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Clément Séhler,

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Corporate social responsibility against workers?

How codes of conduct have failed to improve working conditions in the Chinese industry

Clément Séh  r

Department of Economics, IMT Lille-Douai, Villeneuve-d'Ascq, France

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Abstract

Purpose – This paper aims to investigate to what extent and for which reasons the codes of conduct and social audits of multinational corporations (MNCs) have failed to change practices within Chinese factories. A special attention is given to the social compliance initiatives (SCIs) and multi-stakeholder initiatives (MSIs) which did not overcome the main obstacles of the compliance approach.

Design/methodology/approach – This research is based on a fieldwork in China, including 36 semi-constructed interviews with practitioners involved in corporate social responsibility (CSR), participant observation in the CSR programme of the International Labour Organisation office in Beijing and several visits of factories involved in CSR programmes. Secondary sources are used to estimate the distribution of value added along global value chains (GVCs).

Findings – The codes of conduct and social audits tend to reproduce the domination of MNCs within GVCs. This paper highlights some obstacles – and opportunities – for CSR appropriate to the Chinese context.

Research limitations/implications – Only a few MNCs agreed to meet the author and speak openly. No one allowed the author to visit their suppliers' factories.

Practical implications – The findings of this study suggest that the most widespread approach to CSR by MNCs is flawed. More attention should be given to specific institutional contexts and to workers' participation.

Originality/value – CSR discourse and practices in China are put in the context of GVCs and in the transformation of Chinese industry and labour relations. This method allows going beyond a case study approach. Instrumentations of several SCIs and MSIs are also analysed in detail.

Keywords China, Industry, Corporate social responsibility, Working conditions, Codes of conduct, Global value chains (GVCs)

Paper type Research paper

Introduction

China's economic development has been made possible by the massive use of cheap labour in the export industry. Meanwhile, multinational corporations (MNCs) have been accused of seeking low production costs without regard to the inherent social damage caused by their activity. Pressure from consumer groups and NGOs has eventually urged the development of private norms intended to compensate for the weakness of labour and environmental regulations in developing countries.

Much attention has been given to corporate social responsibility (CSR) initiatives of MNCs doing business in developing and emerging economies. A significant part of this academic literature is devoted to the impact of codes of conduct on working conditions in subcontracting factories (Locke *et al.*, 2007, 2009; Lund-Thomsen, 2008; Jamali *et al.*, 2017; Vercher *et al.*, 2011). Among them, several case studies tend to assess the compliance of



selected factories with the codes imposed by the buyers (Pun, 2005; Sum and Pun, 2005). However, to our knowledge, little attention is given to provide a systemic analysis of the impact of codes of conduct on labour relations within the changing Chinese institutional context. The study of collective initiatives of buyers, which intend to overcome the individual investments of firms in CSR, is also rare (Baumann-Pauly *et al.*, 2016; Mena and Palazzo, 2012).

The objectives of this article are, thus, twofold. First, analysing codes of conduct in the institutional context of the Chinese export industry enhances the understanding of the contribution of CSR to improvements in working conditions. For example, the strengthening of labour law and the increased workers' capacity to defend their own interests are significant ongoing transformations. A study on the impact of private standards cannot ignore such changes. Besides, most buyers' CSR initiatives in China now rely at least partly on collective initiatives, which are supposed to provide a more collaborative framework for MNCs and their suppliers. An in-depth analysis of their instrumentation, thus, seems necessary to fully comprehend the impact of codes of conduct in China.

The analytical framework of this study combines the critical literature on CSR in developing countries with institutional theory. Critical studies on CSR indicate that the focus on the "business case" leads to giving much attention to the profits that MNCs derive from CSR investment, at the expense of analysing the impacts of CSR for the intended beneficiaries (Barkemeyer, 2009). Paradoxically, the emphasis put on legitimising MNCs and the disconnection from the interests of the targeted populations may even lead to unwanted effects in developing countries (Prieto-Carrón *et al.*, 2006; Lund-Thomsen, 2008; Jamali *et al.*, 2017). Mobilising an institutionalist theoretical framework enables the articulation of three levels of analysis: the international level of global value chains (GVCs), the national level of Chinese labour-intensive industry and, finally, the level of implementation of CSR standards within factories.

In the following sections, the analytical framework of this study is presented through a systematic literature review of existing work on CSR in both developing countries and China. We demonstrate the value of a multilevel institutionalist theoretical framework by linking the analysis of CSR instruments within factories to a specific industry context. Research and data analysis methods are then outlined before clarifying the institutional background of the development of CSR in the Chinese industry. In the fourth section, the main results of the study are presented before a discussion section in line with the analytical framework. The conclusion recaps the main arguments, puts forward policy implication for CSR in China and outlines implication for further research.

Literature review: analysing codes of conduct within the Chinese context

Since the 1990s, the development of private norms sparked hope of a "soft regulation" of global production; the strong economic actors backing these "soft" standards had much more bargaining power towards local employers than weak and corrupt politicians (Belal and Owen, 2015). While some scholars find that these initiatives provide a real potential for improving working conditions (Egels-Zandén, 2013; Barrientos and Smith, 2007), other scholars perceive primarily an attempt to protect brands' reputation and emphasise the risk that private initiatives may lead to circumventing the development of binding regulations (Prieto-Carrón *et al.*, 2006; Newell, 2008).

Limitations of the "business case" approach

Theoretically, two ways of understanding CSR in developing countries can be put forward: a utilitarian and an institutionalist vision (Capron and Petit, 2011). Most of the literature on

CSR is in line with the utilitarian vision and tends, for instance, to analyse the drivers leading firms to engage in CSR (Van Tulder and Kolk, 2001; Bondy *et al.*, 2004) and the economic potential of CSR initiatives (WBCSD, 2004). In the case of China, Yin and Zhang (2012) and Yin (2015) investigate the reasons leading firms to engage in socially responsible activities. Tsoi (2010) focuses on stakeholders' perceptions of CSR, while Zadek *et al.* (2012) analyse the strategic advantage of investing in CSR. But little attention is given to the instruments and their impacts on workers' welfare.

The underlying idea of the utilitarian approach is that investing in CSR should benefit the firm both by protecting its reputation and competitive advantage and by saving resources (Barkemeyer, 2009). However, putting too much focus on the "business case" of CSR has been criticised as it may lead to a disconnection between the initiatives themselves and the interests of the least influential stakeholders, especially the intended beneficiaries in developing countries (Blowfield, 2005). Sum and Pun (2005) contend that the dissemination of CSR has thus resulted in a "market for ethics" in which MNCs use a cost-benefit approach, making sure that their profits are not jeopardised.

The stakeholder theory, which is at the core of the utilitarian interpretation of CSR, also tends to underestimate power relations within GVCs (Barkemeyer, 2009; Cazal, 2011; Blowfield and Frynas, 2005). With CSR being primarily the agenda of MNCs based in developing countries, it leads to a poor consideration of cultural and institutional specificities in developed countries (Blowfield, 2004; Utting and Marques, 2010). The pursuit of the "business case" may also result in underestimating the fact that MNCs' self-regulation may eventually do more harm than good from the beneficiaries' standpoint (Prieto-Carrón *et al.*, 2006; Lund-Thomsen, 2008). Newell (2008) shows, for example, that MNCs are likely to adopt a somewhat contradictory attitude; investing in CSR does not prevent lobbying against the development of more stringent regulations for their activities.

A contribution to institutionalist research on multinational corporations' corporate social responsibility

The institutionalist framework, on the other hand, is more inclined to analyse the activity of MNCs in relation to their social environment and local communities. It is, therefore, best fitted for analysing the effects of CSR on working conditions within Chinese factories. Most research seeking to evaluate the impact of codes of conduct in GVCs has highlighted several limitations of the compliance approach. First, it relies on a top-down logic with little involvement of the suppliers in its implementation. In addition, social audits are usually carried out in a few hours and do not give a reliable account of the situation within factories (Barrientos and Smith, 2007; O'Rourke, 2002; Lund-Thomsen, 2008). The compliance approach can thus be assimilated to an inefficient ritual between buyers and their suppliers (Locke *et al.*, 2009). The system of checklists often causes confusion for social auditors as it cannot report the intensity and frequency of infringements to the code of conduct or the actual level of involvement of the factory management. Much like financial audits, the priority has been given to the comparability of social audits at the expense of their relevance and reliability.

Suppliers are thus encouraged to concentrate on the most salient infringements, such as occupational health and safety. More complex questions, such as collective bargaining mechanisms and workers' participation, are left aside (Egels-Zandén and Hyllmans, 2007; Locke, 2013). In line with a Foucauldian perspective, Sum even compares CSR devices to "virtual panopticons" to which "paper panopticons" were added to "discipline" managers and workers of subcontracting factories (Sum, 2010, p. 8). Under the combined effect of "commodification" and "managerialisation" of CSR – a phenomenon she refers to as "CSR-

isation” – the focus put on procedures results in giving more importance to audit preparation than to the actual welfare of workers. These studies have all brought important insight into the limitations of the compliance approach. However, the effects of the codes of conduct may differ depending on the region in question, and they should, therefore, be examined in light of the specific Chinese industry’s context.

Several case studies thus intend to assess the impact of CSR within one or several Chinese factories. [Pun \(2005\)](#) investigated two garment suppliers who invested significant resources in meeting the demands of their buyers. While wages, working time and the quality of facilities are generally better than in other factories, the management acknowledges that compliance with the codes becomes secondary when the production schedule gets tighter. The survey carried out at nine Wal-Mart supplier factories located in the Guangdong province by [Chan and Siu \(2010\)](#) shows that they are unable to implement the codes’ standards on working time and minimum wage. According to [Sum and Pun \(2005\)](#), considerable attention is directed towards standardised procedures. Priority is given to showcasing the involvement of companies rather than concrete improvements in working conditions. The example reported by the two authors of a factory hiring a social compliance manager, following the request of the buyer, illustrates this mechanism. The tasks of this new employee consist collecting and classifying quantitative data for inspections, as audit preparation is limited to accumulating paperwork.

[Egels-Zandén \(2013\)](#) puts the focus on the evolution of working conditions by visiting four factories five years apart, in 2004 and 2009. Its results differ from previous case studies, in that the suppliers have largely managed to “recouple” policy (i.e. the content of the codes) and practice (i.e. the actual working conditions in workshops) ([Egels-Zandén, 2013](#), p. 68). This longitudinal study does not, however, overcome most of the limitations of traditional case studies, as, according to the author, “the four examined suppliers [...] are among the best suppliers in terms of compliance of the most proactive Swedish toy retailers”, and it remains “difficult to generalize from compliance studies of a small number of factories” ([Egels-Zandén, 2013](#), p. 69). More importantly, the author tends to consider that private initiatives are the main factor explaining the improvement of working conditions. Little attention is given to the major institutional transformations occurring at the same time in the Chinese industry, such as the development of labour law and the enhancement of workers’ abilities to defend their own interests ([Kuruvilla et al., 2011](#); [Périsse, 2017](#))[1].

Several studies on CSR in other developing countries have investigated codes of conduct as only one of the drivers of change within a broader institutional context. They also put at the core of the analysis the question of the distribution of the value added between different stages of the production process. [Hoang and Jones \(2012\)](#) investigate the situation of Vietnamese factories in light of the global production networks in which they are embedded. They show that the extent of control over MNCs is usually overestimated, especially because buyers are reluctant to share the cost CSR with their suppliers. In the case of the garment industry in Bangladesh, [Sinkovics et al. \(2016\)](#) show that the pressure of the compliance approach can have negative effects for local communities, or, in other words, that it may lead to “the destruction of previously existing social value” (p. 643).

A multilevel analytical framework

In this article, the potential for change of CSR is analysed by linking its implementation within factories to the institutional context, i.e. Chinese labour institutions and the specific integration of the Chinese export industry within GVCs. At the macro level of this analytical framework, the power asymmetries within GVCs are considered ([Barkemeyer, 2009](#); [Hoang and Jones, 2012](#)). A special focus is laid on the collective initiatives of MNCs. These

associations are supposed to enhance the diffusion of ethical practices through greater collaboration between MNCs, suppliers and, in the case of multi-stakeholder initiatives (MSIs), civil society organisations.

In line with research on GVCs contending that greater attention should be devoted to the national contexts in which firms' activities are embedded (Coe *et al.*, 2008; Fernández, 2014), the main trends in the evolution of Chinese labour institutions are also reviewed. In the past 15 years, workers' formal rights have been significantly reinforced, and migrant workers are increasingly willing to defend their own interests. Our perspective thus leads to question the capacity of CSR to enhance the implementation of labour regulations. The possibility that it may as well lead to circumventing the development of "hard" law is also considered.

Finally, the lowest level of the analytical framework looks at the implementation of CSR mechanisms within factories. This research calls on considerations of the French Convention School regarding the conditions on which labour rules may be accepted and implemented within enterprises to effectively influence behaviours (Reynaud, 1992). Drawing on the example of Fordism in the USA, the conventionalists also show that an isolated company willing to improve its wage relationship faces major challenges as it jeopardises its competitive advantage. They demonstrate the need for a collective and institutional dynamic to disseminate ethical standards more favourable to workers (Boyer and Orléan, 1991).

The institutional context: corporate social responsibility in the Chinese export industry

The integration of the Chinese industry within GVCs has contributed to sustaining substantial growth rates. Meanwhile, MNCs outsourcing their production started to face campaigns against "sweatshops" highlighting their responsibility in the exploitation of workers. Those campaigns emphasise that MNCs take advantage of a flawed regulation in developing countries to ignore international labour standards. In spite of the absence of a direct employment relationship, MNCs should be held responsible for workers' exploitation. The anti-sweatshop coalition comprises trade unions, NGOs and student organisations from Western Europe and North America sharing the same objective of exposing the practices of MNCs. Several NGOs from Hong Kong, specialised in carrying surveys within factories of Southern China, also joined the coalition from the late 1990s onwards (Xu, 2012). Organisations such as United Students Against Sweatshops (USAS) in the USA, Clean Clothes Campaign (CCC) in Europe or Students and Scholars Against Corporate Misbehaviour (SACOM) in Hong Kong regularly publish reports, launch petitions and demonstrate in front of supermarkets to make visible to consumers the reality of working conditions within factories.

Those accusations are reminding brands that the expansion of their activities cannot be envisaged without justifying their practices. From then on, they should show some concern about the social content of the goods produced by their suppliers (Barraud de Lagerie, 2010; Hearson, 2009). The MNCs have thus developed instruments to ensure decent working conditions for individuals producing for their brands, wherever they may be located. The compliance approach is based on the idea that working conditions in developing countries can be improved through market mechanisms. The anti-sweatshop coalition puts pressure on international brands to make them integrate social clauses into their buying criteria. Concerned that these campaigns may tarnish their reputation and undermine their profitability, MNCs conduct social audits – or make third parties realise audits – to be informed about the conditions of production at their suppliers' factories (Figure 1).

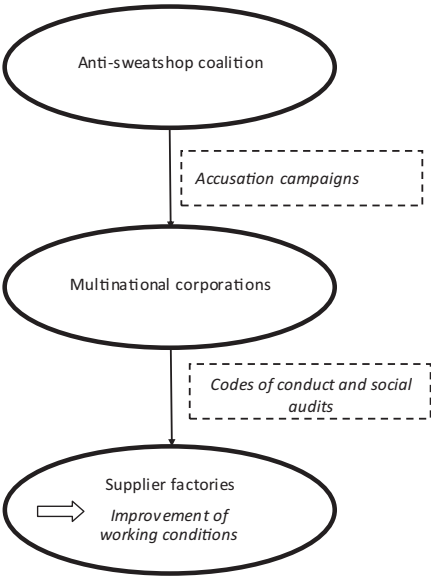


Figure 1.
The supposed logic of
the compliance
approach

Sources: Author; inspired by Sum and Pun,
2005

In a strict interpretation of this approach, the commercial contracts signed with non-compliant factories would not be renewed, which would encourage them to become more virtuous. In a softer version, the buyers would choose to collaborate with their suppliers to help them achieve compliance with the codes of conduct. The media campaigns, by encouraging MNCs to adopt these instruments, would thus ultimately lead to improved working conditions within factories.

Any factory producing for a Western brand is thus potentially covered by one or more codes of conduct, and dozens of thousands of social audits are carried out every year in China[2]. In setting the criteria that buyers demand from their suppliers, the codes of conduct are the central instrument of the compliance approach. They are usually inspired by the fundamental International Labour Organisation (ILO) conventions, the Universal Declaration of Human Rights and the SA8000 standard. This pattern of MNCs' initiatives prevails for all the developing countries.

Some insights on the specificities of labour relations in the Chinese industry are needed to assess the potential contribution of the compliance approach in this context. The Chinese industrial workforce is mainly composed of migrants who have left the countryside for industrial districts. Under the *hukou* system, they are victims of institutionalised discrimination and can enjoy basic civic and social rights only in their region of origin, making them an easily exploitable workforce for employers (Solinger, 1999; Zhan, 2017).

The Chinese Central Government has fostered the development of labour laws since the 1990s, but their implementation faces the resistance of local authorities mainly concerned with attracting investments and fiscal revenues (Lee, 2007). The growing determination of Chinese workers to defend their interests from the mid-2000s onwards urged the authorities to develop mechanisms likely to channel labour discontent through the legal system.

Individual rights have also been significantly improved. The labour contract law (2008), the law on mediation and arbitration (2008) and the law on social insurance (2011) are the most notable regulations benefiting Chinese workers. However, the relatively high standards remain largely formal for migrant workers in several areas, such as social protection and working time, in comparison to other developing countries.

The development of individual rights contrasts with the weakness of collective rights. Fearing that the constitution of a workers' movement may threaten the stability of the regime, Chinese authorities have constantly denied workers the fundamental collective rights (freedom of association, right to strike and right to collective bargaining) that are granted in most capitalist countries (Chen, 2007; Lee, 2009). This situation reinforces their incapacity to demand the implementation of their rights, although a new generation of migrant workers is much more inclined to defend its own interests in front of employers (Pun and Lu, 2010). These young workers are determined to settle in the city, unlike their elders. They no longer hesitate to resort to collective actions, as evidenced by the growing number of strikes since the economic crisis of 2008-2009. The rising militancy of Chinese workers has also resulted in the creation of labour organisations independent of the state. Most of them are assisting workers in defending their legal rights, such as demanding wage arrears and social security payments. A few other organisations are specialised in campaigns condemning the role of MNCs in the exploitation of Chinese labour (Xu, 2013).

Methodology

Data used in this article have been collected between 2010 and 2014. In 2010, the author took part in a CSR programme of the ILO office in Beijing for six months, then came back in 2012, 2013 and 2014 to complete fieldwork, overall spending more than a year in China. Adopting a multilevel institutional perspective requires relying on a wide variety of data and sources. The first primary source consists of three visits of factories supplying foreign buyers and, therefore, involved in the compliance approach (in the furniture, garment and plastic injection industries). Besides factory walk-throughs, interviews were conducted with management and workers. This data collection method provides a concrete grasp of the main impediments encountered in the Chinese labour-intensive industry when trying to improve working conditions. The resistance of the factories' management, their lack of financial resources and workers' turnover are among the main obstacles mentioned. However, as previously noted, this only provides a "photograph" of the situation at one specific moment.

The most significant data are composed of 36 interviews realised with different types of actors involved in CSR in China. Each of the respondents has been involved in CSR initiatives for several years and has worked with dozens of factories, which allows going beyond a case study approach. Besides MNCs' CSR representatives and collective initiatives, less influential stakeholders, such as consulting companies and labour NGOs located in Southern China, are also part of the sample (Table I).

The first group is composed of MNCs' CSR representatives in China, whose main mission consists in implementing the compliance approach, and factories' managers who are required to comply with the codes of conduct. Collective initiatives responsible for pooling the CSR initiatives of buyers have also been interviewed. Social compliance initiatives (SCIs) and multi-stakeholder initiatives (MSIs) are distinguished, with the latter including civil society organisations alongside buyers[3]. The group entitled "CSR consultants and experts" is composed of practitioners specialised in assisting MNCs and factories in implementing CSR programmes. Their activities range from helping factories to comply with the codes to social auditing, as well as the design of

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Type of organisation	Interviews realised	Respondents' functions	Location
Companies (MNCs + factories)	(3 + 3)	CSR representative in Asia (buyers); factories' management (suppliers)	Beijing, Shanghai, Hangzhou
Collective initiatives (SCIs + MSIs)	(3 + 3)	China office representative; CEO	Beijing, Shanghai, Hong Kong, Shenzhen
CSR consultants and experts (private + public)	(8 + 6)	CEO; China office representative; social auditor	Beijing, Shenzhen, Guangzhou, Hong Kong
LNGOs	10	NGO coordinator; project coordinator; trainer	Hong Kong, Shenzhen
Source: Author			

Table I.
List of respondents
and types of
organisations

buyers' CSR devices. They comprise for-profit companies, NGOs and public entities. Their extensive knowledge of the situation in the Chinese industry is precious in formulating a broader and nuanced interpretation of the effects of CSR. The last type of respondents is composed of labour activists. By convention, the term "NGOs" is used, though some of them, based in Mainland China, cannot register as such and face repression from Chinese authorities (Xu, 2013; Pringle, 2011). For these reasons, most of the NGOs interviewed are based in Hong Kong. From there, they conduct activities in the mainland, especially in the neighbouring Guangdong province. As mentioned earlier, their activities are diverse – ranging from workers' support to campaigns against MNCs – as is their stance towards CSR; while most of them tend to dismiss its positive impact, considering CSR as a sham to protect brands' reputation, some may consider CSR as a tool to be seized in the struggle to improve working conditions. However, labour NGOs all share the same criticisms towards MNCs. They view the pressures for low production costs as the cause of the "race to the bottom" on social standards.

Respondents were usually met in their offices or public spaces of their choices. They have been granted anonymity[4]. Semi-structured interviews were conducted as they enable to raise unanticipated topics. The length of each interview ranges from 40 min to more than two hours. The questions were adapted to each type of respondents, but they all consisted of at least three parts, including:

- (1) a presentation of the vision and objectives of the organisation in CSR and its relations with other stakeholders;
- (2) an in-depth description of its CSR instrumentation; and
- (3) a reflection on the effects of CSR on the employment relationship.

Answers were usually detailed, illustrated with practical examples. Respondents were invited to provide critical insights into their practice through open-ended questions. Most of the interviews were recorded and transcribed for content analysis, except for a few labour NGOs who preferred to not be recorded for political reasons. A qualitative survey software was then used in the organisation and analysis of the data collected.

In addition to factory visits and interviews, documents obtained on the organisations' websites or during interviews were used for further analysis on the instrumentation of the MNCs and collective initiatives. Reflection on the data collected was also stimulated, thanks

to repeated discussions with two CSR experts and one industrial relations' specialist working at the ILO, Beijing. Eventually, the inability to obtain reliable information on the distribution of value added in GVCs during the interviews with MNCs leads us to rely on secondary sources for this topic.

Results

The compliance approach: disconnected from factories' practice and workers

In line with previous research on the compliance approach, our results clearly confirm the incapacity of factories in the labour-intensive industry to comply with codes of conduct. Working time is the area most frequently mentioned by respondents as very difficult, if not impossible, to comply with. Most of the codes generally state that working time must not exceed the national legal standards. It is not uncommon in China that the actual workweek exceeds 80 hours in busy periods (interview social auditor). However, most buyers and collective initiatives are asking factories to reduce it to 48 hours (including overtime), in compliance with Chinese law. This represents a 40 per cent decrease in working time, without specifying the means to achieve this goal.

The instability of orders placed at suppliers by MNCs, causing peaks in production within factories, is one of the main reasons explaining overtime. Toy production is among the most exposed industries, but the CEO of an SCI representing toy buyers in CSR considers that brands should not be blamed for it (interview SCI). According to him, this is the result of the retailers' behaviour – and at the end, of the consumers' – as most of the business is done in the few weeks preceding Christmas. In fact, this kind of purchasing habit is not unique to the toy industry. Electronics brands are also constantly renewing their products to avoid obsolescence, while the lifecycle of new clothes is at best limited to a few months.

This observation evokes the reflections of the convention school on the implementation of labour standards. One of the first necessary principles for a norm to be assimilated within an enterprise is to find a balance between ongoing habits and a model to comply with (Reynaud, 1992). Yet, the issue of working time outlines that the codes are disconnected from the reality of Chinese factories. The gap between the codes, which are drafted within the Western offices of MNCs, and the situation in the factories can become a source of conflict between the head office and practitioners in China in charge of implementing the compliance approach. For instance, the CSR officer of a Hong Kong-based company sourcing products for European members has asked an SCI to lower the requirements on working time. But she faced a refusal which left her with a feeling that the European office does not fully understand the complexity of the Chinese context (interview CSR officer).

Another gap between the content of the codes and the situation on the field has to do with workers' collective rights. Most of the codes mention the need to establish structures representing workers, without considering the political and institutional barriers specific to the Chinese context. The compliance approach relies on a top-down logic, consistent with the traditional hierarchical organisation which characterises most Chinese workshops. Little attention is paid to the involvement of the factories' management and especially to the workers themselves. According to an MSI representative and a social auditor, in many cases, workers are not even aware of the existence of the codes of conduct. This finding relates to a previous observation of Pun (2005) and Sum and Pun (2005) which contends that in the compliance approach, workers are considered as victims rather than potential agents of change.

To foster the capacity of workers to get involved in the compliance approach without violating Chinese law on workers' organisation, MNCs and collective initiatives have

developed complaint mechanisms and anonymous hotlines. During our interviews, two executives of collective initiatives expressed great enthusiasm for such instruments. They are described as “*truly effective mechanisms to find what’s wrong in the factories*”, enabling workers to “*raise their voices*” beyond audits (interviews with SCIs). However, several other practitioners have acknowledged that workers seldom call hotlines as many of them do not even know that such a mechanism exists (interview MSI; interview labour NGO [LNGO]).

In China, migrant workers are subject to the *hukou* system and are still usually regarded as “second-class citizens” (Solinger, 1999; Zhan, 2017). In this context, the aim of tackling discrimination provides another illustration of the injunctions formulated by buyers with little specification on the implementation process and the cost for suppliers. Formal standards that are too distant from the actual context have little chance to significantly influence practices within factories.

Unable to comply with the codes, suppliers are thus looking for strategies to circumvent social auditing. First, they concentrate on the most visible and less costly improvements. Audit procedures focus on the most salient infringements and those putting the brands’ reputation at risk. For instance, the discovery of child labour remains one of the most critical issues. Special attention is also paid to easily detectable issues related to the labour process, such as the supply of personal protective equipment to workers or the presence of fire extinguishers (interview social auditor).

The most popular methods to deceive auditors in China are the duplication of documents (used to hide the actual working time and wage levels), the outsourcing of production from “showcase” to “ghost” factories and giving instructions to workers on the “correct answers” that should be given during audits. Our results thus differ from another case study concluding that increased pressure of brands makes it less rational for factories to look only for façade improvements (Egels-Zandén, 2013, p. 70). On the contrary, several respondents spontaneously refer to CSR as a “game” in which different stakeholders try to circumvent the rules (interview MSI; interview CSR consultant).

In general, social audits are likely to be announced from 15 days to one month in advance (interview social auditor). Auditors face many obstacles in their everyday practice. The factories’ management is often uncooperative and may falsify documents or prevent the auditors from discussing with workers in private. The inventiveness deployed by the auditors to detect fraud – such as asking workers the date of their last vacation or the year of their birth rather than their age – remains rudimentary in comparison with the management’s capacity to dissimulate information.

Factories also have the possibility to ensure a positive result by “preparing” the audit with a former social auditor. During an interview with a CSR consulting company based in Hong Kong, the respondent was keen to prove how easy it is to circumvent the auditing process (interview CSR consultant). Pretending that he is producing for a big German retailer, he interrupted the interview to call a Chinese company specialised in helping factories to get prepared for an audit. During the call, he provided details regarding the fake factory and the false problems to solve: employees were supposedly paid below the legal wage. A few minutes after the call, we received a sample programme to follow to mislead the auditor, including, among others, the “training” of the workers and the “preparation” of the documentation. Ironically, this Chinese company was still on the list of consulting companies approved by a major social compliance initiative six months before this interview took place.

While audits remain the sole evaluation criterion of the compliance approach, most of the practitioners involved in its implementation paradoxically seem to be resigned and to overlook its deficiencies, just like this representative of a collective initiative:

“Personally, I haven’t seen any [case of corruption and fake audits]. Corruption you always hear globally. [...] You know it’s happening, but when we try to investigate, people hesitate [...]. We can only deal with things we’ve seen through auditing procedures. That’s why we want to take a more positive attitude, rather than: “is there corruption?”. If people take it seriously we ask, but we won’t proactively say ‘do you have corruption case?’ We are not the police. We just want to facilitate ethical trade” (interview SCI).

The logic of monitoring by MNCs of the compliance approach is therefore lacking in reliability. Moreover, the large gap between the content of the codes and ongoing practices within factories is not compensated by instruments that would likely foster the involvement of managers and workers in the code implementation process. The underlying assumption of CSR, whereby MNCs are likely to expand ethical practices at their suppliers’ factories, is thus far from being confirmed in the case of the Chinese industry.

Collective initiatives: a self-regulation at the industry-level?

Theoretically, collective initiatives should foster the commitment of buyers in CSR. As many brands are involved together, they should no longer consider CSR as a potential factor of competitive disadvantage (Baumann-Pauly *et al.*, 2016; Mena and Palazzo, 2012). Stronger incentives would thus help overcome the typical prisoner’s dilemma in which firms are stuck trying to improve workers’ welfare on their own (Boyer and Orléan, 1991). Once a sufficient amount of companies are involved, the risk is even reversed for MNCs refusing to take part as they remain exposed to criticism. Such initiatives are also designed to benefit MNCs through the pooling of instruments leading to reduced costs (ICTI Care, 2013).

From the suppliers’ perspective, standardisation of procedures can limit the proliferation of potentially contradictory injunctions (Barrientos and Smith, 2007). The incentive to comply with the codes of conduct is also enhanced as it widens their network of potential clients. By contrast, the sanction of the market can be stronger for reluctant factories which take the risk of losing orders from a whole group of buyers at once.

Two types of collective initiatives can be distinguished. Since the early 2000s, several trade associations have established SCIs to harmonise the CSR devices used by their members. Since their creation, most of the operations of the Business Social Compliance Initiative (BSCI) and of the ICTI CARE Foundation Asia Ltd (ICFAL) take place in China. To improve the legitimacy of CSR, civil society organisations have also been included in several.

Since 1997, amfori (originally the “Foreign Trade Association” [FTA] until early 2018) has been bringing together brands, retailers and European importers of various sectors. The main objective of this Brussels-based association is “to represent the foreign trade interests of European retailers, brands and importers towards European and international institutions” (amfori website, 2018), namely, by lobbying for the removal of trade barriers. The growing number of dispersed CSR initiatives pushed amfori to create, in 2003, a common platform to unify the tools and procedures. The BSCI was established as a non-profit, legally dependent on amfori.

Most amfori members are also taking part in the BSCI; more than 2,000 brands and retailers were registered in 2018. Brands are prompted to subject their suppliers to the control procedures provided by the BSCI. Most importantly, they commit that two-thirds of their suppliers based in countries regarded as “high risk” have entered the process of compliance within three years of joining the organisation. When a factory does not get the result level of “good” after an inspection, the buyer is supposed to push the management to initiate a “corrective action plan”, invite them to the trainings organised by the BSCI or even

encourage them to get in touch with consulting companies that could help them to improve the following year.

According to the BSCI representative in China, the number of firms participating in the initiative provides a strong argument to convince suppliers, even when the buyer is placing a small order:

The incentive for the supplier is not only this 1 per cent of orders, but the whole group of companies which can be your potential clients. If the report is acceptable for one, it's acceptable for the whole. So it saves resources for the suppliers and for the buyers. That's the beauty of the system (interview BSCI China Officer).

However, the CSR representative of the Hong Kong-based sourcing company did not observe improvements in the situation in recent years (interview CSR officer). The volatility of orders placed by prime manufacturers is seen as a major obstacle to changing practices, as factories are only willing to cooperate with the buyer when regular orders can be guaranteed.

The International Council of Toy Industry (ICTI), a lobbyist for toy manufacturers and brands, was established in New York in 1975 with a similar goal of dismantling trade barriers. It now brings together 21 of the major national toy associations. An entity specifically dedicated to CSR and which was founded in 2004 in Hong Kong, ICFAL is formally independent of the ICTI, but its executive board is mostly made up of stakeholders from the industry.

Initially, the instrumentation of the ICFAL – which claims the participation of 75 per cent of toy brands in the world – was relatively basic. It has developed steadily since 2003, and in 2018 it employs 20 individuals in the Hong Kong office. The code of conduct was only altered once under the pressure of labour activists from Hong Kong (interview ICTI CEO), but procedures for monitoring factories have been extensively amended and clarified. This relatively complex mechanism referred to as “ICTI Care Process” can be described as follows.

Brands participating in the ICFAL commit to purchase only from factories certified by the initiative. To obtain this certification, factories must comply with a checklist consisting of 12 categories. Those who obtain a favourable assessment receive a seal of compliance which allows them to be registered in the ICFAL database. They are, therefore, eligible to do business with the brands. Over 1,100 factories were certified in July 2017, while others have obtained the result “on probation”. The cost of the audits is the exclusive responsibility of factories seeking to be certified. Buyers do not have to contribute financially (interview ICTI CEO).

The BSCI and the ICTI have succeeded in the span of a decade to reach thousands of buyers and suppliers, but it remains difficult to reach second-tier suppliers and beyond. This great capacity for disseminating their standards can be seen as an opportunity to deploy large-scale ethical business relations. Taking part in an SCI is also a way for buyers to reduce the risks of scandals by sourcing only from certified suppliers. However, responses to criticisms regarding the lack of transparency remain largely insufficient. SCIs are accused of keeping control of the design and implementation of their instruments without risking being monitored by third parties. The ICFAL has, for instance, become one of the main targets of the Hong Kong-based NGO Students and Scholars Against Corporate Misbehaviour (SACOM). It is accused of transferring the cost of CSR on suppliers, while turning a blind eye on several breaches to the fundamental rights of workers (SACOM, 2011, 2012, 2013). The participation of civil society organisations in MSIs should in principle prevent such conflicts of interest.

Several MSIs were established since the late 1990s, involving workers' rights organisations in the design and monitoring of ethical standards. The Fair Labor Association (FLA) was the first MSI created in the late 1990s and inspired other organisations, such as the Social Accountability International and the Ethical Trade Initiative. It was instigated by the Clinton administration, with the intention of bringing together MNCs, human rights' NGOs and trade unions. From the outset, this MSI was based on the involvement of US universities as student activism was rising on campuses and the participating firms were producing goods bearing the universities' logos. Initiated in the garment sector, the FLA was progressively extended until the highly publicised inclusion of Apple in 2012, in the wake of repeated scandals at Foxconn, its main supplier in China.

MNCs commit to incorporating the code of conduct in the contract that they sign with their suppliers. According to Aurret Van Heerden, president of the organisation from 2001 to 2013, this decision:

[...] was a stroke of absolute genius, because what they did was they harnessed the power of the contract, private power, to deliver public goods. And let's face it, the contract from a major multinational brand to a supplier in India or China has much more persuasive value than the local labour law (TED conference, 2010).

To ensure the independence of the organisation, the board was composed equally of representatives from industry, NGOs, trade unions and universities. The structure and operations of the FLA are, however, far from consensual. From the beginning, it became the target of intense criticism from the USAS. This organisation, spearheading the anti-sweatshop coalition in the USA, sees in the creation of the FLA an attempt to silence the anger expressed on campuses behind the back of the students. The USAS regards the factory monitoring system of the FLA as inefficient. It also accuses the FLA of reaching only a façade of pluralism, as only the less critical NGOs agreed to get involved alongside the MNCs. The funding of the FLA by participating brands and the decision-making system giving significant power to the richest MNCs lead the USAS to compare the FLA to the "fox guarding the henhouse" (USAS, 2008), mainly concerned with protecting the brands' reputation. Scepticism also quickly gained the trade unions, which finally decided to withdraw their support to the organisation soon after its creation.

Rather than refusing to take part in CSR, several activists are looking for ways to develop their own standards while keeping control of the implementation. A first dividing line appeared in the field of CSR at the end of the 1990s in the USA. Considering that the self-control of the industry cannot be trusted, the USAS established the Worker Rights Consortium (WRC) in 2000, excluding brands from the decision-making and funding. The WRC Steering Committee includes, on an equal basis, representatives of affiliated universities, experts in labour issues (from trade unions, NGOs and academia) and members of the USAS coming from various American universities. The WRC is mainly funded by affiliation fees from the universities (45 per cent of its budget in 2014), by governmental grants and private foundations.

In contrast with the FLA, the WRC is seeking to implement a transparent approach and to anchor its actions locally, developing contacts with activists. The Chinese representative thus shares its premises with a Hong Kong LNGO. The bureau chief is himself a long-time activist who maintains close relations with other workers' rights advocates from Mainland China and Hong Kong.

The WRC not only differs from other MSIs because of its structure, granting an important role to activists, but also developed a more demanding approach than that of the FLA, which can only be implemented on a limited scale. Its Designated Supplier Program

not only includes the labour standards to achieve, such as a classic code of conduct, but also delineates enforcement mechanisms and dispute-resolution procedures. The goal is to completely reassess the buyer–supplier relationship to release real opportunities to improve working conditions. The universities affiliated with the WRC grant a “licence” to brands, which can only outsource products from factories selected by the organisation when producing goods for the universities. Brands must guarantee suppliers a price, enabling them to comply with the code of conduct. They also have to maintain a business relationship for at least three years with factories producing mainly for affiliated universities.

According to the Hong Kong representative of the WRC, it is necessary to push for a revision of the relationship between factories and their clients. This is the only way to have a significant influence on working conditions in the CSR framework and eventually to reverse the logic aiming at punishing the suppliers:

That is the most important thing to the supplier: “because our business relationship cannot be guaranteed, how come I have to, I should improve the working conditions? Today you ask me to do A and B and tomorrow you cut your orders”. So it should be very clear, that is the fundamental shortcoming or limitation of the CSR logic (interview WRC China Officer).

The commitment of brands and factories does not lead to a certification likely to be used for communication purposes. However, unannounced audits are regularly conducted on a proactive basis or following a complaint. The founders of the WRC, who criticise the lack of transparency of the FLA, have also decided to publish audit reports and to reveal the location of factories for potential third-party audits.

Discussion

Private standards vs labour laws?

The rising power of MNCs’ oligopolies in the globalisation since the 1990s has opened up new space for self-regulation by industry, especially in areas where the power of public regulations is disputed (Michalet, 2002). Recognising the need to limit opportunistic behaviour, most companies would supposedly accept the mechanisms through which cooperation supersedes confrontation. In the case of China, the CEO of an SCI contends that the very reason why his organisation exists lies in the gap between the existing regulations and the lack of willingness to implement the law:

[China has] the most wonderful labour law you can imagine. But if nobody cares that’s the problem [. . .]. And that’s the problem with China. If they would walk the talk, then all of us would be superficial here (interview SCI).

However, Michalet underlines the risk that such practices could lead to collusion as firms may be reluctant to establish standards that could harm their economic activities. Such warnings against letting a small group of actors with no democratic legitimacy setting the rules of globalisation became one of the privileged themes of the global justice movement (Klein, 1999). Collective initiatives could thus be considered as an attempt to maintain control over the rules of globalisation and to substitute for national regulations regarded as too restrictive by MNCs. The CEO of the same SCI denies it, pointing out that “everything that is done by the government to take back the initiative is extremely welcomed by us” (interview SCI).

However, organisations tasked with representing foreign capital work actively against legislative developments in favour of workers. This supports the idea that many MNCs involved in CSR lack sincerity. Hui and Chan (2016) contend that lobbying through business associations has become increasingly common in China. For instance, the consultation stage

preceding the adoption of the 2007 labour contract law has been marked by strong opposition from the European and American chambers of commerce in China and the US-China Business Council ([International Trade Union Confederation, 2010](#)). These organisations have warned the Chinese Government that relocation to other Asian countries may take place because of loss of flexibility and increased labour costs. In their comments, their investment in CSR is explicitly mentioned as an argument against the intervention of public power[5]. The lobbying has been even stronger against reforms proposed by local authorities ([Hui and Chan, 2016](#)). The role of The American Chamber of Commerce in South China was decisive in blocking an attempt to promote collective bargaining mechanisms on wages in the Guangdong province, historically one of the most open, economically and politically.

No alteration of the asymmetry between multinational corporations and Chinese factories

One of the main reasons explaining the little impact of codes of conduct in developing countries, often overlooked by case studies at the factory level, is that CSR was not accompanied by a more equitable distribution of the value added between buyers and suppliers. This gap was frequently mentioned as a strong limitation to the compliance approach, and not only by the China officer of the WRC, which aims specifically at rebalancing the brands–factories relationship. For instance, as an LNGO trainer puts it:

The key element is how the profit is distributed. If the brand gets the most money, the factory always has to cheat on them. The most important is not the behaviour of the CSR department of the brand, it's the share of the profit. That's the whole problem of the nature of CSR (interview LNGO).

Assessing the asymmetry in the distribution of value added between MNCs and suppliers is a very delicate task, given the diversity of situations within one industry or even from one buyer–supplier relationship to another. Given the reluctance of MNCs to disclose such data, we must rely on surveys conducted by various types of organisations (NGOs, press and consultants), which indicate that there is no tendency towards rebalancing.

Regarding Apple, one of the brands most targeted by anti-sweatshop campaigns, Bloomberg considers that over the period 2007–2012, the margin of the company doubled from 15.4 per cent to 30.8 per cent. Meanwhile, the margin of Foxconn, its main supplier, has fluctuated between 0.9 per cent and 2 per cent ([Culpan, 2012](#)). The consultant Isuppli's own view was that in 2009 the assembly of an iPhone in China accounted for \$6.5 on a total cost of production of \$178.96 ([Joint OECD-WTO Note, 2013](#); [Xing and Detert, 2010](#)). In 2014, the cost of assembly of an iPhone 6 accounted for only \$4.5, or 0.6 per cent of the final selling price in the USA. Using a less conventional indicator, The Economist estimates that 2 per cent of the value of a finished product is used to remunerate labour in China, 2 per cent feeds the profit of Foxconn and 30 per cent goes to Apple ([The Economist, 2012](#)). This trend is actually common for the electronics industry. Dell's chief financial officer recognises that labour accounted for a “very, very low” share of the total cost of finished products ([Randewich and Gupta, 2012](#)). The price breakdown is not more equitable in the apparel sector: on average, 2 per cent of the retail price of footwear ends up in the pocket of workers, and this share drops to only 1 per cent for football jerseys ([Le Basic, 2016](#)). In the toy industry, workers receive only €12 when a Mattel doll is sold for €15 (0.8 per cent of the retail price) ([Petitjean, 2013](#)).

Our results are thus in line with previous research showing that CSR can lead to reinforcing the asymmetry between the MNCs and their suppliers. This pressure is subsequently transferred by factory managers on the workforce ([Sum and Pun, 2005](#);

Sum, 2010; Hong and Chan, 2013; Yu, 2008). The only way for factories to ensure their viability is indeed to transfer the additional costs on workers by opting for tight production flow, maintaining wages at a low level or even by outsourcing part of their own production. This pressure also prompts them to circumvent the legal standards or to distort them. In China, this is, for instance, illustrated by the massive expansion of the use of temporary staff and trainees following the adoption of the labour contract law in 2007 (Friedman and Kuruvilla, 2015). The widespread techniques of preparing workers for an audit are thus aimed at convincing employees that their personal interests are linked to maintaining the company's reputation. They are told that expressing their demands would put at risk the future contracts of the factory and, therefore, their own jobs.

Collective initiatives: a transfer of ethical constraint on suppliers

Far from alleviating the burden on factories, collective initiatives tend to reinforce it[6]. Thousands of companies, including major MNCs and suppliers working in China, are currently participating in various SCIs and MSIs. The association of producers, retailers and brands fosters the dissemination of uniformed standards in manufacturing industries[7]. Besides, the logic consisting of cutting commercial relationships with non-compliant suppliers automatically has been deemed counterproductive by most stakeholders, including workers' advocates who highlight the threat for the jobs of the most precarious workers. Collective initiatives have thus developed approaches based on the "continuous improvement" of factories[8]. The combination of a stronger market constraint and greater tolerance in the implementation process is thus supposed to lead ultimately to improving working conditions.

Yet from the factories' perspective, the development of collective initiatives has not brought the necessary leeway to enhance compliance with the codes. The imposition of ethical constraints has indeed not been accompanied by a transfer of resources. Meanwhile, the injunctions upon them are greatly enhanced by a more sophisticated instrumentation, on which they have not been consulted. Practitioners working in China acknowledge that they are powerless in their attempts to raise the importance of working conditions in the buying criteria. The CSR officer of a Hong Kong sourcing company thus contends that the pressure for low cost and short-term vision of buyers prompts factories to cheat (interview CSR officer). The China representative of an SCI supports this view:

Social compliance should be a core agenda, not a bottom agenda, from top-down. It can't be only a function of a company. We can't just rely on the CSR team to drive buyers. The merchandisers should be involved in the whole process. Otherwise, we can see the fight: one day, you tell the factory "you have to pay enough to your workers". And the other day, when they place an order, the merchandiser says "sorry you are not competitive, I go to another". You see the problem. So, on the one hand, you are putting very ideal requirements, and the factory makes it visible that they agree to pay a few more dollars to improve wages, but on the other hand, the audit is completely isolated. In the end, they just compare: "you are the most expensive of ten factories so I drop you" (interview SCI).

This low ability to rebalance buying criteria even sparked the frustration of the CEO of an SCI when asked whether brands may listen to their recommendations:

I mean, please, you need to keep in mind who we are and where [name of a brand involved in the SCI] is [. . .]. It's just that you have very commercial interests. And you know, at the end of the day, the guys that make the big bucks at [name of brand] are not judged entirely on whether they are all working with good factories, they make sure that they meet their numbers [. . .]. And so far the buyers' criteria, the buyers' bonus are on quality, on-time delivery, low price, and no inventory at the end of the year. These are the bonus criteria, and not whether he is buying from the right

factory. That's where we have to come to. That the social compliance aspect does become a very important criterion (interview SCI).

Conclusion

Since the 1990s, the mobilisations of the anti-sweatshop coalition have set in motion a slow process, aiming at reducing the moral distance between brands and producers. MNCs now claim to guarantee the welfare of workers at their suppliers' factories, who would thus benefit from their support when facing their direct employers. The development of collective initiatives fostered the pooling of the instruments developed by MNCs and significantly expanded the dissemination of the compliance approach. CSR now potentially affects every Chinese factory in the export industry, even if it remains difficult to reach the second-tier suppliers.

From the Chinese workers' perspective, codes of conduct carry some concrete progress. They contributed to tackling the most blatant labour abuses involving the highest risk for MNCs reputation. However, these improvements are not directly related to the distribution of the value added, which remains the most significant question for the workers as it directly relates to their wages, social benefits and working time. The collective rights that would allow them to fight for themselves are also regarded as out of reach.

Our evidence suggests that the collective initiatives have not overcome the main obstacles of the compliance approach and that steps in several directions should be taken to foster the institutionalisation of more ethical practices within Chinese factories. First, buyers have avoided significantly altering their purchasing practices, managing to maintain control over the devices they design and implement without facing significant push-back. While the social forces demanding a rebalancing within GVCs have proved insufficient so far, MNCs and collective initiatives should provide suppliers with more predictability and stability in their orders to remedy critical issues such as working time and wages. Otherwise, the compliance approach will still be perceived as unfair by factories facing contradictory injunctions.

Second, the attempt by foreign capital to obstruct the development of binding regulations raises doubts about the sincerity of their involvement in CSR. Buyers committed to workers' welfare should rather support legislative improvements by promoting their implementation within Chinese factories. As a concrete example, the development of social insurance schemes in the past few years remains largely theoretical for migrant workers. By giving special attention to institutional changes, MNCs' executives, CSR officers and social auditors altogether would also send a clear message that CSR is only one potential lever for improving working conditions in a complex environment.

Eventually, factories perceive that CSR is disconnected from their everyday practice. Workers themselves are often not aware of the existence of the codes, thus limiting their ability to assimilate them. Voices of stakeholders defending diverging interests should be considered in the design and implementation of meaningful CSR programmes. Fostering the participation of workers in the Chinese context is, without doubt, a delicate challenge, but buyers and collective initiatives could rely on the expertise of labour activists and Hong Kong NGOs. They may even try to involve the more progressive voices within the official trade union. The implementation of such programmes will necessarily be incremental and lead to unpredictable results. Further research on CSR in the Chinese industry and in developing countries generally should, thus, focus on the development of devices that go beyond the compliance approach. It is fundamentally necessary to investigate programmes relying on a genuine involvement of workers and their suppliers, engaged in long-term relationships with buyers.

1. Institutional change is only presented as “a fifth potential explanation of recoupling more generally” besides:
 - increased external demands and surveillance;
 - changes in the type of external demands;
 - internalised external demands; and
 - more trusting relationships between the organisation and the stakeholder exerting pressure” (Egels-Zandén, p. 68).
2. Main Chinese MNCs are also involved in the compliance approach, though not as much as Western and East Asian MNCs. The fact that they are largely spared by the campaigns of the anti-sweatshop coalition explains it for a large part.
3. Representatives from each collective initiative mentioned in the next section, with the notable exception of the Fair Labor Association, were interviewed. The fact that the organisation was heavily criticised following a series of suicides at Foxconn, the main supplier of Apple in China, at the time of our fieldwork has probably influenced their reluctance to meet us. This is partly compensated by a large presence of its former president Aurret van Heerden in the public debate.
4. Except for a few quotes from collective initiatives’ representatives who express the official vision of the organisation.
5. These comments have drawn sharp criticism from the Hong Kong LNOs and have since been removed from their respective websites. It is worth noting that Nike had publicly disassociated itself from the position of the American Chamber of Commerce and that the European Chamber of Commerce later backtracked.
6. Except for the WRC, which financial resources and reach (clothing and accessories produced for universities) remain however marginal in the field of CSR compared to other collective initiatives.
7. Although this standardisation is tempered by the diversity of existing collective initiatives, and by the fact that MNCs’ codes are still in place.
8. Typically, after several non-compliant audits, factories are advised to contract a consultant helping them to assimilate the ethical standards in workshops.

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About the author

Clément Séhier is an Assistant Professor in Economics at the Institut Mines-Télécom Lille-Douai, France. His PhD thesis proposed a critical analysis of the impact of multinationals' corporate social responsibility on the working conditions in China. More broadly, his research focuses on the evolution of Chinese capitalism and the development of social policies in China. Clément Séhier can be contacted at: clement.sehier@imt-lille-douai.fr