

# Labour standards and firm growth

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## Question

- *What evidence exists on the impact of labour standards on labour/firms' performance?*
- *Are there policies and programmes from other governments/development actors that promote the beneficial effects of labour standards on firms?*

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# 1. Summary

Businesses see the labour standards compliance as a cost instead of an investment. However, if the standards compliance leads to better business performance, the evidence triggers a shift in employers' perceptions to promote decent work practices. This review looks at available evidence on the impact of standards compliance on worker and business performance. Overall, there are empirical studies confirming **the positive links between decent work practices and firm growth.**

Key findings include:

- Empirical evidence suggests **better standards compliance led to increased labour productivity, firm sales and profit.**
- Effects of **Corporate Social Responsibility (CSR) on firm performance is mixed and inconclusive.**
- Occupational health and safety practices improved worker's safety and illness, yet **direct links between the practices and productivity were not found.**
- **Wages, particularly performance-based payment, had positive effects** on both worker and firm productivity.
- **Long work time had adverse effects on labour productivity** and increased injury risks and illness.
- **Training increased firm-level profit and productivity.**
- There is strong evidence of **positive links between comprehensive human resource management practices and firm productivity and profitability.**
- **No evidence was found on causal links between social security and firm profit** but the literature indicates there are positive associations.
- There are **mixed results on the relationship between protection of labour rights for freedom of association/ collective bargaining and firm performance.**
- Available evidence suggests **negative associations between discrimination and firm profits.**
- **Improving working conditions of women workers led to increased firm profits.**
- Anecdotal studies indicate **inclusive workplaces for persons with disabilities increased firm performance.**

This review provides examples of policies and programmes from governments and development organisations that support businesses to improve their financial performance while improving standards compliance and work practices.

Key findings include:

- There are three types of approaches, **facilitating, partnering and endorsing**, to encourage firms to improve working conditions while increasing firm profit.

- Many programmes have **facilitated supplier factories** to improve working conditions **through technical assistance and awareness raising interventions** while demonstrating the beneficial effects on firms.
- Programmes have also **partnered with multinational companies and global brands** to enhance their labour practices as well as their reputation and brand values.
- There are initiatives **to endorse decent work practices through benchmarking, rating and ranking** better performance businesses.
- Key lessons learned from supply chain interventions highlight the importance of:
  - **Expanding scope and coverage** of supporting firms
  - **Tailoring programmes** to specific needs based on detailed needs assessments
  - **Facilitating social dialogues** among multinationals and suppliers, as well as between employers and workers
  - **Engaging multinationals** to improve their sourcing practices and enhance intervention outreach
  - **Ensuring sustainability** by strengthening national capacity
  - **Evaluating the impact** of interventions to demonstrate the business case for decent work practices.

There are limited rigorous evaluations of the link between labour standards compliance and firm performance, as well as the impact of supply chain interventions. However, more anecdotal and qualitative studies do exist which don't consider other causal factors. Even though the positive impact on labour and firms may increase over time, there is a lack of evidence of the long-term impact. There is significant gender inequality in the workplace while very little studies focused on the gender dimension.

## 2. Impact of labour standards

### Labour standards

**International labour standards** are legal instruments that aim at “promoting opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and dignity” (ILO, 2014a, p.7). Under the supervision of the International Labour Organization (ILO), representatives of governments, employers and workers draw up conventions and recommendations that provide basic principal and rights at work (ILO, 2014a, p.15). The ILO member countries need to promote and realise core labour standards whether these have been ratified or not (ILO, 2014a, p.21). As shown in Table 1, many subjects are covered by the international labour standards.

Table 1: Subjects covered by the ILO international labour standards

• Freedom of association	• Social policy
• Collective bargaining	• Wages
• Forced labour	• Working time
• Child labour	• Occupational safety and health
• Equality of opportunity and treatment	• Social security
• Tripartite consultation	• Maternity protection
• Labour administration	• Domestic workers
• Labour inspection	• Migrant workers
• Employment policy	• Seafarers
• Employment promotion	• Fishers
• Vocational guidance and training	• Dockworkers
• Employment security	• Indigenous and tribal peoples

Source: ILO (2014a, p.15).

In addition to the international labour standards, there are other standards and regulations regulating labour practices and protecting workers (Table 2). Most of the regulations and standards are based on the ILO international labour standards (ILO, 2014a, p.23).

Table 2: Regulations and standards relating to labour practices and rights at work

International labour standards	Basic principles and rights at work (ILO, 2014a, p.15).
National labour laws & policies	Often drafted by either ratifying the ILO conventions or deriving the principles from the ILO standards (ILO, 2014a, p.21).
Guidelines by international organisations	<p><b>OECD (Organization for Economic Co-operation and Development) Guidelines for Multinational Enterprises-</b> recommendations covering all areas of business ethics, including international labour standards<sup>1</sup>.</p> <p><b>The United Nations Guiding Principles on Business and Human Rights-</b> a set of guidelines for States and companies to prevent, address and remedy human rights abuses committed in business operations<sup>2</sup>.</p> <p><b>The United Nations Global Compact-</b> a policy initiative to align business operations with ten principles in the areas of human rights, labour, environment and anti-corruption<sup>3</sup>.</p> <p><b>IFC (International Finance Corporation) Performance Standards for Labour and Working Conditions-</b> guidelines for the labour standards of their client companies<sup>4</sup>.</p>
Multi-stakeholder/ company-led code initiatives	<b>Ethical Trading Initiative (ETI)</b> - a UK-based alliance of companies, aims to improve workers' lives and offers a set of labour standards that ETI members use for working condition improvements <sup>5</sup> . See other initiatives in Annex.
Corporate/ Industry codes of conduct	Voluntary codes made by corporations, associations and industries. <b>Corporate Social Responsibility (CSR)</b> is one of the corporate codes of conduct.
Certification systems	<b>Social Accountability 8000 (SA 8000)</b> <sup>6</sup> - a certification standard for managing human rights in the workplace, created by the Social Accountability International (SAI).
Trade and Regional agreements	Free-trade agreements often have social and labour provisions related to workers' rights (ILO, 2014a, p.24). Examples include North American Free Trade Agreement (NAFTA), reaffirming the parties' commitments to labour standards compliance.

Source: Author compilation

<sup>1</sup> <http://mneguidelines.oecd.org/>

<sup>2</sup> <https://www.business-humanrights.org/en/un-guiding-principles>

<sup>3</sup> <https://www.unglobalcompact.org/aboutthegc/>

<sup>4</sup> [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/performance-standards/ps2](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps2)

<sup>5</sup> <https://www.ethicaltrade.org/eti-base-code>

<sup>6</sup> <http://www.sa-intl.org/index.cfm?fuseaction=page.viewpage&pageid=1689>

## Constraints on and incentives for compliance

There are both constraints and incentives for firms to meet labour standards. It is essential for development practitioners and policymakers to understand key drivers of non-compliance when designing programmes (ILO, 2015, p.28). For instance, without improving their business performance and their position within the market, small companies operating with narrow margins, have fewer incentives and capacities to invest in their workforce (ILO, 2015, p.3). The main constraints and incentives are summarised in Table 3.

Table 3. Constraints on and incentives for complying with labour standards

	Constraints	Incentives
Internal factors	<ul style="list-style-type: none"> <li>- Poor employee/ employer awareness and knowledge of decent work practices (ILO, 2015, p.26)</li> <li>- Lack of information and guidance (Croucher et al., 2013, p.20)</li> <li>- Time restrictions (Croucher et al., 2013, p.20)</li> <li>- Poor awareness and knowledge of social benefits (ILO, 2015, p.27)</li> <li>- Limited investment capital (ILO, 2015, p.3)</li> <li>- Inappropriate or insufficient equipment/machinery (ILO, 2015, p.27)</li> <li>- Difficulty of getting buy-in within a company (UN Global Compact, 2018, p.8)</li> </ul>	<ul style="list-style-type: none"> <li>- Attracting and retaining qualified employees (ILO, 2007, p.2)</li> <li>- Better relations with employees (ILO, 2007 p.2)</li> <li>- Increased worker efficiency and productivity (ILO, 2017, p.2)</li> <li>- Better product and service quality (ILO, 2007, p.2)</li> </ul>
External factors	<ul style="list-style-type: none"> <li>- Price and time pressures from buyers and contractors (ILO, 2016, p.35)</li> <li>- Lack of appropriate state legislation, policies and codes of conduct</li> <li>- Limited capacity of public agencies to regulate, enforce and inspect firm practices (ILO, 2015, p.22)</li> <li>- Lack of accessibility for businesses to social benefits (ILO, 2014b, p. vi)</li> </ul>	<ul style="list-style-type: none"> <li>- Better relationship with buyers (ILO, 2016, p.32)</li> <li>- Risk management (ILO, 2007, p.2)</li> <li>- Better access to credit, services and funding sources (ILO, 2007, p.2)</li> <li>- Customer loyalty (ILO, 2007, p.2)</li> <li>- Brand image and reputation (ILO, 2007, p.2)</li> </ul>

Source: Author compilation

## The standards compliance and firm performance

Existing empirical evidence reveals that **compliance with labour standards improved firms' position in the supply chains, and increased firm profitability** (Distelhorst & Locke, 2018, p.697; ILO, 2014b, p.1; IFC, 2012, p.3). Very little evidence exists that refutes the positive link between standards compliance/ decent work practices and firms' performance.

Oka (2012) examined the link between labour standards compliance and the degree to which supplier factories attract and retain foreign buyers, using data from 14 buyers and around 400 garment factories in Cambodia. She examined their compliance levels relating to contracts, wages, hours, leave, welfare, occupational safety and health (OSH), labour relations, and fundamental rights, based on the Cambodian labour law and the international core labour standards (Oka, 2012, p.13). The study finds that better compliance performance by the firms, particularly for compliance with occupational safety and health standards and protections of labour rights, contributed to the development of long-term relationships with buyers (Oka, 2012, p.22). However, she also suggested that compliance with labour standards was not a sufficient condition for increasing the number of buyers, given that other factors such as product price, quality and delivery time influenced buyers' decisions (Croucher et al., 2013, p.26).

Distelhorst and Locke (2018, p. 699) empirically examined the relationship between the value of customer orders and the level of compliance with social standards, including labour standards, by using audited information from over 2,000 manufacturing factories in 36 countries. They suggest that the compliant factories received order values which were 63 % more than those of non-compliant factories (Distelhorst & Locke, 2018, p.701). They also found that, when the factories improved levels of compliance, this transition resulted in an average 4 % increase in their annual order value (Distelhorst & Locke, 2018, p.702).

Together these studies suggest that **importers and buyers prefer doing business with firms that comply with social standards** (Oka, 2012, p.22; Distelhorst & Locke, 2018, p.701). This finding broadly supports an econometric study by Kucera (2001). He examined the link between levels of workers' rights protection and Foreign Direct Investment (FDI) at national-level using data from 127 countries (Kucera, 2001, p.1). This research revealed that countries with low levels of protection of worker rights (i.e. freedom of association and collective bargaining, child labour, gender inequality) attracted less foreign investors (Kucera, 2001, p.33).

Another empirical study examined the link between the adoption of Social Accountability 8000 (SA8000) and firm performance (Orzes et al., 2017). SA8000 is the most widely used ethical certification standard created by Social Accountability International (SAI). The SAI sets requirements related to labour practices and worker rights for firms based on the ILO conventions (Orzes et al., 2017, p.1626). They found that SA8000 certification has a significant positive effect on labour productivity and sales performance but no significant effect on profitability (Orzes et al., 2017, p.1642-43). This could be because effects on profitability require more extended periods to be achieved compared to effects on labour productivity and sales. This result is consistent with the finding of a case study showing that the Hua Hui Industrial Company increased orders from customers by 30 % after the introduction of SA 8000 certification (Cowe, 2002, p.40).

Further evidence comes from 'Better Work' Programme', an initiative by the International Labour Organization (ILO) and the International Finance Corporation (IFC) aimed at both improving working conditions and promoting the firm competitiveness of garment factories<sup>7</sup>. The independent impact assessment of the programme in Viet Nam found that firms with better working conditions showed higher levels of worker productivity than workers in worse condition factories (ILO, 2016, p.30). It also established a direct link between better working conditions and higher profit firms: the firms with better working conditions obtained 8 % higher profits than other

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<sup>7</sup> <https://betterwork.org/>

firms (ILO, 2016, p.31). While causal links were not established, the study found that these factories improved business terms with buyers and order sizes in their supply chains (ILO, 2016, p.32).

This review was not able to identify other rigorous empirical studies - only case studies and anecdotal evidence. Much of the literature frequently highlighted the dearth of rigorous empirical studies in this field (Distelhorst and Locke, 2018, p.698; Croucher et al., 2013, p.24; Oka, 2005, p.5, ILO, 2016, p.29). The benefits of labour standards compliance for firm performance are summarised in Table 4.

Table 4: Positive impact of labour standards compliance on firm performance

Worker performance	Firm performance
<ul style="list-style-type: none"> <li>- <b>Increased productivity</b></li> <li>- Reduced staff-turnover</li> <li>- Reduced absenteeism</li> <li>- Increased loyalty, motivation and commitment</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Retain and obtain buyers</b></li> <li>- <b>Increased profitability</b></li> <li>- <b>Increased sales and order values</b></li> <li>- Reduced regulatory burdens, excessive inspections and auditing</li> </ul>

Source: Author compilation

## Corporate Social Responsibility (CSR) and firm performance

While there is sizeable academic literature on the link between CSR and firm profitability **the results are mixed and inconclusive.**

For instance, Flammer (2015) used a quasi-experimental approach to examine the effects of CSR on companies' financial performance. The study found that CSR increased labour productivity and sales, resulted in positive announcement returns and accounting performance (Flammer, 2015, p.2). This result reflects a large body of empirical evidence and theoretical views that CSR benefits firm competitiveness and profitability (Porter and Kramer, 2011, Hart 1995; Barnett and Salomon, 2006; Wang and Choi, 2013).

By contrast, Lu et al. (2014, p. 6) reviewed 84 empirical studies on the relationship between CSR and financial performance. Nearly half of studies confirmed a positive causal relationship while other studies showed either negative or non-significant relationships (Lu et al., 2014, p.10). This result supports studies finding negative relationships (Renneboog et al., 2008; Brammer et al. 2006), and mixed results (Choi et al., 2010).

### BOX1. CSR and labour standards

The International Labour Organization (ILO) has defined CSR as "...a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law" (ILO, 2006, p.1). CSR can enhance the application of labour standards and good work practices in the workplaces (ILO, 2007, p.12). In particular, CSR plays a vital role in governing labour practices when there is not appropriate labour law and policies and weak public governance systems (ILO, 2007, p.12).

Differences in approach and content of CSR initiatives make it difficult to generalise these findings; thus the effects on firm performance remain controversial (Orzes et al., 2017, p.1625).

### 3. Impact of labour practices

#### Labour practices and working conditions

Many empirical studies examined the relationship between labour practices and firm and worker performance. This review focuses on eight aspects of labour practices: **occupational safety and health, wages, working time, training, human resource management, social security, freedom of association/collective bargaining and equality**. The ILO provides standards and codes of practice relating to each of these (Table 5). This review also includes studies of human resource management interventions, including recruitment, performance appraisal, performance-based payment, and training. Many studies in this category were found as it directly influences the improvement of working conditions (Croucher et al., 2013, pp.13-14). This review does not focus on negative labour practices such as child labour and forced labour.

Table 5: Role of specific labour practices in international labour standards

Subject	Roles of the standards
Occupational safety and health	- Protect workers from sickness, disease and injuries at work
Wages	- Promote access to regular wage, - Establish a minimum wage - Protect workers' claims in case of insolvency and bankruptcy proceedings
Working time	- Regulate working hours - Ensure adequate rest periods and annual holidays for workers
Training	- Guide countries to develop human resource development practices and training policies
Social security	- Provide minimum standards for social security benefits and conditions for workers, such as healthcare, maternity benefits, unemployment benefits and social services.
Freedom of association/ Collective bargaining	- Provide workers with rights to form organisations and associations - Enable both employers and workers to negotiate issues related to wages and conditions of employment - Establish a fair and equal employment relationship
Equality of opportunity and treatment	- Eliminate discrimination in all aspects of the workplace

Source: Adapted from ILO (2014a, p.26).

#### Occupational Safety and Health (OSH)

Empirical evidence **does not show that OSH activities have an impact on firm productivity** although **OSH activities reduced occupational injuries and illness**, which have a negative impact on worker productivity (Croucher et al., 2013, p.18).

For instance, Sheikh, Gardiner and Brettell (2006) assessed the relationship between health and safety activities and sectoral economic performance using comprehensive datasets of UK firms. The study found that health and safety activities were not statistically correlated with firm-level productivity (Sheikh et al., 2006, p.53). Additionally, Arocena and Núñez (2010) surveyed 193 manufacturing firms in Spain and found that there was no direct link between OSH management and firm performance, although the presence of OHS management systems reduced the rate of injuries and occupational accidents (cited in Croucher et al., 2013, p.52). Massey, Lamm and Perry (2007, p. 11) also argue that there is evidence that injuries and illnesses have adverse effects on productivity, though the reduction of incidents does not automatically lead to productivity gains.

It is difficult to build direct causal links as the effects are highly context-dependent, and effects on labour productivity appear after a certain period (Croucher et al., 2013, p.25). There are limited studies of developing countries because of lack of OSH practices, reporting problems and poor quality data (Croucher et al., 2013, p.17). Overall, it is not clear that investments in OSH activities can improve labour and firm productivity but they do reduce incidents of occupational injuries and illness (Croucher et al., 2013, p.18).

## Wages

There is **evidence of positive associations between wages and firm performance** (Croucher et al., 2013, p.34). For instance, Brown, Dehejia, Robertson and Veeraragoo (2014) examined the link between wage increase and firm growth in Viet Nam and confirmed that higher wages appear to boost the bottom line of factories. They found that the factories achieved a 0.6 % increase in profits with a 1 % increase in wage levels over their added costs, by fostering greater productivity among workers (ILO, 2018a, p.2).

This result echoes the findings from developed countries. An increase in workers' wages had positive effects on small firms' productivity in France (Croucher et al., 2013, p.33). The French government provided a scheme to support local young companies in the information and communication sectors. This scheme supported increases in workers' salary, which were associated with increased firms' productivity (Croucher et al., 2013, p.33).

Econometric research by Croucher and Rizov (2012), examined the labour productivity of over 360,000 British firms and how it changed after the introduction of the national minimum wage, which increased average workers' wages (Croucher et al., 2013, p.32). It reveals that the rise of the minimum wage was positively correlated with firm-level productivity growth, particularly in low-paying sectors such as social care (Croucher & Rizov, 2012, pp.282-283).

However, the evidence base is weak with regard to causality (ILO, 2014b, p.28). There are also prolonged debates about the negative effects of raising the minimum wage on social and economic development (Croucher et al., 2013, p.34). For instance, increasing minimum wages, while increasing formal sector workers' wages, has the potential to increase unemployment and under-employment, with lower wages in the informal sector (Croucher et al., 2013, p.34).

Empirical evidence confirmed that **performance-based payments improved labour productivity and firm performance** (Croucher et al., 2013, p.34). For instance, Sheehan (2013) found positive effects of performance-based compensation on firms' financial performance among SMEs in the UK (Croucher et al., 2013, p.32). This result is consistent with empirical research by King-Kauanui, Ngoc and Ashley-Cotleur (2006) who surveyed 200 manufacturing

firms in Viet Nam. They examined how different human resource management practices affected firm performance and suggested that the incentive payment systems had the most significant positive impact on their sales and profitability (King-Kauanui, Ngoc & Ashley-Cotleur, 2006).

## Working time

**Long working hours and overtime have negative effects on workers' productivity, and lead to increased injuries and health issues** (Croucher et al., 2013, p.41). For instance, Cette, Chang and Konte (2011) examined the link between hourly productivity and working time at the national-level in 18 OECD countries. They found that a 1% increase in working hours decreased labour productivity by nearly 0.9 % (Cette et al., 2011, p.10).

This is consistent with the findings of a literature review on the relationship between excessive overtime and labour productivity (Seo, 2011). He found that excessive overtime can lead to poorer worker health, reduced efficiency, and high rates of accidents, resulting in high worker turnover (Seo, 2011, pp.11-15).

As for work time flexibility, studies show **both positive and negative effects of flexible work time** on worker performance (Croucher et al., 2013, p.39). Golden (2012) synthesised studies on the link between work time and outcomes. He found that flexible work time increased firm profits by increasing worker productivity and satisfaction, reducing absenteeism and staff turnover and attracting a motivated work force (Golden, 2012, p.11). By contrast, studies reviewed by Croucher et al. (2013, p. 39) show that irregular work time had adverse effects on safety and health. They found that **the degree to which workers can influence their working hours matters** (Croucher et al., 2013, p.38). For instance, Becker et al., (2008) found that voluntary overtime led to job satisfaction while involuntary overtime increased levels of fatigue and lowered satisfaction (Croucher et al. 2013, p.38).

## Training

**The effects of training on labour and firm performance are generally positive.** Tharenou, Saks and Moore (2007) conducted a meta-analysis of 67 studies of the relationship between training provisions and firm performance. They found that training was positively related to lower labour turnover, higher worker retention, and more job satisfaction (Tharenou et al., 2007, p. 262). However, there are limited empirical studies on the effects on worker-level productivity (Croucher et al., 2013, p.46).

At organisational-level, they found positive relationships between training provisions and firm productivity and sales, but the effects on firm profits were weak (Tharenou et al., 2007, p.266). This result can be explained by the fact that training directly influences worker performance while organisational performance such as firm profit is affected by other factors and any impact appears after a certain period (Tharenou et al., 2007, p.267). By contrast, strong positive effects on firm profitability are reported by other empirical studies in the UK and Belgium (Sheehan, 2013; Sels et al., 2006). Furthermore, Huang (2001) examined the effect of training on the performance of Taiwanese SMEs and found a statistically significant positive relationship between the proportion of trained staff and profitability (cited in Croucher et al., 2013, p.44).

A number of studies identified potential mediating factors affecting the effects on firm performance: 1) industrial sectors, 2) training types (informal or formal, in-house or externally), 3) training intensity. For instance, Devins, Johnson and Sutherland (2004) conducted surveys to

over 1,000 employees in the UK to examine the impact of training on worker performance. Although the training had positive effects on trained workers' performance, the effect differed across different sectors (Croucher et al., 2013, p.46). There was also a difference between long- and short-term effects of training (Croucher et al., 2013, p.44).

## Human Resource Management (HRM) practices

HRM practices can be defined as a group of interventions including recruitment, performance appraisal, performance-based payment, training, employee participation, information sharing, as well as strategic human resource management to develop, retain and motivate workers (Croucher et al., 2013, p.13).

There is strong evidence that **bundles of HRM practices have a positive impact on firms' productivity and profitability, staff retention, innovation and customer satisfaction** (Croucher et al., 2013, p.28). For example, a meta-analysis of 65 empirical studies on the link between HRM practices and firm outcomes shows that HRM practices were positively correlated with employee retention, firm profit and productivity (Subramony, 2009, p.756). In particular, the HRM practices were effective when they focused on employees' motivation, empowerment and skills enhancement (Subramony, 2009, p.757). Sheehan (2013) examined HRM practices in small firms in the UK. His study reveals significant positive relationships between HRM practices and firm profit and rate of innovation (Croucher et al., 2013, p.13).

Rigorous mixed methods studies also found the same results in developing countries (Croucher et al., 2013, p.27). In Mexico, factories carrying out comprehensive HRM practices such as higher wages, training, and workers' participation in decision-making, showed higher labour productivity than their counterparts who did not (Locke & Romis, 2009, p.32).

These positive effects on firm profitability can be explained by the fact that responsible and decent HRM practices increased worker motivation and loyalty, reduced staff turnover, in turn leading to cost-savings on new recruitment and training of new staff, and consequently increased firm profits (Croucher et al., 2013, p.41).

## Freedom of Association/ Collective Bargaining

Empirical evidence shows **mixed results** on the relationship between protection of labour rights for freedom of association/ collective bargaining and firm performance (Grimshaw et al., 2017, p.18). For instance, the impact of union workplace representation on firm productivity was positive among manufacturing firms in Chile, Mexico, Panama and Uruguay but negative in Argentina (Rio-Avila, 2014, pp.19-20).

This result is consistent with the findings from a recent meta-analysis of 111 studies, showing that union presence had a positive effect on firm productivity, but the effect differed across different countries (Doucouliagos, Freeman & Laroche, 2017; Grimshaw et al., 2017, p.19). Thus, negative effects were found in Guatemala. An econometric analysis suggests that union presence had negative effects on firm-level productivity of coffee farms (Urizar and Lee, 2003, p.32).

These results contrast with the positive finding by Deakin (2016) that securing workers' right for representation and raising their voices have positive effects on labour productivity (Deakin, 2016, p.17). Deakin (2014) used econometric analysis to examine the role of labour laws supporting

workers' voice and collective bargaining, in national-level economic performance in Brazil, China, Indian, Russia and South Africa. He found that employment representation was positively correlated with a decrease in inequality and human development index score, resulting in increased labour productivity (Deakin, 2014, p.20). Factors affecting these mixed results include: 1) characteristics of social dialogues, 2) country-specific contexts, and 3) worker-management relations (Grimshaw et al., 2017, pp.18-20).

## Social Security

**No empirical evidence was found to establish causal links between social security and firm productivity** (ILO, 2014b, p.26). Single research by ILO (2014b) focuses on the link between social security and firm performance and reviewed relevant literature and empirical studies, yet no studies were found.

Theoretically, social protection provides access to health care, which contributes to reduction in periods of absence, illness and accidents (ILO, 2014b, p.9). It motivates workers and increases their loyalty to employers, all of which increase worker retention and overall productivity (ILO, 2014b, p.9). These theoretical arguments suggest that social protection provisions could improve labour and firm productivity (ILO, 2014b, p. iii).

## Equality of Opportunity and Treatment

Empirical evidence indicates that **discrimination had negative effects on firm and worker performance**. For instance, Rourke (2014) empirically measured the relationship between verbal abuse and firm performance in garment factories in Viet Nam (Rourke, 2014, p.4). He found that the frequency of reported verbal abuse was negatively correlated with worker productivity. Although a causal link was not established due to the small size of datasets, there was a negative association between verbal abuse and firm profits (Rourke, 2014, p.50).

### BOX 2. Women and working conditions

- Longer work hours than males
- More shift work than males
- Additional family work
- Poor access to training and protective equipment
- Insufficient legislation to protect women's rights
- Wage gap between male and female workers

Source: Choi (2005), Croucher et al. (2013).

There is significant gender inequality in the workplace (see BOX 2). This review of the link between labour practices and enterprise-level outcomes found very little that focused on the gender dimension (Croucher et al., 2013, p.50).

Empirical studies show that **improving the working conditions of women workers increased firm profits** (BSR, 2017, p.2). For instance, women empowerment activities improved women workers' access to health services in garment factories in Bangladesh (USAID, 2007). It led to an 18 % reduction in absenteeism, a 43 % decrease in staff turnover, as well as an overall return on investment of 3:1 (BSR, 2017, p.4). Other

health projects for women workers in factories in Egypt also found a 4:1 return on investment in women empowerment activities for companies (BSR, 2017, p.3).

This review was not able to find rigorous empirical studies for business cases for including persons with disabilities although there is an increasing number of initiatives and practices to promote decent work for persons with disabilities<sup>8</sup>.

Many anecdotal studies reported that hiring people with disabilities improved workforce morale and teamwork, reduced staff turnover, and lowered recruiting costs (ILO, 2018d, p.1). Workers with disabilities had higher productivity and attendance rates and fewer safety incidents than non-disabled workers (ILO, 2018d, p.1). For instance, “Eureka Call Center Systems”, a Singapore-based company, initiated to train and hire people who are visually impaired (ILO, 2014c, p.34). They found that the disabled workers were more punctual and motivated and had higher productivity than non-disabled workers. After the company employed visually impaired staff, staff turnover rate of the company reduced from nearly 40 % to 2 % (ILO, 2014c, p.36).

Inclusion of people with disabilities also leads to improved reputation. Studies shows that 92 % of consumers prefer companies hiring people with disabilities than those that do not (ILO, 2014c, p.28). These arguments indicate that **inclusive workplaces for persons with disabilities have positive effects on firm performance.**

The positive effects of different labour practices are summarised in Figure 1.

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<sup>8</sup> <http://www.businessanddisability.org>

		Safety & Health	Wages	Working time	Training	HRM	Association	Social Security	Equality
Worker	Productivity	Pink	Red	Red	Pink	Red	Red	Pink	Red
	Motivation, commitment satisfactions	White	White	Red	Red	Red	Red	Pink	Pink
	Retention	White	Red	Red	Red	Red	Red	Pink	Pink
	Fewer injuries and illness	Red	White	Red	White	White	White	Pink	Pink
Firm	Productivity	White	Red	Red	Red	Red	Red	Pink	Pink
	Sales	White	Red	Red	Red	White	White	White	White
	Profits	White	Red	Red	Red	Red	Red	White	Pink
	Customer relations	White	White	White	White	Red	Red	White	Pink
	Innovation	White	White	White	White	Red	Red	White	White

Figure 1: Positive effects of decent work practices on workers and firms

Note: Red shades indicate strong causal links, and pink shades indicate weak associations.

## 4. Interventions

This review looks at policies and programmes by governments and international organisations which aim to maximise business benefits through effective worker rights protections and decent work practices. Business benefits include improving operational efficiency, reducing legal risk, strengthening reputation and brand value, attracting and retaining qualified employees, and increasing financial profits.

## Intervention models and designs

There are four intervention models used by governments and development institutions to encourage responsible business practices: partnering, facilitating, endorsing and mandating (Fox et al., 2002, p.4). This review uses this framework to identify programmes and policies for promoting both decent labour practices and commercial benefits, focusing on **partnering, facilitating and endorsing models** to promote compliance of labour standards as opportunities rather than as obligations.

Table 6: Intervention models and designs

	Mandating	Facilitating	Partnering	Endorsing
Modalities	<ul style="list-style-type: none"> <li>• Defining minimum standards</li> <li>• Establishing enforcers and inspectorates</li> <li>• Legal and fiscal penalties and rewards</li> </ul>	<ul style="list-style-type: none"> <li>• Creating incentives</li> <li>• Capacity building</li> <li>• Funding support</li> <li>• Raising awareness</li> <li>• Stimulating markets</li> </ul>	<ul style="list-style-type: none"> <li>• Public-private partnerships</li> <li>• Facilitating dialogue</li> <li>• Working with multilateral agencies and civil society to build capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Publicity and praise of leading companies</li> <li>• Endorsing specific standards systems, approaches and guidelines</li> </ul>

Source: Fox et al. (2002).

## Examples

Overall, many programmes **facilitate** decent working conditions **through technical assistance and awareness raising** while demonstrating the beneficial effects on firms. These programmes mainly target **supplier factories** in the global supply chain. The programmes focus on either **overall working conditions** or **specific labour practices** such as health, safety, and collective actions.

**Partnering and endorsing models** are used for enhancing labour practices of **multinational companies**. There are initiatives **to endorse decent work practices through benchmarking, rating and ranking** better performance businesses.

There are also **research initiatives to collect business cases** for decent working conditions as there is a lack of systemic assessment (though considerable anecdotal evidence exists) (Hinds, 2015, p.18). Identified programmes are summarised in Table 7.

Table 7: Classifications of programmes

Models	Programmes	Target	Activities
<b>Facilitating</b>	<ul style="list-style-type: none"> <li>• <b>Better Work</b></li> <li>• <b>BIF</b></li> <li>• <b>Sustainable Brands</b></li> <li>• <b>The ILO Lab</b></li> <li>• <b>ILO Helpdesk</b></li> </ul>	Domestic enterprises, Multinationals	<ul style="list-style-type: none"> <li>• Technical assistance (Training, advisory services, needs assessments) to companies</li> <li>• Awareness raising</li> <li>• Social dialogue support</li> <li>• Monitoring &amp; evaluation</li> </ul>
<b>Partnering</b>	<ul style="list-style-type: none"> <li>• <b>HER project</b></li> <li>• <b>SCORE</b></li> </ul>	Public agencies, Multinationals, Civil society	<ul style="list-style-type: none"> <li>• Technical assistance to partners</li> <li>• Awareness raising to partners</li> </ul>
<b>Endorsing</b>	<ul style="list-style-type: none"> <li>• <b>Know The Chain</b></li> <li>• Corporate Human Rights Benchmark<sup>9</sup></li> <li>• UN Guiding Principles Reporting Framework<sup>10</sup></li> </ul>	Multinationals, Domestic enterprises	<ul style="list-style-type: none"> <li>• Benchmarking</li> <li>• Ranking</li> <li>• Rating</li> <li>• Rewards</li> </ul>

Source: Author compilation

## Facilitating

### CASE1: Better Work Programmes

The Better Work programmes is an initiative of the International Labour Organization (ILO) and the International Finance Corporation (IFC), aims at improving working conditions and promoting the competitiveness of garment factories (ILO, 2018b, p.1). The programme trains workers and management team, provides advisory services on factory improvements and conducts compliance monitoring, which help factories improve profits while encouraging decent work practices and protecting workers' rights.

Implementer	ILO & IFC
Donor	ILO & IFC
Objectives	To improve working conditions and respect for labour rights for workers To boost the competitiveness of apparel businesses
Targets	The garment industry in Bangladesh, Vietnam, Cambodia, Egypt, Haiti, Indonesia, Jordan, Nicaragua, Viet Nam
Current outreach	1,450 factories, over 1.9 million workers
Duration	Since 2007
Further information	<a href="http://betterfactories.org">http://betterfactories.org</a>

<sup>9</sup> <https://www.business-humanrights.org>

<sup>10</sup> <http://www.ungpreporting.org>

### **Strategies: Engaging multinational buyers**

A vital aspect of the programme design is **to engage international buyers, such as leading brands and retailers, to conduct responsible sourcing practices**, such as adequate monitoring and due diligence practices (ILO, 2016, p.51). At the same time, the programme has provided them with compliance assessments reports of their supplier factories. Through engaging the buyers in the compliance monitoring, they can influence the factories to carry out needed improvements (ILO, 2016, p.51).

### **Strategies: Providing factories incentives for compliance**

**Public reporting systems** have also provided further incentives for the factories to improve working conditions (ILO, 2018a, p.2). After fair notice, the assessment results are disclosed to the public, which has become a strong incentive for factories to make improvements and manage their reputation.

Main Activities	Results
<p>Provision of a package of support services for factories</p> <ul style="list-style-type: none"><li>- Self-diagnostic guidance for factories to identify priority issues</li><li>- Establishment of worker-management committees to improve workplace communication and cooperation</li><li>- Provision of learning services including advisory services, industry seminars and training courses</li><li>- Compliance assessment</li></ul>	<p><b><u>Impact on firm performance (Viet Nam)</u></b></p> <ul style="list-style-type: none"><li>- An average 22 % increase in firm productivity</li><li>- An average 25 % increase in profitability (the ratio of total revenue versus total costs) (ILO, 2016, p.6)</li></ul> <p><b><u>Impact on working conditions</u></b></p> <ul style="list-style-type: none"><li>- 18 % reduction in the probability of workers reported sexual harassment concerns in Jordan (ILO, 2016, p.18)</li><li>- A decline in the prevalence of verbal abuse in Jordan, Haiti, Viet Nam and Indonesia</li><li>- 4-hour reduction in working hours per week in Viet Nam (ILO, 2016, p.21)</li><li>- A decline in worker concern about low pay in Viet Nam (ILO, 2016, p.22)</li></ul>

Source: ILO (2016).

### **CASE 2: Business Innovation Facility (BIF)**

The BIF is a market systems development programme, which encourages more inclusive market systems and business models for the poor and disadvantaged people. The BIF Myanmar supports garment factories to improve both productivity and human resource management systems through training and consultancy services “with the objective of building a business case on the commercial link between worker welfare, improved productivity and profitability” (DFID, 2017, p.2).

Implementer	Price Waterhouse Coopers (PwC) UK
Donor	DFID (Department for International Development)
Objectives	To improve practices, efficiency and positioning of factories for supplying larger buyers in the international market. To build a business case on the commercial link between worker welfare, improved productivity and profitability.
Targets	Myanmar, garment factories
Outreach	15 garment factories 2,603 people benefitting from improved working conditions <sup>11</sup>
Duration	2013-17
Further information	<a href="http://www.bifprogramme.org/">http://www.bifprogramme.org/</a> <a href="http://www.bifprogramme.org/projects/garment-factory-productivity-and-hr-training">http://www.bifprogramme.org/projects/garment-factory-productivity-and-hr-training</a> <a href="http://www.bifprogramme.org/projects/building-business-case-investing-worker-welfare-and-productivity-garment-factories">http://www.bifprogramme.org/projects/building-business-case-investing-worker-welfare-and-productivity-garment-factories</a>

### ***Strategies: Demonstrating the link between productivity and worker welfare***

In order to enhance compliance, the programme **demonstrated to employers the commercial benefits of improving worker welfare** (ILO, 2017b, p.16). Before and during the training, the potential financial benefits of the training as well as the potential costs of not improving their human resource practices were communicated to the management teams. This strategy motivated the employers to apply learned knowledge and techniques to their actual operations (ILO, 2017b, p.35).

In addition, there was a strong focus on developing a business case to demonstrate the commercial benefits of improving worker welfare. BIF worked with Tufts University to run a Randomised Controlled Trial (RCT) to collect evidence on the link between worker welfare and profitability of garment manufacturers<sup>12</sup>.

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<sup>11</sup> ILO, 2017b, p.35

<sup>12</sup> <http://www.bifprogramme.org/projects/building-business-case-investing-worker-welfare-and-productivity-garment-factories>

Main Activities	Results
<ul style="list-style-type: none"> <li>- Needs assessments</li> <li>- Training and consultancy about productivity</li> <li>- Training and consultancy about human resource practices               <ul style="list-style-type: none"> <li>• Introducing support networks, formal and accessible communications and feedback systems</li> <li>• Promotion and appraisal processes</li> <li>• Policies on induction, leave and absenteeism</li> <li>• Health and safety procedures</li> </ul> </li> <li>- Facilitating relationships between international buyers and factories</li> <li>- Organisation of conferences among stakeholders to discuss workplace issues</li> <li>- Impact evaluation</li> </ul>	<p><b><u>Impact on worker and firm performance</u></b></p> <ul style="list-style-type: none"> <li>- Average 19% reduction in absenteeism (ILO, 2017b, p.51)</li> <li>- Average 37% reduction in employee turnover (ILO, 2017b, p.51)</li> <li>- 10% increase in average number of garments produced per worker (ILO, 2017b, p.51)</li> <li>- A 23% average increase in productivity (DFID, 2017, p.2)</li> </ul> <p><b><u>Impacts on working conditions</u></b></p> <ul style="list-style-type: none"> <li>- Average 68% increase in take home pay for employees (ILO, 2017b, p.39)</li> <li>- Introduction of leave policy (ILO, 2017b, p.35)</li> <li>- Improved teamwork between managers and workers (DFID, 2017, p.2)</li> <li>- Improved workers' perceptions about working styles and workplace harassment (DFID, 2017, p.2)</li> <li>- Publication of a Code of Conduct about child labour by Myanmar Garment Manufacturers Association (ILO, 2017b, p.35)</li> </ul>

Source: ILO (2017b), DFID (2017).

### CASE 3: Research and Knowledge Dissemination

There are initiatives and projects to **examine the impact of standards compliance and improved working conditions on firm performance** to demonstrate how responsible labour practices have improved business performance, and to **disseminate good business models**.

#### Sustainable Brands

“Sustainable Brands<sup>13</sup>” is a community of over 348,000 companies and brands that use responsible and sustainable business models. It aims at helping and facilitating businesses to innovate sustainable business practices in a profitable way. It provides resources such as online information, live events and learning documents to share key trends, best practices and solutions. It also offers a number of examples of business cases for sustainable practices<sup>14</sup>.

<sup>13</sup> <https://www.sustainablebrands.com/>

<sup>14</sup> [https://www.sustainablebrands.com/news\\_and\\_views/Business%20Case/all](https://www.sustainablebrands.com/news_and_views/Business%20Case/all)

## The ILO Lab

The Lab is a research project of ILO, funded by Swiss State Secretariat for Economic Affairs (SECO). It aims to enhance market systems development approaches to address decent work issues<sup>15</sup>. As a part of their research, the Lab currently examines **successful business models that achieve both decent work and commercial benefits** through case studies, interviews, literature reviews (Ripley and Martinez, 2018, pp.1-2).

## ILO Helpdesk for Business on International Labour Standards

The ILO Helpdesk for Business is a service from ILO that provides information to companies, trade unions and workers, on a variety of labour topics and **helps them understand how their business can better align with international labour standards**; it serves as a one-stop shop for companies and workers (ILO, 2018c).

The ILO Helpdesk provides answers to specific questions about various aspects of labour standards, such as child labour, discrimination and industrial relations, through a telephone call or by email<sup>16</sup>. The ILO experts provide confidential individual assistance services for free (ILO, 2018c).

## Partnering

### CASE 1: HER (Health Enables Returns) Project

HER (Health Enables Returns) Project aims at empowering women workers in global supply chains along with providing supportive work environments and fair workplaces (Yeager, 2011, p.1). It provides training and health services to women workers in local supplier firms.

The project has **closely partnered with global brands and multinational companies**, such as Twinings and Marks & Spencer, and has become part of the CSR initiatives. For instance, Levi Strauss & Co. (LS & Co.) implemented HER projects as part of their CSR programme called "Worker Well-being". The Worker Well-being programme looks beyond labour compliance to improve the lives of workers by supporting their financial empowerment, health and family well-being and equality and acceptance<sup>17</sup>.

As HER project focus on the business-case argument, training is provided for the management teams of supplier factories to introduce business cases for investment in women workers at the start of each programme (BSR, 2011, p.8). In the case of LS & Co, they demonstrated business value to supplier firms and gained financial investment from the supplier firms, enabling programme implementation without direct funding from LS & Co. (BSR, 2017, p.8).

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<sup>15</sup> [https://www.ilo.org/empent/Projects/the-lab/WCMS\\_326500/lang--en/index.htm](https://www.ilo.org/empent/Projects/the-lab/WCMS_326500/lang--en/index.htm)

<sup>16</sup> <https://www.ilo.org/empent/areas/business-helpdesk/about-us/lang--en/index.htm>

<sup>17</sup> <http://supply-chain.unglobalcompact.org/site/article/205>

Implementer	Business for Social Responsibility (BSR™) (Non-profit organisation)
Donor <sup>18</sup>	Bill & Melinda Gates Foundation, C&A Foundation, Takeda Pharmaceuticals, The Walt Disney Company, What Works to Prevent Violence Against Women and Girls Programme
Objectives	To unlock the full potential of women working in global supply chains through workplace-based interventions on health, financial inclusion, and gender equality.
Targets	Apparel, agriculture, electronics factories, etc. In Cambodia, Kenya, India, Viet Nam, China, Bangladesh and others.
Current outreach	Over 700 workplaces across 14 countries (Over 800,000 low-income working women)
Duration	Since 2007
Further information	<a href="https://herproject.org/">https://herproject.org/</a> <a href="https://www.bsr.org/">https://www.bsr.org/</a>

### **Strategies: Sharing costs**

**This programme has a cost-conscious design to increase business efficiency** (BSR, 2011, p.8). Firstly, participating companies bear some of the costs of programme implementation by local NGO partners, which amount to an average US\$5,000-\$7,000 per factory per year (Yeager, 2011, p.7, p.14). The HER project is also integrated into existing training and health programmes in the participating companies for efficiency (Yeager, 2011, p.7).

**Using existing human resources in companies** is also crucial for cost efficiency and sustainability (Yeager, 2011, p.7). The programme trained workers, who prior to this had limited education and professional skills, to become trainers for other employees. This design not only increased job satisfaction on the part of the trained workers but also increased uptake of knowledge and information through localised communication channels among workers (Yeager, 2011, p.7).

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<sup>18</sup> <https://herproject.org/partners/funders>

Main Activities	Results (Case of LS & Co.)
<ul style="list-style-type: none"> <li>- Needs assessments</li> <li>- Training sessions tailored to each factory's needs, such as               <ul style="list-style-type: none"> <li>• Hygiene</li> <li>• Maternal health</li> <li>• Harassment and abuse</li> <li>• Workplace safety</li> </ul> </li> <li>- Technical advice for improving workplace systems and policies, enabling inclusive workplaces for women</li> <li>- Access to health services</li> </ul>	<p><b><u>Impact on firm performance</u></b></p> <ul style="list-style-type: none"> <li>- 4:1 return on investment</li> <li>- 8.2 % reduction in absenteeism of female workers</li> <li>- 6.4 % reduction in turnover of female workers</li> </ul> <p><b><u>Impact on worker welfare</u></b></p> <ul style="list-style-type: none"> <li>- 55 % of workers improved personal hygiene practices</li> <li>- 38 % of workers improved menstrual hygiene</li> <li>- 38 % of workers improved nutrition</li> <li>- 7 % of workers began using family planning or changed family planning methods</li> </ul> <p><b><u>Impact on working conditions</u></b></p> <ul style="list-style-type: none"> <li>- A better relationship among workers</li> <li>- Improved hygiene condition at workplaces</li> </ul>

Source: USAID (2007), Yeager (2011)

## CASE 2: Sustaining Competitive and Responsible Enterprises (SCORE) <sup>19</sup>

SCORE is a programme that aims at improving both productivity and working conditions in SMEs (ILO, 2017c, p.9). It provides packages of training modules, made up of classroom training and in-factory consulting to help SMEs improve their position in global supply chains. SCORE training has improved the productivity of participating SMEs by over 50% (ILO, 2017a, p.3).

Implementer	ILO
Donor	State Secretariat for Economic Affairs (SECO) Norwegian Agency for Development Cooperation (NORAD) Canadian Labour Program
Objectives	To improve productivity and working conditions in small and medium enterprises (SMEs)
Targets	Core countries: Bolivia, China, Colombia, Ethiopia, Ghana, India, Indonesia, Myanmar, Peru, Tunisia and Viet Nam Pilot countries: Turkey, Sri Lanka, Bangladesh and Kenya Sectors: manufacturing and service sectors
Current outreach	Over 1,400 SMEs (equal to over 300,000 workers in 15 countries) <sup>20</sup>
Duration	2010-2021
Further information	<a href="https://www.ilo.org/empent/Projects/score/">https://www.ilo.org/empent/Projects/score/</a>

<sup>19</sup> <https://www.ilo.org/empent/Projects/score>

<sup>20</sup> <https://www.ilo.org/empent/Projects/score>

### **Strategies: Partnering and developing national capacity**

The ultimate objective is to strengthen the capacity of national institutions, such as government agencies, local training providers, industry associations and trade unions that can independently provide the SCORE training to local firms after the project's end (ILO, 2017a, p.1).

For instance, in a case of Ghana, SCORE Training Solutions Ghana (STSG), a not-for-profit association was formed, and certified trainers in STSG can independently provide SCORE training to domestic SMEs (ILO, 2017a, p.2). The SCORE training will be also incorporated into existing public training packages to ensure sustainability (ILO, 2017a, p.2).

<b>Main Activities</b>	<b>Results (Ghana 2011-2017)</b>
<ul style="list-style-type: none"><li>- Needs assessment</li><li>- Provision of training packages: two-days classroom training and follow-up consultation by experts</li><li>- The five modules cover:<ul style="list-style-type: none"><li>• Workplace cooperation</li><li>• Quality management</li><li>• Clean production</li><li>• Human resource management</li><li>• Occupational health and safety</li></ul></li><li>- Monitoring &amp; Impact Assessment</li><li>- Results tracking</li></ul>	<p><b><u>Outreach</u></b></p> <ul style="list-style-type: none"><li>- 170 enterprises trained</li><li>- 1,070 workers and managers trained</li></ul> <p><b><u>Impact on firm performance</u></b></p> <ul style="list-style-type: none"><li>- 47% of SMEs reduced operational costs</li><li>- 35% of SMEs reduced waste production</li><li>- 27% of SMEs reduced defective products</li><li>- 13% of SMEs saved more energies</li><li>- Reduced absenteeism</li></ul> <p><b><u>Impact on working conditions</u></b></p> <ul style="list-style-type: none"><li>- 19% reduction in work-related accidents in SMEs</li><li>- Better workplace cooperation reported</li><li>- Better working conditions reported</li></ul>

Source: ILO (2017a)

## **Endorsing**

### **CASE 1: Know The Chain Benchmarks**

Know The Chain is a partnership project between the Business & Human Rights Resource Centre<sup>21</sup>, Humanity United<sup>22</sup>, Sustainalytics<sup>23</sup>, and Verité<sup>24</sup> with the objective of sharing good models of responsible business practices and encouraging businesses to improve their standards and procedures. “The Know The Chain benchmarks” aim to increase awareness and enhance private sector actions to mitigate the issue of forced labour in supply chains by assessing corporate policies and practices.

<sup>21</sup> <https://www.business-humanrights.org/>

<sup>22</sup> <https://humanityunited.org/>

<sup>23</sup> <https://www.sustainalytics.com/>

<sup>24</sup> <https://www.verite.org/>

Implementer	A partnership between Humanity United, the Business & Human Rights Resource Centre, Sustainalytics, and Verité.
Donor	As above
Objectives	To help identify and share leading practices, enabling companies to improve their standards and procedures. To help companies protect the well-being of workers by incentivising companies and identifying gaps in each sector evaluated <sup>25</sup> .
Targets	Three sectors where forced labour is particularly acute: information & communications technology (ICT), food & beverage, and apparel & footwear.
Current outreach	Over 200 companies
Duration	Since 2016
Further information	<a href="https://knowthechain.org">https://knowthechain.org</a>

### ***Strategies: Benchmarking of leading companies***

Know The Chain benchmarked 60 large global companies in the Information & Communications Technology, Food & Beverage, and Apparel & Footwear sectors in 2016, and expanded to over 120 companies in 2018 (Boundless Impact Investing, 2018, p.36). It assesses corporate management systems and policies to address forced labour and human trafficking in their supply chains. Through the benchmarks, it aims to create brand rewards and good reputation for top-performers and highlight brand risk for low-performers, thereby encouraging companies to improve labour standards and protect workers' rights.

### **Lessons learned**

A number of common limitations were identified from the evaluation reports of the programmes examined in this review. Based on these, there are six lessons that could be applied to supply chain interventions (Table 8).

The most cited limitation is **limited evidence about the impact of interventions on firms and working conditions**. Few programmes have conducted rigorous evaluations to examine how interventions have contributed to labour practices and firm benefits - most studies provide only anecdotal evidence (Hinds, 2015, p.18). **It is essential to evaluate the effectiveness of the programmes while demonstrating the business case for decent labour practices and better working conditions**. Other limitations and lessons are given in Table 8.

<sup>25</sup> <https://knowthechain.org/benchmarks/>

Table 8: Lessons learned for supply chain interventions

<b>Six lessons learned</b>	
<b>Expanding scope</b>	<p><b>The scope and coverage of supporting companies can be expanded.</b> The programmes do not support domestic firms, which are not in the global supply chain but work for the domestic market (Hinds, 2015, p.20). The programme also need to support small factories, which subcontract to bigger companies, where more violations of workers' rights take place (Hinds, 2015, p.20). - <b>Better Work</b></p>
<b>Tailoring to needs</b>	<p><b>It is essential to provide each factory detailed needs assessments</b> to identify priorities and necessary improvements and to tailor training specifically to their needs (ILO, 2017b, p.16). It is also crucial to engage all stakeholders, including factory managers, supervisors, trade unions and workers, to understand the constraints different actors face. - <b>BIF</b></p>
<b>Facilitating dialogues</b>	<p><b>Establishing better dialogue between international buyers and factories is essential.</b> Strong and better relationships provide incentives to supplier factories to meet labour standards and improve working conditions (ILO, 2017b, p.35). It also increases buyers' awareness of the constraints on factories (ILO, 2017b, p.35). - <b>BIF</b></p> <p>The impact assessment suggests that <b>social dialogues play key roles in improving working conditions.</b> The programmes supported to establish the Performance Improvement Consultative Committees (PICCs), at the factories, comprised of managers and workers' representatives, to enhance social dialogues (ILO, 2016, p.40). The presence of PICCs led to reducing verbal abuse and sexual harassments, improving worker satisfaction and working conditions (ILO, 2016, p.42). The committee was effective particularly when women representatives were included, and fair elections for worker representatives were conducted (ILO, 2016, p51). - <b>Better Work</b></p>

<p><b>Engaging multinationals</b></p>	<p>To achieve both improvements in working conditions and profitability, it is critical to <b>engage all stakeholders in the supply chains, particularly multinational companies and buyers</b> (ILO, 2016, p.51). It was found that buyers' practices impose constraints on the achievement of decent work practices in supplier factories. Nearly 88 % of factories reported harmful practices from buyers and customers, such as frequent changes in technical requirements and order size, short lead time, and penalties for defects (ILO, 2016, p.35). The factories concerning with rush orders and late penalties from customers, were significantly less likely to comply with standards on working hours (ILO, 2016, p.35). - <b>Better Work</b></p> <p>It is crucial to <b>engage lead buyers, including larger domestic and multinational companies</b>, that will enable the programme's outreach to more local SMEs, and provide funding to cover the training costs (ILO, 2017c, p.13).- <b>SCORE</b></p>
<p><b>Ensuring sustainability</b></p>	<p>The project end line report highlighted <b>the importance of establishing the capacity of national partners</b> for SCORE training to ensure sustainability (ILO, 2017c, p.13). While enhancing their ownership, the ILO needs to make sure the quality of the SCORE training (ILO, 2017c, p.13).- <b>SCORE</b></p>
<p><b>Evaluating impact</b></p>	<p>It is recommended that <b>monitoring and evaluation be strengthened</b> to evaluate the causal relationship between the programme, working conditions and firm performance (ILO, 2017c, p.13).- <b>SCORE</b></p> <p>It is recommended that <b>reliable data be obtained from participating factories to evaluate the impact of the programme and develop the business case</b> (Yeager, 2011, p.12). Key challenges to obtaining such data include lack of trust, as well as lack of adequate data tracking systems. For instance, some factories resisted providing data relating to their costs (Yeager, 2011, p.12). Hence, it is suggested that a researcher should explain the differences between data collection and a compliance audit, and distance themselves from the buyer (Yeager, 2011, p.12).- <b>HER project</b></p>

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## 6. Annex: Voluntary initiatives

ILLUSTRATION OF SELECT VOLUNTARY INITIATIVES					
Initiative	Industry	Coverage	Launched	Membership	Activities
 <b>FAIR LABOR ASSOCIATION</b> Fair Labor Association	Multi-Industry, primarily apparel	Labor Rights, incl. Environment, Health & Safety	1999	Companies, incl. Suppliers Civil Society Organizations, and Universities	Joint Principles and Code of Conduct Assessments Complaint Mechanism Training
 Responsible Business Alliance Advancing Sustainability Globally <b>Responsible Business Alliance</b>	Electronics and recent new members from other sectors	Labor Rights Health & Safety Environment Ethics Management	2004	Companies, incl. Suppliers	Joint Code of Conduct Joint Audits Training and Capacity Building Collaboration
 <b>Ethical Trading Initiative</b> Respect for workers worldwide Ethical Trading Initiative	Multi-Industry	Labor Rights, incl. Health & Safety	1998	Companies, incl. Suppliers Civil Society Organizations Trade Unions	Joint Code of Conduct Collaborative projects on specific issues or industries Capacity building Public policy advocacy
 <b>Sedex</b> Sedex	Multi-industry, primarily apparel and food/beverage	Labor Rights Health & Safety Environment Ethics	2001	Companies, incl. Suppliers	Independent framework for data sharing and performance management
 <b>ICTI-Care</b> ICTI-Care	Toys	Labor Rights Health & Safety	2004	Companies (Toy Brands and Retailers)	Factory audits and certification; training and capability building; worker helpline.
 <b>ACCORD</b> on Fire and Building Safety in Bangladesh Bangladesh Accord on Fire & Building Safety	Garments	Fire & Building Safety	2013	Companies Trade Unions NGOs	Standards, factory inspections, corrective action plans, and disclosure; Remediation funding and implementation. Worker training and complaint mechanism.
 <b>ALLIANCE</b> for Bangladesh Worker Safety Alliance for Bangladesh Worker Safety	Garments	Fire & Building Safety	2013	Companies (Apparel Brands and Retailers)	Standards, factory inspections, corrective action; remediation funding and implementation; worker helpline; training programs for workers and management.

Source: Boundless Impact Investing (2018, p.35)

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- Jodie Thorpe, Research Fellow, Institute of Development Studies
- Lizbeth Navas-Aleman, Director, Navas-Aleman & Co

## Key websites

- Fair Labor Association: <http://www.fairlabor.org/>
- Forced Labour Monitoring Group: <http://forcedlabour.org/>
- ILO Helpdesk for Business on International Labour Standard: <https://www.ilo.org/empent/areas/business-helpdesk/>
- International Organisation of Employers (IOE): <https://www.ioe-emp.org/>
- Know The Chain: <https://knowthechain.org/>
- Sustainable Brands: <https://www.sustainablebrands.com/>
- SustainAbility: <http://sustainability.com/>
- The Ethical Trading Initiative: [www.ethicaltrade.org](http://www.ethicaltrade.org)
- The Global Reporting Initiative (GRI): <https://www.globalreporting.org/>
- The ILO Lab: <https://www.ilo.org/empent/projects/the-lab/>
- The International Trades Union Confederation: [www.ituc-csi.org](http://www.ituc-csi.org)

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