

International Business and Globalization

Case Study: Gildan Activewear

Even as Montreal-based T-shirt manufacturer Gildan Activewear was receiving the 2003 award for “excellence in corporate, social and ethical responsibility” from Canada’s minister of international cooperation for its business ventures in Honduras, Gildan executives must have been worried. Trouble was brewing in Honduras at its El Progreso factory. Gildan was attracting the wrong sort of attention, having been accused in the media and by Canadian and foreign non-governmental organizations (NGOs) of engaging in a pattern of labour rights violations at one of its Honduran factories. The situation was quickly deteriorating.

Gildan is typical of modern apparel and fashion companies in that most of its products are sourced from factories in economically developing countries, where there is little regulation of labour and business and what regulations exist are often poorly enforced. Gildan owned the El Progreso factory in Honduras, whereas in many instances the corporations behind the famous brands we all recognize prefer to contract out their manufacturing to third-party businesses, which assume most of the risk and costs of compliance with local laws and norms where factories are located.

Back in 2001, the labour conditions in factories supplying Gildan had caught the attention of a Canadian workers’ rights NGO called the Maquila Solidarity Network (MSN). MSN teamed up with other NGOs from Honduras, Mexico, El Salvador, and Haiti to exchange information about working conditions in Gildan factories, and accused Gildan of violating local employment and health and safety

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laws. Gildan denied the allegations. Then, in 2002, the Canadian Broadcasting Corporation (CBC) aired a documentary entitled *Sewing Discontent*, in which it alleged that workers in the El Progreso factory were being subjected to forced pregnancy tests, had excessively high production quotas, were exposed to dangerous levels of fabric dust, and were routinely dismissed if they attempted to organize trade unions.

Gildan again denied the allegations. It gave the CBC affidavits from workers who claimed that they had been pressured to lie to the CBC reporter. When 38 employees were later dismissed from the Honduran factory, the workers, a local union, and the NGO coalition alleged that they had been fired for exercising their legal right to organize a union. Gildan officials met with MSN in Montreal in late 2002 and denied that the workers had been dismissed for union activity. In early 2003, the Quebec Federation of Labour (QFL), Oxfam Canada, and Amnesty International called on Gildan to initiate an independent investigation into the dismissals. Around the same time, the Solidarity Fund of the QFL, a major Gildan shareholder, conducted its own investigation into the dismissals in Honduras and concluded that Gildan had violated the workers' legal right to unionize. When Gildan refused to rehire the workers, the Solidarity Fund sold its Gildan shares, and its representative on Gildan's board of directors resigned in protest. In 2004, the coalition of NGOs released its report of working conditions in Gildan's Honduran factory under the title *A Canadian Success Story? Gildan Activewear: T-Shirts, Free Trade, and Worker Rights*. Gildan quickly threatened the report's authors with a defamation lawsuit, but the NGOs were undeterred and continued their public criticism of Gildan's labour practices.

Labour relations issues at a factory thousands of kilometres away had reached the attention of Canadian organizations and media, and there was little sign that the negative attention was dissipating. There was now a real risk that these issues would begin to affect Gildan's reputation and bottom line. Gildan needed to demonstrate to its customers, investors, and the marketplace that it took labour standards issues and its responsibility as a global citizen seriously. It took a step in that direction when, in the fall of 2003, it joined an American-based initiative, the *Fair Labor Association* (FLA).

The FLA had emerged in the late 1990s at the urging of President Clinton and his administration. Clinton was under public and political pressure to respond to the surge in media reports about American corporations engaging in or condoning unethical and unlawful practices in foreign countries. In particular, there was heightened sensitivity in the United States in the immediate post-North American Free Trade Agreement (NAFTA) era to the "export of American jobs" to low-wage developing countries. NAFTA, and other global and regional trade agreements, make it cheaper and easier for businesses to source from foreign countries, but

these trade agreements do not require compliance with any basic minimum labour standards. President Clinton had promised that he would address the use of foreign “sweatshop” labour by American corporations. He encouraged the apparel industry, unions, and NGOs to come together to develop a way to self-regulate supply-chain labour practices.

The result, the FLA, has no legal powers, but a corporation that voluntarily joins the FLA is expected to abide by the FLA’s rules and procedures. For example, members are required to adopt a code of conduct and require their suppliers to comply with it. The code includes a list of nine core labour standards, including a requirement to respect “freedom of association” and the right of employees to access collective bargaining, a prohibition on child labour, and rules applying to wages, hours of work, discrimination, and health and safety. By joining the FLA, Gildan pledged to adopt that code and to take steps to ensure compliance at all of its supplier factories, whether it owned the factories or not. Membership in the FLA also subjected corporations to occasional audits of supplier factories by FLA staff, and a complaint mechanism. This permits the FLA to investigate allegations that there has been a violation of the code by a corporate member or one of its suppliers.

It did not take long for Gildan to become the target of an FLA complaint. The Toronto-based MSN, along with the Canadian Labour Congress (the umbrella organization for most Canadian unions) and a Honduran workers’ rights NGO together filed a complaint, alleging that the dismissals were in violation of the FLA code because they occurred in retaliation for the employees’ attempts to organize a union. To make matters worse for Gildan, a second complaint was filed against it for the events in Honduras—this one through an organization called the Worker Rights Consortium (WRC). The WRC was formed in the late 1990s by the activist student organization, United Students Against Sweatshops, which wanted to ensure that university-branded apparel was made under decent working conditions. Universities and colleges were pressured by students to join the WRC, and those that did were required to adopt a supplier code of conduct and to monitor their suppliers’ compliance with it. Because Gildan was a large supplier of T-shirts to the universities that had joined the FLA, it was bound by the WRC’s rules, including its complaints procedures. When the NGOs that had filed the FLA complaint also filed a WRC complaint, Gildan was suddenly faced with an obligation to consent to two independent investigations of the mass dismissals of employees in Honduras.

Both organizations (the FLA and WRC) conducted their own investigations, and released reports in 2004, finding multiple violations of local labour laws and the codes of conduct. Soon after, Gildan announced that it was closing the Honduran factory, claiming it was for business reasons completely unrelated to the labour issues and complaints. The factory closed in September 2004 and all remaining employees were dismissed. This decision provoked a number of responses. An

investment fund called Real Assets Investment Management divested its shares from Gildan, issuing a press release that asserted that Gildan's actions in Honduras threatened the "long-term sustainability" of the company. The WRC called on all participating universities to cancel their orders with Gildan for its non-compliance with the WRC rules and the FLA passed a motion to terminate Gildan's membership unless the company implemented an acceptable corrective plan.

The Rewards and Challenges of Economic Globalization

Economic globalization is the subject of much debate. Its origins, causes, values, and impacts are all contested. Economic globalization describes the processes of integrating businesses beyond national borders through global sourcing, global networks and managers, and global markets (see sidebar for a discussion of factors that have contributed to economic globalization). For some, globalization is the inevitable result of economic and social evolution, a powerful force for good that will raise living standards around the globe. For others, it represents a set of policies designed primarily to benefit global corporations and the wealthy at the expense of the global masses, a system that, both in theory and in practice, will increase global economic and social inequality and fuel political instability. These are complex debates that have no easy or clear answers.

In Canada's case, the trend toward the globalization of business is very clear. In 1987, the value of goods imported into Canada was approximately \$93 billion. By 2007, the amount was \$390 billion. Between 1987 and 2007, the amount of goods exported ballooned from approximately \$98 billion to \$418 billion. Overall, the percentage of Canada's GDP (gross domestic product) derived from global trade (imports and exports combined) rose from 43 to 62 percent between 1987 and 2007 (Hunter and Bryant 2008, 3).

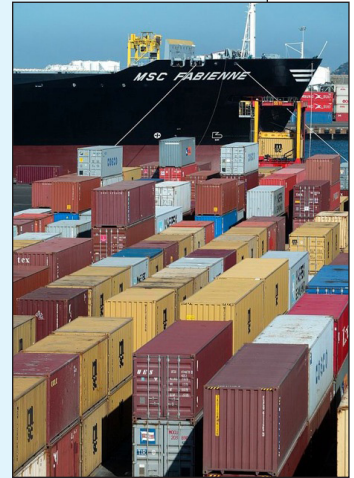
Canadian businesses can save substantially on their costs by manufacturing their products in economically developing countries (EDCs). As noted in the case study above, one source of savings is the dramatically lower wage and benefit levels in countries in South Asia, Africa, and Central and South America compared with levels in Canada. Other business expenses, including taxes, are often lower as well, and the degree of regulatory oversight by government, and the costs associated with it, is usually much lower in EDCs than in more economically advanced nations like Canada.

The lower level of government oversight of business activities in EDCs is sometimes a result of a lack of government capacity—local officials may lack the financial resources or technical expertise necessary to effectively regulate business activities. However, often it is by design. Many EDC governments have created export processing zones (EPZs), or "free-trade areas," to entice foreign corporations to invest there. EPZs are geographically defined spaces within a country where foreign

SIDEBAR**Contributing Factors in Modern Economic Globalization**

“Economic globalization” describes a process of greater economic integration across national borders, facilitated by several key developments: (1) “free trade” laws; (2) new information technologies; and (3) improved transportation systems.

- *Free-trade laws* reduced or eliminated tariffs on imported goods, making it more economically viable for corporations to source their products from economically developing nations, where production costs are lower. Free-trade laws also imposed restrictions on the right of national governments to give legal or financial advantages to domestic companies over foreign companies (“most-favoured-nation” clauses). For example, a Canadian policy designed to give a Canadian-based company a market advantage over foreign competitors could violate a free-trade agreement signed by the Canadian government.
- *New information technologies*, including the Internet, email, and video-conferencing, have made global business integration and control more feasible and cost-effective than in the past.
- *New or improved transportation systems*, including faster ships that can carry more cargo and systems that enable businesses to better track their goods, thus reducing the time and cost of global sourcing.



Source: abc.net.au.

corporations are promised special treatment. This can include: low or zero corporate and property taxes, government subsidies, security services, free or cheap electricity and water, and a promise by government officials to waive or reduce labour, environmental, and other forms of regulation that would otherwise apply to local businesses operating outside the EPZ.

During the past quarter-century, the promise of lower operational costs has persuaded many Canadian corporations to outsource their production requirements from Canada and the United States to EDCs. Even companies that had carefully cultivated the business image of a responsible, homegrown producer found it difficult to resist the pull of economic globalization. For example, when Roots closed a Toronto factory in the mid-1990s and shipped those jobs overseas to an EDC, the company issued a statement explaining that it could no longer

compete by producing in Canada (see sidebar). Even after the additional expense of shipping goods from EDCs in the southern hemisphere to North America, North American companies in labour-intensive industries, including fashion, sporting goods, footwear, and toys, have reaped huge savings in production costs from global outsourcing.

The Ethics of Conducting Business in Foreign Countries

While the economic benefits to Canadian businesses of global sourcing are obvious, those benefits come fraught with business risks and ethical dilemmas. Cultures, ethics, religions, laws, and business practices vary widely across nations. A business practice that is considered unethical and is unlawful in Canada might be perfectly acceptable, lawful, and even expected in other countries. Consider three examples: (1) the practice of bribing government officials to acquire a busi-

SIDEBAR

“How We Do Business”: Letter from Roots Canada (excerpt)

Toronto, Summer 2009

Dear Roots Customer,

For the longest while, we made most Roots products in Canada but in recent years we have shifted some of our manufacturing abroad as a result of technical, economic and capacity challenges.

In early 2004, with great reluctance and much disappointment, we closed one of our own manufacturing facilities in Toronto where we made much of the Roots apparel line. For seven years, we tried to compete with offshore manufacturing companies. Unfortunately, it proved a largely unprofitable and unrealistic exercise.

The sad reality today is that there are fewer available suppliers in Canada, and certain products can no longer be made in Canada. It's a shame that free trade, globalization and the saturation of the Canadian market by major US and European companies manufacturing overseas have made this situation worse. The result: the technical capacity simply no longer exists in Canada to make certain categories of merchandise.

Source: Roots Canada (2009). www.roots.com.



ness advantage; (2) the use of child labour; and (3) the emission of toxic substances into the environment.

- Bribery is a criminal offence and considered unethical in Canada, but it is a normal and expected way of conducting business in many EDCs.
- Canadian laws require children to attend school full-time, and most Canadians would be appalled if five- or six-year-old children were pulled from school to work in factories. However, in many poor Asian countries, child labour is a normal part of family life, necessary to ward off extreme poverty or even starvation.
- Canadian environmental laws restrict the right of businesses to release harmful chemicals and substances into the environment, and require businesses to track and publish the amounts of the toxins they release. In many EDCs, it is lawful to release the same harmful chemicals into the environment.

Is it “unethical” for a Canadian corporation to bribe officials, use child labour, or release toxins into the environment in an EDC, where those practices are both lawful and common? At the core of this debate is whether Canadian companies should be expected to adhere to “Canadian” ethics and legal standards in their activities in other countries, where laws and notions of ethics differ. When Canadian businesses operate abroad, should they export Canadian ethics, or should they adopt the ethical code of the host states in which they choose to operate?

On the one hand, we might subscribe to the notion of *ethical relativism*, the idea that there are no absolute, universal ethics that apply in every setting and, instead, what is ethical depends on the cultural and social norms that dominate in particular places at specific times. Applying this approach, a Canadian company that uses child labour to sew soccer balls in rural Pakistan is not acting “unethically” if child labour is considered a normal and acceptable practice there, even when the same practice is considered unethical in Canada.

Since Pakistani governments, communities, and parents should be deciding what is best for Pakistan and for Pakistani children, it would be inappropriate and paternalistic for Canadian corporations to impose Canadian values and ethics on their Pakistani operations and suppliers (Basu 2001). Canadian corporations should therefore respect the laws and ethics of the countries in which they are operating, without importing “Canadian” ethics.



A child sewing a soccer ball at a factory in Asia. When a company from the developed world produces goods in developing countries, should it export its ethics, or adopt the ethical codes of its host country?

On the other hand, we might reject ethical relativism, in whole or in part, and assert instead that there are *universal business ethics* that apply across geographic space and time. Slavery is an example. If a foreign country offered modern-day businesses the use of slaves to produce their goods, a Canadian corporation that took advantage of the offer to increase their profits would no doubt attract a considerable public backlash in Canada. The argument directed at the corporation would be that slavery is universally condemnable and unethical, and that no government, individual, or business is free to use slaves for personal or economic benefit. The argument that slavery is “lawful” in the foreign country would not likely satisfy the corporation’s critics.

The difficulty with the argument for universal business ethics is that someone needs to decide what types of behaviour make the list. Who makes that decision and on what basis? Governments, political and religious leaders, poets, and philosophers, among others, have long wrestled with these questions.

An important attempt to define a set of universal ethical principles is the *Universal Declaration of Human Rights* (UDHR), introduced by the United Nations in 1948 in the wake of the horrific events of the Second World War. The UDHR presumes that there is a bundle of rights or entitlements to which all humans are entitled, regardless of where they happen to live. It includes the fundamental freedoms of right of expression and belief, for example, and some economic rights as well, such as the right to equal pay for equal work regardless of sex, the right to “just and favourable conditions of work and to protection against unemployment,” and the “right to form and join unions.” The UDHR is directed at governments, providing politicians with a roadmap of what rights and responsibilities they are expected to ensure for their citizens.

As the volume of global business and the influence of multinational corporations grew during the latter part of 20th century, a variety of instruments were adopted by international organizations to target the conduct of global corporations. One example is the *Guidelines for Multinational Enterprises*, issued by the Organisation for Economic Co-operation and Development (OECD), originally introduced in 1976 and substantially revised in 2000 (Murray 2001). The Canadian government has endorsed these Guidelines and encourages all Canadian corporations to abide by them when they engage in business outside Canada (Canada 2011).

The Guidelines stress that businesses have the responsibility to avoid certain types of conduct—including bribing public officials and using child labour—wherever they operate. These obligations exist even if local laws or norms do not prohibit the practices, as noted in this passage from the OECD Guidelines:

A State’s failure either to enforce relevant domestic laws, or to implement international human rights obligations or the fact that it may act contrary to such laws

or international obligations does not diminish the expectation that enterprises respect human rights (OECD 2011, 30).

The OECD Guidelines presume a set of universal business ethics to which all organizations should adhere. A range of other global codes of conduct targeting global business practices do the same, including, for example, the United Nations Global Compact (see Appendix 1 at the end of this chapter). These codes reject the central claim of ethical relativism, that there are no absolute, universal ethics that apply in every setting. However, these business codes are voluntary. They act as a guide to ethically responsible business behaviour, but there are no formal legal sanctions for non-compliance.

This lack of legal redress produces a common dilemma for business leaders responsible for global activities. Some activities that are listed as unethical in non-enforceable instruments like the OECD Guidelines are also lawful, or at least commonly practised even if technically unlawful, in countries where Canadian businesses operate. If you were operating a Canadian business abroad, and you could earn your company substantial profits by violating an ethical “rule” listed in the Guidelines but permitted in the host country, would you do that? Is your primary obligation to maximize profits on behalf of shareholders, or to comply with the OECD’s list of non-enforceable universal principles of business ethics?

Codes of Conduct and Other Private Initiatives

In the case study that opened this chapter, Gildan *owned* the factory in Honduras that became a flashpoint. Because Gildan was the direct employer of the workers affected, what happened in the Honduran factory was clearly Gildan’s responsibility. It is more common for multinational corporations to contract out their production needs to third-party suppliers in EDCs. That way, corporations save costs and avoid many of the challenges and risks associated with running a business in a foreign country. However, this model of global outsourcing creates its own ethical issues. When a Canadian corporation, like the Hudson’s Bay Company (HBC), contracts with Factory X in China to produce clothing for an HBC brand, is HBC ethically responsible for the actions of Factory X?

In the past, most executives would likely have answered “no” to that question. For example, in 1991, a Nike executive was asked whether Nike was responsible for labour practices in its supplier factories in Indonesia. He answered: “It’s not within our scope to investigate. I don’t know that I need to know” (Esbenshade 2004, 119). That was a common perspective at the time. The position then was that it was the responsibility of the owners of the supplier factories to ensure that local laws were being complied with, and the responsibility of the local government officials to make and enforce whatever laws they deemed appropriate. It was

not the responsibility of a corporation placing orders from those foreign factories to police legal compliance there, or to impose moral or ethical standards on foreign businesses or governments.

This hands-off position was challenged in the 1990s by a wave of labour, human rights, and environmental activists, who argued that multinational corporations were responsible for the conduct of their suppliers. The activists investigated and publicized the actions of the foreign-factory owners, identified which corporations they supplied, and then waged negative and damaging publicity campaigns against them. In 1996, an American labour rights activist publicized the story of young girls working in very poor labour conditions in a Honduran factory to make clothes for a Kathie Lee Gifford line of apparel sold at Walmart stores. This was one of many stories in the media during the 1990s describing how North American and European corporations were profiting from business practices of their foreign suppliers that many northern consumers found objectionable.

As a result of that activism, many corporations found it increasingly difficult to deny all responsibility for the conduct of their suppliers. Beginning with denim clothing company Levi Strauss in 1992, many began introducing *supplier codes of conduct*. Through these codes, corporations acknowledged that they had some responsibility to police their suppliers and to hold them to a set of standard rules (see Appendix 2: “Roots Workplace Code of Conduct” at the end of this chapter). Various other initiatives and codes also emerged, including the Fair Labor Association and the Worker Rights Consortium, mentioned in the Gildan case study, that addressed labour practices, others that addressed environmental practices, and still others that focused on specific industries (such as forestry) or professions (such as accounting).

By adopting a code of conduct, a corporation signals to its stakeholders and the public its support for a set of universal standards that it believes apply worldwide. This can, and often does, create a set of difficult challenges for corporations. First, it may be difficult for a corporation to decide which standards to include in its code. If the standards are set too low, the code may be dismissed as a public relations gimmick. If the standards are set too high, the corporation risks negative publicity every time a supplier is discovered violating the code.

Second, some standards could disqualify an entire country. For example, in China, workers are not legally entitled to join any trade union other than the official state-sanctioned union. Therefore, a corporation that includes in its supplier code a requirement that workers be free to join unions of their own choosing may be disqualifying itself when sourcing from any Chinese factories.

Third, corporations must decide how much money to invest in monitoring compliance with their codes, and how to respond when violations of a code are identified. Companies like Nike and Gap, which have experienced some of the

highest levels of scrutiny, have invested millions of dollars to implement and monitor their codes; whereas other corporations do little more than post a code on their website, investing little or no money to monitor compliance levels. When a supplier violates the code, is the appropriate response to cancel all orders from that supplier, or to pressure the supplier to bring its behaviour into compliance with the code? The wrong response could open the corporation to harmful negative publicity.

Fourth, adopting a code of conduct usually attracts a variety of private watchdogs that are interested in what steps are being taken to ensure compliance. Non-governmental organizations, academics, media, unions, consumer groups, and investors may all be interested in knowing how well the code is being implemented. Corporations need to decide how to deal with those actors. Is the best course of action to open a dialogue with these private watchdogs, or to adopt a more secretive strategy designed to keep information about code compliance in-house?

Case Study Discussion and Conclusions

There are no easy answers to these questions. While there may be great economic benefits associated with a global production strategy, operating a global business is also complicated, risky, and fraught with ethical challenges. Think back to the case study that opened this chapter. Do you think Gildan should have responded differently to the situation it faced?

Gildan responded to the allegations made against it by the NGOs in a defensive manner that is quite common. The first inclination of many business leaders faced with accusations of unlawful and unethical behaviour in a foreign country is to deny the allegations, and to threaten or ignore the accusers. It is interesting to note that some of the companies that faced the most intense scrutiny for their global activities, such as Nike and Gap, acknowledged over time that a more fruitful response was to enter into a dialogue with their accusers, to agree to look into the allegations, and to discuss possible resolutions if the allegations were confirmed. For example, a Nike executive said this about Nike's initial approach to allegations made against its global activities:

Nike made a real mistake. I think we reacted negatively to the criticism. We said, wait a minute, we've got the best corporate values in the world, so why aren't you yelling at the other folks. That was a stupid thing to do and didn't get us anywhere. If anything it raised the volume louder. (Murphy and Mathew 2001, 7)

Similarly, Gildan found that the more it denied that there were any problems at its Honduran factory, the more the volume of criticism escalated. Gildan executives were probably surprised by the persistence of the NGOs, and by the range of other actors that soon joined in the chorus of criticism as time went on.

Eventually, Gildan decided to join the Fair Labor Association. Corporations join organizations like the FLA in an attempt to demonstrate that they take their ethical responsibility to monitor their supply-chain labour practices seriously. However, there are also risks in taking this step, as Gildan learned. Once a corporation adopts a code of conduct and accepts responsibility for policing it, it can expect to be held accountable to the code, even though the code itself is “voluntary.” The finding of the FLA and the Worker Rights Consortium, that Gildan had violated its code (and local labour laws), was a public relations blow for Gildan. It undermined the credibility of Gildan’s claims that the NGOs were selling falsehoods and that the sudden closure of the Honduran factory was completely unrelated to the workers’ complaints.

Following the threat by the FLA to suspend its membership, Gildan entered into discussions with the FLA and the NGOs. In early 2005, Gildan submitted a corrective-action plan to those groups. The plan included offering preferential hiring rights to all of the dismissed employees at a new factory Gildan was opening in Honduras, an offer to provide free commuting costs or to pay moving expenses for the former employees to enable them to get to the new factory, and a promise not to discriminate against employees who support unions. Gildan also agreed to provide a Honduran workers’ rights NGO with ongoing updates about the implementation of the plan. Gildan agreed to aggressively advertise the new jobs in ways most likely to reach the former employees, including using a loud-speaker mounted on a car in communities where those workers lived. Roughly 77 percent of former employees that applied for work at the new factory were eventually rehired by Gildan. As a result of this remedial plan, Gildan was permitted to remain a member of the FLA.

In 2007, when Gildan decided to close two factories in Northern Mexico, it took a different approach than it had in Honduras. It contacted MSN and a leading Mexican workers’ rights NGO to seek their input into how to properly manage the process and avoid the sort of negative criticism it had endured in Honduras. Gildan discussed the closures, which affected some 1,300 workers, with the NGOs and local government officials. As a result, Gildan agreed to provide extended health benefits and notice pay that exceeded local legal requirements, and to pay local state officials \$200,000, to be used as a fund to retrain and help dismissed employees find alternative work. The Mexican NGO that had participated in the discussions announced that Gildan’s approach to the factory closures in Mexico set a positive precedent for how foreign multinationals should behave in economically developing countries.

DISCUSSION QUESTIONS

1. Do you think Gildan responded properly when first confronted by the NGOs with allegations of labour law violations at its Honduran factory?
2. Why do you think Gildan decided to join the Fair Labor Association and thereby subject itself to the FLA's complaint mechanism?
3. Is it appropriate for NGOs to be engaged in campaigns designed to influence and perhaps harm the reputation of corporations?
4. What should Gildan do next?

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APPENDIX 1: The United Nations' Global Compact's Ten Principles

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: United Nations. Global Compact. <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>.

APPENDIX 2: Roots Workplace Code of Conduct

Roots Canada Ltd. (“Roots”) aims to do business with suppliers that respect the culture in which they operate, the local law, and the workers who manufacture Roots products.

Roots has developed this Workplace Code of Conduct (“Code”), which sets forth the basic minimum requirements that all suppliers must meet in order to do business with Roots.

In addition to the specific provisions in this Code, Roots expects its suppliers to act reasonably in all respects and to do their best to ensure that no abusive, exploitative or illegal conditions exist at their workplaces.

I. SUPPLIER AGREEMENT

Country Law: Roots suppliers must operate in full compliance with the laws of their respective countries and with all other applicable laws, rules and regulations, including those relating to labour, worker health and safety, and the environment. In cases where the Roots standard is more stringent, the Roots standard will apply.

Subcontracting: Roots will only work with subcontractors who comply with this Code and who have signed a copy of this Code. Supplier must agree to disclose to Roots the name and address of every subcontractor used in the production of Roots garments and products.

Recordkeeping: Suppliers and subcontractors must agree to permit Roots and their representatives to inspect all facilities and documents to ensure compliance with local laws and international standards. All documents provided must be accurate and must be presented in a manner that allows for a complete inspection by auditors.

Communication of Standards: Roots expects our suppliers to support and cooperate in the distribution of this code. This includes posting the Code of Conduct document in the local language, as well as English, in an area where all workers may regularly view these principles.

II. EMPLOYMENT STANDARDS

Wages and Benefits: Suppliers must pay all employees who manufacture Roots garments, products, or components at least the minimum wages and benefits mandated by local law, including an annual paid holiday as required by law or which meet the local industry standard. Wages must be paid directly to the worker in full in legal tender. Only legal deductions are permitted, and workers must be notified of these deductions.

Payment of wages must be made at or near the workplace. In addition to their compensation for regular hours of work, employees shall be compensated for overtime hours at such premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

Work Hours and Overtime: Except in extraordinary business circumstances, employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of work, the regular work week in such country plus 12 hours overtime and (ii) be entitled to at least one day off in every seven day period. Each employee must be notified at the time of hiring that compulsory overtime may sometimes be necessary.

Child Labor: Suppliers to Roots shall employ workers who meet the applicable minimum legal age requirement of their country or are at least 15 years of age.

Forced Labor: No forced labor, in any form, may be used by any Roots supplier, whether prison labor, indentured labor, bonded labor or otherwise.

Discrimination and Harassment: No employee of Roots suppliers shall be subject to workplace discrimination, harassment or abuse. Discrimination must not occur on the basis of race, color, sex, religion, political opinion, nationality, social origin, maternity or marital status.

Health and Safety: The workplace must be safe and healthy, and suppliers must comply in all respects with all applicable laws regarding the provision of a safe, hygienic, and healthy working environment. Suppliers must take steps to prevent workplace injuries and illnesses, and must train employees to use safe workplace practices.

Freedom of Association: Employers shall recognize and respect the right of employees to freedom of association and collective bargaining.

Environment: Vendors must comply with all local laws protecting the environment.

Roots will favor suppliers and contractors who take steps to ensure that their operations have the least impact possible on the environment.

Monitoring and Verification: Roots, by our representatives, may audit the facilities of any supplier and the facilities of any subcontractor. All suppliers and

subcontractors shall fully cooperate and provide access to all facilities and documents to ensure compliance with this Code. Roots reserves the right to perform unannounced audits when deemed appropriate.

Source: Roots Canada. https://canada.roots.com/on/demandware.store/Sites-RootsCorporate-Site/default/Link-Page?cid=MSTR_WORKPLACE_CODE.