



CTM Centre for Transdisciplinary Environmental Research
STOCKHOLM UNIVERSITY



Views on Barriers to Successful Code of Conduct Implementation

- a case study of H&M and its suppliers in India

Felix Ockborn

Miljö och hållbart företagande
Magisteruppsats 2006:2

Centrum för tvärvetenskaplig miljöforskning

Vår välfärd bygger på att samspelet mellan människa, samhälle och natur fungerar. Forskning om hur samhället vårdar basen för sin välfärd, och når hållbar utveckling, kräver kunskap från flera områden. Därför finns Centrum för tvärvetenskaplig miljöforskning, CTM.

CTM är ett fristående centrum vid Stockholms universitet som verkar för samarbete över fakultetsgränserna. Vi samarbetar med alla institutioner vid Stockholms universitet som bedriver miljörelaterad forskning.

CTM utvecklar tvärvetenskapliga utbildningar, samordnar större forskningsprojekt och informerar omvärlden om universitetets miljöforskning.

Centrum för tvärvetenskaplig miljöforskning hette tidigare Centrum för naturresurs- och miljöforskning, CNM, och har funnits vid Stockholms universitet sedan 1990.

Hemsida: www.ctm.su.se

STOCKHOLM UNIVERSITY
Centre for Transdisciplinary Environmental Research
Environment and Sustainable Enterprising, 20 p practical

**Views on Barriers to Successful Code of
Conduct Implementation**
- a case study of H&M and its suppliers in India

By

Felix Ockborn

Academic advisor: Bino Catusù

Practical advisor: Tobias Fischer

Masters Thesis (20 points), autumn 2006

A word of thanks!

I would like to express my sincere gratitude to all those who have contributed to this study. First, I would like to thank all the respondents among the suppliers and H&M's auditors in India for taking the time to speak to me and for their enormous hospitality! Further, I wish to thank Tobias Fischer and H&M for giving me the opportunity and support to conduct this study and my academic advisor Bino Catasùs for guiding me through the process. Lastly, thank you to all those who have read the text and given valuable recommendations.

Felix Ockborn

Stockholm, 31 December 2006

ABSTRACT

Multinational companies sourcing commodities such as apparel from India face the risk of being associated with production conditions that are violating international labour laws. Controls of Indian supply chains by international labour rights' organisations reveal hazardous working conditions, usage of child labour and workers having little chance to influence their situation. H&M is a multinational viewing India as an important market for garments and accessories. To ensure good conditions for labourers among its suppliers, H&M has worked to implement a Code of Conduct (COC) demanding that certain standards are met in the factories. Through monitoring and giving assistance to suppliers many issues such as child labour and aspects of health and safety have improved, but violations of other provisions in the COC continue to exist.

This thesis looks at the issue of COC compliance from both suppliers' and H&M's perspectives. It attempts to find what the main compliance issues are among H&M's first tier suppliers in India, what the barriers are to improving compliance on these issues and how the institutional environment in India affects compliance among suppliers. The aim of the thesis is to contribute to knowledge about barriers to compliance with a COC among Indian suppliers. The knowledge can be used to improve methods for implementing COCs among suppliers.

The study applied an inductive case study methodology which consisted of interviews with the managements of 6 suppliers and 4 of H&M's auditors in India, studies of audit reports and observations from visits to suppliers' factories. The selection of cases sought both similarities and differences in set-up and geographical location. The analysis was divided into two steps. In the first step, compliance issues and barriers to compliance were analysed from empirical evidence. In the second step a strategic response model based on institutional theory and resource dependence theory was applied to analyse the effect of the institutional environment.

The study has found that the six main compliance issues among suppliers to be handling of chemicals, control of overtime hours, workforce turnover, management-worker dialogue, worker-awareness and implementation of proper systems to maintain compliance with the COC. Furthermore, the four main barriers to improve on these issues are found to be the attitudes of the supplier managements, capacity in the supplier organisations, the business model pursued by the suppliers and the power manifestations between positions in the organisations. Lastly, the study has found that the institutional environment in India is full of actors who can have paradoxical effects on compliance among the suppliers. Overall, institutional forces act on suppliers to create and maintain the empirical barriers to compliance. The institutional environment in southern India has more forces supporting compliance than the environment in the north. A model of the contrasting effects of institutional forces was created which can be applied in different institutional environments. It can be used to discuss how the forces of particular institutional environments may cause the implementation of a Code of Conduct in the supply chain to only reach a certain level unless any of the institutional forces are changed.

Keywords: corporate social responsibility (CSR), inductive methodology, compliance, institutional environment

SAMMANFATTNING

Multinationella företag som köper varor så som kläder från indiska leverantörer riskerar att förknippas med produktionsvillkor som kränker mänskliga rättigheter. Kontroller av indiska leverantörsled gjorda av internationella arbetsrättsorganisationer visar på skadliga arbetsmiljöer, barnarbete och arbetare som har liten möjlighet att påverka sin situation. H&M är ett multinationellt företag som ser Indien som en viktig marknad för kläder och accessoarer. För att säkerställa bra villkor för arbetarna i leverantörsfabrikerna har H&M arbetat med att implementera en uppförandekod som kräver att vissa standarder upprätthålls i fabrikerna. Genom inspektioner som både kontrollerar och ger assistans till leverantörerna har många områden så som barnarbete och hälso- och säkerhetsaspekter förbättrats sedan uppförandekoden infördes. Kränkningar av andra krav i uppförandekoden fortsätter dock att inträffa.

Denna studie undersöker problemet med uppfyllelse av uppförandekoden både ur leverantörernas och H&Ms perspektiv. Den söker att finna svar på vilka de största problemområdena för uppförandekodsuppfyllelse är bland H&Ms förstaledsleverantörer i Indien, vilka hinder som finns för att förbättra uppfyllelse inom dessa områden och hur den institutionella miljön i Indien påverkar uppfyllelse av uppförandekoden bland leverantörerna. Syftet med denna studie är att bidra med kunskap om hinder för uppfyllelse av en uppförandekod bland indiska leverantörer. Kunskapen kan användas för att förbättra metoderna för implementering av uppförandekoder i leverantörsledet i allmänhet.

Studien utformades utifrån induktiv fallstudiemetodik och bestod av intervjuer med ledningen hos sex av H&Ms leverantörer och fyra av H&Ms inspektörer i Indien, granskning av revisionsrapporter från inspektioner och observationer på plats under besök i leverantörsfabrikerna. Urvalet av fall sökte både likheter och skillnader i verksamhet och geografisk placering i Indien. Analysförfarandet delades upp i två steg. I det första steget argumenterades för vilka huvudsakliga problemområden och hinder för förbättring inom dessa områden som framstod ur det empiriska materialet. I det andra steget användes en modell över strategisk respons mot institutionella tryck baserad på nyinstitutionell och resursberoende teori för att analysera effekten av den institutionella miljön på leverantörerna.

Studien fann att de sex huvudsakliga problemområdena är kemikaliehantering, kontroll av övertidstimmar, omsättning av arbetare, dialog med arbetare, arbetarnas kännedom och implementering av formella system i leverantörsfabrikerna. Vidare visar studien att de fyra huvudsakliga hindren är ledningens attityd, kapacitet i leverantörsorganisationerna, leverantörernas affärsmodell och maktuttryck mellan positioner i organisationerna. Slutligen fann studien att den institutionella miljön är fylld med aktörer som har paradoxal effekt på leverantörerna. Generellt sett så skapar och upprätthåller de institutionella krafterna de empiriska hindren för uppfyllelse av uppförandekoden. Den institutionella miljön i södra Indien innehåller flera krafter som stödjer uppförandekodsuppfyllelse än miljön i norr. En modell över de motstridiga effekterna av institutionella krafter skapades som kan appliceras på olika institutionella miljöer. Modellen kan användas för att diskutera hur institutionella krafter i en specifik omgivning endast tillåter uppfyllelse av uppförandekoden att nå en viss nivå om de institutionella krafterna är oförändrade.

Nyckelord: företagsansvar (CSR), induktiv metod, uppförandekodsuppfyllelse, institutionell miljö

Acronyms and Abbreviations

COC	Code of Conduct
DOT	Double Overtime
EMS	Environmental Management System
FAP	Full Audit Programme
MNC	Multi-National Corporation
NGO	Non-Governmental Organisation
NIE	Newly Industrializing Economy
OT	Overtime
SME	Small or Medium-sized Enterprise

Table of contents

1 INTRODUCTION.....	1
1.1 SOURCING APPAREL FROM INDIA: THE RISKS INVOLVED	1
1.2 VOLUNTARY CODES OF CONDUCT	3
1.3 DEFINING THE PROBLEM	5
1.4 AIM	6
2 CONCEPTS AND THEORETICAL FRAMEWORK.....	7
2.1 SYSTEMS AND BARRIERS TO CHANGE	7
2.2 VIOLATION OR A COMPLIANCE ISSUE?	7
2.3 INSTITUTIONAL FORCES.....	8
2.4 POWER AND BUREAUCRACIES	9
2.5 COLLABORATION	9
2.6 COMMENT ON CHOICE OF THEORY.....	9
2 METHODOLOGY.....	10
2.1 ENTERING THE FIELD.....	10
2.2 THE FIELD WORK.....	12
2.3 INTERVIEWS	12
2.4 ANALYSING THE DATA	14
2.5 COMMENT ON CHOICE OF METHOD	14
3 EMPIRICAL FINDINGS.....	16
3.1 SUPPLIERS' VIEWS.....	16
3.1.1 <i>Actors in the business environment</i>	16
3.1.2 <i>Labour management</i>	18
3.1.3 <i>Working with H&M</i>	20
3.1.4 <i>Code of Conduct</i>	21
3.2 H&M'S VIEW	22
3.2.1 <i>FAP findings</i>	22
3.2.2 <i>Auditors' views</i>	23
3.3 ON SITE OBSERVATIONS	26
4 ANALYSIS	27
4.1 THE MAIN COMPLIANCE ISSUES	27
4.1.1 <i>Handling of chemicals</i>	27
4.1.2 <i>Control of OT</i>	28
4.1.3 <i>Turnover of the workforce</i>	28
4.1.4 <i>Dialogue with workers</i>	28
4.1.5 <i>Worker awareness</i>	29
4.1.6 <i>Systems to enforce good factory conditions</i>	29
4.2 THE EMPIRICAL BARRIERS	30
4.2.1 <i>Attitude</i>	30
4.2.2 <i>Capacity</i>	31
4.2.3 <i>Business model</i>	31
4.2.4 <i>Power manifestations</i>	31
4.3 EFFECTS OF THE INSTITUTIONAL ENVIRONMENT	32
4.3.1 <i>H&M</i>	33
4.3.2 <i>Government agencies</i>	34
4.3.3 <i>Other producers and the supply chain</i>	34
4.3.4 <i>Labour force</i>	35
4.3.5 <i>Unions</i>	35
4.3.6 <i>Associations, networks and training institutes</i>	36
4.3.7 <i>Other buyers</i>	36
4.3.8 <i>Corruption, class and politics</i>	36
4.4 A CONCEPTUAL MODEL OF THE ACTIONS OF INSTITUTIONAL FORCES	37

5 CONCLUSION	39
5.1 ANSWERS TO THE RESEARCH QUESTIONS	39
5.2 CONTRIBUTION.....	39
5.3 SUGGESTIONS FOR FURTHER STUDY	39
5.4 PERSONAL REFLECTIONS	40

List of Figures

Figure 1: A visual diagram of barriers to compliance with demands in a Code of Conduct.	32
Figure 2: A conceptual model of the actions of institutional forces on COC compliance in north India.....	37
Figure 3: The effects on COC compliance of the institutional environment in south India..	38

List of Tables

Table 1: Strategic responses to Institutional Processes (by Oliver 1991:152).....	8
Table 2: Characteristics of the cases.	11
Table 3: Sources and methods for data collection.	11
Table 4: Chronology of the field research.....	12
Table 5: List of respondents from each case and extent of interview.	13
Table 6: Positive outcomes of working with H&M's Code of Conduct as perceived by suppliers.....	21
Table 7: Challenges in the COC and barriers to compliance as perceived by suppliers.	22
Table 8: Major compliance issues identified in FAP reports.	23
Table 9: Compliance issues and barriers as perceived by auditors.....	25
Table 10: Predominant compliance issues among Indian suppliers.	27
Table 11: Actors in the institutional environment that exert pressure on suppliers.	33

Annexes

ANNEX A: H&M's Code of Conduct

ANNEX B: Introduction letters to suppliers.

ANNEX C: Interview questions and a selection of quotes.

ANNEX D: Excel sheet of supplier profiles.

1 INTRODUCTION

The following chapter starts by introducing the reader to the background of the problem researched for this thesis.. Thereafter it goes on to define the problem and present the research questions and the aim of the thesis.

1.1 Sourcing Apparel from India: The risks involved

Since it started liberalising its economy in 1991 (Gollakota & Gupta, 2006) India has become one among the latest newly industrializing economies (NIEs) in Asia due to its growing importance as a supplier of commodities for multinational corporations (MNCs) (Gereffi, 1999). Liberalisation of the Indian economy meant dismantling license agreements imposed by The Industries Development and Regulation Act of 1951 by which enterprises had to obtain governmental licenses to operate. Further, bank investments were no longer determined by government, industry sectors formerly reserved for public enterprises were opened up, foreign equity was allowed in, share prices were set free and Indian companies were allowed to be listed on international stock exchanges (Gollakota & Gupta, 2006). As a result foreign direct investment increased rapidly during the 1990s and apparel exports to the US alone increased from US\$ 636 million in 1990 to US\$ 1508 million in 1997 (Gereffi, 1999:50). In 2004-05 India exported \$6.5 billion worth of apparel (India Times, 060105) and the industry in India is expected to keep expanding after quotas on apparel imports in Europe and USA were removed on January 1, 2005 (Chhabara, 2005). Indian export of apparel draws a lot of attention from international buyers, which points to the relevance of studying the problems buyers may face on this market.

The most commonplace reasons for moving production to Asian countries are low costs of labour, advantageous regulatory frameworks and good access to markets (Mamic, 2003). India is said to be particularly attractive because it offers low operating costs, growing infrastructure, large production capacities, availability of raw material and an industry that has invested in new equipment in the last decade (Chhabara, 2005). During the 1970's and 1980's the 'Big Three' East Asian markets - Hong Kong, Taiwan and South Korea - institutionalised weak labour regulations, not having ratified international agreements on labour standards set by the International Labour Organisation (ILO). This created cheap labour markets which attracted sourcing by MNCs (Pearson & Seyfang, 2001). As labour costs have increased in the 'Big Three' in the last two decades, networks for labour intensive production such as apparel have expanded to other Asian markets where labour is cheaper. Hence, there has been a move of sourcing to India and countries like Bangladesh, Indonesia and Sri Lanka (Gereffi, 1999). The Indian minimal wages vary between states and between regions within states. To give one example: as per 2006-03-31 a tailor with the highest skills, working an 8 hour shift in a factory in Bangalore Zone 1 (city) earned 91.64 Indian Rupees per day¹. That is approximately US\$ 2. Most workers earn considerably less and Indian wages have been criticised for being lower than a living wage.

Hennes&Mauritz (H&M) is a global MNC that sells apparel and accessories in 22 countries, primarily in Western Europe and the USA. Their business concept is "to offer fashion and quality at the best price" (H&M Annual Report 2005:16). The production model employed to attain and compete with low prices for the goods, which they share with most other international buyers, is to source production from suppliers instead of owning factories themselves. Orders are placed with 700 first tier suppliers globally, who in turn make use of sub-contractors to varying degrees. The goods are made in 2000 production units which

¹ Notification No. KAE 54 LMW 2001, Bangalore.

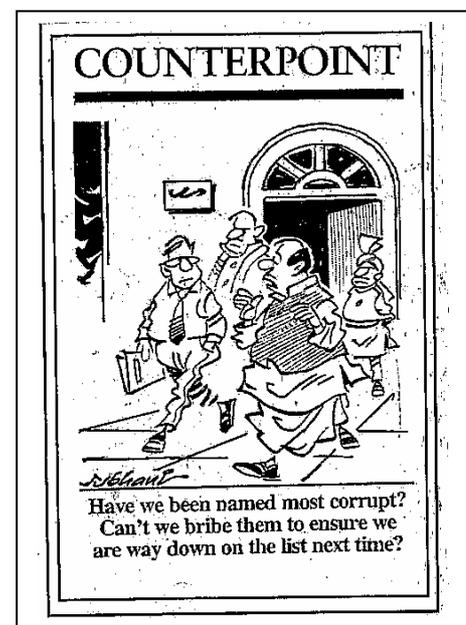
together employ more than 700 000 people (H&M CSR Report 2005). In this position H&M has an indirect impact on a large number of people. As a consequence of the sourcing model, there is only indirect contact with most of the supply chain and the ability to control the standards under which the production takes place depends on factors such as the relationship with the supplier, the complexity of the production network and the understanding of the way things work in the country of production.

Currently, 60 percent of H&M's production is sourced from the low cost labour markets in Asia. The company has two production offices in India; one in Delhi in North India and one in Bangalore in the South (H&M CSR Report 2005). H&M regards India as an important country of production, especially for sourcing wovens, such as shirts and blouses, and accessories. These are goods that Indian suppliers offer at high quality and competitive prices. The costs of production are low, but the Indian market is also filled with potential problems. H&M rates India a "high risk market" when it comes to human rights violations, non-compliance with local labour law and internationally agreed labour standards (H&M CSR Report 2005). As a typical MNC sourcing apparel from India, H&M is a pertinent company to focus on when narrowing in on the risks involved in this industry and how to handle them.

As is the case with many nations experiencing a boost in industrial growth, some argue that the Indian government may not be prioritising labour regulation enforcement and other social issues in fear of deterring the pace of growth (CR-Biz, March 2006). That is not to say that the country lacks strong labour laws. As the General Secretary of the Indian National Garment and Leather Workers Federation states (Jaganathan, pers.com 060913):

"India has among the best labour laws in the world. It is the enforcement of these laws that is the problem."

In a recent TV-documentary (Uppdrag Granskning, 060931) consumers in Scandinavia could watch the conditions under which their towels and blankets are produced in Northern India. What they saw was what may take place in Indian supply chains: workers walking barefoot in corrosive solutions and young children working long, heavy shifts. This may have been a worst case scenario, it would be grave to generalise all Indian production from such a documentary. It does, however, show that violations of this kind continue to exist in India. There are a number of reasons for this, some of which will be investigated further in this study. One reason for the low level of legal enforcement in India is alternate practice enabled through bribing past legal requirements. According to Transparency International's yearly Corruption Index, India scores at 3.3 out of a possible score of 10², which gives a 70th place in the world and is a steady improvement from previous years. However, in the Bribe Payers Index over the top 30 exporting countries, India rates the worst³. A cartoon in a big daily newspaper in Delhi gives a view on the reality of corruption in India in response to the Bribe Payers Index (Asian Age, 061007).



² See: http://www.transparency.org/policy_research/surveys_indices/cpi/2006, last checked 2006-12-29

³ See http://www.transparency.org/policy_research/surveys_indices/bpi/bpi_2006, last checked 2006-12-29

Since the beginning of the 1990's there have been growing concerns from multiple stakeholders such as consumers, non-governmental organisations (NGOs) and investors about MNCs operations worldwide with regards to issues such as labour standards, environmental impact and human rights violations (Pearson & Seyfang, 2001; von Tulder and Kolk, 2001). The spread of information through documentaries such as the one mentioned above and by “watch-dogs” such as Swedewatch⁴ and Clean Clothes Campaign⁵ has enabled a growing consciousness of the conditions under which daily products are made. This consciousness has made many stakeholders put higher demands on corporations. In order to maintain legitimacy a MNC like H&M has to make sure its goods are NOT produced in factories which, for example exploit child labour, maintain hazardous working conditions or contribute to uncontrolled pollution (Pearson & Seyfang, 2001).

This pressure from stakeholders has made corporations try to address such issues under their *Corporate Social Responsibility* (CSR). The concept of CSR has received a lot of attention over the last two decades by scholars and practitioners, and there are many definitions and theories of what it should encompass still up for debate (Garriga & Melé, 2004). H&M defines CSR as:

“a concept whereby companies integrate social and environmental concern in their business operations and in their interaction with their stakeholders on a voluntary basis in order to meet or exceed the ethical, legal, commercial and public expectations that society has of business.

(H&M CSR-report 2005:7)

1.2 Voluntary Codes of Conduct

To make their CSR-obligations concrete, many MNCs have created a voluntary Code of Conduct (henceforth referred to as COC) which is “a statement of business principles defining a set of relationships on a range of topics between an entity and its stakeholders” (Mamic, 2003:19)⁶. They are called voluntary, as they go in line with the CSR-concept that the company decides to promote standards beyond what they are legally required to do. The first examples of such COCs were created by Levi Strauss and Nike in 1992. They were created in response to unfavourable media exposure; Levi Strauss contributing to sweatshop conditions in Saipan and Nike paying below subsistence wages in Indonesia (Frenckel & Scott, 2002). By having business partners in the supply chain sign their COC with a promise to adhere to the set principles, MNCs hope to gain the trust of their stakeholders that their products are produced in a responsible manner.

Voluntary COCs have not evolved in a vacuum; there are a number of global standards and initiatives from which to draw experience when writing the COC (Mamic, 2003). Some of the most influential standards are ILO's *Declaration on Fundamental Principles and Rights at Work*, *OECD Guidelines for Multinational Enterprises* and *United Nations Universal Declaration of Human Rights*. ILO has eight Core Conventions which are found in many COCs (Pearson & Seyfang, 2001). To promote the most fundamental standards, ILO has listed four Core Labour Standards from these eight conventions which can be seen as the minimum requirements to be found in any COC (Mamic, 2003):

1. Freedom of association and the effective recognition of the right to collective bargaining

⁴ See http://www.swedewatch.org/swedewatch/in_english/about_swedewatchm last checked 2006-12-29

⁵ See <http://www.cleanclothes.org/>, last checked 2006-12-29

⁶ Definition used by Mamic (2003) derived from International Labour Office, *Codes of Conduct for Multinational Enterprises* (CD-ROM), ILO, Geneva, 2002, Chapter 1.

2. The elimination of all forms of forced or compulsory labour
3. The effective abolition of child labour
4. The elimination of discrimination in respect to employment and occupation

The UN has also promoted the Global Compact to give corporations 10 universal principles to “embrace, support and enact, within their sphere of influence...”⁷ These principles extend beyond labour rights to bring in environmental issues and, shared by the OECD Guidelines, the issues of bribery and corruption. Incorporating international standards in the Code gives it legitimacy and clear and defensible definitions. It also helps counter criticism that COCs are trying to substitute national legislation and impose values that are not locally acceptable (Mamic, 2003).

In the middle of the 90’s, H&M was a company under scrutiny about labour conditions and wages in its supply chain. Since then the company’s efforts to improve on these issues have been recognised as an exemplar model both in Sweden and internationally (Lindfors, 2006) A first step on this path was publishing its COC in 1997 (see Annex A). The document comprises eight areas: *Legal requirements, Child labour, Safety, Worker’s rights, Factory conditions, Housing conditions, Environment and Monitoring and enforcement*. ILO’s Core Labour Standards are all included and the section on Child Labour is based on the UN Convention on The Rights of The Child, article 32.1. The first section on *Legal requirements* demands that all of the laws of the country a supplier is operating in are adhered to. The following six sections of the COC can be seen as standards that are necessary in countries where the legal requirements are not strong enough. They can also be seen as the minimum standards that all suppliers should reach in countries where there are strong laws but they are not adequately enforced by the state, as one can argue is the case in India.

The provisions in a COC can actually fall into a grey area between being in-voluntary and voluntary, between being legal issues and what some define as CSR-issues. Legal requirements are in many countries, such as Sweden, perceived as in-voluntary provisions which are more or less taken for granted. One determining factor for such a perception may be the level of state enforcement of the laws. Adhering to standards above the legal level are voluntary obligations, some may argue the “real” CSR-obligations: doing more than what is required by law. In many developing countries the provisions in H&M’s COC are voluntary standards which vendors have to accept if they want to export products to H&M.

In India, it is essentially the first section of H&M’s COC on *Legal requirements* that is in focus. This is because the laws in India to a large extent encompass all other provisions of the COC. However, many of the laws in India have become cases of *voluntary* practice. Some of the labour laws for instance are quite old, contradict each other and are open to varying interpretations (Tydén, 2006). The state’s ability to enforce laws is a crucial issue.

In many Indian corporations, CSR is still to a large degree synonymous with philanthropy, which has a cultural founding in India (Pramar, pers.com. 060911). Most big corporate houses have a foundation which sponsors social programmes in areas such as education⁸. In a country where the state education has left 80% of the population illiterate, this is an important cause. Nevertheless, the factories of the same corporate houses may be responsible for violations of national labour and environmental legislation (Pramar, pers.com. 060911). One

⁷ <http://www.globalcompact.org/AboutTheGC/TheTenPrinciples/index.html>, downloaded 060914.

⁸ Listening to a number of corporate foundations presenting their work at the *Regional Conference on Child Centered Programming under Corporate Social Responsibility Initiatives in South Asia* organised by Save the Children, New Delhi, India, 2006-09-29.

pressing CSR-issue in India may therefore be to bring what today is *voluntary* legal compliance to being *in-voluntary* practice. H&M's work to ensure compliance with their COC is to a large degree working to ensure compliance with national legislation.

1.3 Defining the Problem

One central issue for MNCs is ensuring compliance with the COC. If compliance cannot be ensured the trust from stakeholders may be lost, which can have damaging effects on the brand name (Mamic, 2003) and the COC becomes just another 'document in the drawer' (Nijhof et al, 2003). Hence, systems of monitoring the performance of suppliers have been set up. H&M have been conducting audits of production units to monitor the implementation of its COC since 1998. Since then many areas have improved substantially. One such issue is child labour, which rarely occurs among first tier suppliers today (Fischer, 060929). Physical aspects, such as health and safety in the factories, are also areas where suppliers have managed to improve conditions.

With time H&M's CSR-team realised that their audits, which used to take about a working day and were mostly focused on tours of the factories, only highlighted immediate violations which the factories were told to amend. Upon the follow-up audit, the previous violations had been sorted out, but another few of similar nature had often occurred. Therefore, H&M have in the last two years introduced a new tool called *Full Audit Programme* (FAP) to be able to further extend the scope of monitoring and to try to find the causes of various issues (H&M CSR Report 2005).

The FAP takes about three working days and comprises an observation run of the factory, random checks of documentation, interviews with workers in groups or individually and a thorough discussion with the management on the issues that seem to be problematic and how they can improve on these⁹ The FAP has moved H&M's strategy from policing the suppliers to helping them understand the issues and learn ways employed in other factories to become more compliant with the COC. The supplier is told to set up a *Management Action Plan* which will be monitored through one or two follow up audits before its time for the next FAP (Wingborg, 2006; H&M CSR Report 2005).

In 2005 H&M still found several violations of their COC through their FAP audits (H&M CSR Report 2005). Through the FAP, compliance issues of less visible nature such as employment security are now being detected. In India, one major issue relating to labour rights is poor management-worker dialogue (Ibid.), which has strong effects on grievance handling and worker awareness. The question arises as to what causes some provisions of the COC, such as physical aspects, to be met whilst others are harder to improve.

Interestingly enough, a lot of research has been done on why codes are created and on their content. Only lately has attention been directed towards the methods of implementation and how far the codes are implemented in MNCs' supply chains (Mamic, 2003). Another focus is what obstacles to implementation COCs encounter. The line of inquiry for this thesis follows the intention of H&M's FAP audits; to understand the root causes of why violations occur.

When attempting to find out what causes compliance issues, such as worker-management dialogue problems, to exist there are many considerations that may have to be taken into account. Existing governance structures and cultural values in India may be very different from other countries (Gollakota & Gupta, 2006). Also, as research has shown that CSR has

⁹ Personally participating during a 4 day FAP of a factory in outside Delhi, India, 060926-061005.

different implications in different cultures and therefore, when choosing a CSR-strategy, MNCs have to consider the perceptions of CSR in the host country. (Galbreath, 2006) A third consideration could be, supported by research in psychology, that managers in Indian organisations may mix contradicting western managerial concepts with traditional ways of handling things (Sinha & Kanungo, 1997). Creating a formal system of grievance handling and yet relying on information being passed informally up the chain of command could be an example of this mixture. A final consideration is the institutional environment in India which is filled with actors exerting forces that may have conflicting effects on suppliers and their compliance with a COC. Widespread corruption, as mentioned above, is one factor that may compromise attempts to reach higher levels of compliance.

The issue of COC compliance can be said to be owned jointly by H&M and its suppliers. Their perspectives on compliance may however be quite divergent. It would therefore be interesting to look at the problem from both sides to see where they agree and where they disagree. Allowing suppliers to speak openly and anonymously about compliance may reveal facts that are otherwise not apparent in the communication with H&M. Analysing both perspectives together may unfold useful information on what barriers to compliance exist.

1.4 Aim

The aim of this thesis is to investigate the issue of COC compliance from two perspectives; the suppliers' view and H&M's view. This could contribute to the knowledge of barriers to the implementation of a multi-national corporations' code of conduct in India. Such knowledge can be used by MNCs to construct better methods to improve COC compliance among suppliers.

This thesis intends to answer the three following questions:

- *What are the main issues of compliance with H&M's COC among first tier suppliers in India?*
- *What are the main barriers that give rise to those compliance issues?*
- *How does the institutional environment affect suppliers' compliance with H&M's Code of Conduct?*

2 CONCEPTS AND THEORETICAL FRAMEWORK

The first section of this chapter is meant to familiarize the reader with concepts that exist in literature about barriers to implementation of new systems in organisations. It also leaves room for the author's clarification of concepts that appear frequently in the text. This should make it easier to follow the analysis of the empirical barriers in the first part of chapter 5. The third and fourth sections of this chapter build the theoretical framework which is used in the analysis of how the empirical barriers are created and maintained. The chapter concludes with a comment on the chosen theories.

2.1 Systems and barriers to change

A COC stipulates a set of principles that are to be followed (Mamic, 2003). To ensure adherence to these principles organisations have to put systems in place to control how operations are carried out. The term *system* can have a wide range of meanings in an organisational framework. It can mean a complete model of a *management system* such as the Balanced Scorecard developed by Kaplan & Norton in 1996 or the widely used environmental management system (EMS) ISO 14001 published in 1996. It can also mean only a part of a management system such as a written down procedure, with a clear definition of who is responsible and how it should be carried out and, perhaps, reported. This is an example of a formal system, because it has been explicitly written out. Informal systems are those that follow unspoken and taken for granted rules. When discussing proper, formal systems in the supplier organisations in India in this text, the reference is made to written down procedures that the organisation should carry out.

There are a number of barriers that can be identified when organisations set out to implement some kind of change, such as implementing a new system. In a study of EMS implementation, Post & Altman (1994) identify two levels of barriers: *industrial* and *organisational*. Organisational barriers, which are of interest for discussing barriers to COC compliance among suppliers, include *attitudes*, *poor communications*, *past practice* and *inadequate top management leadership*. Nijouh et al (2003) have concluded that major internal barriers to implementing a COC are the *attitudes* and *values* that exist in the organisations. Arguably, top management's attitudes are the most important, since they are needed to give legitimacy to a change effort. *Past practice* may reveal something about the internal *capacity* of the organisation. If, for instance, an organisation has been relying widely on informal systems, a shift to using formal systems will encounter capacity barriers as there is little know-how in the organisation.

2.2 Violation or a compliance issue?

The terms *violation* and *compliance issue* are used frequently in this text and it is therefore important to clarify their meaning. A *violation* of H&M's COC occurs when one of the principles in sections 1 to 8 are breached. Naturally, breaking the national law in any way is a violation of the COC. A *compliance issue* is something that can lead to violations taking place. For example, not training workers sufficiently does not have to be a direct violation of the COC. Nonetheless, it is a major compliance issue, because workers that do not understand the importance of safety equipment or how it should be used will be exposed to unsafe working conditions which are a violation of the COC. The reader may need to keep the relationship between these two terms in mind.

2.3 Institutional forces

The environment in which suppliers do business may exert forces that have large effects on COC compliance. *Institutions* make up a large part of most business environments and have said to be:

...the humanly devised constraints that structure political, economic and social interactions.

(North, 1991)

According to North, there are both formal institutions, such as laws, and informal institutions, such as traditions. *Institutional theory* describes the effects of external institutional pressures on organisations and defines institutions as regulatory structures, governmental agencies, laws, courts, and professions, as well as interest groups and public opinion (Oliver, 1991). The rules and norms set out by the institutions in an environment are endorsed by various actors. When speaking of actors and institutional environment in this thesis, reference is made to the norms represented by the actors in the environment and the pressure that these norms exert on other actors in the environment.

In classic articles by Meyer & Rowan (1977) and DiMaggio & Powell (1983) organisations have been described to conform to the institutional environment to enhance survival. The concept presented, called isomorphism, is a processes of modelling the organisation according to external pressures and can take three forms; coercive, mimetic and normative (DiMaggio & Powell 1983). *Coercive* isomorphism is when organisation change to meet formal pressures as from organisations on which they depend or informal pressures such as cultural expectations. *Mimetic* isomorphism is an answer to uncertainty of the best ways to work which results in copying from other organisations. Lastly, organisations can answer to *normative* pressures, which primarily come from professionalisation and helps create a common standard.

A strength attributed to institutional theory is its ability to explain non-choice behaviour of organisations; how they conform to norms without questioning them. The critique, on the other hand, is that it does not make enough room for organisations' active choice. Oliver (1991) presented a framework where she combined institutional theory with *resource dependency theory*, as the latter is capable of explaining how organisations act when faced with pressures that are incompatible with each other and conflict with other interests. She lists five strategies that organisations use to respond to institutional processes and under each strategy she presents three possible tactics to be applied. These are presented in Table 1.

Strategies	Tactics	Examples
Acquiesce	Habit	Following invisible, taken-for-granted norms
	Imitate	Mimicking institutional models
	Comply	Obeying rules and accepting norms
Compromise	Balance	Balancing the expectations of multiple constituents
	Pacify	Placating and accommodating institutional elements
	Bargain	Negotiating with institutional stakeholders
Avoid	Conceal	Disguising nonconformity
	Buffer	Loosening institutional attachments
	Escape	Changing goals, activities, or domains
Defy	Dismiss	Ignoring explicit norms and values
	Challenge	Contesting rules and requirements
	Attack	Assaulting the sources of institutional pressure
Manipulate	Co-opt	Importing influential constituents
	Influence	Shaping values and criteria
	Control	Dominating institutional constituents and processes

Table 1: Strategic responses to Institutional Processes (by Oliver 1991:152).

The strategies and tactics in Oliver's model can be used to understand how organisations' responses to these forces vary from one extreme (following taken for granted norms as if by *habit*) to the other (actively trying to *control* the institutional forces). The model was found applicable for analysing the effect of institutional forces acting on the Indian suppliers as the responses it proposes can be linked with barriers in the organisations.

3.4 Power and bureaucracies

A perspective that has relevance when studying how things are organised in India is given by Weber's theories on power structures and bureaucratic organisations (from Granberg, 1977). Weber differentiates between power and authority. Power is the ability to be obeyed, but lacks legitimacy, why a subject will try to avoid obedience if possible. Authority is the combination of power and legitimacy and can be traditional, bureaucratic or charismatic. Traditional authority is when subjects comply simply because 'it has always been that way'.

According to Weber, a fully bureaucratic organisation is characterised by being dependent on power structures and chains of command. It relies on written down rules and that all subjects of the organisation receive proper training to be able to follow the rules. A clear indicator of a dysfunctional bureaucratic organisation is informal practices springing to life because the formal practices are perceived by the subject to be too heavy.

3.5 Collaboration

A study of the footwear sector by Frenckel & Scott (2002) showed that what they call a *collaboration strategy*, based on more relational ties, is more likely to result in better implementation of a COC than the *compliance strategy*, which is based on 'arms-length' contracts. The authors identify the advantages of collaboration as:

"...faster and better decision making arising from access to privileged and tacit information, a flexible capacity to solve problems and coordinate action, and a higher rate of innovation through creating and sharing knowledge."

(2002:34)

Yet, they also declare that:

"...collaborative relationships can lead to over-dependence and inertia, resulting in joint failure if firms do not remain open to market and technological changes."

(2002:34)

Seth and Sharma (1997) also argue that a strong supplier relationship with fewer suppliers is a competitive advantage in facing new challenges. One such challenge is COC implementation and H&M has in fact significantly reduced its number of suppliers over the last decade due to ethical standards (Wingborg, 2006). Collaboration theory will be used to analyse the relationship between H&M and its suppliers in with regards to COC compliance.

3.6 Comment on choice of theory

This is an empirical study, which is presented in the next chapter, and focuses on the patterns that have appeared in the data. More space has been given to the empirical findings than to earlier theoretical research. The theories presented above should be seen as giving guidance to understanding the analysis in chapter five and not as an attempt to give an exhaustive summary of extant theory applicable on compliance to a COC among Indian suppliers.

2 METHODOLOGY

This chapter is divided into four parts. It begins by describing the theoretical basis of the methodology and which considerations were made before entering the field. In the second part the field work including the collection of data for this project is presented. The third section focuses on the interviews carried out, which form the backbone of the study. The methods for analysing the data are then disclosed before concluding the chapter with a discussion on the strengths and limitations of the chosen methods in reference to the quality of the results and the conclusions that can be drawn.

2.1 Entering the field

The core of this thesis is a case study of H&M's suppliers in India. The idea of the case study was to collect data from both suppliers' and H&M's perspective. The theoretical basis for the methods applied consists of input from three main approaches; case study design as described by Yin (2003) and Gummesson (2004), Grounded Theory as described by Gustavsson (2003) and a form of synthesis of these two (author's interpretation) presented as the *process of theory-building case study research* by Eisenhardt (1989). The choice of method rested on the assumption that the most fruitful data and consequent analysis could be generated if the research field was entered with a high degree of openness towards the area to be studied. A mixture of curiosity and theoretical uncertainty about the field motivated an inductive approach free of pre-formulated hypotheses.

In the grounded theory approach the research should be carried out without the input of extant theoretical literature; this should only be included at the end of the research process (Gustavsson, 2003). The case study design proposed by Yin (2003) does in fact not cater for an inductive approach and is meant to be used to test thoroughly defined hypotheses. Eisenhardt (1989) on the third hand offers a middle way of using case study design in an inductive way. She argues that, although the researcher should try to avoid thinking about the theories presented in literature at the outset of the process, a priori constructs can help shape the design of the research and be used later in the process to see if there is any empirical support for them.

Therefore, literature has been used to guide this research and has been studied parallel to the inductive field research. The literature findings presented were synthesised with the empirical results and tested for usefulness once the data had been coded and a preliminary analysis had been formulated. The research field was, however, entered with a wide lens, ready to search for significance without the burden of a decided theoretical framework narrowing the focus. Eisenhardt (1989) also proposes that the methods for data collection and analysis presented by case study methodologist such as Yin can be used in inductive studies.

Access to the field was gained through the assistance of the CSR-team at H&M's office in New Delhi. The study has a *multiple case* design (Yin, 2003) and together with H&M six of their suppliers in India were chosen and requested to participate. This request was sent out in a joint e-mail from H&M's Regional CSR-coordinator and the researcher (see Appendix B) and all chosen participants agreed. The visits to the factories were then booked by H&M's auditors. H&M's interest in this study was to see what a student with little prior knowledge of India and the industry and, consequently, an open mind could find through interviews with their suppliers on compliance issues. They encouraged the inductive approach and also stressed that their views on compliance issues should only be collected towards the end of the research process. This allowed the interviews with suppliers to be conducted without having H&M's perspectives manipulating the research.

The selection of the set of cases was carried out with a number of considerations in mind. First, the size of the set had to be large enough to generate data in which meaningful patterns could be found, yet not too large or it would have been difficult to cope with the amount of material collected. A number between 4 and 10 is recommendable for this kind of study (Eisenhardt, 1989). Further, there was a limited time span of eight weeks to devote to field research, thus careful selection was needed to focus on theoretically relevant cases. Preferably, in a strict Grounded Theory approach, data should continue to be collected until saturation is reached (Gustavsson, 2003), which is when further collection and coding of data does not generate more theoretical input. With limited time and access, waiting for saturation was not possible and therefore the study relies on the selection process described to include enough relevant data.

Therefore, with basis in the research question, cases were looked for that could reveal how suppliers' management at large experience demands in the COC and what factors influence their compliance. It was emphasised that there should be cases of both *literal* and *theoretical* replication (Yin, 2003). This was to allow cross-case and inter-group comparisons of similarities and differences (Eisenhardt, 1989) in order to generate empirical evidence that could have some general validity. H&M's CSR department accommodated those wishes and suggested an emphasis on cases with longstanding relationship with H&M. The argument was that such suppliers would have been exposed to H&M's COC for some substantial time and also that they would be more willing to participate in the study.

Lastly, differences in the geographical situation of the suppliers' production units were considered. As a result, four cases were selected operating in the states of Haryana, Delhi and Uttar Pradesh, which are all part of the region surrounding the capital. Another two cases were selected operating in Bangalore. Overall, the six cases showed both differences and similarities with regards to the number of production units and to the number of workers in each unit. The set also included one supplier whose type of production differed from the others. The six cases had the following characteristics:

Suppliers around Delhi				Suppliers around Bangalore	
Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
3 units 700 workers wovens	3 units 750 workers wovens	3 units 2000 workers wovens	3 units 2000 workers wovens	1 unit 700 workers knitwear	1 unit 1300 workers wovens

Table 2: Characteristics of the cases.

Important principles of case study design are multiple sources of data and multiple collection methods. This allows for *triangulation* of findings which can strengthen the construct validity of the study (Yin, 2003; Ely, 1993). Data for the study was gathered from the following sources and methods:

Collection methods	Sources
Interviews	Owners and other members of management; auditors
Study of documents	FAP and follow-up audit reports, information sheet on suppliers and organisational charts
Observations	On site in the factories

Table 3: Sources and methods for data collection.

An information sheet (see Annex D) was created to include certain variables about each supplier and the data was inserted by H&M and studied prior to the field visits.

2.2 The field work

Before the field interviews were conducted informal meetings were held with a number of people as part of the background research and to introduce the researcher to relevant issues in India. These initial meetings gained immediate access to the field, which can be compared to “digging where you are standing”, as is the idea in Grounded Theory (Gustavsson, 2003). The participants of these meetings included businessmen, a journalist and a trade union representative. The purpose of these meetings was to gain an open entry to the research area to help focus questions in the field interviews towards issues of interest to the research question. The union representative offered good insight into the organisation of trade unions and a perspective on workers’ association in India, which is important since many of the Code issues are related to labour laws. The journalist gave a broad perspective on the CSR challenges in India.

The informal meetings were then followed by the actual field interviews, whose content and set up is presented below. Two factories in Delhi were visited in the first week. In the second week the researcher was given the opportunity to accompany one of H&M’s auditors for a four day FAP audit as an ‘observing participant’ (Ely, 1993). The factory was not part of the case study, but the visits offered the researcher a good insight into the FAP process and of the cut-to-pack production system employed in all the units visited. The full field work is summarised in Table 4 below.

<i>Week (Sep 4 – Oct 20 2006)</i>	<i>Interviews and other data collection</i>
36	Informal interviews with two businessmen in Delhi.
37	Informal interviews with a journalist at a CSR magazine in Delhi and the general secretary of India National Leather and Garments Workers’ Federation.
38	4 interviews at 2 factories in Delhi.
39	Observant participation in a three day FAP audit of a factory in Delhi.
40	3 interviews at 2 factories in Delhi.
42	2 interviews at 2 factories in Bangalore. 1 group interview with 2 of H&M’s auditors in Bangalore.
43	Study of FAP reports. 1 interview with a factory owner in Delhi. 2 interviews with 2 of H&M’s auditors in Delhi.

Table 4: Chronology of the field research.

2.3 Interviews

The initial plan was to conduct interviews using the same questionnaire with the owner of each supplier participating in the study as well as one person of the management working with COC implementation. Due to circumstances of availability, the respondents did not fall into that perfect symmetrical pattern. The first interviews also showed that the richest data came from interviews with owners; hence, an emphasis was put on these. In the south, owners were not available for interviews during the week set aside for the visits. The implication of this is discussed in the last section of this chapter. The interviews conducted for each case are presented in Table 5.

	Case	Respondents	Extent of interviews
No rth	1	Owner Code of Conduct responsible	Full questionnaire Full questionnaire

	2	Owner 1 Owner 2 HR-manager	Full questionnaire Parts of questionnaire Certain input parallel to Owner 1
	3	Owner General Manager (GM)	Half the questionnaire Full questionnaire
	4	Owner General Manager HR-officer	Parts of the questionnaire Full questionnaire Some input parallel to GM
Southern suppliers	5	HR & Administration manager	Full questionnaire
	6	General Manager Welfare officer	Full questionnaire Some input parallel to GM

Table 5: List of respondents from each case and extent of interview.

Semi-structured, focused interviews were chosen for all interviews because this format has the advantage of generating more comparable data, making analysis manageable within the time frame of the project (von Borgstede, pers.com 060508; Yin, 2003). At the same time it offers opportunities to expand questioning when a relevant topic is encountered which the researcher finds meaningful to explore further. The questionnaire that was designed and used hence allowed for a lot of elaboration under the topics raised in order to get exhaustive accounts from the respondents (Ely, 1993). The first interview with two auditors also followed the same questionnaire. The last two auditor interviews were more open discussions about compliance issues.

Although the research followed an inductive approach it is still important to note that there were some deductive assumptions made too. Gustavsson (2003) argues that there are deductive parts even in most Grounded Theory studies, and that the importance lies in revealing which they are. The first assumption consisted of the perception that there are problems with compliance among the Indian suppliers, which is stated in H&M CSR-report, and that these problems could be researched through interviews with the management. The second was, as mentioned above, the part guidance of a theoretical framework on institutional and collaboration theory, as presented in chapter two. These assumptions, together with the input from the informal meetings, helped shape the interview questionnaire used for the field interviews. Its usefulness was validated by the experiences from the first two factory visits and the FAP audit, after which only small alterations were made.

The questionnaire was divided up into three parts. First, questions were asked about respondents view on the government, law enforcement, the Indian way of business, culture etc. to gather information about the environment suppliers do business in. In the second stage the interview moved on to ask questions about labour management and working with the COC; suppliers' view on the workforce and what implications COCs have on their business. Only in the last stage were questions asked specifically on the relationship and communication with H&M. The idea was that the information gathered in the first two stages would be important to put in relation to what is said about the relationship with H&M. Had the questions been asked other way around, there would have been a great chance that all responses would be related to H&M, instead of being more freely associative with the business environment. All questions were asked in a way designed to inhibit 'yes' and 'no' answers. Questions tried to focus on the same topics but from different angles in order to increase the probability that the respondents had understood the questions.

One critical issue was to ensure that respondents felt confident they were totally anonymous. Much effort was put into coding answers in such a way that they could not be traced to any individual person or firm in this report. This was communicated to the respondents in the e-mails requesting their participation, which also informed the respondents that they would be able to read the report once it was published. Before each interview was commenced, the respondent was again informed that each response would be completely anonymous. The respondents were told that the interviews were opportunities to freely ventilate their opinions on the COC and the work needed to comply with it. Thus, honesty was strongly encouraged in an attempt to minimise the occurrence of *reflexivity* (Yin, 2003) which is when the respondent gives what he or she thinks is the right answer.

A last point to mention is the choice NOT to record the interviews. It was perceived that this could severely affect the respondents' willingness to speak openly. However, not being able to return to the interviews after they are conducted makes the data rely more heavily on the researcher's ability to make correct *in situ* interpretations of the things that are said and make notes of this for a later type-out. Gummesson (2003) points out that qualitative research relies on the researcher to be the instrument for making correct representations of data.

2.4 Analysing the data

For the first step of the analysis, three techniques were used to extract from data the main empirical barriers to compliance. From Grounded Theory, the method of trying to create theoretical categories by coding and comparing data is used (Gustavsson, 2003). From case study methodology the pattern matching technique (Yin, 2003) is used to make within case and cross case comparison to look for similarities and differences (Eisenhardt, 1989) given the literal and theoretical replication included in the selection of cases. For the second step in the analysis, the findings from the first step of the analysis were synthesised with the model of strategic responses to institutional processes (Oliver, 1991) presented in the last chapter.

The fact that no owners were available for interviews among the southern suppliers raises the question of whether this data is comparable to that collected for the northern cases. There are clear differences between the northern and southern suppliers appearing in the data that was collected. As these differences have implications on the barriers to compliance that exist, the data from the south has been given equal weight in the analysis.

2.5 Comment on choice of method

This study has had the advantage of collecting a lot of data on suppliers' perspective before allowing input from other sources. Hence, the suppliers perspective presented here should have a high degree of accuracy. Overall, data has been collected from different sources which should increase the internal validity of the study. Entering the research field with a wide lens of possibilities and having spent hours interviewing different people, produced a 'closeness' to the data which hopefully gives the analysis a good measure of relevance.

Having stated some of the strengths of the chosen method, the limitations should be given equal space. First, the depth of the data can be questioned. Despite efforts to reduce reflexivity in the responses and find questions that would bring forward the true parameters that form the barriers, it is questionable how well this succeeded. There were also, from the author's perspective, surprisingly many language barriers that may have affected the collected data. One might argue taping the interviews could have helped. However, it is still the author's opinion that this would have had a larger negative effect on the content of the responses than it would have given valuable help in re-checking answers for possible interpretations.

The study has been able to find certain patterns in the data collected, but these have not been empirically tested on a large enough set to gain general validity. Hence, the material presented here should be seen as an indication of which barriers to compliance exist among suppliers in India.

Some material that was included in the case studies was sensitive, either to the supplier-buyer relationship or to H&M as a large MNC competing on a global market. Hence, all information could not be enclosed openly. It is the view of the author that nothing has been left out that would have affected the study greatly had it been allowed to be disclosed. Still the reader should be aware of this fact when reading the report, especially when encountering areas where more in-depth information or more specific reference could seem relevant.

3 EMPIRICAL FINDINGS

This chapter presents the empirical findings of the study and has been divided into two parts, mirroring the two perspectives from which data has been collected. The first section presents the views of the participating suppliers' management. Differences between north and south suppliers are expressed in the text. The second section presents H&M's views as gathered from FAP-reports and interviews with auditors. The chapter also includes a comment on the data gathered through observations. Due to a large measure of anonymity for the participating suppliers and auditors no reference is made to any specific case or individual. The findings are presented as combined input from the interviews, with specific quotes that highlight important issues. More direct responses from suppliers' are included in the presentation of the questionnaire in Annex C.

3.1 Suppliers' views

All the suppliers in the set are regulated by owners who are the main decisions makers. The vision of four of the suppliers is to gain international recognition as competitive garment exporters. The other two emphasize building strong relationships with the business partners they have. Two suppliers also mention how they have grown rapidly over the last few years and they accentuate the importance of stable, persistent and professional growth. There are varying views on what comprises a stakeholder among top managements. Some see only the owners as being stakeholders and equate stakeholder with shareholder. Others incorporate other interest holders, such as government, buyers and workers in their stakeholder perspectives.

Q: "The trade is not very professional, it is being corporatized slowly"

All companies have vertical structures with central management and top control, which is seen as necessary; otherwise people will try to make their own gains. There is emphasis on chains of command and employees are said to be particularly aware of exactly what their position is and what power they have. The suppliers' management is slowly becoming

more developed, with professionals on different positions. There is a consensus that the garment sector traditionally has been very unorganised and remains so in many places. H&M is said to have helped factories to realise the need for better management systems to make them more productive.

3.1.1 Actors in the business environment

There is a general picture among suppliers that there are many factors in the business environment that have strong effects on how they are able to run their business. The actors of influence that were discussed were the *government*, the *industry practice*, *unions*, *training institutions*, *associations* and *other buyers*.

The northern suppliers generally have very few good things to say about the *government*. It does not provide sufficient infrastructure, which one supplier states as being important to an entrepreneur because it is something they depend on but have no control over. The educational system funded by the state is responsible for a very low level of literacy in the work force. Government policies are mostly seen as 'pinching', despite the foreign exchange the export industry generates, for which some suppliers feel the state should be more grateful. Policies are sometimes enacted retro-actively which can have strong effects on cash-flow, financing is conservative and expensive and tax- and other benefits are steadily being removed. The political agenda is seen as short sighted

Q: "The government has a basic mentality of squeezing the textile industry as much as they can"

and populist, hence necessary investments in for example better transportation networks were not made when they should have been many years ago.

The laws and regulations are other areas of general discontent. Most suppliers agree that the labour laws are outdated, inflexible and all pro-labour and offer few possibilities for management to get rid of low performers and workers with bad discipline. The judicial system is also seen as something to avoid because it is slow, bureaucratic and, with the existing labour laws, only rule in favour of workers. A new law, which was passed a few years ago by the last government allowing short term contracts, is seen as one of the few laws supporting the employers. Regulations for *Employees Provident Funding*¹⁰ (PF) and *Employees' State Insurance*¹¹ (ESI) are seen by one northern supplier to put a lot of costly administration on management, especially with the high turnover of workers in the industry. The perceptions of the schemes' effectiveness vary as well.

Q: You cannot avoid corruption in this business anymore, you will lose your production"

Those respondents who hold that laws, regulations and policies are good in their written form say that the enforcement of them is unfortunately very poor. All suppliers see corruption as widespread on all levels in India and resources given to state agencies as too low for proper law enforcement. Inspections from departments responsible for ensuring compliance with the Labour Act and Factory Act are experienced to be of

shifting quality and respondents say that despite a factory's level of compliance, some money always has to be paid to inspectors. Similarly, the process of receiving factory licenses is very bureaucratic and in order to receive the licenses in time, bribes are necessary. This is a subject that respondents do not elaborate on. There is a consensus that you should only try to avoid corruption as much as you can, but there is nothing that can be done about it. Central governance and top control is viewed as a way to avoid corruption internally in the organisation.

The southern suppliers on the whole give a more positive view on the government's ability to provide infrastructure and fair policies. One southern supplier is operating in a large industrial area where most things, including transport for workers, are readily accessible and the other has been granted land for future expansion by the government. Both speak positively about the establishment of apparel parks where the state encourages production for export by allowing certain benefits.

All the northern suppliers shared the view that the *practice* of other industries made COC implementation more difficult. Firstly, the suppliers of dyed fabrics and other necessities for producing H&M's garments seldom deliver the right quality or on time, which is a major contributing factor to why overtime (OT) hours are needed to meet the buyer's deadline. There is a legal limit of 48 OT-hours per worker and quarter and this is seen as a regulation unfitting for the industry. The mentality of many other Indian business people is regarded as 'easy'.

Q "The Indian businessman is generally very easy... many think a few days late or little defects in quality don't matter."

Legal compliance is low among other businesses and there are accepted ways of operating below standards of for example national fire and safety regulations, enabled by bribing. In other factories, especially large units for domestic production, the conditions are seen as much worse. This is experienced as having a negative impact on the mentality of the work force because it teaches them bad habits and does not promote any knowledge of good systems.

¹⁰ See: http://www.epfindia.com/board_of_trustees.htm, last checked 2006-11-09.

¹¹ See: <http://www.esic.nic.in/act.htm>, last checked 2006-11-09.

Comparing themselves to other factories, the northern suppliers feel that they are at a much higher level of legal compliance.

In the south there is more competition for skilled labour. The southern suppliers say that drives them and other factories to improve conditions to attract and retain workers.

Q: "Unions are like collection agencies."

There are no *unions* formed by workers in the factories and all outside union activity is avoided by the management of both northern and southern suppliers. Such unions are only seen to serve their own interest and not fill their proper role of being mediators between workers and management. To avoid any union activity, most suppliers say they try to have their own orientation of being good employers to keep workers happy and away from having any complaints that can turn into union issues. There are varying degrees of state encouragement of unions, which affects how active they are. Most suppliers feel that workers do not perceive unions as of any help and one northern supplier said that workers who come to work for 12-14 hours a day to send money home are not interested in union activity in their spare time.

Training institutions for workers are now seen to be slowly emerging in northern India. These are perceived as being helpful because the workforce will be better prepared both with skills and other knowledge when they enter the factories. One respondent mentioned that workers can now go and acquire training during lean periods to be able to apply for positions of higher skills with better wages. In the south, institutions providing skilled labour have been present for a longer time.

None of the interviewed suppliers are taking active part in any *networks* or *associations* working for their benefits. One mentioned that they do not have the time to focus on outside activities because their attention is needed to secure internal production practices and continual growth. A few suppliers explained, however, that meetings with other suppliers organised by H&M are very fruitful for sharing ideas on how to improve compliance.

Lastly, the suppliers stated that not all *other buyers* they work with have a COC and those that did are not as rigorous about enforcing it as H&M. They generally do not experience any difficulties with contradicting demands from other COCs as all COCs are seen as amounting to same thing: to treat workers well. What one buyer does not point out during an inspection, the other might, which helps to improve the business. However, some demands that H&M push for, other buyers have not enforced, as for example double overtime compensation (discussed in more detail below), which makes some suppliers feel that the conditions for export houses become unlevelled.

3.1.2 Labour management

All respondents experience that happy workers produce better. However, most northern suppliers feel that labour management in their industry is a difficult task. First of all, even though they would prefer to have a more permanent workforce they experience that it is not possible for three major reasons. One is that workers want to migrate; to go back to their villages for festivals (of which there are many), marriages or harvesting. The view among northern suppliers is that workers often leave without giving any notice.

Q: "In the north there is more illiteracy and the attitude is more of 'less work more play'. Therefore more discipline is needed."

Q: "If you take on a worker in this country, he is 'yours'. No matter the discipline, performance or attitude, he is 'yours' according to law."

The second reason is that workers in the north are perceived as not having the necessary discipline and dedication, so that giving them

regular contracts would pose a great risk of getting ‘stuck’ with bad workers as the labour laws offer very limited opportunity to get rid of regular workers. Regular contracts are also said to make workers feel too ‘safe’ and hence they do not care to perform well. The workforce in the north consists mainly of men, for cultural reasons, although females are viewed by the northern suppliers to cause less disciplinary problems.

The third reason is that the suppliers do not have a consistent order flow throughout the year (which will be discussed in their relationship to H&M below) and they do not want to carry the cost of having workers without orders to feed them. Northern suppliers also say that workers leave when there is no work because they want to work OT-hours, more than the government limit of 16 hours per month. To retain a worker you have to be able to offer a sufficient ‘package’ of OT-hours. All these reasons contribute to there being a large turnover of workers among the northern suppliers. This is perceived as a natural part of the industry, about which little can be done. Yet, the turnover is identified by all northern suppliers as a big problem and a barrier to the awareness in the work force.

Furthermore, northern suppliers generally see that workers’ mindset mentioned above is a barrier in their business in more than one way. It poses difficulties for training workers and for involving them in constructive dialogue. All vendors say they are trying to inform and train their workers on the factory’s policies and systems, as well as the importance of compliance. A common system for sharing information is through Welfare Officers and COC-managers making rounds of the factory and talking to workers. Upon induction suppliers say that they try to give the necessary information through oral readings of factory policies as well as through handouts written in the local language. There exists formal systems of dialogue such as suggestion boxes, times for grievance handling and committees. However, management has the view that informal forms of dialogue are better because they are faster – their doors are always open to workers and they welcome suggestions.

Q: "The attitude of the worker is very difficult, they are illiterate and need to be taught every little thing."

Having *works committees* is a requirement under national law. Only one factory in the north has had this in place for a couple of years and sees that it can make fruitful contributions. Others have only lately tried to implement them. One fear is that giving workers this opportunity for involvement will make some of them try to stir conflicts. Others state that workers are not intelligent and cannot be expected to contribute. Some Welfare Officers and HR-personnel say from their experience of doing rounds of factories that at first workers are hesitant to speak out. However, by showing how the workers can get help through the systems offering dialogue, workers start to take more initiative to speak. Some suppliers say that meetings with workers in groups are avoided because then they may team up on supervisors. One-on-one talks are preferred if anyone experiences problems in the factory.

Q: "Workers want to push their work into overtime because then they know they'll get more money."

Another legal requirement is that all workers are entitled to *double overtime compensation* (DOT). Northern suppliers say that it is very hard to keep production targets because workers, looking for more money, slow down production during regular hours, to get more OT-hours, a phenomena referred to as ‘pushing for DOT’. Two northern suppliers have calculated that it would cost them less to delay shipments and pay

for the punitive cost of shipping by air than giving worker DOT. However, striving to be good and reliable suppliers, they put in the overtime hours and pay the DOT. Two suppliers explain that few other factories pay DOT. Hence, workers are not used to getting DOT in other factories and when they see the chance to get it they certainly try.

The suppliers in the south tell a different story when it comes to some issues of labour management. The first difference is that the suppliers in the south give *regular contracts* to all workers directly employed by the company. Only functions such as security and housekeeping are outsourced. Of the machine operators up to 90% are females. This is normal in the south and females are also seen as less troublesome by one southern supplier. Both southern suppliers feel that almost all disciplinary issues that can be solved through talks with the worker, incentives for training to acquire higher skills and monitoring performance. Higher skills give higher wages and performance is linked to reward systems to motivate workers to reach higher production standards.

The southern suppliers also hold that pushing for DOT is easily restrained. First of all the law does not permit female workers to work past 7 p.m., hence there are few OT hours to push for. Secondly, suppliers say that any attempts at pushing can easily be held at bay by shifting workers to the end of the production line if they are not achieving targets. In this position they cannot slow down the production line.

The attitude towards workers is generally different in the south. In one factory all people employed by the company are referred to as *associates* and it attempts to create a family atmosphere. All associates are said to be treated with equal respect and are invited with their families to functions organised by the factory for festival celebrations and an annual day of the company. Both suppliers feel that workers leave for regular reasons and one factory keeps 5% more workers to make sure production does not suffer from day to day absences.

The consistency in orders is higher too. For one supplier the reason is that the product range in knitwear is of a type that it is in demand by buyers throughout the year. The other supplier sees a possibility in acquiring parts of orders from factories that have more orders than they have the capacity to meet. Lean periods are said to be used to train workers internally. This helps in upgrading the workforce, which results in higher maintenance of internal systems and also makes recruitment easier because the need for skilled labourers will lessen.

QS: "Sometimes work is taken on from other factories that have huge orders throughout the year...This is a way to keep workers occupied."

There are some examples of labour management efforts in the north that are proving successful. One is conducting more professional interviews with applicants, to sort out those who do not have the right attitude before allowing them to take technical tests of their skills. Another example is one factory which has implemented a system of giving higher wages to motivate workers to finish their work during regular working hours and thus counter pushing for DOT. It requires stricter monitoring, but is proving successful both for controlling OT hours according to law and for higher production quality. Lastly, some suppliers are trying to find ways of motivating some of the best workers to stay or come back to the factory and are testing incentive systems of offering more training, promotions, recognition in the factory and/or higher wages.

3.1.3 Working with H&M

The length of the participating suppliers' relationship with H&M ranges from 5 to 18 years. All suppliers feel that H&M is a good organisation with a straight and open communication, and that through the assistance given by H&M their businesses have improved. Most respondents see themselves as important suppliers to H&M. The levels to which their units are exclusively supplying to H&M vary, but most northern suppliers agree that they can have only one big buyer like H&M. The suppliers also say that H&M's new system of auditing and

sharing information on COC issues, the FAP, is creating a better atmosphere of understanding. It is becoming less demanding and more co-operative, which they all welcome.

There are also some critical points raised about H&M’s implementation of the COC. The first is the flow of orders. Suppliers feel that the fluctuation in orders is having the greatest effect on their ability to implement the COC as there needs to be business to maintain good systems. Many say that there should be guarantees both ways for COC implementation to be successful and refer to a guarantee of a higher level of orders. They mention instances where they have been told to expect a certain quantity of orders, which some months later never materialise and they can do nothing about it. A second point is that there should be more trust and recognition that the violations are not intentional. Some mention how they feel that they are trying their best to comply, but that mistakes can always happen in labour intensive organisations and that violations should be pointed out politely and without threats. There is also little communication on how different violations are graded and interpreted by H&M. Lastly, there is concern about H&M informing workers that they can come directly to the inspection team with their problems, as suppliers feel this makes workers go past the managements own systems of grievance handling. The workers may then give H&M a wrongful picture of the conditions in the factory.

Q: "The role of the entrepreneur is diminished."

3.1.4 Code of Conduct

All suppliers hold that working to comply with H&M’s COC has improved their business. The positive aspects are summarised in the Table 6.

Positive outcomes of working with H&M’s Code of Conduct	
<ul style="list-style-type: none"> • More formal systems • Awareness of health and safety is spreading in the company • Workers are sharing more concerns with management • Avoids costs and risks 	<ul style="list-style-type: none"> • Makes legal compliance more refined • It is easier to monitor processes in the factory • Happier workers, who feel safe produce better • Offers a sense of control of things

Table 6: Positive outcomes of working with H&M’s Code of Conduct as perceived by suppliers.

For proper COC implementation, all suppliers state that, first of all, top management needs to make approvals of all changes and show their support. Then there needs to be formal procedures to allow for delegation and monitoring. Many factories have put COC-managers in charge of implementing and monitoring the decisions taken by top management. Meetings must also be held to discuss compliance and worker issues. Some identify the need for rigorous training, especially for all parts of management who are responsible for spreading the knowledge of the COC down the organisation.

Q: "Before COC all CSR work was informal and convenience based"

There are also *challenges* in the COC and *barriers* to overcoming those challenges identified by suppliers. Many of them have already been presented in the data above. One challenge that was brought up by only one supplier is that of chemical restrictions. H&M has restrictions on chemicals which are allowed (H&M₂) in the production of their garments, both in making the fabric itself and in the washing and stain removal processes, which are also being carried out in the factories visited. The supplier identified three challenges to meet the restrictions. First, finding people with expertise in the industry, as these restrictions come from H&M and other

actors are not concerned with them. Second, finding a supplier who can deliver the small amounts needed, at reasonable prices and include the necessary safety data sheets. Third, motivating workers to take the necessary precautions in handling the chemicals.

The challenges and barriers have been summarised in Table 7 below with short examples and explanations for each. It represents the combined view of the northern suppliers and those points marked with an* are the ones shared by one or both of the suppliers in the south.

Main challenges posed by the COC	Example/Explanation
Labour policies	<i>Regularizing core staff</i>
Government obligations	<i>Acquiring all necessary licenses</i>
Double overtime	<i>Workers push work into overtime hours</i>
Overtime limits *	<i>The law does not fit the industry</i>
Works committee	<i>Workers cannot be expected to contribute</i>
Chemical restrictions	<i>Providing safety data sheets</i>
Running many parallel systems	<i>Requires a lot of resources and monitoring</i>
Disperse Salaries and OT same day	<i>Difficult due to limits in cash flow</i>
Main barriers to compliance	Example/Explanation
Seasonal fluctuations in orders	<i>Consistent business drives compliance</i>
Worker attitude/mentality/behaviour	<i>Difficult to educate, instigate trouble if the can</i>
Labour laws *	<i>Pro-labour, cannot fire bad workers</i>
Chemical suppliers / knowledge about chemicals in industry	<i>Branded chemicals only come in too large quantities and are expensive</i>
Government bureaucracy	<i>Issuing licenses is a slow and corrupt process</i>
Nature of industry	<i>Overtime cannot be avoided because of unreliable fabric suppliers, short lead times from buyers and poor national infrastructure</i>
General Indian mentality	<i>Workers and business partners are not dedicated.</i>

Table 7: Challenges in the COC and barriers to compliance as perceived by suppliers.

On the whole, the interviewed respondents do feel that they have managed to implement most parts of the Code. Some say around 80%, others 90% and some mention how they are the most compliant of the factories they know. Many also emphasize that it is a continuously ongoing process.

3.2 H&M's view

This section turns to present the buyer's perspective on COC compliance. It comprises data from two sources which are presented separately. The FAP findings are presented in table format and consist of data from audit reports of each supplier in the set. The information from interviews with the four auditors is presented in aggregated form, and compliance issues and barriers to compliance as identified by auditors is summarised in a table at the end.

3.2.1 FAP findings

Table 6 shows the COC violations that were found during FAP-audits of the cases from northern India during 2005. The two middle columns show the number of suppliers that did not correct or only partially corrected the violations during the period of 9-12 months between the FAP audit and the second follow up audit. The *Total* figure in the column to the right hence states the number of cases which were responsible for the same violation. The

violations have been sorted in order of frequency. Those that were corrected between audits have been excluded.

The FAP reports available for the southern cases did not include information from follow up audits. Consequently, there is no information to conclude which violations have been corrected since the FAP-audit. Still, to give further indication of the frequent occurrence of some violations in India, a fifth column on the very right in Table 8 was inserted to show which violations were also found among the southern cases.

Compliance issues	NORTH			SOUTH
	Not corrected	Partially corrected	Total	
Availability of safety data sheets for chemicals	2	2	4	
Chemicals labelled properly	1	3	4	
Ensuring one day off per week	1	3	4	
System of dialogue (committee(s))	2	1	3	2
Knowledge of chemical handling	1	1	2	
OT hours within legal limit	1	1	2	2
Factory cleanliness	1	1	2	1
Systematic grievance systems		2	2	
Regularizing workers after probation period	1		1	
Fixed term contract to core staff	1		1	
Adequate ventilation	1		1	
Usage of PPE	1		1	
Workers aware of benefits		1	1	
Pay slips given to all workers		1	1	
Females not aware of maternity leave		1	1	
Paying salary and OT on the same day		1	1	
Electrical installation not safe		1	1	1
Keeping dining area healthy and sufficient		1	1	

Table 8: Major compliance issues identified in FAP reports.

3.2.2 Auditors' views

This section presents the main points from the auditor interviews on existing compliance issues, the barriers that may be causing them and the institutional environment in India. It should be mentioned that these perspectives are not confined only to the cases that are included in the study, but are the auditors' general views on compliance among H&M's suppliers. Main topics that are part of the analysis and discussion are highlighted using *italics*.

Auditors also state that the garment sector has traditionally been very unorganised. The entry barriers to the industry have been low and factories have been set up and totally controlled by owners who did not see why they should listen to outside views on how they run their factories. From this *mindset* a lot of things have changed, but there are still compliance issues connected with mindset. And without the right mindset, auditors claim that very few things progress.

One such issue is the *worker- management dialogue*. Auditors see that there is a lot of inherited distrust for workers; that they may become troublesome if activated in dialogue or that they cannot make any contributions. Managers fear losing power if they empower workers, and rather than to sit down and talk about workers' issues they prefer to stay ahead of workers' demands. Auditors confirm that it is true that there have been situations of worker unrest in India, but those events have been blown out of proportion. They see that there is distrust also on the part of workers as to what can effectively come out of engaging in dialogue with management. Auditors' experiences show that giving workers time they will start talking and steadily progress into more matured dialogue. For this to be possible there needs to be consistency in the workforce, which is a big problem, especially in the north.

Some auditors argue that the northern suppliers are far too hasty in blaming the *labour turnover* on the excuses of seasonal orders and workers wishing to migrate. They say that this is based on broad assumptions by managers and that worker interviews have shown that there are many who would want to stay if they could. There are seasonal fluctuations in the suppliers' business, but there are always some orders and these could be produced by at least some regular workers. Auditors see that workers are quite often given involuntary leaves, despite there being the possibility of retaining them. Auditors agree that the minimum wages set by the Indian government are low and it is hard to make a living in the city AND send some needed money to the village without working OT. Many workers are also unable to find work for the full year and have to make up for that in OT when there is work. Therefore, due to lack of other incentives to stay, workers are forced to move to factories where they can work OT-hours. The view that all workers have a bad attitude, is also seen as a wide generalisation. One auditor says suppliers ought to put more stress on sorting out the rotten apples and not let all workers suffer by being laid off to offset potential disciplinary problems.

Even in the south turnover is perceived to be fairly high, because there is not enough knowledge of how to retain workers and incentive systems put in place by suppliers are not good enough to compete with other factories. There is, however, a professional, global approach in the business environment in the south as a result of the expanding IT-sector. This has spread to other sectors and has resulted in improving the suppliers' capacity to implement H&M's COC.

The last issue related to mindset are the *systems* put in place in the factories. A question that one auditor asks is: if suppliers can produce a good quality product together with their workers why not a clean, safe factory? There is not a lack of understanding of the COC (the offices and management toilets are usually in very good conditions). What is lacking is the ability of everyone in the factory to see beyond the immediate needs on the floor, which is why a '*quick-fix*' mentality exists for things that are not directly seen as affecting production. Quite often systems are there on paper, but not enforced in reality. This is because having formalised systems has traditionally not been part of the industry. Instead, there has been the habit of reacting to problems when they arise instead of preventing them throughout the organisations. There is a lack of *training* and understanding of the importance of monitoring systems for a constructive feedback to see what can be improved. There should be more, *empowered professionals in the middle management*. A problem arises when Personnel Administrators are made HR Officers without them having proper HR-training. The result is a lack of competence when it comes to skill evaluation and suitable training measures. Furthermore, many training efforts that do take place are lost due to high turnover.

Many suppliers still do not see the *full benefits of compliance* with the COC, despite auditors constantly informing them about the business case. Giving regular contracts to the best workers and making them stay with proper incentive systems will pay off on productivity. *Controlling OT* hours by better planning, and good incentive systems to reach targets within regular working hours, will save the overhead costs of keeping the factory open extra hours. It will also yield better product quality, because workers do not produce as well during OT-hours. There is not enough cost-benefit analysis done and hence needed investments – time, money and effort - are not made.

Some external factors are also recognised as being problematic. Firstly, the lack of resources and *corruption in government* is making enforcement of laws doubtful. There are also instances where legal documents have been issued to suppliers, despite the factory conditions being extremely poor. These documents cannot be contested. In this way corruption in the government clearly has a negative impact on compliance with its own laws. *Union activity* is also experienced by the auditors to be as ill functioning as the suppliers hold it to be. These organisations are politically affiliated and act in self interest. Workers may come to unions with valid grievances, which are taken on to try to ‘draw blood’ from the factories. The trust in unions among workers is quite low. Workers’ awareness of their rights, however, is growing and more examples of collective bargaining can be seen taking place in the south.

Another compliance issue discussed by one auditor is the *usage of chemicals* which is said to be a pan-India issue. There is a widespread lack of labelling, proper storage and safety equipment. The two major reasons for non-compliance are the cost of branded chemicals, which come provided with safety data sheets and guidelines for storage, and the lack of technical expertise to be hired. To follow H&M’s restriction list suppliers have to have the data sheets to know what chemicals they can use and how to handle them. This knowledge also needs to be passed on through training, which is not done. Without safety data sheets, proper handling is impossible and many suppliers use local chemicals that do not provide these sheets. Regulations on chemicals in India are not strict which makes it easy for suppliers to use them irresponsibly.

One auditor raises the question of why the suppliers do not take the initiative to form their own networks to work with the problems they face on compliance. There is the tendency to rely very much on H&M’s assistance to improve the internal systems for better compliance. There is little initiative to expose themselves to other systems of working. Auditors’ responses to the main compliance issues and barriers to compliance existing among suppliers in India are summarised in Table 9 below:

Main compliance issues	Main barriers to compliance
<ul style="list-style-type: none"> • Labour turnover; involuntary breaks • Training workers • Proper systems for health & safety and cleanliness • Control of OT • Chemicals • Grievance handling • Worker-management dialogue 	<ul style="list-style-type: none"> • Supplier’s mindset • ‘Quick fix’- mentality • Lack of knowledge of systems • Low level of middle management and empowerment • Seeing the benefits of compliance • Exposure to other systems of working

Table 9: Compliance issues and barriers as perceived by auditors

3.3 On site observations

Observations indicate that the power difference between positions in the organisation is clearly articulated in the language used. People in higher power positions use commanding language to those in lower positions, who in turn are very tentative and careful around people in higher power positions. The observed communication taking place is therefore one-way and top-down. From looking at the organisational charts the supplier organisations can be seen to have hierarchical structures.

Another observation is the difference in set-up between factories around Delhi and those around Bangalore. The southern suppliers tend to have one large unit, which is spacious and gives the overall impression of having been planned and designed for the kind of production taking place. Store rooms, washing facilities, packing departments, medical facilities and children's nurseries have all been given adequate space and are designed for the purpose. In comparison, northern units are generally smaller and more crammed.

4 ANALYSIS

The first section of this chapter presents an analysis of the major compliance issues identified in the empirical data. The second section goes on to analyse which main empirical barriers exist that give rise to those issues. The third section uses the model of responses to institutional pressures presented in Chapter 2 to analyse the effects of the institutional environment on barriers to compliance.

4.1 The main compliance issues

The first task in this analysis is to show whether the collected data indicates that there are any compliance issues to discuss among H&M's business partners in India. As this is not a statistical study, the evidence should be drawn from the patterns that appear in the data. Comparing what suppliers say is challenging about the COC (Tables 7 and in the text) to what H&M presents as compliance issues in FAP reports and through auditors (Tables 8 and 9) it is possible to make out a number of areas that both perspectives brought up. They are referred to here as *areas* because the perspectives present different views as to what is the core of a certain compliance issue. For example, suppliers see OT hours as something unavoidable and that the law is unfitting. Auditors believe suppliers could be much better at planning their production and motivate workers to stay within the legal limit. The FAP, looking primarily for violations of the COC, in this case Section 1 *Legal Requirements*, concludes that a number of suppliers break the law of 48 OT-hours per worker and quarter.

Of these identified areas, six prominent compliance issues can be said to exist among the Indian supplier organisations. All but one can be found in the summaries of data from all three sources as can be seen in Table 10:

Compliance issues	Suppliers	FAP	Auditors
1. Handling of chemicals	X	X	X
2. Control of OT-hours	X	X	X
3. Labour turnover	X	X	X
4. Dialogue with workers	X	X	X
5. Worker awareness		X	X
6. Systems to enforce good factory conditions	X	X	X

Table 10: *Predominant compliance issues among Indian suppliers.*

The following sub-sections will discuss in more detail why the six compliance issues above were identified as predominant and how they can become direct violations of the COC. The main barriers to improvement on these issues will also begin to be analysed.

4.1.1 Handling of chemicals

Violations of the COC occur if any banned chemicals are used, or if workers are found not to be taking proper safety precautions. This is more likely to happen if, as the FAP reports clearly indicate, suppliers fail to provide the necessary data sheets, label chemicals and spread knowledge to workers on how they should be handled. Furthermore, only one supplier mentioned chemicals as an issue, which shows that it is not a primary concern to most. An auditor identified the problem as widespread in India.

It may be hard to find staff that have proper chemical training and can understand and interpret which chemicals contain substances forbidden by H&M's restriction list (H&M₂). Chemical suppliers who offer the required data sheets are more expensive and may be sold at amounts not suitable to the suppliers' needs. Lastly, as with all systems, the people handling

the chemicals must understand the need for proper labelling, storage and usage, which is an issue of training workers. It is also a question of necessary infrastructure, such as adequate ventilation and storage facilities. It is therefore up to management to make the investments in better chemicals, properly trained personnel in charge of chemicals, training of workers handling chemicals and infrastructural arrangements. One reason why this does not happen is the *attitude* by management that it is not an important issue worth spending money on. Another barrier can be said to be the *capacity*; getting the right expertise and to disseminate necessary information about the handling of chemicals through training.

4.1.2 Control of OT

The COC is violated when the overtime limit per worker is breached or when workers are not given one day off per week, as is indicated by the FAP reports. Suppliers may complain that the regulations are unfitting but, as stated by auditors, the only way to avoid OT and be legally compliant is to plan more effectively, and to introduce incentives to reduce any chance of workers pushing for OT. The *capacity* to put such systems in place is one barrier here. It is determined by the management's ability to motivate workers to stay within the production targets, control who has been working most OT and give the necessary hours to those who have worked the least. As pointed out by an auditor, the production capacity of a worker gets reduced when doing too much overtime, but the capacity to recognise and control this is low in the factories. The supplier's unwillingness to look at the possibilities of such systems is another barrier. In the south, this issue is to some extent avoided by the laws restricting women's working hours.

4.1.3 Turnover of the workforce

Labour turnover is a multi-dimensional issue. The COC is only directly violated when workers are let go despite there being orders and despite workers wishing to stay on a regular contract. However, having a high turnover also undermines consistency in production, knowledge of systems to maintain good working conditions and a fruitful works committee. Inconsistency of the workforce can lead to violations in all these areas, which is something both suppliers and H&M agree on and it is therefore in their interest to reduce turnover.

North Indian suppliers still do not give regular contracts because they are afraid labour laws make workers feel too 'safe', and that there will be no way to get rid of workers with bad attitude, performance and discipline. They also want to avoid to be stuck with the costs of a worker and have no orders to feed him/her during lean periods. Three barriers can be said to exist for this compliance issue. First, the *view* of the suppliers that workers will be less prone to work if they are given this security through a regular contract, maintains the system of offering short term contracts, which is also permitted by law. However, the view of workers as happy with short contracts, due to voluntary migration for harvesting or better 'OT-packages', further enforces the system of floating labour and high turnover in the industry. Auditors claim both these views are based on assumptions and are contradicted by worker interviews. Secondly, the *business model* of only supplying fashion items that are in seasonal demand in Europe effectively creates the lean periods and the fluctuations in the need for workers. Thirdly, the *capacity* to introduce incentive systems to retain at least some core staff all year around, motivating workers to improve performance and solve disciplinary issues without firing workers is lacking in the organisations.

4.1.4 Dialogue with workers

Not having a works committee is a violation of the law and consequently the COC. Moreover, dialogue with workers, just like consistency in the workforce, is something that is crucial for maintaining systems in the factory that prevents other violations. Suppliers argue that it can be

dangerous to engage in dialogue with workers because they may try to cause trouble. That may be one reason why most suppliers have up until recently avoided committees and tried to make sure workers are happy without their input, in order to prevent any issues rising up and potentially reaching unions.

A barrier to dialogue can be identified through observations, namely *power manifestations*. Power division presents a barrier to implementing proper two-way dialogue systems in the factories. As noted by a HR-officer it takes time for workers to dare to open up to management. Hence, the informal open-door system can be questioned, as it would appear unlikely that workers dare approach management on their own. Even raising issues during times set aside for formal grievance handling may appear scary to the worker being in a lower power position than the person handling the grievances. The system of walking around and talking to workers would only be effective if the power manifestation is levelled out and workers are properly listened to.

Auditors have also experienced that only with time do workers mature in dialogue, because they are not used to sharing their ideas with management and have to overcome their scepticism. Management's view that workers are not intelligent and cannot contribute serves as a barrier as they not to take the effort to allow committees to mature properly

4.1.5 Worker awareness

Violations of the COC occur when workers are not aware of safety arrangements (Section 3.1). Suppliers have not stated lack of worker awareness as a direct COC challenge. However, they do assert that it is hard to convince workers of the necessity for compliance and how it is for their own benefit. Auditors and the FAP reports state that training of workers is not always sufficient. Management's view that it is not possible to train workers is one barrier. This can be seen as springing from the same *attitude* towards workers that causes high labour turnover and poor worker-management dialogue.

Having an illiterate workforce poses certain challenges in finding an educational forum that has the desired outcome. It would be the managements job to find the methods; perhaps a participatory approach rather than, again, communicating one-way by reading worker's their rights and duties off a board during induction. Professional HR-personnel are needed to train workers to understand the systems for COC. Lacking the *capacity* of an empowered and professional middle management, as stated by auditors is another barrier to improving worker awareness.

4.1.6 Systems to enforce good factory conditions

Formal systems are encouraged by H&M to ensure that factories are clean and safe. Systems are also needed to sustain workers' rights; keeping them informed, taking care of their grievances and making sure they get proper compensation for their work. Formal systems consist of written down procedures, with checklists and clearly delegated areas of responsibility. Failures in these systems give rise to violations of the COC; such as unsafe electrical installations and unsatisfactory cleanliness stated by the FAP-reports in Table 6. Properly maintained systems are heavily dependent on, as has been mentioned before, the compliance issues of labour turnover and workers awareness.

Suppliers maintain that they have improved a great deal in this area with the help of H&M. Some still complain that running systems demands resources and for this they need orders. Suppliers also say that informal practices are often faster and easier ways of doing things. Auditors argue that suppliers do not see how proper systems will boost the productivity of

their factories. Auditors also say they still see a lot of haphazard practices existing in the factories, partly because the industry has traditionally been disorganised and partly because no one fully understands how to use formulated written systems. Management's tendency to maintain informal practices remains a large barrier to implementing the systems. Tight top control and choosing not to train and empower middle management keeps the capacity of the organisation low and further undermines usage of effective systems.

4.2 The empirical barriers

The following section will present in more detail the recurring empirical barriers introduced in the presentations of the identified compliance issues in the previous section:

1. Management attitudes
2. Capacity
3. Business model
4. Power manifestation

From the analysis of the data, it became clear that barriers can be said to be at different levels and that they are often interlinked in a chain of events. There are barriers that are immediate; e.g. 'a worker does not know *why* he or she should use the protective equipment and consequently it does not get used'. In this case, a first level of underlying barriers may be; 'the worker does not know the reason for usage of the protective equipment because he has not been properly *trained* by management'. The next level of underlying barriers could be 'management does not know *how* to train the worker or lack the proper resources'. The search for barriers could end there or continue to yet another level of underlying barriers where it can be observed that; 'the lack of know-how or resources is due to a traditionally unorganised garment industry in which knowledge of effective Human Resource Management is only slowly being incorporated.'

This analysis looked for underlying barriers that are general enough to explain multiple aspects of the compliance issues. It also focuses on barriers that are made up of factors that are visible within the supplier organisations themselves, so called 'organisational barriers'.

4.2.1 Attitude

In line with the strong owner influence among the suppliers, their decisions as top managers largely determine how the businesses are run. Management's attitude towards the labour force is perhaps the single greatest barrier to compliance. Top managements' view of the worker has a strong effect on their readiness to engage in dialogue with workers, give training on compliance issues, and make workers part of the company by offering regular contracts. Viewing workers as undedicated, undisciplined, and unintelligent as well as having the intent to cause trouble if empowered or given too much freedom in dialogue, as indicated by data, makes improvements on compliance issues difficult. These attitudes are probably, as auditors claim, influenced by different cultural factors and heritage and may therefore take time to change.

The attitude towards modernising the business, seeing possibilities and being brave enough to try new methods is also of great importance to becoming more compliant. Competing on a rapidly changing global market demands an open mind to changes and being able to accommodate new ideas from outside. A truly progressive top management would for example see that it is possible to maintain workers through effective motivation and incentive systems in order reap the competitive advantages of both a higher level of COC compliance as well as potentially better productivity and quality.

4.2.2 Capacity

The lack of capacity constitutes a barrier to improved compliance, especially lack of internal know-how in management. The garment suppliers in India come from a tradition of small, owner-controlled set-ups relying on informal practices. All focus has been on production issues. In northern India they are still showing characteristics of being Small and Middle Sized organisations (SMEs), despite having more than 500 employees in the peak periods. The strongest characteristic is that of tight top control to offset any possibilities of being cheated. Only recently have some suppliers started hiring trained professionals for all management positions, including HR. This imposes new challenges on top management to empower these employees and make sure all departments work as a team. Efforts to train workers and put performance incentives in place have so far failed in most organisations because there has not been proper knowledge of which measures are necessary.

As will be discussed below, alternative practices have sprung to life in India because the bureaucratic system is too heavy. This has created habit of using the formal system when useful and other informal practices when they are deemed more rewarding. This duality in practices, which can be observed among the suppliers, becomes a barrier to compliance because even though formal documents may exist, they may be ignored in favour of less formal practices.

4.2.3 Business model

The range of products that suppliers can offer international buyers is correlated with the orders they can attract. In India, the products that can be produced competitively are high fashion shirts and blouses. This has two implications. Firstly, shirts and blouses are mainly in demand on the western market for summer. Secondly, when Indian designs go out of fashion, the order flow will be reduced. Keeping to a narrow product range exposes the suppliers to great seasonal fluctuations on orders. This seasonality is a barrier to COC implementation, but perspectives diverge as to who should do something about it.

The supplier may feel that they put in a lot of resources to reach a certain level of COC compliance to make the buyer feel safe from criticism when ordering from them. The supplier might furthermore feel that if the buyer is serious about its CSR obligations it ought to keep giving orders to make sure the supplier can maintain this level. The buyer, on the other hand, acting on a global market, has certain products to be sourced from factories that can meet expectations on price, quality and COC demands. The buyer sets a minimum standard which has to be met in order to be competitive for orders. From the buyer's perspective, it is up to the supplier to offer the capacity to produce garments for different seasons at the set competitive standard. It is in the supplier's interest to expand the business model to offer a wider product range, attract more buyers or take on orders from factories that have more than they can handle, as done by one supplier in the south. Inconsistency, caused by the business model, is in any case a barrier to decreasing labour turnover and promoting worker awareness and proper systems.

4.2.4 Power manifestations

India has been, and remains, a hierarchical society with many divisions along the lines of class, caste, religion and community (Sen, 2005). Very hierarchical structures are witnessed in the supplier organisations as well, where power levels are observed to be clearly defined to each position. Suppliers argue that this is necessary in order to control the organisation. The authority resembles the form that Weber referred to as 'traditional authority'; it is accepted because it has always been that way (Granberg, 1977). It is questionable, though, whether it is authority or power as per Weber's definitions presented in Chapter 2. The subjects do not

question authority from higher positions, as it is strongly manifested everywhere in India, but they would probably try to defy it if they thought they could get away with it. Hence, a more correct term would be ‘traditional power’.

As observed in the factories, the language used from a higher to lower power position is authoritarian and one-way. Without making any reference to caste divisions, a tradition of divisions is clearly present in the factories. Strong manifestation of power is, as discussed, a barrier to improving dialogue between the different power positions in the organisations and especially between workers and management. It is apparent that engaging in fruitful two-way communication will be difficult as long as people in the organisations are unable to look past their positions and respectfully listen to people of lower rang. The tough climate of divisions in India makes people more inclined to make the most of each opportunity given to them. Similarly, the suppliers argue, workers will at first only try to make unreasonable gains when engaged in dialogue, as is the norm everywhere in India. Only with time, and consistency, will a fruitful and mature dialogue grow between the two parts.

The figure below summarises the first two sections of this chapter. It illustrates how the barriers to compliance that exist among suppliers allow certain demands in the COC to be implemented while others, for reasons discussed above, encounter more resistance.

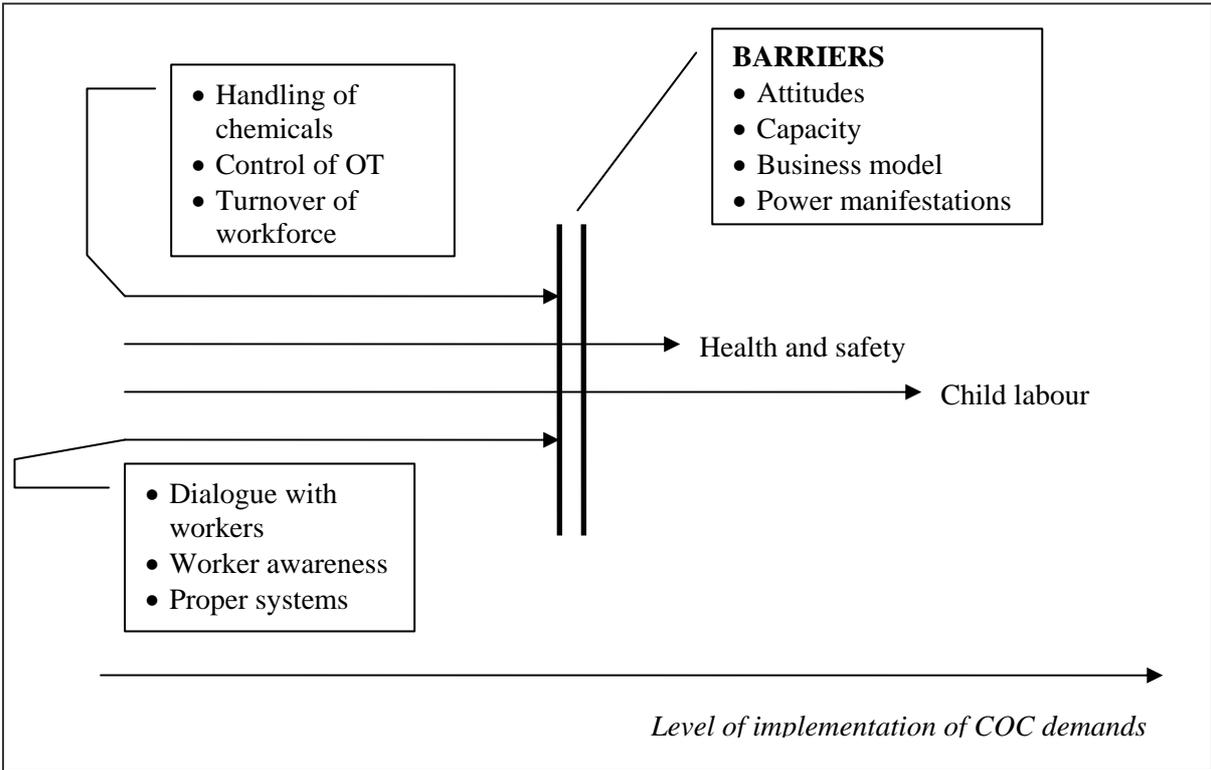


Figure 1: A visual diagram of barriers to compliance with demands in a Code of Conduct.

4.3 Effects of the institutional environment

A pattern that is apparent in data is that compliance to the COC is also influenced by the environment the suppliers do business in. Forces exerted by actors in the institutional environment can enhance or oppose COC compliance. However, quite often the same actor exerts paradoxical forces. Together the institutional forces create and sustain the empirical barriers to compliance existing among suppliers.

To show how this is done a number of actors that have appeared in the data have been selected and the supplier responses to the forces are analysed using Oliver’s model of strategies and tactics. In addition to institutions identified in institutional theory (see chapter 2) corruption, class, power and politics have been included as actors capable of exerting forces:

Actors in the institutional environment	
<ul style="list-style-type: none"> • H&M • Government agencies • Other producers and supply chain • Labour force • Unions • Associations and networks 	<ul style="list-style-type: none"> • Training institutions • Other buyers • Corruption • Class and power • Politics

Table 11: *Actors in the institutional environment that exert pressure on suppliers.*

4.3.1 H&M

Needless to say this actor is the main driver for implementing its COC. By offering information and assistance on implementation of the demands in its COC, and monitoring the outcome, H&M exerts a great pressure and the strategy they seek from the supplier is that of *acquiescence* and the *compliance* tactic. However, strategy chosen by the suppliers show more resemblance to *compromise*, where compliance with H&M’s Code is *balanced* with demands from other institutional constituents.

One effect of the institutional environment on the Indian supplier is that it creates a lot of insecurity. The suppliers may therefore look for a way of reducing this insecurity by trying to tie closer bonds with H&M which they perceive as a potential source of great stability if guarantees were given in both directions. Suppliers claim they can only guarantee full compliance if they have orders to keep the business running. Their argument is therefore that it lies in H&M’s interest to strengthen partnerships in order to achieve a higher level of COC compliance. Their standpoint finds support in Frenckel & Scott’s (2002) theory that a *collaboration strategy*, based on more relational ties, results in better COC implementation. The suppliers hold that the shift in institutional force to move compliance further forward in India should come from H&M by advancing their collaboration strategy even further. A certain shift of strategy to more collaboration can be seen in H&M’s development of the FAP. However, the final level of collaboration sought by the suppliers on the one part and H&M on the other is divergent

H&M stresses the risks of over-dependence and inertia in ties that are too close (Frenckel & Scott, 2002). There are also large differences between the footwear sector studied by Frenckel & Scott and the apparel fashion industry when it comes to order type, which may hinder a fair comparison. H&M would argue that the force to move compliance forward has to come from the Indian industry itself in realising the need for advanced competitiveness on the global market in areas such as productivity and product range.

The combined *business models* of H&M and the Indian suppliers’ results in an inconsistent flow of orders between the two parties. When the Indian supplier’s products are in demand, H&M can place orders taking on the full capacity. Giving such huge orders to small units may create a situation of dependence which makes suppliers blind to a broader business model for consistency in their business. Receiving orders from big buyers like H&M is too lucrative. Working to become compliant with the COC makes suppliers feel that H&M both promotes

and undermines compliance. This feeling is not as strong among southern suppliers, who pursue slightly different business models as mentioned earlier. One supplier has a product range in demand throughout the year and the other has found a way to enhance consistency by taking orders from factories that are willing to outsource some production to meet deadlines. Hence, the perceived negative support of compliance from H&M is lower.

4.3.2 Government agencies

The Indian government is a large and bureaucratic body as perceived by suppliers. It has since Independence 1947 produced comprehensive laws and policies, but it can be questioned whether they, on the whole, suit the business environment prevailing in India, which is full of SMEs and has a few very large corporate houses like the TATA Group. The high tax rate and license system that existed between 1947 and 1991, resulted in a widespread practice of corruption (Gollakota & Gupta 2006), which today is perceived to exist on all levels of society and not least within the state agencies organisations. The systems that the government has tried to implement, e.g. worker benefit schemes such as ESI and PF, assumes that the population is educated and literate; otherwise it is questionable how they will be properly claimed and made use of. The illiteracy rate in India is still high, which the suppliers experience as a big problem in their operations. Infrastructure is another area for which the government is responsible, but the accomplishments are of varying quality. The state of India fits Weber's description of a *dysfunctional* bureaucratic organisation because its heavy bureaucracy has given rise to alternative practices. This is the norm inside state agencies (corruption) and has become socially accepted, which is one reason why these practices prevail in supplier organisations and have affected management *attitude* as well as internal *capacity* to implement formal systems.

The overall perception of the northern suppliers is that the government gives little support and therefore the trust in its ability to improve the business environment is low. The trust in future policies is not high either which leads to scepticism. The pressures exerted by government are paradoxical. On the one hand there are regulations that almost fully encompass COC demands. On the other hand the same regulations are perceived as too heavy, making way for alternative practices and corruption. The low trust also weakens government authority, which weakens willingness to adapt to its demands. The general strategy applied by suppliers is a mixture of *compromise* and *avoidance*; the demands that are found suitable are met, others are concealed, which is supported by general practice in the industry as discussed below. Government practices can be said to foster the conception in the business community that only the bare minimum is necessary.

In the south, government support is perceived to be higher, which strengthens the suppliers' reciprocal support of government laws and policies, including labour laws.

4.3.3 Other producers and the supply chain

This group of actors make up an industry standard and acts as a benchmark for the level of compliance with national law and H&M's COC. The actors exert pressure on suppliers by being examples of the general way of operating in this environment. Traditionally H&M's suppliers took this standard for granted in an *acquiescence* strategy, where the ways of working were *imitated*. As compliance with H&M's COC came on to the agenda, the suppliers have been pushed to raise themselves from the fairly low level of legal compliance practiced by the industry in general. The pressure exerted by surrounding practice, however, is the strength of tradition; that the bare minimum may suffice and clearly unreasonable regulations can be avoided in favour of more top-controlled, informal systems as is the working standard in the industry.

Another pressure exerted by the industry is the maintenance of systems on which companies are interdependent. One such system in the north is that of floating labour, as well as keeping the competence of labourers low. The ability of the upstream supply chain to deliver sufficient quality products in time is another interdependent system. The strategy here is one of *compromise*, because the *attitude* among suppliers, shaped through years of working in these systems, is that nothing can be done about it. This also affects the internal *capacity*, as it is hard to hire people with experience of better systems.

In the south, the surrounding industry practice is professionalizing at a faster pace. The tactic of *imitating* other practitioners has introduced better knowledge of formal systems which has increased *capacity* and enhanced more progressive *attitudes*. Competition for skilled labourers has made suppliers understand the need for consistency in the workforce which has also affected management attitudes and the internal capacity.

4.3.4 Labour force

The field research did not encompass the views of workers, and therefore their role as an actor here is not derived from their own perspective. From the present findings of the study, the workers can be seen as passive actors, whose role is diminished because of management's fear of letting them participate or low belief in their ability to participate. The COC seeks, to a large extent, to secure their rights. However, other institutional forces in the Indian business environment (industry and government) give them little opportunity to learn about, and influence, the exercise of those rights, or prefers it if they do not exercise them to any greater extent.

The minimal wages and low education level imposed by government forces workers to take jobs where they need to work overtime to make a living for themselves and their families. It is likely that the workers appreciate the improved working environments of H&M's suppliers when it comes to things like receiving payments in time and getting the double overtime payments that they are entitled to under law. On the other hand, they may miss out on other benefits, such as safety measures and grievance systems, because they do not understand their implications. As a consequence one institutional force remains low in the Indian business environment; the *active choice of workers* to promote the factories that reach higher levels of compliance. The strategy used by supplier managements in north India towards the labour force is *acquiescence*; they follow the presented norms by *habit* and do not look outside the box for the possibility of workers being engaged to contribute more to the organisation.

In the south, the shortage of skilled labourers has made workers able to more actively pick the factories with the best conditions, hence, they can exert a force supporting COC compliance.

4.3.5 Unions

The role of the trade union should be to promote workers' interests. Following the reduced capability of workers to exert pressure for better compliance with the law, this actor could fill this institutional void by constructively promoting compliance. Instead, the reality is that historical events of destructive union activism have promoted the *attitude* among suppliers that unions should be avoided. Today, unions are perceived as only serving their own interests and being on the lookout for cases of violations where they can make financial settlements. In one sense this pushes management in the direction of better COC compliance because they try to have their own ways of supplying the necessary facilities so that no worker can complain to any unions. On the other hand, it further weakens the already diminished role of workers discussed above, because suppliers only want the facilities and systems to be in place so that

no one complains, not in order to have workers take part in them and possibly improve them. Fear of union activity may be a strong reason for not giving workers regular contracts in northern India, which maintains the high turnover rates. The strategy used is clearly one of *avoiding*, making use of the *buffering* tactic where the supplier tries to detach itself from any contact with unions.

4.3.6 Associations, networks and training institutes

These have been clustered together because they all provide ways of giving support to the suppliers. SMEs are often much helped in implementing systems in their organisations if they can share ideas and learn from others (Ockborn, 2006). Such organisations can also be used to exert collective pressure on other institutional actors. However, there have been no empirical examples of suppliers actively engaging in associations and other networks. This is despite the fact that suppliers have experienced that meetings with other suppliers organised by H&M can be very useful. The lack of institutional influence from networks is an institutional void that acts to keep the suppliers' *capacity* to implement the Code low. There are examples of networks in India which could have the strategy of manipulating other forces, such as corruption. The suppliers themselves miss out on taking an active part in this opportunity to put counter-pressure on the negative institutional forces.

The role of training institutes is to supply a better prepared workforce. Institutes are abundant in southern India and are slowly emerging in northern India, which is a sign of a growing institutional pressure to increase the capacity of the labour force and hence the overall *capacity* of the suppliers.

4.3.7 Other buyers

Other buyers can exert a force similar to that of H&M. The question of inconsistency in order flow remains the same, unless these buyers seek the products available from the Indian suppliers on a less seasonal basis. In the cases of other big international brands, they may have similar demands in their Codes, which may exert additive forces to H&M's. Their monitoring is also perceived by suppliers as giving assistance that is supplementary to H&M's.

There is another scenario where the other buyers may be less stringent on some demands, in which case the suppliers could be exposed to a contrasting force which questions the reasonability of H&M's demands in the overall Indian business environment. One such example is Double Overtime compensation, where other buyers have not been enforcing it to the same level as H&M. The industry standard has not enforced it at all. This gives rise to the *compromise* strategy among the suppliers.

4.3.8 Corruption, class and politics

These aspects of society act against improvements in COC compliance and uphold the barriers of *attitude*, *capacity* and *power manifestations*. Corruption gives rise to a culture of low trust. This phenomenon seems to be so widely integrated in the Indian society that actors like the suppliers feel powerless in the face of it. Politics in India often serve self-interest and further strengthens the environment of low trust. The strategy applied by suppliers to deal with these actors is to *avoid* them and use the *concealment* and *buffer* tactics. Low trust stops more progressive *attitudes* to business opportunities from growing and gives urgency to tight top-control in the supplier organisations, hence *capacity* does not increase. Class is closely linked with power and is a normative pressure which creates inflexibility in inter-class communication and expectations. Power manifestation everywhere in India retains a barrier of

marked divisions between power positions in the organisations, which hinders improved communications between management and workers.

4.4 A conceptual model of the actions of institutional forces

The previous section showed that actors in the institutional environment often exert forces that have paradoxical effects on suppliers' COC compliance. The collective actions of these forces can be conceptualised in a model of how far they allow compliance to be implemented among suppliers operating in that environment. First, one must assume that the general level of compliance among the suppliers can be regarded as one entity that can range from incompliant to fully compliant. The forces can then be seen as vectors that can act to push compliance forward or stop it from moving forward. Together the vectors create two opposing forces that allow the level of compliance to increase to a certain level. The institutional forces have, as discussed above, created barriers which may be hard to overcome unless one or more of the institutional processes are altered in some way.

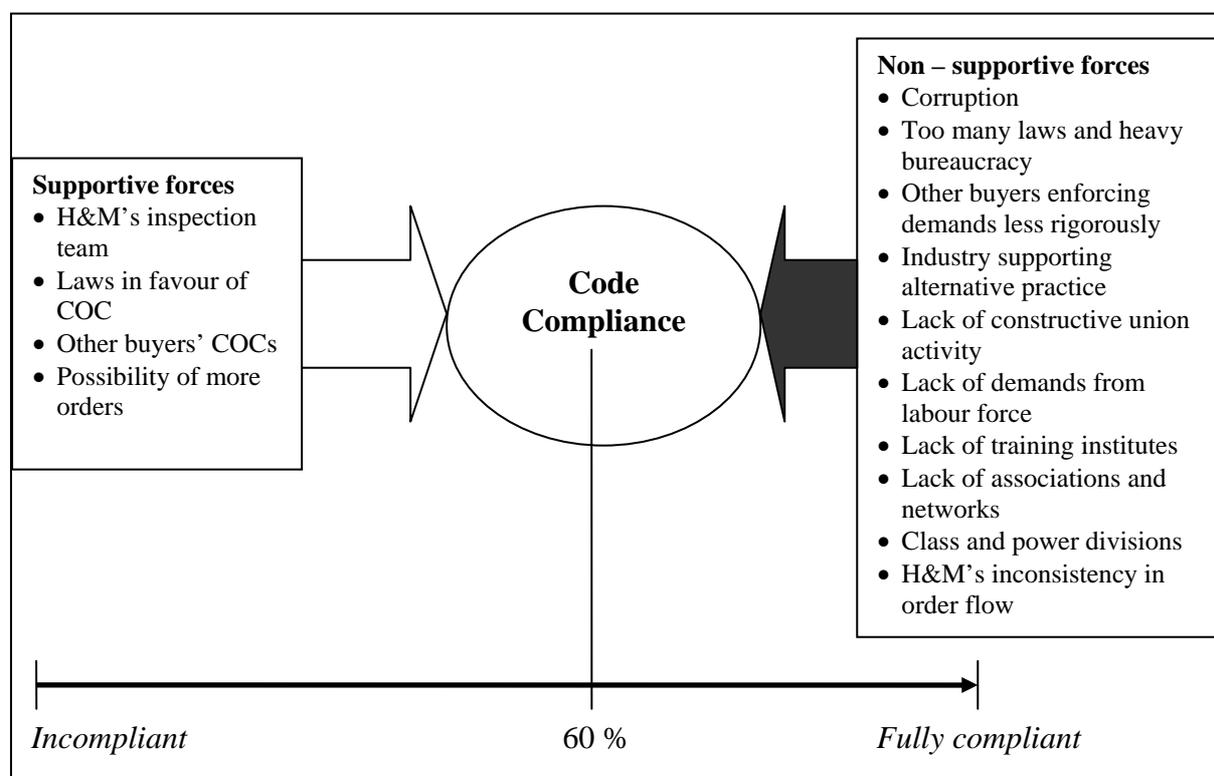


Figure 2: A conceptual model of the actions of institutional forces on COC compliance in north India.

The model serves to illustrate that an institutional environment may only allow the implementation of a COC to reach a certain level and not any further if all the forces remain the same. In Figure 2 the level of compliance among north Indian suppliers is presented. The stated compliance level is not one that has been measured with any accuracy in this study and should therefore not be seen as a definite figure. The paradoxical nature of many actors is one important aspect in this model.

The model is useful for visualising institutional forces and their effect on compliance. The greatest merit of the model its capacity to compare different institutional environments. In Figure 3 the model is applied to the institutional environment of suppliers in south India to visualise what differences in the existing institutional forces can do to the overall compliance level. Slight changes in some of the forces can decrease the barriers to implementation of the COC and the compliance level increases. The major differences expressed in Figure 3 is the higher level of professionalism in the business environment and the growing demands among

workers in the south, who are more actively choosing the best factories. There is most likely a lot of alternative, informal practices still existing among business partners and other industries in southern India too, but the force from these is weaker due to the force from the businesses that have raised their standard of professionalism.

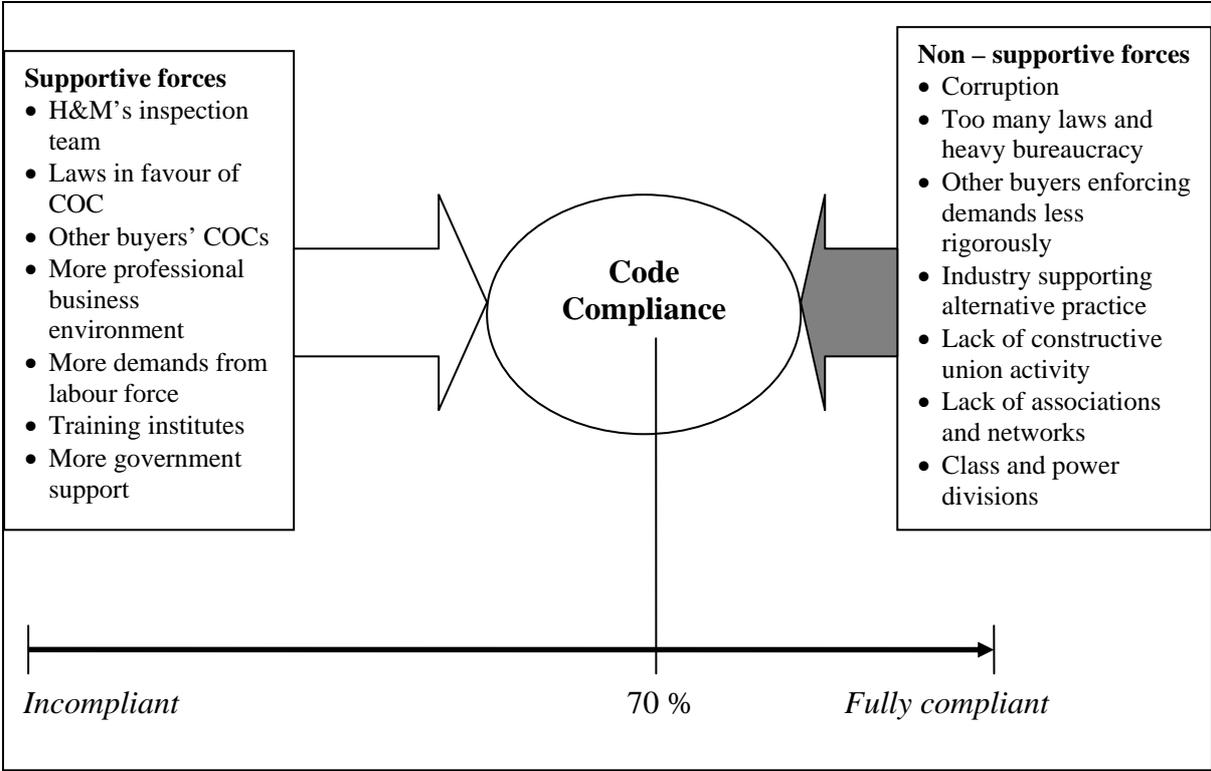


Figure 3: The effects on COC compliance of the institutional environment in south India.

5 CONCLUSION

This chapter is divided into four parts. First, the research questions are answered. This is followed by a presentation of what contribution this study has made. Suggestions for further studies are then stated before the chapter is closed by a concluding discussion.

5.1 Answers to the research questions

The following conclusions can be drawn from the study:

1. The most prominent compliance issues that exist among H&M's first tier suppliers in India are the *handling of chemicals, control of overtime hours, turnover of the workforce, worker-management dialogue, worker awareness and implementing proper systems* to maintain compliance with the COC.
2. The main barriers to making improvements to these compliance issues are the *attitudes* of the supplier managements, *capacity* in the supplier organisations, the *business model* pursued by the suppliers and the *power manifestations* between positions in the organisations.
3. The forces exerted by the actors in the institutional environment have been found to create and maintain the identified barriers to improvements in the level of compliance among the suppliers. Furthermore, the same actor can often exert forces on the suppliers which have paradoxical effect on their compliance. Making improvements in compliance is difficult as long the institutional environment remains the same. The institutional environment in southern India has more actors exerting supporting forces than the environment in the north which makes the barriers to compliance weaker in the south.

5.2 Contribution

The findings of the study have made a small contribution to the knowledge about the areas of a COC are most difficult to implement among first tier suppliers in India, and what causes hindrance in these areas. On a more general level, the study has shown how institutional theory can be applied on factors affecting a MNC's implementation of a COC among suppliers. A conceptual model of how institutional forces can be visualised to affect compliance was created. This model could be used by MNCs and, perhaps, academics to evoke new thoughts on the best methods to use when implementing COCs in the global supply chain.

5.3 Suggestions for further study

This study focused on capturing top managements' views on compliance issues and compares those to the views of the auditors and the audit reports findings. It would be interesting to test whether the barriers identified are general to Indian suppliers in a study with a larger selection of suppliers, collecting more quantifiable data and including sources that extend from top management through the organisations to the individual workers. One hurdle to overcome is that of language and interpretation of questions and answers. A suggestion from the author is to work closely with people who are able to formulate questionnaires that are suited to the language(s) of the people taking part. The conceptual model of how the institutional environment creates barriers for COC implementation can also be tested for validity in a broader study, as well as in other countries of production.

5.4 Personal reflections

Conducting a study of this kind inevitably raises extensive thoughts on how the industries being studied could be improved to secure more sustainable business in the future. The business environment in India is indeed a tough one as the above analysis of institutional forces has shown. Is that a reason to give in and accept the status quo? The author would argue that it is not and that the proposed conceptual vectors could be challenged to both increase the productivity of the firms and the level of compliance with the COC, and hence the welfare of many stakeholders. There are indeed many actions that could be taken to improve efficiency in the factories. With some thought behind them, such improvement ought to lessen operational costs.

The reasonability or suitability is a critical point that needs to be addressed in relation to any document that is meant to implement certain standards in organisations. One common example is the critique given to the suitability of ISO 14001 to the needs of SMEs (Brorsson & Almgren, 2005). This critique has led to the current work on a new standard, ISO 14005, which has a staged approach to implementation and may find more users among SMEs. In a similar line of reasoning, relevant to the area studied in this thesis, the contents of the COC can be critically questioned for their suitability to the Indian supplier's reality. The COC demands that all laws and government regulations are met, which according to Western *a priori* assumptions ought to be the lowest level of compliance for any business. However, if the barriers to adhering to certain of these regulations are of the extent that they will never be met, is it reasonable for the buyer to keep pushing for their implementation and should it be seen as the buyer's responsibility to do so if the government itself has not managed to implement them? The regulations that are under criticism here are obviously not ones that contradict core values of the buyer's COC, but may, in the case of India, be of a more bureaucratic nature.

One aspect that surfaces when discussing COC implementation is how far a company can be expected to involve itself in promoting compliance in the supply chain. As described above, the new FAP system tries to not only monitor *which* violations occur but also understand *why* violations occur, to be able to assist suppliers in getting to the root causes of the problems. The level of assistance is then a debatable question. How far should a company carry costs for implementing something that is in fact the national governments job?

A COC stipulates many standards, and in order not to violate any of these suppliers need to implement a lot of systems to check and monitor their operations. What may be missing in their toolbox is a holistic management system that ties together all the demands in the COC. Much like ISO 14001 for environmental management or SA 8000 for social accountability, buyers may need to provide suppliers with a more comprehensive tool following the PDCA cycle encompasses all the aspects of the COC. This would tie together the suggested systems for coming to terms with each compliance issue that is noted during audits. Providing such a tool may give buyers a better chance to pass on the responsibility and ownership of implementation of the COC to suppliers.

The author's recommendation to H&M and other MNCs trading with Indian suppliers is to expand their CSR focus from only working with the suppliers and engage in dialogue of how to make the institutional environment become more supportive of COC compliance. Unions must become stronger actors of positive promotion of workers' rights and a tougher stand must be taken against the government for its lacking part in raising the legal compliance of the Indian industries.

Bibliography

Written sources:

The Asian Age, New Delhi, 7 October 2006, front page, Vol. 12, No. 234.

Brorsson, T., Almgren, R. (2005), *ISO 14001 för små och medelstora företag*, SIS Förlag AB, Stockholm.

Chhabara, R. (2005) *Social Accountability: A Practical Guide to Implement Code of Conduct*, Apparel Views Pvt. Ltd., New Delhi.

CR-Biz, March 2006, Vol. 1, No. 1.

Di Maggio, P. J., Powell, W.W. (1983) "The Iron cage revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields", *American Sociological Review*, vol. 48.

Eisenhardt, K.M. (1989) "Building Theories from Case Study Research," *Academy of Management Review*, Vol. 14, No. 4, pp 532-550.

Ely, M. et al. (1993), *Kvalitativ forskningsmetodik i praktiken – cirklar inom cirklar*, Studentlitteratur, Lund. (Original title: *Doing Qualitative Research: Circles in circles.*)

Frenkel, J., Scott, D. (2002), "Compliance, Collaboration, and Codes of Labor Practice: The ADIDAS Connection", *California Management Review*, Vol. 45, No. 1, pp 29-49.

Garriga, E., Melé, D. (2004) "Corporate Social Responsibility Theories: Mapping the Territory", *Journal of Business Ethics*, Vol. 53, pp 51-71.

Galbreath, J. (2006) "Corporate social responsibility strategy: strategic options, global considerations", *Corporate Governance*, Vol. 6, No. 2, pp 175-187.

Gereffi, G. (1999) "International trade and industrial upgrading in the apparel commodity chain", *Journal of International Economics*, Vol. 48, pp. 37-70.

Gollakota, K., Gupta, V. (2006) "History, ownership forms and corporate governance in India", *Journal of Management History*, Vol. 12, No 2, pp. 185-198.

Granberg, O. (1977) *Personaladministration och Organisationsutveckling*, Natur och Kultur, Stockholm.

Gummesson, E. (2003), "Fallstudiebaserad forskning". I Gustavsson, B. red *Kunskapande metoder inom samhällsvetenskapen*, edition 3:1, Studentlitteratur, Lund.

Gustavsson, B (2003), "Grundad Teori". I Gustavsson, B. red *Kunskapande metoder inom samhällsvetenskapen*, edition 3:1, Studentlitteratur, Lund.

Meyer, J.W., Rowan, B. (1977) "Institutionalized Organizations: Formal Structure as Myth and Ceremony", *American Journal of Sociology*, Vol. 83, No. 2.

Nijhof, A., Cludts, S., Fisscher, O., Laan, A. (2003) "Measuring the Implementation of Codes of Conduct. An Assessment Method Based on a Process Approach of the Responsible Organisation", *Journal of Business Ethics*, Vol. 45, pp 65-78.

North, D. C. (1991) "Institutions", *Journal of Economic Perspectives*, Vol. 5, No. 1, pp 97-112.

Ockborn, F. (2006) "Hållbarhetsredovisning i små och medelstora företag", C-uppsats, Mittuniversitetet, Sundsvall (English translation: "Sustainability Reporting in Small and Middle-size Enterprises").

Oliver, C. (1991) "Strategic Responses to Institutional Pressures", *Academy of Management Review*, Vol. 16, No. 1, pp 145-179.

Pearson, R., Seyfang, G. (2001) "New Hope or False Dawn? Voluntary Codes of Conduct, Labour Regulation and Social Policy in a Globalizing World", *Global Social Policy*, Vol. 1, pp 49-78.

Post, J.E., Altman, B.W. (1994) "Managing the Environmental Change Process: Barriers and Opportunities", *Journal of Organizational Change Management*, Vol. 7, No. 4, pp 64-81.

Sen, A. (2005) "The Argumentative Indian: Writings on Indian History, Culture and Identity", Farrar, Straus and Giroux, New York.

Sheth J. N., Sharma A. (1997) "Supplier relationships: Emerging issues and challenges", *Industrial Marketing Management*, Vol. 25, No. 2, pp 91-100.

Sinha, J.B., Kanungo, R.N. (1997) "Context Sensitivity and Balancing in Indian Organizational Behaviour", *International Journal of Psychology*, Vol. 32, No.2, pp 93-105.

von Tulder, R., Kolk, A. (2001) "Multinationality and Corporate Ethics: Codes of Conduct in the Sporting Industry", *Journal of Business Studies*, Vol. 32, No. 2, pp 267-283.

Tydén, J., Sharma, P. (2006) "Hur ser indisk arbetsrätt ut?", notes from Business Forum 2006-11-15: *Företag, Indien & Mänskliga Rättigheter – hur blir ditt företag en del av lösningen?*, organised by Amnesty Business Group, Stockholm, Sweden.

Yin, R.K. (2003), "Case Study Research: Design and Methods", 3rd edition, *Applied Social Research Methods Series*, Vol. 5, Sage Publications, Thousand Oaks.

Sources from the internet:

H&M Annual Report 2005, available at:

http://www.hm.com/filearea/corporate/fileobjects/pdf/en/ANNUAL_REPORT_ARCHIVE2005_ITEM_3_115_7639347604.pdf, last checked 2006-12-30.

H&M Corporate Social Responsibility Report (CSR-report) 2005, available at:

http://www.hm.com/se/fretagsansvar/laddaner_downloads.nhtml, last checked 2006-11-13.

H&M₂ List of Restricted Chemicals, available at:

http://www.hm.com/filearea/corporate/fileobjects/pdf/common/COMMON_RESPONSIBILITY_FACTS_CHEMICALLIST_ENGLISH_GB_PDF_1150722273787.pdf downloaded 2006-11-10, last checked 2006-12-30.

India Times, (2006-01-05), available at: <http://economictimes.indiatimes.com/articleshow/1359686.cms>, downloaded 2006-09-09.

Lindfors, J. (2006), Preface to: "Rapport #1: Hennes & Mauritz – Infrastruktur för granskning och förbättring av arbetsvillkoren i leverantörsfabrikerna", Wingborg, M. (2006), Rena Kläder, available at:

<http://www.renklader.org/dokument/pdf/Rapport%201%20HM.pdf>, downloaded 2006-12-29.

Mamic, I. (2003) "Business and Code of Conduct Implementation – How firms use management systems for social performance", International Labour Office, available at:

http://www.ilo.org/images/empent/static/mcc/download/supply_chain.pdf, downloaded 2006-08-07.

Uppdrag Granskning (2206-10-31), TV-documentary broadcasted by SVT, Sweden, available at:

http://svt.se/svt/jsp/Crosslink.jsp?d=59634&a=690895&lid=puff_712995&lpos=extra_0, last checked 2006-01-01

Wingborg, M. (2006), "Rapport #1: Hennes & Mauritz – Infrastruktur för granskning och förbättring av arbetsvillkoren i leverantörsfabrikerna", Rena Kläder, available at:

<http://www.renklader.org/dokument/pdf/Rapport%201%20HM.pdf>, downloaded 2006-12-29

Primary sources:

Fischer, T., CSR-Coordinator for South Asia, H&M, speaking at the *Regional Conference on Child Centered Programming under Corporate Social Responsibility Initiatives in South Asia* organised by Save the Children, Delhi, India, 2006-09-29.

Jaganathan, Mr., General Secretary of the *Indian National Garment and Leather Workers Federation*, meeting in Delhi, India, 2006-09-13

Pramar, S., Editor of *CR-Biz*, meeting at Delhi Press Club, India, 2006-09-11

von Borgstede, C., *Institution of Environmental Psychology*, Gothenburg University, Sweden, discussion after a lecture at Stockholm University, Sweden, 2006-05-08.

Code of Conduct

INTRODUCTION

H&M, as a strongly expanding multinational company, feels that it is increasingly important for us to take responsibility for all our actions, in Europe as well as in the rest of the world. Most importantly we have a responsibility towards all the thousands of people taking part in the production of our garments. We have to make sure that nobody whose work is contributing to our success is deprived of his or her human rights, or suffers mental or bodily harm.

In order to make our position clear to our suppliers, our own staff, as well as any other parties, we have set up a Code of Conduct. It is a non-negotiable requirement from our side that all our suppliers and their subcontractors, without exception, should follow this code.

1. LEGAL REQUIREMENTS

Our general rule is that all our suppliers must, in all their activities, follow the national laws in the countries where they are operating. Should any of the following requirements by H&M, be in violation of the national law in any country or territory, the law should always be followed. In such a case, the supplier must always inform H&M immediately upon receiving this Code.

It is however important to understand that H&M's requirements may not be limited to the requirements of the national law.

2. CHILD LABOUR

2.1 Policy

We base our policy on child labour on the UN Convention on The Rights of the Child, article 32.1 .

We recognise the rights of every child to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development.

2.2 Definition

We define, in this context, the word "child" as a person younger than 15 years of age or, as an exception, 14 years in countries covered by article 2.4 in the ILO convention No.138.

2.3 Implementation of H&M's policy on Child labour

H&M does not accept child labour.

We are concerned about the situation of children in many parts of the world. We acknowledge the fact that child labour does exist and can't be eradicated with rules or inspections, as long as the

children's social situation is not improved. We want to actively work with factories and with NGO's (Non Government Organisations) in third world countries, to try to improve the situation for the children affected by our ban on child labour.

If a child (see definition under 2.2) is found working in any of the factories producing our garments, we will request the factory to make sure that the measures taken are in the child's best interest. We will, in co-operation with the factory, seek to find a satisfactory solution, taking into consideration the child's age, social situation, education, etc. We will not ask a factory to dismiss a child without a discussion about the child's future. Any measures taken should always aim to improve, not worsen, each individual child's situation. Any costs for education, etc. have to be paid by the factory.

We will firmly demand that the factory employs no further children.

We recommend factories with predominantly female workers to arrange day care for children below school age.

2.4 Enforcement

If a supplier does not accept our policy on child labour, we will not continue our co-operation with this supplier.

2.5 Apprenticeship programmes

In countries where the law permits apprenticeship programmes for children between 12 and 15 years of age, we will accept that children of this age work a few hours per day. The total numbers of hours daily spent on school and light work should never exceed 7 (seven) hours (ILO convention No. 33).

The factory must be able to prove that this work is not interfering with the child's education, that the work is limited to a few hours per day, that the work is light and clearly aimed at training, and that the child is properly compensated. If we have any reason to doubt that these conditions are met, such apprenticeship programmes will not be accepted in factories producing garments for H&M.

2.6 Special recommendations

We acknowledge, that according to the UN Convention on the Rights of the Child, a person is a child until the age of 18. We therefore recommend our suppliers to make sure, that employees in the age group 15-18 years, are treated accordingly. Limits for working hours and overtime for this age group should be set with special consideration to the workers' low age.

3. SAFETY

3.1 Building and Fire Safety

We require from our suppliers that the workers' safety should be a priority at all times. No hazardous equipment or unsafe buildings are accepted.

The factory should have clearly marked exits, and preferably emergency exits on all floors. All exit doors should open outwards. Exits should not be blocked by cartons, fabric rolls or debris, and should be well lit. If emergency exits are locked, the keys should be placed behind breakable glass next to the doors, and thus be available to all staff at all times.

All workers should be aware of the safety arrangements in the factory, such as emergency exits, fire extinguishers, first aid equipment, etc. An evacuation plan should be displayed in the factory, the fire alarm should be tested regularly and regular evacuation drills are desirable.

3.2 First Aid

First aid equipment must be available in each factory, and at least one person in each department should have training in basic first aid.

It is recommended that a doctor or nurse should be available at short notice, in case of an accident in the factory. The employer should pay any costs (not covered by the social security) which a worker may incur for medical care, following an injury during work in the factory.

4. WORKERS' RIGHTS

4.1 Basic Rights

All workers producing garments for H&M should be entitled to his or her basic rights:

4.1.1 We do not accept that bonded workers, prisoners or illegal workers are used in the production of goods for H&M.

4.1.2 If foreign workers are employed on contract basis, they should never be required to remain employed for any period of time against their own will. All commissions and other fees to the recruitment agency in connection with their employment should be covered by the employer.

4.1.3 Under no circumstances do we accept that our suppliers or their subcontractors use corporal punishment or other forms of mental or physical disciplinary actions, or engage in sexual harassment.

4.1.4 All workers should be free to join associations of their own choosing, and they should have the right to bargain collectively. We don't accept any disciplinary actions from the factory against workers who choose to peacefully and lawfully organise or join an association.

4.1.5 No worker should be discriminated against because of race, gender, religion or ethnic background. All workers with the same experience and qualifications should receive equal pay for equal work.

4.1.6 All workers should be entitled to an employment contract.

4.2 Wages and Working Hours

4.2.1 Wages should be paid regularly, on time and be fair in respect of work performance. The legal minimum wages should be a minimum, but not a recommended, level.

4.2.2 Weekly working time must not exceed the legal limit, and overtime work should always be voluntary and properly compensated.

4.2.3 The workers should be granted their stipulated annual leave and sick leave without any form of repercussions.

4.2.4 Female workers should be given their stipulated maternity leave in case of pregnancy.

4.2.5 Dismissal of pregnant female workers is not acceptable.

In developing countries, we recommend our suppliers to provide the workers with at least one free meal daily.

5. FACTORY CONDITIONS

5.1 It is important for the workers' well-being, and for the quality of the garments, that the factory environment is clean and free from pollution of different kinds.

5.2 The temperature in the factory should be tolerable as a working environment, and the ventilation should be adequate. Heaters or fans should be provided when needed.

5.3 The lighting in each workplace should be sufficient for the work performed, at all times of day.

5.4 Sanitary facilities should be clean, and the workers should have access without unreasonable restrictions. The number of facilities should be adequate for the number of workers in the factory. Sanitary facilities should be available on each floor, and preferably separated for men and women.

6. HOUSING CONDITIONS

If a factory provides housing facilities for its staff, the requirements regarding safety and factory conditions, under point 3 and 5 above, should also cover the housing area.

All workers must be provided with their own individual bed, and the living space per worker must meet the minimum legal requirement.

Separate dormitories, toilets and showers should be provided for men and women. There should be no restriction on the workers' right to leave the dormitory during off hours.

We want to particularly stress the importance of fire alarms, fire extinguishers, unobstructed emergency exits and evacuation drills in dormitory areas.

7. ENVIRONMENT

The environment is of increasing concern globally and H&M expects its suppliers to act responsibly in this respect.

Our suppliers must comply with all applicable environmental laws and regulations in the country of operation.

According to the H&M Chemical Restrictions, we do not allow use of solvents or other hazardous chemicals in the production of our garments. All suppliers must sign the H&M Chemical Restriction Commitment, confirming that no prohibited chemical substances will be used in the production

8. MONITORING AND ENFORCEMENT

8.1 The principle of trust and co-operation

H&M expects all its suppliers to respect the above Code of Conduct and to actively do their utmost

to achieve our standards. We trust our own staff to take a lot of responsibility in their work, and we expect from our suppliers that they do the same. We believe in co-operation and we are willing to work with our suppliers to achieve workable solutions in each individual case. We are willing to take into consideration cultural differences and other factors which may vary from country to country, but we will not compromise on our basic requirements regarding safety and human rights.

8.2 Monitoring

All suppliers are obliged to always keep H&M informed about where each order is being produced.

H&M reserves the right to make unannounced visits to all factories producing our goods, at any time. We also reserve the right to let an independent third party (e.g. a NGO) of our choice make inspections, to ensure compliance with our Code of Conduct.

8.3 Non-compliance

Should we find that a supplier does not comply with our Code of Conduct, we will terminate our business relationship with this supplier, if corrective measures are not taken within an agreed time limit.

If we find repeated violations, we will immediately terminate the co-operation with the supplier and cancel our existing orders.

ANNEX B

Dear supplier

H&M has invited Felix Oxborn to do his Master thesis about the limitations and constraints of implementing buyers Code of Conduct in their vendor's factories. The approach of the study is to take a vendor perspective rather than a buyer's perspective of these issues. In other words you have the opportunity to give feed back through Felix that I hope will be fruitful for both parties.

I also have to stress that this will in no means affect our business relation ship between H&M and your company. The information given to Felix will be confidential. The findings will not specific but compiled into a general findings.

If the study is successful I would like to use it and maybe set up a smaller seminar where the different participants can meet and discuss the findings. However, we do not know what the result will lead to so if I believe that it is not fruitful to have a seminar you will never the less get the thesis from Felix and be able to study the findings your self.

<<Introductory letter.doc>>

Please read Felix's attachment which elaborate a bit more about his study.

Payal, Sarobindo or Sharmila will get in contact with you to set up meetings with Felix.

Finally, you are of course not bound to participate in this study. If you do not have time or are not interested please feel free to say no and revert back to me, Payal or Sarobindo.

If any question please come back to me.

Best regards

Tobias Fischer

H & M Hennes & Mauritz AB

Felix Ockborn
c/o DePoerck
C-313 Defence Colony
New Delhi

13th September 2006

Dear Sir,

My name is Felix Ockborn and I am doing a Master's Degree in Sustainable Business Administration at Stockholm University, Sweden. I am currently visiting India, writing a Master's Thesis on Code of Conduct implementation. What I wish to do with my study is to understand Indian manufacturer's experiences and perspectives on working with multinational companies Codes of Conduct. My intent is to deliver a report that can make suggestions for improving communication on issues related to Code of Conduct implementation.

I have received the good fortune of having Hennes & Mauritz (H&M) give me assistance in my search for suitable persons to interview for the study. In collaboration with them you have been selected as a possible participant for this study and I am hoping that you will agree to talk to me. I would like to ask you for a one hour's interview on matters related to working with Codes of Conduct.

I feel it is important to mention clearly that my interview has no connection with H&M's measuring Code of Conduct performance. Therefore your participation will in no way affect your company's relationship with H&M, apart from receiving their appreciation if you agree to meet with me. Your responses during the interview will be completely anonymous.

As feedback on the results of the project you will be sent a copy of the report if you so wish. I am looking forward to hearing from you soon and hopefully meet you shortly thereafter!

Yours sincerely

Felix Ockborn

E-mail: ockborn@hotmail.com

Mobile: 9910297199

ANNEX C

Interview questions and a selection of quotes.

The quotes listed below should not in any way be seen as including the contents of the interviews, nor as a perfect balance of ideas. It should only be seen as indicative of some of the things that were mentioned. The quotes that have been listed are the ones that the author is sure of to have been quoted directly during the interviews, seeing they were not taped. The empirical narrative in chapter 3 contains the exhaustive contents of the interviews relevant for the study.

1. How would you describe your company's culture?

Q: "We want to create a harmonical culture in our company and have a professional approach."

Q: "In the culture you have to balance three dimensions: build people in human resource management, be strict and ruthless in production to get things done and be shrewd and not always fair to protect your finances."

Q: "Our values are building a strong company, strong relationship with business partners, a long term committment, creating a healthy chain"

2. Please describe you company's organisational structure/give chart:

3. What affects the running of your company's every day business operations the most?

- Internally and externally
- Values?
- Most important institutions?
- Power balance, *business élite*?
- Corruption?

Q: "The trade is not very professional, it is being corporatised slowly"

Q: "In India the tradition has been to work in unorganised ways."

Q: "Finance costs ar every high...[which] affects our profits and ability to modernise facilities"

Q: "New training institutes are supplying a better prepared workforce."

Q: "When someone is hired they want to be clear on where they stand."

Q: "You need to know every part of the operations"

4. How does the Indian government meet your expectations?

- Policies
- Infrastructure
- Law enforcement
- Political engagement

Q: "The lack of strong politics lies in the populist methods of politicians"

Q: "Indian laws are very, very good...but the control system is equally poor."

Q: "We have electricity 8 out of 24 hours, the rest of the time we have to run on back-up"

Q: "The government has a basic mentality of squeezing the textile industry as much as they can"

Q: "Now taxes are increasing and benefits are being removed and we are more and more treated like the domestic industry."

QS: "The government really encourages exporters as they generate foreign exchange"

5. Imagine if I, as a Swede, would want to set up a business in India. What do I need to know about potential Indian business partners and how they do business?

- values?

Q: "The Indian businessman is generally very easy...many think a few days late or little defects in quality don't matter."

Q: "In India there are things that are not on the table, like bribing customs and legal issues that are not correct."

Q: "You need to make sure systems are fully intact or else people will try to make their own gains."

Q: "It is all in the mindset! There has to be more perfection."

6. How do you handle corruption in your company?

Q: "The inspectors all come to collect some money"

Q: "[Corruption] really is a hindrance, not to business only, it is a hindrance to the system, everybody's life."

Q: "There is a lot of corruption in this trade and you can only try to avoid working with people with the wrong mindset."

Q: "No matter how clean you are, if an inspector asks you for money, you have to pay something. You cannot avoid corruption in this business anymore; you will lose your production"

QS: "Bribing is only necessary when you are performing below the law, otherwise there is no harassment."

7. What do you think Corporate Social Responsibility really is?

8. Are you familiar with the term stakeholder? How would you describe it?

9. Which are your main stakeholders?/Who are most affected by your company's business?

- **Which of these (stakeholders) do you talk to about how your operations run and how do you talk with them?**

10. Tell me about the workers in your factory?

- **Total number, permanent, floating, term of contracts, contractors**

Q: "In the north there is more illiteracy and the attitude is more of 'less work more play'. Therefore more discipline is needed."

Q: "Indians are not motivated and dedicated workers like the Chinese or Bengali; they need to be pushed to work."

Q: "A typical worker is looking for 5000 Rs a month."

Q: "Keep in mind that everyone is working for money. Only a good environment is not enough, you have to offer a good package."

Q: "Workers want to push their work into overtime because then they know they'll get more money."

Q: "When workers come to the city, they don't have and understanding for cleanliness. They want to sit and chew paan in the factory, which cannot be tolerated."

Q: "The culture in this country is a moving labour force"

Q: "Every little thing is a reason to celebrate."

Q: "The attitude of the worker is very difficult, they are illiterate and need to be taught every little thing."

Q: "Workers are illiterate. Their language can also be very demanding and abusive, that's how it is in the villages."

Q: "Workers have been working in other much less developed factories for years and it has worked so far so they don't see why there needs to be so much work on health and safety."

QS: "The term 'worker' is not used, everybody are called associates of the company."

QS: "All information is announced in the public speaker system."

QS: "Women are more skilled, more gentle in their work, do not smoke and are less troublesome."

QS: "Floating does not happen in the garment industry. There is attrition for marriages, relocation or on medical grounds."

QS: "There is no differentiation among the associates according to religion, caste or tradition."

11. Who make up your core staff?

Q: "Due to labour laws we do not keep workers."

Q: "We have a system of grading workers during the peak period...and we try to keep the best workers."

Q: "It is good to hold on to workers, then they put in dedication and heart into the business."

12. What is your dialogue or interactions with unions?

Q: "Unions are like collection agencies."

Q: "If you treat workers well and pay them well you will not get into issues involving unions"

Q: "Most workers come from Bihar, they want to work 12-14 hours a day and do not bother with forming unions outside of that time."

QS: "There are no unions in the garment industry."

13. How does your management keep a dialogue with the workers?

- **Workers committee?**

Q: "Now we have matured, which takes time, and are ready to put energy into it."

14. What are your experiences of worker participation? / allowing workers voices to be heard and included on decision-making processes?

Q: "We cannot have large meetings with workers because then they team up on the supervisor."

Q: "At first they usually don't say anything, but as they see that other get help workers become more prone to speak to us and take own initiative."

Q: "They cannot be expected to say something intelligent, because their mentality is not intelligent"

15. How do you train workers to perform to your expectations?

Q: "The trouble is we always have to retrain people every time we get new people"

QS: "When there are lean times, training can be provided. This way the workforce is upgraded which helps in the next recruitment session."

16. How do you handle the Labour Laws in India?

Q: "[Labour laws] are anti-employer, they have no regard for our situation."

Q: "If you take on a worker in this country, he is 'yours'. No matter the discipline, performance or attitude, he is 'yours' according to law."

Q: "I'm not asking for a hire and fire policy, but there must be a chance to get rid of low performers, those who lack discipline and don't agree with the company's principles"

Q: "The law of the land is not conducive."

Q: "Things do not look the same as in 1948 when the laws were passed"

Q: "There is no protection for the industry, there should be equal protection in the law"

17. Which Codes of Conduct are you working with? – how do they affect each other?

Q: "The codes are all the same, they want us to treat our workers well."

Q: "When [other buyers] audit us we gain from things they all say, what one misses, the other will pick up on."

18. How were you working with Corporate Social Responsibility, as you described it earlier, before you were introduced to Code(s) of Conduct?

Q: "Before COC all CSR work was informal and convenience based"

19. What effects do you see in your business from working with Code(s)?

- **Positive**

Q: "The COC is an important tool to make a company more healthy in the long term. But there should be equal and mutual responsibility for achieving it...guarantees given both ways." Q:

Q: "We make more profit when the workers are happy."

- **Negative**

Q: "Complying with the COC is expensive, digs into your profits and all the responsibility is on you."

Q: "H&M needs to secure the vendor to ask for full implementation of the systems needed for COC compliance."

Q: "The role of the entrepreneur is diminished."

20. What do YOU have to do to implement the Code?

- **What does working with Codes demands from your management system and your management structure?**

Q: "[W]e need to train rigorously, especially the management who are the ones who can spread the knowledge."

Q: "We need supervisors to create team efforts for these things."

Q: "People shouldn't be forced to comply, we should be following compliance like we follow our religion."

Q: "The basic responsibility of the general manager is to provide the best and safest environment for workers, They should come here, stay here and leave safe and happy."

Q: " We have just started with professional interviews from HRD where we try to learn more about the workers before we let them take the technical tests."

Q: "We have to make everyone feel that compliance is for their benefit, that they should have it in their hearts."

21. What kinds of meetings are held regularly with the staff?

22. How would you describe your company's relationship with H&M?

Q: "It's a hands above relationship. It is becoming more co-operative and the trust is growing."

23. What do you think about H&M's way of implementing its Code among its suppliers?

Q: "It used to be very task oriented, like a teacher telling you what to do and then you don't want to."

Q: "The COC is a change agent."

QS: "There are a lot of ideas that come up in group meetings are the communication is fast, solutions are given on the spot."

24. How does H&M communicate its expectations concerning the Code?

Q: "Codes only say what the government says."

25. How well do you think your factory meets the principles set out in H&M's Code?

26. What are the most challenging parts of H&M's Code?

Q: "No other factory is following the DOT-law. Vendors for H&M are the only ones who enforce this due to the Code"

27. What are the main barriers in your business operations to implementing H&M's Code?

28 How do you manage the seasonal nature of this business?

QS: "Sometimes work is taken on from other factories that have huge orders throughout the year...This is a way to keep workers occupied."

29. All of H&M's vendors around the world have to adhere to the same Code. What do you think is specific for Indian suppliers in terms of strengths and weaknesses to manage adhering to the Code?

30. How can the communication on Code compliance between your factory and H&M be improved?

Q: "We want to comply with all our hearts. But if they see a mistake, a violation, they must be able to tell us politely and not be harsh about it. There should be no hidden threat."

Q: "There should be more trust in us as a business partner. It would help if we had closer ties and worked in closer collaboration....But there is an invisible wall and it is mind created."

31. If you stopped working with H&M, which Code issues would you stop adhering to?

Q: "Certain worker policies are also not practical in the Indian system."

Q: "There are alternative ways in this country"

ANNEX D

Supplier profiles

<i>Variables</i>	1	2	3	4	5	6
Factory size						
Age of factory						
Length of relationship with H&M						
Type of relationship; e.g. products, exclusive supplier, orders						
Communication channels with supplier						
Suppliers production system e.g. <i>cut to pack</i>						
Management system; e.g. structure, delegation of responsibility, multiple units, (where is the compliance officer?)						