

CHANGES IN THE CONTENT OF SUPPLIER CODES OF CONDUCT

Gregory M. Magnan, Albers School of Business & Econ., Seattle University, 901 12th Avenue, Seattle, WA 98122, (206) 296-6466, gmagnan@seattleu.edu

Talia Alcantar, Albers School of Business & Econ., Seattle University, 901 12th Avenue, Seattle, WA 98122, alca1512@seattleu.edu

Kenneth Henshaw, Albers School of Business & Econ., Seattle University, 901 12th Avenue, Seattle, WA 98122, henshawk@seattleu.edu

ABSTRACT

Increasingly, consumers and professional buyers are reluctant to purchase goods and services from firms that produced those goods and services in irresponsible ways, including the use of child and forced labor and unsafe working conditions. Supplier codes of conduct are used to ensure that business practices at supplier facilities are acceptable to buying firms (and their stakeholders). Analysis indicates codes are becoming much more explicit in defining transgressions and are including more human rights provisions. In out of compliance situations, firms are using language that leads to fixing the problem, rather than canceling contracts.

BACKGROUND

As a result of a desire to get closer to local markets and sourcing materials and finished goods from lower cost parts of the world, companies and their supply chains now have a decided global reach. Outsourcing, while reducing costs, does not absolve firms of responsibility for actions of suppliers and contractors and distance makes it more difficult to oversee operations and practices. Consequently, firms are being exposed to a new type of business risk, one that places their reputations on the line (Larkin, 2003; Smith, 2003).

In addition to taking action to manage risk, the theory that firms have a responsibility to the societies in which they operate—corporate social responsibility (CSR)—can also drive changes in the way supply chains are managed. While no single definition of CSR exists, McWilliams and Siegel (2001) define CSR as, “actions that appear to further some social good, beyond the interests of firm and that which is required by law,” and note that the diverse stakeholders of a firm (including customers) may be forcing firms to devote resources to CSR activities.

SUPPLIER CODES OF CONDUCT

In response to CSR initiatives and threats to reputation—and their own company values and ethics policies—firms have recently created Codes of Conduct (CoC) intended to guide behavior of employees and subsidiaries (Hurst and Arnesen, 2002). Increasingly, firms are responding to stakeholder demands by drafting Codes of Conduct and other voluntary initiatives for their global *suppliers*, moving beyond the domain of company/employee behavior (Roberts, 2003; Christmann and Taylor, 2002). Conduct codes are essentially policy statements in the form of guidelines designed to provide a values-based decision foundation for employees and suppliers. Codes usually contain language relating to social issues (e.g., human rights, working conditions, etc.) and environmental concerns (e.g., pollution, waste management).

To summarize, we have companies with supply chain networks sprawling the globe, and consumers and NGOs becoming more interested in the factory conditions in which workers labor, both leading to increased reputation risk. Corporate social responsibility initiatives and pressures are increasing, stemming from both internal values and external pressure from stakeholders. Codes of conduct have, thus, emerged as a tool to mitigate reputation risk and operationalize CSR, but implementation difficulties and monitoring challenges are minimizing their overall effectiveness.

RESEARCH QUESTIONS / METHODOLOGY

Given the business needs to address factory conditions and the growing evidence that current CoC implementations are underperforming, this paper—part of a larger project on ethical sourcing—is directed at studying a) the elements presently included in conduct codes and b) how CoCs changed over time.

To investigate changes to conduct codes over time, the approach used by Emmelhainz and Adams (1999) will be replicated. In their study, the CoCs of 27 firms were analyzed for content. Their firms used in their study were taken from a list of progressive retailers and manufacturers identified by the U.S. Department of Labor as “The Trendsetters.” They categorized the content of the codes into the areas of general provisions of the codes, definition of underage workers, working hours, employee rights, and out of compliance enforcement.

Generating our sample of 35 firms to use to compare to Emmelhainz and Adams (1999) proved challenging. Numerous studies in reputation draw their target companies from Fortune’s Most Admired Companies list. Fortune’s Most Admired index includes eight measures: innovation, employee talent, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment value, and quality of products/services. We also started at Fortune’s list, except we limited our search to the top 25 firms on the Social Responsibility metric, rather than the overall ranking. Firms in the *Business Ethics 100 Best Corporate Citizens* were next identified. The suppliers conduct codes for these firms were searched until we had 35 firms in our sample.

FINDINGS

Table 1 is designed to mirror the structure of the data collected and analyzed by Emmelhainz and Adams (1999). Comparisons and analysis from their 1999 study to our 2004 data are listed in the last column of that table and provide the first glimpse into the changes. Most striking are in the area human rights, in that firms in 2004 are much more likely to include elements such as corporal punishment, the right to free association and collective bargaining, and due process. In 1999, just 22% of firms included references to human rights in their codes and in 2004 that number grew to 89%

In general, three major trends emerge from analysis. First, companies are getting much more explicit in their definitions of transgressions. For example, in the area of underage workers (see Table 6), nearly 50% of the 1999 codes didn’t address the issue at all or defaulted to law of the land. In contrast, less than 10% of the 2004 codes used those categories, with the remaining firms attaching an explicit age. Working hours similarly is more explicit and detailed, with nearly 70% of 1999 codes in the “maximum specified by law” or “no max specified” categories, while just over 32% of 2004 codes were in those categories. The second trend is that far more 2004 codes are including provisions for human rights, such as corporal punishment, anti-discrimination, and collective bargaining. This seems to reflect a growing

maturity in the content of codes, as companies become more familiar with the elements and principles of corporate social responsibility.

The final trend is somewhat surprising at first glance, but embodies a more cooperative approach to compliance, rather than an adversarial stance. In 1999, the two most common enforcement actions were “cancel order” and terminate relationship.” In 2004, the two most common actions were “strongly object” and “no specific action.” The idea is—similar to quality programs—to work with the supplier to resolve compliance issues, rather than simply move the business (which causes supply and business disruptions and may unfairly impact employees of the supplier company). Working with supplier managers to eliminate the non-compliant behaviors or policies has the dual benefit of supporting the rights of supplier factory workers and companies own CSR objectives.

Table 1: Conduct Codes Content by Emmelhainz and Adams (1999)

Percentage of Companies Including Provisions:	1999 Firms (Emmelhainz & Adams)	2004 Firms	Changes from 1999 to 2004 (subtraction)
Penalties	59%	37%	-22%
Monitoring	67%	74%	4%
Employee Rights	22%	89%	66%
Underage Workers	89%	91%	3%
Working Conditions	100%	89%	-11%
Definition of Underage Employees:			
No Definition	17%	6%	-11%
Law of the Land	29%	3%	-26%
Below 16	4%	14%	10%
Below 15	17%	31%	15%
Below 14	33%	43%	10%
Unknown	17%	6%	-11%
Working Hours:			
1 Day Off in 7	30%	54%	28%
Compensated OT	44%	71%	31%
No Max Specified	22%	3%	-19%
Max as Specified by Law	48%	29%	-20%
Max < 60 hrs/week	19%	51%	26%
Employee Rights:			
Corporal Punishment	33%	69%	35%
Collective Bargaining	22%	54%	32%
Due Process	4%	34%	31%
Policy on Termination	4%	6%	2%
Policy on Promotion	4%	6%	2%
Policy on Hiring	15%	9%	-6%
No Discrimination	67%	89%	22%
Enforcement Action if Supplier in Noncompliance:			
Payment to HRO	5%	0%	-5%
Legal Action	5%	0%	-5%
Strongly Object	5%	43%	38%
Cancel Outstanding Orders	23%	9%	-14%
Corrective Action	32%	31%	0%
Terminate Relationship	45%	37%	-8%
Cancel Order	59%	11%	-48%
No Stated Action	23%	34%	12%

Full references available from the authors