

# Ethical threads

Corporate social responsibility  
in the Australian garment industry



Brotherhood  
of St Laurence

Working for an Australia free of poverty

## INSIDE THIS ISSUE

- \* **How do the sourcing and manufacturing practices of Australia's garment sector relate to corporate social responsibility, in particular regarding labour rights?**
- \* **What are the garment industry's views on the voluntary and regulatory frameworks that exist to protect workers locally and overseas?**
- \* **How can the Australian industry's capacity to address labour rights in its international and local supply chains be improved?**

## Overview of findings

This research has found that the Australian garment industry has been slow to embrace both mandatory and voluntary mechanisms to protect workers in international and local manufacturing supply chains.

Due to industry restructuring and tariff reductions, the Australian garment industry is no longer vertically integrated, resulting in complex manufacturing supply chains and much outsourcing. Consequently, many principal companies have little knowledge of the labour rights issues in their supply chains, and some consider that labour rights are the responsibility of their suppliers.

The study found companies had limited awareness and understanding of either local laws or international mechanisms for monitoring labour rights in their supply chains. Many companies, especially smaller enterprises, believed it was difficult to comply with Australian law and the Homeworkers Code of Practice, or to implement corporate social responsibility (CSR) strategies in either their Australian or international supply chains, citing issues of access to suppliers, small manufacturing bases and limited organisational capacity.

There was a lack of trust between workers, suppliers, labour rights organisations and principal companies, who do not work collaboratively and often fail to understand each other's circumstances. Further, smaller companies generally believed that Australian consumers did not care about the conditions under which garments were manufactured, and that no business case existed for developing CSR strategies.

*Emer Diviney & Serena Lillywhite 2007*

Significant opportunities identified to address these issues include establishing a multi-stakeholder CSR platform for the Australian garment industry and a production hub where smaller companies can have their garments manufactured by outworkers under ethical conditions.

The research also recommends that companies could improve their CSR performance by consulting individuals and organisations representing both supplier and worker perspectives and by making public their CSR processes and results.

The research confirms the value of increasing the industry's awareness of worker conditions, relevant state and federal legislation and awards, and international regulatory mechanisms. Industry events including fashion festivals and trade shows should be targeted for awareness-raising activities.

Further there is scope for governments to support vulnerable workers through their sourcing and purchasing activities.

## Our interest in the study

The Brotherhood of St Laurence sees decent, sustainable employment as an important means of reducing social exclusion and disadvantage, providing significant economic benefits to individuals and the broader community. Our own social enterprises—an optical frames wholesaling business, Mod-Style, and a No SweatShop-accredited fashion company, Hunter Gatherer—have both international and local supply chains and we are committed to ensuring that the workers are not exploited. However, we understand the complexities of ethical supply chain management, and have identified a need for more discussion among the stakeholders about how garment sourcing can be improved.



ISBN 978 1 876250 78 2

Published by the Brotherhood of St Laurence  
67 Brunswick Street Fitzroy Vic. 3065  
www.bsl.org.au

# Ethical threads

## Who we spoke to

Researchers spoke to 37 organisations—23 companies and 14 industry stakeholders, including business organisations, labour rights organisations and government employees—and 13 outworkers in two focus groups.

A number of companies were unwilling to participate. The Brotherhood of St Laurence would like to thank the companies which demonstrated good faith and an interest in progressing CSR in the garment industry in Australia through their involvement. The organisations shown below agreed to be named as participants; four companies/stakeholders asked not to be named.

<b>Small companies</b>	Nicola Cerini Australia; Genki; Veducci Smith; Bird; Sprinkle Magic
<b>Medium companies</b>	Sass & Bide; Gorman; Feathers; Cue Design; Clifton Clothing; Qualitops; TUFFA Workwear; FM Brands
<b>Large companies</b>	Coles Group; Country Road; Pacific Brands; Review; Just Group; Myer; Yakka Group
<b>Labour rights organisations</b>	Textile Clothing and Footwear Union Australia; Asian Women at Work; Fairwear; Oxfam Australia
<b>Business organisations</b>	The Council of Textile and Fashion Industries of Australia (TFIA); Australian Fashion Council; IMG Worldwide; Australian Industry Group; Australian Business Limited
<b>Government</b>	Industrial Relations Victoria; Australian Government Office of Workplace Services
<b>Education</b>	RMIT Fashion; Australian Centre for Retail Studies, Monash University

## A changed global environment

Since the 1970s there has been significant restructuring of the garment industry. Through the progressive opening of markets to imports and the reduction of trade quotas and tariffs, a global business model has emerged 'based on companies outsourcing production through global supply chains that demand low-cost and "flexible" labour' (Raworth 2004, p.17). Foreign investment has contributed to enhanced integration of developing and emerging countries, particularly China, in the global economy. With garment production being very labour-intensive, cut-make-trim processes have moved to competitive locations where labour is plentiful and inexpensive. According to Raworth (2004, p.48), 'today, at least 50 countries look to garments for export success,

and thousands of manufacturers—both local owners and foreign investors—are vying for a place in big companies' and retailers' supply chains'. However, there is increased recognition that benefits do not accrue automatically and are not evenly shared across countries, sectors, communities and workers (Davies 2003).

## The Australian garment industry

According to the Council of Textile and Fashion Industries of Australia (TFIA), clothing and textile sales are worth \$9 billion each year, and the industry accounts for 10 per cent of manufacturing establishments in Australia. However, as tariffs have moved from 55 per cent in 1989–90 towards government targets of 5 per cent in 2015 (Manufacturing Skills Australia 2006), Australia has followed worldwide trends of offshoring and outsourcing. Up to 50 per cent of clothes now sold in Australia are manufactured overseas (ANZ 2005), mainly in low-wage countries. Outsourcing reduces companies' workforces, allows greater production flexibility, and weakens the capacity of businesses, unions and NGOs to monitor labour rights (Hale & Shaw 2001).

It is difficult to ascertain the number of outworkers in Australia, as data is both varied and out of date. Figures range between 23,650 (Industry Commission 1997) and 329,000 (TCFUA 1995). However, labour rights organisations interviewed indicated that these discrepancies are most likely due to the informal and hidden nature of the work, the reticence of workers to be identified, the outworkers' limited English and the practice of extended family helping to meet deadlines. The outworkers that we spoke to confirmed that family and friends assisted with production:

**If I have big job and cannot finish in the time, my family come, aunt, uncle, niece nephew, the neighbour—they all come, they all work.**

A government employee spoke of the difficulties monitoring conditions:

**We picked four city councils where outworkers were known to work, and went to their economic development and planning people and asked them to tell us where their outworkers are. There was not one registered workshop or small factory who outsourced work—that gives you a bit of an indication about how well hidden it is.**

# Ethical threads

## Production capability in Australia

All respondents to our research indicated that the changes described above had resulted in industry fragmentation and factory closures in Australia. They repeatedly described a loss of local manufacturing capability and technology, and a shortage of skilled workers. Large and medium companies interviewed commented that it was getting harder to find contractors who could produce goods of equal quality to those manufactured overseas.

Respondents were concerned about sourcing trims and fabrics; producing certain garments, such as fully fashioned knits and shirts, in Australia; and the capacity of local manufacturers to work with some fabrics. Company representatives also spoke of the shortage of skilled patternmakers and sample machinists in Australia and felt that government or educational institutions were not addressing this deficit. Most of the business and government stakeholders and some company representatives believed that garment companies could only survive if they could capture a niche market (for example specialist workwear).

## Keeping a manufacturing base in Australia

The majority of respondents stated a need to maintain manufacturing capability in Australia. Eighteen companies were manufacturing in Australia. Only five of the 23 participating companies had moved *all* their production to low-wage countries. Most small company respondents said that they did not have the economies of scale to source overseas, and some medium companies only sourced offshore if they were producing enough garments to meet overseas quotas, but otherwise had garments locally produced.

Overall, 27 industry respondents, including labour rights organisations, stated that for Australia to foster an innovative design industry, small and independent labels needed access to manufacturers willing to produce small runs. Respondents from designer label companies also saw advantages in manufacturing onshore, enabling their designers to work more closely with the production process to ensure quality. Two major Australian retail brands with concept stores in large shopping centres indicated that being Australian-made was part of their branding strategy. By manufacturing in Australia, they could minimise risk from changing fashion trends and weather patterns. Another company with a large portfolio of brands indicated that it was important to support Australian manufacturing because problems could arise in offshore supply and manufacturing costs were rising in China.

A government official commented:

**It's a bit naïve quite frankly to say, 'Look, we'll do all the brain power, the design work, and nothing else'. Clearly we're not going to be a country that manufactures t-shirts and we shouldn't because we want to be competitive in it; but you need those different layers of support underneath the so-called brain power—the sample machinists, patternmakers and skilled manufacturers.**

Labour rights organisations linked manufacturing capacity with employment and economic benefits:

**It's an advantage to the economy to have a manufacturing base, especially for vulnerable workers who haven't been able to find work in other sectors but can find work in garment manufacturing.**

## Manufacturing offshore

Companies interviewed identified the pressure from cheap imports from low-wage countries, compared with the cost of goods made in Australia, as one of the main reasons for manufacturing offshore. Many companies and business stakeholders felt it was difficult to 'grow your business' unless they moved at least some manufacturing offshore.

Fifteen of the participating companies were sourcing overseas, mainly in China (13 companies) and India (6). Although they gave cost as the major reason, many companies' representatives indicated that foreign investment in countries like China and India had resulted in factories with state-of-the-art technology and highly skilled workforces. They consistently commented on greater choice and better production quality overseas. Respondents from large companies said there was a greater capacity to produce volume, and access to markets in US and Europe was logistically easier from China than Australia. By engaging sourcing agents in the region, they could access trims, fabric, factories, logistics solutions, quality control, and social and environmental auditing. By contrast, industry fragmentation in Australia meant that they needed access to different suppliers for each component.



# Ethical threads

## Working conditions: perceptions and realities

An overwhelming finding in this research is the lack of awareness of, and in some cases the lack of a feeling of responsibility for, the difficult working conditions faced by many garment workers in Australia and overseas. Company perceptions were formed without consultation with workers and, with the exception of a few larger companies, without a process to monitor and evaluate factory conditions. There was also a strong view that 'sweatshops' existed but not in their production chains.

### Conditions in Australia

Garment manufacturing in Australia is predominantly structured around outsourcing, with sewing commonly performed by outworkers—mainly migrant women with low English proficiency.

Over the past decade, state and federal inquiries have consistently found that outworkers receive payment and conditions significantly lower than their award and statutory entitlements. These include inquiries by the Productivity Commission (2003) and the Industry Commission (1997).

Cregan (2001) found that outworkers' average rate of pay was \$3.60 per hour. Most of the participants averaged 12 hours per day, with 62 per cent stating they worked seven days a week.

Outworkers interviewed for this research indicated that conditions had worsened in the last five years. A shortage of work had left them with very little bargaining power with contractors. One group said they were paid \$2.50 for a detailed shirt which took one hour to sew. Another group said they were paid between \$2 and \$3 an hour. When asked about hours worked, most indicated that they often went weeks without a job but when the work was available they worked long hours.

**If we work eight hours a day, five days a week, we would only earn \$100 so it is not enough. It's impossible to work less hours and earn the same as workers in the factory.**

These outworkers also said that compared with ten years ago, companies increasingly demanded quicker turnaround times. The scarcity of work and precarious nature of employment leave outworkers with little choice but to accept the job.



**Before ... hard work meant two weeks and they [the factory] [would] ask you how much and you say the price; if they don't agree, you go somewhere else. Now they say 'No, need it today, do it in four hours ... if you don't want [to do the job] then forget it'.**

**If you want the job, you try more hard. You can't sleep, you work all day. You can't do anything for your children.**

When asked about Australian conditions for workers in cut-make-trim processes, most company representatives did not identify poor conditions in their supply chains. Of the 23 interviewed, 14 thought conditions were good, four indicated that they varied and four companies expressed concern. The other company and two business organisations queried whether conditions were as bad as labour rights organisations claimed. For example:

**People make claims that ... can't be supported with real data. I'm not naïve enough to say that every home worker is doing OK, but I'm not naïve enough to say that every home worker isn't. So people that turn around and say home workers are paid \$3 an hour ... there may be a home worker out there being paid \$3 an hour, or a number, or quite a few. But I don't think it's all home workers.**

# Ethical threads

Even though outworkers account for 40 per cent of total employment in the textile clothing and footwear (TCF) sector (Productivity Commission 2003), company representatives' views of working conditions were often based on their direct contractors' workplaces and did not include those further down the supply chain. Of the 19 company representatives interviewed who manufactured in Australia, 16 indicated that they had visited a workplace where their garments had been made. Seven noted that they were commenting on conditions in factories, not for outworkers, and five indicated that conditions for outworkers were probably worse than in factories.

Most company representatives were aware that outworkers were employed in their production chains, but only five large company and sportswear representatives gathered information about the outworkers' employment conditions, many other respondents stating that this was their contractors' responsibility. Only two had ever met an outworker or been to an outworker's residence.

**There's just stuff everywhere, it's fluffy and messy and they've got their kids running around ... I think conditions are pretty bad out there. In relation to harassment, my feeling is it's probably not that much different to many other workplaces, but I can't say it would be as well governed. Who knows?**

Asked to compare their conditions with factory workers, outworkers said:

**At the factory you work with other people and ... if the company do something wrong you can get other people to help. But if you [are an] outworker [you] don't know enough, if the boss wants to do something you can't complain because you won't get work. [You] don't know who to turn to.**

**They rip you off because you work at home. They think you need the job more than the worker in the factory. So if you work at home they think you don't know the language or the rules.**

Most smaller company representatives felt that, because they were paying handsomely, machinists must be receiving award wages. Two large company representatives indicated that they had well-developed compliance systems, expressing confidence that all workers in their supply chains were employed under award conditions:

**I'm not on a supply chain that is cheap and nasty. We have to get quality so they have to pay the workers a decent wage to get a decent product.**

A number of business organisations and company respondents felt that outworkers were happy with flexible working arrangements that allowed mothers to work from home and be with their children. Outworkers interviewed did state that an advantage of working from home was caring for their families. However, most said they would prefer not to work at home because conditions were poor:

**When I first arrived I didn't speak any English and I have young children, so it is almost impossible to find other work ... If I could choose I would rather to work outside home so I could learn things, experience more things and become more confident. Staying at home all the time makes me have no confidence and [feel] stressed.**

Others talked about the impact of outwork on family life:

**The house gets very dirty and dusty and the children get asthma, so not only we are affected by this environment but our children are too. Like when I make clothing items that have been dyed, then my children's face looks very blue.**

## Conditions in low-wage countries

The vulnerability of garment workers is not confined to Australia. Garment workers in low-wage countries work long hours at high speed, frequently with wages and conditions that do not comply with their own labour laws. Many such workers are located in countries like China that do not allow freedom of association, or in factories that actively discourage trade unions.

Most company representatives interviewed had a limited understanding of conditions in their international contracting chains, and based impressions on personal opinion and brief factory visits, rather than formal monitoring. The exceptions were the six companies which had developed CSR processes for their international sourcing.

Respondents from medium-sized companies were inclined to view conditions in their offshore factories as good. Larger company representatives were more likely to comment on the huge variability of conditions overseas, admitting that sweatshop conditions did exist. However, representatives from companies with auditing processes felt that suppliers' factory

# Ethical threads

conditions were good, and were confident that breaches of their code were quickly rectified.

Most of the 15 representatives of companies sourcing overseas had visited the factories where their garments were produced. Those who had not were most likely ordering 'off the rack' garments they had not designed, from catalogues or trade shows. As in the Australian context, company respondents generally commented on the physical environment in which workers were employed: 'From first sight it is clean, organised, efficient and streamlined'. Some felt that the working conditions were relative to the technical capacity and quality of goods produced by the factory:

**We put orders in that are going to be substantial, so they have to have manufacturing processes in place; and if they've got good-quality manufacturing processes, that normally leads on to being a reasonably good and effective place to work as well.**

As BSL research (Lillywhite 2003) into the optical sector in China showed, clean, modern, high-tech factories could mask serious human rights abuses. Labour rights spokespeople agreed:

**The conditions can look good on the surface—clean, light, modern—but the problems can be hours, hourly rate entitlements, overtime, sexual harassment, or being timed in the toilet.**

One large company representative made the distinction:

**In Fiji, in Indonesia, in China ... [they] have all got fantastic working conditions. Now, I'm not talking about wages, you know, but I am talking about the general presentation of the factory.**

Four companies and two business organisations surmised that because factories in China were often newer and more technologically advanced, and workers were employed in factories, conditions would be better than for outworkers in Australia.

The condition of living quarters for migrant workers in China was an area of concern for several respondents who had visited Chinese dormitories. Of the nine company representatives, four were positive about the food, amount of space, access to hot water, and entertainment provided; but the others commented that conditions were crowded, lacking

light and ventilation. Two company representatives indicated that even though dormitory conditions were not good, they met SA8000 certification and their own auditors' criteria.

Six respondents considered it inappropriate to impose 'western standards' on countries such as China, with different cultural values and 'stages of development', and rejected the idea of universal labour laws. One person explained:

**They're getting paid, they've got good jobs, and they're sending the money to their family who couldn't eat off the land.**

## Australian law and regulation

Companies manufacturing in Australia are governed by a regulatory framework covering both factory workers and outworkers. This framework does not address companies' responsibilities to overseas workers involved in garment production.

### Regulatory frameworks to protect Australian workers

Australia's regulatory framework, according to Marshall (forthcoming), appears to be a model of regulatory design, 'incorporating a combination of voluntary mechanisms and punitive options'. It attempts to address the garment industry's fragmented and complex manufacturing supply chains.

#### Regulation in Australia

Garment wholesalers, retailers and manufacturers have a legal responsibility to comply with the federal *Workplace Relations Act 1996* and amendments and the federal Clothing Trades Award (or equivalent state award and state industrial legislation) that define outworkers as employees, legally entitling them to the same conditions as factory workers. The Acts and awards also give the TCFUA the right to enter workplaces to monitor conditions.

The awards stipulate that a company that either outsources work directly to an outworker or gives work to a contractor must register with a state or federal Board of Reference and list its contractors. Companies must also keep records of the work they give to contractors, including the amount paid, time given for completion, and details of the complexity of the garments. The company giving work to an outworker is responsible for ensuring that the outworker receives all employee entitlements. A company that outsources its work to a contractor must ensure that the contractor is award-compliant to avoid prosecution.

# Ethical threads

However, the Senate Economic References Committee (1996) noted that non-compliance with award wages and conditions was so widespread it was considered normal; and according to outworkers interviewed for this research, conditions have worsened over the past 10 years.

Just over a third of the 23 company representatives interviewed knew of their legal obligation to register with either the state or federal board of reference. Both government and business organisation respondents commented that a lack of knowledge often resulted in bad industrial practice. According to one bureaucrat:

**One of the biggest issues for us is people not being aware of relevant awards, Acts and legislation that they are required to comply with when they hire people.**

Labour rights organisations, however, suggested this was only one part of the problem:

**The difficulty for the companies is really lack of knowledge about how they can actually fix the problem and lack of will to do it, because really their priority is competing in the market.**

None of the small company representatives was aware of the need to be award-compliant. Yet two believed they had ethical supply chain processes. One company advertised via swing tags that they were 'sweatshop-free'. However, discussion revealed this was based on producing in Australia and having a good relationship with their manufacturer: 'I visit the manufacturer and judge for myself'. The proprietor admitted that outworkers were probably part of her supply chain. The other company had a statement on their website about not exploiting workers. When asked how they backed up this claim, the owner stated that 'We don't need a formal process; we are like a family'. Asked if entitlements were provided to outworkers, the respondent said the company did not need to provide sick pay and WorkCover because they were independent contractors. This is an incorrect view, as garment outworkers have been identified as a group that needs protecting, and retain the right to be recognised as employees in state and federal legislation (Andrews 2006).

All the small and medium companies' respondents felt they lacked the organisational capacity to manage such complex legislation, and that there was nowhere to get advice and information. Interviewees from both companies and labour rights organisations felt that the government and educational

institutions teaching fashion design and business were not doing enough to educate the industry, and that government was not providing adequate support for companies to adhere to the regulatory framework. Two business organisations with membership across multiple industries confirmed that, given the shrinking garment sector, they could not give priority to tracking changes in its regulatory and voluntary frameworks. Furthermore, small businesses were often not members of industry organisations, relying on their accountants to advise on regulation.

Seven company and three business organisation representatives commented that the regulations were too onerous and confusing, and five said that providing lists of contractors was manageable but working out how long garments would take to sew was not. Small company representatives thought that due to their small production runs they could not exert influence on their supply chains; and most noted how difficult it was to find a manufacturer for small runs, let alone to find an award-compliant manufacturer. A business organisation representative observed:

**To be award-compliant in this country you really have very little security of supply ... Most companies don't have any choice than to be not award-compliant because they have got to make sure that they have a range of people to do the work for them.**

Small and medium label representatives said that if they were provided with a list of ethical manufacturers they would use them. Two people commented that there was not even a general register of manufacturers, and certainly none that lists award-compliant ones.



# Ethical threads

As previously stated, some larger company representatives expressed confidence that bad or illegal practices were not taking place, citing their contractual arrangements and long-term working relationships with suppliers, who were anxious to keep their business. A bureaucrat noted that the absence of large company prosecutions supported this claim:

**In terms of Australia, companies who are sizeable enough to do this, they understand their legal obligations. The lack of big companies being prosecuted shows they are complying.**

Outworkers, however, indicated that they had encountered problems even when sewing garments for one large retailer interviewed:

**We do the sewing; the factory then gives it to [company name] and they say it is all wrong and they don't pay the money. Then the factory does not pay me.**

Companies also complained about the prosecution process. Seven Victorian companies and business organisations commented that prosecution was poorly managed by the Textile Clothing and Footwear Union of Australia (TCFUA), and four were concerned that the union was using the prosecution process to raise revenue. Companies and business organisations were also concerned about companies being unaware their contractor was being prosecuted until seeing their label identified in the media.

When consulted on this issue, the TCFUA (Victorian Branch) provided a letter that they sent to companies prior to inspection, outlining the TCFUA's rights under the *Workplace Relations Act 1996* to seek that penalties be imposed by the Federal Court. The letter warns that the union will continue to inspect premises to monitor compliance, and will prosecute breaches where they are found. They also advised that they use any fines or penalties paid to cover legal costs, and compliance and enforcement activities.

Two companies questioned why the Fairwear campaign (a community coalition addressing garment outworker conditions) was informed before the prosecution, while the garment companies were not. The TCFUA (Victorian Branch) stated that Fairwear was notified of companies being prosecuted at the same time as the information was publicly released.

Whilst this indicates that the TCFUA (Victorian Branch) is acting within its rights, it does not address concern about the damage to companies' reputations and the lack of opportunity

to respond. It also does not foster cooperation. The union branch explained that they were the only body acting as 'watchdog', and without their efforts there would be serious gaps in compliance.

Only a third of the 13 outworkers interviewed knew of their legal status as employees rather than as contractors. They also felt they had no power to exercise their rights, for fear of losing work:

**The law to protect the outworker may be there but it is not useful, because if you ask or complain to the employer they just cut the job to you, and they don't say it's because you complain, they just say they have no work. Even though the law to protect the outworker is there, its protection is no use. That law does nothing for outworkers.**

There was also a strong view from business that the tough regulatory environment and the prosecution process were resulting in companies moving their production offshore.

## Voluntary codes in Australia

Companies manufacturing in Australia can demonstrate their commitment to fair and decent working conditions by signing the Homeworkers Code of Practice (HWCP).

### The Homeworkers Code of Practice (HWCP)

The code has two parts. Part 1 relates to retailers and is mandatory only in NSW, requiring signatories to detail where they source Australian-made goods. Part 2 is an accreditation process for companies manufacturing in Australia. Accredited companies are required to provide evidence that their suppliers meet legal minimum standards. Companies are responsible for maintaining records of their production chain, as well as providing evidence that workers are receiving the correct rates and conditions. If employing home-based workers, they also must provide evidence of superannuation and WorkCover. Re-accreditation is annual and costs \$2000 (+GST). Fees go towards promotion and administration costs. Companies which meet the code requirements can use the 'No SweatShop' label on their garments. The HWCP is a multi-stakeholder initiative, with government, unions and business as signatories.

Fifteen company respondents were aware of the HWCP. Only three companies had signed Part 2 of the HWCP and just two others were considering signing in the next 12 months. Many interviewees seemed confused about the difference between the award requirement to register with the board of reference and the voluntary commitment of signing the code.



# Ethical threads

Generally, business organisation and company impressions of the code were not favourable. They did not consider it a multi-stakeholder initiative that promoted best practice, and felt there was little support for it within the sector. Even though the code is managed by a committee comprising industry and TCFUA members, most business organisation respondents considered it a union and Fairwear initiative and felt that the TCFUA did not manage it adequately. Several company representatives and one business organisation respondent viewed the code as a mechanism for the TCFUA to raise revenue, not understanding that the HWCP finances are administered by the TFIA; and some company respondents strongly linked signing the code with an experience of union prosecution. Four company representatives were particularly concerned that the HWCP was not adequately monitored or enforced. One person whose company had signed the code asked:

**Does someone go back and inspect the factories? People just sign the stat decs [sic] and then never do anything.**

Small and medium company representatives stated that they did not have the organisational capacity to manage the process; and small companies could not afford the \$2000+GST accreditation fee. Some were also unsure whether their contractors could meet the code requirements, and were not prepared to jeopardise their supply. A business organisation representative indicated a need for a different approach for monitoring:

**I don't understand why they [the union] don't just say to designers, 'OK, you give us all the lists of your makers—that is all you need to do. We are not going to fine you if they are not award-compliant because we realise it is so difficult to find one that is award-compliant'. Then that is when you can start following the chain. I think the problem is that designers are all working in breach; they are all using unregistered factories.**

A further code barrier was the perceived reluctance of factory contractors to disclose their suppliers, out of concern that retailers and labels might cut out the contracting factory from the supply chain.

There was a general feeling from smaller companies that the code was oriented towards larger businesses; however, small companies were more likely to see the advantages of trading as a 'No SweatShop' manufacturer.

Two HWCP signatories who did all their manufacturing in-house in Australia did not equate becoming a signatory with financial advantage, because poor promotion of the code made it less effective. They were disappointed that even trade unions were not seeking out accredited manufacturers.

## Government purchasing

Two business organisations and three companies manufacturing workwear and uniforms in Australia believed that state and federal governments were not supporting legislation to protect vulnerable workers through their purchasing. Two HWCP-accredited companies felt that the government tender criteria ranked price above support for local and ethical producers:

**I mean I've got no problem with government saying you must be able to display that you are treating the environment properly and treating workers properly and doing everything ethically, as long as they're also asking tenders from overseas or anywhere else are they doing the same thing.**

Indeed, Governments of Queensland, New South Wales and Victoria all have clauses in their tender documents requiring companies to demonstrate that garments are made under ethical conditions in Australia. However, these requirements only apply once a company has been short-listed and has proved to be competitive on 'cost of goods'; and there is no requirement to demonstrate that goods manufactured overseas are made under ethical conditions. Another issue is the lack of monitoring and effective penalties for companies which win a contract but are later found not to have met the ethical requirements.

## Corporate social responsibility

Although labour laws exist in most low-wage countries (including China), enforcement is patchy. In the absence of binding international law, workers producing garments for global networks lack protection from exploitation. In this context there is a need for companies to recognise their social obligations regarding international supply chains.

Corporate social responsibility (CSR) is a concept whereby companies voluntarily integrate social and environmental and governance practices into their business operations. According to Jenkins (2002), several factors converged in the 1990s to increase pressure on companies to adopt and implement CSR practices, and in particular, voluntary codes of conduct:

- globalisation of economic activity
- the state's decreasing role in regulating business behaviour

# Ethical threads

- the significance of brands and corporate reputation, making companies vulnerable to bad publicity
- international dissemination of information about working conditions
- the increasing number of NGO labour rights campaigns.

However, this trend needs to be put into perspective: for example, of the world's 65,000 transnational corporations (TNCs), only an estimated 4000 companies produce reports dealing with social and/or environmental performance (Holliday et al. 2002). In the garment sector these include large multinationals such as Nike, Adidas and GAP. This presents a problem in Australia, where 87 per cent of the TCF industry is small to medium enterprises.

## Voluntary versus mandatory regulation

Internationally there is considerable debate as to whether voluntary CSR mechanisms benefit workers in a company's supply chain (Bendell 2004). The debate was reflected in respondents' views: overwhelmingly, business organisations and companies felt that voluntary approaches were the way forward.

**You know ... half the time we try to regulate too much, then people are bucking the trend and they try to do all sorts of things to break the rules because it becomes too rigid and inflexible.**

By contrast, the labour rights advocates believed that voluntary mechanisms were useful; but to 'have teeth' they need to be underpinned by both national and international law. According to one respondent:

**So I think it would be great if the Australian government required all Australian companies sourcing overseas, and indeed any company exporting to Australia, to source from places where ILO Conventions are respected; but I think we're a long, long way from that.**

In any case, it is increasingly apparent that Australia is lagging behind Europe and the US in developing a regulatory CSR framework for international supply chains. In the EU, there have been changes to the Companies Bill in the UK and a resolution by the European Parliament entitled *Corporate social responsibility: a new partnership*, which both require corporations to monitor and report on their performance in respect to human and worker rights and the environment. In the US, the *Decent Working Conditions and Fair Competition Act* (S.3485), a bill to amend the Tariff Act of 1930, was

introduced: if passed, this would prohibit the import, export and sale of goods made with sweatshop labour.

Australia has no such broad requirements. Recently the Australian Government has conducted two inquiries into mandatory corporate responsibility, one by the Corporations and Markets Advisory Committee (CAMAC) and the other by the Parliamentary Joint Committee on Corporations and Financial Services. Both inquiries recommended voluntary mechanisms, rejecting calls to introduce mandatory regulation that would increase directors' duties to ensure the interests of stakeholders other than shareholders are considered and require social and environmental reporting.

Australia's lack of mandatory regulation poses a potential threat to its export markets. Australian companies can expect more US and EU retailers to require them to report on social and environmental performance. They could be disadvantaged in international trade through not addressing these issues in their supply chains.

While the Australian Fashion Council (2007) lists 28 federal and state government assistance programs available to the Australian garment industry, not one addresses ethical trading in its criteria.

One positive commitment the Australian Government has made to encourage CSR is the adoption of the OECD Guidelines for Multinational Enterprises. Although the guidelines are non-binding, they prescribe a role for government to ensure that they are respected wherever a company does business. Unfortunately, apart from the labour rights organisations, only four companies, one business organisation, and one bureaucrat were aware of the guidelines. This creates a potential risk for the sector, as a growing number of NGOs have used the complaints mechanism to raise issues related to various companies' international activities (Lillywhite 2007).

## Attitudes to CSR

Six of the seven large companies interviewed had developed a voluntary CSR strategy to monitor conditions overseas. Companies which had CSR strategies were those with greater organisational capability, or those perceiving greatest risk through inaction. Most organisations interviewed identified an in-principle responsibility to ensure fair and decent working conditions because it was morally right, contributed to good business practice and assisted with risk management. A business organisation representative noted:

**Reflecting on the competitive nature of the industry, the decisions always come down to what benefit are we going to get in terms of efficiency, quality, production, versus the cost.**

# Ethical threads

Despite this, only half of the 23 company respondents said their company had adopted strategies to promote ethical conduct, and only a few identified working conditions as a criterion for selecting manufacturers. With the exception of companies producing in excess of one million units annually, most representatives felt that their companies lacked the capacity to implement an ethical supply chain process.

Asked about the international trends in CSR, most smaller company representatives could not see opportunities or benefits from developing such a process, due to the following barriers:

- mechanisms only designed for larger companies
- consumers indifferent, and unwilling to pay for 'ethical' garments
- financial sustainability more important than ethical supply
- lack of organisational resources and expertise
- lack of influence due to small size
- difficulty taking responsibility for workers other than direct company employees.

Larger companies and some sportswear/workwear companies, however, were more inclined to see the benefits of a CSR process, for reasons of:

- demonstrable risk mitigation
- building community confidence in their brand
- positioning the company as an industry leader.

The barriers identified by larger company representatives related more to the difficulties of implementing a CSR process, including:

- driving the process internally
- creating an environment to embed CSR in organisational processes
- influencing suppliers when Australia is a small market relative to Europe and the US
- mapping and understanding complex supply chains.

Interestingly, of the four publicly listed companies, only two representatives indicated that shareholder demand moved them to develop a CSR process; and only one business stakeholder said it would motivate companies.

## International CSR mechanisms

In the absence of binding regulations for international sourcing, the past decade has seen a proliferation of initiatives (many based on ILO standards) designed to guide the development of companies' ethical strategies (see box).

### International CSR mechanisms

**Intergovernmental standards:** The **ILO Conventions** set minimum standards for basic labour rights: freedom of association; the right to organise; collective bargaining; abolition of forced labour; and equality of opportunity and treatment. Although directed at governments rather than companies, they underpin many standards. The **OECD Guidelines for Multinational Enterprises** outline what OECD member governments agree are the basic components of responsible corporate conduct. Although not binding, they have a complaints mechanism.

**Multi-stakeholder initiatives:** MSIs bring together stakeholders to address code monitoring and compliance. Some MSIs (for example, the **Ethical Trading Initiative (ETI)** and **Fair Labour Association (FLA)**) have their own codes of compliance for sourcing companies; or (as in the case of **SA8000**), are a certification process for manufacturers. Other examples include the **Global Reporting Initiative (GRI)**, a process for reporting on a company's social, environmental, and economic performance; and the **UN Global Compact**, a voluntary initiative to encourage businesses to adopt and report on sustainable and socially responsible policies, educating the sector through policy dialogues, learning, country or regional networks, and partnership projects.

**Business association or employer initiatives** are industry-controlled initiatives relating to monitoring or compliance. Examples include the **Business Social Compliance Initiative (BSCI)**, which offers members a common system for auditing their suppliers; and **Worldwide Responsible Apparel Production (WRAP)**, which is a certification process for manufacturers.

**Unilateral initiatives** include company codes formulated by individual companies or other entities without consultation with other stakeholders.

Apart from a few larger company representatives, most were unaware of these international mechanisms or did not believe they were applicable to the Australian industry or to their particular business. Half had heard of the ILO Conventions, but there was very little awareness of most other initiatives and standards. Awareness of SA8000 was higher: eight companies had heard of it and three said they had used certified factories in their supply chain.

Asked about signing on to or adhering to international CSR mechanisms, respondents indicated a range of barriers such as:

- identifying those which suited their business
- mechanisms inappropriate for Australia
- preference for managing social compliance in-house or through their sourcing agents.

# Ethical threads

They also reiterated the lack of organisational capacity and the lack of a clear business case or customer demand. One company employee who had worked in England, however, was surprised that there was no multi-stakeholder initiative such as ETI in Australia.

## Company CSR processes

Our study found that apart from some larger companies, the garment sector in Australia showed little understanding, engagement, implementation, or reporting in relation to CSR.

Only two medium company representatives claimed they had an ethical strategy relating to their international supply chains. One company used one factory that was SA8000 accredited, yet other factories in its supply chain were not audited. Another representative indicated that its sourcing agent had a process for social auditing but did not have a code of conduct. One small company owner felt that, because their overseas factory fed the staff and provided schooling for employees' children, the factory was 'reputable'.

Only one company had an employee specifically responsible for CSR. In other companies which mapped and monitored their supply chains, this work was usually undertaken by sourcing and procurement staff.

### Codes of conduct

In line with international trends (Utting 2001; Kolk et al. 2005), the CSR mechanism most commonly adopted by larger companies was a code of conduct. Five large company representatives indicated that they had a code of conduct; and one medium-sized sportswear company, a licensee for a large brand, was required to refer to its parent company's code.

The OECD broadly defines codes of conduct as 'commitments voluntarily made by companies, associations or other entities which put forward standards and principles for the conduct of business activities in the marketplace' (Gordon & Miyake 2000, p.31). The apparel and footwear sector is often described as one of the leading industries in the development and implementation of such codes (Global Reporting Initiative 2006).

Representatives of labour rights organisations we spoke to felt that, in the absence of a regulatory framework, individual company codes were useful internally but not across supply chains. However, to have an impact on labour conditions both in Australia and overseas, there needed to be skilled labour rights practitioners auditing and advising on the development and implementation of codes.

Large company representatives gave the following reasons for developing their codes:

- reputation risk and international examples of companies being exposed for bad practice
- company strategy, values and desire to be seen as industry leader
- consumer, shareholder or client demand and staff satisfaction.

Five company representatives provided copies of their codes. All codes addressed the minimum standards in the ILO Fundamental Principles and Rights at Work, with the exception of one company not including freedom of association and the right to collective bargaining. Most expanded on the elimination of discrimination by specifically addressing wages and hours of work, both considered key issues in the garment sector. Further, three codes addressed issues such as accommodation, toilets, and amenities; and two codes mentioned a minimum wage.

Despite all codes referring to the ILO Conventions, no code suggested a way of resolving the legal barriers to freedom of association in countries such as China.

### Making commitments public

According to an OECD study:

**A major advantage of the corporate code movement is that it brings corporate responsibility issues out into the open and into the arena of public debate. It does this by increasing the transparency of private commitments. Once in the public domain, the commitments can be evaluated, debated, and at least for the most successful codes, imitated. (Gordon & Miyake 2000, p.29)**

Most of the interviewed companies with codes, however, did not make their processes entirely transparent. Only three companies had statements regarding ethical supply in the public domain. Just one company provided a link to its code of conduct on its website. This was also the only company to produce a sustainability report including information about ethical supply and auditing—though only the number of audits undertaken, not the results of the auditing process. Nor was the sustainability report developed using the GRI Guidelines, which are internationally recognised as the best existing reporting framework.

# Ethical threads

The other companies interviewed reported progress internally to their boards and/or committees, and via their intranets.

Some companies that had implemented processes to monitor supply chain labour rights did not publicise this, stating that they did not want to draw attention to the issue in order to avoid creating an expectation from consumers and NGOs.

## Consultation with stakeholders and capacity building

This research found that all but one respondent company with CSR strategies had developed and implemented their codes without involvement from process workers, suppliers, unions, or NGOs. The exception was one large company whose sustainability report stated that it had conducted supplier consultations.

Studies of code content have overwhelmingly stated that CSR mechanisms developed through multi-stakeholder initiatives are far more comprehensive than those developed unilaterally or through business associations or employer initiatives (Barrientos et al. 2006; Gordon et al. 2005; Wick 2005).

Company representatives explained that their codes were produced internally or through consultation with a private company with expertise in inspection, verification, and certification. Most stated, however, that they had also referred to intergovernmental standards and multi-stakeholder initiatives. No company had a committee with external stakeholders to advise on their ethical procurement strategies.

Another issue was how codes were communicated to workers in their supply chain. Most companies indicated that, as part of their monitoring process, they interviewed workers in private about conditions; and companies had their codes translated and distributed to workers. Two companies had a hotline that employees could anonymously call to report breaches of the code; however, it was unclear whether this service was available to workers in their contracting chains. No company representative mentioned any in-factory training about code requirements.

## Auditing, monitoring and certification

Both labour rights organisations and companies involved in CSR agree that audits alone do not improve the conditions for workers. A recent review of Britain's Ethical Trading Initiative (Barrientos et al. 2006) found that audits have some positive impacts, generally limited to more visible issues such as health and safety, but research teams found many problems of non-compliance; and the Clean Clothes Campaign (2005, p.74) stated that 'an audit, used alone, can never produce change—it can only produce a "shopping list" of items to be remedied'.

The head of Sears Holdings Corporation, a large global brand, stated at the 'Supply Chain Talks Back' Conference in China in 2005:

**We have conducted in excess of 8000 audits, but all they show is conditions on the day—either pass or fail. Audits themselves don't improve factory conditions.**

Most interviewees whose companies conducted factory audits believed that these ensured satisfactory conditions; this suggested unrealistic expectations. The one exception was the representative of a large brand who recognised that with a complex supply chain, change would be incremental:

**We've got 11,000 suppliers. It's not going to be something that is done overnight.**

## Transparency and disclosure

An Oxfam report noted calls for transnational corporations to publish and list their suppliers:

**This kind of transparency makes it easier for civil society organisations to investigate and report on working conditions in company supply chains. (Connor et al., p.55)**

Only two small and one medium company representatives said they would be willing to publicly list their suppliers; two other medium company representatives said they would, but only if there were assurances that competitors could not access their suppliers; the rest said no.

Most company representatives indicated that the market in Australia was too competitive and that their supplier base was an important part of their intellectual property and brand success. Disclosing where they manufactured their goods was perceived as too big a risk for 18 of the 23 companies:

**There is an inherent risk in publishing your factories. For Nike it is slightly different because they are a global player ... so their suppliers would be less likely to take work from their competitors.**

# Ethical threads

## A case for change

One of the most positive outcomes of this research is that nearly all participants affirmed the need for a new model for dealing with labour rights in Australian garment industry local and international supply chains. This would require a sectoral approach supported by reliable data, and designed to foster trust between labour rights organisations, workers, and companies.

Respondents also stated that government needs to be more actively involved in promoting and monitoring both voluntary and regulatory frameworks in Australia, and in assisting companies in meeting their regulatory obligations by providing training and information. Communication strategies should be tailored to suit a creative industry largely consisting of small to medium enterprises. Industry events such as fashion weeks and trade fairs should be targeted, and educational institutions should prepare graduates to understand not only technical, design and business skills, but also labour rights in the industry and its global context. Government should support a strong CSR framework, to ensure companies can compete in the global marketplace, attract investment and create decent employment.

Larger companies and business organisation representatives indicated that CSR strategies needed to recognise Australia as a small player in the international market. Small and medium company respondents believed that large companies could play a stronger role in mentoring about CSR frameworks. Labour rights organisations, companies and some business organisations indicated that industry associations and peak bodies should be more involved in educating companies and understanding CSR. Smaller companies and some business organisations believed the present agenda was driven by union and labour rights campaigners through prosecution processes and 'name and shame campaigns'. There was a general view that no satisfactory mechanism for multi-stakeholder dialogue exists.



Outworkers wanted to be able to talk directly to companies about their situation. They also commented that companies needed to ensure adequate timeframes and price per unit.

To ensure a viable industry in Australia, initiatives are needed that encourage greater collaboration between manufacturers, outworkers and small fashion enterprises. These might include a production centre catering to the needs of small labels, employing outworkers and offering training.

A major barrier to adopting CSR strategies is the overriding view that most consumers do not care where and how their garments are sourced, or about the labour conditions under which products are manufactured. Trends in Europe, however, indicate that consumers elsewhere are becoming more concerned about the social and environmental impact of their purchases. Recent EU and British polls demonstrate community interest in ethical supply and increased spending on 'ethical' clothing (Cooperative Bank 2006; CSR Europe/MOR 2000). One company respondent to our survey noted:

**England has had a strong advocacy platform around sweated labour and conditions in China because NGOs have been huge on this issue ... I don't think this has quite happened in Australia.**

Research exploring consumer attitudes in New South Wales in 1999 indicated that there was no strong awareness of outworker exploitation. However, once participants were given information about working conditions, most indicated they would pay 5 per cent more for ethically produced garments (NSW DIR 1999).

Interviewing Australian consumers was outside the scope of this research, but industry stakeholders will need to be aware of changing concerns as they seek the way to enhanced corporate social responsibility.

## Recommendations

### Keeping pace with global trends

State and federal governments and industry stakeholders should:

- Establish a multi-stakeholder platform to promote and implement the uptake of the global dimensions of CSR in the Australian garment sector. Membership should include small and large companies, NGOs, industry associations, unions, suppliers, sourcing agents and workers.
- Monitor trends in the EU and US around voluntary and mandatory CSR practices and reporting and ensure that Australian companies and government implement best practice.

# Ethical threads

The federal government should:

- Introduce regulations in line with the EU and Britain which require large corporations to demonstrate a process for monitoring and improving conditions in their local and international contracting chain.
- Promote the OECD Guidelines for Multinational Enterprises to the sector.

Austrade should:

- Advise Australian garment companies exporting to Europe and the US on global sourcing practices and mandatory international reporting requirements.

## Improving CSR practices

Companies should:

- Develop and implement CSR strategies through consultation with individuals and organisations which represent both supplier and worker perspectives. This should include:
  - developing an ethical sourcing strategy which is available to all stakeholders and the public
  - integrating CSR practices into mainstream business operations
  - mapping supply chains, working conditions and areas for improvement
  - developing reporting mechanisms in line with the Global Reporting Initiative's Apparel and Footwear Sector Supplement
  - providing training for employees, suppliers and workers about fair and decent working conditions and processes for improvement
  - upholding national labour laws and minimum standards.

## Assisting outworkers and small to medium enterprises (SMEs)

The industry should:

- Undertake a pilot production hub involving SMEs and outworkers to address supply, employment and labour rights issues in Australian-based garment manufacturing. The project should aim to:
  - improve work flow and provide legal minimum conditions for outworkers
  - create training and employment opportunities for outworkers
  - respond to identified industry labour shortages.

## Improving the Australian regulatory environment

State and federal governments should:

- Ensure that a high value-added manufacturing base is supported in Australia while monitoring adherence to Australian regulatory frameworks.
- Support the development and promotion of a database of ethical manufacturers, in conjunction with the HWCP committee, TCFUA and industry associations.
- Investigate the feasibility of harmonising state outworker regulation without eroding existing standards.
- Fund further research to:
  - audit the skills of home-based, factory, and retrenched garment workers
  - identify current and future industry training needs, such as patternmaking and sample machining
  - provide up-to-date data on working conditions and numbers of outworkers in Australia.
- Accede to the ILO Homework Convention (C177).
- Post-2010 following a further review of CSR uptake by industry, consider, in consultation with all stakeholders, linking tax incentives, government subsidies and assistance schemes to companies that demonstrate a commitment to ethical sourcing and production.

Governments, NGOs and the TCFUA should:

- Review and further resource the Homeworkers Code of Practice (HWCP), to increase its effectiveness as a domestic multi-stakeholder initiative, make it applicable and affordable for smaller enterprises, and improve compliance and monitoring.
- Educate outworkers regarding their rights under Australian law.
- Develop outworkers' advocacy skills and facilitate meetings between outworkers and the industry.

## Ethical purchasing

State, federal and local governments should:

- Review their purchasing policies to include clauses which require suppliers to demonstrate a process for monitoring and improving the conditions under which goods are produced both locally and overseas.

Companies, NGOs and unions should:

- Develop ethical sourcing strategies to ensure that garments purchased, such as uniforms and promotional t-shirts, are produced under ethical conditions.

# Ethical threads

## Stakeholder influence

Consumer groups, individuals, unions and NGOs should:

- Raise consumer awareness about working conditions and ethical sourcing in the garment sector and present evidence of community concern to the industry.
- Refine the process for handling breaches of the regulations about working conditions and provide clear information to all parties.

## Capacity building

Stakeholders including government should:

- Develop resource materials and guidelines, in consultation with industry associations, NGOs and the TCFUA, to help companies (especially SMEs) to adhere to relevant state and federal legislation and awards, and international regulatory mechanisms.
- Target industry publications and events (including trade shows, conferences, design and fashion festivals) to raise awareness and educate companies about relevant state and federal legislation, awards and ethical production models.

Universities and training institutions should:

- Develop curriculum that meets garment industry training needs and skills shortages and addresses legal and ethical responsibilities.

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### Thanks to our advisory committee and colleagues who assisted this research:

Linda Funnell-Milner (Chair)	Energetics
Daisy Gardener & Liz Thompson	Fairwear
Michele O'Neil	Textile Clothing & Footwear Union Australia
Ashley Van Krieken	Council of Textile and Fashion Industries Australia (TFIA)
Jill Moodie & Alexis Smith	Coles Group
Shelley Marshall	Law Faculty, University of Melbourne
Brian Corney	Industrial Relations Victoria
Amanda McCluskey	Portfolio Partners
Fatou Roost	Brotherhood of St Laurence
Deborah Patterson	Brotherhood of St Laurence
Ashley Keleher	RMIT student volunteer