power that an MNC has over subcontractor plants that depend on it for their production creates an incentive for the subcontractors to comply with the code of conduct. However, Plant A, which has better labor standards, produces a smaller percentage of goods for WorldSport than Plant B. This smaller percentage has precisely the opposite effect than the literature predicts—Plant A has interest in increasing its percentage and, therefore, great incentives for complying with WorldSport’s code of conduct. Fourth, international NGOs and independent monitoring organizations have found “sweatshops” conditions in the bottom of the market. Plant A is specialized in the production of graphic t-shirts, which are cheaper and less complex compared to the production of Plant B. One would expect, giving Plant A’s position at the bottom of the market that conditions would be worse in Plant A than in Plant B. Again, my findings contradict with expectations. Given all of these surprises and the extent to which these two plants defy expectations, what is driving these differences in compliance? This and other questions will be raised in the next section.

---

<sup>1</sup> However, some have argued that U.S., European, and Japanese companies do have a better reputation than Taiwanese and Korean firms, which have been accused of bad labor practices (Frenkel, 2001). My findings are consistent with this last line of work, but inconsistent with the general assertion that foreign owned factories perform better.

## 1.4 What drives compliance with the code of conduct?

The two plants are in the same country, are both subcontractors of WorldSport, have to comply with the same code of conduct, produce similar products with similar level of quality, and have both unionized workforces—yet they have different labor conditions. Why? One factory complies with the code of conduct and the other does not. Why? In other words, under what conditions codes of conduct work?

I argue that four factors influence the way managers treat their workers and interact with MNC—which, in turn, creates the labor conditions. First, Plant A and Plant B operate in different labor markets. Plant A is located in an industrial park where there are other garment factories. The labor market is tight and there is competition to keep the best workers in the plant. Plant B, on the other hand, is the only garment factory in a rural area, where there is no competition for the labor force. I argue that the different labor markets offer the two plants different power vis-à-vis their workforce. In addition, Plant B has another source of power versus its workers that comes from inside the plant. The Chinese people employed in Plant B—that represent 10% of total workforce—do not speak any Spanish, literally live in the plant, and do not have any networks in the outside world in Mexico. Therefore, these workers do not have any opportunities of leaving the factory in search of a better job. This circumstance gives managers at Plant B much power over this group of workers. Second, even though Plants A and B both produce t-shirts, they are specialized in different types of production. Plant A produces graphic t-shirts, and operates in a more competitive market, while Plant B produces more complex t-shirts and is in a market with less competition. The competition in the market shapes the power that the plants have over the MNC—the MNC can purchase Plant A's products from

many different suppliers, but can only purchase Plant B's products from a very limited number of suppliers. I argue that this creates a power relationship that provides Plant A with an incentive to comply with the code of conduct and provides no such incentive for Plant B.

Third, the homogeneity of culture and language inside Plant A favors a better communication than in Plant B. In Plant B there is a divide between managers and supervisors—who are Taiwanese and Chinese—and production workers—who are Mexican—because these two groups do not speak any common language. The lack of communication in Plant B hampers the kind of worker participation that occurs in Plant A.

Fourth, the management of the two Plants have different values. The owners of Plant A see their workforce as an asset. They believe in their workers and invest in them in order to increase their potential. In contrast, the management of Plant B considers its workers as a cost to reduce as much as possible in order to be competitive on the market.

Together, these four factors influence the way managers treat their workers and interact with WorldSport. The management style that results from the influence of these factors acts as a filter in the policy implementation. An example of this filter is the way managers in the two plants see WorldSport's code of conduct. The management at Plant A sees the code of conduct as a set of minimum rights of work and it has internalized the code in its style. In contrast, the management of Plant B perceives WorldSport's code of conduct as one of the requirements of WorldSport in order to get production orders. The two perceptions of the code have implications for implementation of the code at the plant level. For example, Plants A and B both have mixed management and worker commissions on paper, but only Plant A actually implements these commissions. These two patterns of behavior have a dramatic impact on the actual

implementation of a variety of the measures in the code of conduct, which will be described in detail in Chapter four. The actual implementation, or lack of implementation, results in different labor conditions in the two plants.

## 1.5 Methodology

In order to answer my research questions, I compared two apparel plants in Mexico, subcontractors of a MNC worldwide leader in the apparel and sportswear sector, WorldSport.<sup>2</sup> The first plant that I visited (which I have been calling A) is a private, Mexican-owned factory located in the Estado de Mexico. The second plant (which I have been calling B) is a private, Taiwanese-owned factory, located in a western Mexican state. In addition to these two factories, I visited a third factory (which I call C), located in Los Angeles (California, United States). Plant C will only be used to illuminate some of my findings in the other two factories when relevant.<sup>3</sup> Plants A and B were selected because, as stated above, they share many similarities. They both have a compliance score with the code of conduct above the average of the subcontractors of WorldSport. Plant A has a 87% compliance score, and Plant B a 86% score. The average score in the Americas region is 78% and the standard deviation is 10%.<sup>4</sup> As subcontractors of WorldSport, they have to comply with the same code of conduct and same

---

<sup>2</sup> WorldSport is a fictitious name. The real name of the MNC will remain anonymous for reasons of confidentiality.

<sup>3</sup> Plant C was initially selected because is part of the same Taiwanese group of Plant B. This means that management strategy and style are constant, but the external environment changes. Therefore, controlling for the ownership would have allowed me to identify potential “country effects” on plants’ labor standards. However, when I went to the field, I discovered that Plant C stopped its production for WorldSport because—according to interviews with top managers in the plant and WorldSport managers—labor costs were too high and did not allow Plant C to be competitive on the market. Plant C now performs most of the work that involves interaction with buyers, such as development of products, sales, and delivery issues. Therefore, there are almost no workers in the plant and this circumstance hampered any direct observations on labor conditions. For this reason, my analysis is primarily based on Plants A and B.

<sup>4</sup> These data are the results of the quantitative analysis conducted by the MIT research group that I am part of.

requirements for price, quality, and on time delivery. Each factory is part of a vertically integrated group. They are both located in Mexico, subject to the same macroeconomic conditions, policies of the federal government, and labor laws. Moreover, they are both under the responsibility of the same WorldSport local office located in Mexico City. This is important for my analysis because it means that the plants interact with the same people from the global buyer and, therefore, the risk of variation in individual attitudes of WorldSport employees is significantly reduced.

However, this is not a perfect matched pair—the factories do differ in a number of ways. They are of different sizes, types of ownership, and percentages of production dedicated to WorldSport. Specifically, Plant A produces 10% of its total capacity for WorldSport, while Plant B produces 50%. It turned out that these differences illuminated factors that influence compliance with codes of conduct that a perfect match would have probably obscured. For example, in Plant B, the different nationalities of workers, managers, and supervisors, causes difficulties in communication that do not exist in Plant A. This brought into relief the importance of horizontal and vertical communication in the plants. Only by witnessing the lack of communication in Plant B can one see that the good communication in Plant A has a significant impact on working conditions. In fact, workers in Plant A experience greater participation in the production process, are encouraged in giving their inputs for changes and improvements, and, in general, have frequent and rich interactions with co-workers and supervisors. As a result, they are more satisfied with their work and have ways of expressing their opinions. This finding would have been obscured with a perfect matched pair.

The indicators that I use to assess labor conditions in the factories are based on WorldSport's code of conduct: absence of child labor, forced labor, and discrimination; regulation of overtime; respect of minimum wage; freedom of association; and freedom from corporal punishments. In addition, I also consider whether the overtime for workers is mandatory or voluntary and I regard voluntary overtime as a better labor condition. Finally, I include in my indicators the level of participation that workers have in their workplace—in other words, how much say they have in production decisions.

My research was conducted in the context of a larger project carried out by Professor Richard Locke and a group of graduate students at MIT. The findings of this thesis are based on my fieldwork and secondary data. I collected documentary data on the characteristics and performance of the two workplaces before my visits to the WorldSport office in Mexico and the three workplaces. I then conducted my field research in Mexico and the U. S. over four weeks in January 2005. In that period, I spent four days in the WorldSport office in Mexico City, four days each in Plants A and B, located 50 and 2,000 km from the local office, and four days in Plant C (in Los Angeles). During my visits, I conducted a total of 73 interviews. These interviews broke down as follows: 10 interviews with WorldSport managers and staff in Mexico City, 22 with owners, top managers, supervisors, and production workers in Plant A, 31 with the same categories of people in Plant B, and 10 in Plant C. The interviews were open-ended, lasting from 30 minutes to two hours, and were based on an outline of questions that I adapted for different audiences.

Respondents were selected in order to interview a wide range of people at all levels in each organization. I interviewed all the top managers in the WorldSport office and in the three



factories. In addition, in the WorldSport office I interviewed everyone that had a working relationship with my three factories. This allowed me to gather information and anecdotes about the plants before visiting them and then to check the veracity of information that I collected in the plants. Indeed, most of the information reported in this thesis comes from at least two sources. In the factories, I also interviewed supervisors and production workers. In Plant A, I interviewed 11 workers and supervisors, 21 in Plant B, and 5 in Plant C. These respondents were selected using the same two methods in all the factories. In some cases, I randomly chose people by walking through the production area and selecting people of different sex and age. In other cases, the management of the plant chose for me, following my indications in terms of sex, age, and length of relationship with the plant. Interviews were all conducted in a meeting room, with the exception of a few managers who were interviewed in their offices. Workers were interviewed alone—with the exception of only in three cases, in which they were interviewed in pairs—and never in presence of their supervisors or managers of the plant. In Mexico, and in some cases in the United States, interviews were conducted in Spanish, which I speak fluently. Where it was not possible interview in Spanish or in English, I had someone from the administrative staff to translate either from Chinese to English or from Chinese to Spanish.

Ideally, I would have preferred to interview workers outside the plants for two reasons. First, I believe that if interviewed outside the plant, workers may have been more open and frank about their opinions. Second, it would have reduced the possibility for managers to know who I was interviewing and to punish them. However, I did not find any NGOs or third party organizations that could help me set interviews with workers outside the plant and my time was constrained. Therefore, interviewing workers in a private meeting room was the best way to get

workers' perspectives. I tried to protect workers by not asking any questions that could have put them in danger. Nevertheless, workers were quite open to me and the information and impressions I got from them were consistent within each plant.

In addition to interviews, I had a number of informal conversations with the staff of the WorldSport Mexico office and with the three plant managers (one for each plant) who helped me with the logistics during my fieldwork. Also, sometimes I had to wait long time—in the conference room, shopfloor, or administrative offices—between interviews. This time provided a great opportunity to observe the WorldSport local office and the three factories. The time that I spent in these places allowed me to form a basic understanding of their culture and observe people's behavior, which helped me ask more grounded questions during my interviews.

In order to locate my three cases in a broader context, I also conducted interviews outside the factory. I interviewed an American NGO and an expert in labor issues in Mexico City, and, in Los Angeles, the Division of Labor Standards Enforcement at the Department of Industrial Relations, and the OSHA Department. After my fieldwork was concluded, I conducted two final interviews over the phone. One was with the WorldSport labor compliance director in Mexico that I could not meet when I was there and the other with a labor lawyer in Mexico City.

Finally, my research benefited from the meetings with other MIT graduate students, who carried out field research in WorldSport contractors in other countries as part of the research project under the supervision of Professor Richard Locke. The group met on a regular basis before and after the fieldwork and all members presented and discussed their research findings.

## **1.6 Organization of the Thesis**

The thesis is organized as follows. The second chapter reviews the debates in the literature about labor standards and codes of conduct in order to set the stage for my analysis. The third chapter provides background information about WorldSport, its operations in Mexico, and its policy on labor standards and codes of conduct. The fourth chapter presents the findings of my research. It first offers an overview of the two factories and shows the similarities that they share; then, it describes in detail the labor conditions within each plant in a comparative fashion. Description of labor conditions in the two factories illustrates that one factory has better labor standards than the other, although the picture is not completely black and white. The fifth chapter describes the factors that drive labor standards. Four factors influence the way managers treat their workers and interact with the MNC—external labor market, product market, cultural and language conditions within the plants, and the values of the management. These factors influence the management style of the plants and their relationship with the MNC, which result in different labor conditions. Chapter six concludes the thesis and raises issues about the implementation and effectiveness of corporate codes of conduct.

## **Chapter 2: Setting the Stage**

### **2.1 Introduction**

In this chapter, I introduce the literature on corporate codes of conduct to provide context for my research and to review the discussion around the codes to which my thesis will hopefully contribute. After giving a short history of codes of conduct, I report the literature's assessment of the benefits and limitations of the codes. Finally, I will focus on the conditions that the literature suggests might facilitate the effectiveness of the codes of conduct. This will present answers that others have found to my central question: under what conditions do codes of conduct work?

### **2.2 Multinational Companies and Corporate Codes of Conduct**

International concern over labor conditions has increased dramatically in the 1990s. Allegations of sweatshop were ubiquitous in labor-intensive, geographically mobile, and highly price-competitive sectors, such as apparel and footwear. Activists in developed countries have targeted multinational companies producing garments, shoes, toys, and other goods, which subcontract their production to myriad factories in developing countries with extremely low labor costs. The multinational firms' practice of outsourcing production to developing countries makes it difficult to enforce labor standards (Boiral, 2003). Manufacturing operations are spread across a network of contractors and suppliers that are far away from the buyer. However, a key feature of these supply chains is that the global buyers control many of the aspects of production that are carried out by producers. For example, the buyers ensure that their suppliers meet

delivery dates, quality standards, and design specifications. In light of the close control that the buyers have over their producers, some argue that the buyers should also take the responsibility for the conditions under which subcontractors operate in terms of labor practices and environmental impacts (Jenkins, 2001). It is in these industries that codes of conduct appeared in the 1990s.

The purpose of corporate codes of conduct is “to regulate the behavior, practices, and standards of the participants in the supply chains” (Jenkins, 2001). The issues covered by a corporate code of conduct may vary across a wide range. Codes include: prohibitions on child labor, and in some cases compliance with all legislation applicable to children’s employment; prohibitions on forced labor; prohibitions on discrimination based on race, religion or ethnic origin; prohibitions on certain types of disciplinary practice (physical or psychological punishment or unreasonable fines); provisions on health and safety, both at the workplace and in some cases in employee accommodation; hours of work, rest breaks and time-off, and the regulation of overtime; and in some cases, provisions on collective employment rights, such as rights to organize and engage in collective bargaining (Tsogas, 1999).

The first individual company code in the US apparel industry was developed by Levi Strauss, in 1991. Since then, there has been a proliferation of corporate codes of conduct, some in response to direct pressure from international NGOs and consumers in developed countries, some in anticipation of such campaigning pressures. Other codes of conduct were created due to a broader sense that incorporating ethical practices into business would bring a range of benefits (Tsogas, 1999). Codes are especially important to companies that invest heavily in advertising and promotion of their image and, therefore, are highly vulnerable to anything that would

damage that image. This increased their need to defend themselves through codes of conduct. In 2001, the Organization for Economic Cooperation and Development (OECD) reported that 246 major firms had corporate codes. The existence of this large number of codes of conduct raises a question about their ultimate effectiveness. In the next section I will review the major benefits and limitations of the codes.<sup>5</sup>

### **2.3 Benefits and Limitations of Corporate Codes of Conduct**

Evidence suggests that codes of conduct have generated positive benefits. First, concrete improvements have been reported in several factories as a consequence of the codes. The time, resources, and effort that are associated with codes of conduct clearly have brought about some improvements in labor standards in the supply chain of soccer ball production in Pakistan, coffee production in Central America, toy production in China, and cocoa production in the Ivory Coast (Schrage, 2004). Second, corporate codes of conduct may also force MNCs to gain a better understanding of their global supply chains and sourcing practices. Schrage illustrates that in multiple cases, implementation of a code of conduct forced MNCs to examine the impact of their global sourcing operations and their relationships with local suppliers on conditions in factories and farms in order to react to allegations of labor violations.

Third, codes may also be the only form of regulation at the international level that can be realistically developed in the medium-term. While many ask for the inclusion of a social clause

---

<sup>5</sup> In the past few years, codes of conduct have evolved from individual to multi-stakeholder initiatives, including the U.S. government, NGOs, students, and corporations. These third-party systems such as Fair Labor Association (FLA), Worker Rights Consortium (WRC), and Social Accountability 8000 Standard (SA8000) have developed their own codes of conduct. While these third-party systems are increasing in importance, I focus my research on corporate codes of conduct.

in the WTO agenda in order to link trade and labor,<sup>6</sup> it is unlikely that a multilateral framework with effective sanctions will appear in the near future (Tsogas, 1999). Codes of conduct are an immediate response to labor standards violations and some argue that they might even be the only alternative (Rothstein, 1996). In other words, some claim that codes of conduct are better than nothing.

This last view is questionable for at least two reasons. First, the implementation of a code can also be a way of solving the publicity problem without changing what is happening on the ground. Second, even when a code is adopted in good faith, its effects may be counterproductive. Codes tend to involve prohibitions that without compensatory measures may not always be the best way of improving conditions. For example, banning child labor may bring deterioration to the livelihoods of the most vulnerable families that rely on the additional income of children. Moreover, when children are prohibited from working in subcontractors to MNCs, they may end up working in even worse conditions (Jenkins, 2001). On the other hand, when the prohibition of child labor has been supported by complementary actions, these prohibitions have been more effective in addressing the problem. For example, in Sialkot, Pakistan, the ILO, UNICEF, and Save the Children implemented a Social Protection Program that included rehabilitation, education, and in-kind assistance to children that used to work in the soccer ball production (Nadvi, 2003). The program also included alternative means of income to families that were relying on their children's income. This program successfully implemented a more comprehensive approach with the purpose of reducing perverse effects of banning child labor—something that is beyond the reach of many codes of conduct.

---

<sup>6</sup> The social clause would impose trade sanctions in case of lack of respect of labor standards.

Despite possible negative effects, extensive publicity around codes of conduct has been positive. The extent to which they have been successful thus far, however, is relatively limited. There are a number of limitations to their ability to improve working conditions. First, corporate codes are generally voluntary; multinational companies are free to choose whether or not to adopt a code. Therefore, codes of conduct do not ensure decent working conditions in all factories in the world. Second, even when companies have embraced codes of conduct, enforcement of their provisions on subcontractors has usually been weak. This is partly due to the fact that many company codes are little more than general statements of business ethics that do not specify the way in which they will be implemented (Jenkins, 2001). Third, even when adopted and enforced, codes can have other limitations due to their scope. Codes may be narrow, excluding issues of importance to workers. For example, in the footwear sector, codes uphold the ILO standards, but they do not provide for other important conditions such as living wage and commitment to training (Frenkel and Scott, 2004). In other cases, codes do not even cover the ILO core labor standards. For example, in a study on 37 codes from the textile and apparel industry, freedom of association was mentioned only in half of the codes (Gordon and Miyake, 1999). Fourth, codes can be limited in terms of coverage. Codes usually cover immediate suppliers to the firm adopting the code, but they do not always link further along the supply chain and, when they do, only regulate first-tier contractors.

Fifth, the effectiveness of codes of conduct often remains unknown due to the lack of independent monitoring. Independent monitoring would ensure that the codes are not just a window dressing, but actually regulations that are applied to the firm's, and the suppliers', operations. The reluctance of many firms to adopt independent monitoring as an integral part of



their code engenders suspicion that the codes are only used as a public relations exercise (Jenkins, 2001). Reports have showed that monitoring of labor practices in MNCs' subcontractors is extremely flawed (O'Rourke, 1997 and 2000). O'Rourke found that Ernst & Young and PriceWaterhouseCoopers monitoring for Nike missed major issues in the workplace, such as problems with freedom of association, violations of health and safety standards, and problems related to wages and work hours. One of the main problems raised by O'Rourke is that labor auditors collect information mainly from managers and not from the workers who are closest to problems in a factory. On the contrary, O'Rourke reports that workers were interviewed for only few minutes and often in the manager's office or in a hallway where workers would not feel free to openly speak.

Finally codes may undermine the position of traditional trade union organizations and government regulation. There are cases in which codes of conduct are used where trade unions are not recognized, but when there are existing unions, codes may be viewed as a threat and a substitute for collective contracts (Frenkel, 2001). Some claim that in these cases the appropriate response would be to ensure that codes of conduct maximize the space for trade unions to act, rather than bypassing them or trying to replace them (Jenkins, 2001). In addition, many fear that codes of conduct will replace government regulation and remove the pressure for government control of corporations. However, codes often explicitly mention the need to observe local standards as an element of their code, whether in terms of hours of work, wage levels, or environmental standards. Nevertheless, sometimes the standards set by national regulations in developing countries are quite low and often limited in their scope. Therefore, some MNCs (like

WorldSport) require their suppliers to comply with the code or the national law, whichever is the most strict.

## **2.4 Conditions In Which Codes of Conduct Are Effective**

Given the benefits—namely, improving labor conditions in some cases, and forcing MNCs to better understand their sourcing practices—and considering the large number of limitations and dangers associated with codes of conduct, it is crucial to understand the conditions under which they are effective in improving working conditions. Several studies have investigated the content of the code, the mechanisms used in implementing the code, and the behavior of employment relations associated with effectiveness the code. In this section, I will report the main findings of this body of research. Some of the literature focuses on the conditions that form the environment outside the factory and can influence its compliance with the code of conduct, such as the presence of an industry leader. For the purpose of my thesis, I discuss only the factors that concern compliance with the code at the subcontractor level. I divide the factors that influence codes of conduct success in two broad, and sometimes overlapping, categories: economic factors and factors regarding causes of labor violations and management perceptions.

### **2.4.1 Economic Factors**

Some studies found that a number of characteristics of the subcontractor—that I refer to as “economic factors”—can predict the level of compliance with the code of conduct. First, the nature of the relationship between the global firm and its suppliers shapes the way codes of conduct are implemented and the pattern of employment relations in supplier workplaces

(Frenkel and Kim, 2004). If the contractor has entered into a short-term relationship based on detailed output requirements (price, quality, and delivery), there is little incentive to comply because the code is long-term, and sometimes costly reform. Also, it may not be technically essential to comply with the code to meet the global firm's product requirements. In contrast, when the subcontractor has a longstanding working relationship with the global firm, the global firm is likely to influence the contractor's behavior regarding labor practices (Frenkel and Kim, 2004). Second, the effectiveness of codes of conduct depends on the ability of the subcontractor to comply (Frenkel and Kim, 2004). This ability, it is argued, is related to the size of the plant. Large, multi-plant contractors are more likely to uphold labor standards than small establishments.

Third, foreign-owned factories tend to have better labor standards, and particularly, tend to pay higher wages (Schon and Bird, 1998). This is confirmed by Frenkel's study in China. In the Chinese province of Guandong, wages and working conditions are worse in small, locally-owned factories and in state enterprise (Frenkel, 2001). In Guandong, average wages in foreign-owned firms and joint ventures tended to be around 125-145 percent higher than in their state-owned counterparts (Lee, 1999, and UNDP, 1999 in Frenkel, 2001). Generally, workers in foreign factories that supply global markets have better wages and working conditions than local firms (Haufler, 2001). However, in my research I found that a Taiwanese-owned factory in Mexico has worse labor conditions and lower wages than a locally owned plant. Fourth, the degree of vertical integration of the contractor can influence the level of success of codes of conduct (Schrage, 2004). The fewer business intermediaries between the alleged violator of worker rights and the company, the more likely the initiative will succeed. For example, in the

toy industry in China, retailers and brands often operate through a variety of agents and intermediaries in the production, marketing and distribution of a product. This low level of integration presents a significant challenge for brands that seek to influence labor practices in their supply chain. Plants A and B in my research are both part of vertically integrated groups, and therefore this factor does not explain differences in compliance with the code of conduct between them.

Fifth, the amount that the global buyer can influence factories' compliance is related to the percentage of production that a factory sells to a global brand (Frenkel, 2001). Factories that produce a higher percentage of products for one buyer are more likely to comply with its code of conduct. This is especially true in the footwear sector, where factories that produce shoes exclusively for one MNC have higher labor standards. This is not supported by my findings. Plant A, which produces a lower percentage for WorldSport, has higher compliance with the code of conduct than Plant B.

#### **2.4.2 Causes of Labor Violations and Management Perceptions**

The literature suggests that the causes of labor violations and the management perceptions of them can affect the implementation of a code of conduct. According to Schrage (2004), codes of conduct are more likely to succeed when they seek to address violations of worker rights that result from ignorance of labor standards or incompetence. In the latter, management may be aware that their practices violate local or international standards, but do not know how to comply with them. In the case of ignorance or incompetence, codes of conduct, and the MNC, can provide information and knowledge necessary to respect labor standards. In

the apparel industry, for example, manufacturers may not have payroll systems that ensure piece-rate workers receive the minimum wages required by law (Schrage, 2004).

Codes of conduct are less likely to succeed when they seek to correct violations in a way that imposes significant or new costs, or if the codes will cause competitive disadvantages to the supply chain. Improvements in labor conditions and business practices that do not require costly investments or increases in production costs are more likely to be implemented through a code (Schrage, 2004). For example, non-compliance with basic health and safety standards may offer little economic benefit to global supply chains. Respect for these requirements may simply demand modest changes in management practice rather than any significant investment. Many basic health and safety standards are fairly easy to achieve at little or no cost. These include worker safety training, provision of potable water, clean bathrooms, proper storage of chemicals, improved access to emergency exits, and evacuation training. Moreover, health and safety conditions are easier to assess through the checklist approach that MNCs usually use to monitor labor standards compliance than rights-based issues such as nondiscrimination, non-harassment, and freedom of association (Maquila Solidarity Network, 2004). The two plants that are the subject of this research confirm this argument. Both of them have higher compliance with health and safety regulation than with worker treatment and policy.

In summary, the literature provides evidence that corporate codes of conduct at best cause better labor standards, and at worse have perverse effects hurting those the codes are designed to help—namely, by preventing public criticism without really improving labor conditions, and undermining the position of national governments and trade unions in developing countries. Given the fact that codes of conduct may not only be ineffective, but also dangerous, it is

important to identify the conditions that might help codes of conduct be successful in upholding labor standards. Empirical research found that a number of variables can be predictors of plant compliance with the code. This thesis seeks to contribute to this body of research and identify the conditions that helped codes of conduct to be effective in on of the two factories in Mexico.

## **Chapter 3: Compliance in the Apparel Sector**

### **3.1 Introduction**

This chapter provides the context for the multinational and subcontractors that are the subject of my study. First, I provide background information about the apparel sector worldwide, along with detailed information on the apparel sector in Mexico. Second, I introduce WorldSport and its code of conduct. Third, I describe WorldSport's operations in Mexico in detail. Finally, I discuss WorldSport's policy regarding labor compliance. In this way, I show that my two plants are relevant to assess the conditions in which codes of conduct work.

### **3.2 The Apparel Sector**

In 2003, US consumers spent about \$310.5 billion on clothing and footwear, up 2% from \$304.4 billion in 2002 (US Department of Commerce). With an estimated US population of 288 million, the 2003 expenditures equaled roughly \$1,130 per person on clothing and footwear (Standard and Poor's, 2004). High levels of consumption are not reflected in high levels of employment in the sector, US employment levels in apparel and footwear manufacturing have fallen drastically in recent years. According to the US Department of Labor, domestic apparel employment has fallen by about 65% over the past three decades.

This is not a recent phenomenon. The world textile and apparel industry has undergone several migrations of production since the 1950s (Gereffi, 2002). The first migration in the

1950s and early 1960s was from North America and Western Europe to Japan. In the 1970s and 1980s, the second migration occurred from Japan to Hong Kong, Taiwan, and South Korea. Finally, in the last 10 to 15 years, another migration took place from these three Asian countries to a number of other developing countries, including mainland China in the 1980s, and South Asia and Latin America in the 1990s.

The main factors that have contributed to the globalization of world apparel industry are the labor-intensive nature of apparel production technology, the loss of comparative cost advantage of developed countries, and the decline in transport and communication costs. As a result, roughly half of the total production capacity in the apparel industry has shifted from developed countries to less developed countries over the past three decades (Ramaswamy and Gereffi, 2000). The difference in the cost of labor is one of the principle factors that explain relocation in the global apparel industry. Existing data on the disparity in wages and working conditions across countries are not very good, but available data indicate that there is a huge gap between industrialized and developing countries (Haufler, 2001). Table 3.1 shows the evolution of the apparel export as share of world export of the largest apparel export countries in the 1980s and 1990s. In the last column, hourly labor costs in the apparel sector in each country are reported.



**Table 3.1 Apparel Exports as Share of World Exports (1980-1999)**

	<i>Apparel Exports as % of World Exports</i>			<i>Hourly Apparel Labor Costs (wages and fringe benefits)</i>
	<b>1980</b>	<b>1990</b>	<b>1999</b>	<b>US\$ 1998</b>
China	4.3	9.2	16	0.43
Hong Kong	13.4	14.2	11.3	5.2
South Korea	7.8	7.5	2.5	2.69
Taiwan	6.6	3.8	1.6	4.68
Indonesia	1.5	2.6	2.9	0.16
Thailand	0.7	2.6	1.8	0.78
India	1.5	2.3	2.7	0.39
Bangladesh	0	0.5	2	0.3
Turkey	0.2	3	3.4	1.84
Dominican Republic	0	0.7	1.2	1.48
US	3.3	2.4	4.3	10.12
Mexico	0.2	0.1	4	1.51

Source: Gereffi, 2002.

The table shows that in 1998, the average hourly compensation of American manufacturers workers was \$10.12; at the same time, the average hourly compensation of Chinese and Mexican workers was only \$0.43 and \$1.51 respectively. This means that labor costs in China and Mexico are 4% and 15% of U.S. labor costs, respectively. Compensation costs in newly industrializing countries such as Taiwan, however, have increased relative to the U.S. costs. Manufacturing labor costs in Taiwan are 46% of U.S. costs. Nevertheless, labor cost is only part of total cost. If low wages were alone decisive, developed countries would import all their goods from countries with the lowest wages. Other factors affect cost, including cost of capital, expertise of management, transportation, and taxes. Buyers also consider non-economic factors, such as political risk. For this reason we can see in the table in the next page that Bangladesh, where labor costs are 3% of the American ones, has a small share in the world apparel exports—only US\$4.4 billion in 2003. On the other hand, Hong Kong, for example,

whose labor costs are 51% of U.S. labor costs, is the third largest apparel exporter in the world.

**Table 3.2 Top 10 Apparel Exporters in 2003**

<i>Country</i>	<i>US\$ billions</i>
E.U.	60
China	52.1
Hong Kong	23.2
Turkey	9.9
Mexico	7.3
India	6.5
United States	5.5
Bangladesh	4.4
Indonesia	4.1
Romania	4.1

*Source: U.S. International Trade Commission.*

Production in Latin America is concentrated in Mexico and the Caribbean. Caribbean countries are organized in the Caribbean Basin Initiative,<sup>7</sup> and now in the U.S.-Central America Free Trade Agreement (CAFTA),<sup>8</sup> which, when approved, will directly compete with Mexico. To date, the lack of NAFTA parity for the Caribbean Basin has severely truncated the growth of export-oriented apparel assembly in these smaller economies. For example, in the early 1990s Dominican Republic had a higher level of garment exports than Mexico; when NAFTA was signed 1994, however, Mexico pulled ahead (Gereffi, 1999). The two regions are competing on wages to attract multinationals. The rivalry among neighbor countries to offer MNCs the lowest

---

<sup>7</sup> The Caribbean Basin Initiative (CBI) provides for tariff exemptions or reductions for most products from 24 participating countries in Central America and the Caribbean region. This program was enacted by the United States as the Caribbean Basin Economic Recovery Act. This Act became effective on January 1, 1984. The countries participating are: Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, Virgin Islands.

<sup>8</sup> CAFTA promotes trade liberalization between the United States and five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

wages has fostered a perverse strategy of “competitive devaluation,” in which countries use currency depreciation in order to increase international competitiveness. For example, in 1985 exports in the Dominican Republic increased after a depreciation of its currency against the dollar; similarly, Mexico’s exports benefited from the frequent devaluations of the Mexican pesos, especially in 1994-1995. Although it may make sense for a single country to devalue its currency in order to attract firms that employ unskilled labor force, the advantages of this strategy disappear when other countries follow the same policy. The final effect is a depression of local standards of living with no improvement in the productivity (Gereffi, 2000).

In order to remain competitive, Mexico needs to find an alternative to offering low wages. In addition of having a temporary edge over Caribbean suppliers because of the NAFTA parity, Mexico has a significant advantage in developing full-package supply capability because textile production in Central America and the Caribbean is virtually nonexistent. Indeed, the two plants that are the subject of this study are part of industrial groups that offer a full-package to global buyers by produce the fabrics as well as the apparel. Therefore, Mexico can use the proximity to the U.S. and the full-package production as competitive advantages over Central America and Caribbean producers. These two aspects, combined with the magnitude of Mexican production, make it a fruitful place to study the impact of multinational codes of conduct on working conditions.

### **3.3 The Global Buyer: WorldSport**

The MNC that is the focus of this study, WorldSport, is a worldwide leader in the production of sports and fitness footwear, apparel, equipment, and accessories and is a global buyer of these products. It is based in the United States and was founded in 1964. Since its

beginnings, the company has always looked for low-cost producers around the world. The migration trends described in the first section of this chapter apply to this MNC as well. WorldSport first developed working relationships with manufacturers in Japan. Then, it produced in Korea and Taiwan in the 1980s, and when costs began to rise in those countries, it moved its operations to other countries such as China and Vietnam, and then throughout Southeast Asia (Strasser and Becklund, 1991). This strategy allowed WorldSport to invest intensively in design and marketing campaigns, and grow at an impressive rate.

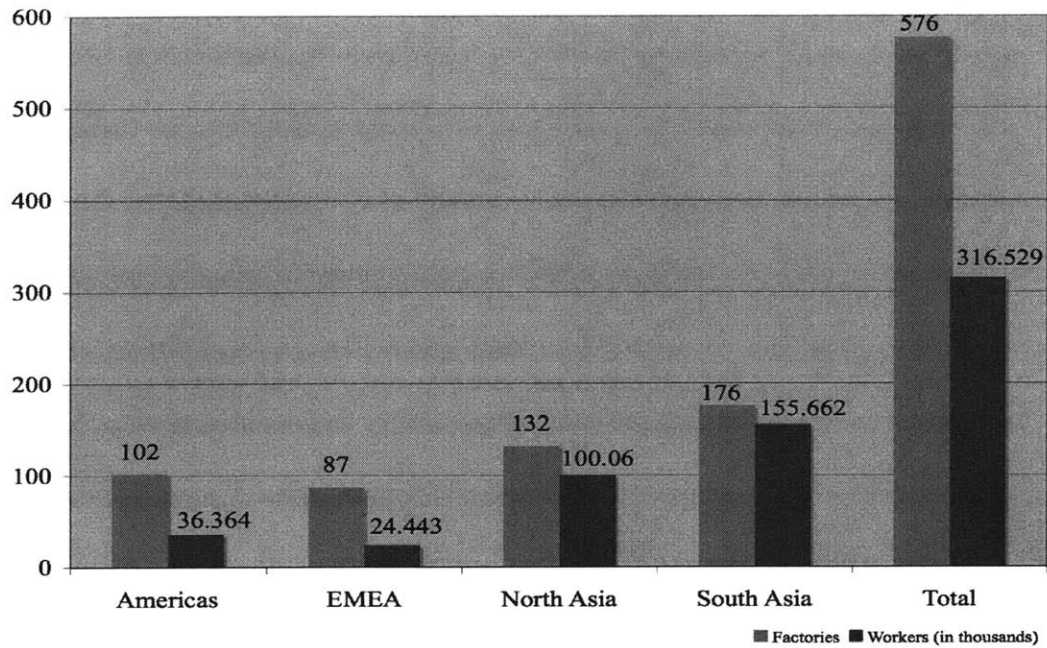
Today, the company has more than 24,000 employees—excluding workers employed in the subcontractor plants—and over 800 contracted suppliers in about 52 countries throughout the world, employing more than 650,000 workers.<sup>9</sup> Almost all its brand products are produced by independent contracted factories. The chart in the next page indicates the number of WorldSport’s contractor factories and of employees, across regions of the world, for apparel products.<sup>10</sup>

---

<sup>9</sup> Source: WorldSport Corporate Responsibility Report, FY04.

<sup>10</sup> WorldSport is organized into 4 regions that engage with the contract factories These 4 regions are: 1) the Americas: Canada, USA, Mexico, Dominican Republic, Guatemala, Honduras, El Salvador, Colombia, Ecuador, Peru, Chile, Brazil and Argentina; 2) EMEA (Europe, Middle East and Africa): UK, Belgium, Germany, Switzerland, Spain, Portugal, Italy, Lithuania, Belarus, Romania, Albania, Macedonia, Moldova, Bulgaria, Greece, Turkey, Israel, Jordan, Morocco, Tunisia, Egypt and South Africa; 3) North Asia: China, Japan, Korea, Taiwan, Macau, Hong Kong, Vietnam, Cambodia and Philippines); 4) South Asia: Pakistan, India, Bangladesh, Sri Lanka, Thailand, Malaysia, Indonesia, Singapore, Australia, New Zealand and Fiji.

**Chart 3.1 WorldSport Apparel Subcontractors and Workers (in thousands)**



Source: WORLDSPORT Corporate Responsibility Report, FY04.

The chart shows that WorldSport has a diversified base of apparel suppliers in that it has a significant number of factories in each one of the four macro regions. Only South Asia has a notable larger number of factories. However, if one considers the number of workers in each region, the situation changes. Americas and EMEA (Europe, Middle East, and Africa) have the lowest number of workers, while North Asia and South Asia dominate. This distribution mirrors that of global apparel production. Labor costs in North Asia and South Asia are significantly lower than in the other countries. Therefore, factories in those regions are larger and employ more workers. Production in the Americas and EMEA is may be due to the proximity of these countries with the consumer markets. This represents an advantage

versus Asian countries and protects WorldSport by potential risks related to delays of transportation.

### **3.4 WorldSport in Mexico**

WorldSport has two offices in Mexico, one in Mexico City and one in Guadalajara.<sup>11</sup>

The office in Mexico City is the middle step between the headquarters in the US and plants in Mexico and Central America. The office was opened two years and half ago. It has 35 employees, two of which compose the compliance team. The Mexico City office is in charge of 30 million units of production per year that are designated for export. The office is organized as follows. The director of the office is on top, with his assistant, one compliance specialist and five managers below. Each of the five managers has a staff of about five people that work with him/her. The compliance specialist works in team with a compliance auditor, they report to the compliance manager that is in the office in Guadalajara.

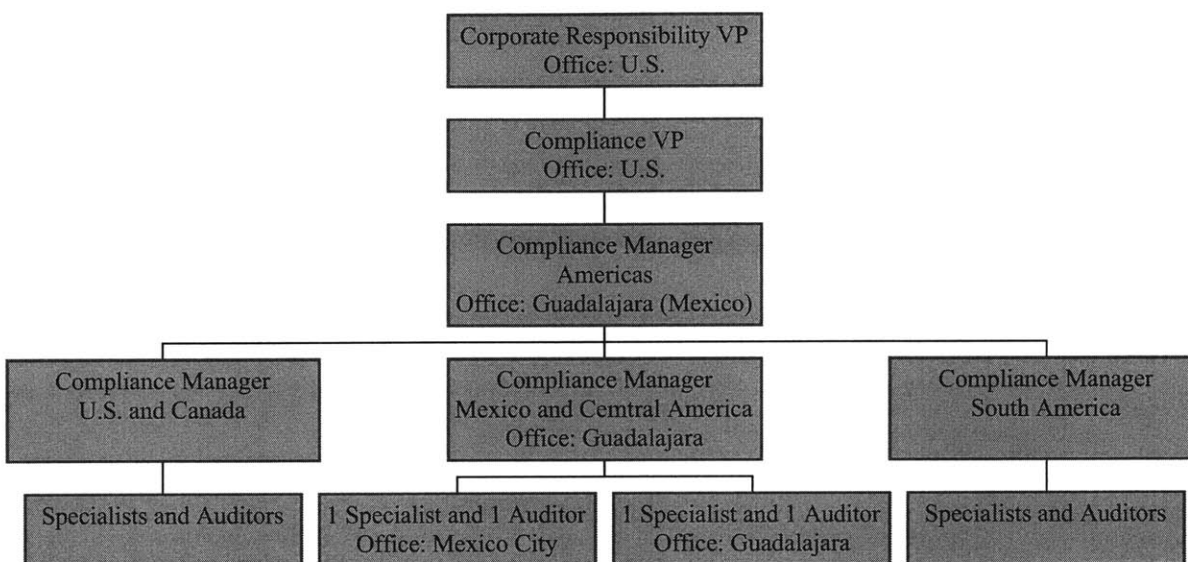
The office in Guadalajara focuses on the production for the local market and on sales and marketing operations. It was founded 10 years ago and it currently has 160 employees. The compliance personnel are composed of the director, regional manager, one auditor, and one compliance specialist. The compliance director is the regional head of compliance for South America, Mexico, Central America, Canada and the United States. Each of these regions has one manager, all of them report to the director. Finally, in each region there are auditors and specialists who perform the inspections in the factories. As I mentioned earlier, there is one

---

<sup>11</sup> The office in Mexico City was the focus of my fieldwork in that it oversees the factories that I visited. However, I had phone conversations and email exchange with the compliance regional manager and the Mexico and Central America compliance manager that are in the Guadalajara office.

compliance specialist and one auditor in the Mexico City office, and one specialist and one auditor in the Guadalajara office. The organizational chart below illustrates the information flow within the compliance department.

**Chart 3.2 Organizational Chart of Compliance Department in WorldSport**



WorldSport outsources from 170 factories in the Americas region, of which 104 are apparel plants. The table below illustrates the factories in the Americas region, divided by country.<sup>12</sup>

---

<sup>12</sup> Note that the total number reported in this table differs from the table reported in the section 2 of this chapter. The numbers slotted in this table were provided by the Compliance regional director in February 2005 and differences may be due to changes in the factories base occurred since.

**Table 3.3 Factories by Country in the Americas Region.**

<i>Country</i>	<i>Total Factories</i>	<i>Apparel</i>	<i>Apparel Factories as % of Total factories in the Americas</i>
Argentina	7	3	1.7%
Brazil	13	11	6.4%
Canada	22	6	3.5%
Chile	2	1	0.5%
Colombia	2	2	1.1%
Dominican Rep	3	3	1.7%
Ecuador	1	1	0.5%
El Salvador	6	6	3.5%
Guatemala	1	1	0.5%
Honduras	8	8	4.7%
Mexico	27	20	11.7%
Peru	2	2	1.1%
US	76	40	23.5%
<b>Total</b>	<b>170</b>	<b>104</b>	<b>61%</b>

As shown in the table, Mexico is the home of approximately 11% of the total WorldSport subcontractors in the Americas. Again, these factories differ in size and the fact that there are twice as many factories in the U.S. than in Mexico does not indicate that there is more production in the U.S..

### **3.5 WorldSport and Compliance with Labor Standards**

WorldSport has traditionally located its operations around the world in search of low-cost producers. On one hand, this strategy created benefits that allowed the company to focus on design and marketing campaigns, which has been one of its competitive advantages. On the other hand, this strategy also created serious problems for the company. During the 1980s, the company was criticized for using factories with low wages and poor working conditions. In the



1990s, these criticisms turned into public scandals.<sup>13</sup> At first, the company denied any responsibility for the poor working conditions in its supplier plants, it claimed that workers in those factories were not WorldSport employees. In 1992, the company changed its approach and established a code of conduct for its suppliers, which was updated in 1997 (Varley, 1998).

The broad principles of the code of conduct covers 13 standards for management of people, 9 for management of environmental impacts, 23 for safety, and 6 for health—totaling 51 standards.<sup>14</sup> The table below presents the contents of the WorldSport code of conduct.<sup>15</sup>

**Table 3.4 WorldSport Code of Conduct**

<i>Issue</i>	<i>WorldSport Code of Conduct</i>
<b>Forced Labor</b>	No forced labor in any form (prison, indentured, bonded)
<b>Child Labor</b>	Minimum age is 18 for footwear production and 16 for apparel production, or local minimum age if higher.
<b>Wages</b>	Minimum wage or the prevailing industry wage, whichever is higher. Requires that suppliers provide for workers clear, written accounting for all pay; and do not deduct from worker pay for disciplinary infractions. Requires provision of all legally mandated benefits.
<b>Hours of Work and Overtime</b>	Compliance with legally mandated work hours. Provision for overtime use if each employee is fully compensated according to local law. Requires informing each employee at the time of hiring if mandatory overtime is a condition of employment. On a regularly scheduled basis, provide one day off in seven, and requires no more than 60 hours of work per week, or complies with local limits if they are lower.
<b>Discrimination</b>	Not specified in code of conduct, but in “principles that establish the spirit of (its) partnerships:” Decisions on hiring, salary, benefits, advancement, termination or retirement must be based solely on the

<sup>13</sup> Some of these scandals included child labor in Cambodia and Pakistan, and poor working conditions in China and Vietnam.

<sup>14</sup> Source: WorldSport Corporate Responsibility Report, FY04.

<sup>15</sup> A copy of the WorldSport code of conduct is reported in Appendix.

	employee's ability to do the job. There shall be no discrimination based on race, creed, gender, marital or maternity status, religious or political beliefs, age or sexual orientation.
<b>Freedom and Right of Association</b>	Not specified in code of conduct, but in “principles that establish the spirit of (its) partnerships:” Management practices must respect the rights of all employees, including the right to free association and collective bargaining.
<b>Disciplinary Practices and Harassment</b>	Not specified in code of conduct, but in “principles that establish the spirit of (its) partnerships:” Contractors must recognize the dignity of each employee, and the right to a work place free of harassment, abuse or corporal punishment.
<b>Health and Safety, Working Environment</b>	Requires compliance with all applicable local environmental, safety, and health regulations. Requires written health and safety guidelines. Requires a factory safety committee; requires compliance with WorldSport’s environmental, safety, and health standards; requires provision of Personal Protective Equipment (PPE) free of charge, and mandating off its use.
<b>Documentation</b>	Requires suppliers to maintain on file all documentation needed to demonstrate compliance with the code of conduct. Requires supplier agreement to make these documents available for inspection upon request; and agreement to submit to labor practices audits or inspection with or without prior notice.

As the table shows, the code of conduct bans the use of forced, prison or child labor, and requires business partners to comply with local laws regarding to wages, benefits, overtime, and environmental protection. After its revision in the 1997, the code of conduct now includes the rights of free association, collective bargaining, and freedom from corporal punishment. It requires contractors to certify that they pay the minimum wage or prevailing industry wage—whichever is the higher—and restricting maximum working hours per week to 60, unless workers volunteer and sign a consent form. In 1996, WorldSport has also created a “high-level

position” in the company to oversee compliance with the company’s code of conduct, and various departments that in 2000 were organized under the Corporate Responsibility and Compliance Department.

In the fiscal year 2003, the company began a transition from monitoring performed by independent contractors to a new, internal monitoring process. The company shifted to internal monitoring for a number of reasons: quality, consistency, and credibility with business managers within the company who were asked to make tough sourcing decisions on the basis of the monitoring findings.<sup>16</sup> The company hired 21 new staff, and specifically trained them in labor auditing practices. This labor audit is now the core of their compliance monitoring activity.

The labor audit is designed to quantitatively measure a contract factory’s compliance with WorldSport’s standards concerning pay, wages, benefits, forced labor, nondiscrimination, age, freedom of association, and the treatment of workers. The audit includes a factory walk-through, documentation checks, and confidential on-site interviews with individual workers, supervisors, and managers. The majority of the audits are announced, only approximately 10 percent of them are unannounced. WorldSport feels that audits are more effective when announced, because much of the information auditors require during their inspection is dependent upon access to relevant records and individuals within factory management.<sup>17</sup>

However, this should be balanced with the fact that contractor plants are unable to prepare for an audit if not given prior notification—and therefore an unannounced audit may find violations that an announced one may not find.

---

<sup>16</sup> Source: WorldSport Corporate Responsibility Report, FY04.

<sup>17</sup> Source: WorldSport Corporate Responsibility Report, FY04.

The results of the WorldSport labor audit are expressed in a score. The score is assigned through a complicated formula and calculated using specialized software. The auditor checks the boxes regarding various aspects of labor practices, the software calculates the score for each issue, and provides a final score. The score is a percentage that indicates the level of compliance of a factory with the code of conduct. For example, 100% indicates full compliance. The table below shows the average, highest, and lowest audit score for its region. Note that Americas and EMEA (Europe, Middle East and Africa) have both the highest score (92%), while South Asia has the lowest score (20%).

**Table 3.5 Audit Score across Regions (in %)**

	<i>Apparel</i>	
<b>Americas</b>	Lowest Score	46
	Average Score	78
	Highest Score	92
<b>EMEA</b>	Lowest Score	50
	Average Score	69
	Highest Score	92
<b>North Asia</b>	Lowest Score	26
	Average Score	61
	Highest Score	89
<b>South Asia</b>	Lowest Score	20
	Average Score	56
	Highest Score	88
<b>Global</b>	Total Number of Audits	383
	Lowest Score	20
	Average Score	66
	Highest Score	92

The company does not audit its entire factory base, but every year selects a portion of it. The table below summarizes how many audits have been conducted in the fiscal years 2003 and 2004, and how many workers have been covered by the audits. In 2003, the audits concerned 63% of total workers in subcontractor plants, and in 2004 only 32%. Since the number of audits

in 2004 increased compared to 2003, the reduction in the number of workers may be explained by the fact that the WorldSport inspectors have targeted factories with less workers.

**Table 3.6 Number of Inspection and Workers Involved in 2003 and 2004**

	<i>FY03</i>	<i>FY04</i>
Audits conducted	278	291
Worker population in audited factories	374,988	212,760
Worker population in total factory base	588,678	652,926

The table below provides details on the number of audits performed in the Americas region, divided by country.

**Table 3.7 Targeted Factories**

<i>Country</i>	<i>Total Factories</i>	<i>Targeted Factories</i>	<i>Percentage</i>
Argentina	7	2	29%
Brazil	13	6	46%
Canada	22	6	27%
Chile	2	1	50%
Colombia	2	0	0%
Dominican Rep	3	2	67%
Ecuador	1	0	0%
El Salvador	6	3	50%
Guatemala	1	1	100%
Honduras	8	4	50%
Mexico	27	12	44%
Peru	2	0	0%
US	76	14	18%
<b>Total</b>	<b>170</b>	<b>51</b>	<b>30%</b>

The table shows that only 30% of the factories in the Americas region has been subject to monitoring. This is to be expected because the compliance department selects which factories to

inspect on the basis of four indicators of risk: country location, size of the factory, type of operation, and factory-specific historical compliance performance record. For example, factories located in highly regulated countries, where workers are more likely to be informed about their rights and the laws are enforced, are often categorized as low risk. In addition, WorldSport selects factories to inspect on the basis of the visibility of the logo. Factories are broken up into three tiers: those that produce products with the WorldSport logo clearly displayed and recognizable (factories called “Above The Line”, ATL), factories that do not produce products with the WorldSport logo but have some other type of recognizable logo on it (factories called “On The Line”, OTL), and factories that produce products that do not have any type of recognizable WorldSport feature (factories called “Below The Line”, BTL). For its labor audit, WorldSport targets all the factories that produce “above the line” products and a small percentage of factories “on the line.”<sup>18</sup> This means that WorldSport seeks to enforce labor standards primarily in the factories that use its logo. It is in these factories that WorldSport has higher risk of public accusations of violating labor rights. As a result, the company does not oversee the labor conditions of many other workers that are not in ATL or OTL factories.

In my research I found that the labor audit score did not exactly represent the conditions in the two factories, which surprised me. The two factories have basically the same score, Plant A has a 87%, and Plant B a 86% score. However, as I will illustrate in the next chapter, the labor conditions in the two plants are quite different. Although the detailed description of labor

---

<sup>18</sup> If the audit gives a score below 80% on any of ATL factories, the WorldSport auditors will do a follow up audit within a time frame of 6 months to one year. By that time, the score must be above 80% or the factory faces possible breach of contract with the company (interview with a WorldSport labor auditor). By contrast, if the initial audit score is above 80%, the auditors go back in a longer time period than one year.

conditions will show that the picture is not completely black and white and there are some grey areas, overall Plant A has better working conditions than Plant B.

How is it possible that plants with different labor conditions have a similar compliance score? By looking at the details of the report of the two audits, I saw that Plants A and B have different types of issues. In general, Plant A has problems with documentation and written specification of plant policy, such as non-discrimination and harassment. Plant B, on the other hand, has a perfect score regarding these issues, but is not compliant due to verbal abuse—which occurs when supervisors yelled at workers—and excess overtime. In addition, in the report one can read that Plant B is “partially” compliant in relation to overtime, despite the fact that the auditors in several inspections found that workers worked in excess of the limits in the code of conduct. This raises doubts regarding the clarity of the report. What does “partially” compliant with overtime regulation mean if workers work over what is legally allowed? This is not clear. In addition of lacking of clarity, the indicator is also inaccurate. The report of the inspection indicates that Plant B is compliant in terms of grievance policy in that the grievance system ensures the anonymity of workers. I found this not to be true because the management posts the questions of the workers with workers’ names in a public area in the workplace. Again, this casts a shadow on the veracity of the results of the inspection. In conclusion, the two plants have similar scores but the components of the score are different. Moreover, it is surprising that Plant B has such a high score (86%) in spite of having such serious compliance issues, as I will show in the next chapter. I will return to the adequacy of the labor audit tool after I analyzed the labor conditions in the plants.

While the audit score does not capture the labor conditions in my two factories, another grading system used by WorldSport does a better job. I found this surprising. Before I started my field research I believed that the labor audit tool was the most accurate one because—as WorldSport claimed—it reduces the auditor subjectivity as much as possible and it aims to provide a very “scientific” measure of labor conditions in the plants. This is why the research group that I am part of used the audit score when selecting the factories to study. However, after selecting the factories, we learned that WorldSport gives letter grades to its factories indicating the level of compliance. This grading system—from A (best) to D (worst)—confirms my assessment of the labor conditions in the two plants. In fact, Plant A, which has better labor conditions, has a B grade, while Plant B, which has worse labor conditions, has a D grade. In the next section, I will explain in detail how this system works.

### **3.5.1 A New Grading System**

WorldSport has developed the ABCD grading system in order to assess the extent to which a contract factory is compliant with the code and to integrate this assessment into company’s sourcing and production decisions. The letter rating, which reflects information about a factory’s compliance performance, is assigned by the field compliance manager who uses information provided by compliance auditors. The letter grade is also reviewed by the regional director. The compliance manager is responsible for the up/down grading of each factory. The final report is generated in WorldSport’s headquarters based on set guidelines in order to ensure consistency worldwide. The grade depends on the number and nature of non-compliance issues discovered by internal and external (FLA audits) monitoring as well as on the resolution of items for factory remediation. Therefore, the purpose of the letter rating is to have



an indicator that summarizes the results of the range of monitoring that the company and FLA conduct. That final report is then shared with the head of each sourcing unit. According to my interviews in the local office in Mexico City, there was a need for better communication between sourcing and compliance within WorldSport, communication that was difficult due to the existence of different indicators. The letter rating has the task of summarizing these indicators in one and “speaking” to the sourcing side of WorldSport. I will explain how in the remainder of this section.

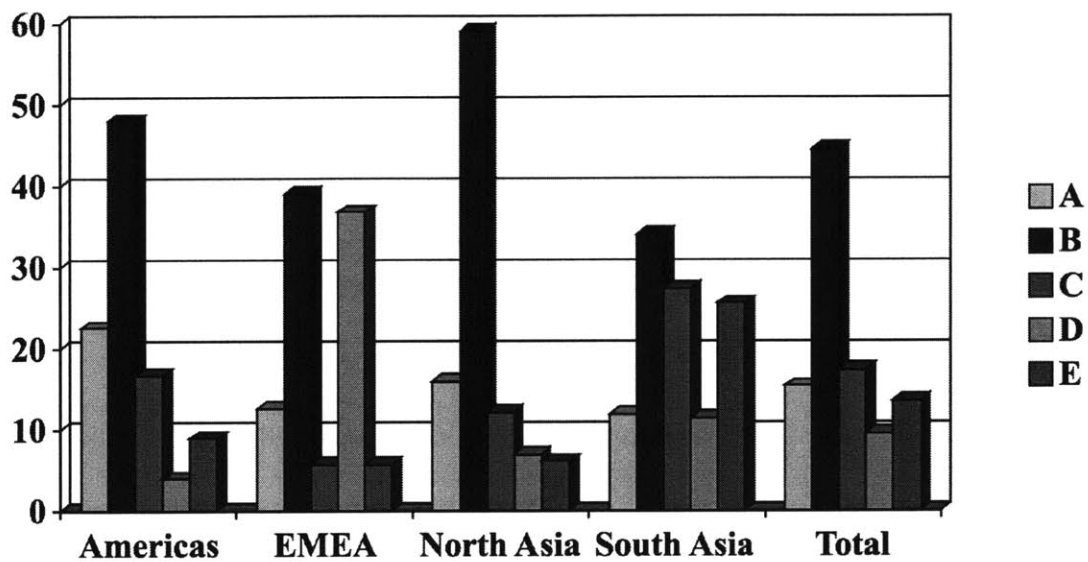
The letter rating is slotted in the “balanced scorecard”, which is a tool that helps WorldSport track and assess factories in terms of four aspects of plant performance: cost (what the WorldSport pays for the product), delivery (receiving the product on time), quality, and compliance with the code of conduct for each factory. The first three targets are easy to track, and most factories have been evaluated on their ability to hit targets for these areas. For example, quality is measured against a goal of less than 1.5% defective rates when the product reaches the WorldSport warehouse. Delivery performance is measured against a goal of 95% on-time-performance at order deadline. In these areas, if the factory hits the target, then it gets more orders. Compliance performance is tracked in the form of the compliance rating based on the ABCD scale. Once the letter is assigned, it is inserted into the balanced scorecard and is next to other, more traditional measures of performance—quality, on-time delivery, and price. The balanced scorecard has the potential to help WorldSport understand the interrelationships of the four categories of measurement. The company is aware that pushing too aggressively in one area—for example, on-time delivery—can have consequences in another area—for example, excess of overtime, and therefore low compliance rating. The table and chart below show the

distribution of the letter rating in the apparel factories across region. It is worth recalling that A indicates the highest compliance and E the lowest.

**Table 3.8 Letter Rating in Apparel Factories**

	<i>% of Factories</i>				
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>Americas</b>	22.5	48	16.7	3.9	8.9
<b>EMEA</b>	12.6	39.1	5.7	36.8	5.7
<b>North Asia</b>	15.9	59.1	12.1	6.8	6
<b>South Asia</b>	11.9	34.1	27.3	11.4	25.6
<b>Total</b>	15.3	44.5	17.3	9.4	13.5

**Chart 3.4 Distribution of Letter Rating in Apparel Factories**



As table and chart show, in every region, the majority of the factories have a B grade. The Americas have the highest percentage in the A grade, which is understandable because the region includes also the U.S. and Canada, where we expect better labor conditions. On the other hand,

South Asia has the highest percentage of factories in the E grade, which reflects the poor labor conditions found in those countries.

The compliance rating system seems to be given more importance by WorldSport than the labor audit score because the letter grade is more immediate and easier to understand. It is not a score generated by complex software, but a letter grade that everybody is familiar with. As a consequence, the compliance rating seems to generate growing visibility around non-compliant factories and engender increasing levels of responsiveness from the business units, which are the units in the company that place the production orders. Every month all WorldSport regional offices in the world get together on a conference call and go over the grades of their factories in order to discuss the main issues they face. The director of each regional office does not want to have bad factories for two reasons: first, prestige: each director wants to show that his/her factories are performing well and are not graded as C or D. This seems to generate pressure on the staff and, consequently, on the factories to perform well. The second are the markets: the office that has better factories will be assigned better markets from the headquarters.

According to the Compliance Regional Manager, communication between compliance and business units is ensured by the balanced scorecard. This was confirmed by my visit to the regional office. Every member of the staff in the office knew the letter rating of the factories that I was going to visit. On the other hand, I could not find anyone that would remember the labor audit score—even the auditor who assigned the score could not remember it. The letter is easy to remember and provides a quick indication of where the factory is in terms of compliance. My interviews in the Mexico City office confirm that the balance scorecard helps information sharing in the office and, ultimately, sourcing decisions.

Awareness and information is an important step, but we must also ask whether there are consequences if a factory is in a questionable range. According to the compliance director, “dropping a factory from the WorldSport family is the last course of action.” The decision to drop a factory has to be a joint business and compliance decision. Before they decide to drop a factory, the compliance director has a conversation with his boss (the compliance VP) and his business counterpart (the director of the regional office). They track firm performance over time. If WorldSport decides to drop a factory they slowly begin to divest volume until they are fully out. The decision to drop depends on a detailed analysis by “senior management” on four main components of the business relationship: price, quality, delivery, and compliance. The final decision to drop a factory is a joint decision between compliance and the business unit representative at the senior management level: first at a director level and, when warranted, VP’s get involved as well. This is generally the norm that is followed in the Mexico office. According to the compliance regional manager, in the last five years around 3% of the factories in the Americas region have been dropped due to compliance reasons.

In conclusion, WorldSport uses two instruments for grading its factories in relation to compliance with the code of conduct: the labor audit score and the letter grading. Are the two systems consistent with one another? In the case of Plant B they are not. According to the labor audit score, Plant B has been improving labor conditions over the last two years. The factory had a first audit in January 2003, and it received a 65% score. Then, in October 2003 had a 76% score. Finally, the factory had a third audit in September 2004, when it received a 86% score. Therefore, the Plant has a positive trend. The history of its letter grade has an opposite trend. Plant B had a B grade in May 2002, which was lowered to C in 2003 due to bad communication

between supervisors and workers in the plant, lack of training for employees in safety and health, and excess of work hours. These issues were found to be recurrent. In a third visit in March 2004 the grade was confirmed to be C, because the same problems were still found. In September 2004, WorldSport gave again a C grade to Plant B, because, despite some improvements, it found still major problems in the safety and health area. During that visit, the compliance staff gave Plant B one month to fix its problems. However, in the last visit in November 2004, WorldSport lowered the grade to D because the factory passed the deadline without solving all problems. Specifically, the auditors found that 85% of the issues were still open.

The compliance history of Plant B points out that there is incongruence between the two grading systems. It seems that the letter grade more adequately captures the labor conditions in Plant B than the labor audit tool does. Why does WorldSport have two systems if one is less accurate than the other? Why does WorldSport spend money and resources in carrying out labor audits that do not capture the real labor conditions in the plants? Which grade does WorldSport believe in order to assess labor conditions in its factories? My research does not provide data to answer these questions. Nevertheless, they are important questions that WorldSport should answer if it really wants to improve labor standards in its subcontractor plants.

In conclusion, this chapter shows why the apparel sector offers an interesting case to study the effectiveness of corporate codes of conduct. Several points emerged in the discussion above. First, that there is a large variation across factories and countries in the compliance with the code, as shown in the table with the average, highest, and lowest labor score for each region (table 3.5). Second, Plants A and B have a very similar labor audit score (87% and 86%), but

they have different labor conditions. Third, WorldSport uses two different systems for assessing plant compliance with its code of conduct that are inconsistent in the case of Plant B. The labor audit score shows an improvement over time, while the letter rating indicates that compliance with the code of conduct decreased in the last two years. Given the inconsistency between the two systems, in the next chapter, I will analyze the labor conditions that I found in the two plants and show that they are indeed different.

## Chapter 4: Labor Conditions in Plants A and B

This chapter describes the labor conditions in Plants A and B. The chapter begins with an overview of the two plants showing their similarities. This is followed by a detailed description and comparison of the labor conditions in the two plants. Through this description, I show that labor conditions in Plant A are better than in Plant B. The table below outlines the main similarities of the two plants.

**Table 4.1 Similarities across plants.**

	<i>Plant A</i>	<i>Plant B</i>
<b>Country</b>	Mexico	Mexico
<b>WorldSport Local Office</b>	Mexico City	Mexico City
<b>Structure</b>	Part of a vertical group	Part of a vertical group
<b>Product Type</b>	t-shirts, graphic t-shirts	t-shirts, seamless and high-tech t-shirts
<b>Defect Rate</b>	1%	0.6%
<b>Union</b>	Mexican Workers Confederation (CTM)	Mexican Workers Confederation (CTM)

The first plant that I visited (which I have been calling Plant A) is located in the state of Estado de Mexico, 50 km (45-minute car drive) from the capital, Mexico City, and from the WorldSport regional office. The plant is situated in an industrial park where other garment factories are located.<sup>19</sup> A Mexican family has owned the group that runs this plant since 1955. When the North American Free Trade Agreement (NAFTA) was signed in 1994, the group began exporting. In order to be able to export, the company invested in state-of-the-art

---

<sup>19</sup> The plant has two structures devoted to production. Production management is located in these areas, while administrative functions are performed in a separate area of the facility that has a big window on the shopfloor.

technology and trained its technical, operational, and administrative staff. Today, the group exports 95% of its production to Europe, Asia, North America, and South America. Currently, 10% of Plant A's total capacity is produced for WorldSport.

The second plant (which I have been calling Plant B) is located in a western Mexican state, 800 km from the U.S. border and 2,000 km from the WorldSport regional office in Mexico City.<sup>20</sup> This state historically had an agriculture-based economy, but after a significant crisis in this sector, it is now promoting economic development and trying to attract foreign investment. In contrast with Plant A, Plant B is, to date, one of the few factories in the city, and the only garment producer. The factory is part of a Taiwanese private group, which owns three other plants: one in Taiwan, one in the United States, and another in the same Mexican state (recently opened). The plant in Taiwan manufactures fabrics and the other in Mexico produces garments for other brands. The group started producing for WorldSport in 1991 with its plant in the United States. In 1999, production orders increased and the owner opened Plant B in Mexico, where a low-wage labor force and a bigger facility allowed him to increase the capacity of production of the plant. In fact, the percentage of production that Plant B produces for WorldSport increased from 10% in 1991 to 50% today.<sup>21</sup>

Unlike Plant A, Plant B is a "strategic partner" with WorldSport. WorldSport describes the selection of "strategic partners" as follows: "WorldSport screens through its supplier community to find companies most willing and able to form a new collaborative network. It is important to note that the company evaluates candidates not by the volume of their business with

---

<sup>20</sup> The name of the state will remain anonymous in order to protect the identity of the plant.

<sup>21</sup> As Plant A, also Plant B has two shops for production. Administrative functions are performed in a separate area of the facility. There are no private offices, but only a big room where common offices are set up. However, the president and the head of operations have private offices.



WorldSport but rather by their ability to contribute to the strategic priorities of the network.”<sup>22</sup>

This definition is quite vague and it is not clear what criteria WorldSport follows in selecting its strategic partners. Through discussions with WorldSport managers in the Mexico City office, I understood that the company generally seeks factories that have a huge capacity in order to satisfy big orders, that produce goods that are important to WorldSport’s business, and that are willing to invest in new technologies. To date, WorldSport has selected 141 strategic partners out of a factory base of 950 plants in the world.<sup>23</sup> The suppliers not selected for the network do not lose their business with the company, but “they do not receive the same portfolio of benefits offered to network members.”<sup>24</sup> The benefits alluded to in the quote are access to WorldSport’s business plan, reduction of volatility of the orders, bankable forecasts (a letter of commitment from WorldSport that indicates the volume of order to demonstrate the sustainability of the plant business when raising funding), and technology sharing with other suppliers. Also, a factory that is a strategic partner does not have an exclusive relationship with WorldSport, as one may believe from the name “strategic partner.” In fact, strategic partners are not prohibited from working for WorldSport’s competitors as non-strategic plants.

The importance of strategic partners was confirmed in my interviews with WorldSport labor auditors who reported that labor auditors visit plants that are strategic partners more often. This indicates that there is greater attention to these factories than to the “normal” plants and, for this reason, one would expect less tolerance for poor labor conditions in the strategic factories. This trend is seen in Plants A and B—Plant B is visited by labor auditors more often than Plant

---

<sup>22</sup> WorldSport’s strategy pamphlet.

<sup>23</sup> WorldSport’s factories database.

<sup>24</sup> WorldSport’s strategy pamphlet.

B. However, although labor auditors may visit more Plant B than Plant A, my research shows that the total number of visits—compliance and production—from the WorldSport office is important. Overall, Plant A receives more visit than Plant B from WorldSport’s production managers and staff. This creates greater transparency and accountability between the American company and Plant A than with Plant B, which may be more effective in engendering compliance with the code of conduct than labor audits.

Plants A and B have a number of similarities—summarized in Table 4.1—which is the reason I selected these plants for my research. First, Plants A and B are located in the same country (Mexico) and, therefore, operate under the same political and economic environment and labor regulations. In addition, the plants are also under the control of the same local office of WorldSport. Therefore, the factories interact with the same people representing the American buyer in Mexico. Moreover, the labor compliance scores given to Plants A and B are also assigned by the same people, which controls for potential differences in the auditors.

Second, both plants are part of a vertically integrated group. Plant A is in a group whose production spectrum goes from producing the fabrics to packaging the final product. The group has spinning, knitting, and finishing facilities in the same location where the garment production occurs. Similarly, Plant B is part of a Taiwanese group that produces the same range of products. Being part of a vertical group is crucial for selling products to global buyers. Multinational companies tend to prefer plants that can offer a full package because they do not have to search for material and component suppliers. The vertical integration reduces the risk of poor product quality and late deliveries. Finally, dealing with integrated groups reduces the need for MNCs to monitor myriad factories and allows the MNC to develop a long-term relationship

with a smaller number of plants.

Third, both plants produce t-shirts for the same global buyers—WorldSport and its competitors. Specifically, they all produce basic t-shirts, and this allows for comparison of the production systems, which are different at each plant.<sup>25</sup> Also, Plants A and B have similar defect rates. WorldSport sets a limit of a 1.4% defect rate for its contractors and it considers both plants at high quality level. Plant A has a 1% monthly defect rate and Plant B a 0.6% monthly defect rate. Moreover, the WorldSport auditing over the three months before my visit showed a 0% defect rate for both factories.

Finally, the labor forces in the two plants are unionized. Although unions may have different roles and power within the factories, the presence of a union in both factories allows us to compare labor conditions in roughly similar environments. In other words, while the unions may not be the same, it would be much more difficult to compare labor standards in a plant with a union versus a plant where there are no unions.

Despite these similarities, Plants A and B have a number of differences, particularly in their respective systems of production—Plant A has a lean production system while Plant B has a modular one, workers in Plant A perform multiple tasks while in Plant B workers perform only one task. Also, worker productivity is higher in Plant A than in Plant B. The differences between the two plants are summarized in the table below and will be discussed throughout the rest of the chapter.

---

<sup>25</sup> Plants A and B also produce different products. Plant A is specialized in graphic and printing, while Plant B produces more high-tech products such as seamless t-shirts or fabrics that do not absorb perspiration during sporting activities.

**Table 4.2 Differences between Plants A and B**

	<i>Plant A</i>	<i>Plant B</i>
<b>Ownership</b>	Local	Foreign
<b>Proximity to WorldSport's regional office</b>	Close (50 Km)	Far away (2,000 Km)
<b>% of production for WorldSport</b>	10%	50%
<b>Surrounding Environment</b>	Industrialized	Agrarian, undeveloped area
<b>Production Method</b>	Lean (Cell)	Modular (Assembly lines)
<b>Productivity/worker/8h</b>	150 basic t-shirts	80 basic t-shirts
<b>Number of Workers</b>	487	1,100
<b>Worker Training</b>	Multiple Task (workers do all the operations in a cell)	Single Task (workers are specialized in only one operation)
<b>Workforce Nationality</b>		
<i>Managers</i>	Mexican	Chinese
<i>Supervisors</i>	Mexican	Chinese
<i>Production Workers</i>	Mexican	90% Mexican 10% Chinese
<b>Worker Voice (in addition to Union)</b>	-Mixed Commissions -Suggestion Box -Grievance Procedure -Procedure for suggesting improvements	- Suggestion Box - Grievance Procedure
<b>Labor Compliance issues</b>	Verbal abuse Bathrooms (just renewed)	Verbal abuse Chemical and flammable products with no labels Overtime Lack of training on code of conduct and worker rights (now implementing)

In the remainder of the chapter, I analyze the production system, workforce composition, worker voice, benefits for workers, and compliance with code of conduct in Plants A and B. For

each one of these aspects of the plants, I illustrate how Plants A and B may look similar on the surface, but are much different upon closer inspection. First, they both have adopted “high-performance” systems of production—lean and modular—but I will show that the way they implemented the production systems engenders different outcomes in terms of working conditions. Second, the communication seems to work well enough to make both plants work, but cultural and language barriers in Plant B hamper compliance with the code at Plant B. Third, although Plant A and Plant B have similar instruments to give workers voice, their different implementation results in different outcomes. Fourth, the two plants offer a number of benefits that provide a mixed picture of labor conditions. In fact, with regards to benefits, it is not clear which plants has better conditions. Finally, as described in the previous chapter, Plants A and B have different compliance histories; in this chapter, I show, in detail, what the compliance issues are for each factory and what the remediation processes they undertook. This will provide insights on the approach of each plant to the code of conduct. At the end of the chapter, it should be clear that the two plants have different labor conditions and that the same code of conduct and other similar policies are “filtered” by the management and affect in opposite ways labor conditions.

## **4.1 System of Production**

Before beginning my discussion of the systems of production in the two plants, I will provide context by describing shifts in manufacturing generally. Manufacturing processes have changed enormously in the last few decades. Today the emphasis is on greater responsiveness, cost effectiveness, improved production quality, and shorter product life cycles. As a result, it is increasingly becoming evident that traditional production methods and work organizations such

as single task workers and mass production systems are inappropriate to meet the new demands. Therefore, there is now pressure to restructure manufacturing along new lines. To meet these new requirements, firms are re-organizing and using new forms of production. Two of these forms are lean production and modular production, and have been implemented respectively in Plant A and Plant B.

In lean production, workers are organized in team groups, in which the workers undertake multiple tasks and suggest improvements to the management. This system adopts a variety of methods to facilitate changeovers, improve plant layout, and train workers in quality control practices and in equipment maintenance. In addition, lean production involves workers in problem-solving activities to simplify the production process or reduce defect rates (Appelbaum and Batt, 1994). These practices lead to continuous gains in quality and productivity and to incremental improvements in the production process as a whole. This set of work practices is called “high performance work organizations” (HPWOs). The literature on HPWOs provides evidence that high performance systems rely on educating workers in order to improve quality and productivity, rather than focusing only on productivity improvements. In this type of organizations, the management encourages and motivates workers to develop, share and apply their knowledge and skills more fully than in traditional practices, with positive implications for the quality of the jobs as well as for performance (Godard, 2004). Moreover, this system of production supports an increase in the variety of products because smaller lot sizes of various models can be produced by a work group. This is particularly important in the apparel sector because companies change styles at an extremely high rate, requiring contractors to shift with the changes. On the other hand, research suggests that high performance systems do not

always yield these positive results. In an analysis of longitudinal data, Cappelli and Neumark found high performance systems to be associated with increased labor costs, to have weak productivity effects at best, and to bear no association with labor efficiency in manufacturing establishments (2001). Plant A, that has a lean production system, confirms what the main body of research says. In Plant A, the change to lean production meant an increase in product quality, worker productivity, and worker wages.

The second mode of production firms have used to address the change in products—improved quality, shorter life cycles, and quick time delivery—is modular production. Modular production is based on building a production system from standardized machine elements. The overall objective is to provide a production methodology that enables the entire production system to be rapidly designed and configured for a wide range of consumer products with minimal delay, costs and need for specialized machinery. Generally, modules are simply small sets of integrated production tasks (Knauss, 1998). Modularization is one technique by which mass producers seem to be able to increase efficiency, achieve a modest amount of product customizability, and cut costs (Knauss, 1998). In this way, Fordist firms gain competitive advantage vis-à-vis high performance producers that are unable to match them on cost savings. Within mass markets, modularization allows somewhat greater customizability of high-volume products. Nevertheless, the primary competitive focus remains on volume production for mass markets. Modular systems can be seen as high-performance manufacturing strategies in terms of efficiency improvement but they are low-road approaches with regard to social organization (Knauss, 1998). Plant B, that has a modular system of production, falls into this category.

In the following section I will describe how these two systems of production—lean production and modular—are implemented in Plants A and B.

## **4.2 Systems of Production in Plant A and Plant B**

*Plant A* - Plant A uses lean manufacturing. The production is best understood first by examining the facility in which the work is conducted. Workers are organized in groups of six that are like “islands” of production—called “cells”—in which a whole piece of garment is produced. The machines are organized in a U-shape formation and workers are usually standing for most part of the day while they work. The shopfloor is clean and organized. This is partly due to lean manufacturing, which emphasizes cleanliness. In addition, the workplace is not crowded because the factory uses a just in time system that does not allow a buildup of parts or inventory.

At the outset, the factory used line production. In 1995, the owners expanded their plant with another building. In the new structure they adopted a modular production system in order to have a more flexible and short production cycle. In 2002, the management decided to adopt the modular system in the whole plant. They changed the system of production because, as the owners told me in an interview, “in this way you can have a higher control of production, the production itself is more visible, and workers can see what they are doing and their contribution to the final product.”

In 2003, the owners of the factory had a summit meeting with one of their global buyers and heard for the first time about lean manufacturing and its application in the footwear sector. They became interested and learned about lean manufacturing. In February 2004, the factory started its transition to lean manufacturing. As stated above, this system of production entails



that workers be organized in teams, do multiple tasks, and suggest improvements to the management. In order to change the lines into cells, the factory had to educate and train workers. Before the workers were trained, management explained to them the central idea of the project so that they could understand the underlying principles of the new production system. All workers were involved in a training program composed of 10 hours of theory and 9 hours per day for 25 days of on-the-job training. Off-the-job training included teaching workers to do workstation cleaning and preventive machine maintenance. The training was carried out by the human resources (HR) department and an engineer of processes. In order to motivate workers to participate and not to leave the plant, workers were paid their daily salary plus a production bonus equal to 81% of their productivity during their training period. The management chose a bonus corresponding to 81% of productivity because it is the average bonus that a sewing worker would receive in the modular production in Plant A. As a result, to date, only 6 out of a total of 256 sewers have left the Plant because of their inability to adapt to the new system in place.<sup>26</sup>

Adjustment to a new system of production can take some time. After the shift to cell production, workers that were at 100% productivity in the previous modular system dropped to 50%. Workers with more experience took less time to adapt to the new production method, but in general it can take some time for an average worker to reach full productivity, and this can have a discouraging effect on the employees. In order to facilitate the process of adjustment, the management focused on increasing motivation through non monetary rewards, which can be as important as monetary rewards. These rewards aim to provide recognition through praise, and other types of positive feedback, for workers who do a job well. For example, after the training

---

<sup>26</sup> Interview with HR manager.

period workers had a graduation ceremony—with the participation of owners and top managers—and received a t-shirt and a cake as a reward. Moreover, when one cell reaches 100% of productivity in a day, the event is recognized in the plant with an announcement, a small gift to celebrate the event, such as a cake, and eventually a picture on the board at the entrance. When cells started producing, they competed amongst themselves. During the first few months, for example, the most productive cell, or a cell that reached the 100% target faster than others, would get a cake for each team member. At first, I thought that these rewards could not really make a difference, and that workers would not value them too much. To my surprise, in my interviews with workers (conducted out of the presence of their supervisors or managers), I understood that the small gifts or celebrations made them feel part of the company, and created a more relaxed environment.

Overall, Plant A confirms what the literature on high performance work organizations suggests. The HR manager indicated that the change of system of production from modules to cells resulted in an increase in quantity and in quality.<sup>27</sup> Quantity increased, with fewer workers producing more. In fact, by changing to lean manufacturing, the factory formed three cells (18 workers) from two lines (20 workers). With three cells they now produce 2,700 t-shirts, while with two lines they used to produce 2,400 t-shirts. Quality improved as well. According to the head of operations, their defect rate in sewing decreased by 40%. The top management in Plant A sees achieving quality and output targets as a collective responsibility in which peer

---

<sup>27</sup> At 100% level of productivity, one cell can produce 1,060 pieces/day for a basic t-shirt. This is equal to 181 pieces/person. For a more complex t-shirt, the cell can produce 782 pieces/day (132 per person). The lowest production for the most complex t-shirt is 400 pieces/day/cell. One supervisor mentioned that a cell can produce around 500-600 pieces for a more complex t-shirt. In the previous system of production, one line produced 1,200 basic t-shirts per day (at 80% productivity). Each line was composed of 10 people, while each cell has six.

supervision and self-supervision play a large role. The production manager explained that each worker is accountable for quality at his/her workstation and that quality control is part of production operations. Every worker has to check the quality of one out of every five t-shirts. The table below illustrates the differences between the two systems of production at a level of 80% of worker productivity. The numbers show that through cell production, workers have increased their productivity and their weekly salary. The salary has increased both because the factory raised wages and because by increasing their productivity, workers are now able to get more bonuses of production.

**Table 4.3 Comparison between Old and New System of production in Plant A**

	<i>Old System (module)</i>	<i>New System (cell)</i>
<b>Number of workers</b>	10	6
<b>Number of t-shirts per day per module/cell</b>	1,200 t-shirts/module	900 t-shirts/cell
<b>Productivity per worker</b>	120 t-shirts/day	150 t-shirts/day
<b>Average weekly salary</b>	US\$ 68/week	US\$ 86/week

**Plant B** - Plant B has a modular system of production with assembly lines. A line is composed of ten people, and each worker performs one of the operations in a pre-established sequence in order to produce a garment. According to the plant manager, the product can be made in one or two hours. This system allows workers and supervisors to detect mistakes immediately and remedy them.

In contrast with lean production, in the modular system it is more difficult to change styles rapidly. As the head of operations in Plant B reported, every style requires a specific set of machines and sequence of operations, and it needs a large space in which to line up machines

and people.<sup>28</sup> In the cell production, instead, the layout of the machines is more flexible and people can move from one machine to another as they do various operations. In the cells, the sequence of operations changes because the people can use different machines. The head of operations in Plant B explained that the modular system is especially good for large volumes of production because they do not want to move the machines too often: “We try to get big orders of production for this reason.” For example, an order of about 10,000 pieces will suit this type of production well. This seems to contrast the current trend in the apparel sector towards small lots and rapid change of styles.

The table below compares the production in Plant A and Plant B. The table illustrates that despite workers specialized in one operation in Plant B, and their effort to produce as much as they can, their daily productivity is lower than the workers in Plant A.

**Table 4.4 Comparison of Production Systems in Plant A and Plant B**

	<i>Plant A</i>	<i>Plant B</i>
Total # of workers in one line or cell	6	10
T-shirts per day per line or cell	900 t-shirts/day	800t-shirts/day
Daily Wage (fixed salary + bonuses) per worker	US\$ 17.2	US\$ 13.6
T-Shirts per worker	150 t-shirts/worker	80 t-shirts/worker
Cost per t-shirt	US\$ 0.11	US\$ 0.18

As shown in the table, the two plants have different levels of worker productivity, worker wages, and cost per t-shirt. First, Plant A has higher productivity per worker in that it produces 47% more pieces per worker per day than Plant B. Second, Plant A pays wages that are 15%

---

<sup>28</sup> When a new style has to be produced, the factory needs to change the order of machines and operations. In a modular system, once the line is set up it is hard to move the machines around. In addition, sometimes two or more machines are needed for the same operation because two styles may differ only for slightly different operations. In these cases, it is more convenient for the factory to have only one line that can work on both styles. As a consequence, one line can get extremely long.

higher than in Plant B. Third, Plant A has lower cost per t-shirt; its cost is 57% lower than Plant B cost. This comparison shows that the system of production in Plant A is more profitable than the system in Plant B. However, it is worth noting that this is a very rough comparison. The comparison is made between a cell in Plant A and a line in Plant B that make comparable products (basic t-shirts), and it is based on information provided by the factories regarding the number of t-shirts produced by a cell or a line in a day, and workers' wages. Comparison between cells and lines that produce different types of t-shirts may provide different results.

### 4.3 Workers

Plants A and B have very similar internal labor market and plant policy. The table in the next page summarizes the data that are especially pertinent to my analysis, and more details are provided in the appendix. The table shows that many attributes of the internal labor markets do not differ significantly. The biggest difference is in the wage structure. In spite of having to respect the same minimum wage, Plants A and B pay different wages to their workers. The legal minimum wage for the two plants is US\$ 5.15 per day, which is one fifteenth of the equivalent minimum daily wage for a sewing worker in the United States.<sup>29</sup> Both plants pay wages that are above the minimum required by law. On a daily bases, Plant A pays its workers a daily salary which is one fifth of the US daily minimum wage, while Plant B pays a salary which is one sixth of the US one. In other words, Plant A pays its workers an average weekly salary that is 21% higher than the one that Plant B pays. Since the two Plants have to respect the same minimum wage, which reflects the economic conditions of the area where they are located, one can conclude that the difference in the wages of Plants A and B is significant.<sup>30</sup>

---

<sup>29</sup> The average legal minimum wage for a sewing worker is US\$ 9.79 (U.S. Bureau of the Census). Since in Mexico the minimum wage is calculated on a daily base, I multiplied the US hourly wage by eight (which is the number of hours of an average day of work) in order to obtain a comparable daily minimum wage (US\$78).

<sup>30</sup> The National Commission of Minimum Wages, a subsection of the (STPS) Secretary Of Labor and Social Welfare, acting under Article 570 of the Federal Labor Law which states that "*minimum wages will be set each year and will take effect on the first day of January of the following year,*" publishes every year in December, in the (DOF) Official Daily of the Federation, the revised minimum wages by profession. For the purposes of minimum wages, Mexico is divided into three geographic areas (A, B, and C) which have distinct wages based on the analysis and studies performed by the Commission. Plants A and B are located in the geographic area C.

**Table 4.5 Internal Labor Markets in Plants A and B**

	<i>Plant A</i>	<i>Plant B</i>
<b>Work Hours</b>	One shift (during the day)	Two shifts (night and day)
<b>Worker Education</b>	Sewer: Primary and Secondary Quality Control: Secondary Supervisor: Secondary Management: College Degree	NA
<b>Training</b>	Two Months (not subsidized by the government)	One Month (subsidized by state government)
<b>System of Promotion</b>	Informal (based on skills)	Informal (based on skills)
<b>Legal Minimum Wage</b>	US\$ 5.15/day	US\$ 5.15/day
<b>Daily Wage</b>	<b>Base</b>	US\$ 5.8
	<b>Average Bonuses</b>	US\$ 11.3
	<b>Total</b>	US\$ 17.2
<b>Average Weekly Wage (daily wage + bonuses)</b>	US\$ 86/week	US\$ 67.8/week
<b>Turnover Rate</b>	8-10%	10%

The workforces in Plants A and B are embedded in different environments due, in part, to the different systems of production. Before I discuss the differences across the plants, I will review the debate in the literature concerning the implications that the two systems of production have for workers. In this way, I will offer a context for situating the discussion on the two plants.

The need of firms to improve quality and to better meet customer demands requires a restructuring of work organization, giving more power to the employees that are low on the organizational hierarchy (Osterman, 1999). This implies that job definitions need to be more

---

<sup>31</sup> This figure looks lower than the minimum wage, but it indicates only the “base” daily wage. The total wage includes also bonuses for attendance, punctuality, and production. The bonuses are calculated at the end of the week. If one divides the average weekly wage, one can see that the average daily wage is above the legal minimum wage.

flexible. It also means that employees have to receive greater level of discretion. Lean manufacturing achieves both these goals by introducing work teams. The idea of teams is that the employees take responsibility for a group of tasks, that there is a sense of responsibility for the team's product, that the workers are broadly skilled, and that there is an element of job rotation. Teams require a relatively stable membership so that members can learn their tasks and learn how to work together.

A characteristic of lean manufacturing is job rotation. Each worker in a cell is trained to do all of the operations of that cell. Studies on work organization suggest that rotating tasks has a number of advantages (Besser, 1996). First, it allows some variety of work, which is important in jobs that are intrinsically boring and monotonous, like sewing. Second, while developing a variety of skills and learning several jobs, workers develop an understanding of the large picture of the production process, and their roles within it. This gives additional meaning and importance to their work and makes them aware of their contribution to the overall process of production. Third, job rotation may reduce job-related injuries. When team members rotate properly, the chance of being injured because of repetitive motion is decreased. Also, changing jobs can decrease the likelihood of injuries caused by carelessness due to the monotony of the job. Finally, with job rotation, firms reduce problems related to absenteeism. When a worker does not show up, his/her work is split among the other workers in the cell.

According to the literature on high performance work systems, lean manufacturing gives rise to both an improved quality of work life, with positive social and psychological implications, and higher pay and job security. However, despite the findings of a number of studies that have reported positive social and psychological implications, some have also found high performance



work systems to be associated with high levels of work intensity and stress. For example, workers can feel pressured by strong performance norms and by peer pressure. In fact, compensation in cells is based on group piece rates. This means that the group as a whole will reach specific targets of production, and gain a bonus that is split among the members. Therefore, the performance of each worker is relevant and affects the performance of the others. This can create significant pressure among workers. There is also evidence that, even while lean production is initially received positively by workers, support tends to decay over time, as experience accumulates. In addition, Osterman (2000) found high performance systems associated with a higher likelihood of layoffs in subsequent years and with no real gain in wages. He also found that in his study high performance systems bore no association with wage levels. Overall, implications of these practices for worker pay and security are at best mixed, and their implications for social-psychological variables is more complex than has been assumed by proponents (Godard, 2004).

In contrast, the modular system maintains some of the characteristics of the Fordist model, in which the workplace is organized around tight divisions of labor and narrowly defined specialized jobs. Decisions making is in the hands of supervisors, who decide how the jobs are to be performed, how work is scheduled, and how workers are evaluated. In contrast with lean manufacturing, modularization does not imply a decentralization of authority or a diminution in the division of labor. Production decisions under this system are still coordinated centrally by managers. Under this system, there is no need to develop an alternative to the view that production workers are merely an expense to be minimized, not assets worthy of investment. Moreover, high-tech and high-volume production, generally, and assembly lines particularly,

rank among the most stressful manufacturing jobs (Shaiken, 1994). Workers in assembly lines have often no time between jobs and do not have time to talk among themselves because of the speed of the production pace. This is what generally happens in Plant B.

In the remainder of this section, I will describe worker characteristics in Plant A and Plant B in the context of the literature just discussed. There are a number of differences between workers in Plant A and those in Plant B that are summarized in the table below.

**Table 4.6 Workers Characteristics**

	<i>Plant A</i>	<i>Plant B</i>
<b>Average weekly wage</b>	US\$ 86/week	US\$ 67.8/week
<b>Team Work</b>	Yes	No
<b>Job Description</b>	Multi-Tasks	Single Task
<b>Job Rotation</b>	Yes	No
<b>Worker Participation in Work-related decisions</b>	Yes	No
<b>Nationality</b>		
<i>Managers</i>	Mexican	Chinese
<i>Supervisors</i>	Mexican	Chinese
<i>Production Workers</i>	Mexican	Mostly Mexican
<b>Overtime</b>	Voluntary and within limit	Mandatory and over limit

First, workers in Plant A receive higher wages than those in Plant B. Second, workers in Plant A work in teams, a circumstance that does not occur in Plant B. Third, in Plant A workers perform multiple tasks and rotate their job, while in Plant B workers only do one operation and do not vary their job. Fourth, workers in Plant A have the possibility to participate in work-related decisions, while in Plant B they need to follow orders from above and do not have the opportunity of giving their input. Fifth, workforce composition in the Plants is different. Workforce in Plant A is entirely Mexican, while in Plant B managers and supervisors are Chinese, and 90% of production workers are Mexican. I will address this last point in a separate

subsection (4.3.1). Finally, overtime in Plant A is voluntary and within the limit established by the code of conduct, while in Plant B is mandatory and exceed the code's limit. Overtime will be discussed in subsection 4.3.2.

**Plant A** - In Plant A, workers are organized in teams. Workers in teams have higher skills because they are typically responsible for all operations. Also, workers often operate more than one type of sewing machine and are responsible for routine maintenance of the equipment. Generally, I found that workers in Plant A appreciate job rotation. They told me that they are happy that they know how to perform more operations and this is one of the reasons why they like Plant A. It is worth recalling that, consistent with what the literature suggests, the new system of production meant higher wages for the workers. In fact, with the implementation of lean manufacturing, Plant A was able to reduce costs and pay workers higher wages. Moreover, by increasing their productivity in the new system, workers are able to reach more bonuses of production and increase their total salary. Therefore, workers may favor the new system due to the greater wages rather than job rotation. Nevertheless, no worker that I interviewed complained about having to do various tasks.

Team works provide employees with opportunities for participation. Therefore, team members also need team building and communication skills (Appelbaum et al., 2001). In Plant A, I found that the small size of the cells facilitates the members' getting to know each other quite well. This increases the feeling of solidarity with other team members. Most team members seem to enjoy socializing with other team members. Teams in Plant A are usually not broken up. However, if someone in a cell is promoted, transferred, or leaves, the cell can end up with more inexperienced workers compared to another cell that did not lose any members. In

this case, supervisors may decide to re-organize workers among cells in order to avoid overloading the only experienced worker with work in the “unbalanced” cell. One supervisor confirmed this when she said: “Although we are not supposed to change workers in the cells, if I need, I can move a worker according to the needs of production and the skills of the person.” And, in a separate interview, a worker said: “Sometimes my supervisor asks me to go to another cell, and I don’t mind going to help. We help each other a lot in this system.” Despite these occasional changes, the cell organization does foster solidarity and the building of relationships between workers.

The incentives for production are different in each system of production as well. As reported in the literature concerning lean manufacturing, bonuses in Plant A are based on group production. When a cell reaches its target, the cell gains a bonus that is then split among the six workers. Therefore, each worker affects the rewards of the others. This condition could also generate pressure and increases stress on workers. In Plant A, I did not find evidence of practices that in the literature are associated with “management by stress,” such as heavy monitoring by management, deliberate increases in speed in order to identify weak links in the production process, audio-visual devices to monitor line performance, or high accident rates. On the contrary, I found that workers reported less mandatory overtime and fewer conflicts with their coworkers. I also found no evidence that the changes in work organization lead to a “speed up” that negatively affected workers.

Consistent with the literature, the relationship between supervisors and workers in Plant A is more collaborative than hierarchical. Supervisors in Plant A monitor the work in a cell.<sup>32</sup> Every morning supervisors communicate to each cell the style they need to produce that day and the quantity requested by the client. Workers then get together and discuss how much they think they are able to produce that day. Finally, they meet again with the supervisor, share their opinions, and together reach a final agreement on the daily target. Moreover, the management of the plant is inclined to accept input from their workers. For each style, supervisors receive a list of operations to follow in order to produce the garment from the production manager. Supervisors share the list with the cell. If workers and/or supervisor do not agree with that particular sequence of operations, or with some of the operations, they can suggest changes to the production manager. For example, one supervisor told me that sometimes the production manager proposes a sequence of operations that may not be smooth or may create problems—namely delays—in the production flow. In these cases, supervisors or production workers suggest an alternative sequence of operations that they believe is more efficient, and usually obtain the change. In other cases, supervisors and workers can suggest a different way to perform an operation that they believe is easier or faster. In these circumstances as well, they usually are successful with their suggestion. I found that the opportunity to participate in decisions had a strong and positive effect on intrinsic rewards. These opportunities challenge

---

<sup>32</sup> Supervisors can oversee between 5 to 8 cells, according to their experience. Therefore, each supervisor may have 30 to 48 workers under his/her responsibility, which indicates a significant level of autonomy for workers. This also may mean that the management of the plant trusts workers to obey on the basis of clear rules and peer monitoring in the teams. Supervisors are trained to work with a system of cell production. They are specifically trained to manage personnel, keep the workplace clean and in order, and introduce continuous improvement in the production system. It is important that they learn how to manage a cell, and particularly how to make sure that they always have the right amount of materials and are in time with the production schedule. This is particularly important because in lean manufacturing inventory is reduced. Therefore, a mistake in the timing may stop the whole production process in the cell.

workers and require them to be creative. But they are happy to be involved in decisions about their work and related to the work process.

**Plant B** - In contrast with Plant A, workers in Plant B are specialized in one operation and usually do not like to change operations. Workers want to stick with what they do well so that they have the possibility to earn more through increased productivity. This attitude is completely different from that of the workers in Plant A. In the latter, workers experience job rotation and they reported that they enjoy it. Besides increasing their skills, workers had an increase in their average wages after the shift to cell production. The fact that workers in Plant B do not want to learn new operations may be dependent on the fact that they feel that they can increase their wages only if they produce more garments. This is consistent with the words of the head of operations in Plant B, who emphasized the importance of reaching large volume of production.

In Plant B, the production orders are communicated from the top to the bottom of the hierarchy and there is no space for worker participation. The plant manager plans the production and distributes the production orders to the area supervisors. Plant B divides the production in four areas, and each area has a supervisor. In each area, there are six lines, and each line has a supervisor. Area supervisors receive the production order from the plant manager, and they will divide it up among the six lines under their control. The area supervisor is also in charge of explaining and teaching the operations for producing a given garment. Sewing workers need to follow the instructions that they are given, as one of them told me: “We cannot change or suggest different ways to produce a garment because it is a chain and we need to follow what they tell us”. There is no formal policy against workers talking to each other during their job. However,

many workers do not have the opportunity to talk because the pace of production is fast and they are too busy to talk.

#### **4.3.1 Workforce Composition and Communication**

Workforce composition and communication within the plants are important for labor standards and understanding the systems of production. The workforce composition in Plant B impacts labor conditions in the plant because of the mix of nationalities. Most of the managers are from China, Taiwan, and Hong Kong. The supervisors are all Chinese (mainland China and Taiwan), and the workers are Chinese and Mexican, but the majority is from Mexico (Mexican law requires factories to have a minimum of 90% of the workforce be local). The firm usually brings experienced and trusted managers from Taiwan and China to directly manage the factory. Every manager and supervisor that I spoke with had previous working experience in Taiwan with the owner of the factory, and in some cases the relationship had started a long time ago. In addition, the manager brought some experienced workers from Taiwan and China to work in his plant in Mexico.

There are a number of reasons why Plant B hires Chinese managers, supervisors and also some workers. First, according to managers of Plant B, Chinese workers have a higher skill level. This applies especially to production workers, since Chinese have all had previous working experience in China or Taiwan, while local Mexican workers do not have any experience in the sector. From my interviews with managers in the plant, I understood that if there were no limitations imposed by the Mexican law, they would hire only Chinese workers. Second, the need to hire Chinese may be related to the need to communicate with the home company in Taiwan. Third, another reason to hire Chinese is their willingness to accept long

work hours and heavy workloads. Their attitude fits the culture of the company much better than the Mexican culture does. Managers and supervisors constantly reported that Mexican workers are slower than Chinese. A production supervisor said: “They always ask permission for going to the hospital or government offices”, and “they like to party during the weekends. On Mondays I have the highest rate of absenteeism.”

Communication within factory B is quite difficult; Chinese and Mexicans communicate mostly by gesture. A few Chinese managers and supervisors speak very rudimentary Spanish. Some managers speak English, but not one single Mexican among the workers does. When asked whether the lack of a common language is a problem, some supervisors and workers of both nationalities said that it is not a problem because they can understand each other through gestures or even drawings. This form of communication is very basic and does not go beyond technical information, such as how to perform an operation or how to fix a mistake. In addition, the fact that Chinese employees do not speak Spanish also means that Chinese people are totally dependent on this factory because they cannot leave for better paying jobs like Mexicans can.

A study on the Latino workforce in the construction sector in the U.S. pointed out that when employees cannot communicate efficiently and are unable to perform their duties because of the language barrier, two things may happen (Vázquez and Stalnaker, 2004). First, coworkers must take up the slack. This can have a detrimental impact on workplace morale, adversely affecting production and profits. Second, language barriers can cause breakdowns in communication between two language groups. For example, the study reported that the language barrier between English-speaking operators and Spanish-speaking construction workers was instrumental in causing a serious accident at the workplace. When asked about this topic in Plant



B, almost everyone stressed that while communication is not problematic, the different attitudes of Chinese and Mexican workers creates some friction. According to the interviewees, Mexicans speak louder and have more physical contact, while Chinese people tend to be quieter, but at the same time are very harsh on workers when they give instructions. When telling anecdotes about their work, Chinese managers and supervisors gave me examples of the way they would speak to workers, and in most of the cases it was by yelling commands and conveying anger.

These different attitudes often translated into verbal abuses that have been recorded by the WorldSport labor inspectors. For that reason, WorldSport did a “cross-cultural training” in the factory. A specialist in cross-cultural issues came from WorldSport headquarters in the U.S., along with the compliance specialist from Mexico. They ran a session with some Chinese people explaining to them attributes of Mexican culture. They also ran a session with some Mexican workers about Chinese culture. As a result of that training, currently there are weekly meetings in which Mexican and Chinese workers discuss the issues that might have occurred during the week. Every week the management chooses some workers and supervisors from one area of production and holds a meeting with the HR manager—and occasionally the head of operations—to discuss the main issues. According to some workers and supervisors (interviewed separately), the level of understanding has improved and there seems to be fewer conflicts. However, it is difficult to believe that they can have meaningful discussions since the lack of a common language. It is plausible, though, that Chinese and Mexican are at least becoming more aware of their different attitudes.

### 4.3.2 Overtime

Since overtime has a different role in the two plants, this sub-section focuses on it. Most of the apparel global buyers established a maximum of 60-hour work weeks. Since Mexico's law allows a maximum of a 48-hour work week, workers in both plants can do overtime for no more than 12 hours per week. In both plants overtime is paid according to the Mexican law: for the first 9 hours workers are paid twice their regular salary; for the subsequent 3 hours, they are paid three times their salary. However, the extent and form of overtime in the two plants are extremely different. When Plant A needs employees to work extra time, it makes workers aware of it and allows them "apply" for it. Therefore, in this factory the norm seems to be that overtime is voluntary. However, an employee reported that just a week before my visit a supervisor required that some specific workers stay extra time. Apparently, this supervisor wanted those particular workers because they have more experience and are faster. On the other hand, the HR manager said that workers usually don't stay after regular time. When they work overtime—he claimed—it is because of delays from their suppliers. Although I don't have enough data for saying where is the truth, in my interviews with workers overtime rarely came out as an issue, which let me think that it is not one of workers' priorities. This is in contrast with what I recorded in Plant B.

At Plant B, overtime is the norm. Workers of the first shift report that they often work until 7 pm or 10 pm. This means that when they do overtime, they work between 12 and 15 hours in a day. Workers report that they expect to work overtime and look forward to the increase in salary due to the overtime. They want to work more hours because it is the only way they can obtain more money. Several workers in Plant B said that they actually work more than

60 hours per week. This is confirmed by the labor compliance reports that WorldSport labor auditors filled out in 2003 and 2004. The auditors reported that workers were working over the legal work time. Moreover, overtime is often mandatory in this factory. Workers do not choose to work extra-time, the supervisor indicates who has to stay longer. Supervisors explained that this practice exists because they want their most experienced and talented workers to stay longer in order to produce more, and reach their target sooner. The consequence is that supervisors tend to assign overtime to Chinese workers because they are faster. In an interview, two line supervisors said that “some Mexicans after six years *may* come close to Chinese sewers.” By doing this, they generate animosity amongst the Mexican workers—who feel they are being discriminated against.

In summary, in the two plants, there are significant differences between the extent that workers are expected to work overtime, and workers’ choices in overtime. Overtime in Plant B exceeds the limitations set by WorldSport’s code of conduct, and, since it is mandatory, it is close to a form of forced labor. In Plant A overtime hours respect the code of conduct, and overtime is voluntary. However, even in this case there seem to be circumstances in which overtime is mandatory as in the example reported above. Overall, despite the imperfect practices of overtime, workers in Plant A has significantly better conditions related to overtime.

#### **4.4 Worker Voice**

This section illustrates with specific examples how Plants A and B have similar policies that are implemented in a different way and give different results in terms of worker voice. All workers in both factories are associated to the main Mexican union, the Mexican Workers

Confederation (Confederación de Trabajadores Mexicanos, CTM).<sup>33</sup> In addition to the union, workers have other channels to communicate their grievances and suggestions to the management. The table below illustrates those instruments.

**Table 4.7 Worker Voice**

	<i>Plant A</i>	<i>Plant B</i>
<b>Worker Voice (in addition to Union)</b>	<ul style="list-style-type: none"> <li>• Mixed Commissions</li> <li>• Suggestion Box</li> <li>• Grievance Procedure</li> <li>• Procedure for suggesting improvements</li> </ul>	<ul style="list-style-type: none"> <li>• Suggestion Box</li> <li>• Grievance Procedure</li> </ul>

In particular, a number of policies that look similar on paper are implemented in a different way by the management of the two plants. I will discuss three of these policies throughout this section. First, both plants have joint commissions composed of workers and management, but I found evidence of their functioning only in Plant A. Second, both plants have a suggestion box for their workers, but Plant B violates the anonymity of workers. Third, both plants hire their workforce from a labor contractor firm as a strategy for reducing their taxes and the amount of profit that by law they have to share with the workers. However, Plant B exacerbates this practice to such a great degree that workers went on strike to protest against it. In the remainder of this section I discuss in details these examples.

---

<sup>33</sup> In Plant A, union representatives meet every eight days with the HR manager to discuss workplace issues. Workers voice any problems they have through these representatives to the HR department. The union also negotiates collective agreements with the management, such as the increase of wages, which has to happen every year according to Mexican law. In Plant B, there is a union representative for each area of production, for a total of 11 representatives. On a weekly basis, they meet with the HR department and the owner and discuss the main issues related to workers. A union representative reported that “sometimes the owner is in a good mood and we can talk, but other times he is in a terrible mood and we keep our mouths shut.” This does not seem a sign of a collaborative relationship.

*Plant A* – Workers in Plant A can communicate with the management of the plant through four “mixed” commissions: commission of safety and hygiene; commission of training; commission of first aid; and commission for fire. These commissions are composed of representatives of the management and the workforce and have various responsibilities. The commission of first aid, for example, is formed by seven workers and seven employees from the administration and management. They have been trained—during work time—in order to provide first assistance in case of an accident at the workplace. According to those responsible for the commission of first aid, confirmed by separate interviews with workers, accidents are usually not serious. Examples are small cuts during trimming operations, or injuries caused by the needle of a sewing machine. Hardly ever do workers need to go to the hospital.

Another example of a commission is the commission of safety and hygiene. Members of the commission meet every month and do a walk-through in the workplace in order to check safety and hygiene issues such as shopfloor layout, fire extinguishers, and damaged floors. Then, they report the results to their boss who, in turn, writes a memo to the corresponding department and asks for remediation. The commission checks after a week to see if the issue has been solved, and if not, the commission sends another memo soliciting action. In some of the past cases, for example, the commission had to follow up several times before an issue was closed—mostly because some correction required more time, such as re-paving a floor. The participation of workers in these joint worker-management committees opens more communication channels with the management, and engenders more occasions for workers to access decision-making processes (Frost, 2000). As the example of the safety and hygiene committee illustrated, workers have a say in the layout of the workplace. When interviewed, one

member of this committee referred to a change that the commission obtained in the shopfloor and that I had observed during my visit. This was a change in the layout of the shopfloor, which closed a passage for workers next to a cutting machine in order to reduce risks of accidents in the workplace.

**Plant B** – Demonstrating further differences in implementation of the same policies, Plant B has, on paper, the same joint worker-management committees that Plant A has. However, when I was in the factory I could not find any support of their actual functioning. This circumstance provides evidence that a similar policy in the two plants (the presence of a union and of joint committees) has had different implementation and engendered different outcomes. Because of time constraints, I could not further investigate this issue, and therefore I cannot say why unions and committees have a different role in the two factories.

The literature agrees with this potential finding that there are different levels of implementation of the same policy in different plants. For example, a study in the steel industry showed that there is a great variation across local unions' success in negotiating workplace restructuring in four plants (Frost, 2000). The author of the study suggests that the ability to access information, to educate and mobilize the membership, to communicate with management at multiple levels, and to access decision-making at multiple points explain the different performance of four local unions and have been critical to the success of two of them. Similar to my findings, this study showed that plants with the same policies had dramatically different practices of union management relations.

Different union capabilities may explain different outcomes in Plants A and B. For example, the fact that Plant B is located in a rural area, with no industrial tradition, may result in

a less experienced workforce and fewer union members. As I will discuss in the following chapter, this circumstance may also be a factor that attracted Plant B in this particular location. In general, I found that workers in Plant B did not have opportunities to participate in decisions regarding the workplace.

The argument that communication between workers and the management of Plant B is not open and constructive is supported by the way Plant B handles profit sharing. Mexican law establishes that employers have to share 10% of their profit with their employees. Workers in both plants receive their profit sharing. However, last year workers in Plant B realized that employees in other factories were receiving a much higher share of the profit.<sup>34</sup> They were surprised and could not believe this difference in the amount of money because Plant B has a very large volume of production. As a sign of protest, they went on strike for a few hours. After the strike, the union representatives discussed the issue with the owner of the factory. The union wanted to solve the problem so that workers would not go on strike again for the same reason. The owner refused to reach any agreement: “He reacted like nothing happened...well, actually he was very angry about that” (interview with union representative). He said that if the strike was a way for workers to threaten him, he will shut the plant down and go somewhere else. The owner also said that he was giving workers what the law requires, which is 10% of his profit.

However, this is not exactly true. As I found out when I was in the factory, Plant B is organized in a way to minimize the profit that it has to share with workers. Workers are not hired directly by Plant B, but by other two firms (*prestadoras de servicios*) created with the sole purpose to provide workforce to other firms. Therefore, workers are entitled to have a share of

---

<sup>34</sup> Interview with a union representative.

the profit of the *prestadoras de servicios* and not of Plant B. The loophole is exploited as follows. The owners of the two *prestadoras de servicios* are members of the family of the owner of Plant B, and some of his closest collaborators. Plant B buys the services from the two firms, and pays them for these services. Since the ownership is the same, Plant B can decide to its convenience how much to pay to the *prestadoras de servicios* in order to reduce its taxes and the amount of profit sharing designated to workers. This is facilitated by the circumstance that the accounting department of Plant B is also in charge of the accounting of the two *prestadoras de servicios*. Plant B is not the only factory that uses this practice. In fact, Plant A also uses this sort of “labor contractor” for hiring workers. However, in Plant A workers did not complain with me about low salary or low profit sharing. In conclusion, it seems that Plant B pushed this sort of manipulation too an extent that the profit sharing was impossible to believe, and in turn the workers went on strike.

In addition, the same episode provides some hints about supervisor-worker relationships. In fact, not every worker went on strike because they were threatened by their supervisors. Some supervisors told their workers that if they stopped working for the duration of the strike, they could not go back to their workstation and would miss the entire day of work. As a consequence, some workers were willing to participate in the strike and kept on working so they would not lose one day of salary.<sup>35</sup>

As in Plant A, workers in Plant B can address their questions and complaints to the HR department or to their union representatives. They can also voice their grievances through a suggestion box that is located on the shop floor. However, in this case the owner of the company

---

<sup>35</sup> Interview with a worker.



directly answers the questions and posts them on a board at the entrance of one of the sewing areas, where everybody can see them. On one hand, posting the answer in a public place could be seen as a sign of transparency. On the other hand, however, this could create embarrassment to the workers that ask questions, and could prevent other people from doing it. When I was in the factory, I could see two examples of grievances posted. One worker asked for a clarification about the composition of her salary; another complained about the reaction her supervisor had when he found her not working. These seem to be quite delicate issues, nevertheless the grievances reported the name of the worker. This example shows how a same policy—the suggestion box—is implemented in a different way and may engender different results in terms of working conditions.

#### **4.5 Worker Benefits**

The range of benefits that Plants A and B grant to their workers help create some nuances in the description of the working conditions in the plants. Plants A and B offer the same benefits that the Mexican government requires.<sup>36</sup> They also grant a number of benefits on top of the ones required by law.<sup>37</sup> Additionally, the two factories have a number of other facilities for their workers. Plant A has three places where employees can eat. Workers bring their own food from home or they go outside the Plant and buy food from one of the many *taquerias* or kiosks

---

<sup>36</sup> The Mexican Federal Law requires all employers to make the following non-salary payments to, or on behalf of the employee: annual bonus (15 days wages); vacation premium (25 percent of daily wages for vacation days); bonuses for performance, seniority, third shift, Sunday, punctuality, and Christmas; Federal Housing Tax (Infonavit); social Security; savings Plan; 10% profit sharing; and periodic payments in kind (basic foodstuffs).

<sup>37</sup> On top of them, Plant A provides its employees with: 3 days off on top of the holidays; financial help in case of a relative loss (for the funeral ceremony); after one entire year in the company, workers get food and 2 t-shirts; after 5 years, they get a watch; and two paid days off for each of the following circumstances: loss of a relative, wedding, child born (for male workers, while for women Social Security pays 84 days). Plant B also offers a combination of benefits to its workers on top of the ones required by law: food coupons, on-site basic medical treatment, transportation service, a subsidized cafeteria, sports facilities, housing and childcare.

that sell food. These eating spaces are quite rudimentary, with a few big tables and machines for buying water or soda. The canteen that I visited was clean, but did not have any windows or any refrigerators. The HR manager told me that employees keep their food with their other belongings in their locker rooms. The factory does not have dorms for its employees because all of them live nearby.<sup>38</sup>

Unlike Plant A, Plant B has dorms, a cafeteria service, transportation, and childcare for its workers. Almost 11% of total workforce (120 people) lives in the dorms. Most of them are Chinese, with the exception of six Mexicans and their families who moved from Los Angeles. The owner's family and the management live in the dorms as well, but in bigger rooms or small apartments. I visited the women's dormitory (where the owner's family also lives). There are medium size double rooms, four common rooms with TVs, a small gym, two laundry rooms, and a big kitchen where a catering firm prepares lunch for Chinese workers. Another catering firm prepares Mexican food in the kitchen of the cafeteria. The factory provides workers that do not live in the dorms with a free transportation service for both shifts of work. The buses are primarily used by the Mexicans that live in the surrounding area.

Workers in Plant B can purchase Chinese and Mexican food at a subsidized cost. However, workers bear most of the cost (61%) and some workers reported that they prefer to bring their own food from home. There is a cafeteria in the plant that all personnel—office and

---

<sup>38</sup> Plant A organizes a number of recreational activities for its employees. For example, every spring it organizes soccer tournaments that involve most of the men that work in the factory. Workers seem to engage with enthusiasm in these tournaments. They have uniforms and they give a name to their teams. The HR manager showed very proudly a photo album of the last tournament, in which I could see pictures of the teams, games, and related activities. The games are also an occasion for meeting the families, because women usually go for support and provide food. Another example of a recreational activity is “El dia del Nino” (the day of the child) in July. The factory invites the children of the workers to see the place where their parents work and learn about the Plant and the process of production.

production workers—can use for lunch as well as for breakfast. If workers stay for overtime until 9:30 pm, the manual of the plant policy states that workers should receive a coupon to purchase dinner. However, some workers reported that when they do overtime and work until 10:00 pm, they don't get any food coupon. Therefore, most workers wait until they get back home to have dinner.

Plant B provides workers with a service for childcare that runs from Monday to Friday from 7:30 am until 5:00 pm, and Saturday until 4:00 pm. There is no childcare for the night shift. The schedule of the childcare service seems to work for Mexican couples that are employed in the plant, because generally one of the parents works during the day and the other during the night. The childcare consists of a room with toys, a TV, a VCR, and a woman who oversees children playing. The day I visited there were no more than 10 children. Although the ratio of female/male workers is the same in both plants (4 women to 1 man), there is not a childcare service in Plant A. When asked why, the HR manager said that parents at work can rely on their family and friendship networks.

In summary, Plants A and B grant similar benefits to their workers. They also have some differences. For example, Plant B has a service of childcare that Plant A does not have. By the same token, Plant B has also policies that do not always happen, like the food coupon for workers that work overtime during dinner time. Therefore, in worker benefits one plant is not clearly better than the other.

#### **4.6 Compliance with WorldSport's Code of Conduct**

As I stated at the beginning of this chapter, Plant A and Plant B have very similar compliance scores. Plant A has a 87% compliance score, and Plant B a 86% score. Indeed, at a

general level, the score mirrors the level of labor conditions in the two factories. I will show in this section that Plants A and B meet most of the requirements of the code of conduct, and have somewhat the same types of non-compliance issues. This is not to say that they have the same labor conditions overall, or the same compliance with the code. After discussing the similarities, I will discuss the differences later. It is in the comparison of the similarities and differences that I will show that Plant B follows the letter of the code but not the spirit. The conclusion is that Plant B has a labor audit score in light of its formal compliance with the code, but the actual working conditions are below WorldSport's standards.

*Plant A* – Every person that enters Plant A has to pass the codes of conduct posted on the wall from each one of the global companies that outsource from this factory. The codes are posted one next to the other, like in an art gallery. The management of the Plant A also gives all workers a small card that reproduces the codes. To an external observer, Plant A can look like a factory that actually cares about the conditions in which its employees work. This impression is confirmed by the firm's history of past labor compliance issues. The WorldSport labor auditors inspected the factory once in 2003 and found minimal violations for not posting non-discrimination policies in the major working areas and keeping documentation of workers grievances. Interviews with compliance specialist and staff at the WorldSport office indicated that Plant A has high compliance with labor standards overall, and had only two main issues in the recent past: verbal abuse and bathroom conditions. When labor auditors report a case of verbal abuse it means that in the factory there is a supervisor or a manager that insults, yells or in general is verbally harsh with workers. Verbal abuse is one of the most common labor issues that the WorldSport inspectors find in their subcontractor plants. As mentioned by the auditors,

in this factory there used to be a supervisor that yelled at workers. When WorldSport became aware of these episodes, the compliance staff and the firm management together addressed the issue and solved it by firing the supervisor.<sup>39</sup> In general verbal abuse seems not to be an issue anymore, although one worker reported that the week before my visit she witnessed an episode of a supervisor that was yelling at a worker. If this is true, it seems that firing supervisors is not probably the right answer to the problem, and that the management and WorldSport need to find the causes of verbal abuse. For example, pressure for on-time delivery coming from WorldSport may translate into pressure to supervisors that, in fear of not reaching their target, will be harsh on their workers.

The second area in which this plant had troubles was the poor condition of the bathrooms. As a result of the WorldSport inspection, the factory renewed bathrooms and now they are clean and with toilet paper. Overall, the shopfloor looks in decent condition: there is enough light, ventilation—this is provided either with fan or big windows—floors are clean, workers listen to music while they work, and most of them wear safety equipment like gloves, respiration masks, and hair nets.

*Plant B* – The compliance history of Plant B is different from that of Plant A. Similar to Plant A, in Plant B the codes of conduct of the main apparel brands for which the factory produces are posted in the entrance for the workers and personnel. In particular, WorldSport’s code of conduct is posted in four languages: two Chinese dialects, English, and Spanish. As in Plant A, workers are given cards that summarize the code of conduct when they are trained regarding the plant policy. During 2003 and 2004, the WorldSport labor compliance staff visited

---

<sup>39</sup> Interview with compliance specialist at the WorldSport Mexico City office.

Plant B three times in order to carry out a labor audit. The auditors found issues related with chemical and flammable products—used for the production of a particular type of t-shirts—that were not labeled and located in inappropriate places. In addition they found excesses of overtime, verbal abuse, and lack of training on safety and worker rights. These inspections had two effects. First, the company is now building a warehouse for storing hazardous products, and it has prepared labels for them. Second, the company has multiple training sessions regarding safety, worker rights, and plant policy every week.<sup>40</sup> In order to keep record of these sessions, the HR representative asks workers to sign a document that certifies that they received the training and the booklet with their rights and obligations. The attitude of the management in describing this practice indicates that they are doing this with the primary intention of being able to show the compliance staff of the global buyer that they performed the training as expected.<sup>41</sup>

The situation in the shopfloor in Plant B raises doubts about the adequacy of the auditing and grading tool that the WorldSport uses. Overall Plant B is not particularly dirty or crowded. However, in contrast with Plant A, the shopfloor is quite noisy and the temperature can rise significantly very easily. Several people told me that in the summer the temperature reaches extremely high levels and working conditions get even worse.<sup>42</sup> Most of the workers do not wear protection equipment such as respiration masks, caps, gloves, and earplugs. This is in clear contrast with what I saw in Plant A, and yet the two plants have very similar compliance score.

---

<sup>40</sup> For more details on this, please see the appendix on Internal Labor Market in Plant B.

<sup>41</sup> Interviews with business and compliance staff at the WorldSport Mexico City office, and with managers of the plant.

<sup>42</sup> It is worth noting that I visited the plant in wintertime, so I did not experience the magnitude of temperatures that the workers described to me first hand.

## 4.7 Summary and Final Remarks

Plants A and B appear very similar on paper. They have similar internal labor markets, plant policies, and benefits for workers. These similarities are captured by the compliance score, which is very similar for both plants. However, as described in this chapter, my findings indicate that the two plants are different in many other ways that are important for compliance with the code of conduct, but are not captured in the score.

Although the type of labor issues identified by the WorldSport inspectors is to some extent similar, the response of the factory to WorldSport requests is different. When Plant A had issues with poor bathroom conditions and verbal abuse pointed out by WorldSport, the management immediately fixed these issues by revamping the bathrooms and firing the supervisor accused of verbal abuse. In contrast, Plant B has a different behavior concerning compliance issues and their remediation. First, Plant B shows a longer list of more serious labor issues. Labor auditors of WorldSport found episodes of verbal abuse, excess of overtime, lack of worker training about worker rights and the code of conduct, and that workers were using chemical and flammable products without appropriate labels and in dangerous areas of the facility. Second, in Plant B, the management is also implementing remediation actions, but remediation is limited, and it is taking a significant period of time. The factory hired a new person in the Human Resources department that is in charge of providing workers with the information about their rights and the code of conduct. However, to date, not every worker in the plant has received this training. Plant B is also building a warehouse for chemical products and already prepared labels indicating the presence of hazardous substances in the container. Nevertheless, it does not seem that the factory has solved its problems with verbal abuse and

excess of overtime. Several interviewees reported different episodes of verbal abuse. Workers also said that they constantly do overtime and that in total they often work over 60 hours per week, which is the limit established by the main global buyers. In addition, workers in Plant B are not free to decide to work extra time, whereas they are in Plant A.

The differences with the way that the plants react to violations identified by WorldSport may cause significant difference in compliance with the code of conduct over time, and is evidence of deeper commitment on the part of Plant A than Plant B. Consider the differences in the unions. Although the workforce in both plants is unionized, workers have more ways to express their ideas and complaints in Plant A than in Plant B. In fact, Plant A has four mixed commissions—composed with workers and management—that represent a fruitful instrument for increasing workers' voice. In Plant B, these commissions exist on paper, but I did not find evidence of their functioning. In addition, Plant A has set up a procedure that allows workers to suggest improvements and changes in the production process and in the workplace. This sort of communication is lacking in Plant B. The explanations of these two differences may be several. First, the management of Plant B may be not interested in receiving worker inputs. Second, since Plant B is in a rural area, the local union may not be experienced enough for obtaining worker rights. Third, even if Plant B had tried to make the joint commissions work or open new channels of communication, probably the language barrier between management and production workers hampered their practical functioning. Again, this shows that the differences that are significant are those below the surface. It is not the existence of a union, or a commission on paper, but the way it works in the plants themselves. It is how the management interacts with the same set of codes that makes a difference in the conditions.



## Chapter 5: Conditions for Compliance

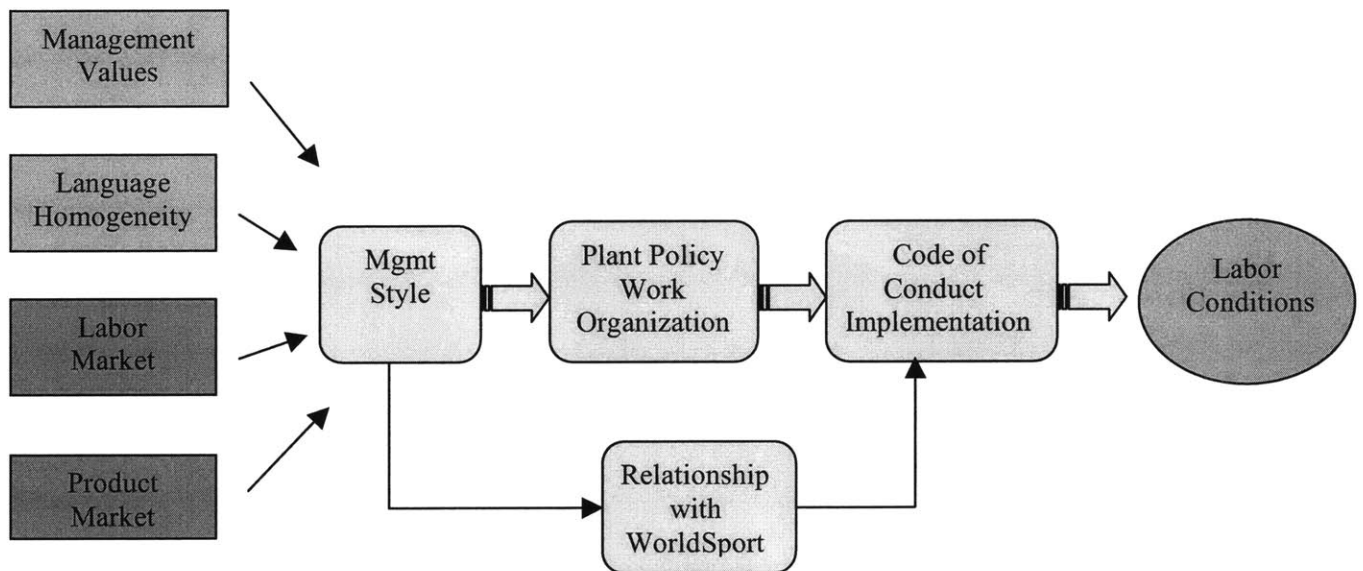
In the previous chapter, we saw that workers in Plants A and B are embedded in two different environments, which result in different labor conditions. With the same code of conduct, and a myriad of other similarities, what explains this different outcome? In this chapter, I describe the conditions that make the code of conduct work in one plant, but not the other. There are four conditions that together explain the variation in labor standards: the external labor market, the product market, the linguistic and cultural conditions within the plants, and, finally, the values of the plant owners. Together, these four factors influence what I call the “management style.” Management style here means the choices that management make in relation to production and workers, which affect the way the plants treat their workers and interact with WorldSport. As market forces push firms away from traditional Fordist production systems, plants can adopt a set of measures that vary in content and scope, and that significantly affect worker conditions. Local managers filter all the decisions made at the workplace level. I end this chapter by describing how the different management styles, which are a result of the four factors, filter the pressures from the market and policies dictated by the code of conduct in distinct ways. What comes out of these filters—the actual implementation of plant policy—results in different labor conditions despite the same code of conduct.

### 5.1 What drives compliance with the code?

I argue that four factors influenced the management style, which in turn influenced the effectiveness of the code of conduct in Plants A and B. The first two—external labor market and product market—work as incentives or disincentives for the plant management to comply with

the code. The third factor—cultural and language conditions within the plants—limits or provides the “capacity” for the managers to treat its workers well. The last one—the values of the management—represents the reaction that the management has vis-à-vis the previous three factors, and that together with them drives management style. These four factors influence management style that, together with the relationship that the plant has with WorldSport, result in a different implementation of the code of conduct, and ultimately labor conditions in the plants. The diagram below illustrates this mechanism. In the remainder of the section, I will address each of the factors.

**Chart 5.1 Driving Forces of Compliance**



First, Plants A and B face different labor markets. Plant A is located in an industrial park close to Mexico City in which there is a large number of garment plants. This has two effects on Plant A. On one hand, the outside firms are a source of experienced workforce. Some of the

workers that I interviewed had previous experience in other plants. On the other hand, the outside firms compete to hire the same workforce, and particularly the most experienced workers. This provides an incentive to Plant A to keep their workers—especially the good ones—in the factory. Of course all plants try to keep workers by giving them higher salaries and fringe benefits, but Plant A also attempts to increase their motivation to work in the factory by rewarding their accomplishments.

Plant B, on the other hand, is located in a poor state that had an agriculturally based economy until a few years ago. Assembly lines provide a distinct advantage in rural regions, where many workers have never been in a manufacturing plant before. In fact, workers with an agrarian background usually have little or no experience with industrial machines and tools (Samstad and Pipkin, 2005). In a rural area, a system of production based on division of labor and clear rules matches with workers skills. After the decline of its agriculture economy, the state moved to attract firms to its region by providing a number of fiscal incentives. In other federalist countries such as the United States and Brazil, state governments have adopted a similar approach in order to stimulate the economic development of their underdeveloped areas (Tendler, 2000). Attracting outsider firms has pros and cons. On one hand, outsider firms can reduce unemployment rate, bring new technologies and organizational cultures, establish linkages with local firms for the supply of inputs and services, and bring contacts to the export markets in the region. On the other hand, this policy is often considered labor-unfriendly because it often attracts firms on the basis of cheap labor. Moreover, in some cases firms move to other regions after the incentives are over and leave behind a large number of people without jobs and little in terms of economic development. This happens when outsider firms do not

develop any relationships with the local industry. Governments can actually help the creation of these linkages when they promote their regions on the basis of pre-existing activities (Tendler, 2000). This is rare, because in many cases state governments see their traditional industry as backward or marginal. Nevertheless, some states in the U.S. introduced programs that facilitated competitiveness in their traditional industry and were successful. In my case, the state government did not help create synergy with existing economic activities. Plant B buys its inputs, materials, and equipment abroad (either Taiwan or the United States), not locally. The state government did not negotiate any conditions with the Taiwanese company that helped build on what already existed in the region. Rather, the state “sold” itself on the basis of cheap labor. By drawing firms only on the basis of cost savings, the state ends up attracting factories that, like Plant B, do not invest in their human capital.

According to top managers at Plant B, the Taiwanese company that owns Plant B decided to open a plant in this region due to the presence of low cost labor force, a river with water that suits the needs of their dyeing facility, and state incentives. State incentives consisted in subsidized land for construction of the facility and subsidized training for workers. The one-month training co-funded by the state government partially compensates the lack of experience of workers. Contrasting with Plant A, the management at Plant B does not weigh heavily the fact that workers in the region do not have any previous experience in the garment manufacturing. In addition, the factory does not have to hire the “trainees.” At the end of the month Plant B evaluates the trainees and decides whether or not to hire them. This type of training program raises some issues. First, due to the high worker turnover in Plant B, the return on the training subsidy is essentially lost, especially if one considers that there are not other

garment factories in the area where workers can spend their acquired skills. Second, firm-specific training is usually considered less desirable, because workers acquire skills that are specific to the factory, and it is less likely that they can use them in other plants. Third, since this policy aims to attract factories on the basis of labor cost savings and, implicitly, on the promise of a docile labor force, it seems that this policy ends up attracting companies that depress local labor and environmental standards.

Indeed, Plant B might have decided to move to this state precisely because lacking skilled and experienced workers. Some firm managers and owners tend to think that more experienced workers are more likely to generate trouble, instigate other co-workers to complain, or organize labor unions (Tendler, 2002). In fact, governments themselves sometimes promise outsider firms that in their states firms will not find unions due to the inexperience of workers. At the same time, other studies have showed that an inexperienced or illiterate workforce did not hamper achieving high level of productivity comparable to the ones in industrialized areas (Shaiken, 1994). Nevertheless, this is not the case of Plant B, because, as I showed in the previous chapter, worker productivity in Plant B is well below the level of worker productivity in Plant A.

In addition, Plant B has another advantage vis-à-vis its labor force. Besides being the only garment factory in the area, and therefore having a somewhat “docile” Mexican workforce, Plant B is also in a powerful position versus its Chinese labor force. In fact, the Chinese people that work in the factory do not speak any Spanish, do not have any networks outside the factory, but conduct their lives exclusively in the factory, where they work, eat, and sleep (in the dorms). Under these conditions, it is very unlikely, if not impossible, that Chinese workers might find a

job in a different factory. Mexican workers can always move in another region and find other job opportunities. They may also benefit of personal networks in the new place that would allow them to start a new life. This is not true for Chinese workers, that were brought in Mexico by the company and do not have other opportunities. Therefore, their bargaining power with the plant is basically zero. In conclusion, facing two different labor markets, Plants A and B have different power versus their workers, which in turn influences the way the management treats them.

The second factor that I believe shapes management style, and therefore labor conditions, at the plants is their product markets. Plants A and B operate in different product markets. Although they both produce t-shirts, they are specialized in different types of production. Plant A produces t-shirts whose style is determined by graphic and printing. This type of t-shirts is in the low-end of the market. Plant A's market is highly competitive and has low barriers to entry. WorldSport can find many other suppliers in Mexico, or elsewhere, that produce the same product at the same cost or even at a lower cost. Therefore, the management in Plant A needs to compete on other aspects such as better labor conditions, high product quality, and on time delivery. To some extent, Plant A's business strategy is to create a niche for itself in a mass-product market. The lean production system allows the plant to create that niche. Moreover, Plant A produces only 10% for WorldSport and the owners expressed their willingness to increase this percentage. Therefore, compliance with the code of conduct can be for them a strategy for increasing their production for WorldSport. In order to keep and grow its relationship with WorldSport, the management of Plant A has incentives in nourishing this relationship, giving continuous feedback to WorldSport, and work in partnership with it in order

to develop a better position among other subcontractors. Therefore, the product market has an effect on management strategy both within the plant—in terms of decisions that are made in how the code of conduct is implemented—and in the plant’s relationship with WorldSport.

Plant B, on the other hand, produces high-tech t-shirts; the type of t-shirts that are made with particular materials that do not absorb perspiration and fit better during sporting activities. These products are in the high-end of the market. Plant B is probably one of the few plants in Mexico that produces this product. At the time of my research, WorldSport was buying this product only from two plants in Mexico, Plant B and another, Korean-owned, factory. Since a particular technology is needed for this type of garment, it is reasonable to assume that WorldSport may find it difficult to find suppliers of this product. Moreover, although WorldSport may have multiple suppliers worldwide, it is likely that WorldSport needs at least one or two suppliers of this product in Mexico, due to the proximity to the US. This is probably why Plant B is a “strategic partner” of WorldSport. The type of product and the large production capacity make the factory suitable for WorldSport’s interests. For this reason, Plant B has more power vis-à-vis WorldSport and it perceives that WorldSport will tolerate poor working conditions. In light of this power, Plant B does not seek a collaborative relationship with WorldSport and does the minimum required in order to maintain the business relationship.

Also, Plant B already sells 50% of its production to WorldSport. The plant knows that it is one of the few producers of that product and that more likely WorldSport will continue increasing the volume that they purchased from Plant B. In fact, a manager in the WorldSport local office confirmed that the buyer wants to increase the volume of orders to Plant B. Once again, this circumstance works in favor of Plant B, which is in a stronger position than Plant A

and does not have incentives in working close to WorldSport. At the same time, Plant B does not perceive any penalties for its behavior because it knows that WorldSport does not have many options in alternative.

This set of relationships—a plant with a large percentage of production for the MNC having more power with the MNC, and a plant with a small percentage of production having less power—contradicts with what the literature predicts. For example, in the footwear sector most contractors sell exclusively to one brand and usually have high level of compliance. A study in China shows that one factory that produces exclusively for one American buyer has higher compliance with the code of conduct than other two factories that produce for more than one buyer (Chan, 2002). In that case, the exclusive nature of the relationship meant that the buyer “was able to “dictate” the type and pace of change at the factory, from installing water heaters to deciding on the date of the union election” (Chan, 2002: 74). Translated in the apparel sector, where plants usually sell to more than one company, it means that the percentage of production that a factory sells to a global brand may predict the level of control that the MNC has over the contractor plant. Therefore, one would expect that factories that produce a higher percentage of products for one buyer are more likely to comply with its code of conduct. The two plants of my research contradict this prediction. The plant that shows superior labor conditions sells only 10% of its production to WorldSport, while the plant with inferior labor conditions sells 50%. In conclusion, the type of product and the percentage of production of the two plants provide incentives or disincentives for Plants A and B to have different management styles and, ultimately, complying with WorldSport’s code of conduct.



An additional factor that influences management style in Plant A is the homogeneity of employees' nationality. Plant A is Mexican owned, Mexican managed, and staffed with Mexican workers. This cultural homogeneity allows communication among workers, supervisors and management to flow with ease. Also, there is not any potential cultural friction. This works well with lean production because workers in cells need to interact to a great extent among themselves and with their supervisors. In cells, communication typically goes beyond technical instructions and involves discussion about the output target, the type of operations that better suit a particular product, and problem solving.

This level of interaction cannot occur in Plant B. There, managers, line supervisors, and even some production workers are Chinese. The majority of line supervisors and managers do not speak any Spanish. This circumstance causes misunderstandings and lack of clarity when communicating. It would be impossible for Plant B to implement policies and systems of production that require more communication and that in Plant A have distinct benefits for labor conditions. The fact that people in the factory do not speak the same language reduces the possibility of interaction and does not allow the kind of communication that occurs in Plant A (Vázquez and Stalnaker, 2004). This limits the style that management can have with the workers, and leads towards worse labor conditions.

Finally, I argue that the values of the management in Plants A and B shape the reaction of the plants to the three previous points, and together with them influence management choices. The owners of Plant A believe in their employees and want to empower them: "We want that the people here feel important."<sup>43</sup> They see the workers as their greatest resources and they invest in

---

<sup>43</sup> Interview with the owners.

them in order to increase their potential. The management of Plant A considers workers able to commit to organizational objectives in order to get rewards. This approach regards human beings as more complicated than simple economic agents and it acknowledges that their “complex” nature has an influence in their behaviors (Hirschman, 1984). The underlying principle of Plant A’s values is that the average human being does not necessarily dislike work and has capacity for growing and developing, for taking responsibility, and for creatively solving organizational problems (McGregor, 1960). This is the reason why, as they told me, the owners of Plant A decided to adopt a lean production system. They use lean manufacturing as a way to put their worker at the center of the production process. In this system, workers participate in the decision-making process in the workplace, see their contribution to the final product, perform different operations, develop organizational and communication skills, and are more satisfied overall (interviews with workers).

In contrast, Plant B does not view workers as a resource or opportunity to improve production. The management considers workers as a cost that needs to be reduced as much as possible. When asked about what the factory does to face challenges from its competitors, the head of operation answered: “It’s all about lowering the price of labor and increase[ing] the quantity produced.” To the question “What if you cannot lower labor costs below a certain threshold?” he answered: “In that case we will move back to Asia. We are Chinese after all, aren’t we?” It is evident from his words that Plant B does not see any reason to invest in the workers. This is probably related to the fact that the owner may see his investment in Mexico as temporary and not a long-term one. The factory moved from the United States to Mexico mainly because labor costs are lower in the latter. This is illustrative of the owner’s tendency to move

across countries in search for lower costs, which is in line with the philosophy that emerges from the words of the head of operations. This contradicts a body of literature that argues that foreign-owned factories tend to have better labor standards, and particularly, tend to pay higher wages (Schon and Bird, 1998; Hanson, 2001). It is important to distinguish these values from the labor market. Although the two may be related—the values of the management may have caused it to seek out the low skilled and low wage labor market—the values themselves dictate what the managers do with the workers end up working for them. If the managers view the workers as having potential, even with the low skilled work force there is the possibility that the managers will invest in the workers. But if the managers see the workers as a cost to be minimized with no potential, managers will not invest in developing human capital even if it is possible for them to develop a more skilled workforce.

In the following sections I will describe the management style in the two plants that result of these factors, and how it affects labor conditions in the two plants. After that, I discuss the types of relationship that the plants developed with WorldSport, which, together with management style, explains different levels of compliance with the code of conduct.

## **5.2 Two styles of management**

One of the main tasks of management is to organize human effort in the service of the economic objectives of the enterprise (McGregor, 1960). The management has the challenge to align workers' needs for personal, material, or psychological gratification with the plant's needs. Obstacles arise when workers are alienated by their work. Alienation assumes relevance in assembly lines production. There, workers perform repetitive processes that can be extremely boring and unrewarding. Workers are alienated because they tend to work only on one segment

of the product of their work—they only do one operation and cannot take pride in having made the final product. The fact that workers cannot control outcome and pace of their work makes them dissatisfied with their job and negatively affects their commitment to the plant (Lipsky, 1980). Moreover, when workers are alienated, they may also have non-cooperative behaviors that include personal strategies, such as not working, aggression toward the organization, and negative attitudes with implications for work. These forms of non-cooperation reduce the factory's abilities to achieve its objectives because workers perform at less than full capacity (Lipsky, 1980).

Successful management depends upon the ability to predict and control human behavior. Employers have a number of strategies for achieving this goal and dealing with work alienation. First, they can ignore the situation and accept the absenteeism, low morale, poor performance, and other manifestations of workers dissatisfaction. Second, they can try to make the work less alienating by restructuring the work organization. Third, they can play with the mix of benefits and sanctions that do not strictly relate to work conditions. This means that employers can improve conditions that are tangential to the work or raise the costs of non-productive behaviors. For example, job security, promotion opportunities, and positive personal relationships among workers and managers positively affect job satisfaction.

Finally, employers can reduce work alienation by offering workers more channels for participation. Opportunities for workers to exercise voice are in fact a source for increasing productivity (Freeman and Rogers, 1999). A survey conducted in 1994 among American workers found that the majority of employees reached by the survey wanted more involvement and greater voice in decision-making affecting their workplace. The majority of the respondents

(87%) said that they would enjoy their jobs more if they were involved in decisions regarding production and operations. These workers wanted more participation because they believe that it will improve the quality of their lives and because they think that it will make their firm more competitive. Employee involvement is supposed to increase productivity by encouraging workers to make more suggestions about how to improve their work environment and having the management seriously take these suggestions into consideration (Freeman and Rogers, 1999). In summary, management has a number of options for achieving the same task—organizing human effort towards the economic goals of the firm.

Factories will choose which strategy or combination of strategies they will follow, which I describe as their management style. For my analysis, I identify two types of management style that involve distinct sets of strategies to complete the task of management—scientific and commitment. Plant B's management style has many attributes of the scientific model, while Plant A's management style has many attributes of the commitment model.

First, management can be seen as a true science that relies on defined laws, rules, and principles (Taylor, 1967). Based on Taylor's theory, in the "scientific" style the principal object of management—the maximum prosperity for the employer coupled with the maximum prosperity for each employee—can be achieved only "when each man and each machine are turning out the largest possible output" (Taylor, 1967). In the scientific style, workers are motivated by economic rewards, and close supervision and disciplinary penalties are also necessary to deter opportunistic behavior. Since the underlying assumption is that people must be made to do what is necessary for the success of the enterprise, attention is naturally directed to the techniques of direction and control. Therefore, scientific management leads to an emphasis

on control, developing procedures and techniques to tell people what to do, determining whether they are doing it, and managing rewards and punishments.

An alternative management style has at its center the idea that eliciting employee commitment will lead to improved firm performance (Walton, 1991). According to this body of research, economic incentives matter to behavior, but intrinsic rewards at the workplace—social relationships at work, respect from supervisors and co-workers, and opportunities for responsibility, autonomy, and creativity—can also be powerful motivators to efficient workforce behavior (Doeringer et al., 2002). Therefore, there is potential in this view to reduce external control to the degree that workers are committed to the achievement of organizational objectives. In the scientific approach, supervision and monitoring serve to maintain labor productivity. However, in the long run workers may react negatively to close monitoring, and as a consequence, labor productivity will fall (Doeringer et al., 2002). In contrast, the “commitment” approach, as Walton (1991) calls it, relies on a different way to monitor workers. Supervisors develop close relationships with workers by assisting in training, suggesting ways to improve job performance, and encouraging worker participation in workplace decision-making. While this style does not exclude forms of monitoring, it emphasizes on the need to create an environment that will encourage worker commitment to organizational objectives and foster creativity, initiative, and self-direction in achieving them.

The strategies that Plants A and B have taken clearly fall within the “commitment” style and “scientific” style, respectively. Plant A restructured work organization, increased worker wages, and increased worker participation. These choices were influenced by the four factors described above. The owners and top managers of Plant A recognize the value of their workers

and invest in them. The management is willing to receive workers inputs and feedbacks, especially on issues concerning the production process. At the same time, the type of labor market in which Plant A operates pushed managers in Plant A to elicit worker commitment to the plant. In order to achieve this goal, first, Plant A improved the conditions of worker activities—for example, the plant trained workers for doing multiple tasks. Second, Plant A made worker activities more rewarding by offering them channels of communication with the management and participation in the decision-making at the workplace level. The homogeneity of the language spoken in the factory allowed this type of communication. Finally, the type of product market pushed Plant A in finding ways to improve production and quality by restructuring work organization and adopting a lean manufacturing system.

On the other hand, Plant B chose a different combination of strategies. It ignored worker dissatisfaction and low productivity. At the same time it improved conditions tangential to work in that the factory provides workers with housing, food, and transportation. This, it would seem, creates incentives for utility maximizing workers to want to continue to labor for the plant. Unlike Plant A, managers in Plant B view their workers as individuals that do not have potential, need to be told what to do, and need to be monitored very closely. Management practices in Plant B are authoritarian and disciplinary. In the plant there are strong contrasts in the status and power of senior managers and those of production workers, a circumstance that is partly exacerbated by the cross-cultural differences. As a result, employees are scared of their supervisors and are punished when there are infractions of rules, such as lateness, in form of fines that are deducted from wages. A worker from the trimming department gave an example that explains the types of sanctions in place. In trimming, workers need to cut thread in excess

and check that everything is right with the garment (logo placement, color of the style, and hags-tags). Sometimes they have conflicts with supervisors. For example, the week before my visit a supervisor found a damaged garment probably due to a worker's mistake. Sometimes workers happen to cut part of the garment when they cut excess thread. In this case, the worker responsible of the accident did not confess and the supervisor eliminated the premium of production for the entire week for all of the workers in the "trimming" department.<sup>44</sup> The worker was visibly unhappy with this episode and she said that this practice is quite common. The practice of "cutting" bonuses of production in case of worker mistakes seems to apply in other departments as well. A worker in the cutting department explained that when workers make mistakes two things might happen: "Nothing or the bonus gets 'cut'", and it depends on "the gravity of the mistake and on the mood of the supervisor." In this example, it is clear that there could be a third option—namely to help train the worker to avoid the problem in the future—that is not considered. This is because the management style of Plant B does not consider the capacity of the workers to improve and become better—the only way to improve performance is with carrots and sticks, not with training.

These disciplinary practices are mixed with paternalistic relations. The management of Plant B "cares" for the workers, treats them like "members of the family", provides for them, and "nourishes" them. Other studies of Taiwanese factories confirm this description and report that even in factories that are normally harsh, it is quite common to give a worker on his or her birthday a piece of birthday cake, or a present (Chan and Xiaoyang, 2003). In the case of Plant

---

<sup>44</sup> Workers in the trimming department work around a table, where each one work on his/her garments. Although they work individually, and are paid individually, sometimes the products on the table are messy and it is difficult to find responsible for each garment.



B, for example, when I was there a Chinese worker had lost a family member and the owner paid the worker for a trip back home. A Mexican worker provided another example. He used to work in the factory that the same Taiwanese group has in Los Angeles. Last year, when the factory stopped producing and moved the production to Mexico, the owner tried to convince some workers to move back to Mexico, since most of them were Mexican. A few workers accepted. The one that I interviewed moved to Mexico with his whole family. The employer gave him a small apartment in the dorm and is paying for the schooling of the worker's three kids. In this case, the management at Plant B has improved conditions that are outside the job definition—namely, housing and schooling for this family—but did not improve the labor conditions.

Nevertheless, these episodes are sporadic, and overall workers in this factory are worse off than in Plant A. In Plant B workers work at a very high pace and do not wear safety equipment. Their workplace gets hot very easily, and in summertime reaches intolerable temperatures. Communication with their supervisors and managers is quite difficult because of the different language and culture. Supervisors do not show much respect to their workers, as demonstrated by the level of verbal abuse. In addition, verbal abuse significantly upsets workers. In contrast, in Plant A workers feel that their supervisors are good to them and treat them well. By the same token, supervisors feel that their workers are capable of contributing to the production process and think that the input of workers is beneficial.

The different management styles in Plants A and B can be seen through one of the main decisions at the plant level: work organization. The demand for sportswear products today is for small lots. MNCs ask for rapid changes in the style and reduction of the time from when the order is placed to the moment the garment has to be shipped. Facing these challenges, plants

react differently according to their style of management. The work organization in a plant can be seen as an outcome of the management and has a significant impact on labor standards. Plants A and B reacted similarly to these external pressures because both adopted forms of “high performance work organizations,” namely lean production and modular production. However, the way the factories implemented these systems of work is different and yielded different working conditions. I will show that through the four factors discussed before, a management style was induced, and the result was a system of production that lead to different compliance with the code of conduct in the two plants.

Plant A decided to adopt lean manufacturing because the owners believe in the potential of their workers; lean manufacturing gives workers power and responsibility in production, quality control, and problem solving. In addition, lean manufacturing asks for intense communication within the cells and between workers and supervisors. In Plant A this sort of communication is possible because there are no language barriers. Plant A decided to adopt lean manufacturing also in order to keep workers in the factory and not to leave for other plants. In fact, in lean manufacturing workers receive higher wages—thanks to the increase in productivity and efficiency—and experience a more rewarding job activity. Finally, Plant A needs to create a niche position in its product market, and lean manufacturing suits the plant strategy of improving quality, change rapidly style, and deliver on time. As I showed in the previous chapter, the management of Plant A was able to implement lean manufacturing in a way that improved working conditions and plant productivity, and led to higher compliance with the code of conduct than Plant B.

On the other hand, Plant B chose a modular system of production. The effects of this production were described in the previous chapter, but it is useful to revisit it in terms of management style. With the scientific management style, Plant B chose to closely monitor and control workers, something that can be done with the modular system. In addition, the modular does not depend on the creativity of workers, which is not explicitly recognized in the scientific management style. It is also apparent that Plant B can choose these practices, which are a part of scientific management, without being penalized in the labor market because of its position vis-à-vis the workers—as described above. In addition, this system of production is easy to implement despite the language and cultural barriers. This makes the modular system much more feasible in Plant B than a cell system. This further demonstrates the effects that the four factors above had on management style, which in turn dictates the policies that the management chooses. In this case, the type of work organization the management chooses, as was shown, is critical for determining the actual labor conditions at the plant. A situation, I add, that Plant B can maintain without pressure from WorldSport given its power due to the product market.

In the following two sections I will illustrate, first, the relationship between WorldSport and the two plants, and, then, how the management in Plants A and B perceive WorldSport's code of conduct.

### **5.3 The relationship between WorldSport and the plants**

Plants A and B have different types of relationships with WorldSport. The kind of relationship together with the management style of the plants affect the implementation of the code of conduct at each plant, and the working conditions. In Plant A, managers view the American buyer as a partner with whom to improve productivity and labor conditions. Because

the management considers WorldSport a partner, Plant A tends to work together with WorldSport to find solutions to potential problems and to improve the production process through their collaborative relationship. In Plant B, managers see WorldSport as a buyer of which they have to respect requirements and deadlines. In this view, there is no space for a fruitful collaboration, Plant B and WorldSport have an exchange relationship. The plant seeks to meet the WorldSport's requirements—including compliance with the code of conduct—only to receive more production orders in an instrumental way. Similarly, Frenkel and Scott defined a collaborative type relationship one with a great sense of partnership between the MNC and contractor, where “the code constitutes a basis for continual improvement of workplace performance and worker well-being” (2002, p. 33). In contrast, a compliance type relationship is characterized by the MNC initiation and enforcement of code compliance, while contractors comply with a code as a necessary condition for continuing working with the MNC.

The relationship between Plant A and WorldSport seems to be one of collaboration. WorldSport often goes to Plant A (at least once per month) and the staff in the Mexico City office knows many of the employees in Plant A very well. Visits are generally announced. However, the compliance specialist said that when the plant gives ambiguous signals in terms of compliance, she goes without announcing it. This respondent defined “ambiguous” as when the plant does not remediate promptly in case of lack of compliance with the code of conduct or when, in a previous visit, she noticed some predictors of non-compliance. In these cases, she does “surprise” visits to the plant or ask her colleagues in the other areas (production, quality, or materials) to check for specific things.

The owners of Plant A are in frequent contact with the WorldSport office, which has caused the relationship to become one based on trust and respect: “Mutual respect of opinions and point of views: that’s what makes it easier to solve problems once they come up.”<sup>45</sup> In the case of Plant A, the relationship between the WorldSport manager and the owners became very close and friendly: “You become friends with the owners: we go out for dinner or play golf and do business at the same time.” One could argue that a very close relationship between the brand and the factory may have a risk of “collusion” or favoritism. Although this can be a real possibility, a better understanding and a more harmonious relationship may have a positive effect on the level of plant compliance. In the case of footwear plants in China, for example, a relationship based on understanding and mutual respect induced one plant to work together with one WorldSport in order to upgrade labor conditions (Frenkel and Scott, 2002).

The relationship between WorldSport and Plant B seems to be of a very different nature than the relationship between WorldSport and Plant A. Plant B receives fewer visits because the plant is located far from WorldSport headquarters—a two-hour flight to an isolated, rural area. Therefore, most of the communication between the buyer and the factory happens over the phone or via email. The difference in frequency and mode of the communication between Plant B and the WorldSport causes the brand to have less knowledge about the plant. For example, the WorldSport local office did not know that workers went on strike in 2004. One would expect that WorldSport would know about the strike; this was information that I could easily get during my visit. Moreover, Plant B is a “strategic partner” of WorldSport, therefore one would expect it

---

<sup>45</sup> Interview with a WorldSport manager.

to develop a close relationship with WorldSport.<sup>46</sup> Instead, as the episode about the strike supports, their contacts are sporadic and mostly oriented to business issues. Moreover, when I asked the head of operations of the factory whether the factory would meet with other factories and share information and practices (as indicated in the “strategic partner” description), he said that: “We go to the meetings organized by the client, but we do not talk to other factories or share anything.” This further indicates the attitude of the plant—obeying the client’s request to go to meetings on the surface, but not following through completely and cooperating. Therefore, the type of relationship between Plant B and WorldSport can be described as an instrumental one, where the plant does the minimum indispensable in order to continue working with WorldSport but they do not establish any sort of partnership.

One could argue that the kind of relationship between WorldSport and its contractors does not depend on managers’ attitudes, but rather on the geographic location. Indeed, Plant A is a 45-minute drive away from the Mexico City office, which facilitates interaction and makes it readily available to visit and hold face-to-face meetings. In fact, the proximity that Plant A has with the buyer provides the factory with a greater sense of accountability, while the geographical distance of Plant B works against a continuous communication flow. However, I believe that the geographic distance alone is an inconclusive explanation for a different type of relationship. Within my research group at MIT, one of our teams found that in Turkey two plants located in the same city, and part of the same industrial group, have a different relationship with

---

<sup>46</sup> As I mentioned in the previous chapter, WorldSport looks for partners that are “willing and able to form a new collaborative network.” The brand uses selection criteria in order to ensure that members of the core network have: “access to key financial and infrastructure resources, an ability to invest in new technologies and practices, a commitment to pursuing key network objectives, and a willingness to share best practices with other suppliers in the network” (WorldSport pamphlet).

WorldSport. In this case, the geographic location does not account for the variation in the type of relationship with WorldSport across factories, while the attitude of the management does (Rose and Mistree, 2005). Similarly, a research team that went to North China found that between two factories located roughly at the same distance from the WorldSport local office, the plant with a management style close to that of Plant A had a closer and smoother relationship with WorldSport, while the plant with a style close to that of Plant B had a distant and instrumental relationship (Brause and Qin, 2005).

Some could also say that cross-cultural differences might play a role in the kind of relationship that WorldSport and contractors can develop. For example, one could say that there is a greater cultural affinity between Plant A and WorldSport than between Plant B and WorldSport. In fact, Plant A is Mexican owned, and managers and workers are all Mexican. Since the WorldSport local office is staffed with Mexican people, it seems natural that communication flows with ease between WorldSport and the plant. In contrast, Plant B is Taiwanese-owned, and managers are from Taiwan and China. The cultural distance between Plant B and WorldSport, therefore, may explain their business-type relationship. However, it is worth noting that this American company has years of working experience with Asian countries and developed a deeper understanding of the Asian culture. Therefore, it is likely that WorldSport's staff is prepared to interact with Asian people. Moreover, the "cultural affinity" hypothesis is not supported by other cases in my same research project. In fact, both in Turkey and North China a different relationship developed between the WorldSport local office and the plants in each country. In each of the two cases, despite cultural homogeneity between the WorldSport local office and the management of the plants, WorldSport and one of the plants in

each country do not have a collaborative relationship. Therefore, cultural affinity does not explain different type of relationships.

In conclusion, why Plant A has a collaborative relationship with WorldSport and Plant B has an instrumental one? In the opening of this section, I explained that the management of Plants A and B has a different approach versus the American company and views it in a different way—as a partner or as a client. I believe that the reasons why Plants A and B have a different approach vis-à-vis WorldSport are related to the product market in which they operate and the percentage of production that they sell to WorldSport. As I discussed above, in Plant A, the type of product and the percentage of production for WorldSport are an incentives for compliance with the code and for a “collaborative” relationship with the buyer. Plant A needs to diversify its production from its competitors by improving labor conditions, product quality, and on time delivery. Moreover, Plant A has interest in increasing its percentage of production for WorldSport. In order to do that, the management of Plant A has incentives in giving continuous feedback to WorldSport, and working in partnership with it in order to develop a better position among other subcontractors.

On the other hand, Plant B has more power vis-à-vis WorldSport and it perceives that WorldSport will tolerate poor working conditions. Also, Plant B already sells 50% of its production to WorldSport. The Plant knows that WorldSport will more likely continue increasing the volume that they purchased from Plant B because there are few producers of that product. In light of this power, Plant B does not seek a collaborative relationship with WorldSport and does the minimum required in order to maintain the business relationship. In the next sub-section I will show how the relationship between the plants and WorldSport together



with the management style forged two different perceptions of the code of conduct in the two plants.

### **5.3.1 Perceptions of the Code of Conduct**

Plants A and B have two different perceptions of WorldSport's code of conduct. The owners and top managers in Plant A stated that WorldSport's code of conduct represents "a set of minimum conditions for running a business, you cannot work differently. This is our philosophy." In addition, they said that firms need to go beyond the conditions indicated in the code because they are just minimum rights of workers. In light of this attitude, whenever the plant violates the code, the management responds rapidly, and begins the remediation process immediately—as was demonstrated above in the cases of the bathrooms and the fired supervisor. In Plant A, managers believe that workers are human beings with potential and rights, and therefore the management has internalized the code of conduct in its philosophy.

On the other hand, top managers in Plant B see WorldSport's code of conduct more as an imposition from the global buyer than as an acknowledgement of worker rights. As the head of operations stated, Plant B views the code as "a minimum requirement in order to receive production orders from the buyer." Unlike Plant A, Plant B follows the letter of the code of conduct, not the spirit. The result is that workers in this factory are worse off than in Plant A. When WorldSport labor auditors find code of conduct violations, the remediation process is usually slow. For example, in relation to the violation of safety norms for the storage of hazardous chemical products, the plant has to build a warehouse in order to ensure worker safety. The remediation process in this case is taking very long and workers may be still exposed to hazard in their workplace. Why does the plant not react promptly for remedying its violations?

Since managers in Plant B perceive the code of conduct as one of the requirements that WorldSport imposes on them, the code becomes one of the things that they have to deal with in order to survive. In ranking their priorities to keep the business with WorldSport, managers in Plant B tend to prioritize other requirements, such as delivery on time or high quality product. They do the minimum possible in order to not lose the business. Recalling the example of the storage of the chemical products, the management knew that WorldSport would not visit the plant in the short run and they took as much time as they could to solve the issue.

## **Chapter 6: Conclusion**

In the last decade multinational companies have tried to improve labor conditions in their subcontractor plants located in every corner of the world. They did so through corporate codes of conduct in order to “regulate the behavior, practices, and standards of the participants in the supply chains” (Jenkins, 2001). Evidence suggests that these codes have benefits but are limited, and in some cases can cause perverse effects. Why do codes of conduct work in some conditions but not in others? The literature pointed out a number of conditions under which empirical research has found that factories comply with the codes, such as when the subcontractors are large firms, when the plants are owned by foreign firms, and when there are long-term relationships between the plant and the MNC. My research extends this work by developing two case studies that, in some ways, disagree with these predictions, but offer other possible conditions that are important for codes of conduct to work. For purposes of clarity, I divide my findings in two sets: one is about the assessment of plant labor conditions, the other is about the conditions under which codes of conduct work.

### **6.1 About the assessment**

First, my research shows that a factory like Plant B can pass one monitoring test and still have poor conditions because one of WorldSport’s labor monitoring tools is not adequate. This is an example of one of the dangers associated with codes of conduct that I discussed in Chapter 2—labor conditions seem improved on surface, but they are not on the ground. In the two plants, discrete characteristics, like grievance policies, are not indicators of the labor conditions. Checking a list of things that the plant should have as a form of auditing, misses the “filter” of

the plant management that changes the way policies from WorldSport reach the workers themselves. Plants A and B have different management styles that translate the way the management treats workers and WorldSport. As Piore said, “one has the feeling that one can sense, just by looking at a shop, and sometimes even by talking to the owner without having seen his workplace, whether it will turn out to be in violation of labor standards legislation” (1990, p.36). Here, Piore is talking about what I called management style that one can understand by talking to the management and not only by looking at the policies themselves. One can feel that the management style is different at the two plants.

This has important implications because the literature on labor standards generally suggests that one way to improve labor conditions in subcontractor plants is to increase independent external monitoring and transparency policy—the type of monitoring that only looks at a list of policies in place. This research shows that labor auditing and monitoring—both internal and external—should aim at assessing the implementation of the policies rather than their mere existence. Even though Plants A and B might have policies that on paper are the same, they are filtered and implemented by different management, which engenders different outcomes, such as excess overtime and less worker participation in Plant B. For example, both Plants A and B have four “mixed” commissions composed of workers and management. The participation of workers in these joint worker-management commissions has been showed to give workers more communication channels with the management, and engender more occasions for workers to access decision-making processes (Frost, 2000). Although Plant B has, on paper, these same commissions, when I was in the factory I could not find any confirmation to support their actual functioning. This circumstance provides evidence that a similar policy in the two

plants (the presence of joint committees) has had different implementation and engendered different outcomes. Therefore, while monitoring and transparency may be necessary, for these activities to be meaningful, they must go beyond checking a list of policies and look at actual implementation.

Second, in Chapter 3, I showed that WorldSport has another grading system (the letter grade) in order to assess factory compliance with the code of conduct. The letter grade reflects the labor conditions in the two plants—Plant A has a better grade than Plant B—because it assesses the willingness to comply of the plants. I have two remarks in relation to this system. First, the grading system is inconsistent with the labor audit score. As I showed in detail in Chapter 3, in the case of Plant B the labor audit score steadily improved in the last two years, while the letter grade continuously worsened. This inconsistency gives rise to a number of questions: What does it mean that Plant B has a 86% score and a D grade? Why does WorldSport use two systems if one is less accurate than the other? Which one of the two does WorldSport use in its factory evaluation?

My second observation concerning the grading system is related to the remediation process. A punitive attitude from WorldSport does not favor establishing a collaborative relationship, in which the plant could see the benefits of complying with the code. Although the letter grade offers a step in the direction of a more qualitative, and more realistic, assessment of labor conditions, it has a punitive approach. In fact, the grade depends on the number and nature of non-compliance issues discovered by internal and external (FLA audits) monitoring as well as on the resolution of items for factory remediation. WorldSport affords the factory a certain length of time to remediate violations of the code. In this way, the company seeks to assess the

willingness of the plant to comply. If the plant does not remediate within the deadline, WorldSport will break the relationship with it. Although this is not an immediate decision—as I described in Chapter 3—the message that WorldSport sends to its plants is one of punishment.

In conclusion, the findings on the assessment point out that there is a need to understand the monitoring data that MNCs and monitoring institutions have collected because these data may not reflect the real conditions in the subcontractor plants. In addition, WorldSport as well as other MNCs should decide which type of indicators to use. It seems that the letter grade captures the level of compliance with the code better than the labor audit score does. However, the “punitive” approach that I just described do not seem to go in the direction of building long-term relationships with the purpose of improving labor conditions.

## **6.2 About the conditions**

First, my thesis shows that two factories that look similar in ways that would predict comparable labor conditions have instead different labor conditions. Contrary to the expectations, Plant A has better labor conditions than Plant B. Workers have higher wages than in Plant B, do not work at a stressful pace, and the ones that have been interviewed—without managers or supervisors present—reported that they are happy and satisfied with their job. The workplace is clean, in order, and not overcrowded. Moreover, worker productivity is higher than in Plant B, which shows that a factory can treat its workers well and be productive at the same time. The description of labor conditions in Plant B is quite different than Plant A. Plant B workers work at a very high speed, do not wear safety equipment, and are requested to work over their regular time exceeding the limit established by WorldSport. The workplace is quite clean

but gets very hot very easily. The presence of two nationalities makes communication difficult. Conflicts and animosity characterize relationships between supervisors and workers.

Second, in my fieldwork I have identified that four factors—external labor markets, product markets, cultural and language conditions within the plants, and values of the management—are responsible for compliance with the code at the two plants. These factors influence the management style and the plant’s relationship with WorldSport, and, therefore, the way policies are implemented, which result in different labor conditions. As I described in the last chapter, it is important to understand the management style of the plants because the different styles result in different work organization, different views of the code of conduct, and, ultimately, different working conditions.

These findings have implications for MNCs, national governments, international organizations, and NGOs when they try to uphold labor standards. For example, as we saw with Plants A and B, a particular product market or labor market may create incentives or disincentives for compliance with the code. Similarly, a small percentage of production can be an incentive for a plant to improve labor conditions in order to increase its production orders. Moreover, as Plant B illustrated, state incentives for attracting foreign firms may create perverse effects that depress labor standards. By drawing firms only on the basis of cost savings, states end up attracting factories that, like Plant B, do not invest in their human capital. These factors, together with the language conditions within the plants and the values of the management, have played a significant role in determining labor conditions in Plants A and B. Therefore, as we create and implement policies to improve labor conditions, we must be cognizant of the various

pressures and capabilities of the plants, which will determine whether a policy succeeds or fails in actually changing conditions on the factory floor.



# Appendix

## Appendix 1: WorldSport's Code Conduct

### **WorldSport was founded on a handshake**

Implicit in that act was the determination that we would build our business with all of our partners based on trust, teamwork, honesty and mutual respect. We expect all of our business partners to operate on the same principles.

At the core of the WorldSport corporate ethic is the belief that we are a company comprised of many different kinds of people, appreciating individual diversity, and dedicated to equal opportunity for each individual.

WorldSport designs, manufactures, and markets products for sports and fitness consumers. At every step in that process, we are driven to do not only what is required by law, but what is expected of a leader. We expect our business partners to do the same. WorldSport partners with contractors who share our commitment to best practices and continuous improvement in:

- 1 Management practices that respect the rights of all employees, including the right to free association and collective bargaining
- 2 Minimizing our impact on the environment
- 3 Providing a safe and healthy work place
- 4 Promoting the health and well-being of all employees

Contractors must recognize the dignity of each employee, and the right to a work place free of harassment, abuse or corporal punishment. Decisions on hiring, salary, benefits, advancement, termination or retirement must be based solely on the employee's ability to do the job. There shall be no discrimination based on race, creed, gender, marital or maternity status, religious or political beliefs, age or sexual orientation.

Wherever WorldSport operates around the globe we are guided by this Code of Conduct and we bind our contractors to these principles. Contractors must post this Code in all major workspaces, translated into the language of the employee, and must train employees on their rights and obligations as defined by this Code and applicable local laws.

While these principles establish the spirit of our partnerships, we also bind our partners to specific standards of conduct. The core standards are set forth below.

### **Forced Labor**

The contractor does not use forced labor in any form -- prison, indentured, bonded or otherwise.

**Child Labor**

The contractor does not employ any person below the age of 18 to produce footwear. The contractor does not employ any person below the age of 16 to produce apparel, accessories or equipment. If at the time WorldSport production begins, the contractor employs people of the legal working age who are at least 15, that employment may continue, but the contractor will not hire any person going forward who is younger than the WorldSport or legal age limit, whichever is higher. To further ensure these age standards are complied with, the contractor does not use any form of homework for WorldSport production.

**Compensation**

The contractor provides each employee at least the minimum wage, or the prevailing industry wage, whichever is higher; provides each employee a clear, written accounting for every pay period; and does not deduct from employee pay for disciplinary infractions.

**Benefits**

The contractor provides each employee all legally mandated benefits.

**Hours of Work/Overtime**

The contractor complies with legally mandated work hours; uses overtime only when each employee is fully compensated according to local law; informs each employee at the time of hiring if mandatory overtime is a condition of employment; and on a regularly scheduled basis provides one day off in seven, and requires no more than 60 hours of work per week on a regularly scheduled basis, or complies with local limits if they are lower.

**Environment, Safety and Health (ES&H)**

The contractor has written environmental, safety and health policies and standards, and implements a system to minimize negative impacts on the environment, reduce work-related injury and illness, and promote the general health of employees.

**Documentation and Inspection**

The contractor maintains on file all documentation needed to demonstrate compliance with this Code of Conduct and required laws; agrees to make these documents available for WORLDSPORT or its designated monitor; and agrees to submit to inspections with or without prior notice.

## **Appendix 2: Internal Labor Market**

*Plant A* - Usually Plant A advertises job openings through posters and flyers in the area where the factory is located. Workers may know about job opportunities through their friends and family network. For administration and management postings, the plant uses newspaper advertising, industry associations and universities. Production workers are recruited according to their experience and knowledge. They have to take an entry test in order to assess their level. If workers don't have any experience, they are trained on the job by supervisors and co-workers. This training can last up to two months.

Once they are hired, workers have a contract for one month after which they are evaluated. If workers are approved, they have an indefinite contract. After the first three months of work, employees get an increase in their salary. Workers have the possibility to move up along the career ladder within the factory. When there is a job opening, the HR department posts a notice on the workplace, workers apply for it, and then they take an exam for the position. Afterwards, employees can also check the exam and see the errors in case it did not go well. However, the HR manager mentioned that it is not possible to hire internally for every position, because sometimes they need new skills that are not available. For example, the plant had to hire a designer from the outside. Usually workers are faced with the following growth path: "they start learning more tasks, then they pass to the quality control department, and finally in the sample room, that require the most talented workers" (interview with the HR manager). There is no seniority system in place.

Employees work 48 hours every week following a shift of five 9-hour days a week from 7:30 am to 5:00 pm, Monday through Friday. The cutting department has a different shift

because they need to be 3 days ahead of the sewing. There are two shifts in which workers work six 8-hour days from Monday to Saturday, either from 6:00 am to 2:00 pm or from 2:00 pm to 10:00pm. Every two weeks people change shifts. All workers have a 30 minute break for lunch.

Workers are paid weekly. The factory opened a bank account for each worker. Every week, the factory deposits the money on the account and workers can withdraw money with an ATM card (there is an ATM machine in the plant). Production workers have a fixed daily wage of 63 pesos (US\$ 5.6<sup>47</sup>) that was raised to 65 pesos (US\$ 5.8) in January 2005. In addition to that, workers have premium of attendance, punctuality, and overtime. As a result, sewer workers get on average a weekly wage that is around 644 pesos (US \$57.6) plus bonuses of production if they produce more during their regular time. In the cell, workers get bonus of production as a team. The cut off is 70%: if in their regular shift they produce more than 70%, they start getting bonuses. The table below indicates the bonus corresponding to different percentages of productivity.

**Table A.1 Premium of Production in Sewing**

<i>% of Production</i>	<i>Premium (Mexican Pesos)</i>	<i>Premium (US Dollars)</i>
70%	2	0.18
81%	25	2.22
86%	35	3.11
91%	46	4.09
96%	60	5.34
100%	70	6.23

---

<sup>47</sup> AT the exchange rate 1 US\$ = 11.24 Mexican Pesos. [www.xe.com](http://www.xe.com) 3/22/05.

An average worker in a cell will gain 70 pesos for a basic t-shirt because his/her productivity for a basic t-shirt is easily 100%. One supervisor said that 91% represents the average minimum of production (which is equal to about 964 pieces). Workers in other departments such as ironing, quality control, and packing also have bonus of production. This information is not included here because the factory did not provide me with the details.

At a 100% level of productivity, workers get 644 pesos (US\$ 57.6) each week (including over time, attendance bonus) plus 350 pesos (US\$ 31.14) as a production bonus (70 x 5 days). In total, they earn 994 pesos (US\$ 84.52). In the modular system, they used to have a bonus of 46 pesos for 100% of production. Therefore, 46 x 5 days = 230 pesos (US\$ 20.46). Hence their average weekly salary was of 830 pesos in total (US\$ 78.06). The table below shows the average salary composition in US dollars in the new and old system of production. If one compares the weekly wage without bonuses with an average weekly wage for a sewing worker in the United States, one finds that the weekly wage in Plant A is almost one seventh of the American one.<sup>48</sup>

**Table A.2 Comparison between wages in the New and Old systems**

<i>Wage (US Dollars)</i>	<i>New System (Cell)</i>	<i>Old System (Module)</i>
<b>Weekly Wage</b>	57.6	57.6
<b>Weekly Bonuses</b>	31.14	20.46
<b>Weekly Total</b>	88.9	78.06

---

<sup>48</sup> This comparison is based on a hourly minimum wage of US\$ 9.79 for a sewing worker (U.S. Bureau of the Census), and considering a 48-hour week.

**Plant B** – Plant B does not have a specific recruitment procedure in place, because the factory is well known by local people. In fact, Plant B is the only garment factory in the surrounding area and one of the few firms of any type. Therefore, this plant represents one of the few employment opportunities for people that live in the area. The factory opens the hiring process in the first three days of every week. During those days, one can observe many people in line at the entrance of the plant, ready to fill out a form and assist an information/training session of the plant’s policy. Hiring seems to be an ongoing activity for this factory and it may be indicative of high labor turnover. Every potential worker gets training regarding safety and health of the workplace and on the plant policy and global buyers’ code of conduct. The Human Resources staff gives this training twice a day in the three hiring days. The training is intended for anyone who applies for the job, even before the human resources department knows if the person will be hired.

Line workers are trained in the first month. The first 30 days are a probation period which is paid by the government and by the factory. Workers start as basic sewer (“costurero”) and after 30 days their performance is evaluated. If they are approved, workers become professional sewer (“costurero profesional”). According to the HR manager, their salary increases from 56.33 pesos (US\$ 5) to 59.41 pesos (US\$ 5.3) per day. This training month co-funded by the government is part of the incentive package that the state government offers to foreign investors in order to attract new firms and foster economic development. This incentive assumes particularly importance in the garment sector, in that there is no tradition of garment production in the area and, therefore, many workers have no experience at all. Workers are trained on-the-job, usually by their supervisors or the shop-floor manager. The training is quite

rudimentary. This is partly due to the unskilled nature of the job and the high turnover rate. The factory was not able to provide me with their turnover rate. However, the WorlSport headquarters in Mexico City told me that this factory has a turnover rate around 10%, and they consider it quite high. Only supervisors have some off-the job training on how to handle chemical products.<sup>49</sup>

Once hired, workers apply for a shift and they stick with that shift forever. There are two shifts in the factory. The first shift starts at 7:30 am and ends at 5 pm, and it goes from Monday to Friday. Workers have three breaks during the day. The first break occurs at 9 am and lasts 15 minutes. Workers use the restrooms, and get breakfast. Work will continue until lunchtime, when workers are split in seven shifts and have 30 minute-break. Workers can eat lunch at the cafeteria, bring food from home, or buy it from outside the plant (either from a truck or, if they have a car or a bike, they can go “downtown”). The afternoon break comes at 3 pm for 15 minutes. The second shift starts at 5:05 pm and ends at 11:50 pm from Monday to Friday, and Saturday from 8:00 am to 4:00 pm. There is no formal system of promotion in place. Workers are evaluated for their work by supervisors and, if promoted, they move to quality control or sampling.

Workers are paid weekly through a deposit on the bank account that the factory provides for them. Workers can get money from the ATM machine in the plant. The salary is determined according to a mixed pay system that combines hourly pay and piece rate system. Each piece of garment has a ticket that reports the value of the piece. The value varies according to the complexity of the style. Workers collect those tickets during the week, and at the end of the

---

<sup>49</sup> This training is held during work time and it is paid as supervisors were working.

week the accounting department calculates how much they earned. Sewer workers have to reach a minimum standard of 51 pesos per day, which equals 300-400 pieces. Their weekly salary is a combination of fixed daily salary, bonus of production, premium of attendance, and premium of seniority. On average, a worker can earn between 700 and 800 pesos per week (in US dollars, between \$ 62.2 and \$ 71).

In the ironing, trimming, and packing departments workers have a premium of production on top of their fixed salary. The premium is based on the number of pieces that they work. The table below provides a range of premiums for each department.

**Table A.3 Premium of Production**

<b>Department</b>	<b>Premium of Production (in US dollars)</b>
Ironing	From 2,200pieces= \$3.1 to 6,400 pieces= \$24.9
Trimming and Quality Control	From 1,250 pieces= \$2.2 to 6,500 pieces= \$38.2
Packing	From 1,000pieces= \$3.5 to 10,000pieces= \$35.5



### **Appendix 3: Plant Policy**

*Plant A* - Workers have to respect some plant rules. One of these is punctuality.

Workers have to arrive at work on time at 7:30 am. There is a “time tolerance” of 10 minutes. However, they can arrive later than the time tolerance of 10 minutes only once a week. If they arrive later than 7:40 more than once in a week, they are not allowed to enter and they miss one entire day of work. The fine in this case is equal to 1 and ½ worth of daily wage.<sup>50</sup> On average, every week three people arrive late. However, in December, January and February this policy doesn’t apply because the weather is too cold. Nevertheless, the HR manager still checks if workers abuse this policy. Workers can ask permission for a late entry or early exit from work.

*Plant B* - Workers have to respect a number of rules, and punctuality is one of them.

Workers have to enter at 7:30 am. There is a “time tolerance” of 15 minutes—until 7:45 am. If workers need to enter later, they have to get permission from their supervisor. If they don't have it, they need to justify why they are late. There are sanctions for being late that the HR person said are not applied. However, a worker mentioned that one day he was late by a few minutes and they did not let him come in. As a result, he lost a day of work.

Workers have a “time card” that they have to “scan” every time they come and leave work. This way the HR department will know exactly the number of hours they worked. Workers also have to follow a dress code: they have to use closed and comfortable shoes (for their safety and health); they cannot use long necklaces; no short skirts; no low cut dress/shirts. They also have to wear a uniform that indicates the area of production they work in.

---

<sup>50</sup> Interview with a worker.

## **Appendix 4: List of Interviews**

### **January 2005 Fieldwork**

List of Interviews (total 79)

WorldSport office in Mexico City (January 12, 13, 17, and 27)

- 1) Director of the MNC office
- 2) Sports Graphic Manager
- 3) Logistics Manager
- 4) Compliance Specialist (more than one interview)
- 5) Compliance Auditor (more than one interview)
- 6) Staff member
- 7) Staff member
- 8) Staff member
- 9) Product Development
- 10) Staff member
- 11) Head of Compliance in the Nike office in Guadalajara

Plant A (January 13, 14, 28, and 31)

- 1) General Manager and Sales Manager
- 2) Export and Sales Manager
- 3) Head of Operations
- 4) HR Manager
- 5) Engineer and Processes
- 6) Head of Quality Control (two interviews)
- 7) Personal Organization
- 8) Head of the Cutting department
- 9) Head of the Purchasing department
- 10) Head of the Control of Production Department
- 11) Head of Accounting department
- 12) Production supervisor
- 13) Production supervisor
- 14) Quality control Auditor
- 15) Union Representative
- 16) Representative of the Commission of Hygiene and Safety
- 17) Sewing worker
- 18) Sewing worker
- 19) Control of Production worker
- 20) Quality Control worker
- 21) Trimming worker
- 22) Packing worker

Plant B (January 24, 25, 26, and 27)

- 1) Office Manager
- 2) General Manager
- 3) Plant Manager and Sewing Manager
- 4) Quality Control Manager
- 5) Cutting Manager
- 6) Production Manager/Head of Operations
- 7) Packing Manager
- 8) HR Manager
- 9) Embellishment Manager
- 10) Security Supervisor
- 11) Childcare
- 12) Accounting
- 13) Nursery
- 14) Packing worker
- 15) Packing worker
- 16) Ironing worker
- 17) Embroidery worker
- 18) Printing worker
- 19) Trimming worker
- 20) Trimming worker
- 21) Cutting worker
- 22) Cutting worker
- 23) Sewing Inline Quality Control
- 24) Sewing Inline Quality Control
- 25) Sewing worker
- 26) Sewing worker
- 27) Line supervisor (sewing department)
- 28) Line supervisor (sewing department)
- 29) Union representative
- 30) Area supervisor
- 31) Final Quality Control

Plant C (January 18, 19, 20, and 21)

- 1) Production and Merchandising Manager
- 2) Production and Merchandising Manager
- 3) Accounting Manager
- 4) Head of Sample Room
- 5) Sample room worker
- 6) Sample room worker
- 7) Head of cutting department
- 8) Cutting worker
- 9) Cutting worker

10) Head of Embroidery

Other interviews:

Los Angeles (January 21)

- 1) Division of Labor Standards Enforcement at the Department of Industrial Relations
- 2) OSHA Department

Mexico (January 31)

- 1) Solidarity Center AFL-CIO
- 2) Expert in labor issues
- 3) Labor lawyer

## References

- Appelbaum, E. and Batt, R. (1994). *The New American Workplace*. New York.
- Appelbaum, E., Bailey, T., Berg, P., and Kalleberg, A. L. (2001) Do High Performance Systems Pay Off? In S. Vallas (Ed.), *The Transformation of Work* (pp. 85-108).
- Besser, T. (1996). *Team Toyota*. New York.
- Bhagwati, J. (1995) Trade Liberalization and 'Fair Trade' Demands: Addressing the Environmental and Labor Standard Issues. *World Economy*, 18 (6), 745-75.
- Boiral, O. (2003). The certification of corporate conduct: issues and prospect. *International Labor Review*, 142 (3).
- Cappelli, P. and Neumark, D. (1999). "Do "high-performance" work practices improve establishment level outcomes?" *Industrial and Labor Relations Review*, 54, 737-76.
- Chan, S. (2002). *Shoes, sweatshops, and sanctions: comparing the impacts of labor codes of conduct in three footwear contractors in China*. Master's Thesis, Department of Urban Studies and Planning, M.I.T.: Cambridge, U.S..
- Chan, A. and Xiaoyang, Z. (2003). Disciplinary labor regimes in Chinese factories. *Critical Asian Studies*, 35(4), 559-584.
- Damiani, O. (2003). Effects on employment, wages, and labor standards of non-traditional export crops in Northeast Brazil. *Latin American Research Review*, 38(1).
- Doeringer, P., Evans-Klock, C., and Terkla, D. G. (2002). *Start-Up Factories*. New York: Oxford University Press.
- Frenkel, S. (2001). Globalization, Athletic Footwear Commodity Chains, and Employment Relations in China. *Organization Studies*, 22(4), 531-562.
- Frenkel, S. J., and Kim, S. (2004). Corporate codes of labour practice and employment relations in sports shoe contractor factories in South Korea. *Asia Pacific Journal of Human Resources*, 42(1).
- Frenkel, S.J. (2001). Globalization, athletic footwear commodity chains and employment relations in China. *Organization Studies*, 22, 531-562.

- Frenkel, S.J., and Scott, D. (2002). Compliance, collaboration and codes of labor practice: The adidas connection. *California Management Review*, 44.
- Frost, A. (2000). Explaining variation in workplace restructuring: the role of local union capabilities. *Industrial and Labor Review*, 53(4).
- Gereffi, G. (1994). The Organization of buyer-driven global commodity chains: How U.S. retailers shape overseas production networks. In Gereffi, G. and Korzeniewicz, M. (Eds.), *Commodity chains and global capitalism*. Westport, CT: Greenwood Press.
- Gereffi, G. (1999). International trade and industrial upgrading in the apparel commodity chain. *Journal of International Economics* 48, 37–70.
- Gereffi, G. (2002). Outsourcing and Changing Patterns of International Competition in the Apparel Commodity Chain. Paper presented at the conference on “Responding to Globalization: Societies, Groups, and Individuals.” Colorado, April 4-7.
- Godard, J. (2004). A critical assesement of the high-performance paradigm. *British Journal of Industrial Relations*, 42(2), 349-378.
- Gordon, K. and Miyake, M. (2000). *Deciphering Codes of Conduct: A Review of their Contents*. Working Paper on International Investment, OECD.
- Hanson, G. (2001). *Should Countries Promote Foreign Direct Investment?* G-24 Discussion Paper Series. UNCTAD (United Nations Conference on Trade and Development).
- Haufler, V. (2001). *A Public Role for the Private Sector*. Washington D.C.: Carnegie Endowment for International Peace.
- Hirschman, A. O. (1984). Against Parsimony: Three Easy Ways of Complicating Some Categories of Economic Discourse. *American Economic Review*, 74 (2), 89-96.
- Jenkins, R. (2001). Corporate Codes of Conduct. Self-Regulation in a Global Economy. Paper Series: *Technology, Business, and Society*, Program Paper number 2, Geneva: United Nations Research Institute for Social Development. Retrieved from <www.unirsd.org>
- Knauss, J. (1998). Modular Mass Production: High Performance on the Low Road. *Politics & Society*, 26(2), 273-296.
- Lipsky, M. (1980). *Street-level bureaucracy: dilemmas of the individual in public services*. New York: Russell Sage Foundation.
- Maquila Solidarity Network (2004). *Codes Memo*, 16, January/February.

- McGregor, D. M. (1960) *The human side of enterprise*. New York, McGraw-Hill.
- Nadvi, K. (2003). *The effect of Global Standards on Local Producers: a Pakistani case study*. Institute of Development Studies, University of Sussex, Brighton, 2003.
- O'Rourke, D. (1997). *Smoke from a Hired Gun: A Critique of Nike's Labor and Environmental Auditing in Vietnam as Performed by Ernst & Young*. Report published by the Transnational Resource and Action Center: San Francisco, November.
- O'Rourke, D. (2000). *Monitoring The Monitors: A Critique Of Pricewaterhousecoopers (Pwc) Labor Monitoring*. Cambridge: Department of Urban Studies and Planning, Massachusetts Institute of Technology.
- Osterman, P. (2000). "Work reorganization in an era of restructuring." *Industrial and labor Relations Review*, 47: 173-87.
- Piore, M. J. (1990). Labor Standards and Business Strategies. In Herzenberg, S. and Perez-Lopes, J. F. (Eds.), *Labor Standards and Development in the Global Economy*. Washington, D.C.: Department of Labor.
- Ramaswamy, K. V., and Gereffi, G. (2000). India's Apparel Exports: The Challenge Of Global Markets. *The Developing Economies*, 38(2),186–210.
- Rothstein, R. (1996). The Starbucks Solution. *The American Prospect*, 7(27).
- Sabel, C., O'Rourke, D., and Fung, A. (2000, May 2). *Ratcheting Labor Standards: Regulation for Continuous Improvement in the Global Workplace*.
- Samstad, J. G., and Pipkin, S. (2005). Bringing the Firm Back In: Local Decision-Making and Human Capital Development in Mexico's Maquiladora Sector. *World Development*, 33(5), 805–822.
- Schon, L. B. and Bird, A. (1999). *Japanese Multinationals Abroad*. New York: Oxford University Press.
- Schrage, E. J. (2004). *Promoting international worker rights through private voluntary initiatives: public relations or public policy?* The University for Iowa, Center for Human Rights.
- Shaiken, H. (1994). Advanced manufacturing and Mexico: A new international division of labor? *Latin American Research Review*, 29(2), 39-71.
- Standard and Poor's (2004, September 16). *Industry Surveys. Apparel and Footwear*.

- Strasser, J. B., and Becklund, L. (1991). *Swoosh: The Unauthorized Story of Nike and the Men Who Played There*. Harper Business.
- Taylor, F. W., (1967). *The principles of scientific management*. New York: Norton.
- Tendler, J. (2000, September 3). *The Economic Wars Between the States*. Paper Presented at the OECD/State Governemtn of Ceara' Meeting on Foreign Direct Investment and Regional Development, Fortaleza, Brazil.
- Tendler, J. (2002, July 19). *The Fear of Education*. Paper presented at the 50<sup>th</sup> Anniversary Meetings of the Banco do Nordeste, Fortaleza, Brazil.
- Tsogas, G. (1999). *Corporate Codes of Conduct and Labor Standards*. The Netherlands: Institute of Social Studies.
- Varley, P. (Ed.). (1998). *The Sweatshop Quandary*. Investor Responsibility Research Center.
- Vázquez, R. F., and Stalnaker, C. K. (2004). Latino Workers in the Construction Industry. *Professional Safety*, June.
- Walton, R. E. (1991). *From control to commitment in the workplace: in factory after factory, there is a revolution under way in the management of work*. Washington, D.C.: U.S. Department of Labor, Bureau of Labor-Management Relations and Cooperative Programs.