Outsourcing operations to developing countries: maintaining corporate social responsibility

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Fourteen-hour shifts, low pay, unsanitary working conditions and forced pregnancy tests – so that expectant mothers can be fired to avoid maternity pay – are unfortunate practices that may be occurring in some factories in the developing world. David Fox, Chandri Navarro-Bowman and Sabrina Corlette examine the implications of introducing a company code of conduct.

No company wants to be associated with such working conditions. But a number of multinational businesses have faced consumer outrage, falling share prices and even boycotts in the wake of media stories about the alleged working conditions of the employees making their t-shirts, trainers and children's toys.

In response, over the past ten to fifteen years, leading global companies have developed written codes of conduct detailing labour standards for their suppliers, those independent business partners that provide them with products and services. While supply chain management can be a challenge for any business, these codes of conduct help companies develop, maintain, and enforce policies and procedures to manage workplace issues.

Although most prevalent in the garment industry, management of the workplace practices of offshore vendors has become increasingly widespread as more and more multinationals outsource their business functions to lower-cost countries, such as India, China and Bangladesh. The global pharmaceutical industry, facing the same cost pressures, has seen many of its companies move certain data processing, laboratory and manufacturing components overseas.

The core mission of the pharmaceutical and biotechnology industries is to advance human health and welfare. Inflammatory media reports of labour, health or safety violations in overseas workplaces could threaten that mission and weaken the trust of European consumers. Thus, adopting and enforcing a code of conduct to ensure a safe and healthy work environment for overseas workers can yield practical business benefits. These include: protecting brand reputation; increasing employee productivity and trust; strengthening legal compliance and mitigating future risk and liability; reducing negative publicity; and improving the ability to respond to a crisis.

At the same time, the adoption of a code triggers a set of expectations, including internal and/ or external monitoring to ensure compliance and an approach for addressing egregious violators. In addition, there are inherent costs involved in implementing and monitoring a code of conduct, from providing a hotline for potential whistleblowers to paying for professional auditors to conduct unannounced inspections. And enforcing a code of conduct can run contrary to other corporate pressures, such as price, quality and efficiency.

For those companies wishing to adopt a code of conduct, they may be confronted with a substantial degree of variation in practice. However, they all tend to cleave to a core set of provisions based on International Labour Organisation (ILO) standards. These are:

- Freedom of association and recognition of the right to collective bargaining;
- Elimination of forced or compulsory labour;
- Effective abolition of child labour;
- Elimination of discrimination based on sex, race, ethnicity, social or national origin, religion, or political opinions.

Beyond the ILO standards, other provisions may address:

- Coercion/ Harassment;
- Discrimination based on disability, sexual orientation, age, or HIV status;
- Health and Safety;
- Compensation and benefits;
- Hours of work/ overtime compensation;
- Environmental protection;
- Ethics/ corruption;
- Whistleblowers;
- Protection of intellectual property.

The clothing industry has been at the forefront of developing codes of conduct to address international labour and humanitarian concerns, but a number of other industries have also drafted codes, particularly in the defense and electronics sectors. While these codes are informative, because there are many cross-cutting issues, pharmaceutical and biotechnology companies seeking to outsource operations overseas face unique labour, health and safety issues. For example, pharmaceutical manufacturing often involves the handling of potentially toxic chemicals, biological agents and other health and safety hazards.

Once a code has been drafted, the method of implementation is critical. Some companies prefer to keep their codes of conduct internal, used solely as a management tool. More commonly, codes are made public – as both a public relations tool and a commitment to employees, stakeholders, and the public – to highlight the fact that the company intends to hold its suppliers to an articulated set of standards.

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Multinational enterprises then need to decide how to enforce the code, whether kept private or made public. This could be done internally or through external monitors. If internal, it could be done through: a certification process; assigned compliance staff; a committee; an ombudsman; a regular reporting obligation; field visits; or hotlines.

If external, the monitoring could be conducted by: a non-governmental organisation (NGO); outside auditor; or consultant. For example, US-based Levi Strauss, a pioneer in the development and implementation of a supplier code of conduct, today employs 20 full-time inspectors to assess conditions in almost 400 factories in countries around the world. Levi's suppliers are audited before they can enter a contract to make goods for the company, and then they are inspected at least once a year. McDonald's Europe recently received applause in the press for helping to persuade agribusiness giants to stop sourcing soybeans from deforested tracts in protected regions of the Amazon.

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Multinationals must also decide what the repercussions would be for a supplier or other third-party vendor who violates provisions of the code. The toughest line is to discontinue working with that supplier. Less severe responses to violations can include: cancellation of an individual contract; the imposition of fines or penalties; the application of probationary status; demands for corrective action; and providing education and training to the violator.

There is a wide variety of considerations for the development of a code of conduct for international suppliers and vendors. And there can be significant costs involved. But as many international companies can attest, there are considerable practical benefits, and turning a blind eye to the practices of overseas suppliers can all too easily turn a well-respected company into a target for media and consumer outrage.❊

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Belarus introduces GLP in pharmaceutical testing

The principles of Good Laboratory Practice (GLP) are set to be introduced by the Belarusian health ministry into the country's pharmaceutical sector. The draft order regulating this area has been issued on the basis of the Act on Pharmaceuticals. Its aim is to safeguard the quality and credibility of the data gathered as the result of drug tests conducted in Belarusian laboratories and scientific institutes.

The scope of the document should be applied to drug tests and comparative analyses. Results from such tests will then be forwarded to the Belarusian Centre for Analysis and Testing in Healthcare or other international bodies with a view to receiving a marketing authorisation of the tested pharmaceutical.

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In order to be granted authorisation to carry out drug testing and analysis, a company is required to make a claim for an appropriate licence. It should therefore approach the Centre for the Expertise and Testing in Healthcare and file an application, which should include: a list of scientists taking parts in trials; a list of equipment available for testing; an inventory of animals held for testing, etc.

The Centre concludes an agreement with the applicant and within 30 working days, checks the submitted documents, drafts an opinion and forwards it to the health ministry for discussion. The ministry within 10 days will issue a decision on whether to grant the company the right to carry out tests.

The draft order also contains requirements that should be met by laboratories and scientific institutes in terms of personnel, conditions under which tests are conducted and the storage of test results. The document also provides detailed requirements that should be met in order to ensure that animals used for testing are healthy and treated humanely. The issue of test systems – animals, plants or microbial used in a study – and essential information on this subject has also been presented in the ministry's order.

This regulation will legally bind scientists involved in testing procedures to keep the test results confidential and follow confidentiality clauses set out in the agreement with sponsors. With this draft, the health ministry imposes on a test director the duties of: organising and monitoring the way tests are conducted on the premises; monitoring the compliance of tests with the test programme; and the safeguarding the confidentiality of the data obtained.

. . . monitoring

The independent monitoring of conducted tests should be provided by a group of scientists within a laboratory who do not take part in the experiment. The quality control of conducted tests should be carried out on a basis of a special programme prepared for every trial conducted. A laboratory is obliged to maintain a log of conducted tests that records: the person in charge; the name of the tested pharmaceutical; the description of tests conducted; the test starting date; the stage of analysis conducted in a given moment in time. The health ministry will be carrying out regular inspections via the Centre for Analysis and Testing in Healthcare and other bodies of the national system that monitor the efficacy, safety and quality of drugs on the market. ❊