

Corporate codes of labour practice and employment relations in sports shoe contractor factories in South Korea

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We examine the way a leading US-based, global athletic shoe and sports apparel firm applies its labour code of practice to four prime contractors located in South Korea. The content of the code, the mechanisms used in implementing the code, and employment relations behaviour associated with the code are investigated. We find evidence for arrangements resembling relational contracting and high compliance by the four Korean contractor plants in regard to the global firm's code of labour practices. Employment relations patterns in the plants are similar and related to implementation of the global firm's labour practices code. However, there are some noteworthy differences that are explained by variations in workplace dependence on the global corporation and the history and current approaches of contractor management.

Keywords: globalization, codes of labour practice, labour standards, employment relations, Korea, athletic shoe industry

The process of globalization has resulted in 'manufacturing drift' – multinational companies (MNCs) transfer labour-intensive production from the advanced to the developing countries in order to raise profitability by taking advantage of lower labour costs. This process is most keenly felt by older semi-

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skilled workers in the advanced countries where alternative employment and retraining opportunities are limited. Unions representing these workers hold multinational companies (MNCs) responsible for unfair labour competition, claiming that work is often shifted to countries where workers are exploited by authoritarian management and corrupt governments. Although this dark side of globalization is often exaggerated (Singh and Zammit 2000), it is nevertheless experienced as a moral hazard by many socially conscious consumers and owners in the advanced countries. Goods and services marketed aggressively by MNCs may compromise customers' feelings of satisfaction by carrying the stigma of third world labour exploitation and individuals who own shares in companies (directly or through mutual funds) may be uncomfortable being associated with organizations that appear to contravene human rights (Fung et al. 2001). The issue of acceptable labour practices therefore goes beyond the narrow interest of producers in limiting the impact of the market on job opportunities; it extends to consumers and is motivated by the notion of universal human rights.

One response to these concerns has been to appeal to governments. Despite grudging acceptance by many developing countries wary of additional costs being imposed on their exports by advanced country governments, some progress has been made. This includes the International Labour Organization's (ILO) 1998 declaration of human rights at work (which refers to seven core labour standards that member countries are obliged to uphold) and the OECD's (2000) revised corporate responsibility guidelines. These international agreements carry moral rather than legal force. Legislation has also been enacted by the US and the European Union obliging their trading partners to uphold certain labour standards (Tsogas 2001). Often however, labour law enforcement and monitoring in developing countries is lax and unsystematic, rendering these so-called social clauses ineffective. However, in some rare cases, a combination of local and transnational activism in support of labour standard obligations stipulated in trade agreements have succeeded.

A few MNCs in labour-intensive industries, located in developing countries, have created a self-regulation labour practices regime. This takes the form of codes of practice that are applied to their main suppliers. Such initiatives have typically addressed industry-specific issues and have rarely been pursued through inter-firm collaboration.¹ For example, natural resource exploiting companies (in the oil, mining and furniture industries) emphasize

1 Two examples of such collaboration are the US Industry Apparel Partnership and the UK Ethical Trading Initiative. Both are sponsored by government and include NGOs and trade unions. Athletico was a leading member of the Apparel Industry Partnership from which some of its members (the two unions and one NGO) subsequently resigned owing to disagreements over code content, and monitoring and auditing procedures. Athletico remains a prominent member of the Fair Labor Association, which has drawn up a code of conduct and monitoring procedures to which 10 companies, including

environmental practices while companies marketing personal consumer goods (e.g. food, clothing, toys, footwear and cosmetics) focus mainly on labour practices, including health and safety (IDS and Tsogas 1998). Codes of practice have developed in response to public criticism, mainly by non-governmental organizations (NGOs) and unions in the advanced countries. NGOs have established themselves as watchdogs, gathering and synthesizing information on firms that have a strong global brand image that market personal rather than business-related goods and services; and as a result of intense competitive pressure, outsource non-strategic functions, including manufacturing, to lower cost producers (Klein 2000). The internet has enabled NGOs to raise the awareness of millions of people. Targeted firms and their competitors have responded by developing customer-friendly websites and stepping up their public relations activities. Companies like Athletico (see below) are at the forefront of the battle for hearts and minds of consumers. They have adopted a proactive strategy that includes implementing a code of labour practices as a key part of a wider corporate responsibility program. These codes aim to both protect corporate and brand image – and hence promote social legitimacy – and contribute to profitability by enhancing organizational efficiency. Moreover, in countries where legislative enforcement is weak, codes of labour practice have wider labour-market effects, acting as de facto trend setters in employment relations (ER).

Practice has been more difficult. In addition to their limited scope, referred to above, most codes do not extend much beyond first-tier contractors. Responsibility for regulating smaller, second- and third-tier subcontractors is contentious and difficult to implement where production units merge into the informal economy. Three further issues have contributed, thus far, to the limited success of this private form of labour regulation. First, there has been criticism and confusion regarding code content (Connor 2001). In the athletic footwear industry most codes uphold the ILO's core labour standards but they do not provide for other, arguably important conditions: a living wage (difficult to determine), a quantifiable commitment to training, and facilities for worker representatives. Second, code implementation has been controversial. Occasional lapses in global company monitoring have attracted considerable media and NGO criticism and attempts to rectify this by using accounting firms to audit contractor factories have suffered the same fate (New York Times 2000, A12). However, experience is helping to build international

Athletico, have agreed. The Ethical Trading Initiative is a collaborative learning forum for trust building. A basic code of practice has been agreed but no code of practice has been implemented. A large majority of the suppliers to the group's approximately 20 member firms were found not to be in compliance with the basic code (Tsogas 2001, 68–71). These examples suggest that multi-organizational approaches to code implementation are not very promising.

expertise. The Fair Labor Association (a US apparel organization that grew out of the Apparel Industry Partnership) is accrediting organizations to act as factory labour code auditors while the Global Reporting Initiative and the Social Accountability International's SA 80000 are facing major problems in attempts to standardize labour practice and monitoring procedures (Burnett and Mahon 2001). The third issue concerns the potential consequences of codes. Unions may view codes as a threat, seeing them as a substitute for collective contracts, while governments may see in private regulation an opportunity to vacate the field of labour regulation (Jenkins 2001, 30). The emerging consensus, however, is that codes can play a useful complementary role in upholding and improving international labour standards (OECD 2000).

Much of the evidence on labour codes in the athletic footwear and apparel industries (see below) is based on controversial case reporting. The focus has been on how implementation fails, leading to the assumption that code infractions are normal practice. In the spirit of seeking to further explore this and related issues, this paper examines the way a leading US-based, global athletic shoe and sports apparel firm applies its labour code of practice to four prime contractors located in South Korea. Given limited academic research on code implementation (Frenkel 2001), we are especially interested in the content of the code, the mechanisms – monitoring, encouraging and disciplining – used in implementing the code, and the way behaviour associated with the code relates to ER more generally. A condition of research access was maintenance of company confidentiality, hence our use of a pseudonym for the global firm (hereafter *Athletico*) and reference to each of the contractor workplaces as A, B, C and D respectively. The research is based mainly on semi-structured interviews and primary and secondary documentary data obtained from *Athletico* and its contractors over the period March to May 2000. In addition to discussions with *Athletico* managers in Korea and in Asia more generally, we interviewed an average of 15 personnel at each of the contractor plants, spending four days at each workplace. These typically comprised: four managers (one HR/labour relations, one R&D, two line managers, and one manager from public relations and planning respectively), four employees, and two union leaders. Interviews covered overall management strategy, the institutional context, forward and backward production linkages, production systems, work organization, HR management especially implementation of the code of labour practice, unions and worker satisfaction. Two limitations regarding the data are worth noting. First, statistical data on comparative workplace performance relating to the code of labour practice was not available. Second, owing to resource and access constraints, our sampling of personnel in each workplace was limited. A senior plant manager chose managers and employees for interview. Selection was based on criteria provided by the researchers. One criterion was that the respondents be broadly representative of their colleagues. In each factory we found a high level of consistency in interview responses between different categories of respondents

(managers, workers and union leaders). This suggests that valid conclusions can be drawn from the data.²

The paper is organized as follows. In the first section we examine the theory and practice of corporate codes of practice arguing that ER in the contractor plants is related to the nature of the contracting relationship between the global firm and contractor management. We distinguish between transactional contracting – detailed short-term contracts based on clearly specified price and quality criteria – and relational contracting – longer term relationships characterized by frequent process-based contacts. Hypotheses connecting these types of contracting to ER are developed for empirical investigation. The second section introduces the sports shoe industry, Athletico corporation, and its contractors in Korea. In the third section we report our empirical results relating to the hypotheses. We find evidence for arrangement that approximate relational contracting and high compliance by the four Korean contractor plants in regard to Athletico's code of labour practices. However, ER patterns in the plants are not completely uniform. This is explained by reference to variations in workplace dependence on Athletico and the history and current approaches of contractor management. In the concluding section we argue that implementation of Athletico's code of practice has contributed to a convergence of ER patterns in contractor plants. Such convergence signals the importance of global firm policies in shaping ER in production networks far from their country of origin.

Regulation by corporate codes of practice

Codes of practice are a weak form of regulation. They are rarely legally enforceable so penalties for non-compliance are limited to moral suasion. Since codes are usually unilaterally rather than jointly enforced, management is answerable to no one for implementation. This model however needs to be qualified. A code may be incorporated into a contract of employment either through a collective agreement or as part of the terms of an individual's contract. Even where such codes explicitly lie outside legal contracts, they are not always unilaterally determined and may be monitored by another organization. Thus, a code devised in response to adverse publicity – e.g. where a contractor has been reported in the mass media to have harshly and unfairly treated employees – can become subject to a generalized 'shadow' scrutiny, in

2 A less plausible alternative interpretation is that all employees were 'singing the same company song'. This is unlikely, first because the evidence was corroborated by union leaders and Athletico managers; second, available documentary evidence did not contradict the interview findings; and third, interview respondents did not indicate any intention to deceive.

practice implemented by NGOs, the mass media, and sometimes by trade unions. These groups act either by pressuring the global firm, to whom the goods or services are supplied, and/or publicizing and notifying the government in the contractor's host country. In any case, such pressure may lead to changes in the code and regular auditing by an independent organization.³ Where there is freedom of speech and freedom of association, illustrated by a vigorous mass media, NGO and independent trade union activity, codes are likely to be implemented more effectively. Indeed, under such circumstances the possibility of public criticism will encourage compliance. Note however that compliance may not require the threat or presence of external pressure. Whatever the initial reason for introducing a code, associated labour practices at its suppliers' plants may become standard practice so one can speak of norms and activities becoming institutionalized. Under these conditions, code compliance is likely to continue particularly if there are productivity or quality benefits and/or credible sanctions against non-compliance.

The scope of a code of labour practices is likely to be more comprehensive where global firms are more likely to attract public criticism and where management is sensitive to the impact of adverse publicity on company reputation or brand image. A more comprehensive code limits the opportunity for criticism and also affects the institutionalization of labour practices. Such practices take time to create (e.g. a no discrimination policy) and can be costly to implement (e.g. restricting hours of work). Of importance too is the nature of the contractor: whether the contractor is able to comply. Where suppliers are home workers or part of the informal economy, or small establishments supplying several companies, it is difficult to implement a code. However, where contractors are large, multi-plant companies, as in the first contracting tier of the athletic shoe industry, it is easier to institutionalize a code.

In order to explain the influence of different kinds of inter-firm relationships on code compliance, it is helpful to follow Sako (1992) in distinguishing between two ideal types of inter-firm relationship: arm's-length or *transactional contracting* and obligational or *relational contracting*. Transactional contracting involves a specific, discrete economic transaction based on an explicit contract, detailing the parties' rights and obligations. It is a short-term arrangement. All dealings are conducted at arm's length as a market transaction. Risk is spread by contracting with a large number of organizations. By contrast, relational contracting involves a high level of interdependence with a small number of suppliers that extends over time. These relations are not necessarily egalitarian; they are however underpinned by what is sometimes referred to as goodwill

3 The extent to which accounting firms are independent is a contentious matter. NGOs may also have limited autonomy if they highly dependent on factory auditing for their income and hence survival. Local NGOs may also lack the competencies to undertake factory audits. See Burnett and Mahon (2001).

trust, i.e. parties are likely to assist one another through difficult times.⁴ These diffuse obligations involve regular contact between managers of the respective firms across a wide range of issues. Obligations and understandings are not formalized in a detailed contract.

Thus relational contracting implies more knowledge and risk-sharing based on mutual trust.⁵ Drawing mainly on the auto industry, research indicates that in the pursuit of greater efficiency, there has been a tendency in the US to move from transactional relations to relational contracting (Helper and Sako 1995). Hancké (1998) and Nooteboom (1998, 188) have observed a similar trend in European countries. In Japan, a move in the direction of transactional contracting is signaled by adoption of a more transactional orientation regarding non-strategic suppliers while retaining relational contracting with key suppliers (Dyer et al. 1998). In Korea, relational contracting based on chaebol domination of small-scale suppliers but entailing lower trust than their Japanese counterparts (albeit higher than is likely under transactional contracting) is the most common form of inter-firm contracting (Dyer and Chu 2000, 273–4; Dyer et al. 1998, 64–7).

The implications of inter-firm contracting types and tendencies *vis-à-vis* implementation of global firm codes of practice in contractor factories are as follows. Where something resembling transactional contracting occurs, contractors are unlikely to effectively implement a code of practice. This is because the contractor has entered a short-term relationship based on detailed output requirements (e.g. price, quality and delivery) knowing that the global firm has spread its risk among a large number of suppliers. Since labour code compliance is usually a long-term, costly reform (which the global firm is unlikely to bear) and is not technically essential to the global firm's product requirements, there is little incentive to comply with the code. High monitoring costs across a large number of contractors typical of transactional contracting regimes further discourage the global firm. At best, the code will

4 More complex typologies of inter-firm relations are currently being developed. Gereffi, Humphrey and Sturgeon (2002) distinguish between three types of networks – relational (e.g. industrial districts); modular (e.g. the electronics industry characterized by limited inter-firm interdependence); and captive networks (e.g. the Brazilian footwear industry where there is a relatively low level of supply competence and a high degree of monitoring and control by the focal firm). Clearly, there is a close parallel between their second and third network forms and transactional and relational contracting respectively. Whereas their conceptualization is aimed at understanding the form and consequences of global value chains, the typology used in this paper is grounded in the literature of inter-firm relations and employment relations and is directed specifically at the latter.

5 In both cases the relative power of buyers and sellers can vary. In transactional contracting, the amount supplied relative to demand will be reflected in the price, which indicates the relative power of the parties. In relational contracting, the ongoing relationship may be between relative equals, or as occurs more frequently in practice, between a large, more powerful buyer and a smaller, less powerful supplier.

be selectively implemented with most attention probably being paid to labour practices that are least costly to alter in geographically more accessible plants.

By contrast, where something similar to relational contracting is the main type of inter-firm relationship, compliance is more likely. In this case – which is the type we anticipate in this study, given the evidence presented above of US firms moving towards relational contracting and Korean suppliers being used to this kind of arrangement – there will be a longstanding working relationship with the global firm that is likely to strongly influence the contractor's behaviour regarding labour practices. The fact that the global firm's monitoring and support practices focus on relatively few suppliers will act as a further incentive to the contractor. The more extensive the code and the more changes required of contractor ER, the more likely the contractor is to develop specialist roles to support this activity. This institutionalization process helps to ensure that the code is effectively implemented. It is at this point that the third factor comes into play. Further institutionalization occurs where global firm management and the contractor view the code as a resource, not simply for satisfying stakeholder interests (being a fair employer in the eyes of the public and employees), but also for attaining the contractor's main goals, and by implication, meeting some of the global firm's key objectives. ER improvements come to be viewed in the contractor firm as a strategic issue, and are treated as an opportunity to continuously raise labour productivity and product quality, thus contributing to contractor profitability and growth. As long as the global firm is prepared to allow the contractor a substantial proportion of the gains made through ER improvements (via process innovation and more efficient task execution associated with enhanced training and lower labour turnover), then code compliance is likely to be replaced by code commitment.

This discussion leads to the following five hypotheses.

1. The more sensitive global firm management is to charges of labour exploitation, the more comprehensive the code of labour practice is likely to be.
2. The more sensitive global firm management is to charges of labour exploitation and the larger the contractor companies, the more likely the code of practice will be systematically institutionalized and rigorously implemented.
3. Where a code is part of a relational contracting arrangement, institutionalization will be reinforced and contractor compliance will be high.
4. Where a global firm, as part of a relational contracting arrangement, develops a strategic ER perspective on the basis of a code of labour practice, contractor management are more likely to adopt this perspective leading to code commitment rather than compliance.
5. Where conditions indicated in the previous hypotheses apply, including similarities in technology in the contractor workplaces, code conformity and ER more generally will be similar.

We now introduce the global firm and its four contractors, including a brief description of the Korean labour market context before exploring the empirical evidence relating directly to the hypotheses above.

The global firm, contractors and the Korean labour-market context

Athletico is typical of global firms that have become focal points in production and service chains, contracting out non-strategic activities while at the same time exercising control over networks that extend across national borders (Dicken 1998; Gereffi et al. 1999). Athletico accounts for an estimated one-third of the world's branded athletic footwear sales. Sales growth in this sector has been sluggish although the company has maintained market share. Nevertheless, return on equity declined substantially since the early 1990s. This has led to employee downsizing – by 9 percent between 1998 and 1999, leaving it with a workforce of around 21 000 (non-union) employees.

During the 1990s the company attracted considerable adverse publicity for sourcing its product from some contractors who exploited employees in third world countries. Aggressive global marketing of sports/fashion products, including sponsorship of celebrity US sports personalities, made Athletico a natural target of globalization critics (Varley 1998, ch. 8).⁶ The exploitation of workers was underscored by contrasts made between the costs of the items and the wages paid to workers employed in contractor companies. Athletico outsourced almost all of its manufacturing to 38 contractor factories located mainly in China, Indonesia and Vietnam. These plants are controlled by around 15 contractors, most of which are headquartered in South Korea and Taiwan.

Athletico's code of labour practice emerged from the company's reaction to its critics, but as we shall see, management is encouraging commitment to its principles and standards as part of a broader philosophy of best practice and continuous improvement. Three periods of code development can be distinguished. The first period (1992–95) was marked by management reaction. Thus, following criticism of some of its contractor plants in Indonesia, management devised a simple, one-page code of labour practice covering areas where there had been accusations of worker abuse and some areas which signaled future concerns. These included minimum wages, child labour, and unhealthy working conditions, and, in relation to the future, limitations on environmental degradation. Contractors were required to implement the code and document compliance that could be checked by Athletico managers. This approach represented a major break with the past when the company had encouraged competition between contractors without regard for labour or environmental

6 It is estimated that around \$4 billion was spent on sponsorship in 1997 including \$70 million paid to a single sports star.

standards. The second phase (1995–98) was marked by an upsurge in NGO and media criticism of labour practices in Athletico and other global firms' contractor factories in Indonesia and China (Varley 1998, 251–81; Chan 1998). Athletico responded by establishing a Labour Practices department in 1996 and implementing procedures including training programs to ensure contractor compliance. As part of this process, the company contracted an international financial auditing company to conduct labour practice audits on contractor factories and an external consultant was hired to evaluate the code of labour practice and provide recommendations to the company. These activities attracted accusations by NGOs of bias and lack of professional expertise.

Meanwhile, in 1998, amidst more difficult market conditions, a new phase began. Athletico began to adopt a markedly proactive approach to labour practices and community relations. The code was revised that year by raising the minimum age, lifting health and safety standards, and making a commitment to include NGOs in factory auditing. Community relations were extended by: expanding the company's micro-loan program in Indonesia, Vietnam and Thailand; creating a non-profit alliance (with two foundations, two companies and the World Bank) aimed at improving workers' lives in developing countries; and restructuring the company's charitable foundation. The restructured foundation aimed to develop youth through provision of after-school programs and received an annual contribution of 3 percent of pre-tax revenue from the company. In 2000, under the auspices of the UN, Athletico, together with 50 MNCs and 12 labour associations and NGOs, signed a compact supporting human rights, independent trade unions, environmental protection, and opposition to child labour. The company's increasing concern with corporate responsibility is indicated by the more than three-fold growth in employment in the corporate responsibility division (which includes labour practices, the environment, and community relations) in two years and the publication in 2001 of its first corporate responsibility report. These developments followed further controversy around specific factories in Indonesia (low wages and abusive management practices), Mexico (worker representation) and Cambodia (child labour). The question of independent auditing has been addressed by commissioning Verité, an FLA accredited NGO, with the task of auditing the company's contractor factories.

Referring to the first two hypotheses, the evidence suggests that the condition of sensitivity to charges of labour exploitation clearly applies to Athletico and that there are strong pointers to institutionalization of the labour practices function and the existence of a relatively comprehensive code of practice. We take up these and related issues below.

Athletico and its contractors in Korea

In 1982, 70 percent of the company's shoes were sourced from South Korea. By the mid-1990s rapidly rising labour costs and union militancy had reduced

Korean output to less than 10 percent. This was part of a broader trend that saw a massive decline in Korean shoe production as factories relocated to Indonesia, China and Vietnam. Nevertheless, with over 33 000 employees, Korea is the 18th largest footwear employer in the world and likely to remain important as labour costs, though important, are no longer decisive in determining competitiveness (ILO 2000, 43).⁷ In addition, with its longstanding expertise in athletic footwear production, and second largest market in Asia (after Japan), Korea remains an important centre of athletic shoe production. Athletico is one of the three leading brands in the country, accounting for almost 20 percent of market share in Korea.

There are six contractor plants producing Athletico shoes in Korea. These are first-tier suppliers to Athletico, the focal firm in a global value chain. Such inter-firm networks are characteristic of the international athletic shoe industry where the focal firms are headquartered close to their largest market, i.e. in the US, though the great majority of the contractors' workplaces are based in low-cost countries (Barff and Austen 1993). In this case, the contractor firms are independent (non-chaebol affiliated) Korean companies that have retained some production in Korea; however, most of their factories having been relocated to China and Indonesia. Company headquarters and the remaining factories are situated in the southeastern port city of Busan and adjacent Gimhae area where Korean shoe production has been traditionally undertaken. Co-located next to these factories are research and development laboratories. Indeed, one of the main reasons for retaining some manufacturing in Korea is that these factories act as test-beds for new products that are subsequently manufactured in the contractors' subsidiary plants in Indonesia and China. Another reason is that higher skilled Korean workers are able to produce more complex parts of athletic shoes (e.g. undersoles) and some kinds of shoes (that require elaborate stitching) more efficiently than their Chinese, Indonesian or Vietnamese counterparts. Each plant is encouraged to specialize in order to become expert in a particular kind of shoe. For example, A concentrates on baseball shoes while B produces running shoes. By manufacturing shoes in Korea and selling in the domestic market the factories do not incur import duties on inputs (in contrast to their Indonesian and Chinese counterparts) and transport costs are less than those incurred by the overseas plants. In addition, Athletico positions itself as a premium brand and charges relatively high prices. These cost and price factors make it possible to manufacture in Korea and compete in the large domestic market.

7 Frequent changes in consumer demand require more rapid changes in production and greater responsiveness to retailer requirements. This is typically satisfied by just-in-time production, which makes proximity to markets an advantage. Factories in advanced countries can offset some of their higher labour costs by concentrating on responsiveness, lower inventory costs, high-quality production, and importing the most labour-intensive shoe parts (ILO 2000, 38–9; Barff 1993, 1112).

Details of Athletico's four contractor plants included in the present study are shown in table 1. Each of these four workplaces employs only a small proportion of the total workforce of their respective companies. These firms concentrate most of their manufacturing in China, Vietnam and Indonesia, although they are headquartered in the Busan/Gimhae area of Korea.⁸ The companies have considerable experience in the industry. The workplaces in Korea tend to be relatively small compared to their overseas plants, and there is some local variation, with the strongest contrast between workplaces A and B. The workplaces have been supplying Athletico for a relatively long period – eight years being the shortest in the case of workplace D and 19 years being the longest (workplace B). In all but one case (workplace D), the contractor currently has an exclusive relationship with Athletico and does not produce goods for any other company. Athletico evaluates its suppliers annually in each country (as discussed later). Although, as mentioned earlier, there are only six Athletico suppliers in Korea, our study includes both higher and lower ranked plants. Finally, information on production indicates that the plants were working well below full capacity, close to, and in one case (workplace C) below breakeven volume. This reflects depressed demand for athletic footwear, particularly in Korea where tight fiscal and monetary policies were being applied. These were part of the conditions laid down by the International

Table 1 **Characteristics of Athletico's contractor workplaces in Korea, 2000**

Workplace	A	B	C	D
Size of company (number of employees)	17 500	10 500	14 000	12 800
Start year in Korea	1980	1981	1986	1972
Workplace size (number of employees)	770	160	180	330
Start year with Athletico	1989	1981	1988	1992
Relationship with Athletico	Exclusive supplier	Exclusive supplier	Exclusive supplier	Main supplier
Rank in Athletico's annual evaluation (1999)	Top 2	Top 3	Top 4	Top 5
Monthly workplace capacity (pairs of shoes)				
Full	82 000	20 000	23 000	41 000
Breakeven	50 000	12 000	14 000	27 000
Current operating	55 000	12 000	13 000	27 000

Source: Documentary data and interviews.

8 For example, plant A had four counterpart plants, two in China and two in Vietnam. Plant B's counterparts included 2 plants in China; plant C, one plant in Indonesia and two in China; and plant D, one plant in China and one in Vietnam.

Monetary Fund in November 1997 in exchange for assisting the Korean economy escape from the financial crisis.

Contraction of the Korean economy was reflected in high rates of bankruptcy and unemployment. By 2000, unemployment had significantly diminished.⁹ The period 1997–2000 however witnessed major disputes over redundancies and union rights, and the incidence of strikes and complaints of unfair labour practices increased in recent years. Enterprise-based unions have been developing industry-based organization as membership declines resulting in a union density figure of 11.9 percent in 1999 compared with 13.8 percent in 1995 (Kim and Kim 2000). On the other hand, there have been attempts through tripartite discussions and substantial changes in labour law to reconcile employer and government interests in increasing labour flexibility (mainly through relaxation of laws limiting retrenchments and dismissal) and unions' concern for representation and members' employment security and unemployment support. Managers of large Korean firms have been responding to the crisis and competition in export markets by developing new HR strategies inspired by US management's emphasis on flexible HR practices. Although there are variations between Korean firms, the main tendencies include more frequent use of lay-offs, increased use of contingent workers (now comprising 53 percent of the workforce), and greater use of performance-based pay in lieu of seniority-based reward systems (Kim and Kim 2000; Kim and Yu 1999). Since Korea gained membership of the ILO in 1991 and the OECD in 1996, there has been pressure on successive governments by these and other private institutions to adopt ILO conventions and meet international labour standards (Kim and Kim 2000, 21–2).

The labour code, global firm–contractor relations and contractor employment relations

Athletico's labour practices code is a condition of engagement and re-engagement for contractors. Before an initial agreement is made, the contractor is required to undergo and pay for a labour practices audit by an international auditing firm and be inspected by Athletico managers using the methodology that is regularly applied to existing contractors. New contractor workplaces must satisfy conditions stipulated in the code and existing contractors must rectify any shortfall within a specified period. The code contains a set of principles and standards (see box). These are consistent with the ILO's four funda-

⁹ For example, in 1995, average national unemployment was 2.0 per cent; in Busan it was 3.5 percent. In 1999, when the impact of the crisis was at its height, the corresponding figures were 6.8 percent and 9.1 percent. In May 2000, unemployment had eased: the national average was 5.1 percent and in Busan it was 6.0 percent (National Statistical Office, Korea, 2000).

Athletico's code of labour practices

The code contains principles and standards of conduct. A preliminary statement in relation to the principles is as follows: 'Athletico designs, manufactures, and markets products for sports and fitness consumers. At every step of the process, we are driven to do not only what is required, but also what is expected of a leader. We expect our business partners to do the same. Specifically, Athletico seeks partners that share our commitment to the promotion of best practices and continuous improvement in':

Principles (summarized)

- Occupational safety and health, compensation, hours of work, and benefits.
- Minimizing environmental degradation.
- Management practices that acknowledge the dignity of the individual, rights of free association and collective bargaining, and exclude harassment, abuse or corporal punishment.
- No discrimination on the basis of race, creed, gender, marital or maternity status, religious or political beliefs, age or sexual orientation. Hiring, reward, advancement, termination and retirement decisions made solely on the basis of individual ability to undertake the job.

Standards

- No forced labour (i.e. prison, indentured or bonded or similar kinds of labour).
 - No child labour (i.e. below 18 years old).
 - Fair wages (minimum legal wage or prevailing industry wage, which ever is the higher); clear written explanation of pay composition; and no fines for disciplinary infractions.
 - Payment of all legally mandated benefits.
 - Adherence to local laws regarding hours of work and overtime pay, with a maximum of 60 hours of work a week and one day in seven for rest. Employees informed at the time of hiring whether mandatory overtime is a condition of employment.
 - Environment, safety and health guidelines for factories and where applicable, residential facilities, must be codified and comply with Athletico's standards and local laws, and the US Occupational Safety and Health Administration's provisions regarding organic vapour concentrations. Personal protective equipment to be provided free of charge and required to be used; and complies with all local health and safety laws.
 - Documentation and inspection requirements include contractors maintaining a file with documentation.
-

mental human rights relating to work although they fall short of some of the OECD's wider guidelines.¹⁰

Factory managers and workers – typically organized together from several workplaces – receive training from Athletico managers in the significance, meaning and application of the code. The training includes a set of detailed explanations that indicate how the expected standards are likely to apply in contractor workplaces. The code (translated into local languages) is

10 The four fundamental human rights relating to work are: 1. The right to bargain collectively and freedom of association (Conventions 87 and 98). 2. Freedom from forced or compulsory labour (Conventions 29 and 105); 3. Freedom from exploitative child labour (Convention 138); and 4. Equality of Opportunity (Conventions 100 and 111) (ILO 1998, 7). The OECD guidelines include, *inter alia*, improvement of skill levels and facilities for employee representatives; rights to information; notice and co-operation with workers' representatives prior to lay-offs and dismissals; and management negotiation and consultation with authorized employee representatives.

required to be posted in factories for easy reference by workers. Ensuring contractor compliance regarding product quality, health and safety, and labour and environmental standards, is the responsibility of a US expatriate manager based in Busan. He was assisted by a Korean manager who visited the plants on a frequent but irregular basis, inspecting the facilities, collecting suggestions from factory suggestion boxes, and working with the labour practices manager at each of the contractor plants to resolve problems, and conduct regular formal reviews. This activity was supplemented by quality managers (one per workplace) employed by Athletico to assist contractor management to resolve quality-related problems. These managers, who reported to the expatriate manager referred to above, also kept an eye on workplace labour practices. In an interview, one of the quality managers noted that:

Most of us aren't expert in human resource management so although we have this philosophy of continuous improvement, it's hard to implement. We are getting more qualified people to assist us but it's not easy. We need to be open-minded and work with firms to get ahead...I spend a good deal of time talking to managers about their problems.

In addition to the informal contacts between Athletico and contractor managers mentioned above, there were the formal quarterly and annual evaluations of code-related labour practices. The philosophy behind this monitoring process is not merely compliance but as indicated in the code summary, commitment to best practice (although this is nowhere specified) and continuous improvement. The quarterly plant inspections covered 30 safety items, 23 health items, 10 environment items, and 14 ER items. The Athletico labour practices manager completes a proforma and based on this evaluation, each factory is given a score and a rank. Athletico management, based in Busan, undertakes an annual evaluation and ranking of contractors. Their assessment includes production and delivery criteria. Annual average scores for labour practices and production are used to determine allocation of future orders, including in some cases, whether contracting arrangements will continue.

Relational control: Athletico and its contractors

It is clear from table 1 that Athletico's suppliers are themselves quite large and multinational in the scope of their manufacturing operations, and that relations with Athletico are relatively longstanding. In addition, we noted how Athletico assists contractor management to maintain quality and appropriate labour standards in the contractor plants. These features point to relationships that are more relational than transactional, bearing in mind that we are referring to approximations to ideal types. Manufacturing arrangements are nevertheless underpinned by roll-over legal contracts that are discussed at

annual meetings between Athletico senior managers and the contractor companies. According to managers, these are relatively simple, intended mainly to record key points rather than to extensively describe each party's rights and obligations as in the case of a transactional contract. These relational contracts are nevertheless based on unequal power, as illustrated by the fact that three of the four contractors' factories are dependent solely on Athletico for orders, while the fourth factory is a main supplier. Having been through the years of factory relocation to low-cost China and other South East Asian countries, contractors are acutely aware of foreign competition. Moreover, they prefer to supply global firms, especially a brand leader like Athletico, because, in comparison with local firms, they offer more predictable demand and provide the cost, quality, delivery time, and labour practice discipline and knowledge required to survive in a highly competitive industry.

Although it is possible for global firms like Athletico to drive suppliers' prices down further and switch to alternative suppliers without too much cost, especially currently when orders are low and contractors are eager for additional orders, Athletico refrains from taking an opportunistic line. Rather, Athletico management prefer to develop a relationship where the contractor has an ongoing incentive to work with the company to continuously improve productivity and quality as well as meeting the standards set by the labour practices code. This does not mean that there is no bargaining at all. Negotiations occur when contracts are revisited annually, but within a relational contracting framework, i.e. where Athletico sets the parameters and strives to assist contractors to meet their objectives.¹¹

In summary, the code of labour practices, with its associated documentation, is relatively comprehensive, and is institutionalized by regular monitoring of the contractors' factories by trained staff, together with appropriate training for factory managers. Evaluation has important consequences indicating the importance assigned to code implementation by Athletico management. We also showed that labour practices are part of an arrangement that more closely resembled relational rather than transactional contracting. Together with our earlier findings, this provides strong evidence in favour of the first two hypotheses and some support for our third conjecture, which, as we shall see, receives support from findings on ER in the contractor workplaces detailed below.

11 Relational control is not the same as dependency. Having established relatively high production and labour standards, contractors are able to seek contracts with alternative global or domestic firms. Although global firms like Athletico prefer exclusive suppliers, they do not insist on this; indeed in the apparel industry (in which they participate), non-exclusive contracting is commonplace.

Contractor workplace features and employment relations

Contractor managers were mainly concerned with breaking even. Neither their technology nor their production employees conferred any special advantage. Their comparative advantage lay in the planning and problem-solving associated with converting prototypes to high-volume production. This technical and management expertise was retained through pay and benefits that were higher than the average for manufacturing factories in the area though lower than the pay and benefits disbursed by chaebol affiliates. The workplaces were organized along functional lines, with departments responsible for administration, cost control, production management, quality control, materials supply, and ER/labour practices. Although the factories served as test-beds for prototype shoes and specialized in certain kinds of shoes, there was little major process innovation. On the other hand, products were continually modified. Technology was approximately five to six years old and did not differ much between the four workplaces.¹² Shoe manufacturing remains highly labour intensive with work areas divided according to function (e.g. lasting, stitching, finishing, packing etc.), and central assembly lines for each shoe model. Workers specialize in semi-skilled tasks that are performed in a routine fashion. Time-and-motion engineers establish production quotas, while supervisors oversee the productivity and quality of designated groups of workers according to formalized rules and customs. With manufacturing accounting for around 40 percent of the retail price of a typical Athletico shoe in Korea, there is an incentive to improve manufacturing processes. However, three factors limit process innovation. First, being mainly a marketing and design firm, Athletico has little in-house expertise to assist contractors in this endeavour. Second, managers in the contractor firms (A being an exception in this regard) lacked the training and knowledge of new techniques that are more commonly found outside rather than inside the shoe industry. Third, process changes were expected to be transferred to overseas plants within six months. However, labour was less experienced in these workplaces, making any significant skill-based process innovation more difficult to implement.

All managers and employees were from Busan or nearby areas. The contractors had a policy of rotating their managers to overseas plants every two to three years. Approximately 90 percent of managers were men, while around 85 percent of the production workers were female. The women had junior high school or high school qualifications and were between 35 and 45 years old. Most women were married, having typically entered the shoe factories or similar employment when their children started at school.

The four factories exhibited the code of labour practices (in Korean) on the wall of their HR offices and in the factories. To continue working, proba-

12 Rapid changes in product design and the variety of detailed operations involved in shoe-making limit opportunities for automation.

tionary employees had to pass an exam that included questions on the code. Our interviews showed that although workers were aware of the code's existence and the presence of suggestion boxes in the factories, they only had a vague knowledge of the code. The code seemed to be interpreted solely as a vehicle for establishing and reinforcing legitimate expectations regarding working conditions. As a female worker with eight years' tenure remarked: 'I don't pay attention to the specifics in the code of conduct. But I know my company is a better place to work mostly because of it.' Managers stressed that adherence to the code was very important as it could affect the number of future orders by Athletico. No interview respondents cited major problems with implementing the code in recent years. And, as we shall see, managers at some workplaces believed it could also improve performance.

By and large ER at the contractor workplaces were similar but as we note below, there were some important differences (see table 2). Table 2 shows that all four workplaces had an authoritarian, paternalistic management style that was moderated by attempts at consultation (workplaces A and B). Authoritarian in this context means a strong contrast in the statuses and power of senior managers and production workers respectively. This often gives rise to fear on the part of employees and is institutionalized in punishment for rule infractions (lateness, tardiness, not abiding by work rules, etc) in the form of very occasional fines that are deducted from monthly wages. Feelings of fear were strongest among employees at workplaces C and D. Korean managers are typically paternalistic, feeling responsible for employees' well-being. Thus, when employees marry, have a baby, or their parents die, managers ensure that the factory officially recognizes such events by giving money, sending flowers, etc.

Three of the four workplaces (D being the exception) acknowledged the importance of labour practices by establishing a separate department alongside that of Personnel, which focused mainly on hiring and salary administration. Regarding ER practices, all four workplaces stressed numerical and wage flexibility as a means of limiting cost increases. Thus, all production workers were employed on a daily contract basis and approximately 20 percent were laid off in periods of slack demand (March through May and September through November). In addition, workers' pay was related to performance (see later) so that in periods of high demand overtime pay was a valued supplement to ordinary earnings.

Wages in the four workplaces were well above the legal monthly minimum wage of \$330 (see table 2) and reported by employee interviewees to be slightly above the average wage in the district. The lowest pay rate was at workplaces C and D but it was not much less than the rates paid at workplaces A and B. Pay systems were similar, with provision for base pay depending on skill grade, a bonus for individual performance (subject to deductions as mentioned previously), and overtime pay. The high proportion of performance-related pay to total pay – 40 to 50 percent comprising skill-related increments and bonuses – highlights the emphasis placed on wage flexibility.

Table 2 Employment relations in contractor workplaces

Workplace	A	B	C	D
Management				
Management style and relations between senior managers and production workers	Fairly authoritarian and paternalistic; trying to add consultative practices; some fear of management	Fairly authoritarian and paternalistic; trying to add consultative practices; some fear of management	Authoritarian with some employee consultation; fear of management with whom there is little interaction	Authoritarian with authority centralized; no employee consultation; fear of management, little interaction
Presence of a Personnel and/or Labour Practices department	Personnel dept: 3 staff; equivalent of a labour practices dept 2 staff	Personnel dept: 1.5 staff; Labour Practices dept recently established with 1 staff	Personnel dept: 1.5 staff; Labour Practices dept recently established with 1 staff	Personnel dept: 2 staff; no labour practices dept
Employment relations				
Employment relations strategy	Wage and numerical flexibility; improving labour practices and product quality	Wage and numerical flexibility; improving labour practices and product quality	Wage and numerical flexibility	Wage and numerical flexibility
Average monthly wage (AMW) and pay system	AMW US\$650–750; basic wage (grades) + bonus + overtime	AMW US\$650–750; basic wage (grades) + bonus + overtime	AMW US\$600–700; basic wage (grades) + bonus + overtime	AMW US\$600–700; basic wage (grades) + bonus + overtime
Working hours per day and annual leave	8 hours, alternating 5-day work week and 6-day work week; 19 paid holidays	8 hours, alternating 5-day work week and 6-day work week; 18 paid holidays	8 hours, alternating 5-day work week and 6-day work week; 17 paid holidays	8 hours, alternating 5-day work week and 6-day work week, 22 paid holidays
Workers' grievance and suggestion procedures	Internal procedure – supervisor/union/senior manager; suggestion boxes in factory	Internal procedure – supervisor/union/senior manager; suggestion boxes in factory	Internal procedure – supervisor/union/senior manager; suggestion boxes in factory	Internal procedure – supervisor/union/senior manager; suggestion boxes in factory
Worker organization				
Union presence and role	Enterprise union; good relations with management; grievance handling and financial assistance	Enterprise union; good relations with management; grievance handling and financial assistance	Enterprise union; good relations with management; grievance handling and financial assistance	Nominal union presence, fewer worker committees; no real influence

Source: Fieldwork interviews, observation and documentary data.

Working hours were similar in the four workplaces, averaging 44 hours a week, considerably less than the Korean average (51 hours). Overtime was limited to an average of around 150 hours a year per worker. Similar procedures were in place for processing grievances and our investigation revealed few problems; these tended to focus on working conditions, e.g. quality of the food, and malfunctioning air conditioning systems. One indicator of relative worker satisfaction was the low labour turnover rate at the four factories. For workplaces A and B, turnover averaged between 2 and 3 percent annually, and for workplaces C and D, between 5 and 10 percent. According to our interviews with employees and union officials, the relatively short hours and good working conditions at the factories were especially valued.

Unions were active in three of the four workplaces, plant D again being the exception. These were enterprise-based unions that were independent of management.¹³ Each workplace had an elected union official who serviced the production and lower level clerical worker membership on a full-time basis. However, in order to circumvent the law, these officials were classified as part-time union officers.¹⁴ The unions were affiliated to an industry union of footwear and apparel workers. The unions concluded collective agreements every year with management as well as dealing with workplace issues and administering a fund (to which both management and workers contributed) to assist individual workers with health problems.

The similarities in the high level of code implementation and in ER practices more generally are striking. Having shown earlier that such consistency is part of a relational contracting arrangement that encourages code support, this finding is consistent with hypothesis 3, viz. that such contracting conditions encourage high contractor compliance. The evidence also provides support for hypothesis 5, which refers to the conditions of high sensitivity on the part of the global firm to charges of labour exploitation and the existence of relational contracting with large contractor companies under similar

13 Prior to 1987, the four plants were not unionized. However, following the strike wave and winning of labour rights (to independent associations, collective bargaining, and strikes) in that year, workers at the four factories voted to establish enterprise unions. Union-management relations were adversarial until the early 1990s, in part because both parties lacked negotiating experience which resulted in strikes at each of the four plants. Subsequently, union-management relations stabilized, with the unions remaining independent of management. The one exception is plant D where the union shrank to a nominal organization after union officials illegally damaged plant facilities and company property, and were lawfully fired in 1996.

14 Under present Korean labour law full-time union officials are not permitted to be paid by the company. Classified as part-timers, these officials were paid by the companies. Korean unions are attempting to change the law to make it possible for employers to pay full-time union officials.

technological conditions. This situation is expected to favour a high level of institutionalization of code implementation and similarities in ER practices between contractors.

The finding that ER practices in contractor factories are similar and relatively benign does however contradict reports from Indonesia and China of Korean management failing to uphold the code of practice and treating workers harshly (Chan 1996).¹⁵ This may be explained by cultural compatibility between Korean management and workers in local plants, compared to overseas workplaces where there have been reports of wide cultural differences, especially between Korean managers and Vietnamese workers (*Asian Wall Street Journal* 2000). On the other hand, structural factors may account for these differences. Thus, regarding the Korean workplaces, the code had been institutionalized, and in some workplaces (C and D), there was a commitment by management to improving ER based on consultation with worker representatives. Compliance was assisted by the proximity of the four factories to headquarters and Athletico's regional office, and also by workers' basic knowledge of the code, and the presence of active trade unions in three of the four workplaces. In China, there appeared to be less commitment to the code by Korean expatriate management. The factories were much larger (from 4500 to 7840 employees), more recently established (and hence with more technical difficulties to resolve), and without a specialized Labour Practices department or a manager working full-time on implementing and monitoring the code. In addition, the workforce comprised mainly young women from rural areas, with much less experience of industrial work than their Korean counterparts. Without any active, independent unions, these workers were especially vulnerable to the assertiveness of Korean managers. And there was less chance of transferring the global firm's ideology underpinning the code to contractor management and a higher probability of code infractions going undetected because face-to-face contact between Athletico management and their contractor counterparts was less frequent. This was because the global firm's Labour Practices manager and his junior were located in a different region, a considerable distance from the factories. Two additional factors are time-related. In the face of criticism by the ILO and OECD, the Korean govern-

15 An unpublished study of four Korean contractor plants in China (Paul et al. 1998) gives the following picture. In some cases normal working hours exceeded the eight-hour maximum stated by law. In addition, there were cases of workers receiving inadequate compensation for overtime and occasionally exceeding the legally prescribed weekly maximum of 36 hours overtime. Wages were higher than state-owned enterprises; however, working conditions were unsatisfactory, alternating between extreme heat in summer and bitter cold in winter. Workers only received public holidays as paid vacation. Where a union did exist, it did not protect employee interests. In short, the general picture is of a regimented and fearful workforce, working intensively under hard conditions to earn above-average wages.

ment's labour department became more vigilant in enforcing legislation (Kim and Kim 2000), something local firms were made aware of through the media and their employer associations. The situation is different in China where the central government has been less concerned with foreign criticism and has had less influence over local interpretation and administration of labour law. The second point is that, in Korea, in contrast to China, supportive arrangements have had time to emerge through a process of conflict and learning. Thus, in interviews, Korean workers referred to the late 1980s and early 1990s when working hours were longer, pay was less generous and there were strikes in the four Korean workplaces. Unsatisfactory employment conditions were also publicized in the local press. This was before the introduction of the code of labour practice in 1993. As a female worker with 10 years tenure noted: 'In the early 90s, working conditions were much worse than now. The change happened in large part due to the introduction of the code.' In short, the code has been more strongly embedded in supportive social relations and structures in Korea than in China.

Differences *within* our Korean sample also merit discussion, for these are relevant to hypothesis 4, which suggests that the pursuit of a strategic ER approach by a global firm in a relational contracting arrangement is likely to encourage adoption of a similar perspective by contractor management. This in turn is expected to foster code commitment by contractor management. Our evidence indicates that such commitment occurs selectively, i.e. that the strategic approach was clearly evident in one, or arguably two of the four workplaces, though there was some pressure for all four plants to follow this path. Regarding the detail, while Athletico's contracting arrangements are closer to the relational rather than the transactional type, and although the company adopted a strategic perspective in relation to the labour code of practice, there is no evidence that these positions translated into policies for ER improvement. That was a matter for contractor management. So, it would be surprising to find strong support for hypothesis 4.

Our earlier observations suggested that the most obvious contrast was between workplaces A (highest ranked) and B, on the one hand, and C and D (lowest ranked) on the other. For ease of exposition we concentrate on the strongest contrast: between A and D. A typifies emerging tendencies in Korean ER, while D is more traditional. For example, A is more consultative in management style, placing more emphasis on ER as evidenced by the establishment of a labour practices department. This workplace had other features not shown in table 2 that distinguished it from plant D in particular. These included an emphasis on communicating the management vision to the workforce, a tendency to hire managers from outside the industry, management promotion based on performance rather than seniority, and more training given to production workers (on average 14 hours at A compared to less than 10 hours at D). These differences are in part related to the presence of a more effective union at A compared to the absence of a union at D. These

features, including the presence of a union, contributed to workers feeling less fearful at workplace A than D. While management at both A and D stressed numerical and wage flexibility in their ER strategy, management at A also focused on improving labour practices and product quality. On average, A paid slightly more than D, although A had three fewer holidays a year. In short, A is a more human resource oriented workplace than D.

Factors contributing to these differences relate to workplace status, and past and present management. A is an exclusive rather than a main supplier, and as such, Athletico exerts a stronger influence over contractor management than at D, whose relationship with Athletico is weaker and of shorter duration (see table 1). A has been managed by the same company for 20 years while D has experienced three changes in senior management and two changes in ownership over the period, the most recent management change occurring four years ago. Thus, there has been less consistency in terms of ER strategies and policies at D. Regarding current management, A is led by a sociable, hands-on, general manager. His counterpart at D is more distant, cautious and bureaucratic. In summary, structural factors go some way in explaining why workplace A is pursuing a more strategic approach to ER in comparison with D, an approach that contributes to code commitment. Plants B and C however lie between these two workplaces on the strategic–traditional ER continuum. As suggested above, this more limited commitment reflects Athletico's qualified practical support for a strategic ER approach and structural factors influencing contractor management. In sum, our evidence points to partial rather than complete support for hypothesis 4.

Conclusion

In this study we examined how a leading US-based, global company implements its code of labour practices. One of our guiding assumptions has been that code development and implementation depend on the threat to corporate and brand image posed by public criticism channeled mainly by NGOs and labour-oriented organizations through the mass media and the internet. Another key assumption is that the nature of inter-firm relations (between global firm and its contract suppliers) shapes both the way codes of practice are implemented and the more general pattern of employment relations in contractor workplaces. These ideas crystallized into five hypotheses that were explored in the paper. Our findings fully supported four of the five hypotheses (1, 2, 3 and 5) and partially supported the fourth hypothesis. In essence, our research suggests that a combination of corporate sensitivity to labour exploitation and an approximation to relational contracting are necessary conditions for effective code implementation. A salient additional intervening variable is the global firm's people management philosophy. In the case of Athletico, a best practice/continuous improvement orientation provided a strategic basis

for code commitment by linking code content with the primary goals of the firm, and by providing a monitoring system for code compliance. However, as we noted, this approach was insufficiently supported by policies and resources that could ensure continuous ER improvements in the contractor workplaces. Nevertheless, at two of the workplaces (A and B), Athletico's people management philosophy was being adopted, in effect, incorporating the code into the factory culture.

Monitoring, training and more general ER procedures developed by the contractors also contributed to effective code implementation. We suggested that implementation was related to structural factors including company size (large), plant age and location (well-established plants in proximity to Athletico's regional office in Korea), and extent of functional labour specialization (high – evidenced by the presence of Labour Practices departments). In addition, government sensitivity to code-related issues and the existence of independent trade unions in three out of the four workplaces appeared to be important.

Because this study was not designed to assess the relative importance of relational contracting and structural factors, the safest conclusion is that both sets of factors are important in sustaining effective code implementation. Arguably, however, without arrangements resembling relational contracting, contractor companies would find it difficult to learn how to establish and implement code procedures. Moreover, there would be less incentive to do so where short-term, transactional contracting predominates. Comparing relational and transactional contracting, including the conditions that foster these alternative forms, requires further research beyond a single case (see Frenkel and Scott 2002).

Finally, it is noteworthy that there was no independent auditing of the four workplaces. If practices associated with the code are to improve over time, and if social legitimacy is an important issue, then Athletico should introduce factory auditing by an accredited organization which would be required to make their findings and ensuing action plans publicly accessible. In this way, socially responsible firms and their contractors will be in a position to win the goodwill of both consumers and employees.

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