

CORNELL HR REVIEW

HR AS A STRATEGIC PARTNER IN REDEFINING AND REEXAMINING SUPPLY CHAIN LABOR STANDARDS

Hilori Kaloti

In today's global marketplace, organizations no longer operate with linear supply chains or manufacturing models. The issue of global labor standards has been a debated topic since the 1990's and industry supply chains continue to provoke discussions around labor standards and improving worker conditions¹. Nike presents the classic example of an organization that exploited its outsourcing model and was ultimately forced to take accountability for its actions in the 1990's. Today's millennial generation alongside consumer groups is now addressing Steve Job's legacy, Apple and its primary supplier, Foxconn. On June 14th 2012, a Foxconn employee jumped to his death from his apartment building; marking the 18th reported worker suicide at Foxconn factories in China in just over two years². Many additional suicides may have gone unreported. But these deaths and the focus on conditions at Foxconn reflect only a portion of the troubling conditions at Apple suppliers that includes issues around organizational work design and employee working conditions. As consumer confidence in the ability of corporations to be socially responsible deteriorates it is up to the HR function to play a strategic role in navigating and providing strategic solutions to maintaining fair global labor standards within an organization. In this paper, I will discuss the role of HR to be more involved as a line leader that looks to integrate global labor standards compliance as an essential element in an organizations business model. I will also discuss the need for HR to push for the centrality of compliance in organizations along with the necessary layers of oversight while creating an organizational culture that fosters and encourages socially responsible behavior of subcontractors and suppliers.

HR strategists have always argued that HR strategy must support and follow an organizations business strategy. Therefore, it can be argued that in order for an organization to sustain an ethical level of labor standards across all of its supply chain, it is fundamental that compliance be integrated into a company's business model. While it remains important for an organization to have a general commitment to transparency, this is no longer enough as functional units often have competing objectives. For example, procurement departments are typically responsible for sourcing cost effective materials while the labor relations team is held accountable for ensuring fair labor standards across the different supplier and production networks. Immediately, these two groups can be presented with competing objectives as cheap raw materials often come at the price of poor labor standards. In order for ethical and fair labor standards to be a part of a company's business strategy, it must be a metric that can be evaluated continuously internally and externally throughout the organization. The HR function can help facilitate this monitoring internally by ensuring it is something that individuals can be held accountable for through performance management. For instance, Nike now operates with a strategic manufacturing framework titled "lean, green, equitable and empowered" to

drive consistent consideration of total performance in sourcing decision making (Nike). They are also now assessing minimum standards up front and identifying issues early on, in line with their Code of Conduct. Nike has also publicly outlined that all of their supply chain and labor standards decisions are “are not made separately from our other business decisions; they’re now made as part of the business process”³.

In order for an organization to go beyond a general public commitment, it remains critical that there is an internal commitment that is supported by executive leaders across the organization. As HR continues to navigate this perilous environment, Codes of Conduct will help act as the basic benchmark for an organizations supply chain to use as an auditing tool. Centrality of compliance also remains an important issue to investigate in order to understand the degree of influence that labor relations managers have over C-suite officers in an organizations. If global labor relations and standards is not an agenda topic for the CEO or Chief HR Officer then it is needless to say that significant change will not come if there is not support from senior leaders or some degree of centrality within the organization. The labor relations department, however cannot be the only group held liable for upholding the Code of Conduct or monitoring global labor standards. There must be multiple levels of oversight within an organization in order to maintain fair and ethical standards across the supply chain. For example, operations and quality managers at production facilities should also allocate a percentage of their time to review compliance issues alongside their day-to-day responsibilities. Layers of oversight must be embedded into the organizational strategy and it is up to the HR function to act as gatekeepers of culture in order to uphold this standard across the organization.

The impact of Corporate Codes of Conduct rests largely on the willingness of consumers to purchase ethically manufactured products. Thus, compliance issues will force organizations to be held accountable to consumers, investors and the media. According to Kuruvilla and Verma, “in the absence of these constraints, there would be little or no pressure to improve labor standards.” It is this pressure that can be argued to form the basis of HR’s role in upholding an organizational culture that fosters, sustains and encourages socially responsible behavior of subcontractors and suppliers⁴. As companies continue to be more global, it is up to the HR function to play a pivotal role in guarding and communicating a global corporate culture that includes supply chain labor standards across the organization. This includes all of the above aforementioned items including instituting centrality of compliance, multifaceted compliance mechanisms and layers of oversight. Corporate culture is also driven by shareholder activists’ agendas that may include proxy voting guidelines on the topic. Most prominent organizations, such as Nestle and Nike, that issue proxy voting including guidelines related to human rights and labor standards in supply chains⁵. Developing a cohesive and ethical corporate culture that is consistently communicated across the organization remains a difficult task for the HR function. That is why it is important for HR leaders at U.S. headquarters to work alongside their HR counterparts throughout the supply chain to communicate and consistently deliver the vision of sustainable supply chain labor standards. For example, at Apple, they have attempted to provide tools for local HR leaders to enable responsible hiring, outlining methods and tools for detecting and implementing an effective age verification process to prevent underage labor as one mechanism to prevent unfair labor practices.

As modern corporations are redesigned to be more socially and ethically responsible, HR must be at the forefront, redefining and reexamining its role in achieving fair labor standards across the supply chain. In order for fair labor to be a critical agenda topic for organizations, it must be an issue that can be strategically integrated in to an organization's business model. HR must also continuously push to ensure there is a centrality of compliance alongside multiple layers of oversight. In order to achieve the aforementioned, HR must focus on attracting, retaining and promoting global leaders that will have the ability to make strategic decisions that will satisfy and promote consumer confidence, appease shareholders and instill an organizational culture that fosters, supports and maintains a sustainable global supply chain. Nevertheless even as organizations focus on their own supply chain, in order to gain large-scale improvements for workers across the globe, organizations must consider greater advocacy, transparency and collaboration across multiple players in an industry in order to create sector wide improvements in labor standards. 8

Hilori Kaloti graduated from Cornell University with an MILR degree at the School of Industrial & Labor Relations in May of 2013. She received a Bachelor of Business Administration concentrating in Marketing and HR from Nanyang Technological University. She also holds a Bachelor of Business Administration in Marketing and HR from the University of Toronto. Before graduating from Cornell, Hilori completed an internship at Hershey and prior to her internship had worked at Microsoft.

¹ Locke, R., Kochan, T., Romis, M., & Qin, F. (n.d.). Beyond corporate codes of conduct: Work organization and labour standards at nike's suppliers. (2007). International Labor Review, 146(1-2), Retrieved from <http://onlinelibrary.wiley.com/doi/10.1111/j.1564-913X.2007.00003.x/pdf>

² Qiang, L. (n.d.). Beyond Foxconn: Deplorable working conditions characterize apple's entire supply chain. Retrieved from <http://www.chinalaborwatch.org/pro/proshow-176.html>

³ Nike. (n.d.). Nike responsible manufacturing. Retrieved from <http://www.nikeresponsibility.com/report/content/chapter/manufacturing>

⁴ Kuruvilla, S., & Verma, A. (2006). International labor standards, soft regulation, and national government roles. Retrieved 04/10/2013 from Cornell University, School of Industrial and Labor Relations site: <http://digitalcommons.ilr.cornell.edu/articles/37>

⁵ Singer, T. (2012, May 01). Global supply chain labor standards. Retrieved from <http://www.conference-board.org/retrievefile.cfm?filename=TCB-DN-V4N10-121.pdf&type=subsite>