

Labor Standards Performance in Your Company

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Introduction

PS2 provides you with a standard for labor standards performance in your company. In “The Elements of Labor Standards Performance” section we have carefully examined each element of PS2. We reviewed the typical problems companies face in meeting each element. We looked at the verification sources; the things that auditors will do to determine how your company is doing in its effort to adhere to PS2. If you look back at the verification resources, you’ll see a pattern. There are many references to documents: policies, procedures, training curriculum, accident logs, employment records, etc. All of these documents are pieces of a management system.

Over the past decade it has become clear, and widely accepted, that management systems are the key to improving labor standards performance. As you strive to improve to meet PS2, it is the management systems approach that will provide the foundation. It will be the foundation for getting started and it will be a key element in your continual improvement journey.

Looking to the future, we see management systems being used as a framework for integrating labor and environmental standards with quality systems.

Linking quality, social and environmental management systems will push the integration of labor standards performance further into your business operations. It will also allow you to see more bottom-line business benefits and to shift labor standards performance from a cost to an investment.

The management system is also the foundation that links you with your suppliers and contractors, and them with their suppliers. You need a management system for labor standards and your suppliers need a management system for labor standards.

Change is a constant in any company. It is the underlying management systems that create a framework for sustainability in the ever-changing business environment.

Your company is always balancing risk and control. It is the policies and procedures of the management system that provide continuity.

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→ Labor Standards Performance in Your Company

Internal factors causing change	External factors causing change:
New manager(s)	New laws
New supervisor(s)	New regulations
New worker(s)	New customers – with new requirements
Corporate re-structuring	Social change
New procedures	New competition from countries, companies or technologies
New product introductions	Loss of major customer
New manufacturing processes	Substantial change in business volume
Financial difficulties	Expansion
Workforce reduction or expansion	Merger

But management systems, with policies and procedures, are the beginning, not the end. Continual improvement is a journey and your company, led by its top management, must embrace the journey. A binder full of policies and procedures tied to PS2 but not implemented may give you short-term risk protection. But all of your stakeholders - all workers, investors, supplier, customers, trade unions and NGOs - will see through a hollow commitment.

Remember, it is people that make the system work and come to life. People who are trained. People who are passionate. People who are committed to improving.

Understanding Management Systems

We've talked a lot about management systems. But what exactly is it? What are the actual components of a labor standards management system? What if your boss or board member or investor asked you to name the components of a management system? Could you do it?

Now you'll be able to do it. It's time to get specific. At the broadest level, a management system begins with policies and procedures - documents. And it is also made up of trained people with specific functional responsibilities.

Policies are the rules. They tell everyone what is allowed and what is not allowed. Basically, your labor standards policies are going to flow directly from PS2. The first element of PS2 is the requirement of having a human resources policy. The Toolkit has instructions and samples to help you get started.

**Policies are the rules.
Procedures are the “how-to”
guide to following the rules.**

Procedures are the “how-to” guide to following the rules. You need to say what you are going to do to ensure the rules are followed. And what you will do when the rules are broken. Procedures need to be clearly written. They need to be clearly communicated to workers at all levels of your company – in all of the languages spoken in your company.

Policies are easier to write than procedures. Let us give you two examples. Following PS2, your policy may say that you do not hire anybody under the legal working age. So your policy says no children. But how do you know? How do you verify age? What documents do you require? What do you do if you suspect fake documents? What do you do if an auditor or the media finds children working at your company – or at one of your suppliers?

How about your policy regarding workers' rights to organize and bargain collectively. How do you make sure workers understand their rights? How do you make sure that managers don't discriminate against workers who are in a union?

The Toolkit has sample procedures designed to support PS2 policies. You can use these to get started. Easy to say. Hard to do. Like lots of things in life.

TIP ↓

Guiding Principles for Effective Management Systems:

- Senior management must be committed and actively engaged in labor management
- All policies and procedures must be easy to understand and clearly communicated

Measure and Improve

Companies are run by people. People organized into groups. People following patterns of work.

It can be hard to get people to change. In every culture, in every language, there is a saying about how hard it can be to get people to change.

There is a whole consulting industry built around trying to get people in companies to change their behavior. Whether it is called change management or organizational behavior modification or anything else, it is all aimed at getting individual people and groups of people to change their behavior inside a company.

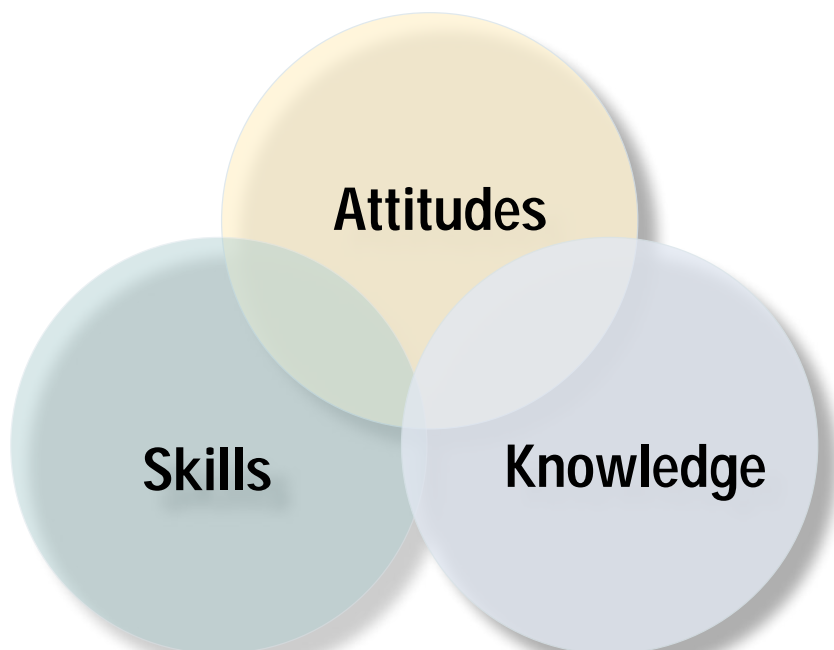
If we break the overall situation down into these three fundamental components – Attitudes, Skills and Knowledge - it is easier to tackle each one and create positive change.

With the idea of continual improvement, we are looking to create change for the better. So how are we going to do that in a simple and effective way? We are going to “Measure and Improve.” As a company, you need to measure where you are now, and set specific targets for your improvement.

Let’s put this in terms everyone can understand. A person says they are going to run a marathon (42 kilometers or 26 miles). They keep saying they are going to run a marathon. They say it dozens of times. They say it year after year. After a while, it is hard to believe them. You think they are all talk, and no action. You must know someone like this. What would make it real? What would make you believe that they were finally going run a marathon?

First they would start running to establish a baseline. They would see how far they could run and how long it took. Then they would set a target for improvement. Maybe they want to be able to run a marathon - no matter how slow the pace - within 6 months. Maybe they want to be able to run a marathon in under 5 hours within 12 months. Whatever - the point is they have set a goal and a timeframe to achieve the goal.

Fundamentals of Labor Standards



When someone does these things, we know they are serious about running a marathon. They have started to make the transition from talk to action. They realize this will not happen overnight.

Once the goal is set, they would start to run regularly and measure their performance. They may decide to initially focus on measuring and improving their distance. They may decide to initially focus on measuring and improving their time. The key is that they measure and improve against their goal.

TIP ↓

- **ATTITUDES** – Do workers have a problem-solving, positive attitude toward improving labor standards?
- **SKILLS** – Do all workers have the skills they need to change their behavior and contribute to improving labor standards?
- **KNOWLEDGE** – Do all workers have the knowledge of PS2 and how it changes their role?

It is a cycle, like the ISO Plan-Do-Check-Act quality management improvement cycle. Same idea with improving labor standards performance in your company. Set a goal. Measure. Improve. Measure again.

Your job is to make sure your workers have the right attitude, develop the skills they need and have access to the necessary knowledge. The Toolkit can help you get started.



Attitudes

- Cooperative
- Treat people with respect
- Problem-solver
- Pragmatic

Skills

- Effectively communicating with managers, supervisors and workers
- Improving production processes
- Training managers, workers, contractors and suppliers

Knowledge

- PS2 elements
- Local labor laws
- Relevant human resource policies and procedures

Getting Started: The SAI Process-Based Self-Assessment

Once you're convinced of the benefits of improving your labor standards and agree that management systems are the best approach, you're ready to start the Measure and Improve program.



Now for the big question. What do you measure? We've created the SAI Process-Based Rating System for you to use. You can use this in your company and with suppliers and contractors in your supply chain. The SAI Process-Based Rating System evaluates nine categories on a scale of 1 to 5 (5 is highest). It looks at systems and their implementation.

The full system and instructions on using it are included in the Toolkit. We suggest that you turn to it now and familiarize yourself with it.

SAI Rating System: Overview of Categories & Levels

Rating (5 is highest)	Management Systems	Internal Labor Standards Performance Team	Worker Involvement & Communication
	Level and Type of Non-conformances	Complaint Management & Resolution	Progress on Corrective Actions
	External Verification & Stakeholder Engagement	Training & Capacity Building	Management of Suppliers & Contractors
Each of the nine categories is rated on a scale of 1 to 5 with 5 being the highest. The rating for each of the nine categories is derived from the SAI Process-Based Rating System Self-Assessment. Below, we have indicated the general guidelines for each level.			
5	Mature systems, fully implemented inside and outside the company.		
4	Fully developed systems with improving utilization.		
3	Systems in development with partial implementation.		
2	Limited systems with sporadic implementation.		
1	Little or no awareness, systems or interest.		

The nine categories were selected to focus on the systems and processes that a company has in place for high-level labor standards performance. The SAI Process-Based Rating System provides a useful tool for measuring your current performance and identifying areas for improvement. It provides you with a different perspective. Instead of looking at labor standards performance element-by-element it looks at the processes needed to meet PS2.

Improving Towards PS2

Look at the nine categories. In many ways these are similar to the processes you would look at to see how well any business function is managed.

The first step is to conduct an honest assessment of your company using the rating system. In the Building Your Internal Labor Standards Performance Team section and in the Toolkit, we provide instructions on doing the self-assessment.

The key is to be honest in the self-assessment. There is no right or wrong answer. The point is to identify any gaps and find areas for improvement. It is a tool to help you measure where you are and make strategic decisions about the best path for improvement. Part of the challenge with labor standards performance is that it is subjective to a degree. As you evaluate your current labor standards performance you will be making judgments. There is no equivalent to a stop watch for measuring time or an odometer for measuring distance. The SAI Rating System tries to reduce the subjectivity, but it is impossible to eliminate. As you improve your performance in each category, you will be progressing towards meeting the requirements of PS2.

It takes performance in every process category to drive sustainable improvement towards meeting each PS2 requirement. For example, meeting PS2's Workers' Organizations requirement is not only measured in the Level & Type of Non-Conformances. Your performance in meeting the PS2 Workers' Organization requirement would be measured to a certain degree in all of the nine categories. Let's take a look.

- **Management Systems** - do the policies and procedures clearly recognize workers' rights to organize as per PS2?
- **Internal Labor Standards Performance Teams** - does the team include a freely elected Worker Rep?
- **Worker Involvement & Communications** - do the workers understand their rights and does management routinely meet with workers?
- **Level & Type of Non-Conformities** - are there violations related to Workers' Organizations?
- **Complaint Management & Resolution** - can workers file anonymous complaints through a workers' organization?
- **Progress on Corrective Actions** - are there documented improvements?
- **External Verification & Stakeholder Engagement** - does management communicate with relevant external organizations?
- **Training & Capacity Building** - do workers receive training so they understand that the company will not interfere with their right to form or join a workers' organization?
- **Management of Suppliers & Contractors** - are contracted workers at your facilities given the same rights?

TIP ↓

Linking PS2 Requirements to Management Processes

Management Systems	These are the human resource policies and procedures meeting PS2
Internal Labor Standards Performance Team	This is the group of trained people that will lead the effort
Worker Involvement & Communications	These are the methods and channels for communicating with workers about the working conditions and the working relationship inside your company
Level & Type of Non-Conformances	This is the severity and frequency of the problems you have in meeting PS2
Complaint Management & Resolution	This is the system for handling and addressing grievances from workers
Progress on Corrective Actions	This is how effective you are in addressing problems and making changes to prevent them from recurring
External Verification & Stakeholder Engagement	This is how you cooperate with outside auditors or involve external stakeholders to enhance your efforts to meet PS2
Training & Capacity Building	This is the system you have for training workers on the attitude, skills and knowledge needed to meet PS2. It also looks at training for suppliers or contractors.
Management of Suppliers and Contractors	This is how you influence your suppliers and contractors to meet PS2

Top-Management Leadership & Effective Communications

Improving labor standards and working conditions is hard work. There is no quick fix. There are no big shortcuts. Peter Drucker, widely considered to be the father of modern business management, stated, “Company cultures are like country cultures. Never try to change one. Try, instead, to work with what you’ve got.”

“Effective leadership is not about making speeches or being liked; leadership is defined by results not attributes.”

Peter F. Drucker, Founder
The Drucker Institute at
Claremont Graduate University

Improving labor standards performance will probably require some change in the behavior of your company, your workers, your contractors and your suppliers. Change management and organizational behavior experts can tell you how challenging this can be.

There are different strategies and different techniques for changing behavior, but it seems that the experts agree that to create lasting change, senior management must lead the effort.

However, the task is more complicated than simply getting senior management to publicly state their commitment to improving labor standards performance and working conditions.

The next job is to effectively shape and communicate the message internally and externally. Think about it. Some CEOs are clearly better than others at motivating their workers, investors, contractors, suppliers and stakeholders.

When you start your journey towards PS2 you will probably meet resistance in your company. “Why do we need to do this?” “It is too much work. I’ve already got enough to do.” “How does this help our bottom-line?” You will hear all of these comments. If workers sense that top management is not committed, the project will stall.

It is the responsibility of top management to lead the effort. You need to send a clear message to all workers, at all levels, that this is a long-term commitment by your company – that PS2 is not going away.

Regular communication from top management is a critical component of leading change in your company. There are a lot of books and articles available on effective communication, but here we provide a few ideas and tips.

TIP ↓

Tips for Effective Company Communications

- The message needs to be memorable.
- To be memorable, it needs to be simple.
- It needs to be consistent month after month and to all workers.
- It needs to be concrete, not abstract.
- It needs to build on what workers already know and do.

Tips for Effective Communication on Labor Standards Performance

- Be Honest
- Be Credible
- Be Transparent
- Be Proactive

Worker Involvement & Communications

Globalization and The Worker

Consumers and many companies have clearly benefitted from globalization. But what has it done at the other end of the supply chain? What has the impact been on the workers? Look inside your country and your company.

Globalization and the shift of capital and jobs to developing countries have opened up opportunities for workers, but also heightened pressures on workers as multi-nationals seek to lower the cost of production and services. Countries and companies fight to attract business, in many cases by offering less regulation or lower prices.

The greater mobility of capital and the globalization of sourcing means opportunities for some but the loss of livelihoods for others. Changing regulations, reduced quotas, or currency exchange shifts can quickly eliminate jobs.

For workers, new jobs are often located far from their hometowns. Many countries have established special economic zones or export processing zones along the coasts. Millions of workers travel hundreds of miles to work in companies which become worker campuses – workers depend on these companies not only for their jobs, but for their sole source of housing, sanitation, food, and social support. The increase in migrant labor leaves workers vulnerable – often they are hired through brokers, to whom they give over their passports, vital documents and power over their contracts. Often they do not know the local language

or dialect and cannot negotiate for themselves or navigate well enough in the new locale to exercise their rights. On the job they may face discrimination and abuse from managers and supervisors who do not speak their language or understand their customs.

For workers there is less job security, lower wages, and other risks as the concern for adequate working conditions can get swept away by business pressures. The economic crisis has increased these pressures as companies fight to survive.

Your company can make a positive difference in the lives of your workers and benefit from improved worker involvement and communication. PS2 and this Handbook provide a framework for how to proceed.

Most companies use some combination of rewards (“the carrot”) and punishments (“the stick”) to motivate workers, contractors and suppliers.

Workers in the Global Economy

Increase in migrant labor as companies seek to keep their labor costs lower

Use of recruitment agencies for factory or farm workers – sometimes unscrupulous

Shorter lead times and just-in-time delivery requirements result in more overtime hours – sometimes forced overtime

Increase in contract workers to keep fixed costs low and deal with production fluctuations caused by lean supply chains and peak selling seasons

A sense that an unlimited global supply of semi-skilled factory workers has commoditized workers in emerging markets

Benefits of Worker Involvement

Earlier when we looked at some of the business benefits of improving labor standards performance, we started with reputation risk. Minimizing or avoiding negative events can be a big benefit in itself.

The same thing is true with the workplace benefits of improving labor standards performance and worker involvement. Involving workers and creating a dialog between workers and management can help you to avoid a lot of problems.

Conflict in the workplace leads to unreliability. It may be extreme things like worker sabotage, work slowdowns or strikes. But it may also lead to higher worker turnover, as your workers leave the first time they can get a new job.

But there are real positive benefits from involving workers in the operation of your company. Workers can offer you a valuable perspective on production processes. Improving labor standards performance and worker involvement has been shown to lead to greater productivity and quality, higher retention rates, fewer accidents and reduced absenteeism.

Every time a worker leaves, it costs your company money: recruitment, training, lower productivity, loss of corporate know-how.

Involving Workers

Improves communication in the company

Identifies productivity and labor problems

Creates proactive solutions from the work floor perspective

Addresses problems before crisis-level thus reducing management time

Reduces work floor disruptions

Attracts and retains better workers

Empowers and incentivizes workers

Builds consensus and acceptance for new initiatives

Worker-Manager Communications & Training

Your workers - whether management or non-management - are the backbone of your company and should all be an integral part of your company's communication channels. Workers must share ownership of labor standards performance, and be empowered to know the laws and labor standards, monitor conditions, exercise their rights and understand their responsibilities.

Establishing an effective worker-manager dialog is a key step in involving workers in your company and in starting to reap the benefits of their involvement.

Workers, regardless of their level, typically look to their immediate supervisor to get the information they need about their job, the developments that are taking place in the organization and the way these will affect them. They look to their peers to gain insight and perspective. Your managers and supervisors need the attitudes, skills and knowledge to effectively act as the primary communicators of your organization's mission, strategy and goals.

Worker surveys consistently show us that organizations missing effective workplace communication practices suffer from poor worker morale. The repercussions of this include not just putting up with disengaged workers. Worker productivity also suffers, along with a range of other business performance indicators.

The costs to your business of poor worker communication include:

- increased worker turnover
- increased absenteeism
- dissatisfied customers from poor service
- higher product defect rates
- lack of focus on business objectives

But without training, the managers and supervisors often do not know how to communicate effectively. Their communication style and attitude may set a bad tone for labor standards in your company. This makes everyone frustrated and angry. It also causes false information to spread through rumors instead.

An effective worker-manager training program drives sustainable improvements in the workplace by building proactive relations between managers and workers. The key is to help managers see the workplace from the workers' point of view. And to help workers see the workplace from the managers' point of view.

Effective training empowers workers and managers to better understand their rights and responsibilities. One "best practice" technique is for workers and managers to separately analyze workplace problems and their root causes. Then they work together to identify solutions and procedures for implementation rooted in management systems for continual improvement. The resulting dialog helps assure a sustainable workplace.

Worker-Manager Communication Goals

- Understand workers' and managers' rights and responsibilities
- Establish or improve upon constructive communication channels between workers and managers
- Develop constructive ways for workers and managers to identify workplace problems and jointly develop solutions

TIP ↓

Tips for Worker-Manager Training

- Make the training participatory – not just a lecture
- Be aware of varying levels of formal education in developing the curriculum
- Use group problem-solving exercises and role-playing
- Mix it up – have workers and managers work together and separately
- Use curriculum that addresses Attitudes, Skills & Knowledge (ASK)

There are some very important elements to effective worker-manager training. In a large company, however, it is not possible to provide extensive worker-manager training to all of the workers and all of the managers. All workers and managers should get some introductory training. Then some workers need to be selected to participate in more in-depth training. Then these workers train their peers. How you do this is very important in laying the foundation for an effective program. Management is responsible for notifying all workers of the upcoming training and informing them that they will be asked to select a few of their peers to participate in the joint training for workers and managers. Methods of notifying the workers include a workers' assembly, distribution of pamphlets or bulletin board notices. You can also make it part of a worker survey.

In the formal training and in the workplace, workers in some cultures often know a lot, but are reluctant to say what they

know. Workers may be shy. They may be fearful. It is your responsibility to encourage workers to communicate, to give them feedback so they know you listen and to take action so they know you value their input.

In order for workers to effectively participate, there need to be clear communication channels. Workers need to know how to use them. Workers need to feel secure in doing so.

Worker Communication Methods

Worker Representative

Worker Committees

Meetings and assemblies

Posters & bulletin boards

Suggestion box

Hand-outs & brochures

Printed notices on pay-stubs

Surveys

Newsletters – printed or electronic

Company web-site

Letter from the CEO

Some of the key and best practice procedures to have in place:

- **Complaint procedures** – These should be written procedures clearly communicated to the workers, included in the personnel manual and posted in the facility. The procedures should detail mechanisms for workers to report labor concerns and grievances directly to managers, give a timeframe for investigation and resolution of the complaint, and require the proper reporting of the findings back to the worker and the workplace. You should have a system for recording, investigating and following up on the complaints. This can be time-consuming, but you need to make sure you allot enough staff time and resources.
- **Model anti-retaliation policy** – You should have a whistle-blower protection policy which protects workers who report concerns or grievances. This policy should be clearly communicated to all management, supervisors and workers.
- **Formal worker-manager communication channels.** Even something as simple as the suggestion box can be a useful way for facility workers to direct their inquiries and suggestions to your company – there should be a designated company staff person who addresses these inputs.



Workers must also be provided with a secure, confidential complaint channel. They need to have the ability to communicate their grievances, without fear of discipline or retribution.

The Toolkit has examples of some worker communications – posters, wallet cards, hand-outs – for use in your company and with your contractors and suppliers.

TIP ↓

Workers should seek to choose peers whom they trust to participate with the best interests of all workers in mind and to effectively understand and share what they learned in the training.

Involving External Stakeholders

One of the keys to building and sustaining change is to involve multiple stakeholders in the process. Each stakeholder has a different, valuable perspective. Working with them can lead to more sustainable and substantial outcomes than can be achieved by your company alone. This does not mean that you have to engage with every single person or party that reaches out to you or is located in your area. You need to strategically select those which are most credible and can serve as true partners in your labor standards performance program.

Types of Stakeholders

Workers

Investors

Customers

Suppliers

Contractors

Trade Unions

NGOs

Governments

Getting involved with multi-stakeholder organizations is an efficient and effective way for you to engage a wide range of external stakeholders. They can be a valuable resource. You can take advantage of their experience and expertise in maintaining an active network. Your involvement with multi-stakeholder initiatives can bring credibility to your efforts. Think about getting involved in local projects which purpose is the improvement of labor practices and workers' lives.

Local NGOs and/or trade unions can provide valuable information on local conditions that affect labor standards performance in your area. Often they will have the trust of the workers. International NGOs and trade unions can advise on issues that affect workers on a global scale, and provide support and guidance in engaging and developing local networks.

Government agencies are a key resource. They can provide a wealth of data and information on economic and social indicators. Labor departments and labor inspectors are valuable resources for learning about the regulatory and legal frameworks in which you and your suppliers operate. Governments may be a source of materials and funds for training your workers, contractors or your suppliers.

How to Implement

We hope you're convinced that you need to talk to a diverse range of external stakeholders about your labor standards performance – from NGOs and trade unions to investors and customers. Now what do you do?

There are three steps you can follow to put your good intentions into action.

1. Select the organizations
2. Build a trusting relationship with them
3. Maintain open communication channels

As with other tasks we've discussed, this is easy to say, but hard to do. Existing multi-stakeholder organizations can be a valuable resource as you proceed. If you work closely with a multi-stakeholder organization, you can take advantage of its ongoing efforts in developing and maintaining an active network. There is a lot of work involved in effectively engaging your relevant multi-stakeholder community. Look for ways that you can benefit from the work of other companies and organizations. The Toolkit has some forms to help get you started.



Selecting Organizations

The first step is to know the players, so you need to identify the key players where your company operates or sources. It is critical to specifically assign a member of your Internal Labor Standards Performance Team to be in charge of this activity. Some ideas to consider:

- Develop a map and keep a record of NGO, trade union and government contacts
- Develop a brief profile on each relevant group. It doesn't have to be long, but you need to know about the group's mission, history, programs, possible political links, methods of engagement, etc.
- Ask the relevant international groups or religious institutions for help in identifying the appropriate local groups
- Ask your workers about the reputation of local NGOs, trade unions and community initiatives
- Survey local chambers of commerce and industry associations, as well as other companies in the area
- Meet with relevant government agencies to seek information on programs and funding that may be available to assist local companies with training to improve labor standards performance

Cultivating Relationships

A person on your Internal Labor Standards Performance Team needs to take charge of stakeholder engagement, and needs to devote time to this effort. Making an effort to get involved will help you build a relationship with the selected groups, and it will show all of your stakeholders that you are serious about involving external stakeholders. You will earn credibility because your actions support your words. These are some effective ways to cultivate relationships:

- Meet regularly with local NGOs and/or trade unions to discuss common issues and concerns specific to the region and industry
- Consult with national and international organizations on a regular basis concerning global labor issues and developments that affect the workers
- Consult with a wide range of relevant external stakeholders – be inclusive
- Seek their participation in developing remediation plans, assist in training and monitoring and/or resolving complaints
- Consider how your company might support their existing programs to improve the quality of life for your workers, their families and communities

Maintaining Communications

Once you have made the effort to develop a relationship with selected stakeholders, it is important to maintain communication with them. This means dialog, not one-way communications from your company to them. It means responsiveness. In fact, we suggest that you maintain some level of communication with all of the external stakeholders you identified in the first step. Some ideas for you to consider:

- Establish a formal procedure for your company to solicit and receive input from NGOs, trade unions and government agencies. These procedures should emphasize transparency and include an explanation of how stakeholders are selected for consultation or other participation.
- Regularly update your stakeholders with company news, labor reports, community initiatives, relevant business plans, programs updates and ongoing reviews of your labor standards performance and monitoring programs. Frequent communication is crucial and should be systematized.
- Respond promptly on the issues and questions raised by your stakeholders. This should include descriptions of the steps taken to address the issues they may raise, and the effectiveness of such measures.