Enhancing Code of Conduct Compliance

Exploring SME Possibilities of Control among Chinese Supplier

A Case Study of First Factory
Supplier-relationship

Authors:
Signe Nymann Eriksen
Kasper Zoffmann Jessen

Supervisor:
Esben Rahbek Pedersen

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International Business Studies
International Marketing and Management

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Executive Summery

This paper takes its point of departure in exploring the challenges of a Danish small and medium sized enterprise (SME) aiming to enhance compliance with its code of conduct among its suppliers in the Chinese textile and clothing industry. As production processes disperse globally and the pressure to take responsibility for the actions of suppliers in developing regions intensifies, it becomes increasingly important to provide insight into how SMEs can enhance their ability to perform governance functions towards their suppliers. This is investigated based on the following problem statement:

*How can First Factory deploy safeguarding mechanisms to enhance Code of Conduct compliance from its Chinese suppliers, and thereby reduce agency-problems in the buyer-supplier relationship?*

This research combines the distinct perspectives of principal agent (PAT) and network theory (NT) to establish a theoretical construct for examining non-compliance issues and discuss a buyer’s possibility of deploying safeguarding mechanisms towards its suppliers. When applying the theories to our research area we suggest a number of factors which has considerable influence on the level of compliance. In addition, two control forms of economic/contractual and relational control are developed to explain the available safeguarding mechanisms for a buyer. After conducting a buyer-supplier analysis and carrying out a discussion of the SME’s control implications, we find that First Factory faces various challenges for enhancing compliance among its suppliers. However, it is argued that the SME is able to compensate for its weak position of low bargaining power and limited economic resources through a deployment of safeguarding mechanisms under predominantly relational control but with important complementary aspects of economical/contractual control.

It is argued that the empirical deviations from the theoretical prescription in PAT complicate First Factory’s situation. A notable finding is that of an agent who is less dependent and more risk willing than presumed in the theory. This implies ambiguous principal-agent roles in our empirical setting, which, in turn, limits the ability of the SME to properly incentivise its suppliers. Accordingly, this may therefore indicate that PAT fail to fully capture the specific challenges of an SME. Instead, NT is believed to have stronger explanatory power in characterising the shown dependence of First Factory on its suppliers as well as the possibility of utilising control.
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List of Acronyms

BSR – Business for Social Responsibility
CLSA - Credit Lyonnais Securities Asia
CNTAC – China National Textile and Apparel Council
CoC – Code of Conduct
CSR – Corporate Social Responsibility
EIU – Economist Intelligence Unit
ILO – International Labour Organisation
FF – First Factory
NT – Network Theory
OECD – Organisation for Economic Cooperation and Development
PAT – Principal-Agent Theory
SME – Small and Medium Sized Enterprise
TCE – Transaction Cost Economics
UN – United Nations
UNGP – United Nations Global Compact
WTO – World Trade Organisation

Interviewees:
Afasia – Factory Manager: Lawrence Pan
CEO China – Chief Executive Officer: Lars Birk
CFO – Chief Financial Officer: Kim Overgaard
CPO – Chief Production Officer: Roger (Zhong Bo)
Eastern – Production Manager: Annie Tang
Ho – Partner, CSR Asia: Brian Ho
Levy – Managing Director, Dragon Sourcing: Oliver Levy
QCM – Quality Control Manager: Olivina Byralsen
Schaub – Partner, King & Wood: Mark Schaub
Wang – Vice General Manager, Judy Mao: Nikki Wang
Yarn Purchaser – Yarn Purchaser: Darren (Wong Zhi)
1.0 Introduction

Trade liberalisation, reduced transportation costs and improved communication technology has lead to a massive growth in world trade (Krugman 1995). This has resulted in a dispersion of production activities across firms as well as national boundaries (Jorgensen & Knudsen 2007). Consequently, much labour-intensive production has been relocated to developing countries where labour costs are comparably cheaper than in their home countries. Parallel to this development a growing recognition of the Corporate Social Responsibility (CSR) of businesses has put pressure, initially, on large multinational corporations (MNCs) to contribute to the solution of social and environmental issues (The Economist 2005; Warhurst 2005). This means that an individual company with supplier relations in a developing country is increasingly held responsible for the actions of its suppliers (Castka et al. 2004). Accordingly, many companies have introduced codes of conduct (CoC) to establish ethical guidelines as well as baselines of expected environmental and social standards to regulate supplier behaviour (Mamic 2005). In order to ensure supplier compliance with the codes, many buyers turn to different monitoring activities such as audits or certification schemes (BSR 2007).

Globalisation is however not only impacting the production activities of MNCs. Small and medium sized enterprises (SMEs) are increasingly engaging in buyer-supplier relationships in developing countries subsequently requiring them to take an active role in CSR (Pedersen & Skjøtt-Larsen 2008). However, there exists a gap in the research and knowledge related to SMEs placement of CoC requirements on its suppliers (Jorgensen & Knudsen 2007). Instead, focus has predominantly been on the MNCs, which can be said to posses more resources and a higher degree of bargaining power towards its suppliers than evident in the case of SMEs (Pedersen & Skjøtt-Larsen 2007). In spite of these significant differences the approaches and tools developed for MNCs are often applied to SMEs as if they were “little big companies”. However, without adjusting to the specific situation of an SME they often prove unsuccessful (Vallentin & Morsing 2008). In a Danish context, 80% of the workforce is employed in SMEs (Eurostat 2008) and one-third of the Danish SMEs are relocating sourcing and production activities to developing countries such as China (Jorgensen & Knudsen 2007). This makes SMEs specific CoC challenges a current topic in need of further knowledge as also emphasized in the Danish Government’s Action Plan for CSR (Danish Government 2008).
Today, China is the world’s largest exporter of manufactured goods (WTO 2007) and is often referred to as “the factory of the world” because of the great amount of products being sourced from the country. As a consequence of the vast growth and the rapid transition from a plan to a market economy since its opening in 1979, China is experiencing great social and environmental problems which make it an interesting geographic choice for studying CoC compliance issues (Economy & Lieberthal 2007; EIU 2009). The country’s poor reputation within human rights and labour standards, as well as pollution (CLSA 2008a; CLSA 2008b; World Bank 2007) combined with recent product scandals e.g. dairy products (melanin) and toys is providing Chinese suppliers with low confidence from the Western consumers. This indicates a great importance for foreign companies in China to ensure CoC compliance by its suppliers in order to increase credibility towards its various stakeholders. While Danish SMEs are starting to pose CoC requirements still few suppliers are actually making these requirements subject to control (Jorgensen & Knudsen 2007).

1.1 Problem Statement
Our interest is to explore the specific challenges for Danish SMEs seeking CoC compliance from its Chinese suppliers. This is done through the focus on the design and knitwear company First Factory (hereafter FF) and two of its suppliers within the Chinese textile and clothing industry. By examining the buyer-supplier relationship as one resembling that of a principal and an agent, we seek to understand the underlying reasons for non-compliance. Further, FF’s role as a principal with reduced bargaining power is assessed in relation to its deployment of safeguarding mechanisms, here defined as protective actions to ensure that its suppliers follow the CoC.

This leads to our problem statement:

*How can First Factory deploy safeguarding mechanisms to enhance Code of Conduct compliance from its Chinese suppliers, and thereby reduce agency- problems in the buyer-supplier relationship?*

From this problem statement, the following research questions guide us to narrow the scope of
the central issues being addressed in this study:

1. From the position of principal-agent-theory and network-theory, what are the explanations for non-compliance and the possibilities of control in international buyer-supplier relationships?

2. By including the perspective of First Factory and two of its suppliers, which agency problems can be identified through an analysis of the buyer-supplier relationship?

3. What are the implications of deploying safeguarding mechanisms for First Factory as a principal with low bargaining power?

The above listed research questions represent the structure of the analysis and provide a basis for concluding on the overall problem statement. The first research question will be answered theoretically, the second research question is answered empirically and the answering of the third research question represents a combination. For academic and industry definitions that are essential for the understanding of the main terms in this paper, we refer to appendix 1.

The objective of the research is to provide a picture of the main non-compliance issues for FF, as well as to determine the implications of deploying control mechanisms towards FF’s Chinese suppliers. Due to the complexity of identifying the subjective opinions of FF and its suppliers, the findings will be based on qualitatively based answers. This provides an exploratory frame for identifying and discussing the specific challenges in a buyer-supplier relationship rather than searching for normative answers for how a company should achieve full-compliance. Ultimately, a few overall practical recommendations for how FF can increase compliance with its CoC are presented.

Since our primary focus is on the buying company (principal) in relation to enhancing compliance from its suppliers (agents) we are vulnerable to the central critique of principal-agent theory (PAT) that it is solely focusing on the interest of the principal (Perrow 1986). However, this imbalance is addressed by also including the supplier-perspective to identify their incentives, motives and abilities to live up to FF’s CoC requirements. These supplier insights, though often left out (BSR 2001), enables a more nuanced assessment of how the principal might contribute to the existence of agency problems.

Until now, FF has not introduced any safeguarding mechanisms to ensure compliance by its suppliers who are also not required to verify that they meet the terms of the code via e.g. written documentation. Due to this lack of control, the writers of this project therefore assume that non-
CHAPTER 1 - INTRODUCTION

Compliance is more likely to occur at the supplier-level. In addition, the current absence of safeguarding mechanisms implies that the discussion of implications for the SME in the final research question will consist of a comparison between the theoretical safeguards and the empirical findings of non-compliance. Figure 1 below present an overview of the structure of the thesis.

FIGURE 1 - STRUCTURE OVERVIEW

"How can First Factory deploy safeguarding mechanisms to enhance Code of Conduct compliance from its Chinese suppliers, and thereby reduce agency-problems in the buyer-supplier relationship?"

Explorative single case study of a buyer-supplier relationship. In-depth interviews with buyer, suppliers and industry professionals. An interpretive basis for analysis is employed.

RQ 1; From the position of principal-agent-theory and network-theory, what are the explanations for non-compliance and the possibilities of control in international buyer-supplier relationships?

The Contextual Setting of China

The Chinese Textile and Clothing Industry

RQ 2; By including the perspective of FF and two of its suppliers, which agency problems can be identified through an analysis of the buyer-supplier relationship?

RQ 3; What are the implications of deploying safeguarding mechanisms for FF as a principal with low bargaining power?

Conclusion

Objectives

To develop a theoretical model for explaining non-compliance and ways of control for a buyer

To determine non-compliance issues at a country and industry level

To apply the theoretical construct to the specific situation of an SME and its suppliers in order to analyse non-compliance issues

To discuss the control opportunities and limitations for FF to enhance compliance
1.2 Delimitation

As the aim of this thesis is to conduct a case study of an SME’s supplier relations in China, we further narrow down the subject matter by delimiting ourselves from including an analysis of FF’s head office in Herning, Denmark. Nevertheless, FF is here referred to as one integrated company, and we thereby neglect to discuss potential internal differences among the two business units. The overview of FF’s production process in appendix 8 illustrates our concentration on first-tier suppliers in our analysis of non-compliance issues and implications of the deployment of safeguards. Further, an exclusion of accessory suppliers delivering bottoms, zippers and a range of other trimmings are made. These kinds of accessories are primarily bought over the counter at different local markets or through intermediary agents and are therefore not viewed as suppliers in the same way as the remaining supplier base.

Our case-company is located in Suzhou, in the Jiangsu province, which is part of the Yangtze River Delta area and represents the largest textile production cluster in China (see appendix 9). Since FF is placed on the country’s coastal line, this region is our focus and we delimit ourselves from considering other, less developed parts of China, where non-compliance at the supplier level can be considered more severe than here. Furthermore, foreign firms tend to be concentrated within the more developed Eastern region which means that a lot of the empirical data, as well as most existing literature, have this region as focus. Lastly the largest concentration of Danish textile and clothing companies are situated it is in the Yangtze River Delta area (Danish General Consulate 2008).

Finally, we have chosen to focus on the aspects of the buyer-supplier relationship, which we find most relevant to our study, i.e. those that can help explore non-compliance and describe ways to safeguard against such issues. Since the included aspects are directed by our theoretical focus on PAT and network theory (NT) we do not pay specific attention to additional theoretical perspectives that may give further explanations. However, since transactions cost economics (TCE) share great similarities, especially related to their behavioural assumptions (Barney & Ouchi 1986), the delimitation of this theoretical perspective is considered here. The rationale for leaving out TCE has to be found in its primary focus on the boundaries of a firm and related make-or buy decisions (Williamson 1973). Instead, PAT’s unit of analysis is the contract thus making it more suitable for the study of a CoC. In spite of this distinction, TCE concepts will be included in the thesis when they can be considered to coincide with those of PAT.
2.0 Methodology

2.1 Research Design

2.1.1 RESEARCH PHILOSOPHY

This project reflects a stance of interpretivism, which is regarded suitable to capture the complexity of a unique research setting (Saunders et al. 2003). The interpretivist approach becomes relevant from the aim of this research to understand the subjective reality and meanings of FF and two of its suppliers (Ibid). From this interpretation it is possible to realize important differences in incentives and motivations, influencing the actions taken by the parties.

From this standpoint of interpretivism, it is important to consider how a project’s unit of analysis as well as fundamental theory of science assumptions about human behaviour is guiding the study and consequently impacting the findings (Bitch Olsen & Pedersen 1999). These reflections can be clarified by the use of Astley & Van de Ven’s (1983) classification model of the four major organisational schools of thought (see model below). The four views are based on two analytical dimensions classified by a micro/macro level of analysis and a deterministic/voluntaristic assumption about human behaviour (Ibid). The micro/macro level refers to the level of aggregation that the analysis is conducted on, while the deterministic/voluntaristic orientation refers to the actor’s own ability to exhibit desired behaviour. A pure deterministic orientation entails an evolutionary approach in which actors’ behaviour is entirely based on influences from the surrounding environment, while a pure voluntaristic orientation sees behaviour as a proactive decision that is able to affect both internal, as well as external constructs (Astley & Van de Ven 1983).

**Figure 2 – Theory Categorisation**

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<th>Deterministic Orientation</th>
<th>Voluntaristic Orientation</th>
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<tr>
<td>Macro Population</td>
<td>Natural Selection View</td>
<td>Collective Action View</td>
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<td>and Communities of</td>
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<td>Organisations</td>
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<tr>
<td>Micro Individual</td>
<td>System-Structural View</td>
<td>Strategic Choice View</td>
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<td>Organisation</td>
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*Source: Astley & Van de Ven 1983*
Due to the unit of analysis representing an individual buyer-supplier relationship this study employs a micro-level focus. Our combined theoretical construct (PAT and NT) implies that we work with a two-sided explanation for the fundamental behavioural assumptions (opportunism/trust) of an actor (supplier), which in turn influence our understanding of its pursued behaviour (compliant/non-compliant). PAT implies the notion that actors in a relationship are predominantly driven by individual incentives e.g. self-interest and when applied to organisations (buyer/supplier) this incentive equal striving for profit maximisation. Moreover, the actors/organisations are believed to act autonomous, proactive and self-directing as characterised by the voluntaristic orientation (Astley & Van de Ven’s 1983). However, in NT this autonomous view of actor-behaviour is not as prevalent as in PAT. Instead, the collective action view is used to explain how the parties in cooperative settings are influencing each other’s actions by the means of reciprocal norms and values (Ibid.). On this more aggregated level individual freedom is not an all-encompassing feature, it is determined by the collective. Astley & Van de Ven (1983) argues that the collective defines norms, customs and laws, which influence the actions of actors by referring to reason rather then rational, strict utility maximizing, behaviour. However, the two constructs does not exclude each other. Astley & Van de Ven (1983) further states that the reasonable behaviour, affected by the surroundings or the contextual setting, provides a frame or a set of boundaries within which the rational behaviour occur.

However, since the collective action view entails a macro-focus on large populations of organisations (network structures), while the focus of this thesis is on dyadic relationships, we argue that this project primarily reflects the strategic choice view, but with elements of the collective action view since inter-firm relations is an influential factor on each firms individual actions. The combined view is found to be representative due to its assumption that an individual actor/organisation is able to “choose” its own behaviour proactively, as opposed to merely respond to exogenous factors in its structural environment as assumed within the deterministic orientation. The external environment is thus not regarded as an intractable constraint, which takes away an actor ability to influence his/her own situation. The relationship between environment and actor is of a more dynamic character of mutual influence. That is also why our studied buyer-supplier relationship is not analysed in isolation from the specific Chinese context which it is a part of.
CHAPTER 2 - METHODOLOGY

2.1.2 CASE STUDY RESEARCH

In order to answer the problem statement, we conduct an exploratory case study of non-compliance in FF’s supplier-relationship. The choice of case study is characterised by the use of non-probability sampling and the case-company has been selected through a purposive technique in order to provide a particularly informative and illustrative example of an SME’s specific challenges of deploying safeguards (Saunders et al. 2003). For an overview of this projects case-selection process see appendix 2.

By gaining knowledge about one particular company’s challenges of safeguarding against supplier non-compliance, we use our developed understanding of the problem to offer fresh insights into a more general research area in need of further investigation (Bitch Olsen & Pedersen 1999). The case study method allows us to retain a holistic and meaningful insight into a "contemporary phenomenon, in its real-life context" (Yin 2003). Further, a "how" question is being asked about a single setting, over which the investigator has little or no control" (Ibid). This holistic view enables us to study many different aspects of a problem and examine them in relation to each other. The case study is useful for recognising complexity and ambiguity, though it lacks statistical significance (Gummesson 1995). By focusing on a single company and two of its suppliers in one industry, we acknowledge that we are not able to generalize our findings to include other research settings without follow-up analyses of additional case examples (Saunders et al. 2003). These implications of generalisability are further dealt with in section 2.4 concerning the reliability and validity of our findings. This research is cross-sectional and therefore represents a “snapshot” of FF’s safeguarding challenges in the Chinese textile and clothing industry (Bitch Olsen & Pedersen 1999).

2.1.3 RESEARCH APPROACH

Our research approach entails both deductive and inductive elements, which goes well in line with the employment of a case-study method (Eisenhardt 1989a). This combination is evident from the fact that there was a pre-understanding of the research phenomena before the gathering of data but still no predetermined hypothesis was tested in the case study. Instead, the outcome of the semi-structured interviews was very much dependent on the respondents’ individual viewpoints, job position as well as work experience (Yin 2003). Our point of departure in the first research question is a deductive approach. From the developed conceptual framework for studying non-compliance in buyer-supplier relationships we develop a theoretical explanation for
non-compliance as well as appropriate control mechanisms available for a buying company. Subsequently, an inductive approach is applied in the second research question where primary and secondary data is applied to the case study of FF and two of its suppliers. This is done to identify non-compliance issues in the specific situation of an SME, thereby allowing for other findings than those prescribed in the theory. In the third research question the deductive and inductive approaches are combined to discuss how FF can safeguard against non-compliance.

2.2 Data Collection

In order to answer the second research question we use sources of primary data consisting of in-debt interviews with management and key staff in FF as well as management interviews with two of FF’s suppliers. Furthermore, secondary data includes the internal vision and strategy plan, the code of conduct, and the supplier contract which is applied to analyse agency problems in the buyer-supplier relationship.

In addition, primary data is included in the form of expert interviews with industry professionals in the section of the contextual setting for studying non-compliance in China, which constitute the initial part of the analysis. These interviews provided us with overall country and industry specific knowledge about non-compliance issues. Moreover, secondary data consisting of country reports on China and specific industry reports on the Chinese textile and clothing industry are included. Figure 3 below illustrates the data sources collected and how they are included.

**Figure 3 - Data Collection Framework**
2.2.1 COLLECTION OF PRIMARY DATA

The primary data has been collected in Shanghai and Suzhou within the period 15.10.2008 - 04.11.2008. Firstly, the collection of primary data related to interviews with FF and two of its suppliers will be explained. Secondly, the interviews with industry professionals will be accounted for in section 2.2.4. Common for the collection of primary data in regards to FF and its suppliers are the process in which the interviews were planned and carried out. Kvale’s (1996) seven stages of interview investigation served as the inspirational source for planning, conducting, and processing the interviews. The seven stages are: thematising, designing, interviewing, transcribing, analysing, verifying and reporting. First, we thematised and designed the interview guides and subsequent questions. The questions were derived from principal-agent and network theory and formulated with the core theoretical concepts and assumptions in mind (see appendix 12 for the two interview guides). In addition, the content of the interview guides was influenced by the preliminary interviews with the CFO (Headquarter, Herning) and the CEO (telephone interview). Here the specific CoC challenges for FF were discussed and background information about the company as well as its supplier relationships was obtained. This resulted in two interview guides, which were based on the same overall themes, but varied in regards to the formulation of questions in order to target FF and suppliers respectively. The interviews with FF’s management and key staff as well as two supplier lasted each approximately an hour and a half and were recorded using a dictaphone (see enclosed CD-ROM). After conducting the interview they were transcribed (See appendix 13) in order to extract relevant arguments needed for the analysis (Kvale 1996). We used a standardised interview guide approach to the interviews to ensure that the same basic lines of inquires were pursued with each person interviewed. However, different areas of the guide was emphasised depending of the interviewee’s work experience, background and position in the organisation. The questions were open-ended, with the purpose of extracting individual understandings, perspectives and opinions about the buyer-supplier relationship, the CoC as well as reasons for non-compliance (Ibid.).

2.2.2 INTERVIEWS WITH FIRST FACTORY

The selection of interviewees was done in cooperation with CFO Kim Overgaard, our contact person in FF. The interviewees were selected on the grounds of their managerial position and/or their direct involvement with suppliers in the execution of their daily job function. The interviewees are listed below:
CHAPTER 2 - METHODOLOGY

- Lars Birk – Chief Executive Officer (CEO), China
- Roger (Zhong Bo) – Chief Production Officer (CPO), China
- Darren (Wong Zhi) – Head of Purchasing (Yarn Purchaser), China
- Olevina Byrialsen – Head of Quality Control (QCM), China
- Kim Overgaard – Chief Financial Officer and CSR responsible (CFO), Denmark

The interviews were conducted in either Danish or English depending on the interviewee. Problems related to language barriers were generally not an issue since the interviewee’s English skills were well developed.

2.2.3 INTERVIEWS WITH TWO SUPPLIERS

The CEO did the selection of the two suppliers from the criteria that they could provide us with insightful perspectives about the challenges of meeting FF’s CoC. A full-service supplier and a yarn supplier was selected on the grounds, that they possessed (in a Chinese context) a basic idea of a CoC as a concept e.g. by meeting similar requirements from other customers. This understanding was an important prerequisite, in order for us to achieve valuable and elaborated responses. However, by selecting suppliers with a preconception of the issue we are aware that their understanding and statements are likely to appear more advanced than the rest of FF’s supplier base.

Furthermore if it had been possible to carry out an additional interview with a specialist supplier, this would have further strengthened the project since these suppliers carry out a significant part of FF’s orders. Moreover, it would have been advantageous to interview more than one respondent in each of the Chinese Companies in order to reach a better balance between the five interviews in FF and two interviews at the supplier level. The following choice of a full-service supplier and a yarn supplier was made. For a presentation of the two companies see appendix 7.

- Eastern: Annie Tang – Production Manager
- Afasia: Lawrence Pan - Factory Manager

The rationale for interviewing the factory managers was that they were the ones responsible for the daily compliance of the terms of the code. We recognize however, that the interviewees due to their position in the company will be interested in presenting their company from its best side as explained by the “good news syndrome” (Saunders et al. 2003). Since we delimit ourselves from determining whether or not Eastern and Afasia comply with FF’s CoC, but merely analyze
the challenges met by the two suppliers, we do not consider this to be a significant problem. Lastly, it is argued that interviewing managers might present an advantage since the respondents are more able to freely state their (negative) opinions without considering possible consequences.

One significant element of bias was the language barrier that existed since the interviewee’s native tongue was Chinese and the questions was formulated in English. A translator was therefore present to avoid misunderstandings on behalf of the interviewee or misinterpretations of answers by the interviewers. Since the translator was an employee from FF, we acknowledge that this might have complicated our attempt to appear “independent” from FF in order to ensure openness on behalf of the interviewees. However, it would not have been easy to establish consent to carry out the interviews without prior notice from FF regarding the objective and background of the study.

Given that the problem examined is a potentially controversial subject (suppliers non-compliance with CoC) the questioning technique was of a somewhat indirect character meaning that we often asked about general challenges in the industry and among competitors (see appendix 12 for the supplier interview guide). The assessment of how representative Eastern and Afasia is for FF’s entire supplier base is placed in section 2.4 concerning the validity and reliability of findings.

2.2.4 INTERVIEWS WITH INDUSTRY PROFESSIONALS

Four informant interviews have been conducted with industry professionals chosen for their insight into the research topic of this project. See the list below:

- Dragon Sourcing (Consultancy firm with specialisation in responsible sourcing): Olivier Levy – Managing Director
- CSR Asia (Consultancy with focus on CSR): Brian Ho – Partner
- King & Wood (Law firm): Mark Schaub – Partner
- Judy Mao (Garment Producer with strong focus on CSR, approved by Worldwide Responsible Apparel Production): Nikki Wang – Vice General Manager
  (Appendix 3 presents a short explanation of the selection process)

An exploratory approach with open-ended questions was used in the interviews (see interview guide appendix 12). The interviews served two purposes. First, they were gathered prior to the
interviews with FF and its suppliers and thus gave important inputs for the formulation of interview guides as well as carrying out the interviews. Second, the interviews provided a general overview of the challenges for foreign investors working with CoC at the supplier level in China. The industry professionals were asked their views on the relationship between foreign buyers and Chinese suppliers in relation to COC challenges and ways to deal with non-compliance issues.

2.2.5 Collection of Secondary Data
The collection of secondary data has been conducted in three parts. The first relates to the problem identification, the second to the country specific data of China and the third to FF. The secondary data needed for the problem identification consisted mainly of newspaper articles and magazines, which was gathered during a six months period living in Shanghai. This was not done specifically systematic, but more on an ad hoc basis. The country specific data consisted of two parts; multiple source area specific data and ad hoc surveys, as classified by Saunders et al. (2003). The multiple source data consist of country reports and other statistical material, which has been gathered online through databases like EIU, Eurostat and WTO. The ad hoc surveys has been collected mainly through online searches and constitute of reports from organisations such as The World Bank, Business for Social Responsibility, CLSA, and the UN. With regards to FF, the secondary data consists mainly of internal documents such as supplier contracts, their CoC, and internal strategic plans.

2.3 Data analysis
Since our interview guide for examining non-compliance issues in a buyer-supplier relationship is developed from the projects existing theoretical framework, we are aware that this initial deductive approach impacts our analysis of data (Saunders et al. 2003). This is due to the fact, that our use of overall theoretical codes from the two applied theories shapes the collection of empirical data and consequently the findings (Saunders et al. 2003; Patton 2002). However, while the directed focus of our qualitative interviews is guided by theory, the data analysis is non-theory driven because the researchers have not predetermined what interpretations and meanings are to be derived or categorised from the interviews (Reis & Judd 2000).
After completion of the in-depth interviews, the first task in our data analysis involves classifying the data into meaningful categories (Saunders et al. 2003). We interpret the collected qualitative data in the specific research context of exploring non-compliance and ways to safeguard against these issues in a buyer-supplier relationship. The development of categories involves an identification of relevant themes and patterns within the data (Ibid). This process is carried out by entering the buyer and supplier statements into a matrix to establish an overview of differences and similarities among the respondents and hence is utilised as a practical analytical tool for organising and interpreting the data (Miles and Huberman 1994). From this comparison of answers, common elements of the data is well recognised as apparent relationships between the different categories (Ibid.) The meaningfulness of the categories is evaluated due to their exhaustiveness and mutual exclusiveness (Saunders et al. 2003). As relevant patterns or relationships within the data are detected, it is determined whether an apparent relationship between the categories exists, before we are able to conclude upon the coherence between phenomena (Ibid.)

2.4 Reliability and Validity of Findings

By combining primary and secondary data, triangulation is used in this project in an effort to strengthen the reliability of findings and avoid false interpretations when collecting and analysing our data (Saunders et al. 2003). This is based on the argument that employing more than one independent source of data within a study helps solve the problem of contradictory explanations, as each method reveals different aspects of empirical reality (Patton 2002). Furthermore, crosschecks are done in relation to information with the different interviewees internally in FF as well as between the two suppliers. However, we are aware of the limitations to the verification of the information collected since it is specific for FF and thereby difficult to verify externally.

Moreover, we are aware of the potential of a “logic leap” by applying our findings in relation to two suppliers to draw more overall conclusions about FF’s supplier relationships. This relates primarily to the fact that FF themselves have selected the two suppliers to be interviewed for this project and by speaking to the more “advanced” suppliers it is possible that we have obtained a too positive interpretation of the suppliers expressed understanding of the research issue. Still, since information of the entire supplier base is obtained through the interviews in FF, we are able
to relate our findings of the two suppliers to its other supplier relationships.

From our case selection criteria we have sought to identify a particularly informative case due to our purpose of illustrating important control issues for an SME with supplier relations in China. We therefore argue that our finding may be of relevance for other SMEs facing similar challenges in relation to ensuring compliance. However, to ensure the credibility of the thesis in regards to external validity, follow-up research, such as multiple case comparisons are needed (Saunders et al. 2003).
3.0 Theoretical Framework for Studying Non-Compliance

3.1 Composition of Theoretical Framework

The research fields of CSR and SCM are characterised as eclectic topics with loose boundaries and as multidisciplinary in nature thus drawing on a wide scope of theoretical approaches and methods (Garriga & Melé 2004; Halldorsson et al. 2006). Scholars subsequently claim that one cannot rely on a unified theoretical explanation when analysing phenomena within these disciplines and proposes a need to combine theoretical perspectives that complements one another (Ibid.). Accordingly, this project combines PAT and NT in a theoretical framework to analyse supplier non-compliance with CoC.

Poole & Van de Ven (1995) argue that it is not merely the pluralism of theoretical marvel that helps one gain a more comprehensive understanding of organisational phenomena, but rather the important interplay between these different perspectives. This interplay is important since any one school of thought will only be able to deliver a partial account of what is being studied (Astley & Van de Ven 1983). It is however important to find the right balance between employing various theoretical perspectives which could enable an ability to uncover novel aspects of organisational life, while still being able to distinguish the different schools of thought and how they relate to each other (Ibid.). When evaluating the usefulness of combining PAT and NT it thus becomes important not only to judge the theoretical perspectives on their ability to produce yet another account of explanation, but also to discuss the combined value of the two perspectives (Gioia & Pitra 1990). While Poole & Van de Ven (1995) highlights the possibility of developing new theory by combing existing theoretical explanations in order to reach broader and stronger explanatory power, the aim of this thesis is simply to use their rationale for theory combination in order to achieve similar ends of a more comprehensive view on CoC compliance.

The combination of PAT and NT provides a theoretical framework for identifying an understanding for non-compliance and entails a problem-solving capacity since it allows us to assess the variety of ways to control supplier behaviour and thus safeguard against CoC violations. PAT is suitable to illustrate how CoC violations can be regarded as agency-problems on behalf of the buying company and how non-compliance is a consequence of opportunistic behaviour. By including NT we wish to strengthen our theoretical framework by counterbalancing the critique points and limitations of PAT and thereby broadening the
perspective on non-compliance and safeguarding mechanisms to incorporate a more social aspect of control. NT provides an alternative understanding of non-compliance and ways to safeguard, which is not captured by PAT. Hence, it is not the intent to include an exhaustive lot of NT, but rather to complement and challenge the assumptions inherent in PAT in order to reach a more comprehensive view of safeguarding.

PAT and NT have previously been widely applied to examine inter-firm governance structures and inter-organisational relationships. However, since few studies (Pedersen & Andersen 2006) have applied PAT and NT to the contextual setting of non-compliance with CoC in a buyer-supplier relationship, this represents an aspect of novelty. The framework is believed to be valuable in developing a theoretical model of safeguard, which subsequently will be applied to our case study of FF. This enables a discussion and evaluation of the applicability of our theoretically derived safeguards for an SME with Chinese suppliers. In the following, we will argue for the relevance of the theoretical framework to explore the reasons for non-compliance in buyer-supplier relationships as well as to determine efficient safeguards.

3.2 Principal-Agent Theory

PAT has been applied to problems of cooperative settings ranging from marketing to political science with the most frequent domain of study including manager behaviour (Jensen & Meckling 1976), ownership structure of the corporation (Fama & Jensen 1983) and shareholder versus stakeholder interests (Tirole 2006). The basic theme of PAT has been to explain how the separation of ownership and control between shareholders and management gives rise to agency problems which must be solved through an alignment of managerial incentives with that of the owners (Fama & Jensen 1983). The theory is nevertheless relevant for research within a much wider range of empirical relationships where cooperating parties are experiencing differences in goals and risk preferences (Eisenhardt 1989b). This is often the case when companies implement CoC in the supplier relationships and expect compliance. The situation is here further complicated by the geographical, legal, cultural and economical separation of the parties (Pedersen & Andersen 2006). Moreover, the voluntary aspect of a CoC, often going beyond national legislation (Neergaard & Andersen 2003), as well as vaguely defined consequences for violating the code (Pedersen & Andersen 2006) contributes further to the complication.
In this thesis the theoretical point of departure will be taken in the positivistic agency perspective (hereafter PAT) which differs from the more mathematic and general perspective of principal-agent research. The focus of PAT is to identify empirical situations where the relationship between the principal and the agent lead to agency problems. Subsequently governance mechanisms are developed that limit the agent’s behaviour to pursue the interest of the principal (Eisenhardt 1989b). This is a strong theoretical ability for a project with the research objective to construct, and analyse the appropriateness of, a model of safeguarding mechanisms for the case of a SME with Chinese suppliers.

The overall focus of the agency theory is concerned with the issue of cooperating parties where one party (the principal) delegates work to another (the agent) who in turn is expected to perform that work (Jensen & Meckling 1976; Eisenhardt 1989b). Jensen & Meckling (1976) defines the agency relationship: “as a contract under which one or more persons engage another person to perform some service on their behalf which involves delegating some decision making authority to the agent.” They go on to say that if both parties are utility maximizers there is good reason to believe that the agent will not always behave in the interest of the principal. In performing the activity the agent necessarily chooses an action which in turn has consequences. These consequences, or outcome, affect the welfare of both the principal and the agent (Petersen 1993). The contract is seen as the governing construct, and the unit of analysis, which is supposed to affect the agent behaviour so that the outcome aligns with the interest of the principal (Ibid.).

From PAT’s initial accept that no such thing as a complete contract exists, the aim of the theory is to construct an “optimal” contract, which enables the principal to govern the agents actions (Eisenhardt 1989b). This is achieved by installing a contract that succeeds in minimizing the likelihood of the two overall agency problems from occurring within the relationship. The first agency problem occurs when the desires or goals of the principal and agent conflict and it is difficult or expensive for the principal to verify that the agent is in fact, acting in accordance with the principal’s interest. The second agency problem deals with the issues of risk sharing that becomes omnipresent when the principal and the agent have different attitudes towards risk (Ibid.). In this thesis the two agency problems existing due to asymmetric information, goal conflict and differing risk attitudes are applied to the specific case of non-compliance with a buyer introduced CoC.
PAT operates with three fundamental behavioural assumptions about people, which include that of self-interest or opportunism, bounded rationality, actors behaving rational within the bounds of their cognitive limitations, and that the agent is risk adverse. These assumptions are initially linked to individual actors. However, in this thesis they are transferred to an aggregated organisational level. This is done in accordance with both Eisenhardt (1989b) and Petersen (1993) who argue for the use of the assumptions on an individual as well as on an aggregated firm level and with Pedersen and Andersen (2006) who apply the theory and thus the assumptions on a firm level case.

The concept of self-interest on behalf of the agent is the central concept in PAT and implies the acceptance that; “...a non-negligible proportion of actors involved in economic transactions/inter-organisational relationships have inclinations toward opportunistic behaviour and that these opportunistic actors are difficult to distinguish from the non-opportunistic” (Koch 1995). Furthermore, it is costly to sort out those who are opportunistic from those who are not, making it necessary for the principal to install precautions (Williamson & Ouchi 1981).

3.2.1 CRITIQUE OF PRINCIPAL-AGENT THEORY

When applying PAT to the governance of inter-organisational relationships it is important to be conscious of the limitations of the theoretical perspective. Criticism to the theory include its claim to be able to explain agency problems within all types of relationships in which one party delegates work to another while at the same time putting a low premium on actually studying its empirical applicability (Robins 1987). This complicates the clear definition and modelling of a principal-agent relationship in a given empirical research setting (Petersen 1993).

Furthermore, PAT has, been criticized for having an under-socialised view of human nature (Granovetter 1985) due to its embedded assumptions which gives self-interest seeking behaviour a too prominent explanatory role as well as places an over-emphasis on the search for efficient contracts (Perrow 1981). In addition, the neglect of the theory to incorporate power considerations are highlighted (Ibid.) and Tomkins (2001) criticise PAT’s limited focus on situations in which a clear master and agency relationship exist. PAT has, along with other organisational economic theories, been widely criticised for underestimating the importance of

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1 The two concepts are hereafter used interchangeably and a discussion of their differences is included in chapter 6
trust in cooperative relationships (Sako 1992; Tomkins 2001). Consequently, a too narrow focus on economic/contractual rewards to correct agent behaviour limits PAT’s ability to incorporate non-economic incentives which can increase the alignment of interest in the relationship (Pedersen & Andersen 2006). In addition, opponents claim that PAT is too rigid in its nature by maintaining a static view on firm-boundaries and neglecting the significance of a dynamic time perspective (Tomkins 2001). This implies that the length of the cooperation as well as the element of change in a relationship over time is not considered to have an impact on the alignment of the agent’s interests with that of the principal.

3.3 Network Theory

In order to counterbalance the above stated shortcomings of PAT we include the network theoretical perspective to increase our theoretical framework’s explanatory power of how to safeguard against non-compliance with a CoC. NT has been applied within a wide variety of disciplines and can be said to have the ambition, from an overall viewpoint, to describe the relationships and networks, which make up and influence all aspects of society (Sako 1992). Its broad focus has caused it to be described as a fragmented theoretical approach rather than a coherent theory (Koch 1995). With its research domains ranging from the more traditional mathematically oriented social network theory (Lin & Vaughn 1981) to that of social capital in groups (Coleman 1988), it becomes important to narrow down the specific scope of NT in this research project. We include the network literature to enable an incorporation of trust as a complimenting aspect, allowing alternative explanations for non-compliance and ways to apply control.

A fundamental assumption of the network perspective is that the individual firm is dependant on resources controlled by other firms (Johanson & Mattsson 1987). It therefore becomes important to invest in building close relationships to be competitive (Van Hoek et al. 2001; Johanson & Mattsson 1987). Network theory therefore does not presume the existence of an unequal power dominated principal and agent relationship, but is rather concerned with creating win-win and reciprocity between two cooperating parties (Ibid.). The emphasis on reciprocity in a cooperative relationship stems from the notion that it is by means of continuous interaction and coordination between the parties rather than through power domination and exploitation that the companies achieve their individual interests (Oliver 1990). The purpose thus becomes a pursuit of common
or mutually beneficial goals and ensuring a fair division of the benefits between the parties (ibid.).

### 3.4 Complementarity of the Theoretical Perspectives

Sceptics of the above-mentioned network theoretical arguments include Williamson (1993) who claims they ultimately build on the rationale within organisational economics e.g. PAT and TCE and refers here particularly to the trust vs. opportunism debate. From this awareness, we build on the argument of Koch (1996) who emphasize that the network perspective does not dismiss the concept of opportunism since this would imply that not even one opportunistic actor exists. However, opportunistic behaviour is not given a central role in NT where the focus instead is on the build up of trustworthy relationships (Johanson & Mattsson 1987). The behavioural assumptions inherent in the two perspectives are therefore not considered mutually exclusive but rather complementary since NT offers trust building as a “different route” to CoC compliance by relaying on more relational aspects. We refer to appendix 4 for an overview of the key differences between the two perspectives.

Scholars argue for the combination of PAT and NT since the former is useful to address the structuring of contractual terms in an inter-firm relationship and the latter emphasise the importance of building long-term relationships over time (Halldorsson et al. 2007; Koch 1995; Tomkins 2001). Furthermore, NT is useful for explaining the dynamics and changes in inter-organisational governance structures (Halldorsson et al. 2007). Drawing on the research of Mamic (2005), it is acknowledged that the implementation and governance of a CoC is an evolving undertaking and argue for the relevance of network theory to capture the aspects involved in such an ongoing process.

#### 3.4.1 Economic/Contractual and Relational Control

The complementarity of the two perspectives lies in their emphasis on different explanations for non-compliance and control mechanisms for how to safeguard a buyer-supplier relationship, thus providing us with a more comprehensive view. While PAT is based on the economic rational behaviour of utility maximisation, NT considers actor-behaviour to be socialised by norms and obligation (Coleman 1988). This combination enables two categories of safeguards; namely economic/contractual control based on PAT and relational control based on NT.
This distinction is novel, but the idea and characteristic builds on a range of scholars who have placed control mechanisms in cooperating relationships within two overall extremes on a continuum. Examples of such positioning includes among others; Sako’s (1992) emphasis on arms length contractual relations as opposed to obligational contractual relationships, Humphrey & Schmitz’s (1998) distinction between trust and sanctions, Ouchi’s (1980) market and clan control and Helper’s (1990) utilisation of Hirschman’s (1970) distinction between exit and voice strategies. The distinction utilised in this thesis builds on inspiration gained from the above mentioned scholars.

3.5 The Control Model

In order to further conceptualise the use of economic/contractual and relational control in a buyer-supplier relationship an analytical model is developed and applied in this thesis (see matrix below). The development of the model is based on the above-explained distinction between economic/contractual and relational control, which forms the y-axis of a two-by-two matrix. The x-axis consists of a similar continuum ranging from low- to high buyer bargaining power. The model is to be regarded as a simplified analytical tool for discussing buyer-supplier relationships that can be characterised within PAT and NT. In the following, we specify the two variables in the model and how these can characterise different types of buyer-supplier relationships according to a buyer’s bargaining power and ability to utilise control (see content example model below).

**FIGURE 4 – CONTROL MODEL**
3.5.1 Definition of the Two Variables

- **Control** – The continuum ranges from economic/contractual to relational control. Economic/contractual control is characterised by economic rationality and contractual standardisation. It works toward maintaining a low dependence on trading partners and align goals through economic incentives. It relates to Helper’s (1990) concept of ‘exit strategy’ since relationships are easily and causelessly abandoned if the trading partner does not live up to stated expectations. It further relates to Ouchi’s (1980) ‘market’ mode of control by relying heavily on price as the information requirements. Relational control is characterised by close interaction through communication, coordination and collaboration. The purpose is to establish a relationship of mutual dependence, intentionally locking the parties together to reduce uncertainty by making behaviour more predictable, increase commitment and thus increase the likelihood of compliance. It relates to Ouchi’s (1980) ‘clan’ mode of control by relying on shared norms and values as a major governing factor and to Helper’s (1990) ‘voice strategy’ in its effort to “work things out” for the joint benefit of both parties.

Common for the two types is the norm of reciprocity (Ouchi 1980); the differing factor is the time span for reaching it. A relationship that builds on economic/contractual control will ensure to reach this reciprocity within a short timeframe, whereas a relationship building on relational control will reach it only within a long, even undefined, time span. The two types of control will be further discussed in section 4.5 and 4.8 respectively.

- **Bargaining Power** – The continuum ranges from low to high buyer bargaining power. Bargaining power refers to one actor’s ability to pose an influence on another actor or the level of one actor’s dependence on the other. This means that a high degree of dependence, other things equal, will result in low bargaining power. Dependence can be caused either by monetary importance or resource importance. Buvik & Reve (2002) term these aspects ‘market power’ and ‘resource power’ and together they make up the concept of bargaining power. This research projects use of bargaining power and its relation to a buyer’s utilisation of safeguarding mechanisms will be thoroughly dealt with in section 4.9.
4.0 Research Question I

4.1 Non-Compliance and Opportunities of Control

The control of social and environmental standards at the supplier level is one of the least developed areas within the field of CSR (Pedersen & Skjøtt-Larsen 2008). Until recently the main research within buyer introduced CoC has dealt with the formulation and content of the codes (Murray 1998) and less emphasis has been placed on how to ensure compliance by suppliers (Sethi 2003). The literature concerning compliance levels in developing countries draws attention to the widespread problem of non-compliance and failure to integrate the terms of the code into the business processes and routines of suppliers (Mamic 2005). Furthermore, the effectiveness of external monitoring and control of suppliers in developing countries has been criticised as unreliable (O’Rourke 2002). Studies indicate that monitoring is not the only means to achieve compliance. Instead of merely applying monitoring as policing, it is recommended also to place emphasis on developing the understanding, ability and support of suppliers and through such efforts increase compliance levels (BSR 2007; World Bank 2003). Consequently, the control of supplier compliance is important for a CoC to be regarded as a sound management tool (McIntosh et al. 2002) and not being reduced to its critique as a publicity smokescreen (Klein 2000).

The purpose of this chapter is to deliver theoretical explanation for non-compliance issues in international buyer-supplier relationships and determine the possibilities of control by developing a set of conceptual safeguarding mechanisms. The chapter employs the following structure: The first part of the research question examines the explanation for non-compliance and related possibilities of control from PAT. The opportunistic assumption is initially presented as the explanation for how agency problems can lead to non-compliance. The subsequent discussion of non-compliance is built on the existence of the two fundamental agency problems as emphasised by Eisenhardt (1989b). Accordingly, the first agency problem deals with the consequence of conflicting goals and asymmetric information and the second relates to the different risk attitude of the parties. On the basis of the identified explanations, a range of economic/contractual safeguarding mechanisms is derived from PAT with the aim to reduce opportunistic behaviour of the agent. The second part of the research question employs the perspective of NT to deliver a complementary explanation for non-compliance. The notion of trust is included as the central behavioural assumption and non-compliance is here explained by
an absence of trust between the buyer and supplier. For this reason, the network theoretical concepts of interdependencies, time span for reciprocity, and shared norms and values will be studied for how they develop trust in an international buyer-supplier relationship and thereby enhance compliance levels (Sako 1992; Johanson & Mattsson 1987). From this rationale, a set of relational safeguarding mechanisms is drawn from NT. Finally, the aspect of bargaining power will be introduced and discussed.

4.2 The Opportunistic Assumption

The initial focus on the assumption of opportunistic behaviour is due to its direct relations to non-compliance. Without this assumption, all of the proposed agency problems would cease to exist because agents would stick to agreements made, written or verbal. Furthermore, the opportunistic assumption is the central area of dispute between the theories employed in this thesis and therefore attracts great attention (Johanson & Mattsson 1987; Williamson 1993; Koch 1995).

Self-interest or opportunistic behaviour as a theoretical assumption in economics can be traced back to Adam Smith who wrote: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest” (Smith 1930, p. 26). In Smith’s terminology self-interest is a cornerstone in economic behaviour. Economic transactions occur to please one’s self-interest and increase economic value. However, the quote points out a distinction between self-interest and opportunistic behaviour. While self-interest indicates that economic activities are carried out for the benefit of the actors involved, it does not imply that the actors will cheat each other if the possibility presents itself. This is however the case when it come to opportunistic behaviour. Williamson, the main agitator of the assumption, consequently defines opportunism as: “self-interest with guile”, saying that actors will cunningly mislead others for their own gain (Williamson 1985, p. 47). More specifically he writes: “…opportunism refers to the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse” (Ibid.). However, the two concepts will in the following be used interchangeably with the connotation of Williamson’s self-interest with guile.
4.2.1 Adverse Selection and Moral Hazard

Opportunistic behaviour can be an issue both before and after an agreement between a principal and an agent is reached. According to Koch (1995) the classic case of opportunistic behaviour prior to contract agreement is adverse selection and after the agreement it is moral hazard. The time of signing, or the time at which the participating parties start to think of an agreement as binding, is the basis for distinguishing between the ex ante and ex post issues (Ibid.).

The issue of adverse selection relates to the principal’s inability to obtain reliable information about an agent. The uncertainty evolves from the lack of information regarding the agent’s willingness and/or ability to e.g. produce and deliver products as specified by a principal (Petersen 1993). Agents might try to appear better than what is actual the case in order to obtain contracts they would otherwise not get. This is possible due to the difficulties inherited in detecting misrepresentations in skills and abilities carried out by the agent (Eisenhardt 1989b).

Moral hazard is to the ex post issue of insufficient efforts on part of the agent to live up to what is agreed upon with the principal (Ibid.). This is referred to as shirking by the agent. The reason for this type of opportunistic behaviour is the lack of risk associated with shirking; the agent can deliver a lesser effort than agreed upon, but the loss, or risk of loss, associated with this lesser effort is born by the principal. Moral hazard becomes a problem because the principal is unable to observe the actions of the agent and in turn fully control these (Arrows 1985).

4.3 Behaviour vs. Output based Contracts

To determine the most efficient contract governing the principal-agent relationship the theory prescribe a use of either behavioural or outcome-based incentives to motivate the agent to act in accordance with the principal’s interests (Logan 2000). In a simple case of complete information, in which the principal is buying the behaviour of the agent, a behaviour-based contract is most efficient (Eisenhardt 1989b). However, as explained through the issues of adverse selection and moral hazard, complete information is not the normal state (Petersen 1993) and it is therefore necessary to either develop a system of information gathering that enables the principal to reward the agent based on behaviour or to reward the agent based on the outcome of its behaviour. The choice between the two constructs relates to the trade-off between the cost of measuring behaviour and the cost of measuring outcomes and transferring risk to the agent.
(Eisenhardt 1989b). The issues related to risk and cost of transferring risk will be elaborated in section 4.4.3.

If there exists a strong correlation between the behaviour exhibited by the agent and the output produced, a situation of low performance ambiguity exists (Ouchi 1980). It therefore makes sense to base the contract on output because this will minimise the cost associated with creating and maintaining an information system. If the correlation is weak a behavioural based contract should be chosen (Petersen 1993). This however requires an information system that enables the principal to obtain a credible picture of the efforts exhibited by the agent. Both choices entail some level of costs dependent on the characteristics of the relationship between the actors, the assignment, the performance ambiguity and the monitoring accessibility (Pedersen & Andersen 2006). Fama & Jensen (1986, p. 327) denominate these costs as agency costs and defines them as: “…the costs of structuring, monitoring, and bonding a set of contracts among agents with conflicting interests. Agency costs also include the value of output lost because of costs of full enforcement of contracts exceed the benefits.”

4.4 PAT, Supplier Relations and Codes of Conduct
Opportunism also poses a threat in inter-organisational relationships such as those existing between buyers and suppliers. In the following the agency problem, articulated as information asymmetry, goal conflict, and risk attitude, will be analysed in relation to the issue of CoC in international supplier relations and it will be illustrated how they complicate control.

4.4.1 INFORMATION ASYMMETRY
Asymmetric information is a central assumption in PAT. Actors might be opportunistic, but if perfect information is available at low or no cost it would easily be possible to detect such opportunistic behaviour (Petersen 1993). The principal would therefore employ a behaviour based contract, and since it would be possible to know how the agent had behaved, the principal could compensate the agent accordingly (Eisenhardt 1989b). However, it seem fair to assume that actors in a supplier relationship has access to different information and that it is possible to withhold information from others if desired (Mamic 2005).
In an international buyer-supplier relationship, information issues are further complicated by the simple fact that actors are scattered across the globe. Buyers trying to retrieve information from a supplier in one location might be successful, but to extent this to suppliers in multiple locations around the world makes it all the more difficult and consequently costly (Pedersen & Andersen 2006). It therefore seem reasonable to extent the assumption to include a geographic aspect of distance. If actors in a supplier relationship are within close distance, other thing being equal, it would be easier, or less costly, to obtain wanted information. Similarly, the greater the distance, the harder or more expensive it gets to obtain wanted information.

Due to this difficulty in obtaining information needed to utilise a behaviour contract, buyers might be inclined to use output based contracts. The use of an output based contract should be done by relying on a set of variables that can easily and inexpensively be measured by the buyer and thus controlled (Eisenhardt 1989b). But this construct can prove difficult when dealing with CoC compliance in which output based contracts, as will be shown in the following, are of little value.

CoC’ are characterised as, and criticised for being vague, immeasurable principles that more resembles corporate value statement than tangible measurement criteria (Klein 2000). They are broad and rarely formulated to fit to a particular buyer-supplier relationship (World Bank 2003). It is therefore extremely difficult to formulate a set of quantitative measurements that are capable of functioning as an accurate proxy of the suppliers’ behaviour and thus displaying compliance or non-compliance.

4.4.2 CONFLICTING GOALS

In the principal-agent relationship conflicting goals is an obvious cause of opportunistic behaviour (Eisenhardt 1989b). The principal and agent will in many situations have different, even conflicting goals. To guard against this agency problem the principal must provide the agent with incentives to follow the stated goals and to be able to do this one must be aware of the specific interests and desires of the agent (Koch 1995).

The issue also disseminate to the case of CoC compliance in which goal conflicts between the buyer and the supplier can be argued to be caused by the costs and benefits perceived to be
associated with CoC compliance. The perceived costs and benefits relates to the companies placement in the supply chain; the closer to the consumer, the greater the perceived benefit associated with social responsibility and the further down in the supply chain the greater the perceived cost (Mamic 2005; World Bank 2003). The argument behind these conclusions has to be found in the consumer awareness of the different companies in the supply chain. Companies operating close to the consumers typically have a wider known brand, can easier communicate with consumers and are thus more affected by their attitude towards the company than suppliers further down the chain. This also means that positive publicity associated with a product or CoC initiative implemented will benefit this company a lot more than it will the subsequent companies in the chain (Welford & Frost 2006). Furthermore, the costs associated with complying with a CoC are often passed on to the companies further down the supply chain (Barrientos 2002). As buying companies increase their expectations of social aspects of the production, increased compensation does not automatically follow (Mamic 2005). This creates a situation where the buyer obtains most of the benefit while the supplier is stuck with the costs. Such an imbalance, if not dealt with by the buyer, is a strong cause of opportunistic behaviour.

4.4.3 RISK ATTITUDE

Within PAT it is argued that the principal is risk neutral while the agent is risk adverse. The argument builds on the assumption that the principal can diversify its relationship with the agent, whereas the agent is unable to diversify its employment (Jensen & Meckling 1976). Behaviour based contracts should therefore be employed because potential risks are born by the risk neutral principal.

In a buyer-supplier relationship, this issue may be shown to differ. First, unlike the traditional PAT logic, suppliers are not necessarily risk adverse. Suppliers with a large amount of buyers could be said to be able to diversify their risks through the different buyers that they supply. Second, it may not be as simple to transfer risk to the supplier as assumed in PAT. In the following these issues will be discussed in relation to the situation in which the contract has the form of a CoC.

Risk adverse behaviour stems from an inability to diversify risk (Fama 1980). Suppliers often have this possibility through their relations with a range of different buyers. This risk neutrality
can prove to be a problem for the buyers wanting to impose a CoC onto the supplier. The
supplier, not as affected by this one buyer, has less of an incentive to follow the CoC because the
risk of not doing so is virtually diversified away. Furthermore, it can be argued that it is
practically impossible for the buyer to transfer risk to the supplier in a way that will leave the
buyer exempt. This problem builds on the rationale that any CoC violation by the supplier will
affect the buyer at least as much as it can ever affect the supplier. This is due to the assumption
that the exposure of non-compliance issues causes most damage to the brand company closer to
the end-consumer than the suppliers further down the in the supply chain (Barrientos 2002).

The supplier has only made a promise to the buyer, not the consumers. In most cases the
suppliers are not even known by the consumers and are therefore not faced with a similar risk of
bad publicity. This would be a problem for the supplier if it only had one buyer. In such a case
the risks faced by the buyer would be mirrored on to the supplier because any economic
downturn faced by the buyer would have immediate consequences on orders received by the
supplier. In the case where the supplier has multiple buyers they are as already argued able to
diversify the risk. It can therefore be argued, that the buyer has one purchaser for its products the
end-consumer (as an entity) and the supplier conversely has many buyers for it products.

Another issue related to risk transfer to suppliers and thereby aligning incentives might at first
seem like a simple case. The supplier, able to diversify, could be more willing to accept risks
than otherwise assumed. Therefore an output based contract could seem to be a good form of
control in the supplier relationship. CoC compliance however is not an easily measured
construct. This is, as already argued an issue of information. The bottom line is that it is difficult
to transfer risk from the buyer to the supplier by using an output based contract because output
based contracts are weak when it comes to subjective, ambiguous and thus hard to measure
constructs as CoC compliance. This results in an increased inclination towards opportunistic
behaviour. The supplier not as affected by the risk may prefer a looser attitude towards the
content in the CoC on the basis that compliance is cumbersome and costly (Eisenhardt 1989b).

The risk faced by the supplier can be argued to be a result of its ability to diversify risk, or
oppositely its dependence on the buyer in question. The buyer’s ability to exercise probable
threats against the supplier is thus a question of how important that buyer is to the supplier. This
point of probable threats therefore relates to the construct of bargaining power which will be discussed at the end of the chapter.

4.5 Economic/Contractual Control

The decision to rely on either a behaviour- or output based contract is a main consideration within PAT, and the choice is, as already mentioned, closely related to the performance ambiguity and cost of obtaining information (Petersen 1993). In the case of a CoC, it therefore becomes relevant to consider two difficulties related to control. Firstly, a CoC is predominantly related to the production process and not the product itself, it can therefore be difficult to determine the level of compliance based on output. While this is possible in relation to certain environmental aspects of the code, such as restrictions of chemical content or use of certain packaging, the requirements of social aspects of the production process are more difficult to verify from the output. Secondly, the performance ambiguity can be considered high, since there is not always a clear connection between high efforts to comply and high compliance. Lack of knowledge on how to achieve compliance may lead to high levels of performance ambiguity, which can only be clarified through behaviour based control. From this rationale, it may therefore be argued that a behaviour based contract is more suitable than an output based contract to capture the specific control issues in relation to a CoC. However, this requires a system of information gathering to monitor behaviour, which can be considered costly to establish and maintain.

Information does not in itself possess the characteristics of a safeguard, it is rather a means necessary to utilise safeguards, to bring down the information asymmetry between the parties, and thereby enabling the safeguards to function. Though not a safeguard, the information gathering system is a vital part and the basic foundation for the effectiveness of all the following safeguards presented within PAT. It is therefore also important to ensure that the system is appropriate in the given situation and for the buyer in question.

Information can be gathered either by the buyer itself or by a 3rd party. There are a few pros and cons that need to be considered before starting. The 3rd party will often have unique competences related to such information gathering. This means that they are better suited to collect the right information. Furthermore, not having any stake in the relationship, the 3rd party should be
impartial when collecting and reporting information (World Bank 2003). However, 3rd party solutions also have its drawbacks. It is costly, it is a standardised procedure, it introduces an additional intermediary who can result in a loss of information, and lastly there is no guarantee that the 3rd party will stay impartial (BSR 2007). The buyer on the other hand does not necessarily possess the competences needed to collect such information. Furthermore, because the buyer may have an interest in not taking notice of, or “accidently” ignoring, non-compliance due to costly implications such as product delays or finding a new supplier, stakeholders might find it more reliable to have a 3rd party perform the information gathering (Pedersen & Andersen 2006).

### 4.5.1 PAT Safeguarding Mechanisms

Economic/contractual control encompasses the safeguards available under PAT. Common for these safeguards is the rational economic reasoning behind actions. The agent functions as a utility maximiser and the safeguards therefore all contain some aspect of formal, standardised and foreseeable economic incentive, either positive or negative. The safeguards can lead to compliance because they influence the incentives of the suppliers so that it is in their best economic interest to comply. These safeguards are thus meant to function to reduce opportunism by making it economically wise not to behave opportunistic. This also means that the principal should be able to impose serious economic consequences on the agent since the safeguards otherwise contain no real threat and are thus not able to influence incentives (Buvik & Reve 2002). From this follows that the economic/contractual control is especially usable in buyer-supplier relationships that are not necessarily long-term, where power rests mainly with one side of the relationship, desired output is clear and measurable and incentives can directly be connected to the output (Tomkins 2001). The following is a short overview and description of examples of the kind of safeguards that fall under the economic/contractual control:

- **Reward**: helps reduce the agency problem of conflicting goals. In the case of CoC compliance it relates to the cost/benefit imbalance inherited. Two different utilisations of rewards exist. The first is to put a premium on products bought by compliant suppliers. The second is to help the supplier with increased costs related to their ability to comply. However, such joint investments needs to be a consequence of compliant behaviour in order to function as a reward.
• **Sanction**: functions opposite of reward in that it penalizes non-compliance instead of rewarding compliance and is a means of transferring risk to the supplier. Different sanctions include fines, temporary order stops, and total abandonment of the relationship as the ultimate outcome.

• **Reputation Effect**: is in this case seen as a resource that influences future income (Koch 1995). Thus a supplier that might stand to loose reputation effect by acting opportunistic, will think twice about doing so and consider if the benefit of maintaining a good reputation is higher then the benefit obtained from exhibiting opportunistic behaviour.

• **The Legal Systems**: ability to impose sanctions on a supplier not living up to the terms specified in the contract can function as a safeguard if the consequence of such sanctions outweigh the benefit of non-compliance (Koch 1995). Scholars argue that it is a transparent and strong legal system in many developed countries that enable a large part of the dispute resolution that results from contractual disagreement (Humphrey & Schmitz 1998). However, even with strong evidence that the supplier has breached the CoC it can be difficult for the legal system to impose sanctions on the supplier if it has not violated the law. And since CoC often extend beyond the boundaries of legislation, they often fall outside the jurisdiction of the legal system. Even in situations where the dispute falls inside the jurisdiction, an effective safeguard necessitate a strong legal system able to effectuate sanctions. Contrary to the situation in many developed countries, the legal system in developing countries, where these disputes often take place, is weaker and less able to impose sanctions which make this a less effective safeguard.

An important point is that the actual effectiveness of the four above mentioned safeguards is a function of the efficiency of the information gathering system. If the system is not able to deliver reliable information, either because of insufficiencies in the amount of information gathered or because of suppliers’ ability to circumvent the system and deliver wrongful information, all the proposed safeguards lose value.
4.6 NT and Non-compliance – an Alternative Explanation

Within NT it is assumed that an inter-firm relationship in which extensive trustworthiness exists is able to accomplish greater outcomes than relationships where trust is absent (Coleman 1988; Dyer & Singh 1998). This implies recognising embedded relationships between firms, generating trust, establishing expectations and building norms (Granovetter 1985). From this perspective, non-compliance can be explained as an insufficiency of trust between the involved parties as well as a failure to establish or enforce the norms within the structure of the relationship (Coleman 1988). Consequently, while it is the interest of PAT to reduce opportunistic behaviour, NT compliments by aiming to develop trustworthy relationships, which builds on shared values and norms (Sako 1992). The structure of such a relationship can be viewed as a valuable safeguard, when it induces the parties to comply with the agreement due to the mutual dependence created between them. It is not the intent here to determine when a relationship can be considered trustful. Rather, it is NT’s key characteristics of a trustworthy inter-firm relationship that will be discussed in the following section in order to understand these and how they lead to compliance, so they can be utilised to form safeguards.

4.6.1 THE NOTION OF TRUST

The reliance on trust in inter-organisational relationships is an extensively debated research topic within the general field of institutional economics and the network theoretical perspective (Foss & Koch 1995; Williamson 1993; Tomkins 2001; Humphrey & Schmitz 1998; Johanson & Mattsson 1987). While PAT dismisses the importance of trust by reducing it to calculations for whether or not it is probable that another actor will stick to a given agreement (Williamson 1993), NT employs trust as the central concept between trading partners. Consequently, the following section will define the employment of trust in this research setting and determine how the concept can be argued to enhance our understanding of CoC compliance.

Since trust is a diverse concept, it makes sense to give a brief introduction to some of the different views of scholars employed in the thesis. For Coleman (1988) and Tomkins (2001) trust is founded on a rational decision based on subjective interpretation of a given relationship. The decision to trust someone is therefore a continuing development based on the current impression and information at hand (Tomkins 2001). For Johanson & Mattsson (1987) trust emerge through dynamic exchange and adaptation processes with e.g. a trading partner. This implies that the
involved firms become increasing dependent by exchanging knowhow and knowledge and adapting processes and procedures from each other. This view of trust building differs from Coleman's (1988) and Tomkins' (2001) abovementioned description since it becomes more than an independent decision of the other party’s behaviour. Rather, it is built up through a joint process (Johanson & Mattsson 1987). Common for the majority of models on trust is the trusters lack of influence related to building trust. The underlying rationale in most of these models is that trust is a dependent variable, but that most of the influencing independent variables lie outside the influence of the truster (Child & Möllering 2003). In opposition to these models, both Child & Möllering (2003) and Sako (2001) demonstrate a different approach and try to place the truster in a more proactive role in the production of trust. In this thesis, focus is placed on Sako’s (2001) concept of trust. This is due to his emphasis on trust in buyer-supplier relationships and his distinction between PAT’s ‘arm-length’ relationships and NT’s more obligational relationships.

Sako defines trust as; “a state of mind, an expectation held by one trading partner about another, that the other behaves or responds in a predictable and mutually acceptable manner” (Sako 1992, p. 37). This definition gives an understanding of trust, as an expectation held by one party, regarding the behaviour of the other in the context of trading partners. The definition however, does not take into account the other party’s need or wish to live up to the expectations of the first party. Thus, trust in itself does not obligate or restrain an actor and can therefore not be regarded as a safeguard.

4.6.2 GOODWILL TRUST
Sako (1992) distinguishes between three levels of trust; contractual, competence, and goodwill. Contractual trust is in virtually every commercial transaction and relates to the keeping of a promise (Sako 1992). If contractual trust is not present, parties would refrain from engagement with each other because they would not expect the other party to behave as stated in the contract (Humphrey & Schmitz 1998). Competence trust is seen as a higher degree of trust in which the buyer will expect the supplier to perform an agreed role competently. The distinction between the two is easily revealed in a situation where a shipment of imperfect products is shipped to the buyer. If the reason behind relates to the supplier knowingly not being able to fulfil the contract, it is a break on the contractual trust and an opportunistic action. If the reason is to be found in a
mistake in the production process it is a break in the competence trust and not necessary opportunistic behaviour (Sako 1992). Lastly goodwill trust is a mutual expectation of open commitment in which there exist a willingness to go beyond what is agreed in order to tackle unforeseen challenges or opportunities (Sako 1992). Since the aim here is to consider key aspects of a trustful relationship in order to reduce non-compliance, it is primarily the latter case of trust between trading partners which becomes relevant when determining the safeguard mechanisms under relational control.

NT works to actively develop trust between trading partners (Child & Möllering 2003), in an effort to create relationships based on more than just transactions. Such relationships build on mutual reliance and an intentional interlocking that increases interdependence. The ongoing relation is argued to increase the predictability of behaviour and elicit commitment to the relationship (Sako 1992.). However, it is central to mention that a relationship, argued to build on goodwill trust may lead to higher compliance, not due to blind-trust, but as a result of the initiatives taken in order to develop trust (Child & Möllering 2003).

4.7 NT, Supplier Relationships and Compliance

Sako (1992) argues that a high degree of interdependence, a long time span for reciprocity and the sharing of norms and values are the key characteristics of a trustful relationship. The latter point relates closely to Johanson & Mattsson’s (1987) concepts of exchange and adaption

4.7.1 INTERDEPENDENCE

Interdependence is here referred to as a situation in which the actions of one trading partner impact the wellbeing of the other and vice-versa (Sako 1992). Being in an interdependent relationship thus implies that one actor does not have clear bargaining power over the other. This follows the argument that if any of the trading partners choose to end the cooperation both parties will endure a loss (Tomkins 2001). It is however argued that this can happen in an asymmetric fashion (Johanson & Mattsson 1987). Concurrently, there is an incentive for both parties to cooperate since obtained goals are mutually beneficial (Halldorsson et al. 2007).

The built up of interdependence is not a natural occurrence in a trading relationship and is by no means desirable within all relationships (Sako 1992). It is a time-consuming process of
exchanging resources, knowledge and know-how, which in consequence makes it more costly to change trading partner (Ibid.). The argument is that this situation should result in the parties being more willing to work towards common beneficial solutions to problems and not just leave the relationship behind (Ibid.). From the above mentioned characteristics of interdependence, it becomes apparent that the supplier will perceive it advantageous to comply with a CoC because non-compliance is believed to have a direct negative impact on the suppliers own business. Through high interdependence between the companies it can thus be argued that the supplier has a greater inclination to comply (Sako 1992).

4.7.2 **TIME SPAN FOR RECIPROCITY**

With in NT the development of inter-organisational relations are considered a function of time (Wicks et al. 1999). Building on this reasoning, relationships that are characterised by high levels of control are therefore often a result of a longstanding relationship (Humphrey & Schmitz 1998). This is also evident from the argument that the level of trust increases over time (Tomkins 2001; Humphrey & Schmitz 2001). Time span for reciprocity relates to time in a similar fashion. In short relationships, reciprocity is expected to be reached within the duration of each contract, while in longer relationships reciprocity is reached only in the long run (Sako 1992). This means that buyers or suppliers are more willing to engage in investments without an immediate payoff.

From this it can be argued that it is beneficial to engage in supplier relationships in which there is a prospect of long-term collaboration if compliance is to be attained. Spot transactions or relationships in which emphasis is not put on long-term relationship building will be more difficult to control (Ouchi 1980; Williamson 1985). Both because it is more difficult to adapt within a short time span, but also because the supplier will be less interested in investing time and resources in a relationship that does not have a long-term prospect. Not being able to establish long-term commitment between the buyer and the supplier will also remove the buyer’s incentive to invest in the supplier with the purpose of increasing their level of compliance.

Such situations, characterised by short term involvement, little interest in the opposed actor, and a higher tendency to employ and exit over a more voice-related strategy (Hirsman 1970) when dealing with suppliers, could easier result in non-compliance. The argument behind this can be
found in the actor’s eager to cash in on investments (Jensen & Meckling 1976) and in the increased uncertainty that short term relations produce (Humphrey & Schmitz 1998).

When dealing with a CoC the time span becomes even more important. Investments needs to be made, old processes altered, and new adopted (World Bank 2003). In order for both parties to engage in such activities it is either necessary that the specific benefit are known so that the investment, risk and thus potential return can be calculated. This will typically be the short-term scenario. When dealing with investments in CoC compliance such calculations are of little value since the long-term benefits are not easily predicted or assessed, and will therefore only become clear as time passes.

### 4.7.3 Shared Norms and Values

By enabling an exchange and adaptation of certain norms and values related to central aspects of CoC compliance it increased the possibility of increased understanding of the issues involved, enhanced ownership, urgency and perceived importance by suppliers. Shared norms and values relate heavily to trust and is discussed below.

Child & Möllering (2003) claims that trust is best achieved within a familiarly world and that actors can engage in an active process of familiarisation, much like an exchange and adaptation of norms and values. Coleman (1988) describes social capital as partly made up of shared norms that, when effective, are a powerful source of behavioural alignment and can thus lead to a more trustworthy relationship. Norms and values are also used in organisational settings to influence and foster certain behaviour. Simons (1995) argues that the communication of organisational norms can play an important part in control within organisational walls.

Such a sharing of norms and values can happen through intense and prolonged communication between parties and it can be done through joint projects, or similar activities, in which the central aspects of the norms and values are highlighted. If successful such sharing of norms and values will create unification and a joint understanding (Simons 1995) of, in this case, the importance of compliance. This implies a win-win situation between the parties due to their common understanding of needed actions.
4.8 Relational Control

Relational control deviates from the economic/contractual control in that information gathering is needless (Tomkins 2001). Furthermore, relational control does not try to guide the behaviour of the supplier by offering formal and economic incentives. These safeguards are instead meant to increase the interdependence of trading partners, locking them together in a mutual dependent relationship. These safeguards are less formal than the safeguards under economic/contractual control, they do not cater to the rational behaviour but rather emphasize the socialising of behaviour (Coleman 1988). These safeguards are thus meant to increase the trust between the parties, opposite those of economic/contractual control that are meant to reduce opportunistic behaviour. These safeguards take time to develop, hence they are only useful in long-term collaborations in which the actors are interested in the creation of fair sharing of gains, reciprocity and where the power relation is less clear (Tomkins 2001). In the following some examples of safeguards, which fall under relational control are presented:

- **Norm and Value Sharing**: by introducing and creating ownership for norms and values one company is able to get a supplying company to align behaviour. This norm and value sharing can be done bottom-up and top-down. It is needless to say that the approaches needed are quite different whether the target group is factory workers or company managers. However, the point is the same, if norms and values are aligned there is a strong possibility that trust can develop.

- **Capacity Building**: distinguishes itself from the two previous safeguards in that it works to create interdependence between the trading parties. Capacity building spreads over a wide area of initiatives including transfer of production know-how, market information, knowledge and insight into the business case of CSR. While the latter is an effort to convince the supplier of the financial long term gains inherited in CSR, much like it was argued in ‘shared norms and values’, the other points relates to improving the supplier production knowledge. This can relate to processes, quality, product innovation, market trends etc. What is important, is that it relates to areas that, if improved, will benefit both the supplier and the buyer and at the same time not make the buyer redundant.
• **Joint Development of Objectives**: relies on the positive externalities that come out of involving the supplier in the planning and implementation of the CoC. Such a bottom-up approach to CoC implementation increases the ownership of both parties and thereby the subsequent commitment when the CoC has to be complied with. It also enables the buyer to gain an essential insight into what the supplier finds important and valuable when dealing with the CoC.

### 4.9 The Role of Bargaining Power

Drawing on the argument of Buvik and Reve (2002), the role of bargaining power becomes an important aspect when considering the ability of a buyer to utilise the previously developed safeguarding mechanisms under economical/contractual control and relational control. Interestingly, PAT is not particularly engaged in considerations of asymmetries of power between parties. Perrow (1986, p. 230) states that: “...the model of a cluster of contracts or principal-agent exchanges, if not actually designed to hide asymmetries of power, certainly gives it little recognition”, arguing that by designing the right contract such considerations of power asymmetries should become redundant. Further, PAT's assumption of a risk adverse agent (Eisenhardt 1989b) locks the role of bargaining power into a static explanation in which the principal, due to its more neutral attitude towards risk is less dependent on the agent, while the agent is more dependent on the principal, which in turn results in what Tomkins (2001, p. 166) terms a “master and agent relationship”, which defines the master role as having ultimate power to appoint and thus the majority bargaining power. NT is also not particularly focused on the role of bargaining power, but for different reasons. NT is concerned with identifying fair share of gains over long time horizons (Oliver 1990) and not with one party trying to exploit the other (Sako 1992). However, in an empirical setting the principal is not always the dominant party and the inclusion of bargaining power in this analysis becomes essential when dealing with an SME. Consequently, the following section will discuss how the concept of bargaining power is employed in this thesis to determine a safeguards influence on a supplier.

Bargaining power as defined according to Buvik & Reve (2002) is a combination of “market power” and “resource power”. Market power relates to an actors ability to influence another actor due to its economic importance or the degree of market concentration. This relates to the kind of bargaining power that the American car industry has been famous for using towards their
suppliers, much to their own regret (Sako & Helper 1998). Resource power is instead connected to developing dependence on the part of the supplier. A buyer can be of special importance for a supplier due to access to knowhow, market information, etc. which enables the achievement of a greater degree of bargaining power towards the supplier, compared to other buyers. This kind of bargaining power is not dependent on size or direct economic dominance, but is rather determined due to the importance that the relationship has for the parties involved. If a supplier can be made dependent on the continuity of a relationship with a buyer, the buyer will stand stronger when trying to influence the supplier to e.g. follow CoC requirements (Pedersen & Skjøtt-Larsen 2008). Christensen & Maltz (2002) characterise economically weaker buyers that are able to create supplier dependency for “interesting customers”. Such buyers hold no specific significance for the supplier in terms of size and order volume. However, through knowledge transfer, joint product development and manufacturing process development these customers are able to gain importance in the eyes of the suppliers and thus increase their bargaining power. To achieve this dependency on the part of the supplier entails engaging in a close, open relationship, where increased commitment and long-term orientation is pursued (Christensen & Maltz 2002). They go on to argue that if the buyer is successful the supplier will be more motivated to participate in, and devote resources to, the relationship. It is important to emphasise, that becoming a more “interesting customer”, does not lead to increase the buyers economic resources and thus the buyer will still face the limitations of influencing suppliers through the safeguards under economical/contractual control.

Consequently, bargaining power is here defined in relation to the two included aspects of economic resources and being an “interesting customer”. These two characteristics are thus considered central for the deployment of safeguards in a buyer-supplier relationship. The rationale is that a situation of high bargaining power on the part of the buyer renders it possible to deploy a broad variety of safeguards which, from the employed terms of this thesis, both encompass economic/contractual and relational control. A low level of bargaining power, on the contrary, necessitates a greater reliance on relational control.

4.10 Main Findings of the Chapter
The purpose of this chapter has been to acquire theoretical explanations for non-compliance in international buyer-supplier relationships. The result is a theoretical construct, which can be
applied for examining non-compliance issues as well as discuss a buyer’s possibility to deploy safeguarding mechanisms towards its suppliers (see figure 5 on the following page).

From the two employed theories, it has been shown that six factors can be found to have a significant influence on the level of compliance in a buyer-supplier relationship. Combined, these factors are determined to possess a stronger explanatory power than by solely applying one of the theoretical perspectives. Further, it is demonstrated how a distinction between the two control forms; economic/contractual and relational control is suitable for explaining the safeguards derived from PAT and NT. Though the safeguards under both types of control enable enhanced compliance by the supplier, their function differs. While the safeguards under economic/contractual control provide economic incentives for the agent to comply, the safeguards under relational control encourage increased interdependence between the parties over time and socialising of behaviour in order for the supplier to live up to the requirements.

It has further been assessed that a buyer’s bargaining power influences its ability of deploying the developed safeguarding mechanisms. This leads to the conclusion that there is no such thing as a generally applicable safeguard or set of safeguards. Rather, the individual safeguard must be discussed in relation to the specific context of the buyer-supplier relationship. Finally, it is argued that a buyer’s ability to combine safeguards under the two control models will improve its possibility of ensuring compliance.
FIGURE 5 – RESEARCH QUESTION 1; THEORETICAL CONSTRUCT

Non-Compliance Issues

PAT | NT

Opportunism | Lack of Trust

Information Asymmetry | Time Span for Reciprocity

Conflicting Goals | Risk Attitude

Norm/Value Sharing | Interdependence

Economic/Contractual Control | Relational Control

Reward | Reputation Effect

Legal System | Sanction

Norm and Value Sharing | Capacity Building

Joint Development of Objectives
5.0 Presentation of Case Company: First Factory A/S

FF is a Danish owned SME that source knitwear from China. The company has 105 employees divided between Denmark and China, with the majority, about 90, employed in China. The Chinese division was established in 2005 and has since experienced a rapid growth. The company does not have any manufacturing of its own, but is engaged in design, production specification, and quality assurance. Its customers, mainly North European high-end brands (see appendix 11 for an overview of the clothing industry), use FF due to their extensive design, technical knowhow and quality products.

FF’s strategy is to secure its customers problem-free development and delivery of quality knitwear. Besides the design and technical capacities this includes social responsibility throughout the process. In their five-year strategy plan from 2008 this focus is highlighted on several occasions. For instance FF wants to build an image of being: “...a professional and leading supplier with an ethical standpoint” (First Factory 2008) and it is further highlighted that: “When choosing suppliers we want CSR to be a part of the selection criteria, in that we want the suppliers to live up to ethical standards” (Ibid.). On this basis Kim Overgaard, FF’s CFO, was appointed responsible for the company’s CSR politic and he states that: “The scope of CSR laid out in our strategy plan is quite extensive, it is an important area for us” (CFO 2008).

This is evident from the recent introduction of FF’s CoC during the summer of 2008 where the company formalised and made its commitment explicit towards its suppliers. FF has always been, in the words of the company’s managers “an ethical company”, but now wishes: “...to improve the working conditions in the supply chain and be perceived as an ethical company by our customers” (CFO 2008). The introduction of the CoC is not as much a consequence of a current increased demand among its customers, especially not among its Danish customers, as it is an interest to be ready for an expected future increased demand for CSR actions (Ibid.). The CoC has been signed by the majority of its suppliers and FF declares that it perceives its “boundary of responsibility” to stop with its first tier suppliers (CFO 2009; CEO 2008).

The clothing industry is highly competitive and this also holds true for the segment of knitwear. FF competes in a disperse market with many small and medium sized companies who more or less offer the same products. On the buyer side, high-end brand companies gain most of the
added value from providing their brand to the product. On the supplier side large knitwear producers, with extensive capital investments in production capacity, focus on big orders that can give them long production runs which enable low unit prices.
6.0 The Contextual Setting for Studying Non-Compliance in China

In the following, we set the scene of China as our geographical focus of research. This is useful since the contextual setting of China influence the existence of compliance issues in FF’s supplier relationship. The section will briefly introduce and characterise China as both an emerging market and transitional economy, followed by a discussion of the negative externalities of its rapid economic development and the recent indication of a new development path. Subsequently, the Chinese textile and clothing industry is analysed along with the key challenges facing the industry. By examining the challenges at a country- and industry level, we are able to gain a more comprehensive understanding of the specific difficulties which are relevant to consider for a foreign business that seeks CoC compliance from its Chinese suppliers. The industry expert interviews are utilised throughout this chapter. Ultimately, the content of FF’s CoC is analysed in order to assess, which requirements are found to be difficult for suppliers to meet.

6.1 Setting the Scene: An Introduction to China

There are various opinions regarding the exact characteristics of an emerging market (EM) but scholars seem to agree on the following four common denominators: 1) low or moderate economic development level, but with high growth rates around 5-10%, 2) significant size of the potential market as well as 3) rich resources available at low prices and 4) a higher degree of market regulation than reliance on market mechanisms (Meyer & Estrin 2002; Meyer & Tran 2006). China fits well into this above-mentioned definition since it is, and has been for many years, in a state of gradual transition i.e. it is transforming from a centrally planned economy towards a market-based economy (Peng 2003; Arnold & Quelch 1998). China has achieved an average GDP growth of 9.6% p.a. since the start of its transition (Statistics China 2006). China is still a one-party communist state, where the Chinese Communist Party (CCP) controls the country according to a socialist doctrine (EIU 2007; Spar & Oi 2006). China has gradually opened up to for the emergence of a private sector and to foreign direct investment since the passing of a joint venture law in 1979. Since this radical political decision, there has been a gradual restructuring of the economy to increasingly adhere to the market demands instead of a production target set by a five year economic plan (Lardy 2002). Political will to take part in the opportunities of globalisation entailed the entry into WTO in 2001, which also increased the
freedom for foreign businesses in China by decreasing government interference (Branstetter & Lardy 2006).

6.1.1 THE NEGATIVE EXTERNALITIES

As a consequence of the high growth rates characterising China’s rapid economic development over the last thirty years, the country is experiencing a range of negative externalities on both society and the environment. One important societal consequence is the unbalanced growth, which has created most jobs in the coastal areas although most of the population remains in rural areas. This has resulted in a doubling of the income inequality since 1978, which means a rise in the Gini coefficient from 0.21 in 1978 to 0.469 in 2008\(^2\) (CLSA 2008c). Among the most exposed groups are the more than 200 million migrants from the countryside, the main source of labour for export-oriented manufacturing industries and construction sites (The Economist 2009). This group presents great social challenges and dilemmas. They often work extensive overtime in questionable conditions, for a low and often insufficient salary (Ibid.). It is possible to argue that migrant workers themselves wish to work as much as possible due to their situation; being away from home and thus wanting to earn as much money as possible (CEO 2008; CFO 2009). However, since these workers lack family and community networks and often are housed in dormitories this entail severe issues of intimacy and boredom (Welford & Frost 2006). Furthermore, it is also important to consider under which conditions the work is done; “These issues like overtime compensation, minimum wage and working hours are issues that brands like Nike and Adidas has been working on for 15-20 year, but still no solutions” (Ho 2008). Furthermore, the social security available for workers if they get fired or lose their ability is often neglected (CLSA 2008d); “The migrant workers who have moved to the city, they are not entitled to any social security, formal education for their children etc. because their Hukou, their household, is not in that city” (Ho 2008).

Environmental problems represent another significant consequence and according to World Bank (2007) China contains 20 of the world’s 30 most polluted cities with the most pressing issues being poor air and water quality. Only 40% of China’s fresh water is today considered drinkable and 28% is labelled “extremely polluted” and is thus a major threat to public health

\(^2\) The Gini coefficient is a measure of inequality that ranges from 0.0 when everyone has the same income (perfect equality) to 1.0 when one person has all the income (perfect inequality)
The World Bank estimated in 2007 that pollution in China is responsible for 500,000 people dying prematurely each year (World Bank 2007). So while China in many aspects fits the characteristics of an economic development prodigy, the downside is serious and immense social and environmental consequences that need immediate attention.

6.1.2 Indication of a New Development Path

Chinese President Hu Jintao’s recent emphasis on the importance of “building a harmonious society” may be interpreted as evidence that the government is attempting to prevent social unrest by promoting traditional Confucian ideals of harmony, consensus and high moral standards to the population (China Daily 2008). A new labour law and a set of stricter environmental laws have been introduced (Duncan 2008). Hence, the aim is to close down non-effective and polluting enterprises and at the same time move manufacturing up the value chain (CLSA 2008c). These above-mentioned developments are argued by some to be the beginning of a more sustainable oriented development path for a China that puts a greater emphasis on balanced growth, rather than solely GDP growth.

Although the changes can be interpreted as a new direction from the central government it is nevertheless important to emphasise the wide gap between Beijing’s acknowledgement of pressing social and environmental issues, to the actual implementation of its stated vision among Chinese companies; “The environment is the largest issue, it is more difficult to monitor and everything is a bit more complex” (Levy 2008). In addition, many critics argue, that little is done to enforce environmental and social regulations (The Economist 2008). The implementation issues can, among other things, be explained by a weak legal system characterised by a lack of well-supported enforcement mechanisms able to establish law as a credible deterrent; “The laws here are very clear, they might not be as specific as in Denmark, but they are pretty specific. It is not a problem of law, it is a problem of enforcement” (Schaub 2008). The patent law, issued already in 1993, which would make China fully compliant of WTO requirements for intellectual property rights (the TRIPS agreement) is a good illustration of the level of enforcement problems. Today, piracy of consumer products, i.a. the copying of branded clothes, is widespread and extremely difficult to counter act; “I do not understand how they are able to control these things [brand piracy] in the West, here it is very difficult” (Schaub 2008). Consequently, it still proves it difficult for foreign businesses in China to put their confidence in the legal system to
enforce social and environmental law violations by suppliers; “The biggest problem for these kind of companies is enforcing the individual contracts” (Schaub 2008).

There are also numerous issues related to lack of CoC compliance at the company level. It is a widespread problem that factories in China falsify documents in an effort to appear better than they actually are (Ho 2008). Furthermore, many well known auditing firms are easily bought; “An auditor gets around 6,000 RMB a month, so if a factory is willing to offer 10,000 RMB extra for a “good” audit that is more than a months salary, so you can imagine the incentive” (Ibid.). Furthermore, many Western companies, including FF, view their supplier contracts (see appendix 6 for an example of FF’s supplier contract) as binding and a document with a certain value; “When you sign a contract in Denmark you know that you are going to be accountable for it. You signed it! The Chinese however view it more as a basis for negotiation” (CEO 2008). The suppliers are also aware of the lack of enforceability of individual contracts due to a legal system that is cumbersome, expensive, and lacks effective systems of backing up judgements (Schaub 2008). Finally the system of sourcing can often be of a complicated matter due to the special organisation of the suppliers. It can thus be difficult to know where your products were produced and who produced them. This makes auditing, compliance evaluations and control extremely complicated; “How can you control all the chain? Some companies try to do it, some try to hide it and some just say no and focus on the first tier supplier being clean. It is like having dirty feet in clean shoes. It is extremely complicated” (Levy 2008). All in all this shows the immense need for solutions, both in relation to the legislation and the CoC compliance.

6.2 The Chinese Textile and Clothing Industry

The textile and clothing industry was among the first to open up during China’s reform period and thus represent one of the country's traditional pillar industries. China is the world’s largest exporter of clothing and the second largest textile exporter after EU (WTO 2008). Chinese clothing companies’ have a 33.4% share of world clothing export (Ibid.). This production generates a value of 171 million dollars on a yearly basis and thus comprises roughly one seventh of the entire value of Chinese export (Ibid.). These numbers represent a development that was initiated 10-15 years ago with the development of special exporting zones and which really took off in 2001 when China entered the WTO. Low labour cost, cheap raw materials and
large investments in production capacity have made China the primary sourcing bases for textile and clothing products.

As illustrated in appendix 10 the majority of Chinese textile and clothing production is clustered together in the coastal provinces of Shandong, Jiangsu, Zhejiang, Fujian and Guangdong. Most of these textile and clothing clusters demonstrate a high degree of specialisation and has emerged as leading centres for particular products (Li & Fung 2007). However, relocations are gradually being observed in China with companies moving production to relatively cheaper inland areas (Ibid.). The Coastal regions have their advantages due to their well-established infrastructures and strong worldwide linkage through large ports. “...we need to export a lot of the products the Europe and the US and then it is important to be near the Shanghai port” (Afasia 2008).

The Yantze River Delta (composed of the Jiangsu and Zhejiang province and the municipality of Shanghai) constitutes one of China’s three strong textile and clothing clusters. It lies in close proximity to the highly developed city of Shanghai, China’s richest municipality, which also has one of the most developed legislations and enforcements; “Shanghai is always the place where there is the smallest gap between the regulation and reality” (Wang 2008). The area is characterised as developed, among other reasons, due to its modern production capacity and its strict regulations and thus its relatively high expense level, especially in regards to labour cost. “These factories in Yangzi River Delta, the working conditions, no matter if we talk about salaries, benefits, working hours, etc. is better then in Guangdong” (Ho 2008). The area is thus characterised as one of the most developed in China in terms of social issues, but is still far from ideal (Ibid.). One of the important specialisations of the area is knitwear; “Yes it is a good place for us, transportation is very easy and this is the main centre for this kind of knitting production” (Eastern 2008) and half of all new production capacity is sold here (CEO 2008).

Although, the total value of textile and clothing exports has increased with 7% p.a. during the last eight years (WTO 2008), the Chinese companies within the industry are currently suffering from an economic downturn and an increase in labour cost (Eastern 2008), which is jeopardising their competitive advantage relative to other low-cost producers in countries such as Vietnam, Cambodia and India (Ibid.). A recent survey by the China National Textile and Apparel Council showed that two-thirds of the consulted textile and clothing companies reported an average profit
CHAPTER 6 – THE CONTEXTUAL SETTING

margin of less than one percent, making them particularly vulnerable to an economic downturn. Many smaller producers have already been forced to close and many more is expected to follow (Xinzhen 2008).

This situation is caused by a variety of factors which include; the global economic recession which has lead to a decrease in orders from North American and European customers, the appreciation of the RMB against the Dollar leading to lower sales revenues, an increase in the costs of raw material, and the initiating governmental pressure on manufacturers to move up the value chain, which, among other things, has resulted in a reduction of the export tax rebates for textiles and clothing (EIU 2008).

Furthermore, the industry is experiencing a rise in labour cost as a consequence of the new labour law from May 2008, which puts more emphasis on workers rights (Duncan 2008). Since its introduction, companies have been warned with heavy fines and temporary shutdown in cases of violations making it one of the most recognised and therefore widely enforced laws in the country (Ibid.). "...the new labour law is a big problem for our factory because it has increased our costs a lot" (Afasia 2008). "The new labour law is more difficult to live up to, but we have to try. This means that the production cost have increased because of higher salaries" (Eastern 2008). In addition, stricter environmental regulation and a dogmatic change from solely focusing on GDP growth to also including other criteria, for instance environmental improvements, when evaluating local governments has bumped the environment up the list of priorities. However, for these changes to really have an impact on the polluting companies, active government enforcement needs to be developed and deployed (CLSA 2008a). This has happened due to the realisation that a sole emphasis within the textile and clothing industry on high-volume, low-cost production is not delivering the wanted results any longer. Little attention has been given to quality, governance or brand development (Euromonitor 2009). However, it is possible to develop businesses and move up the supply chain; "If you want to develop and update your business, increasing the working conditions and complying with CoC can give access to knowledge from your buyers that makes it possible" (Wang 2008).

The above mentioned structural changes influences all industries in China, but especially labour-intensive industries like textile and clothing, which primarily attracts foreign customers by
offering high-volume at low cost. This focus on high-volume/low cost has meant that few of the
Chinese producers have developed any significant technical know-how, innovative skills, or
design capabilities and therefore find it extremely difficult to compete on anything other than
price. It can therefore be argued, that the future profitable suppliers within the textile and
clothing industry will be those who succeed in developing capabilities that enables them to move
away from mere scale which has dominated the industry up until now. This is also acknowledged
by FF’s suppliers: “The higher the level of standards that the customers request, the more we are
able to learn and thus separate ourselves from the competition” (Eastern 2008).

6.2.1 SOCIAL AND ENVIRONMENTAL CHALLENGES IN THE CHINESE TEXTILE AND CLOTHING
INDUSTRY
A wide range of studies highlight the challenges of non-compliance within the Chinese textile
and clothing industry (World Bank 2003; Mamic 2005; Krueger 2008) Critics draw specific
attention to poor working conditions and treatment of workers at the Chinese factories within
this industry (O’Rourke 2002 ; Klein 2000). Among the identified violations of workers rights
are low wages, extensive workdays, unsafe working conditions, child labour, forced labour and
low levels of worker participation (Krueger 2007). The “anti sweat-shop” movement is a notable
example of the criticism directed at Western corporations for their ignorance of the above stated
challenges (Klein 2000). In addition, the Clean Clothes Campaign has raised awareness of the
widespread repression of migrant workers within this labour intensive industry in China
(www.cleanclothes.org 2009) In addition to the social aspects, the extensive amount of water
used in textile and clothing production and frequent breach of the rules for wastewater treatment
is also adding significantly to the problems of water pollution and water scarcity in China
(Shanghai Daily 2008; CLSA 2008b).

6.3 First Factory’s CoC and Non-compliance
In the following the content of the CoC is analysed in order to evaluate how it influences
compliance by FF’s suppliers. FF puts a sole emphasis on labour standards related to the
production process and employment conditions in its CoC (see appendix 5 for an overview of the
eight points). The code is formulated on the basis of the minimum requirements from the code of
labour practices of the Clean Clothes Campaign that built on the International Labour Organisation’s (ILO) core conventions.

The most challenging requirement to comply with was according to FF and both suppliers the issue related to staying within allowed overtime. All involved parties expressed the great inability among Chinese factories within the industry to meet the threshold related to overtime work hours. “The biggest problem is overtime [...] in this line of business we will always have to ask the employees to work more” (CPO 2008). “Especially, during the Christmas time when the goods are shipped to the US or Europe [...] the overtime is crazy” (Yarn Purchaser 2008). “This is why I tell you, no supplier in China is able to comply with this point” (CEO 2008). These statements are in accordance with the supplier declared difficulties within this matter: “Often we need to finish an order within very short time in order not to delay the products. If we don’t do this it is very expensive for us because we have to pay for airfreight” (Eastern 2008).

The problems of how excess overtime impacts the conflicting goals between the parties will be thoroughly analysed in section 7.4.3. Besides the problem of extensive working hours, the failure of providing employees with the required overtime payment as stated in the CoC (and mandatory by Chinese national law) was described as common. “Many factories are not paying enough for the overtime. That is a big problem. [...] I admit we are not yet living hundred percent up to the new Labour Law within this but we are still in front in this industry” (Afasia 2008). The amount of overtime and the implied necessity that workers accept the extra work, leads to a concern of forced labour; “They [the workers] don’t like the overtime. As far as I know workers, from where I previously worked, would do overtime up to three days with sometimes only one hour sleep. If there is a deadline, the factory does not have any choice” (Yarn Purchaser 2008).

Compared to the UN Global Compact principles (www.unglobalcompact.org 2009), single focus on labour standards in FF’s CoC means an exclusion of environmental standards, human rights, as well as anticorruption. In spite of this, there was a broad agreement that issues related to e.g. wastewater treatment, use of dangerous chemicals and pesticides is a widespread problem among the Yarn factories that FF work with in China (Yarn Purchaser 2008; QCM 2008; CEO 2008) “...I actually believe the biggest challenge has to do with environmental problems among our yarn suppliers” (Yarn Purchaser 2008). Moreover, the widespread concern of corruption in
China was highlighted as a significant issue at the supplier level: “...had we included anticorruption in the code I don’t believe many of our suppliers would have been able to abide by that point” (CEO 2008). When asked about the priority of solely including requirements of labour standards it became evident that this decision had not been a conscious one: “I think it has been copied from somewhere but I cannot tell you wherefrom” (CEO 2008). “…This CoC was also the one we used when we had production in Eastern Europe and the only change we made was to translate it into Chinese” (CFO 2008; CSR responsible 2008) It is important to stress that the argument here is not that FF should include all CSR issues of concern in China into their CoC. Rather the point is that since the content has been decided without considering the most relevant areas that FF wants their suppliers to comply with, it is likely that it will fail to encompass the most pressing CSR issues among the suppliers in China. The fact that FF is an SME implies a natural resource constraint to how much can be included which further highlights the importance of a consciously prioritised content; “In my experience it is very difficult for small companies to use general CoC as an effective tool, they need to specify it to their situation” (Ho 2008).

Mamic (2005) stresses the necessity of formulating a CoC that balances the need of a broad applicability of the company’s CSR vision with the need of specificity, in order to make practical use of the code for suppliers (Mamic 2005). An example of how FF’s code is too general to be applied in China is related to the requirement: “Freedom of association and the right to collective bargaining are respected”, which is prohibited by Chinese national law (ILO 2003) and thereby a point that no supplier will be able to follow. Since FF only has production in China, it seems justifiable to only include aspects in the code, which is of relevance to the specific setting of China, rather than employing an overall generic CoC, which is of greater advantage for companies with production activities in many countries.

Furthermore, there are only limited descriptions and details in the CoC on how the suppliers should act in specific situations and no guidance is included for when the requirements of the code are actually met. According to World Bank (2003) the lack of detailed information in a CoC on how to implement requirements can result in unclearness on the part of the supplier regarding when compliance is achieved. An indication of this, is the low priority given to the CoC by suppliers. This is expressed through their view of the signed contract as the most
important set of requirements that must be met: “We have contracts with all our customers, that is the real contract, so that is what we will try and live up to initially” (Eastern 2008), as well as the understanding of the CoC as a set of improvements point which the supplier is expected to work with and thus not necessarily something that it must be able to live up to before the signing. “The CoC is a guideline that FF gave to us to say you should improve in this direction” (Afasia 2008). These interpretations conflicts with the stated intention by FF that the CoC is to be regarded as a precondition for the ability to cooperate with a supplier: “...in the cases where we only use a supplier one time it is not as crucial, but with our permanent supplier base it is necessary that they comply with it in order for us to do business” (CFO 2009).

6.4 Main Findings of the Chapter
The determined extent of societal and economical problems in China, indicate a great relevance for foreign companies to introduce CoC in an effort to tackle these issues. Further, the negative externalities following China’s unbalanced growth, is argued to present great challenges for foreign buyers aiming to ensure CoC compliance from its Chinese suppliers. In spite of the recent governmental steps towards a more sustainable developmental path, the issue of weak enforcement makes it difficult for foreign businesses to rely on a strong legal system to ensure that suppliers adhere to e.g. the labour and environmental laws. Moreover, the non-compliance issues within the labour-intensive textile and clothing industry has been shown to be widespread due to the e.g. violated rights of immigrant workers. The situation is further complicated by the current downturn within the industry that implies diminishing profit margins and fewer orders. Consequently, this situation presents obstacles for suppliers to devote resources to comply with social and environmental standards. Still, the pressure on suppliers to move up the value chain may suggest an opportunity for developing know-how and capabilities within such standards. Since the Yantze River Delta is considered more developed than other areas of China it may have a positive influence on the level of compliance among FF’s suppliers. Accordingly, it is assessed that child labour might be less prevalent among the suppliers while the difficulties related to extensive overtime is regarded a widespread problem. Finally, it is argued that issues related to the unconscious choice of requirements, the lack of adjusting the code to the Chinese setting as well as the details of when the requirements are met, pose challenges for ensuring compliance.
7.0 Research Question II
The objective of the research question is to conduct an analysis of FF’s supplier-relations in order to identify significant agency problems and thereby understand non-compliance by its Chinese suppliers. It is here important to emphasise that the PAT concept of an agency problem, in this thesis, is to be understood through a broad applicability of the term to explain non-compliance issues and thus also implies an incorporation of NT’s complementary explanations.

By applying the developed theoretical framework to the specific situation of our SME, it becomes possible to accentuate the agency problems that may reduce compliance by FF’s suppliers. In order to determine which specific agency problems influence the likelihood of non-compliance, the following structure is employed for answering the second research question. Firstly, the overall characteristics of the buyer-supplier relationships will be analysed. This includes an examination of compliance issues related to the SME’s position as a small customer, different types of suppliers involved in the production process, as well as its selection and evaluation of suppliers. Secondly, the analysis of agency problems in FF’s supplier relationship is carried out according to the six theoretically derived concepts found in the first research question. The theoretical concepts of information asymmetry, goal conflict, risk attitude, time span for reciprocity, interdependence and shared norms and values are thus determining the focus for examining non-compliance issues. Under each of the six theoretical concepts, the empirical findings from the case study interviews with FF and the two interviewed suppliers will be highlighted and discussed. This will allow for an emphasis on similarities and differences between the two parties’ view on their relationship and thus a more nuanced view of agency problems.

7.1 Overall Compliance Issues in First Factory’s Relationship with Suppliers
7.1.1 First Factory as a Small Customer
FF caters to a range of different customers, primarily in Denmark, Germany, and Sweden. Many of these customers are smaller actors and they use FF primarily for high quality and technically complicated knitwear. This means that FF deals with smaller orders averaging around 800-1,000 pieces. “An order of 1,000 pieces within knitwear is what would be termed a small order, but acceptable. However, when I say an average of 1,000 it means that we have many orders that
are a lot smaller and a few that are quite large” (CEO 2008). FF’s smallest orders, less than 200 pieces, are most often made in-house on production capacity in China, normally used for product samples (Ibid.). While FF is among the minor players related to the knitwear producers, they are extremely small in connection to the yarn suppliers. The reason for this is that FF need to purchase different yarn for each individual order. “If a customer order 500 pieces, each weighing 200g, we need to purchase around 100kg of yarn. This is the absolute minimum order and it makes us quite uninteresting with the yarn suppliers” (CEO 2008). This is confirmed by both knitwear and yarn suppliers: “A good large order is around 10-20,000 pieces […] First Factory often give us order sizes around 1,000 pieces, in that respect they are not an important customer” (Knitwear supplier 2008). “First Factory is not a big customer, their volume is small for us” (Afasia 2008).

Furthermore, yarn suppliers are predominantly larger factories since necessary investments in production equipment and water treatment plants require high volume orders to be cost-effective. Even though FF makes an effort of selecting smaller yarn suppliers, the orders that FF places are still bordering the minimum quantity of what the suppliers are willing to sell (Afasia 2008; CEO 2008). Full service suppliers are also relatively large compared to FF because they need to cover the entire production process under one roof. This means that larger customers primarily use them and for this reason FF also use full suppliers for their larger orders. While 20 percent of FF’s production is done through full service suppliers, the specialists stand for the remaining 80 percent of the production. There are three types of specialists, which include knitters, linkers, and finishers. The knitters are characterised as being large capital-intensive companies with electronic knitting machines prised at about half a million dollars as the norm (CEO 2008) and consequently large orders that enable a high capacity utilisation is essential (CPO 2008). For FF this implies that they often find themselves in a situation where it almost would seem their suppliers are doing them a “favour” by taking their orders; “...most knitting companies will not complain about an order of 1000 pieces, it is where they will start to find it interesting […] but we have many (orders), which are a lot smaller” (CEO). The linkers however vary a lot in size with anything from a few workers to a large factory hall being possible (QCM 2008). Low investment needs and a high utilisation of labour makes it an easy scalable enterprise. This is to a large extent similar for the finishers (CEO 2008). These different production processes each has their limitations for control.
From the abovementioned characteristic FF supplier relationships it is evident, that the SME face a challenge of interesting the suppliers in the “traditional sense” of placing larger orders. “

*Let’s be realistic, no supplier is dreaming of small orders [...] it is not where you make the big money right, so for us it is necessary to find another way to be perceived as important*” (QCM 2008).

An example of how its size has proved it difficult for FF to influence its suppliers is the prolonged process of getting the CoC signed. This process was started in September 2008 but is still not completed. “*The majority of our suppliers have now signed but this has been hard work to get them to sign [...] I still haven’t gotten them all back yet so I really don’t think they all want to sign it*” (CEO 2008).

### 7.1.2 The Use of Various Suppliers

The use of specialist suppliers can be argued to complicate the overview of non-compliance issues for FF. Instead of using only one supplier per produced item, FF has three. More suppliers, each responsible for a separate part of the production, means that there are equally more places in need of attention and enforcement, thus more places where non-compliance can be an issue. In PAT terms, the increased use of suppliers per item has different consequences for FF’s situation. First, it increases both the number and types of suppliers with whom to have conflicting goals with. Second, due to a larger number of suppliers, the possibility that differences in risk attitude become an issue is amplified, and finally, it complicates the retrieval of information, thus increasing the information asymmetry between the parties. However, when using the full service suppliers, the number of suppliers is reduced to about a third, thus making information retrieval, goal conflicts and differences in risk attitude less pronounced. The extensive resources required when using specialist suppliers are also expressed within FF; “*I like this kind of factory [full service] very much because often I have to spend a lot of time with the different specialist suppliers*” (CPO 2008). Furthermore, as already mentioned the full service suppliers cater larger international customers and are therefore also more accustomed to CoC requirements. This implies that they better understand the issue and have a larger incentive to
organise their production accordingly (CFO 2008; QCM 2008). In spite of this, FF only uses full service suppliers for about 20 percent of their products. This can however be questioned when considering the reduced complexity and the lower degree of resources needed.

There are nevertheless compelling advantages for employing the specialist suppliers. The perhaps most compelling reason for FF is that it is about 7-10 percent less costly to use specialist suppliers compared with the full service suppliers (CEO 2008). Furthermore, the full service suppliers do to some extent compete for the same customers as FF. Relying too heavily on them will jeopardise FF’s competitiveness towards their customers who in some cases might as well use the full service suppliers directly (Ibid.). When this is not the case it is because FF, to a further extent than the suppliers, is able to guarantee for the quality of the suppliers products. Accordingly, FF’s advantage over its Chinese suppliers is that they know how to meet the quality standards of their western customers. In order to ensure a high standard they make a range of quality inspections on site to ensure that the products live up to the needed specifications and take the actions necessary if the quality is not up to par. “We are able to offer our customers a security and certainty that the Chinese sourcing houses are not capable of, this is our competitive advantage” (CFO 2008). For this reason, FF to a large extent continues to use specialist suppliers from the rationale that they will never be able to offer customers any quality assurance besides that of their own small part in the process. On the contrary, there is a risk that the full service suppliers through working with company’s like FF gradually becomes able to deliver the required quality assurance to the Western buyers and thus begin to compete directly with FF. If this happens it would make more economical sense for FF’s customers to use the full suppliers directly and thereby FF becomes an unnecessary intermediary adding to the total cost.

7.1.3 Suppliers use of sub-suppliers

Another compliance issue relates to the fact that FF’s suppliers use sub-suppliers to do production runs from time to time; “Yes, some of our suppliers use sub-suppliers, we cannot stop it, we tell them we do not want it, that we need to know where our products are all the time, but it is impossible for us to control” (QCM 2008). The supplier verifies this: “We use subcontractors, but mostly for knitting pieces” (Eastern 2008). Although non-compliance might not be significant among its first tier suppliers it can be an issue for the sub-suppliers; "I have an example from our own sub-supplier. Some times we find they do the packing badly, sometimes the lid does not close so during transportation the chemicals spill out and it goes to our factory..."
and it is dirty and polluting and the quantity is less” (Afasia 2008). FF are unaware of when sub-suppliers are used, who is used and for what part of the process they are used. It is discovered when FF visits the suppliers only to find that the product is being produced by a sub-supplier (QCM 2008). One reason for the use of sub-suppliers relates to the size of the orders that FF places. If orders are too small suppliers will pass them on to smaller, often less ‘developed’ sub-suppliers, who are able to make a profit on such low volume orders. The issue is that the reason they are able to make a profit from these smaller order is conjoint with a reduced level of employee working conditions as well as a looser take on other social and environmental issues. This is in consistence with findings from several reports stating that compliance issues often increase down the supply chain and with the use of sub suppliers (World Bank 2003; Barrientos 2002; Welford & Frost 2006)

7.1.4 SELECTION AND EVALUATION CRITERIA

Selection and evaluation criteria are strong and important communication mechanisms that can be able to, ex ante, filter out unwanted, non-compliant suppliers which reduce the risk of adverse selection. After selection, ex post, continuous assessment of suppliers’ ability to live up to stated evaluation criteria can reduce the occurrence of moral hazard. For this to be effective in relation to CoC compliance it is essential that the criteria features elements related to this area. If this is not the case suppliers do not know what to live up to, which in turn will have a negative effect on compliance. For FF there exists a clear set of evaluation criteria which the suppliers are also well aware of. However, none of these explicit criteria has anything to do with the content of the CoC or the level of compliance. Below is a table of the evaluation criteria as expressed by the five FF interviewees.

**Figure 7 – Evaluation Criteria**

<table>
<thead>
<tr>
<th></th>
<th>CEO</th>
<th>QCM</th>
<th>CFO</th>
<th>Yarn Purchaser</th>
<th>CPO</th>
<th>‘Total’</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Quality</td>
<td>Price</td>
<td>Quality</td>
<td>Quality</td>
<td>Quality</td>
<td>Quality</td>
</tr>
<tr>
<td>2</td>
<td>Delivery</td>
<td>Delivery</td>
<td>Price</td>
<td>Delivery</td>
<td>Price</td>
<td>Price/Delivery</td>
</tr>
<tr>
<td>3</td>
<td>Price</td>
<td>Quality</td>
<td>Delivery</td>
<td>Payment terms</td>
<td>Long-term relationship</td>
<td>Long-term relationship</td>
</tr>
<tr>
<td>4</td>
<td>Long-term relationship</td>
<td>Long-term relationship</td>
<td>N/A</td>
<td>Long-term relationship</td>
<td>Delivery</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The interviewees were presented with six different possible criteria and were further encouraged to include other criteria as well.
As apparent from the model above quality is the most important evaluation criteria for FF, four out of five interviewees expressed this. Price and consistency of on-time delivery is a joint second, while long-term relationship is third. Aspects such as “social mindset” or “the ability to comply with the CoC” is rarely mentioned however the CEO expresses: “We cannot work with suppliers that has not signed the CoC, so it is like a basic requirement. However, signing is not the same as complying” (CEO 2008). In spite of this statement it is evident that the criteria that FF evaluates its suppliers according to are consistent with the above table. Signing of the CoC is thus a low ranking criteria, which can be seen from the fact that FF still works with suppliers whom has yet to sign (CFO 2008). Furthermore, several of the FF interviewees expressed a flexibility related to the CoC, for instance in cases of express orders: “When we need to get an order settled, the first thing you talk about is not CoC, it is the price and the delivery terms. If we have an urgent order then we are not going to spend eight days working on CoC compliance before they get to do the order” (QCM 2008).

FF’s suppliers have a good understanding of the criteria on which they are selected and evaluated. The two interviewees agreed on number one and two evaluation criteria being quality and price and as the third they mentioned things such as “service”, “long-term relationship” and “price” (Afasia 2008; Eastern 2008). “The last they look at is the social and environmental aspects of our production” (Eastern 2008). So while there is a good joint understanding of what the most important aspects of the supplier evaluation are, it is questionable whether the aspects related to CoC compliance is included. However, when considering the selection process of suppliers a more implicit approach, related to the CoC, emerges. This is best described as intuition, or gut feeling; “We have been places were we decided we could not do business due to the feeling that they could not live up to our CoC requirements” (CFO 2008). “But it is something that we can see, hear, sense, and feel. You can get far with the feeling you get, it is obvious if people are not being treated properly. You can feel it the moment you step in the door” (QCM 2008). The above stated lack of explicit selection and evaluation criteria related to compliance is thus argued to be a hindrance for achieving a higher degree of compliance from suppliers.

As evident from the preceding analysis, FF faces a range of challenges related to their different suppliers, their production process and their lack of explicit compliance evaluation. These
overall issues of non-compliance also relate to the more specific and detailed following analysis that will focus on the six theoretically derived factors impact on the supplier relationship.

7.2 Analysis of First Factory’s Supplier Relationship

In the previous chapter six theoretical factors were identified to have critical influence on the buyer’s ability to achieve compliance from suppliers; asymmetric information, conflicting goals, risk attitude, interdependence, time span of reciprocity and shared norms and values. In this section these six factors form the basis of the analysis of FF’s supplier relations. Each of the factors will be dealt with individually and differences between the buyer and the supplier are highlighted to identify potential agency problems and thus their underlying course. Before this is done, it will be analysed in which aspects FF view its suppliers to be trustworthy and in which ways they consider them to behave opportunistic.

7.2.1 TRUSTWORTHY VS. OPPORTUNISTIC BEHAVIOUR

FF’s perception of its suppliers has significance when understanding non-compliance in the relationship. From the interaction that FF has with its suppliers it seems plausible to argue that a basic trust exists. FF’s quality control manager express this by stating that the selected suppliers; “...has to live up to something that seems trustworthy” (QCM 2008). Furthermore, Lars CEO explains that the relationship that FF has with its suppliers help to build this basic trust; “When you visit the suppliers it helps to build trust, you talk with them, see the factory and then you start to believe them, trust them [...] if we do not have this trust, then we will not go further with them as suppliers” (CEO 2008). Building on Sako’s (1992) terminology, the above viewpoints can in many aspects be considered to resemble a situation of competence trust, which implies a belief that the chosen suppliers have the competences to live up to the promises they make and will not deliberately refrain to meet their obligations. On the contrary, concerns of opportunistic behaviour can be described in relation to the suppliers’ loose view on contracts; "If a man in Denmark delivers to a company he will finish and deliver and knows his responsibility. But a man in China will try to find excuses, as many as possible and say this is not my problem” (CPO 2008). This perception indicates that suppliers deliberately try to avoid living up to the signed agreements in the contract by bargaining over every single point. Furthermore, FF expresses worry in regards to non-compliance: “To some extent every supplier in China does the cheating part” (Yarn Purchaser 2008). “It is very often that they tell me things that are not true, it
happens almost daily” (QCM 2008). “We ask all our suppliers to sign our CoC, but but but, there are some points that I guarantee they do not comply with, but sign anyway” (CEO 2008). It can thus be argued that the previously demonstrated element of trust has its limitations. Still, the reason for the suppliers non-complying behaviour seems to build on an awareness that firstly, the way of doing business in China is different from e.g. in Denmark: “One of the biggest challenges when working with Chinese suppliers is to make them understand that honesty, pure facts, are preferred, but they like to tell you what they think you want to hear” (QCM 2008).

Secondly, that the CoC requirements are difficult to live up to; “Many buyers require they [the suppliers] must be certified or live up to various CoC, but frankly speaking, if they follow the requirements 100% they cannot make the clothes for the price they get” (Yarn Purchaser 2008). Finally, the suppliers are also believed to lack the knowledge and understanding that they are doing something wrong; “Often when they [the suppliers ]cheat it is not with bad intention, sometimes they just do not know about these things, so they think it is alright” (Ibid.).

On the basis of the above characterisation of suppliers, a diverse situation unfold in which the distinction opportunistic or trustworthy behaviour is not a question of either/or as it is often simplified within PAT and NT. Rather, the perception of suppliers may be argued to be more complex by entailing elements of fundamental trust and opportunism. In addition, opportunism can here both be understood as shirking on the part of the suppliers but also as a lack of ability and knowledge.

### 7.2.2 Asymmetric Information

The concept of asymmetric information is here dealt with in relation to how it complicates FF’s ability to obtain information about non-compliance behaviour among suppliers. It is difficult for FF to acquire information that is not based on clear output measures as in the case of determining the quality standard of the final product. Hence, the fact that the CoC includes social aspects related to the production process makes it more difficult to clarify if the CoC is met: “It is impossible to know everything that goes on with all our suppliers and many of them will cheat with information if they need to” (Yarn Purchaser 2008). This indicates how the suppliers has an information advantage over FF which makes it possible to distort information related to non-compliance and exploit the existing information asymmetry to its own advantage. This was also emphasized in the previous opportunism vs. trust discussion. In spite of this information
disadvantage, FF spends a substantial amount of time doing inline quality inspections at the factories. Since each production run is visited three to four times this imply that FF gets a broad insight into the production processes of its suppliers (See figure 8 for an overview of the quality control (QC) system). It is therefore argued that some information related to the behavioural aspect of CoC compliance is obtained through the frequent visits. They are thus advantageous in ruling out the more “observable” aspects of the code such as the presence of safe and hygienic working conditions; “I am always very aware of whether the production is organised and I hate when everything looks unorganised” (CEO 2008) and the use of child labour; “…Child labour is not a big problem in this region” (CPO 2008). Still, it is argued that the assumed connection made by FF between clean and organised production and supplier compliance is too simplified; 

"If the cleanliness and working conditions are not under control then the production will also not be under control. It is almost always connected” (CFO). Even though the supplier presents a clean environment for its workers it will still be difficult for FF to identify if other areas of the code are met including that wages are paid and that working hours are not excessive. Further, since the control visits are announced to the supplier in advance, this might also present an opportunity for the supplier to distort potential violations. It is therefore argued that there exist a level of asymmetric information between FF and their suppliers, but that FF through their frequent visits at the factories is able to obtain information in order to minimise the asymmetry related to compliance issues

7.2.3 CONFLICTING GOALS

When evaluating the likelihood of non-compliance by FF’s suppliers, it becomes important to identify conflicting goals between the parties. In the following it is analysed how the incentives differ in the buyer-supplier relationship and in turn influences the perceived costs and benefits of working with a CoC.

The most important incentive for FF to introduce a CoC is, as mentioned, to be prepared for an expected rise in the future demands for this initiative among its customers. Hence, the objective is to achieve an advantage over its competitors, constituting Chinese as well as foreign sourcing houses. “If we can make our customers feel secure and safe when they use us, we hope it will attract more business” (CFO 2008). From this reasoning, the CoC is thus perceived beneficial since it is an important differentiation parameter for appearing credible among its customers.
Although, there will be immediate costs for FF of working with a CoC, these are expected to be outweighed by the expected long-term gains.

Besides, FF expresses a desire to be on the forefront because of the increased pressure to focus on these matters from the Suzhou municipality. “We had to specifically account for how we would tackle labour and environmental issues in our industry before we could even get our business license and this is the normal procedure for a foreign company in China” (CEO 2008) “They [the foreign companies] follow the law and CSR standards more strictly. My wife works for a German company and they get higher welfare than in a Chinese company” (Yarn Purchaser 2008). Hence, it is indicated above, that FF is subject to higher standards than local Chinese companies in regards to social and environmental aspects.

As opposed to the abovementioned incentives for initiating a CoC, there is agreement internally in FF that the majority of the suppliers are unable to recognise the longstanding benefits for them if they comply. (Yarn Purchaser 2008; CPO 2008, CFO 2008) “I could easily take you out to see a factory where you would meet a Taiwanese manager that could tell you all about the importance of meeting GOTS (foot note: refers to the labelling scheme Global Organic Textile Standard) in order to build competitive advantage, but she would just not be representative” (CEO 2008). FF does not give any type of compensation, reward or other benefits to suppliers complying with their CoC; “No no, there is no reward for the suppliers in signing the CoC. […] There is no advantage for our customers in signing the CoC, maybe some competitive advantage if other customers require similar actions, but other than that I do not see any advantages” (CEO 2008). This is the case even though the CEO recognises that a large motivating factor for the suppliers is money; “They are motivated by money, money, money. Money is God. It is their only religion here in China” (CEO 2008). FF however, does not provide any significant motivators for the suppliers to strive to meet the terms of the code. “…they simply need to do it because we as customers require it” (CEO 2008). ”There is no real advantage for the supplier to comply”, (CPO 2008) “…maybe it can be a sales point to help them get more customers, but really, I don’t see the big benefits” (Yarn Purchaser 2008). No goal alignment means that the suppliers alone face the cost of complying when signing the CoC. Such a lack of incentives can, according to PAT, be a triggering factor to opportunistic behaviour and thus non-compliance.
The two suppliers did however not confirm this lack of understanding of the benefits of working with a CoC for their business. Instead, they gave a more nuanced standpoint by both showing recognition of potential long-term gains from meeting the requirements, while at the same time highlighting a range of difficulties of factoring the CoC requirements into their daily production goals. The overall reason was that the suppliers saw a more compelling need to give first priority to meeting short-term goals since these are the ones that they are evaluated by and thus perceived to be most sensible when the objective is to sustain the business.

Still, a distinction in the recognition of perceived long-term gains was identified between the suppliers. From the perspective of Eastern (2008), it was primarily a sales point to get more customers: “the CoC requirements allow us to work with important large customers such as Garry Weber” (Eastern 2008) whereas future increases in customers demanding similar CoC were not seen as a potential. In addition to this, Afasia (2008) also considered the gradually increased enforcement of Chinese law, emphasized earlier, as an important prerequisite for working with a CoC and thereby indicating to see more benefits associated with the efforts: “when this factory was founded, the government was not very strict, so a lot of factories they did not do very much [in terms of environmental protection] [...] but a dying factory is not a short term investment, it can be 10 years, 20 years. If we continue and do nothing and the water is a problem, the factory is a problem” (Afasia 2008). According to Afasia (2008), this long-term view is however not prevalent among Chinese yarn factories. “this is a different philosophy from other factories here” (Ibid.). This finding is consistent with the governmental initiatives that attempt to force Chinese factories to think more long-term and focus on other differentiation aspects than price and thus enable a movement up the supply chain.

In spite of the abovementioned long-term incentives, the suppliers emphasize the cost burden as a significant hindrance for CoC compliance. Eastern (2008) underlines the current economic downturn in the industry as a significant obstacle for dedicating resources to enhance its compliance level: “I have so big concerns at the moment [...] we need to invest in new electronic knitting machines which is very costly” (Ibid.). This investment is a consequence of the pressing need for Eastern to upscale production methods in an effort to avoid the widespread tendency of falling profit margins within the industry as already stressed in chapter 6. “I am not even sure our factory can even undertake such big an investment but we will have to be able to deliver the
more difficult styles and qualities if we are to stay in business” (Ibid.). As it is natural to have a strong focus on profitability, especially in times of economic decline in which many factories are forced to shut down, a sole focus on quality and price, when considering long-term investment, emphasises the buyers’ lack of incentivising CoC compliance towards the suppliers. A reverse situation relates to Afasia (2008) who expresses the risk of being too far in front of the industry within the CoC aspects; “... you know, all Chinese factories face these issues [...] a lot are behind [...]. We invest in these aspects to get a better price for our products and to do better. But we must be careful not to get very far ahead, because then the margin cannot cover the high cost of overtime payment and environmental protection” (Afasia 2008). This economic concern is further complicated by the lack of incentives given by its customers including FF. “you [the buyers] should encourage factories that are doing something. Give them further direction to adjust in the future [...] more orders or better prices. [...] Prices and delivery times are naturally very important but you should be willing to adjust a little bit” (Ibid.). If Afasia gets too far ahead of its competitors it will not be able to justify the higher prices, unless buyers are willing to engage with supplier and offer incentives to improve compliance.

This leads to the subsequent explanation of missing incentives for suppliers to pursue compliance as a consequence of FF’s selection and evaluation criteria which, as determined in section 7.3, are based on the traditional aspects of price, quality and delivery times as included in the supplier contract. Both suppliers experience that the CoC requirements is contradictory to the great reliance on traditional requests of price, quality and delivery times included in FF’s supplier contract. “The problem is that with the one hand they [the buyers] demand strict CSR requirements and with the other they press down the prices. It is unreasonable. We try not to work with customers who only focus on low prices [...] but of course we have competitors that work with these customers and they say they live up to CSR requirements, but that is just impossible” (Afasia 2008). The contradictory character of the requirements was also confirmed by FF’s Yarn Purchaser (2008) who regarded it as the major reason for why suppliers in the industry cannot meet the requirements from its customers and therefore cheat in relation to the CoC requirements “In my opinion the Chinese suppliers are forced to cheat. I have been employed in a garment company where we had a cheating department for the same reason” (Ibid.).
Additionally, these three criteria, price, quality and delivery, are given first priority among suppliers from the reasoning that they entail the largest economic consequences if violated. Eastern (2008) stresses how they cannot afford to delay the production and therefore compromises the terms of the code. “The most difficult thing to live up to is the short delivery times [...] so we have to use overtime in order not to do delays. Sometimes one of our customers will agree to postpone the delivery but most often they do not [...] and it is very expensive for us to change the fright from boat to plane” (Ibid.).

Consequently it is argued, that FF themselves is contributing to the goal conflict through its employment of conventional supplier evaluation criteria whilst at the same time expecting its suppliers to comply with its CoC. However, the same holds true internally in FF; “I cannot just call home to FF Denmark and tell them that the samples they need for Bruuns Bazaar for their important exhibition in Copenhagen are not going to be ready in time because we have reached the twelve overtime hours, what do you think they would tell me!?”. If under time pressure FF will also compromise their own stated CoC requirements; “I must admit, if we have an important order that needs to be finished for a customer then this is what gets the first priority and then the rest comes second” (QCM 2008). As a result of its breech of the CoC in relation to overtime work, FF is found to compromise its own declared requirements. While this might not seem particularly important related to supplier compliance, it is evidence that the traditional criteria of price, quality and delivery by far has the highest priority, both internally and externally, thereby reducing CoC compliance to a distant fourth place on the evaluation criteria list.

The difficulties of short delivery times were further complicated by the fact that FF often receives unrealistic production estimates from its suppliers who anticipate too little time to finish an order. “I have experienced that a man at one of the factories had been pressured to continue his work in order to meet our deadline and then it turned out that we had not received the correct time estimate in the first place” (QCM 2008).

7.2.4 RISK ATTITUDE

The following section will determine FF and their supplier’s attitude towards risk. Differences will be emphasised and the consequence of such will be discussed. To do this it is important to initially determine the kind of risk that is in question. The risk of loosing business relates here to
being exposed as an unethical company by its surroundings. It thus becomes important to consider the perceived costs associated with such negative exposure since this will impact the risk-willingness of the buyer and supplier. Moreover, it is relevant to discuss the two parties’ possibility of diversifying risk. In regards to the latter point, the theory argues that the principal is able to diversify its risk while the agent is not (Eisenhardt 1989b). In this case it will be argued how the roles can be considered altered and how this in turn may influence the likelihood of non-compliance.

FF’s customers are all Northern European companies who know of each other and are familiar with the different Western sourcing houses represented in China (CEO 2008; CFO 2008). Hence the SME can be characterised to operate in a transparent environment where a bad experience with a customer can be easily communicated and assumed to influence its reputation among its customers as well as potential customers. This implies that even though FF has a variety of different customers and thus should be able to diversify some of its risk of being exposed as an unethical company, the mutual communication and engagement of its customers, makes it increasingly difficult to diversify risk. The suppliers, on the contrary, are dealing with customers from all over the world who for the most part do not know each other or engage in any type of communication and thus have little knowledge of how other customers might perceive a given shared supplier (CEO 2008). In the case of FF the Chinese CPO (2008) states that he frequently meets competitors when visiting suppliers but that they for competitive reasons never exchange information about a supplier they use; “It would be very unwise to discuss business because we use the same suppliers. Nobody wants to share the style they are making, how many pieces they are making. You cannot tell your competitors this. It is very easy for the supplier to just copy the product and then offer a lower price to the customer”.

This complexity of sharing good and bad experiences between competitors is adding to the challenge of anonymous supply chains as emphasised by The World Bank (2003). What stands out in this context is the suppliers’ possibility, due to this anonymity, to diversify the risk associated with non-compliance. If a buyer experiences non-compliance by a supplier, the buyer’s individual reaction will not lead to additional consequences from other buyers. Hence, the cost inflicted on the supplier can be regarded as modest since the worst outcome will be to lose one customer.
On the basis of the abovementioned analysis it is argued that the theoretical prescription is altered in the case of FF, which is considered less risk willing than its suppliers. This does indeed have consequences for FF’s ability to achieve compliance from suppliers. Since there is low risk for the supplier associated with non-compliance, it becomes increasingly difficult to impose request because the agent does not stand to loose if it does not comply. This means that FF has difficulties in transferring the risk of non-compliance to its suppliers. Still, it is likely that the risk willingness differs among FF’s various types of suppliers. Here it may be argued that the full-service and yarn suppliers are less risk willing than the specialist suppliers, since the latter primarily caters to Chinese customers that do not factor these requirements.

In spite of the identified lower buyer risk-willingness, it is interesting to reflect on the absence of COC requirements posed by FF’s customers; “Danes do not care, the only thing that matters to Danes is a low price. Danes only care about prices and low prices” (CEO 2008). “Our Danish customers do not communicate demands regarding certifications, CSR or CoC, we have a few German customers that do” (QCM 2008). On the contrary, the two Chinese suppliers experienced an increase in the number of customers requesting them to sign a CoC; “Our big customers are interested in the environment and they want to make sure that it is in order here before they place an order with us. Some of our customers will visit the factory and get a general impression of the situation here. Most of the pressure is from these customers” (Yarn producer 2008). “Other customers have asked us to sign similar documents. Some also come and audit the factory” (Knitting producer 2008). The low priority among FF’s customers could thus also influence the SME to accept more risk while its suppliers, due to the increased customer demand, are starting to become less willing to risk the consequences of non-compliance.

### 7.2.5 Interdependence

The two points of interest is here to analyse the current level of interdependence between FF and their suppliers as well as the desired level of future interdependence expressed by the parties. It is important to stress that interdependence between parties within NT is viewed as a preferred state and therefore an indicator of a relationship in which non-compliance is less likely to occur. This is based on the rationale that non-complying behaviour will also have a negative impact on the supplier as well (Sako 1992). The present state of interdependence relates to the level of current mutual dependency while the desired level of interdependence will function as a proxy
for the parties’ desire to further develop their relationship towards a higher level of commitment and trustworthiness.

The major aspect of interdependence for FF in relation to their suppliers is the sharing of knowledge, training and education that FF provides to their suppliers in relation to quality improvements. FF spends a great deal of time and resources educating their suppliers on how to produce a high quality product: “We invest a lot of resources in our suppliers that does not give us any immediate gain. Naturally it is in our own interest as well to create a product which is good and that our customers are satisfied with. But it is also in our interest to create a trading partner that knows good quality even if it take us considerable time to educate them” (QCM 2008). “Olivina [QCM] goes to all the factories to support them, help them, train them and teach them so they get better and better to ensure that they do not make quality mistakes. Our competitors do that very rarely” (CEO 2008). This however also means that FF is dependent on the suppliers which they have spent such a great amount of time and resources on. It becomes increasingly expensive to change suppliers: “It would be extremely expensive for us to change suppliers so we do not do that” (CEO 2008). And it is difficult, especially on a short term basis, to find replacements: “Yes, it is difficult for us to find new suppliers which can live up to the same kind of quality standards as our current ones, but finding good suppliers is difficult” (CEO 2008).

The suppliers however feel a similar dependence on FF in their efforts to become more quality oriented: “Although First Factory is not a big customer they do quite fashionable knitwear, their customer’s standards are very high, and more attention is paid to the quality. So we might be a good supplier for them, but we also benefit from them” (Afasia 2008). “First Factory is willing to help us improve the quality where it is needed. That is important for us” (Eastern 2008). It seems clear that the suppliers also feel a dependence on FF. This mutual dependence, or interdependence, elicits commitment to the relationship, which in turn gives incentives not engage in non-compliance (Sako 1992).

Desired future interdependence expressed by the parties then becomes an indication of the desired level of commitment that FF and their suppliers are eager to attain. FF expresses an explicit wish to increase the level of communication and sharing of information especially in
relation to capacity planning. But the suppliers are not interested in this unless a specific order is on the table (CEO 2008). FF also has a few areas where they are reluctant to share information with their suppliers. This is particularly in relation to information regarding customers. FF is afraid that if their suppliers attain too much information regarding their customers they will be able to move up the supply chain which would make FF’s role as middleman obsolete (CEO 2008).

The suppliers on the other hand are generally interested in knowhow and information related to aspects such as joint product development and market information: “It is quite important to us to understand better the developments in the end market, our customers are often closer to this development and to the information. We always look for customers who are willing to share this kind of information, customers with whom we could do product development together with. It is a question of information, developing new products, new colours and new dyeing methods” (Afasia 2008). FF expresses a similar interest and further argues that they will be able to help a great deal of their suppliers increase production efficiency: “There is an enormous potential in optimising processes here in China, they have not even started yet” (CEO 2008).

From the above analysis, it is argued that both parties are interested in further developing the relationship to create a higher degree of interdependence. It may seem that FF’s interest is a bit more outspoken than the suppliers, maybe because they, in some aspects, are the dependent party and thus stand to gain more from further interdependence. However, the suppliers are eager to learn and improve and FF can and should take advantage of this.

7.2.6 TIME SPAN FOR RECIPROCITY

The previous three constructs covered the principal-agent theoretical side of the analysis. In the following the three network theoretical constructs will be dealt with. The desire on the part of FF as well as its suppliers to build up a long-term relationship can be viewed as an important prerequisite for creating commitment among suppliers for meeting the CoC requirements. This creation of incentives becomes particularly relevant since the suppliers perceived advantages of meeting the CoC terms, as it was shown in section 7.4.3, to be more evident when a longer time perspective is applied. Consequently, this section is concerned with determining the parties’
current view on the degree of time span for reciprocity, as well as important differences in this perception.

Although FF has only been physically present in China since 2007, the company has cooperated with the majority of its suppliers since 2002 through the employment of a Chinese agent (Zhong Bo) who has later been installed as production manager in the company and has continued with the daily interaction with knitting suppliers, while a yarn purchaser has been hired (Wong Zhi) to facilitate the contact with yarn suppliers. The fact that a continued collaboration with a more or less consistent supplier base has been maintained for a five-year period can thus be considered to have had a positive influence on the degree of developed trust in FF’s supplier relationships.

An argument that goes against this steady build up of trust over time due to a long time span of reciprocity is FF’s relatively large supplier base. This is a result of FF’s customer’s degree of individual requirements when placing orders, which necessitates that the different suppliers are more and less active at different times. The extensive product variety within knitting makes it necessary to hold a range of suppliers capable of producing and delivering the required assortment. This influences the type of relationship that FF is able to maintain with its suppliers. The choice of which supplier to use for a particular order, is to a large extent determined by the type of knitting that the customer demands. Some suppliers are capable of producing large stitches, others fine stitches: “...so while we have somewhere around 20 knitting suppliers, only about 5-7 of these are active at the moment” (CEO 2008). This distinction between active and passive suppliers is thus necessary for servicing customers, but can be regarded as an obstacle to developing a trustful relationship. This is due to the lack of consistency in the cooperation that provides FF and its suppliers with the needed continuity to be ensured of reciprocity of invested initiatives in the relationship e.g. in the form of compliance enhancing initiatives. The CEO acknowledges this when he says: “I do not wish for our supply base to grow, I want it to be as small as possible, because I will rather be a sizable customer with a few suppliers, than nothing” (CEO 2008). While it will prove difficult for FF to have an unbroken, continuous relationship with all suppliers it is important to emphasise the long-term aspect of reciprocity so that the relationship is not characterised by active-passive-active situations, but as an ongoing relationship without ever-present orders.
Due to FF’s high quality needs it is a necessity for the company to educate the supplier to meet the standards and hence a long-term perspective of the cooperation is of great significance. “It might be the case, that a year passes before the production meets the standards [...] then we have created a valuable cooperating partner by investing a lot in the relationship and this is a big advantage” (QCM 2008). In spite of FF’s perceived importance of reciprocity over time, the suppliers were regarded short term orientated and unconscious of the improved quality competences they gained through cooperating with FF on a long-term basis. “…if they were only able to be more forward looking they would see the advantages on their business to upgrade the quality” (Ibid.) “…it is more important for a Chinese to earn one Yuan today than one hundred in a year” (CEO 2008). However, this impression was not backed up by neither of the supplier’s who each expressed a strong desire to invest in their relationship with FF. “It is important to invest a lot of time in customer relationships in this industry because when hard times come, a good long relationship is able to help us” (Afasia 2008). Moreover, the awareness of future gains from improvements within quality was also recognised “I think that ‘auditing’ for quality is a good thing because we can then help each other in order to improve the quality” (Eastern 2008). Moreover, Eastern expressed a motivation to take FF’s small orders, despite a lack of economic incentive, due to an anticipation of future larger order; “Today First Factory might only give us small orders, but they are very focused on quality and that is important for us. Then maybe later First Factory will start placing larger orders with us. This is business” (Ibid.). This distortion between FF’s perception of the suppliers’ time perspective and the suppliers’ actual time perspective can influence FF’s eagerness to engage in other types of investment, e.g. investments related to compliance, than the crucial quality improvements. It is therefore important to have a clear and accurate understanding of the suppliers’ time perspective.

7.2.7 SHARED NORMS AND VALUES

In the following it will be assessed how the lack of norm and value building initiatives carried out by FF, in turn can be argued to cause non-compliance by its suppliers. This is done by determining the supplier’s missing understanding of FF motivation behind the introduction of the CoC.

From the variety of FF’s suppliers, it is only few that experience CoC requests from other customers. “Most of our suppliers have not heard of this before but some of them have signed
such a paper before” (CPO 2008). Internally in FF it is approximated that from the small handful of its suppliers that are accustomed to CoC requirements, these are primarily large yarn and full suppliers. “The awareness is present among the big modern factories that have many Western customers” (CEO 2008). “One other customer, a large German one, has asked us to sign a similar document. They also come and audit the factory” (Eastern 2008). This shows a variety in how accustomed FF’s suppliers are to comply with buyer introduced CoC and consequently it is also assumed that there is a difference between the suppliers understanding of the purpose with some suppliers having only limited awareness. “I believe a large part has not understood the purpose and maybe some just treat it as a piece of paper and just forgot about it the next day“ (QCM 2008).

Both of the two interviewed suppliers face CoC requirements, but these have until now only been presented by their largest customers. Afasia (2008) meet the request from 30% of its customers while Eastern only has one present customer that put up this condition. Since Afasia is the larger of the two companies, this can be argued to go well in line with the above-mentioned expectation of CoC requirements and size. However, also Afasia (2008) considers itself to only meeting modest CoC requirements due to its size. “Only the bigger ones are used to work with CoC. We are just what you call a medium factory and in our size not many sign this” (Ibid.). If this is the case FF might with advantage utilise this in its selection of future suppliers. This question will be further dealt with in the following chapter under research question three.

The attitude, internally in FF, is that norms and values, regarding the underlying motivation of employing a CoC, are underdeveloped amongst its suppliers. “The consciousness of a CoC is quite common in Europe and people have a sense of the meaning but for Chinese managers […] they are just starting to know what it means and still not many Chinese people get the details” (Yarn Purchaser 2008). Similarly, Afasia (2008) explains the lack of awareness and understanding among suppliers as a consequence of low education level among Chinese managers that is now gradually improving.

The understanding for working with a CoC varies between the two interviewed suppliers. Eastern (2008) expresses a lack of importance and does not see how it differs from the Chinese legislation: “…I actually think it is unnecessary […] I do not really understand why we need this document. We have the government which makes the law that we need to follow and that is what
we try to do” (Eastern 2008). Afasia (2008) on the other hand is conscious of why it is important to work with CoC requirements: “We receive requirements from the buyers in USA and Europe because they have better regulation systems. It is a trend. The only problem is how fast we can undertake this development” (Afasia 2008).

In spite of this difference in perceived importance, there is a common unclearness among the suppliers of the specific intent of FF’s introduction of a CoC. This unclearness is however not considered surprising since no initiatives has been taken to clarify the importance towards the suppliers. “The document was sent to the suppliers who were asked to sign it. Darren (Yarn Purchaser) and Roger (CPO) has done this because I obviously cannot talk to them and make a big presentation since I don’t speak Chinese” (CEO 2008). The two Chinese employees responsible for collecting the signed CoC confirmed this process. “I translated it to Chinese so they (knitting suppliers) could read it before they signed it. I didn’t tell them much about it and they didn’t tell me anything when I sent it. They just signed it” (CFO 2008).

An example of differing norms and values in the relationship is related to FF’s frequent experience of getting unrealistic estimates of delivery times from suppliers (CEO 2008). While the suppliers announce too short delivery times in an effort to get the orders, they compensate by using extensive overtime; “They [suppliers] need to put focus on good working procedures instead of these terrible last minute solutions where they suddenly has to do everything at once” (QCM 2008). FF is thus more aware of the connection between optimising processes and decreasing the need for overtime; “I am convinced of the enormous potential for rationalisation here in China. At the moment every problem is merely solved by employing more people or making them work harder” (CEO 2008). While not in direct relation to the perceived significance of the employed CoC, it is a clear example of a set of norms that, if shared, can have a positive effect on reducing overtime and increasing interdependence for the gain of both parties.

The norms and values related to CoC and compliance, which are present within FF compared to the suppliers, have been shown to differ. However, it has also been shown that no initiative has been carried out by FF in order to enhance the sharing of norms and values related to these aspects.
7.3 Main Findings of the Chapter

The preceding analysis of FF’s supplier relations has demonstrated compliance issues related to the overall characteristic of the buyer-supplier relationship as well as in relation to the six theoretically derived concepts from PAT and NT.

From the overall characteristic of the supplier relationship it is established that FF is a small and economically insignificant customer in the eyes of its suppliers, thereby complicating its ability to pressure its suppliers to comply. Another important compliance issue relates to the need of FF to use a range of various suppliers in its production process, which, in turn, increase the risk of goal conflicts and hinders easy accessible retrieval of information of non-compliance. It is further demonstrated, that suppliers use of sub-suppliers complicate the identification of potential non-compliance issues since the product is passed on to suppliers that may represent less developed social and environmental standards. In addition, the fact that the CoC requirements are absent in the selection and evaluation criteria of suppliers is argued to increase the likelihood of non-compliance. Moreover, it was determined that FF’s characterisation of suppliers both entailed elements of opportunistic as well as trustful behaviour.

The overview of the findings in relation to the six theoretically derived factors is depicted in figure 8 on the following page. The figure illustrates similarities and differences between the perspectives of the buyer and suppliers in relation to the each factor. In addition, a noteworthy finding of including the supplier perspective in the analysis relates to certain descriptions of suppliers given by FF, which were not supported by our findings. Besides, the empirical findings are related to the fundamental theoretical assumptions of how each factor influence compliance in a buyer-supplier relationship.
## Figure 8 - Findings from the Six Theoretical Factors

<table>
<thead>
<tr>
<th>Factors</th>
<th>First Factory (Principal)</th>
<th>Suppliers (Agent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Theory</td>
<td>Empirical Findings</td>
</tr>
<tr>
<td>Asymmetric Information</td>
<td>Information related to especially behaviour is costly/difficult to obtain</td>
<td>Social aspects of the CoC is difficult to gain information about On site quality inspections enable information gathering concerning CoC compliance in relation to visible violations Too direct connection is put between clean/organised production and compliance</td>
</tr>
<tr>
<td>Conflicting Goals</td>
<td>Lack of Incentive Alignment leads to goal conflict</td>
<td>Focus on short-term contractual compliance related to traditional purchasing criteria: price, quality, delivery Cost of CoC compliance is passed to suppliers – no incentives to comply are provided</td>
</tr>
<tr>
<td>Risk Attitude</td>
<td>Risk Neutral</td>
<td>FF's ability to diversify risk is limited due to considerable transparency between its customers who know each other FF is exposed to a higher level of risk, although they experience low levels of demands related to CoC</td>
</tr>
<tr>
<td>Interdependence</td>
<td>High interdependence enables common beneficial gains to be achieved</td>
<td>FF dependent on suppliers due to extensive investments in education related to quality improvements FF seeks increased interdependence</td>
</tr>
<tr>
<td>Time Span for Reciprocity</td>
<td>Long time span for reciprocity is a prerequisite for investing resources in supplier-relationships</td>
<td>Long-term orientation is evident, large investments in suppliers without immediate gains Active/passive supplier base complicates a long time span for reciprocity</td>
</tr>
<tr>
<td>Norm and Value Sharing</td>
<td>Increases joint understanding and unifies objectives with suppliers</td>
<td>Lack of norm and value sharing related to CoC Value sharing related to QC is present and effective</td>
</tr>
</tbody>
</table>
8.0 Research Question III

The purpose of this research question is to discuss the implications for FF of deploying safeguarding mechanisms in order to enhance compliance in its buyer-supplier relationships. Since FF currently does not employ any type of control to ensure CoC compliance, this discussion of safeguarding mechanisms will be conceptual and built on the developed PAT and NT safeguarding mechanisms in the first research question. However, it is the empirically identified issues of non-compliance in the second research question that guides the discussion of the implication of a given safeguarding mechanism. Moreover, it is considered, through the research question, how the empirical findings may deviate from the traditional preconditions of a principal-agent relationship. This includes a discussion of whether PAT is capable of fully capturing the challenges identified in the specific situation of an SME.

The following structure is employed to answer the third research question and subsequently leads to answering the overall problem statement. First, it will be discussed how FF’s low bargaining power limits its ability to deploy safeguarding mechanisms. Next, FF’s current employment of economical/contractual and relational control in relation to its quality control system will lead to the placement of FF’s supplier relationship in the developed control model, which was presented in the theoretical framework (see section 4.3). Subsequently, the various safeguards under economic/contractual and relational control are examined for how they can compensate for the SME’s specific situation. These include; rewards, sanctions, reputation effect, legal system, capacity building, norm and value sharing and joint development of objectives. As a consequence of FF’s reduced bargaining power, there is a limitation of deploying economical contractual control and therefore a greater reliance on relational control. However, the already mentioned rationale for combining the two control forms to enhance compliance denotes the discussion of safeguarding mechanisms under both. Before concluding on the overall problem statement, a few recommendations for how FF can enhance compliance are suggested. It is here argued that these recommendations might also be of relevance for other SMEs’ facing similar control challenges in relation to their CoC.

8.1 First Factory and low Bargaining Power

The small order sizes of FF and thus little economic impact on suppliers makes the withholding of payment the single economic sanction available if the product is faulted or delivered to late as
specified in the contract, which entails delivery terms as well as quality standards (See 6 for the supplier contract). “We have the possibility to subtract the extra expense in their (referring to suppliers) credit but it’s very hard for me to do anything else” (CEO 2008). In spite of this possibility, breaches of the contract will often amount to smaller ‘fines’; since the orders are small and might therefore still only have limited effect on the supplier.

In addition, FF’s relatively large supplier base and their inability to engage with all suppliers on a continuous basis further reduce the influence of the SME. In the meanwhile, it was also shown that FF engages in knowledge sharing related to product- and quality improvements with the suppliers, enabling them to become interesting in the eyes of the suppliers and hence gain some degree of bargaining power. FF’s bargaining power also differs related to the various types of suppliers they engage with. From the four types of supplier, 1) yarn, 2) full-service, 3) knitting, and 4) specialist, the first three share common incentives for cooperating with FF. These include to two things; First, FF’s focus on quality and the related improvements available for the suppliers, and second, the prospect of possible future earnings from larger orders placed by FF. However, specialist suppliers are significantly smaller than the other suppliers and thus make the relative size difference towards FF less pronounced.

Consequently, it is determined that FF’s bargaining power is low, especially seen in a traditional economic sense, but that it possesses the ability to influence its level of bargaining power, related to its importance and depending on the amount of resources that it chooses to invest in the relationship. This, in turn, influences the level of dependence between the two parties.

8.1.1 Implications for Theory – Who is Principal and Who is Agent?

As already mentioned, the traditional PAT assumes the agent to be the dependent party, due to the parties different risk attitude and the agents reliance on the work allocated by the principal. However, in our case study of an SME, both of these aspects have been found to be inconsistent with the theoretical description. In relation to the risk attitude it has been argued that the suppliers can be termed more risk willing than FF, which in turn will find it more difficult to influence their suppliers to comply. Moreover, since FF is often placing orders which are bordering the minimum limit of what e.g. yarn suppliers require, it can be argued that the agent may not be considered dependent on the work allocated by the principal, at least not this
particular principal. Rather, it might almost seem that suppliers are taking FF’s orders in spite of the low profit it will bring.

Without a definite principal-agent relationship, roles are less clear cut which in turn influences the inter-organisational relationship. The buyer no longer monopolises the ability to determine the type of contract and thus the incentive scheme governing the relation. This is mainly due to their inability to effectively incentivise suppliers not to act against their interest. PAT presumes that the buyer will determine the type of contract, which will best suit its needs given certain assumptions (Eisenhardt 1989b), none of which relates to the relative bargaining power between the parties. This inclusion of bargaining power necessitates a discussion of the static view of the principal and agent roles, which is predominant within PAT (Perrow 1986; Tomkins 2001).

An unclear principal-agent distinction may therefore necessitate a more dynamic view of the roles of a buyer and a supplier, enabling a better description of real world situations and give more explanatory power to trading relationships in which an SME engage with larger suppliers. For instance PAT’s main focus on economic incentives should be challenged as FF, as an SME, will be necessitated to employ various non-economic incentives available to them in order to counterweight their inability to impose efficient economic incentives. This further implicates that the involved parties have to focus more on common beneficial achievements of their actions and create situations of mutual gains, as opposed to pursuing individual value maximisation, which often is possible only by inflicting a loss on the other party.

That a more ambiguous relationship exists between FF and a majority of their suppliers than predicted in PAT might not come as a major novelty. However, the degree with which the observed roles are altered in the case study of FF, raises a question of whether it could seem reasonable to argue for completely reversing the roles of the parties and thus label the supplier as the principal and FF as the agent. This would have implications on a range of aspects otherwise assumed as given.
8.2 First Factory’s Current Deployment of Control to Ensure High Quality

This section discusses how economic/contractual- and relational control is currently utilised by the SME and leads to the placement of FF in the control model (see figure 9 below for an overview of the QC system).

**Figure 9 – First Factory’s Quality Control System**

When considering relational control, mainly the two safeguards of sharing of norms and values and capacity building are evident. The considerable investment of resources in quality through the 3-4 factory visits during a production run make certain that the suppliers understand the importance of meeting the quality standards. Consequently, the suppliers are gradually adopting norms and values in relation to quality standards. From the terminology of Johanson & Mattsson (1987), this adaptation process takes place through an education of the suppliers on how to produce higher quality at the same cost. However, if this adaptation does not take place, the suppliers are phased out in favour of suppliers, which are more responsive towards the requirements.

The economic/contractual control is also present in FF’s QC system through a formalised evaluation system that ranks suppliers and communicates satisfaction and dissatisfaction on a
continuous basis (QCM 2008). Furthermore, sanctions are employed when suppliers do not live up to their quality requirements. The sanctions are characterised as either small fines collected by withholding remaining payments, or breaks in the use of the given supplier, concurrently letting them know why, and what they need to do in order to get new orders. Such sanctions might seem small considering FF’s size, but the open communication seems to make the suppliers quite interested in the cause and their improvement possibilities: “When we put them on break they become really eager to get back with us, then they tell us how they have improved accordingly and that they have understood” (CEO 2008). Even though the economic/contractual control does not pose great threats towards the suppliers the combined use of the two types of controls enable FF to send a clear message that quality should be the centre of attention. See below for a graphic presentation of the QC system.

The above assessment of FF’s quality control system demonstrate the possibility for the SME to influence its suppliers by making them aware of the importance of quality standards and ensure that quality requirements are met. Through the combined use of economic/contractual and relational control, in which the majority focus is placed on relational control, the suppliers meet the desired Acceptable Quality Level (AQL).

8.3 The Placement of First Factory in the Control Model

From the above discussions of FF’s low bargaining power and employment of economic/contractual- and relational control, FF’s buyer-supplier relationship is placed in the control model below.

**Figure 10 – First Factory’s Placement in the Control Model**

![Control Model Diagram](image-url)
8.3.1 IMPLICATIONS OF FIRST FACTORY’S PLACEMENT IN THE MODEL

The model is naturally a crude simplification of the actual situation that FF is in. This has different implications on the theories and practical situation of FF, respectively. Related to PAT, the development and utilisation of the control model emphasise the already mentioned critique that PAT has its strongest explanatory power in relationships characterised by a clear principal and agent and it can thus be argued that the theory loses explanatory power as the ambiguity of the relationship increases, as is the case with a SME-principal. For FF, the placement in the control model implies a necessity to focus on relational control, due to their weak bargaining power. It also implicates, based on the construction of the model, that the remaining types of control can primarily be employed as compliments.

Further, the consequence of predominantly relying on relational control implies that FF must accept extensive dependencies on its suppliers, a situation that may be preferred from a network theoretical perspective, when the aim is to build high levels of trust between the parties. However, such a relationship has a range of negative effects when a PAT perspective is employed. It implicates that FF finds it extremely difficult to abandon suppliers due to their large investments in education and training. It thus becomes important to carefully consider the benefits that FF gets in return and if these are able to outweigh the disadvantages of FF’s lock-in with suppliers. It can therefore be argued that the risk of utilising relational control is higher than for economic/contractual control. This is due to the necessity of investing resources in supplier relationships in order to achieve relational control. These resources are wasted if the desired behaviour is not achieved. A much lower amount of resources are invested to achieve economic/contractual control and no dependencies are formed with suppliers.

8.4 Buyer-internal misalignment: Importance, Responsibility and Purpose

In the following, a range of internal issues in FF is argued to complicate its ability to deploy safeguarding mechanism. These issues are considered prior to the discussion of the individual safeguards since clear and coherent guidelines from the principal are considered as a precondition for effectively controlling the behaviour of the agent (Tomkins 2001). PAT thus depends upon the ability of the principal to clearly specify, in advance, the desired goals and strictly correlates the agent’s rewards according to the stated goal (Ibid.). Accordingly, PAT does
not give much attention to internal misalignment of interests. Rather the principal is regarded as a more or less homogeneous entity with clear interests and goals (Fama and Jensen 1983). Instead of this “black box” characterisation of the principal, a more complex interpretation is therefore argued to be useful in explaining the internal differences found in the case of our study of an SME.

Since no formalised control initiatives have been introduced by FF it can be questioned if the CoC is indeed as important for the company as stated in the Strategy Plan (2008). As already determined, FF has a well-developed control system for ensuring that high quality requirements are met by the suppliers through frequent in-line supplier inspections. This extensive devotion of resources to improve quality is regarded by FF to be inevitable if they are to obtain the desired level of quality. Moreover, it has been shown that the suppliers are well aware that FF expects them to improve within quality standards. Likewise, it is possible to argue that FF will need to develop a similar type of control system if the company is in fact serious about its CoC initiative. By making the control of CoC requirements an integrated part of the organisation as in the case of quality, it will make the suppliers more aware of its importance for FF and thus indicate a need for them to prioritise these issues.

Furthermore, the fact that there is no individual ownership in FF of ensuring that suppliers live up to the CoC is causing difficulties of control. The lack of ownership is evident by the employees’ dismissal of any responsibility of integrating the requirements into their job function as well as an unclerness of who bares the responsibility. “If I need to include aspects of the CoC in the evaluation system, then I need to get the instruction from management of how to do it, and then we can talk about it” (QCM 2008). “As I told you I am a decision follower. If the decision is to integrate this CSR thing to the buying of yarn then we will need to follow it” (Yarn Purchaser 2008). Although, FF’s CFO is appointed responsible for the company’s CSR policy, he states that his main priority is still the company’s finance: “CSR and our CoC is something I work with, but it does not have first priority, it really does not” (CFO 2008).

In addition, an important internal goal conflict is found to be present in the case of the Yarn Purchaser and CPO whose primary incentive is the negotiation of prices and delivery but who has also been appointed responsible for communicating CoC requirements to suppliers. “From my perspective what I think is very important is the quality and the prices and it is not so
important with this (referring to the CoC). My responsibility is to control the prices and the ETD you know delivery time” (CPO 2008). The two Chinese employees express their lack of perceived importance of the requirements as a missing understanding of its purpose: “I really don’t know why FF introduced this CoC. [...] I need to study more about this” (CPO 2008). This is confirmed by the Yarn Purchaser (2008) stating “I am not a professional within the use of CoC and I have not heard anything about why FF wants this [...] maybe the Board of Directors have had an awareness about this CoC for a long time but not the employees here” (Ibid.).

Today, the general opinion is in favour of the integration of CoC requirements and procurement functions in order to align internal buyer-objectives and resolve the often conflicting tension between commercial and CoC objectives (BSR 2007). However, in the case of FF the tension between these two “conflicting goals” has not been resolved and is therefore considered as a complicating factor for the priority of the CoC requirements. This goes well in line with the suppliers’ emphasis on FF’s sole reliance on traditional purchasing criteria.

Ultimately, the confusion related to the CoC purpose is also evident from the range of diverse opinions present within FF. These differences include a reactive risk management incentive; “It is an effort to minimise our exposure and not get caught with our pants down” (CEO 2008), a more philanthropically incentive to be an ethical company; “I think it is an attitude in the company, the owner Per Nybo is interested in creating a social responsible company” (QCM 2008) a simple selling point; “The CoC is introduced to get more customers of course, it is a sales point. It is the icing on the cake” (Yarn Purchaser 2008) and lastly a more proactive rationale of increasing FF’s competitive advantage; (CFO 2008) This lack of a unified purpose internally in FF is argued to complicate the SME’s ability to impose clear control mechanisms on its suppliers.

8.5 Implications of Deploying Safeguard Mechanisms

The subsequent conceptual discussion of the SME’s deployment of the various safeguards under PAT and NT is based on the earlier placement of its supplier relationship in the control model and the issues of non-compliance identified in the analysis. In addition, the implications of the safeguards are discussed in light of the already installed Quality Control system as well as the context of China in which they are to be deployed. However, initially a few considerations are attached to the issues information gathering.
8.5.1 INFORMATION GATHERING SYSTEM

For all economic/contractual safeguards it is important to emphasise that a system of information gathering is needed to counteract the identified information asymmetry that exists between FF and their suppliers. Three points related to the system of information are here considered. First, it can be questioned whether FF possesses the needed resources to monitor supplier behaviour. This highlights the importance that the CoC requirements are formulated in consideration with the initiators ability to control and affect suppliers accordingly. If the scope of the CoC necessitates a too broad or detailed level of monitoring, it can quickly become a too ambitious job for an SME like FF. Second, it can also be argued that FF is currently exploiting the existent information asymmetry to its own advantage. Drawing on the argument of Perrow (1986), shirking need not only be present on the part of the agent but can likewise be found in the case of the principal. Since no information about suppliers is gathered, it implies that non-compliance is likely to go undetected. From this rationale, FF might also be considered to act “opportunistic” by avoiding a situation where they will need to respond to supplier non-compliance. A respond can be a costly affair for the SME but if FF is unaware that violations occur among its suppliers it will still be able to reap e.g. reputation benefits by informing its customers of its CoC involvement. Third, the CPO and the yarn purchaser have presently been the only ones involved in the limited information sharing done with suppliers related to the CoC. Further, their job responsibilities may complicate their ability to function as “independent controllers” since they are prone to give the CoC second priority. These credibility issues indicate that more objective internal or external parties are needed to gather information about suppliers if the system is to be efficient. This is also regarded as an essential part of FF’s quality control system where a second more independent QC department has been formed to report any severe problems directly to the CEO (See previous overview of quality control system section 8.2). While third party monitoring is often expected to be most dependable way of verifying compliance, it is here important to stress, apart from the evident cost issues for an SME, that external auditors not always is an assurance of high quality; “The reports reviewed for the factories visited in China […] do not convey an accurate picture of the conditions in these factories, missing many major issues and giving a misleading impression of the factory’s compliance with local laws” (O’Rourke 2002, p. 89).
8.5.2 REWARD
In the analysis it became evident that FF does not believe that compliant behaviour by a supplier should be rewarded. Hence, FF do not attempt to align the conflicting goals which was determined to exist between FF and their suppliers in relation to the different costs and benefits associated with the CoC.

It has been determined that the lack of economic incentives for the suppliers can explain a lack of priority of compliance. A strong price pressure throughout the supply chain, falling profit margins and fewer orders implies that suppliers focus on short-term pay-offs, thus leaving little room for long-term compliance related investments. Within PAT, goal alignment through incentivising the behaviour desired by the principal is a rational choice (Eisenhardt 1989b) and the positive implications of rewarding behaviour are clear. However, it can be difficult for the SME to reap such positive implications for a few reasons. Firstly, if FF decided to engage in intense rewarding of compliant behaviour through e.g. more orders or higher prices these might represent such a small share of the suppliers compiled turnover that it is likely not to make up for the increased cost associated with compliance. Second, since the SME does not expect that the CoC will lead to higher prices from its customers they find it difficult to “pass” on benefits to suppliers.

Still, rewards can have an important “symbolic value”. It can function as a way of indicating towards suppliers that FF acknowledge the cost related to complying and that it is willing to accommodate the supplier as much as it can. In this respect it can function as a token to align the identified conflicting goals between suppliers and FF especially in the light of the suppliers’ and FF’s emphasis on the high incentivising property of monetary rewards in China.

8.5.3 SANCTIONS
At present, no consequence of non-compliance is stated in the CoC and it has not been made clear to suppliers if any sanction will be imposed by FF if non-compliance should be found to occur. Due to this unawareness by suppliers, it is currently not possible to persuade them to comply through the threat of sanctions. According to Koch (1995), the imposing of a sanction on a cooperating partner will also entail a negative impact on the sanctioning party who cannot avoid being hurt in the process. The ultimate sanction of a buyer can be considered to abandon
the relationship with a supplier if non-compliance is detected (Helper 1990). In the case of FF the decision to terminate a relationship with a supplier due to non-compliance can be argued to hurt the SME more than it will hurt the supplier. Firstly, the extensive amount of resources that FF has invested in building up its supplier base and upgrading the quality standards of its suppliers has lead to a considerable degree of buyer-dependence that makes it costly for FF to switch supplier. Second, the difficulty of finding alternative suppliers makes this strategy difficult to pursue. The significant cost for FF of breaking off a relationship with a supplier thus implies that a threat of leaving the relationship cannot be considered to be a credible deterrent of opportunistic behaviour at the supplier level. Further, even if this sanction was imposed on a supplier, FF’s low economic bargaining power can only be assumed to inflict a limited impact on the supplier.

Despite the above-mentioned limitations for FF to terminate its supplier relationship, it does not mean that less ultimate forms of sanctions cannot be effective for the SME. FF temporarily stops placing orders at a supplier if the quality is not meeting the given standards. Suppliers are mostly “put on break” if ongoing quality shortcomings are detected. These short breaks in the relationships are combined with an explanation of the reasons for the sanctioning. Moreover, FF specifies the quality aspects that need improvement as well as a time frame for progress. Albeit FF cannot be considered the dominant party in the relationship, this type of sanctioning has nevertheless proved effective among its suppliers who show a willingness to improve. However, although the sanction implies that the supplier must comply on its own, FF takes active involvement in the process and hence the sanction does not stand on its own. From this positive deployment of the safeguard it may therefore also be assumed that it is possible to apply this sanction to achieve similar improvements within CoC compliance.

8.5.4 LEGAL SYSTEM

The contractual reliance within PAT necessitates a reliable and efficient legal system capable of enforcing breaks in contracts and resolving disputes. This becomes evident from the focus on developing the most efficient contract as the central governance mechanism in inter-organisational relationships (Eisenhardt 1989b). Likewise, to determine the confidence of the legal system as a reliable safeguard depends on its ability to enforce breached contracts on the part of the supplier (Koch 1995). The severe problems identified in relation to enforcement of
contracts in China, makes it difficult for FF to rely on the legal system to provide strong incentives for the suppliers to comply. In spite of the severe enforcement issues, the fact that FF is placed near Shanghai, which has more developed legislation and enforcement systems than the rest of China, may give indication that the suppliers in this area are more likely to comply than elsewhere. Moreover, since the new labour law represents one of the most widely enforced laws in China and was determined to put great pressure on both Afasia and Eastern it can be argued to benefit the compliance level of FF’s CoC. Since the new labour law entails social aspects related to workers rights that are similar to those included in the code, it might contribute to a greater priority for these issues among the suppliers. However, even with a high degree of enforcement, the specific situation of a CoC is further complicated by the fact that it is often referred to as an incomplete contract due to its overall and vague formulation and since it is unable to incorporate all possible scenario for how a supplier can engage in non-compliance (Sethi 2003). Hence, it opens up for the possibility that the suppliers interpret the code in another way than intended by the buyer and thereby makes it difficult to clarify if a given supplier has not complied with the terms.

This low legal enforcement does however not mean that the contract becomes obsolete. FF’s contract was found to be effective in communicating the evaluation criteria of the suppliers related to output control, such as price, quality and delivery. However, this was also determined to put a too unilateral focus on these terms of the contract and thus a pursuit for short-term goals. This was evident by the suppliers perception of the contract as the main requirements to follow and the CoC more as a set of guidelines. By including the CoC requirements it could be possible to facilitate a balance between the short-term output goals and the more long-term behavioural goals by showing that they are interrelated aspects. This may reduce the confusion among suppliers regarding the two diverse documents and indicate FF’s perceived importance of the CoC criteria.

8.5.5 REPUTATION EFFECT

The effect of reputation effect is here examined in relation to whether FF can create reputation destruction effects for non-complying suppliers, which in turn will influence their future income (Koch 1995). An important precondition for the reliance on reputation effect as a useful means to
avoid opportunistic behaviour is to be able to communicate the incident to other concerned parties (Ibid).

It has previously been assessed that FF has difficulties in communicating knowledge about a supplier to its other buyers primarily due to competitive reasons. FF does not meet or interact with its competitors in a way that facilitates exchange of the kind of information that could expose non-compliance by a supplier. This important lack of information about good or bad supplier behaviour thereby lowers the reputation damaging effect on a non-compliant supplier. Moreover, the lack of transparency indicates a negligible risk for a supplier of being exposed to its other buyers as an unreliable trading partner and therefore getting its future income negatively affected. In addition, the specialist suppliers, whom have only few international customers, experience low risk of having its reputation damaged in the case of exposed non-compliance. Furthermore, FF’s CPO has close relationships with most of the managers at the factories dating back to before FF had activities in China. His extensive knowledge about the suppliers may therefore constitute an important advantage for the SME in exposing non-compliance. However, the importance for him of upholding a good relationship with the suppliers makes it possible to question if he can be considered a reliable whistleblower for reporting back CoC violations to FF.

**8.5.6 Capacity Building**

As it has already been established a considerable part of non-compliance at the supplier level relates to a lack of ability and know-how for how to meet the requirements of the code. Capacity building resolves these issues by educating the supplier and thereby increasing the possibility of compliance. Capacity building is already utilised by FF, related to their QC system, with good results. The suppliers express an eagerness to learn and improve their capabilities regardless of the focus being on quality or CoC compliance. FF’s suppliers voice a general awareness that foreign companies have a great deal of knowhow that could be valuable for them. This ranges from production knowledge to market information. In addition, the pressure on the suppliers to move up the value chain can be argued to present an important opportunity for FF to deliver such kind of information as an important step to built increased interdependence.
The required openness for sharing technology, processes and other related information will as already mentioned not only increases the suppliers dependence on FF but also makes the SME vulnerable to further decreases in bargaining power and thus increased dependence on suppliers. The question however, could relate to which party that will experience the largest increase in dependence. As shown in chapter 7, FF’s involvement with suppliers has already resulted in a high supplier dependence, which consequently means that FF extremely rarely changes suppliers. It may therefore be argued that an involvement related to CoC compliance might increase supplier dependence, but it is unlikely to further increase FF’s dependence. Another positive implication of this safeguard is the signalling of the investment in a long and ongoing relationship with suppliers (Sako 1992). Still, this safeguard can be expensive to deploy, especially with a large supplier base such as that of the SME. Nonetheless, the safeguard fits well with FF’s placement in the control model since it is deployable despite low levels of bargaining power. A key benefit of capacity building is the created gains for the suppliers. Productivity increases, decreases in waste, power usage, man hours and other production input are all immediate results that can be achieved by suppliers and in turn generate support for further initiatives.

8.5.7 NORM AND VALUE SHARING

The sharing of norms and values contributes to establishing a relationship of familiarity in which parties feel they have some communality and shared perceptions. This is an important prerequisite for establishing mutual agreement and understanding of the requirements (Child & Möllering 2003). This safeguard is considered essential due to the lack of understanding exhibited by the suppliers as shown in the analysis. Norm and value sharing enables the establishment of such an understanding, both related to purpose and importance.

The positive implication of norm and value sharing relates to the resulting decline in conflicting goals between FF and its suppliers (Sako 1992). Furthermore, an increase in common norms and values justify, but does not necessarily lead to, a higher degree of interdependence between the parties. This is due to the resulting increase in the level of trust and thus an acceptance of an interdependent relationship (Ibid.). As interdependence increases the risk non-compliant behaviour decreases due to the mutual consequences induced. FF has already experienced this
possibility through their QC system, which has increased their suppliers’ awareness of, and focus on, quality for the joint benefit of the relationship.

The challenge for the SME is its ability to create the necessary exchange and supplier adaptation (Johanson & Mattsson 1987). However, this is primarily done through initiatives evolved from capacity building which suppliers, as it has been shown, are extremely responsive towards. It is therefore argued that the increased possibility produced by such adaptation processes will lead to positive results. That the suppliers voice a growing understanding that there exists an increased importance of norms and values related to social responsibility, both amongst its buyers and in the Chinese society, is a further contributing factor for a successful exchange and adaptation.

8.5.8 JOINT DEVELOPMENT OF OBJECTIVE

The safeguard of joint development objective is an effort to break with the traditional top-down “dictation” of a CoC and make the formulation and development part of the ownership creating initiative in a process more characterised as bottom-up. This enables an inclusion of suppliers in the development, making it possible to include the challenges and issues that they face in a effort to create a more fitting and context specific CoC. This is i.a. related to findings in chapter 7 showing suppliers to have a lack of understanding towards the CoC and an opinion that it is not applicable to their situation.

The interaction concerning the formulation and development of the CoC implies the creation of common goals that will benefit both parties. It also implies a sharing of norms and values and heightens the mutual understanding of the reason and purpose of working with a CoC. Jointly developing a CoC could be argued to be a drastic initiative which could, at worst, result in even less compliance as will be discussed below. However, it can also be viewed as a necessary effort, in line with findings from the World Bank (2003), to challenge the unilateral view on CoC as a set of boundaries “carved in stone”. By involving suppliers it becomes possible to understand their challenges, where they need to improve and where the buyer might be able to assist in an effort to create the missing capacities. In this aspect joint development is not just concerned with formulating a CoC, it is the core of relational control due to its level of supplier involvement, relationship building and eliciting of commitment which is essential in the development of trust (Sako 1992).
However, as mentioned, these points implicate a risk that the CoC will become too narrow and too easy for the suppliers to comply with, thus being a comfortable cushion and not a tool for improvement. Furthermore, FF might find it difficult to engage suppliers in the development of the CoC since its lack of bargaining power might refrain suppliers from seeing the importance of participating. Also, for supplier participation to take place, it implies that the suppliers at least have a minimum understanding of the concept of a CoC to see any reason for spending the time. Lastly, the mutual development of requirements will produce a document, which is relevant for the specific context of China. Hence, it will focus on urgent matters at a given moment for the involved parties only. A continuous process of updating and maintaining its relevance is thus necessary, but if this proves possible it will produce a CoC aimed specifically at FF’s suppliers and their pressing issues in a confined and controllable fashion which will be beneficial for both parties. This will further make it easier for FF to make promises to buyers and other relevant stakeholders, because the CoC will function more as a tool for improvement, than as an irrelevant document installed for its looks, and not for its purpose.

8.6 Limitations of the Safeguarding Mechanisms

The previous section discussed the implications involved for FF of deploying the various safeguarding mechanisms. The purpose here is to consider and discuss limitations related to the use and combination of the safeguards.

Mutual Exclusiveness

It can be discussed whether the two control forms, and thus the use of the contained safeguards, should be considered mutually exclusive in their application. A valid argument for their mutual exclusiveness is the highly different types of relationships, which the control forms necessitate. A strong emphasis on the safeguards under economic/contractual control will eliminate the ability to build the close and interdependent relationship that is the aim of deploying safeguards under relational control. Inversely such interdependent relationships emerging from relational control will make safeguards under economic/contractual control less effective due to buyers’ inability to pose serious threats. However, this does not imply that safeguards from the two forms of control can not be utilised conjointly in different combinations. What is important is to consider whether it is the intension to pursue a close interdependent relationship or a distant independent relationship and thus deploy safeguards accordingly. For instance the deployment of
some economic/contractual control e.g. rewards or sanctions, can stress the importance of the deployed aspects of relational control towards the suppliers.

The Double-Sided Effect of Relational Control
For the safeguards under relational control it has shown necessary to reflect on the duality of their effect on the buyer-supplier relationship when a combined PAT and NT view is applied. The safeguard of e.g. capability building requires certain investments in a supplier, which from a PAT perspective, creates opportunity for opportunistic behaviour by the supplier due to the increased buyer dependence. However, this increased dependence will also, as intended within NT, increase the importance of the buyer in the eyes of the supplier and improve the possibility of a trusting relationship. It therefore becomes extremely important to consider whether the build up of a closer relationship with a supplier is likely to bring the desired results.

Economic/Contractual Safeguards to Enhance Compliance
It can be argued that larger buyers, capable of devoting most resources to improving the capacity of suppliers to comply are also buyers best equipped to utilise economic/contractual control by forcing suppliers to comply by threatening to otherwise terminate the relationship. If buyers predominantly employ economic/contractual control the suppliers that are unable of complying may therefore be left behind with the single possibility to engage with buyers not focused on these ethical issues, but merely price. This implies the risk of a diminishing focus on developing compliance capacities at the supplier level. Likewise, Helper (1990) argues that an acceptance of low margins and little investment in building organisational capabilities can drive out suppliers who wish to engage in the latter initiatives. Afasia (2008) described this concern by having to be careful not to get too far ahead of their competitors in relations to compliance. The extra cost of complying impact their price competitiveness and they therefore risk to loose potential and existing customers.

Beyond First-Tier Suppliers
Another limitation of the safeguards presented is their confined focus on first tier suppliers. In spite of the pronounced focus, in this thesis, on the dyadic relationship between FF and their suppliers, it has been evident that many non-compliance issues appear further down FF’s supply chain. These issues will remain unresolved even though safeguards are effectively deployed and
successfully functioning at the first tier level. The suppliers’ use of sub-suppliers can be viewed as a way of “outsourcing” non-compliance issues by transferring the problem to other suppliers. This means, that while the safeguarding mechanisms might effectively influence the behaviour of first tier suppliers, they still represent limited value in solving non-compliance further down in the supply chain. This may therefore indicate that an isolated focus on one principal-agent relationship within PAT is too narrow to include the opportunism among sub-suppliers. If a broader view of the supply chain is employed, the NT perspective may therefore be argued to better explain the implications of safeguarding.

8.7 Recommendations for Enhancing Compliance

The purpose of this final section is to consider the control possibilities available for FF based on its placement in the control model. Due to the limitations for the SME of deploying economic/contractual control, it is here suggested how FF can seek to influence its situation through three different paths. These paths constitute the basis for suggesting how the prior discussed safeguarding mechanisms can enhance compliance (See model below). The three possibilities are not to be regarded as mutually exclusive but can be pursued in combination. Although the recommendations are based on the specific situation of FF, we argue that they may well be of relevance for other SMEs that experience similar control challenges of ensuring compliance. That said, no attempt is being made to automatically generalise the recommendations to other SMEs.

**Figure 11 - Control Model and Ways to Enhance Compliance**
The three arrows in the model above illustrate the three possibilities identified for FF. The first arrow indicates FF’s possibility to increase its importance in the eyes of the suppliers by creating higher supplier dependence. The second arrow relates to FF’s possibility to increase the formalisation of the CoC towards suppliers, thereby increasing the perceived importance and gain better internal understanding and alignment. The third and final arrow relates to FF’s possibility of building-up a more trustful relationship with its suppliers.

### 8.7.1 Increasing the Importance of the SME (Arrow Number One)

FF already demonstrates that it is possible for an SME to be considered an “interesting customer” in the eyes of its suppliers. As previously demonstrated, FF does this through their effort of quality improvement at the supplier level and many of its suppliers today regard FF as a source of continuous improvement within quality. It is important that FF seek to leverage this established advantage from capacity building activities. Initially, FF should realise that their suppliers actually ascribe great significance to its efforts in setting high quality standards and enabling them to comply through capacity building. As a result of these improvements the suppliers are able to deliver better quality to all their customers for the joint benefit of both the suppliers and FF. The same reasoning can be used in relation to a range of other capacity building initiatives. Initially FF could engage with a selected group of important suppliers in an attempt to increase these suppliers dependence on FF. These initiatives could be a natural extension of the capacity building initiative undertaken within quality, by including the aspect of productivity increase where FF argues there are large gains to be made that in turn would benefit the suppliers as well as FF. These are not only economic, but also CoC compliance benefits related to bringing down overtime hours. Finally it is important that the initiatives increase the importance of the SME in the eyes of its suppliers.

### 8.7.2 Formalisation of the CoC (Arrow Number Two)

If the SME is serious about its wish to improve social and environmental conditions at the supplier level, it needs to establish internal alignment related to the importance, responsibility and purpose of the CoC. The internal disagreements depict a company that is not fully ready to deploy safeguarding mechanisms to establish compliance externally. One way of creating this internal alignment could be to take a closer look at the CoC and make sure that its content is consistent with FF’s intentions, since this will create awareness of the purpose and ensure that...
the CoC is fitted specifically to the situation in question. Next, by including the CoC in the supplier contract FF is able to formalisation of the requirements towards the suppliers and to some degree utilise rewards and sanctions. This could be done by including the level of supplier compliance in the QC system so that suppliers are evaluated on their ability to comply, on equal terms with their ability to live up to quality and delivery terms. This also includes establishing an alignment between procurement and the CoC, so that rewards, in the form of increased orders, are not just based on price and quality, but also on their level of compliance.

8.7.3 BUILDING A TRUSTFUL RELATIONSHIP (ARROW NUMBER THREE)

The final possibility is to pursue aspects of relational control to create an environment in which the establishment of a trustful relationship can occur and thus ensure a higher degree of supplier CoC compliance. For FF the most important aspect of creating such an environment lies in the safeguards of norm and value sharing combined with capacity building. These safeguards hold potential for FF due to the unnecessary use of bargaining power and the fact that FF already has proved capable of achieving good result related to the QC system. FF needs to engage with suppliers and communicate the advantages available to them by engaging in CoC compliance. They need to make it clear that it is not just a costly necessary evil, but that there are a range of achievable benefits related to working with CSR and complying with the CoC. Some of these originate externally, such as increased competitive advantage towards international customers and first mover advantages related to future legislation or increased enforcement and thus more sustainable long-term earnings. Others originate internally, such as better retention of employees and some originate from FF. The advantages from FF relates to the capacity building, FF can assist suppliers, like they have done with quality improvements, to improve processes related to complying with the CoC. Process improvements that not only will make suppliers more compliant but also enable them to decrease the use of man-hours, production input etc. All these advantages are more or less related to economic aspects, but what is even more important is the resulting relationship. Norm and value sharing creates common attitudes and is thus a contributing factor to creating a familiar environment in which trust is more likely to flourish and it creates common goals that makes behaviour more predictable. Capacity building increases the parties’ mutual dependence and thus their inclination to behave in a fashion that is beneficial for both parties, thus reduce the risk of non-compliance. Building a trustful relationship is a time consuming process and compliance is therefore not a result that is achieved over night.
8.8 Directed Focus

The above conducted discussion has argued that various control possibilities are available for the SME. From an optimal stance it would naturally be most advantageous for FF to pursue initiatives within each of the three paths in order to enhance compliance. However, in light of the current lack of deployed safeguarding mechanisms, it may be questioned if the scope of the requirements may be too comprehensive for an SME with low bargaining power, limited resources and a strong dependency on its suppliers. It has earlier been demonstrated that the generic content of the CoC has been rather “unconsciously” decided upon and thus indicate a need for the SME to realistically evaluate its ability to control the posed requirements.

Accordingly, it is argued that it is most imperative for FF to follow the second recommendation related to the formalisation of the CoC since without this action FF will have no possibility to achieve any compliance from suppliers because FF itself does not know what it expects or how serious it should take non-compliance. The two remaining possibilities are not only quite complimentary, they are also important if FF decides to make supplier compliance an integrated part of its business. We have chosen to focus on these possibilities and include safeguards, which seem most realistic to utilise for FF due to their limited resources and previous experiences with similar activities. We have thus refrained from including more costly safeguards such as heavy rewarding and from more unrealistic ones such as joint development of content.

Recognising the resource constraints facing any SME, it becomes essential to decide where to direct the chosen control initiatives. As already mentioned, the FF’s suppliers differ both in size and in their ability to live up to the CoC requirements. Accordingly, it may imply a more extensive need for safeguarding mechanisms among the specialist suppliers than among yarn- and full-service suppliers that, to some extent, experience CoC requirements from their larger buyers. The fact that some of its suppliers already face such pressure entail some possibility for FF to “free-ride” on the requirements and control of larger customers and thereby compensate for its small size. Finally, by making the CoC requirements part of the selection criterion of a supplier it may allow FF to decrease the risk of ex post opportunistic behaviour and thereby lower the need of controlling this supplier. This reasoning is already employed in relation to the QC system where a certain level of quality is ensured through trial orders prior to contract signing.


9.0 Conclusion

The problem statement of this research paper sought to investigate how First Factory can deploy safeguarding mechanisms to enhance CoC compliance from its Chinese suppliers and thereby reduce agency-problems in the buyer-supplier relationship.

This research combines the distinct perspectives of PAT and NT to establish a theoretical construct for examining non-compliance issues and discuss a buyer’s possibility of deploying safeguarding mechanisms towards its suppliers. When applying the theories to our research area we suggest that six factors have considerable influence on the level of compliance. In addition, two control forms of economic/contractual and relational control are developed to explain the available safeguarding mechanisms for a buyer. After conducting a buyer-supplier analysis and carrying out a discussion of the SME’s control implications, we find that FF faces various challenges for enhancing compliance among its suppliers. However, it is argued that the SME is able to compensate for its weak position of low bargaining power and limited economic resources through a deployment of safeguarding mechanisms under predominantly relational control but with important complementary aspects of economical/contractual control.

This contextual analysis, from a country and industry angle, demonstrates extensive social and environmental issues, weak legal enforcement and economic downturn within the Chinese textile and clothing industry as key contributing factors influencing non-compliant behaviour by suppliers. Also, the lack of FF’s reflection in the choice of CoC requirements and its broad applicability appears to create misunderstandings for the suppliers. However, the location of FF in the Yangtze River Delta, which has China’s most developed legal enforcement, is argued to makes it relatively easier to enhance compliance than in other parts of the country.

The findings of the buyer-supplier analysis suggest non-compliance issues both in relation to the overall characterisation of the relationship and in regards to the examination of the theoretically derived factors from PAT and NT. From the overall characterisation, we find that FF’s use of various suppliers in its production process complicates its ability to maintain a clear overview of non-compliance. Also, the suppliers’ use of sub suppliers and the fact that the suppliers are not selected and evaluated based on the CoC criteria is believed to create agency problems. From the examined PAT factors (Risk Attitude, Conflicting Goals, Asymmetric Information) it is shown
that the suppliers have an information advantage over FF that nonetheless is reduced through frequent factory visits. Also, a goal conflict exists due to the extensive reliance on traditional purchasing criteria thus lowering the incentives for suppliers to comply. Besides, FF is more exposed to risk than its suppliers and this can plausibly be explained by the existence of an anonymous supply chain. On the basis of the NT factors (Interdependence, Time Span for Reciprocity, Shared Norms and Values) it was further demonstrated that interdependence between the parties is present through FF’s extensive investment of resources in the relationship and the suppliers need of know-how related to quality improvements. In addition, both parties was found to posses a long term view of the cooperation and finally FF’s lack of norm and value sharing is argued to result in low perceived relevance of the CoC by suppliers.

We argue that in order to reduce the agency problems, identified in the analysis, it becomes essential that the SME make its CoC requirements subject to control. When considering the implications for FF of deploying safeguarding mechanisms, we suggest that the empirical deviations from the theoretical prescription in PAT complicate its situation. Most notable is the finding of an agent who is less dependent and more risk willing than presumed in the theory. This implies ambiguous principal-agent roles in our empirical setting, which, in turn, limits the ability of the SME to properly incentivise its suppliers. Accordingly, this may therefore indicate that PAT fail to fully capture the specific challenges of an SME. Instead, NT is believed to have stronger explanatory power in characterising the shown dependence of FF on its suppliers as well as the possibility of SME to utilise control.

Through the assessment of FF’s quality control system we show that the SME is able to influence its suppliers to ensure that they meet its quality standards. This leads us to argue that it is possible, through similar means, to influence the suppliers to live up to the CoC requirements. On the basis of the placement of FF in what we term the control model, we determine the extent to which our conceptually derived safeguarding mechanisms are applicable for the SME to enhance compliance.

We observe an unclearness of importance, responsibility and purpose internally in FF, which is argued to complicate its aim of compliance. These findings indicate that a sole external focus on how a buyer can control its suppliers becomes to constricted and we therefore opt for a more
complex view of the principal than the characterisation of a homogenous entity of unified goals and interests as found within PAT. Due to the absence of current control initiatives, we argue that the CoC entail a considerable risk of being reduced to mere “window dressing”. In order to avoid this, we suggest that FF enhance compliance through the three non-exclusive possibilities of 1) increasing the importance of the SME, 2) formalisation of the CoC and 3) building up a more trustful relationship with suppliers. The first possibility implies deploying the safeguard of capacity building to provide knowhow on how to enhance compliance and thereby becoming a more interesting customer in the eyes of its suppliers. The second possibility implies utilising the safeguards of reward and sanction (though not in an extensive way) by integrating the requirements of the code into the contract and assessing suppliers compliance levels as part of the quality control system, thus allowing a formalisation of the initiative. The third possibility entails a combination of the safeguards norm and value sharing and capacity building to underline the common beneficial gains and increase joint understanding and unify objectives. The second path is believed to be the most pressing for FF since it entail an alignment of internal objectives and an integration of the CoC requirements in the contract and in the already existing quality control system. Building on the argument that FF to some extent can free ride on larger buyers CoC requirements, it is argued that FF should direct its control initiatives towards the smaller and less developed specialist suppliers. Recognising the complexity of non-compliance at the supplier level, we are aware of the limitations of the developed safeguarding mechanisms to fully resolve the identified challenges. As examples of limitations are the difficulty of ensuring a reliable information gathering system for detecting non-compliance and the inadequate ability to solve non-compliance beyond the first tier level.

Since this research project shows the specific challenges for an SME to ensure compliance from its suppliers in a Chinese context, we believe that our findings contribute with insights into a research field in need of further study. The predominant research focus is placed on CoC initiatives of MNCs, which may be argued to create an assumption of a “strong” western buyer that is capable of pressuring its “weaker” and less resourceful suppliers to comply. However this assumption is counterbalanced by our findings, where FF is faced with relatively powerful Chinese suppliers. Due to the increasing number of SMEs that engage in international buyer-supplier relationships it becomes important, from a business and policy perspective, to enhance their ability to perform governance functions towards their suppliers.
10.0 Further Research

Steven Lukes, professor of politics and sociology at New York University, wrote in 1974, in his book on power that the most effective form of control is the ability to prevent the occurrence of conflicts. It has been argued throughout this thesis that control does not necessarily require superior bargaining power, but can be achieved through alternative mechanisms of interdependence and norm and value sharing intended to prevent the occurrence of conflict between parties. It is however important to emphasise that the character of the thesis and the findings are based solely on a single case study in a specific context and can as such not be subject to much generalisation. However, we would find it interesting to explore if the theoretical framework holds value for a wide range of companies faced with issues of control and compliance. We therefore suggest further research on two levels. First, it could be interesting to expand the number of included suppliers in order to get a better and more valid picture of the agency problems identified in FF’s supplier relationship. Second, a multiple case study could help determine whether the identified issues are present for a broader scope of SME in differing contexts and whether similar solutions seem plausible. This would provide inside into the generalisability of the presented findings.

Two interesting implication stand out if we for the remaining of the section assume that the conclusions of this thesis were to be deemed both valid and reliable on a larger scale. First, it has been shown advantageous for buyers, small as large, to deploy a combined use of safeguards in order to obtain a more beneficial form of control, especially when dealing with CSR. The reason has to be found in the argument that it is important for buyer companies to participate in some degree of education and capacity building in order to enable suppliers to live up to given requirements. If a too unilateral focus is placed on economic/contractual control and suppliers are abandoned if they are not capable of complying we run the risk that a large number of suppliers is excluded from international trading and is left with no pressure or incentive to improve. Second, the finding show that companies buying from larger suppliers are capable, through relational control, to achieve a higher degree of compliance than through economic/contractual control. This however entails an increased risk on the buyer associated with the possibility that the needed investments of relational control might fail to function.
Finally, in the light of the initiating quote, it is interesting to question for whom CoC’s are developed and implemented. Numerous examples have shown that CSR initiatives, often in the form of CoC requirements, has fallen short of delivering the positive changes that they hold out prospect of, especially in developing countries where it is often assumed that any CSR initiative automatically will improve worker conditions or environmental decay (Lund-Thomsen 2008). This raises the question of whether CoCs are actually just sugar cubes meant to prevent conflicts between consumers and Western companies or if they are actually derived to improve social and environmental conditions. We therefore believe it to be extremely important to conduct further research that can shed light on the consequences that CSR initiatives actually have on workers and the environment. This seems to be an important aspect to clarify so SMEs can most efficiently invest resources in CoC development and control.
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Appendix 1 - Academic and Industry Definitions

**Agency Problems:** exist between parties where one party, the principal, delegates work to the other party, the agent, who in return for doing the work is compensated. The first problem arises when the parties have different desirers or goals (goal conflict), and it is difficult or expensive for the principal to gain information that enable a verification of the agent actions. The second arises due to the parties different risk attitudes which becomes a problem because the parties may prefer conflicting actions due to their different attitudes towards risk (Eisenhardt 1989).

**Bargaining Power:** The notion that one party can exercise influence over another (Buvic & Reve 2002). In this research context, bargaining power defined in relation to the two aspects of economic resources and being an “interesting customer” (Christiansen & Maltz 2002).

**Code of Conduct (CoC):** is a non-legally binding set of minimum requirements related to social and environmental responsibility which a buying require its suppliers to comply with. It most commonly relates to labour standards, environmental standards, human rights and anticorruption (UNGP2009¹).

**Compliance:** is here defined as the supplier living up to the terms stated in the CoC. A non-compliant supplier may, for one reason or another, breach one or several points of the CoC, while a compliant supplier will live up to the point in full. Suppliers can therefore be viewed as more as less compliant and not just compliant or non-compliant.

**Corporate Social Responsibility (CSR):** is a form of corporate self-regulation, which has been subject to many and diversified definitions (Carrol 1999). Here Carrol’s (1999) definition will be utilised; “it is suggested here that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic”, with emphasis placed on the ethical part related specifically to social and environmental aspects of responsibility. This means that companies are viewed as having responsibilities extending beyond maximising return for their shareholders, they also have responsibilities towards other stakeholders in the surrounding society.

¹ [http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html](http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html)
**First Factory (FF)** is a Danish SME with focus on knitwear expertise and with a subsidiary in China. It is the case company for this thesis.

**Safeguarding Mechanism;** are protective mechanisms to ensure that suppliers live up to the signed CoC (Pedersen & Andersen 2006). Hence, they make suppliers behave according to the stated points in the CoC and subsequently lead to compliance. In this project safeguarding mechanisms are considered to fall under the two control forms of economic/contractual and relational control. These are two distinctions based on principal agent theory and network theory respectively.

**Small-Medium-Sized Enterprises (SME’s);** are companies which employ between 10 and 250 people, has a yearly turnover between 2 and 50 million euro and a total annual balance sheet between 2 and 43 million euro (EU 2003). This is the common definition within the European Union and implies that First Factory falls within this definition.

**Suppliers;** are companies producing and delivering semi- or full-manufactured products to a buyer. In this thesis suppliers are defined as First Factories first-tier Chinese suppliers. For FF they represent four different types of suppliers; full service, yarn, linking and finishing.

**China;** is here referred to as mainland China, thus excluding Hong Kong, Macau and Taiwan which runs different economic and political systems and thus falls outside the developing market characterisation by having a higher development status.
Appendix 2 - Selection of Case

When deciding on which case company to work with four basic sampling criteria were identified as the starting point for the selection. The objective was to that the company had to:

- Be a Danish company
- It had to fall within the definition of an SME
- It had to be a clothing company
- It had to have suppliers and activities in China, preferably in the Shanghai region

These requirements were first of all based on the initial interest in the project which was focused on the challenges that small and medium sized companies in Denmark have with CoC compliance from Chinese suppliers. So it had to be a Danish SME. The focus on the textile and clothing industry was chosen do to the importance it has in Denmark as well as China. Textiles and clothing is a traditional Danish industry which has gone through a development of offshoring and outsourcing, thus the international aspect is not a new one. In China the industry is a major contributor to the economic development and one of the traditional pillar industries in the country with a continuously increasing production and export. Furthermore it is one of the production industries that contribute heavily to the social and environmental problems that face China today. The focus on China was important due to the major social and environmental issues that the face and because a still increasing proportion of Danish SME are moving or outsourcing production to the country. The Shanghai region was preferred due to the writer’s knowledge of the area, the relative high development and the easy access to suppliers and industry professionals.

The selection process evolved as followed; a list of all Danish companies in China was obtained from the Danish General Consulate in Shanghai and all small and medium textile and clothing companies were extracted. This gave us a list of 28 companies. From this list 10 companies were chosen based on them already having initiated some activities related to CSR. The list looked as follows:

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An email for formulated, specifying the project and asking for interest in the issue and possible cooperation. This email was then followed up by a telephone call two weeks later which narrowed the list down to four interested companies: HJM ApS, TVV Group, First Factory, and Friis & Co.

First Factory was then chosen do to their level of activities both in Denmark and in China, there specific issues of implementing and achieving compliance from suppliers with a CoC, and there openness towards having their suppliers visited and interviewed.
Appendix 3 - Selection of Industry Professionals

Selection of “Industry Professionals”

The industry professionals were selected on the basis of our participation at the Responsible Fashion and Design conference in Shanghai from the 16th to the 21st of October 2008. All the interviewees gave speeches during the five-day conference and were selected due to their insight into our area of research. The conference consisted of the following five topics: “The Chinese/Danish dialogue on CSR and Environmental Sustainability – Challenges and Opportunities“, “Implementing CSR in China”, “Doing Business in China”, ”Branding and Marketing of Responsibility in Asia”, and “Chinese/Nordic Dialogue on project NICE – Nordic Initiative Clean and Ethical”. Each relevant speaker was approached after the presentation and asked to participate in an interview which was conducted during the conference or the following week. The industry professionals are:

- Olivier Levy, CEO of Dragon Sourcing. Sourcing company with special focus on sustainable sourcing
- Brian Ho, Consultant in CSR Asia. Consultancy providing services on sustainable business practices in Asia.
- Mark Schaub, Partner in King & Wood. Law firm in China providing legal solutions to cross-boarder and domestic transactions.

Selection of “Best Practice” Supplier

Two interviews were conducted with “best practice” Chinese textile and clothing suppliers which were identified on a visit to the 18th East China Fair in Shanghai in May 2008. These suppliers were selected since they were among the few attending Chinese companies that offered to make product according to environmental and social standards similar to those included in the UNGC. The initial contact at the fair was followed up by an e-mail enquiry asking to do a factory visit and as well as an interview with the company manager. In both cases the interviewees were eager to display their factories and participate in an interview. The interview was conducted at the factory followed by a tour of the facilities. The interviewee was:

- Nikki Wang, factory manager for Judy Mao Shanghai. A Clothing producer with customers such as Nike and Wal-Mart.
## Appendix 4 – Theoretical Assumptions and Deviations

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<td>Most Efficient Contract</td>
<td>(Embedded in Networks)</td>
</tr>
<tr>
<td><strong>Focus of Analysis</strong></td>
<td>Contracts and Incentives</td>
<td>Inter-firm Relations</td>
</tr>
</tbody>
</table>

*Adapted from Halldorsson et al. 2007; Eisenhardt 1989; Johanson & Mattsson 1987*
First Factory A/S

Code Of Supplier Conduct

1. Employment is freely chosen
   There shall be no use of forced, including bonded or prison, labour (ILO Conventions 29 and 105). Nor shall workers be required to lodge “deposits” or their identity papers with their employer.

2. There is no discrimination in employment
   Equality of opportunity and treatment regardless of race, colour, sex, religion, political opinion, nationality, social origin or other distinguishing characteristic shall be provided (ILO conventions 100 and 111).

3. Child labour is not used
   There shall be no use of child labour. Only workers above the age of 15 years or above the compulsory school-leaving age shall be engaged (ILO Convention 138). Adequate transitional economic assistance and appropriate educational opportunities shall be provided to any replaced child workers.

4. Freedom of association and the right to collective bargaining are respected
   The right of all workers to form and join trade unions and to bargain collectively shall be recognised (ILO Conventions 87 and 98). Workers' representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to enable them to carry out their representation functions (ILO Convention 135 and Recommendation 143). Employers shall adopt a positive approach towards the activities of trade unions and an open attitude towards their organisational activities.

5. Living wages are paid
   Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards. As a requirement with process character, the wages shall be sufficient to meet basic needs of workers and their families and to provide some discretionary income. All possible measures have to be taken to achieve this subject. Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All workers shall be provided with written and understandable information about the conditions in respect of wages before they enter employment and of the particulars of their wages for the pay period concerned each time that they are paid.

6. Hours of work are not excessive
   Hours of work shall comply with applicable laws and industry standards. In any event, workers shall not on a regular basis be required to work in excess of 48
hours per week and shall be provided with at least one day off for every 7 day period. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.

7. **Working conditions are decent**
   A safe and hygienic working environment shall be provided, and best occupational health and safety practice shall be promoted, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Physical abuse, threats of physical abuse, unusual punishments or discipline, sexual and other harassment, and intimidation by the employer is strictly prohibited.

8. **The employment relationship is established**
   Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment. Younger workers shall be given the opportunity to participate in education and training programmes.

**Explanation**
The requirements to the social standards listed above comply with the minimum requirements from the code of labour practices of the Clean Clothes Campaign (CCC). These are based on the International Labour Organisation’s (ILO) core conventions. The employees in the company have to be informed about the regulations of the social standards. The signing company does oblige to comply with these social standards.
Appendix 6 – First Factory’s Supplier Contract

Purchasing and sales contract
No.FFA081221

Supplier: Suzhou H&F Knitting Co., Ltd

Buyer: First Factory Textiles (Suzhou) co., Ltd
Signing date: 2008-07-01
Place: Wuzhong, Suzhou

<table>
<thead>
<tr>
<th>Specification</th>
<th>Quantity</th>
<th>Unite Price</th>
<th>Amount</th>
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<tr>
<td>PO#2952 STYLE#12018</td>
<td>208PCS</td>
<td>RMB31.00/PC</td>
<td>RMB6448.00</td>
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<td>PO#2951 STYLE#12017</td>
<td>423PCS</td>
<td>RMB32.00/PC</td>
<td>RMB13526.00</td>
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<td>PO#2950 STYLE#12016</td>
<td>626PCS</td>
<td>RMB34.00/PC</td>
<td>RMB21284.00</td>
</tr>
<tr>
<td>Total</td>
<td>1257PCS</td>
<td></td>
<td>RMB41268.00</td>
</tr>
</tbody>
</table>

Delivery date: 24-Jul

1. Requirements on quality: must produce according to the approval comments of customers, any claim against quality will be the liability of supplier.
2. Short or overshipment: short delivery is not acceptable, but no more the 2% overshipment, which will not be paid.
3. Packing and packing charges: products must be packed according to requirements, supplier will take over the costs.
4. Inspection: Goods can only be dispatched upon the release from buyer. Costs for a final inspection will be RMB500.00, supplier will take over all the costs in the event of the failure in 1st final inspection.
5. Foods dispatch: Supplier should send the goods to the designated warehouse in Shanghai on his own account.
6. Terms of payment: Payment will be done in one time by buyer upon presence of VAT invoices within 40 days after goods dispatched.
7. Breach liability: Shipping mode under this contract is by boat, any costs result in delay of goods will be on supplier’s account. This contract also comply with the Chinese Economic Law.
8. This contract will be valid until…
9. Ways to resouve contract disputes: mainly resolve through negotiation.
10. Ways to resolve contract disputes: mainly resolve through negotiation.
11. Contract will be valid upon the signatures from 2 sides, fax is also acceptable.
12. Buyer will supply all the yarn and trims, while the wastage must be within 3%, part exceeded must be on the supplier’s account

Supplier: Buyer:

Signature: Signature:
Tel: Tel:
Address: Address:
Appendix 7 - Supplier Description

**Eastern**

Eastern is one of First Factory’s full service suppliers, they undertake the entire order from yarn and accessories to finalised and packed product. Eastern was established in 1999 and employees today about 300 people, far the majority of these are working in the production. Their production capacity is about 80,000 pieces a month, but varies from 60-100,000 depending on type. Eastern runs at close to full capacity and while there is a bit concern of a fall in orders from Europe and the United States due to the financial crisis, the production manager feels it is a problem that can be solved by effective production planning. The company is a privately owned company and consists of one factory. Eastern’s buyers are mainly larger, international customers from Europe and the United States, among other is Gerry Weber.

As for the time being, Eastern do not have any certifications, but is in the process of applying for the ISO 9001, because they fell an increased interest from current and potential customers. First Factory is not the first customer to ask Eastern to sign a code of conduct, a few German buyers has done the same, however Eastern does not really care too much for these CoC since, as the production manager says; “I do not really understand why we need this document. We have the government, they do the law that we have to follow and that we follow” (Knitting supplier 2008). This show quite well the attitude that Eastern has towards the issues of CoC compliance and the understanding, or lack of understanding, which Eastern exhibits.

Eastern tells that they are not particularly interested in the small orders that First Factory places with them, but that they view the relationship as an investment in the future and that they are also interested in customers that requires a high level of quality and whom are interested in assisting in developing their quality standards. For these reasons they view First Factory as a customer worth dealing with.

**Afasia**

Afasia is one of First Factories major yarn suppliers, the factory that was visited was established in 2003 and is a part of a larger company that has a handful of yarn factories in China and Taiwan. The factory employees 400 people and is thus considered a medium sized factory within
its area. Yarn producers purchase raw yarn, either cotton or wool, and basically dyes it to the specific colour in question. It is by all means the part of the process in the production of knitwear that has the highest impact on the environment. Afasia’s buyers are mainly larger clothing companies, that like First Factory, buys the yarn and delivers it to the knitting supplier.

Afasia holds both the ISO 9001 and the 14000, they are extremely focused on their impact on the environment and they tell that they have invested extra in water treatment and that they are often pointed out as a best case scenario. The background needs to be found with the owner who views the factory as a long term investment and thus also the impact it has to the surroundings. In 2003 when the factory has build the government was not very strict on water treatment, but the owner wanted to make sure that it did not turn in to an issue in the future so he invested in state of the art technology from Taiwan and is now benefitting from being able to deliver yarn at a lower cost than competitors who recently had to invest in treatment systems. This is also a good example of the increased focus and understanding that this factory has CSR and CoC compliance. 30% of their customers request that they sign a CoC and they expect this to increase during the coming years. Afasia has even implemented an evaluation system for their supplier in order to be able to determine if they live up to their requirements or not. If there are problems with a supplier and the problems are not taken care of the suppliers are excluded. However they are also aware that many of the CoC requirements that the European and American companies pose are impossible to comply with if they are not willing to back the requirements up with higher prices.

There is no doubt that Afasia has a quite developed understanding of the issues at hand, especially in relation to other similar companies in Chain. Eastern does also have a better understanding than most of their competitors, however not to the same extend as Afasia.

The two companies do in many aspects stand out from First Factory’s average supplier. They know the terminology and the mechanisms at hand. Furthermore they do not exactly represent the average supplier, but they do face the same problems and have the same challenges as the rest of First Factory’s suppliers. However they are probably better suited to deal with them. This does not mean that the data collected loses value, it might not be fully generalisable, but it could be seen as a view into the what the average supplier might look like in 3-5 years. Also it
would have been close to impossible to get a decent interview with many of the other suppliers simply due to their lack of understanding for the issue.

**Full Service and Specialist**
The full service suppliers and the specialist generally has compliance issues related to social aspects, which also is the sole focus of First Factory’s CoC. It is especially issues related to overtime, forced labour, and in a few cases child labour. The issues, while illegal in China, are poorly controlled by authorities. Especially issues of immense overtime and to some degree forced labour are quite common in the Suzhou area (Brian Ho 2008).

**Yarn Suppliers**
Yarn suppliers are also faced with social issues of compliance, however their situation is further complicated by also incorporating issues of environmental character. Dying yarn is an extremely water consuming process and the dye contains a range of chemicals not suitable for local rivers (Yarn supplier 2008). For this reason yarn dyers are requested by Chinese law to invest in water treatment plans which are expensive both to buy and to run. While it is fairly easy to determine whether or not a water treatment plant is in place and operable, it is a lot more difficult to make sure that it is in use all the time and that waste water is not spilled in order to save money. The officials in Suzhou do check the quality of the water in the surrounding rivers and creeks: “If the Suzhou municipality finds that the water contamination is too high, they will shut down some of the yarn dyers for maybe a week or so. Then our suppliers will inform us that our orders are delayed because they are not allowed to dye at the moment” (Birk 2008). However it is difficult to determine if the plants that are being closed are actually the plants responsible for the contamination.
Appendix 8 - First Factory’s Supply Chain; Two Ways of Producing

**Full Service Supplier**

Raw Material Supplier → Yarn Supplier → First Factory → Branded Fashion Company → Consumer

**Specialist Supplier**

Raw Material Supplier → Yarn Supplier → Knitting → Linking → Finishing → First Factory → Branded Fashion Company → Consumer
Production Process

First Factory works with four types of suppliers; yarn suppliers, full service supplier, specialists and accessory suppliers. As shown in the above FF purchases all yarn directly from yarn suppliers and has it transported to knitting suppliers (Birk 2008). The production process entails three overall steps; 1) knitting of the parts that make up the finished product, 2) linking of the parts, which is attaching them together, and 3) finishing which incorporates sawing on bottoms, zippers, labels, washing, ironing and packing (Rodger 2008). This entire process leading up to the finished product can occur in one of two ways. Either First Factory can choose to use their full service suppliers whom undertake the entire process and deliver the finished product to First Factory, or they can choose to use specialist suppliers who each undertake one of the three parts of the production process and which implies that First Factory themselves moves the semi-manufactured goods to the next production stage (Birk 2008).
Appendix 9 - The Three Economic Development Regions

- Pearl River Delta
- Bohai Bay
- Yangtze River Delta

First Factory

Pearl River Delta

Bohai Bay

Yangtze River Delta
Appendix 10 – Main Area of Clothing Production in China
## Appendix 11 - Classification of the Clothing Industry and Specification of First Factory’s Customers

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Haute Couture</td>
<td>Chanel; Christian Dior</td>
<td>French for &quot;high dressmaking&quot;, the term is protected and can only be used by selected companies that live up to certain standards. The cloth is custom made, ones of a kind, rarely for sale and often perceived more as art then cloth for wearing. It naturally makes up a fraction of the market.</td>
</tr>
<tr>
<td>Prêt à Poter</td>
<td>Prada, Dolche &amp; Gabbana</td>
<td>French for &quot;ready-to-wear&quot;, today a blurred distinction exists for most consumers, between Haute Couture and Prêt à Poter. But Prêt à Poter is commonly accessible, though often at a high price, and producers have a significant higher margin on this type of clothes compared with Haute Couture.</td>
</tr>
<tr>
<td>Mid-Range</td>
<td>Noir; Annhagen; Malene Biger; Bruns Bazar</td>
<td>This is where the majority of First Factory’s customers belong. In Danish terms, the mid-range segment is where the most interesting developments, in terms of design, take place. This segment still spends significant resources on design and product development, the quality is high, but the market focus in considerably wider.</td>
</tr>
<tr>
<td>High Street</td>
<td>Jackpot; H&amp;M; Jack &amp; Jones; Zara</td>
<td>This is highly industrialised products; the design is widely influenced and inspired by the trends set by the Prêt à Poter and Mid-range segments. Products are mass produced and consequently sold relatively cheaply.</td>
</tr>
<tr>
<td>Budget</td>
<td>Bilka; Føtex</td>
<td>Constituting over 30% of the Danish consumption of cloth, this is most often in-house brands, quantities are extensive, quality low and design and innovation non-existing. Prices are consequently kept at a minimum</td>
</tr>
</tbody>
</table>

*Based on an interview with Stine Heedegaard, Danish Fashion Institute done in October of 2008*
Appendix 12 – Interview Guides

Interview Guide First Factory

Intro
First of all we would like to thank you for participating in this interview. We appreciate your time in this matter.

Practical Information:
- Timeframe is estimated to 1½ - 2 hours
- The interview will be recorded
- For practical reasons we would ask you whether we can use direct citations drawn from the interview today? (or do you wish to have it sent for approval prior to print)
- It is important for us to underline that there is no right or wrong answers
- Please do not hesitate to interrupt us if you find a question unclear

As you have already been informed, the interview will evolve around First Factory’s relationship with its suppliers with the specific focus on First Factory’s Code of Conduct. We are interested, in your perception of the CoC. In order for us to achieve the best result in relation to the outcome of our thesis, we encourage you to share:
- Both good and bad thoughts and experiences in relation to First Factory’s Code of Conduct

Theoretical Codes

<table>
<thead>
<tr>
<th>Principal-Agent Theory:</th>
<th>Network Theory:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(O) = Opportunism</td>
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<tr>
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<td>(RC) = Relational Control</td>
</tr>
</tbody>
</table>

(BP) = Bargaining Power
Job description

1. Please tell us about your job – what is your area of responsibility?

Development in the Chinese Textile and Clothing Industry

2. What characterises the textile and clothing industry in China today? (Competition, Economic, legal, political developments)

   a. Can you give examples of changes that have affected your business recently?

3. What are the main opportunities and challenges within the industry at the moment?

   a. For First Factory?

   b. For your suppliers?

4. Where do you see the biggest CSR challenges?

   a. In the industry, value chain, in relation to your job?

5. Which precautions does First Factory take in order to avoid these challenges?

6. Does First Factory experience a pressure to care more about the welfare of workers and the environment? (From Shanghai municipality, Beijing, Denmark, Customers, NGO’s, GNGO’s, other?)

   a. If yes; in which ways and from whom?

   b. If no; why do you think this is?

   c. Specifically for CEO China, QCM and CFO: What are the differences between the pressures faced in Denmark and China?

7. Can you tell us about the new labour law and the environmental legislation?

   a. Are they stricter today than earlier?

      i. If yes; in which way?

      ii. If not; why not?
Supplier Characteristics

8. What are the characteristics of the suppliers that you work with? (e.g. size, location, competences, country of origin, customers, certifications, CoC’s, etc) (BP)
   a. What do they supply?
   b. Please tell us specifically about the suppliers we are meeting, Eastern and Afasia?

9. How many suppliers do you work with? (I)
   a. How has this developed since you started the company in China?
   b. Will this number increase or decrease in the future?
      i. Why?

10. How long have you worked with your suppliers? (TR)
    a. On average?
    b. Eastern and Afasia?

11. Are any of your suppliers used to work with CoC’s? (NV)

12. From which criteria do you select your suppliers? (e.g. price, quality, speedy/reliable delivery, environmental and social mindset, long term relationship, specific competences (which), proximity, other) (GC)
    a. Are there many suppliers living up to your selecting criteria?

Supplier Relationship

13. How would you describe the relationship with your suppliers? (O) (T)
    a. How do you interact with First Factory’s suppliers in your daily work?

14. Specifically for CEO China, QCM and CFO: Can you name three challenges particular to working with Chinese suppliers? (AP) (T)

15. For how long do you think there is a high probability that First Factory will continue to buy from Eastern? (TR) (I)

16. Would it be costly (in terms of invested resources) for First Factory to drop a supplier and develop a similar relationship with a new one? (I) (BP)
    a. Would you consider it easy for First Factory to switch suppliers?

17. How would you react if you got an offer on a similar quality product for a much lower price from one of your supplier’s competitors? (TR) (I)

18. What do you think is important in order to achieve a good relationship with your suppliers? (O) (T)
19. Please prioritise the following evaluation/rating criteria from most important to least important (e.g. price, quality, speedy/reliable delivery, environmental and social mindset, long term relationship, proximity, other) (GC)

20. How do you obtain information about your suppliers’ performance? (IA)

21. What type of information does First Factory share with its suppliers? (Cost breakdown, financial information, production scheduling, etc?) (IA) (I)

22. What information would you under no circumstance share with your suppliers? (IA) (I)

23. Do you invest a lot of resources in your suppliers? (I) (BP)
   a. In what areas?

24. Do you consider your suppliers a critical competitive advantage? (TR) (I)

25. Can you briefly elaborate on the content of your supplier contract? (EC)
   a. What are the main content of the supplier contracts?
   b. Have you had any episodes where a supplier broke the contract?
      iii. If yes what happened in that situation?

Industry Transparency

26. How well do you know your competitors? (EC) (RC)
   a. If yes, from where do you know them?

27. How well do you know your competitors suppliers and vice versa? (Transparency in the supply chain) (EC) (RC)

Purpose of the Code of Conduct

28. Why have First Factory introduced a CoC? (What is the motivation, incentive?) (AP)
   a. When was it developed/introduced?

29. What does First Factory aim to achieve with the CoC? (AP)
   a. Ambitions, goals, benefit?

30. What is your opinion about the CoC?
   a. Is it important?
      i. Why? Why not?
   b. Can you name three positive and three negative aspects of the CoC?

31. Do you think that the work with the CoC is a part of your job?
   a. Why? Why not?
32. Have you communicated the purpose of your CoC to your suppliers? (NV)
   a. If yes; in which ways?
   b. How did your suppliers react to the CoC?
33. Do you fell your suppliers have a full understanding of the intent of the CoC? (NV)
   a. Where do you experience gabs in the understanding?

**Content of the Code of Conduct**
34. *Specifically for CEO China, CFO*: How did First Factory decide the content of the CoC?
   a. Why are environmental issues not a part of First Factory’s CoC?
35. In your opinion, which aspects of the CoC are the most important aspects for First Factory?
   *(please evaluate the 8 points)*
   a. Why?
   b. Do you feel any important aspects are missing?
   c. Do you feel some aspects are of less importance?
   d. Are any violations less tolerable than others?
      i. If yes which?

**Supplier Incentives to Comply with First Factory’s CoC**
36. Can you give examples of conflicting interests between First Factory and your suppliers?
   *(GC) (RA) (NV)*
   a. Please give examples. How are they resolved?
37. Are there any areas in which you suspect that your suppliers try and cut corners in relation to your CoC? *(O) (RA) (IA)*
38. Can you give examples of incidents where a supplier has acted in a way that violated the terms stated of your CoC? *(AP) (RA) (EC) (RC)*
   b. If yes, what was the consequence, if any?
39. What business benefits do your suppliers gain from complying with your CoC? *(Employee retention, competitive advantage, front-runner position etc.)* *(TR) (NV)*
   c. Are these short or long term benefits?
   d. Do you fell your suppliers have a sufficient understanding of the business benefits?
40. What economic benefits do the suppliers receive from First Factory when following the CoC? *(Better unit price, more contracts, better arrangement on production and delivery time)* (GC) (EC)

41. Which of these benefits motivate your suppliers? (GC)

42. In your opinion are the buyers in this industry making it difficult for the suppliers to comply with CoC’s? (AP)
   a. If yes, how?
   b. How do you prevent that this happens in First Factory?

43. Do you actively work with your suppliers to help them ensure compliance with First Factory’s CoC? (AP) (NV)
   a. If yes, how?

44. Do your suppliers work with sub-contractors? (AP)
   c. If yes;
      i. Do you actively work with your suppliers to help them ensure compliance on the part of their sub-contractors?
      ii. How do you make sure your suppliers always make your products?
Interview Guide Suppliers

Intro
First of all we would like to thank you for participating in this interview. We appreciate your time in this matter.

Practical Information:
• Timeframe is estimated to 1½ - 2 hours
• The interview will be recorded
• For practical reasons we would ask you whether we can use direct citations drawn from the interview today? (or do you wish to have it sent for approval prior to print)
• Jason Shen will do the translating of the questions
• It is important for us to underline that there is no right or wrong answers
• Please do not hesitate to interrupt us if you find a question unclear
• It is important for us to stress that we are students undertaking our master thesis at university. We are not hired by First Factory to do this interview.

As you have already been informed, the interview will evolve around your relationship with First Factory with the specific focus on First Factory’s Code of Conduct. We are interested, in your perception of the CoC. In order for us to achieve the best result in relation to the outcome of our thesis, we encourage you to share:
• Both good and bad thoughts and experiences in relation to First Factory’s Code of Conduct

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</tr>
</tbody>
</table>

25
Overall Information about First Factory’s suppliers

1. Please tell us about your job – what is your area of responsibility?
2. How long have your company been established in China?
3. How many employees do you have here?
4. What is your total capacity/output?
5. Why have you decided to place your factory here? (Yangtze River delta area, Jiangsu province)
6. Do you hold any certifications? If yes, which?

Development in the Chinese Textile and Clothing Industry

7. Can you tell us about the textile and clothing industry in China today? (Competition, Economic, legal, political developments)
   a. Can you give examples of recent changes that have affected your business
8. What are the main opportunities and challenges within the industry?
   b. List three opportunities and three challenges for your company
9. Do you experience a pressure on your business to care more about the welfare of workers and the environment? (Shanghai municipality, Beijing, Customers, NGO’s, GNGO’s, other?)
   c. If yes; in which ways and from whom?
   d. If no; why do you think this is?
10. Can you tell us about the new labour law and the environmental legislation?
    e. Are they stricter today than earlier?
        i. If yes; in which way?
        ii. If not; why not?
11. How can it difficult for Chinese companies in this industry to work with workers rights and environment issues?
    f. Can you list three challenges (no reward, costly, etc)
i. Do you know if your competitors are having difficulties in these areas?

1. Please give examples?

2. Do you also experience these challenges in your company?
   
   a. If yes which and have you taken any steps to solve them?

   b. If no, why is this?

**Buyer Characteristics**

12. What are the characteristics of the customers that you work with? *(e.g. size, location, competences, country of origin, customers, certifications, CoC’s, etc)* (BP)

13. How many buyers do you work with? (I)
   
   g. How has this developed since you started the company in China?

   h. Would you like this number increase or decrease in the future? *(Many small orders or few large orders?)*

   i. Why?

14. How long have you worked with your buyers? (TR)
   
   i. On average?

   j. First Factory?

15. What is the average size of the orders you receive from buyers? (BP)
   
   k. What is a big order for your company?

   l. What is a small order for your company?

   m. Is it easy to fill your capacity?

16. Why do you take in smaller orders such as those from First Factory? (TR)
   
   n. What are the advantages and disadvantages?

**Relationship with First Factory**

17. Can you tell us about your relationship with First Factory? (O) (T)
   
   o. Is it different from your other suppliers?

   i. If yes, in which way?

   p. Is there anything in your relationship that you find very positive?

   i. Please explain
18. For how long do you think your company will continue to work with First Factory (First Factory’s level of commitment) (TR) (I)

19. If First Factory was to stop ordering from you, approximately how much of your investment for this kind of product in plant, equipment, training and know-how would you be unlikely to find alternative use for? (I) (BP)

20. What do you think is important in order for you to build a good relationship with your customers? (Explain) (O) (T)

21. What is in your opinion a good/important customer? (O) (T)
   q. Please list 3 positive characteristics

22. What is the most important for you when getting a new customer/order? (Price, volume, delivery time, level of quality demanded, building a good relationship, learning etc.) (GC)

23. What do you think First Factory find important when they select/evaluate suppliers? (e.g. price, quality, speedy/reliable delivery, taking initiatives to improve the welfare of workers and environment, build up of trust, long term relationship, proximity, other) (GC)
   r. Why do they use your company? (What makes you different from your competitors?)

24. What type of information does First Factory share with you? (Cost breakdown, financial information, production scheduling, etc?) (IA) (I)

25. Is there any other information that you would like your customers to share with you?
   s. If yes, how would this be helpful? (IA) (I)

26. Do you have signed contracts with all your customers? (O) (T)

27. Is it sometimes difficult for firms like yours to live up to the contracts of customers? (GC) (RA)
   t. If yes, why it can be difficult? Please give examples!
   u. What would be the consequence if it should occur that you could not meet the agreement of the contracts?
   v. Have you ever experienced this?

Industry Transparency

28. How well do you know your competitors? (EC) (RC)
   w. From where do you know them?

29. How well do you know the customers of your competitors and vice versa? (Transparency in the supply chain) (EC) (RC)
30. Are any of your competitors working with workers rights, environmental certifications or issues like this?
   x. Do you know which of your competitors are working more with these issues than others?

**Purpose of the Code of Conduct**

31. Have you signed First Factory’s CoC?
   c. If yes, who signed it?

32. Do any of your other customers want you to sign a CoC? (NV)
   y. Do you think more of your customers will ask you to sign a CoC in the future?
      i. If yes, why
      ii. If no, why not?

33. Is your company being audited by any of your customers? (IA) (EC)
   a. If yes,
      i. By how many of them?
      ii. Who is carrying out the audits?
      iii. What is in your opinion the advantages and disadvantages of auditing?

34. Are you familiar with First Factory’s CoC? *(What does it include)*
   z. Please explain

35. Why do you think First Factory have asked your company to sign a CoC? *(What is the motivation, incentive?)* (AP)

36. What do you think First Factory wants to achieve with the CoC? *(Ambitions, goals, benefits)* (AP)

37. What is your opinion about the CoC?
   b. Is it important?
      iv. Why? Why not?
   c. Can you name three positive and three negative aspects of the CoC?

**Content of the Code of Conduct**

38. In your opinion, which aspects of the CoC are the most important aspects? *(please evaluate the 8 points)*
   a. Why?
b. Do you feel any important aspects are missing?

c. Do you feel some aspects are of less importance?

39. What do you experience as being the most difficult aspects of the CoC to work with?
   (Including environment)
   a. Please list the three most difficult points and explain why this is so?

40. Do you work with sub-contractors?

   a. If yes;
      i. What do they supply you with?
      ii. Do you think they will have difficulties with any of the points in the CoC (including the environmental issues)?

         1. If yes
            a. Please specify which areas?
            b. Do you know if they actively work with improving these issues?
            c. Do you require this of them?
            d. Do you help them in any way?

Supplier Incentives to Comply with First Factory’s CoC

41. How do you think First Factory could make it easier for you to live up to the areas of the CoC? (Please be specific) (AP) (GC) (RA) (TR) (I)
   b. Which steps/initiatives could FF take to help you to improve? (Reward systems such as better unit price, more orders, better arrangement on production, delivery time capability building)

42. Do you see any benefit for your company if you follow First Factory’s CoC? (E.g. Employee retention, competitive advantage, front runner position, financial gains) (TR) (NV) (GC)
   c. If yes which? (Short term/long term)
   d. If no, why? (Are there disadvantages)
Interview Guide Industry Professionals

Intro
First of all we would like to thank you for participating in this interview. We appreciate your time in this matter.

Practical Information:
- Timeframe is estimated to approximately half an hour
- The interview will be recorded
- For practical reasons we would ask you whether we can use direct citations drawn from the interview today?

As you have already been informed, the interview will evolve around CSR issues related to the use of CoC between international, mainly Western companies, and Chinese suppliers. We are interested in your perception on the most difficult issues in the work with CoC’s in a Chinese context as well as pitfalls, challenges and best practices.

Preliminary Question
1. Tell us a bit about your company, what is the main area of business?
   a. How does your work relate to CSR in China?

1. What would you characterise as the most challenging CSR issues in China today?
2. How do you experience these challenges in your line of business?
3. Please draw a picture of the developments within CSR in China?
   a. Can you think of any recent incidents, which have put more focus on CSR in China?
   b. Is there an increasing pressure to be more social and environmental responsible?
4. From your experience why do foreign companies introduce CoC’s with their suppliers in China?
5. What are the main challenges for foreign businesses seeking compliance with CoC’s in China?
   a. Look for specific challenges related to the context of China and the textile and clothing industry?
6. What are the main challenges for Chinese suppliers when dealing with CoC’s?
7. In your view what are the opportunities and limitations of employing CoC?
8. In your opinion what motivates the suppliers to live up to the terms of the CoC?
9. What is normally the consequence of supplier non-compliance?
10. According to you, what is the best way to ensure that suppliers live up to their CoC obligations?
11. What are the advantages and disadvantages of monitoring, either internal or 3rd party?
Appendix 13 - Transcribed Interviews

Interview Kim Overgaard – CFO First Factory 18. september 2008 Herning

Q: Kan du ikke starte med at fortælle lidt om de udfordringer der er i tekstil og tøj industrien i Kina i dag?

A: En stor del af de virksomheder som tidligere har fået produceret tøj i Kina er begyndt inden for det sidste halve år at flytte produktion til især Bangladesh. Det er hovedsagligt en konsekvens af stigende priser på arbejdskræft, de stigende ejendomspriser og den stigende værdi af den kinesiske valuta i forhold til dollaren som gør sig gældende. Dette har betydning for udbuddet af produktionskapaciteten i Kina. Hvor der tidligere var et stor udbud er det i dag således at mange af de, især mindre fabrikker, er begyndt at lukke hvilket presser udbuddet ned. Dette er i sig selv ikke et problem da det er en konsekvens af et tilsvarende fald i efterspørgslen, men da det hovedsagligt er de større og dyrere producenter som er tilbage har det alligevel betydet et opadgående pres på priserne. Specifikt for os betyder det også at vores evne til at påvirke leverandørerne mindskes.

Også på detailsiden er der store udfordringer. De er altid hurtige til at mærke forandringer, og der er mange som er lukket ned og der er mange tab stadig i vente. Det er naturligvis også noget vi kan mærke på vores ordre. Men omvendt så tyder det jo så også ud i konkurrenterne kan man så sige. Det har vi så også mærket lidt, vi ved ikke om det direkte er derfor, men vi er begyndt at få henvendelser uden selv at skulle rette henvendelse så at sige. Det er jo tit fordi at så er man ude og lede efter en leverandør fordi den man havde, ikke er der mere. I Kina skal man også huske på at der er lukket mange virksomheder. Og det er altså en stor del af dem som er tekstilvirksomheder.

Q: Er det noget i der har mærket til?

A: Nej det har vi ikke, ikke nogle af vores normale underleverandører i hvert fald. Så har det været nogle mindre nogle vi kun benytter sjældent som er lukket og det er så ikke noget som betyder noget særligt for os.

Q: Hvor ser du de største udfordringer inden for CSR i dag?

A: Jeg mener hovedsagligt de ligger i at få de administrative procedurer på plads. At få fastlagt vores CSR politik, at få den implementeret, få lavet systemer på området, fuldt dem om og få skabt internt ejerskab.
Q: Så du ser det hovedsagligt som en intern udfordring?
A: Ja det tror jeg, jeg tror ikke der er så meget vi kan gøre udadtil lige nu, vi kan jo altså ikke gå ind og lave fagforeninger i Kina. Sådan er det jo bare. Så der er jo nogle områder der kan man jo ikke gøre noget. Vi vil gerne have fjernet de værste ting så vi er sikre på at det er i orden.

Q: Og ifølge jer, hvad er så ”de værste ting”?
A: Ja, men altså sådan noget som børnearbejde, det ser vi jo aldrig, men det vil vi ikke acceptere under nogen omstændigheder. Også kan man sige, de værste arbejdsforhold, sådan som at gå i kemikalier til knæene og sikkerhedsmæssige ting hvor det simpelthen ikke er i orden. Det kunne også være i forhold til udnyttelse af arbejdskraft, noget grov udnyttelse på en eller anden måde. Altså det vil man jo heller ikke acceptere.

Q: Det er jo nogle ting som i ikke ser i jeres hverdag. I har jo produktion i et område med forholdsvis ordnede forhold.
A: Ja ja, det er jo også sådan at det kan vi godt stå indenfor, men man ved jo aldrig. Vi kan også komme til at bruge andre leverandører på et tidspunkt, længere inde i Kina hvor forholdene er nogle andre. Der kan man jo nok støde på det. Men det er jo rigtigt det er jo ikke noget vi ser. Og vi forsøger også at bruge færre leverandører og lidt større.

Q: Men det vi tale om her er jo ”blot” den lovgivning som også er på området, det er jo ikke lovligt at bruge børnearbejde i Kina, det er ikke lovligt at vade rundt i kemikalier?
A: Ja men det er da rigtig, hvis du tager lovgivningen så er der jo ikke noget, altså lige bortset fra hvis du tager fri organiseringsret. Det får de jo ikke lov til, det er det så, men der er kun en mulighed. Men det er da rigtigt, hvis den kinesiske lovgivning er overholdt, så er der ingen problemer.

Q: Er det en del af jeres målsætninger med at have en CoC, at være med til at sikre at den lovgivning bliver overholdt, eller har i også et ønske om at gøre mere end det, altså gå længere end lovgivningen?
A: Det synes jeg ikke vi vil på leverandørsiden. Nu har du jo selv set vores leverandører, det er jo ikke at du ser skidt rundt omkring i krogene eller arbejdere der er lønket til væggene, det er jo slet ikke det vi taler om. Så jeg tror det er nok de niveau vi er på. Men det kan du jo ikke vide. Vores
kunder her i Danmark eller Tyskland ved jo ikke hvor det er lavet henne i Kina og hvordan det ser ud. Så for dem er det jo en vigtig ting at vi kan sige at tingene altså er i orden.

Q: Så jeres CoC er i høj grad et værktoy målrettet jeres kunder?
A: Ja, men det er der ingen tvivl om. Det er i høj grad for at kunne stille en sikkerhed overfor vores kunder at de produkter de køber af os altså er blevet produceret under ok forhold.

Q: Men hvad med sådan noget som overarbejde, det er en del af jeres CoC, men ikke noget i går så forfærdeligt meget op i?

Q: Er der nogen generelle karakteristika ved de leverandører som I arbejder med?
A: Det ved jeg ikke… Qua at vi stiller nogle krav også videre så er det jo nok nogle som man vil sige ligger i den bedre halvdel. Eller det er jeg sikker på at de gør. Vi kan jo helt sikkert finde nogle som er billigere. Mange af de krav vi stiller er jo med til at sortere de værste fra. Vi vil jo heller ikke have at der ligger skidt over det hele. Det vil vi godt nok ikke, for så kommer det på tojet, det ved vi jo. Så uover at det fremmer arbejdsmiljøet, så vil vi altså bare ikke have det.

Q: Så det er kendtegnet ved dem at de altså er nogle af de ”bedre” leverandører?
A: Det er det helt sikkert for det andet det vil vi simpelthen ikke acceptere.

Q: Er det dit indtryk at der er mange af dem som er vant til at deres kunder stiller krav til at de skal underskrive sådan en CoC? Eller er det noget nyt de oplever fra jer?
A: Nej, jeg tror at dem som er vant til at arbejde med udenlandske kunder, de er vant til at der kommer noget de skal skrive under på også skriver de bare under. Men de som ikke er vant til at

Q: Men det er måske også fordi at det danske lovgivningssystem er lidt bedre skruet sammen, så der regner man med at folk overholder loven?
A: Man lige præcist det er rigtigt.

Q: Hvor stor en del af jeres leverandør udvælgelse bygger på deres evne til at leve op til jeres CoC?

Q: Har du noget overblik over hvor mange leverandører i arbejder sammen med for tiden?
A: Nej det ved jeg simpelthen ikke.

Q: Men i går mod at have færre leverandører og nogle større nogle?
A: Ja, i hvert fald færre!

Q: Ok ikke nødvendigvis større?
A: Nej for på nogle områder behøver de jo ikke nødvendigvis være store. Hvis de bare laver en bestemt ting for os. Hvis de for eksempel bare syer nogle mærker i nakken på bluser eller noget. Så skal de bare have de ting som gør at det er i orden. De behøver ikke have 5000 medarbejdere for at det kan lade sig gøre.

Q: Hvordan er jeres større i forhold til jeres leverandører. Har i nogen mulighed for at påvirke dem specielt meget, eller er i for små til det?

Q: Så det afhænger i den grad af hvor stor økonomisk indvirkning det har på virksomheden?
A: Ja, det tror jeg det gør. Det tror jeg.

Q: Kan du nævne nogen hovedområder som især er besværlige i samarbejdet med kinesiske leverandører?
A: Nu har jeg ikke så meget med leverandørerne at gøre. Men inden for det økonomiske område er det især irriterende at de skal have forudbetalinger, de sender ikke fakturaerne, slet ikke før de har fået pengene. Ofte skal vi rive fakturaerne ud af dem, det er simpelthen fordi de ikke skal afregne momsen får de har lavet fakturaen. Det er så irriterende. Altså, vi fik en fakturaer her i januar, det var fra et helt år.

Q: Hvad er årsagen til at FF i først omgang valgte at formulere og implementere en CoC?
A: Det er faktisk lang tid siden. Det er før min tid også, at man formulerede den, der var jo slet ikke i Kina, jo vi havde måske et par leverandører der, men det var hovedsagligt til leverandører i Østeuropa at man brugte den. Men nu har vi så bedt alle om at underskrive den.

Q: Men hvad var motivation så for at begynde at forlange at leverandører i Kina skriver den under?

Q: Du mener at det er sådan noget som enhver etisk virksomhed bør gøre for at sikre et minimum?
A: Ja det mener jeg faktisk, altså vi ved da godt at vi kunne gå til nogle og så skrev de dem bare under, uden efterleve den. Jeg tror så på at langt det meste at det som står i vores CoC bliver overholdt hos vores leverandører. Og det er jo første led kan man siger?

Q: Hvad giver dig den overbevisning at de formodentligt overholder den?
A: Det ser vi jo, for vi er der jo!

Q: Så det er i forhold til de graverende ting som vi også talte om tidligere?
A: Ja lige præcis. Og det er jo også mange af de ting som står i den.

Q: Hvor mange af jeres leverandører har pt. underskrevet jeres CoC?
A: Det har langt de fleste, vi mangler stadig nogle enkelte, men sådan er det jo når der er flere. Men vi holder system i det og vi vil have fra alle. Altså i tilfælde hvor vi bruger en leverandør én gang er det ikke altfærdige for os, men altså dem vi normalt arbejder med de skal gøre det.

Q: Hvordan har i kommunikeret årsagen til at I gerne vil have denne CoC skrevet under. Har I fortalt dem om baggrunden for det, eller hvordan har det fungere?
A: Jamen det er typisk vores indkøbere og soucere der søger for at få det med når de laver kontrakter også videre. Jeg ved sådan set ikke hvad de har sagt, det er jo kineserne der gør det.

Q: Har i så noget internt kommunikation som har gjort at jeres medarbejdere har en forståelse for hvad det er jeres CoC skal, også så de kan kommunikere det til jeres leverandører?
A: Ja på vores management meetings derude der ved jeg man har gennemgået den. Også for at de lige kunne forstå hvorfor, så de lige kunne forstå den og sådan.

Q: Er det din opfattelse at jeres leverandører har en forståelse for hvad det er der er grunden til at de skal underskrive det dokument?
A: Ja, som vi snakkede om før så ved de, så nogle af de fornuftige siger; ja det er bare lovgivningen det der, som jeg også ville sige her. Måske nogle enkelte som siger ok, det kan godt være vi ikke kan overholde alt det her, men vi skriver under alligevel. Sådan noget som arbejdstider, det kunne jeg forstille mig. Ja så ved de jo også at de kan ikke skrive under på det med fri organisationret, men det kan de jo ikke gøre ved. Det kan leverandørerne jo heller ikke gøre noget ved.

Q: Men hvorfor er det så med, de ting, altså f.eks. det med organiseret arbejde?
A: Det er fordi det er en generel CoC, det er jo ikke kun i Kina at vi bruger den.

Q: Nej, men i kunne vel så i princippet have en som var til Kina og en som var til.
A: Ja, det er da rigtig nok, men altså hvis leverandører sig; jeg vil godt give lov til fri arbejder organisering, at der ikke er nogen som kan gøre det, det kan han jo ikke gøre ved.

Q: Ja, bliver det ikke en smule søgt gør det ikke?
A: Jo, jo, men det er jo fordi vi bruger den samme.

Q: Men er det vigtigt for jer at det er den samme?
A: Ja, det er før ikke at gøre det for besværligt, ellers kan vi jo have en for Rumænien, en for Vietnam etc. Så skal man jo til at rette den til for hvert eneste land. Der er jo forskellige regler alle stederne. Det er derfor vi bruger den samme.

Q: Men langt de fleste af jerer leverandører er i Kina?
A: Som det er i dag i hvert fald. Vi ligger os op ad tekstil industriens standard.

Q: Det med arbejdstid som i også selv fortalte om da vi var i Kina som I tænkte kunne være et problem, er det så noget hvor i tænker at ja, det er jo bare arbejdstid, det er jo ikke fordi det er så graverende. Eller hvad er din holdning til det?
A: Altså, jeg synes måske det er sådan… Det kommer an på hvordan det bliver gjort. Hvis det er direkte udnyttelse hvor de ikke har noget, ja de får ingen løn for det osv. Så er det naturligvis noget andet. Jeg synes det er noget pøjat at sige at man kun må arbejde så og så mange timer i princippet. Og det er også det der med om det er altid, for så begynder de jo at lave fejl og det er vi jo heller ikke tjent med.

Q: Men er det ikke også fjollet at have noget i sin CoC som egentlig ikke er noget man synes skal overholdes?
A: Men det er sådan set rigtig nok, det er sådan set et godt nok punkt hvis de altid gjorde det. Hvis overarbejdet er periodevis, så synes jeg egentlig det er noget pøjat. Sådan fungerer det jo også i Danmark, sådan fungerer det i alle lande. Umiddelbart synes jeg ikke der er noget forkert i det. Det er jo meget overordnet med indholdet i den, sådan som det står er det jo meget overordnet.

Q: Hvilken baggrund er indholdet så valgt på?
A: Helt klart på baggrund af tekstilindustriens standarder. Og den ligger sig så op ad UNGC.
Q: Vi har talt lidt om det, men er der nogle områder i jeres CoC som du ser som vigtigere end andre?
A: Ja, men det er som jeg siger, når vi har fået lavet vores politik på området så er der jo helt klart nogle områder vi vil fokusere mere på end andre. Som er vigtige.

Q: Men så noget igen som overarbejde, på trods af at det måske ikke er det mest centrale område, så er det vel et område hvor I ikke har nogen mulighed for at finde ud af om det bliver overhold eller ej?
A: Nej, det er der sådan set ikke nogen som har. Det bliver svært at kontrollere i hvert fald. Men vi har da en fornemmelse af at de arbejder, i hvert fald nogle gange, mere end det der. Det er meget sæson præget arbejdet, så det svinger meget hvor travlt der er. Og så er de jo slet ikke effektive, de vil bare være på arbejde. Det vil de. Dem som kommer langs vejs fra, de har jo ikke andet at lave, de er kommet for at arbejde, de gider ikke at side og hænge på et eller andet værelse, de vil meget hellere være på arbejdet. Der er der for at tjene penge, der har de det måske lidt anderledes end vi har. Så derfor er de simpelthen ikke effektive nok.

Q: På hvilke områder oplever I at der sådan er konflikt interesserer mellem det i gerne vil have ud af jeres leverandører og så jeres leverandørers interesser?
A: Nej altså, jeg har ikke hørt om at vi er stødt på nogle konflikter på CSR området. Men det er klart at hvis man går ind og begynder at stille krav om at der skal være et eller andet brandudstyr der over. Så kan det da godt være at der kommer et eller andet.

Q: Så det er ikke sådan at I oplever at der er en ubalance mellem de krav I stiller til leverandørerne og så det de får for det? Det er ikke noget I oplever?
A: Ikke med de krav vi har stillet indtil videre, det er ikke noget vi har hørt noget om.

Q: Har i haft nogen oplevelser med leverandører som ikke har levet op til det som i gerne ville have i forhold til indholdet i jeres CoC, som har ført til at I ikke har ville arbejde sammen med dem mere, eller perioder hvor i ikke har ville gøre det?
A: Ikke specifikt på CoC, men det er helt sikkert at dem vi har valgt fra, de har ikke overholdt den det er jeg helt sikker på. Der er en sammenhæng altså. Prisen kan godt måske have været lavere, men hvis vi så ikke får varerne til tiden eller de har været dårligere eller sådan nogle ting, så er det
derfor vi ikke vil. Men der er helt sikker også være nogle andre ting som ikke har været i orden. Det er typisk dem som snyder med de sociale bidrag eller hvad ved jeg, som heller ikke har styr på produktionen.

Q: Kan du se nogle forretningsmæssige fordele for leverandørerne ved at leve op til jeres CoC?
A: Ja, fordi det tror jeg da egentligt. Som sagt det hele hænger sammen, de som er gode leverandører, de har også mere styr på den slags ting. De er måske ikke mere motiveret, det er nok mere i form af bonus og overarbejdsbetaling at vi kan opså det, men der er ingen tvivl om at hvis der er gode medarbejdere, så får man også et bedre produkt. Så dem som har mere styr på det er også de bedste leverandører. Det er så også dem som er dyrest. I første omgang.

Q: Er det så fordi de i højere grad fordi de forstår at der er den her sammenhæng?
A: Det har jeg svært ved at svare på, måske. På visse områder ja, det tror jeg.

Q: I hvor høj grad er det jeres målsætning at jeres CoC skal strække sig til længere ned i kæden? Til også at inkludere jeres leverandørers leverandører?
A: Jeg tror nok det er første led til at starte med, altså vi har ikke sådan formuleret endnu. Ja, jeg tror også vi talte om det til vores første møde sådan om hvad det var for nogle ideer jeg har til det. Så den vil også komme til at være begrænset til vores hovedfunktioner, så vi ikke kommer til at gå ned i knapper, lynlåse osv. Jeg vil sige på den måde at det kan simpelthen ikke lade sig gøre. Vi skifter hver gang. Vi køber jo nogen gange 100 knapper et sted, det er altså umuligt at gøre noget ved.

Q: Så der vil I have en bagatel grænse på en måde?
A: Ja, der må vi holde os til hovedprocesserne og så måske garn.

Q: Det er så dig der har det overordnede CSR ansvar hos FF, men hvordan bliver kommer det til at blive noget som man har fokus på andre steder i organisationen også?
A: Vi har snakket noget om… Vi er medlem af Dans k Initiativ for Etisk handle også. Ja men det er da noget jeg arbejder med, men altså det er jo ikke det som har første prioritet. Det er det ikke.

Q: Men i forhold til jeres strategiplan er det jo trods alt et rimeligt stort område?
A: Helt sikkert, det er også noget vi…. Jeg tror man skal tænke sig rigtig godt om inden man bare begynder at gøre en helt masse. Det kan godt være noget pjat at lave de der CoC og skrive noget som man godt ved de ikke kan osv. Jeg tror også at når man kommer en tand længere ned en CSR politik skal man være omhyggeligere med at tage nogle ting som man også ved at der er en realistisk chance for bliver overholdt. Og som man føler er de rigtige og vigtige ting for ens virksomhed og måske også for vores kunder.

Q: Men det gør vel heller ikke noget at det bliver et værktøj til at udvikle sammen med leverandørerne, så de gradvis bliver bedre?
A: Det er rigtigt, miljøsiden arbejder vi også en del omkring, miljøcertificerede produkter. Og det bliver flere og flere faktisk vi får ind.

Q: Men er det så mere i forhold til farverierne?
A: Ja, det er primært garnet.
Interview Lars Birk CEO China 30. oktober 2008 Suzhou China.

Q: Hvor længe har First Factory haft et kontor etableret i Asien?

Q: Du fortalte at der havde været nogle problemer med jeres opstart, i forhold til lovgivning?
Q: Hvordan kunne det være at det skal være så uddybet? Er det fordi der er større krav til udenlandske virksomheder, altså omkring miljø og så videre. Er det det samme for kinesiske virksomheder?

A: Det ved jeg ikke, det kan jeg slet ikke svare dig på. For det var jo helt fuldstændig ligegyldigt, der er jo slet ikke nogle som holder os op på de der budgetter, jeg fik jo af vide at budgetterne skulle vise overskud og så noget, men der er jo slet ikke noget som bagefter holder en op på noget som helst. Det er jo bare.. For mig er det lige gyldige papirer. Men nogen gange er det jo godt nok at sætte sig ned og beskrive sin egen virksomhed. Hvad man vil nå, lave en handlingsplan for hvad men vil nå i år et, år to, tre, fire og fem. Det vil de altså sidde og læse derop på kinesiske, i øvrigt skulle det være på kinesisk. For at de ville godkende vores business license. Jamen først fik vi jo lavet sådan en virksomhedsbeskrivelse og den var så igennem flere instanser. Så skulle vi jo have godkendt vores virksomhed. Og der kræver de jo så at vi har en adresse. Og vi vil jo ikke blive der hvor vi var, for det var nogle ældelige lokale, så vi måtte jo ud og finde nogle nye lokaler. Og vi kunne jo ikke bare blive godkendsom virksomhed uden at vi havde nogle lokaler. Godt. Så fandt vi de her lokaler, så der skulle vi så have en lejekontrakt. Og den lejekontrakt skulle være udstedt til den virksomhed som ikke er etableret og den skulle være underskrevet af den virksomhed som ikke er etableret. Den skal være stemplet af den virksomhed som ikke er etableret og som ikke har fået et stemplet fordi den ikke er blevet etableret. Det er kringlet. Men vi laver en lejekontrakt og jeg stempler dem med vores danske First Factory stemple og den godkender de så ved Janzu province så vi får de her lokaler og de bliver nævnt i vores business license at det er her vi har til huse. Så kan man ikke bare sådan lige flytte. Fordi så skal må jo have en ny business license.

Q: Hvordan kunne det være i valgte at etablere First Factory lige i Suzhou?

A: Ja se det er jo en strategisk beslutning. Det ligger forud for det her. Det gjorde vi fordi, ja men vi var inden og kigge på hvor det er billigst, og det var jo nok billigst i Vietnam. Så vi var egentligt i gang med at etablere så i Vietnam, men der er ingen investeringer inden for strikvarer industrien, der er ingen råvarer i Vietnam, der er ingen investeringer inden for fladstrik. Det hele foregår på håndmaskiner og alt garnet bliver importeret fra Kina. Så kig vi til vores maskinleverandør og så siger vi hvor er der maskinkapacitet henne? Hvor sælger i jeres strikmaskiner henne? Og det viser sig at her i Suzhou/Shanghai området, her bliver 40-50% af alle de maskiner der bliver solgt i hele verden, de bliver solgt i det her område.
Q: Så det er her det ske?
A: Så det er her det sker inden for fladstrik. Og så sagde vi, så der det jo nok der vi skal være. Det er ikke det billigste sted, vi kan sagtens finde områder som er langt billigere, men det hjælper ikke hvis investeringer ikke er der.

Q: Hvad ville det være for nogle steder hvor det ville være billigere, men hvor der ikke er investeringer?
A: Vietnam ville være billigere.

Q: Ok, men er der også steder længere inden vest på?
A: Laos er billigere, Bangladesh er meget billigere, nordligere part af Kina er billigere, sydlige part af Kina er billigere og Vestkina er billigere. Vi befinder os i det dyreste område af Kina. Altså du kan jo egentligt, hvis du vil ind og vurdere priser, så kan du jo egentligt bare spørge folk, hvad koster en kvm lejlighed. Og hvis du går ned i Sydkina så koster det 3000 for en kvm lejlighed og her i Suzhou koster det 10.000 og inden i Shanghai koster det 30.000.

For lige at runde det af; vi flytter ind her 1. september og der har vi altså ikke fået vores business licensen endnu, selvom jeg begyndte hele processen omkring 1. januar. Vi får den nogenlunde omkring da vi flytter ind her. Men der får vi ikke vores import og eksport tilladelse. Og det er også en kringlet sag, for man skal bevise at man kan gøre det at man kan gøre det, man skal bevise at man har økonomien at foretage import/eksport, man skal fremvise nogle lokaler som er store nok til at man kan tage de ordre ind som man nu har købt eller solgt. Og der skal man synes af toldvæsnet. Vi fik vores import/eksport tilladelse i december. Og så 1. januar lukkede de så for den igen, men det er jo nogle nye regler der blev lavet. Det er så i 2008, der har vi så levet med at vi ikke måtte lave import/eksport, det har vi så måtte gøre igennem nogle andre. Men det er så en anden historie. Så, det har taget et år og få den hele vejen igennem, du kan heller ikke oprette en bankkonto hvis du ikke har et firma, men du er nødt til at skal have en bankkonto for ellers kan du ikke forudbetale husleje til landloaden, som skal have tre måneders husleje forud og skal have depositum forud, inden du får kontrakten. Men du kan ikke betale pengene for du kan ikke have en bankkonto fordi du ikke er etableret. Så det kørte hen over min personlige konto indtil jeg havde nået de 50.000 dollar, så var jeg nødt til at begynde at bruge min kones konto. Fordi en udlænder må kun vekse 50.000 dollar om året. Men så er vi også etableret.
Q: Sådan ret størrelsesmæssigt, hvor store ordre placere I? Hvad er jeres gennemsnitsordre i ligger hos jeres leverandører?
A: Ja men vi hører til den lille ende, vi hører til de små ordrer. Vores gennemsnit ordre ligger omkring, lige i underkanten af 1.000 stk. Og 1.000 stykker inden strik, det er det man kalder en lille ordre, men acceptable. De fleste strikvirksomheder, de vil ikke gø når de får en ordrer på 1.000 stykker, det er nok der hvor de begynder at sige at det bliver interessant. Havde det været sweatshirts eller T-shirts eller sådan noget så havde man ikke gide rører ved sådan en ordre, der har man at gøre med nogle meget større ordre. 1.000 stykker er en ok ordre, men nå jeg siger 1.000 i gennemsnit betyder det jo også at vi har mange som er meget mindre og vi har jo også nogle som er meget større. Den største ordre vi har kort igennem herude har nok været omkring 10.000 stykker.

Q: Så der det lidt sjovere at ringe til leverandører og sige vi skal bruge noget strik?
A: Der kan du godt komme, der vil de godt snakke med dig. Og det samme problem har vi lidt når vi køber garn ind, vores ordre er meget små. Det er fordi at næsten hver eneste model har sin egen garnkvalitet. Det er ikke sådan at vi kan sige at vi har alle vores modeller samlet i samme garn kvalitet, bare i forskellige farve. Nej, kunderne skal stort set ha’ forskelligt garn til hvert eneste strik. Og når de så køber 3-500 stykker og som vejer et par 100 gram, så bliver det 100 kg og hvis det er fordelt på tre farver, så er vi der hvor det er absolut minimum for en garnleverandør. Og det gør os meget uinteressante hos garnleverandørerne.

Q: Er det normalt i denne industri at I selv køber garn ind som så bliver strikket hos nogle andre?
de vil ikke købe garn. For de levere ikke et færdigt produkt, de levere en arbejdsydelse som hedder strik. Så vi køber garnet, så levere vi garnet til strikkeren. Når han så er færdig så flytter vi garnet hen til ham som skal linke det. Og der har vi så fundet noget der er meget gode til at linke og der er selvfølgelig billigere. Så er det linket og så flytter vi det derfra og hen i vores eget hus hvor vi laver finishing og kvalitetskontrol eller vi fører det ud til en underleverandør som laver det arbejde. Så opnår vi den bedste pris, for så er vi rundt ved tre specialister og de har alle sammen den bedste pris.

Q: Og det i laver her, det er så designet?

Q: Sådan for at tale lidt generelt om industrien, hvad karakteriserer strik, eller tekstilindustrien i dag? Hvad er der for nogen udviklinger som er specielle i dag? Både økonomisk, politiske etc?
A: Jeg kan sige noget om strik. Der kommer til at ligge større og større investeringer i elektronisk strikkemaskiner og det er jo nogle store investeringer som skal foretages, for de er jo dyre set i forhold til arbejdskraften. Det er også dyre at strikke på en elektronisk maskine, men den er jo mere, men den kan jo gøre mere, den kan lave nogle flere ting som man ikke kan lave i hånden. Og det vil vinde over. Arbejdslønnen vil stige og så vil det blive billigere at køre på maskine. Og det vare ikke længe.
Q: Hvad med situationen omkring leverandørerne, vi har læst at de er rimeligt presset på grund af inflation og på grund af stigende RMB, for stor kapacitet.

Q: Det er ikke noget i mærker til?
A: Nej, altså det vi mærker til det er at når den kinesiske eksport at tekstiler indenfor en bestemt kategori eller en bestemt gruppe den falder, så sidder der nogle meget meget kvikke og kloge mennesker i Beijing og det kan de se og så siger de ok nu har tekstilindustrien eller strikindustrien brug for lidt hjælp, for nu er eksporttallene faldet og de ønsker de ikke. Og den hjælp den får vi i form af at de regulerer vores moms. I Danmark der er det jo sådan at hvis jeg skal eksportere, så eksportere jeg uden moms, momsfrit. Og alt hvad jeg har købt og hvad jeg har fået produceret og ved underleverandører og så videre, det kan jeg trække momsen fra. Det vil sige at den moms får jeg retur 100% og jeg skal ikke betale moms af det jeg eksportere. I Kina der betaler vi 17 % moms af alt hvad vi får lavet og i foråret der fik vi 11% af de 17 tilbage, når vi eksportere. Det vil sige at vi betaler altså 6% i moms af vores eksport. I Danmark betaler man nul. Så læste jeg i avisen at man i Danmark sagde at kineserne havde hævet deres tilskud til tekstilindustrien til 14 %, men det er ikke at hæve tilskuddet til industrien, man har givet os lidt mere tilbage af den moms som vi har betalt. Så de har sænket afgiften. Det er ikke et tilskud vi får, men sådan ligger man det ud i Europa. Så skulle jeg jo sige at så får I 25% tilskud på alt hvad i sælger. Men den blev så ændret fra 11 til 13 og nu har den så lige fået en mere så den fra første november hedder 14%. Så nu er det kun 3% vi skal betale i momsafgift på vores eksport. Og på den måde sidder de og regulere og der er stadig 3% af give af inden man kan sige det bliver et problem også kan det jo godt være det begynder at bliver et tilskud til tekstilindustrien hvis man ønsker at bevarer den. Ja men alt stiger, jeg har ikke mærket sådan et voldsomt lønpress fra vores arbejdere, men det kommer da nok, det gør det da. Grunden til at vi måske ikke har mærket så stort et lønpress er at vi ligger i den bedre ende. Men det skal nok komme, det er jeg sikker på.

Q: Kan du fortælle noget om mulighederne og udfordringerne i industrien lige nu?
A: Efter min bedste overbevisning er der et enormt rationaliseringspotentiale i Kina, fordi man løser alt bare ved at sætte nogle flere mennesker på. Og der gjorde vi jo de i Danmark i 1950’erne, 1960’erne og 1970’erne at der rationaliserede vi jo, så vi fik færre og færre minutter. Vi talte jo hele tiden om hvor mange minutter går der i sådan i en striktroje. Vi sad og kappede 0,1 sekund og et

Q: Kan du se noget i din mening eller som du kender til, kan en CSR tankegang hjælpe til? Man tales nogle gange om Lean og CSR som kan være to sider af samme sag. Rationalisering både på processen og på input. Mener du der er den sammenhæng?
A: Ja, for du skal jo også kigge på ressource forbruget, altså det jeg taler som, det vi kaldte rationalisering i gamle dage har nu fået det nye navn Lean, det er det samme, der er ikke nogen forskel. Altså det vi gjorde i 50’erne og 60’erne, der hed det jo bare noget andet. Der hed det akkord system og så noget, nu hedder det Lean. Nu laver man så Lean indenfor andre områder, indenfor børnehaver, jeg ved ikke hvordan man bærer sig ad der. Jeg tror da på at der ligger også i at spare på vandet, vand er jo også dyrt, spare på elektriciteten, spare på dampen. Der er jo en masse processer der skal rodes i gennem. Om det forbedrer arbejdsmiljøet det ved jeg egentligt ikke, det tro jeg egentligt ikke. Og i virkelighed så tror jeg jo nok at hvis vi kører linjen helt ud eller akkordsystemet helt ud så tror jeg egentligt at arbejdsforholdene bliver forringet, for vi vil begynde at få de der ensidige gentagende bevægelser. Dem vil vi begynder at få, herude, det har vi ikke i dag fordi at, jamen, vi har jo ikke skolet dem på den måde.

Q: Nå du sådan kigger på, i er jo ikke helt slut ledet af værdikæden, men sådan derop ad i hvert fald. Hvor ser i så de største CSR udfordringer i jeres værdikæde, hvor ligger de henne?
A: Jeg tror det største problem tror jeg er vores garnfarverier, det tror jeg da er det sværeste, det er også derfor jeg gerne vil have at I skal ned til Afasia, fordi de har løsningen på problemet. Også det vi var inden på før med arbejdstiden, det tror jeg da er utroligt vigtigt.

Q: Og det er hele vejen igennem værdikæden?
A: Det er hele værdikæden, det er hele Kina. Og da jeg var i Danmark hvor jeg var bedt om at holde et foredrag i Rotary der, jamen i Danmark er det jo sådan hvis du kommer til en mand og siger til ham du skal blive lidt længere tid, så siger han; skal jeg ikke gå klokken tre som jeg plejer. Nej du bliver altså nødt til lige at tage to timer mere. Nej det kan jeg ikke, det skal du varsle mindst tre dage før. Hvis jeg gik ud til de her folk og fortalte at I bliver altså nødt til at arbejde til klokken 10 i aften, så ville de sige tak. For så får de et ekstra måltid mad gratis, ik’. Og så overtidsbetaling. Der er ingen bøvl. For de vil gerne arbejde. Der er vi jo nok nået et situation i Europa at vi har fået opfyldt de nederste lag af Marslow’s behovspyramide, så nu er det ligesom nogle andre værdier som tæller for os. Vi gider sgu egentlig at arbejde mere for de penge vi modtager i overarbejdstidsbetaling skal vi bare aflevere til skat, så hvad sjov er der ved det? Nej det vil vi ikke vel. Så vil vi hellere have fri. Hvormod her der mangler man altså stadigvæk at få opfyldt nogle af de tingene derne i Marslow’s pyramide, derfor vil man gerne arbejde for at tjene til de her ting.

Q: Oplever I noget som helst pres for nogen side r af for at være socialt eller miljømæssigt ansvarlige?
A: Vi oplever et pres fra Suzhou kommune, de har stillet krav til os omkring udledningen af vores spillevand fra vores vaskeri.

Q: Det er her for nylig?
Man er blevet mere opmærksom. Så har vi altså nogle kunder i Tyskland som kræver et for eksempel et IMO certifikat. Og vi kan ikke handle med dem hvis vi ikke kan putte sådan en etikette på. Og den kan vi kun få lov at komme på hvis vi selv er certificeret og hvis vi udelukkende anvender certificeret. Så der er nogle kunder der stiller krav og jeg har jo i mange, mange år arbejdet for at skulle have organiske tøj, men der er jo ikke danskere som gider have det. Danskerne er lige glade, der er fuldstændig ligeglad. For dem er der kun et ting som tæller det er en lav pris. Danskerne går kun op i priser og lave priser. Og de er i øvrigt ligeglade med om det er farvet med det ene eller det andet eller om der er 48 børn der har plukket det der bomuld ned i Peru der har mistet deres fingre fordi det er sprøjtet med pesticider. Det er der ingen dansere der går op i. Det gør tyskerne.

Q: Hvad så med hele den trend som man observerer der hjemme nu i Danmark som handler meget at man skal købe det her organiske bomuld også videre?
A: Er der nogle som gør det?

Q: Det er jo en kendt sag at det i hvert fald ikke er forbrugerne som presser, men lige nu er der enormt stort fokus på det, altså virksomhederne, de danske virksomheder. Men spørgsmålet er så om det kun er snak?
Q: Du sagde at du oplevede fra lokal side her i Suzhou, den lokal kommune, at der kommer en større en større efterspørgsel efter de her miljømæssige dele, hvad så med sådan noget som den nye labour law, er det også noget i har mærket til?
A: Nej det er ikke noget jeg kan sige vi har gjort, for vi opfyldte den jo allerede. Og jeg har egentligt ikke sat mig ind i den, jeg må sige jeg har ikke læst den nye labour law. Jeg tror nok der er et punkt vi ikke lever op til, det tror jeg nok er noget med ferie. Jeg har ikke læst den, så jeg ved faktisk ikke hvad der kræves, men jeg tror ikke vi opfylder den nye ferie lov. For vores medarbjudere har 14 dage ferie inkl. nationale fridage og jeg ved ikke hvad er står i den nye lov. Så jeg tror der er et punkt der vi ikke helt opfylder.

Q: I forhold til det du taler om med Suzhou som tjekker spillevand og kan finde på at lukke nogle fabrikker en uges tid, sådan rent forholdsønsligt til den autoritet. Har du nogen oplevelse af hvordan det er forskelligt fra derhjemme? Er det samme måde det foregår på, hvad er forskellene?
A: Der er stor forskel fordi mange gange drejer det sig jo bare om at få nogle penge. Mange af problemerne kan jo klares bare med at få lidt betaling. Hvis du ikke kan opfylde…

Q: Altså bestikkelse?
A: Neeeeej, så kan du betale en større afgift.

Q: Så du kan betale dig fra miljø problemerne?
A: Ja, det tror jeg, men jeg har ikke prøvet det så jeg ved det ikke. Men jeg kan forestille mig at det vil være sådan at det vil være sådan at du kan betale dig fra det meste. Det kan du jo altså ikke i Danmark.

Q: Hvad det for en type suppliers I arbejder med, så noget som deres størrelse, hvor ligger de, hvad er deres hoved kompetencer etc?
A: Hvis vi deler dem op i først i to grupper. Vi har den gruppe vi kalder specialisterne og så har vi den gruppe vi kan kalde full supply. Specialisterne, der er det sådan at når vi skal have lavet elektronisk strik så gå vi ud til dem som har mange elektroniske maskiner og sådan en karl koster et sted imellem et halv million kroner stykket. De er lidt billigere i Kina end de er i Europa, det har jeg aldring forstået hvorfor, men det er de altså. Selv om de kommer fra Europa. Det er næsten den halve pris af hvad jeg skal give for dem i Danmark. Der står altså en del af dem herude, de står
samlet på nogle fabrikker som er så jette store så de kan lave 10.000.000 stykker strik per år. Og der er alle de kommer og henvender sig til dem og så laver de det hele i løn. De ligger typisk nordlige del af Suzhou, 100 km her fra nord for byen. Der har de lagt sig oppe. Og hvorfor ligger de deroppe. Det er nok fordi der er de ligesom begyndt og der er nogle folk som er blevet uddannet og så er der sådan at når du skal lave en nu fabrik så ligger du dig der hvor der er nogle folk som du kan stjæle fra de andre og på den måde bliver det sådan et specialist område.

Q: Der er næsten tale om en Silicon Vally for strik?
A: Ja, ja det er et godt eksempel.

Q: Virker det også sådan med informationsudveksling, kan man karakterisere det på samme måde synes du?
A: Det ved jeg ikke. Men så har vi den næste række, når vi taler om specialisterne, den næste række er nå vi skal have syet trøjen sammen, altså linket. Og der har vi så nogle fabrikker som ligger heromkring. De ligger hernede, omkring hernede. Og så har vi nogle som ligger lidt længere væk ude i periferien.

Q: Er det vigtigt at de ligger tæt på?
A: Ja, det er vigtig af hensyn til når vi skal lave vores kvalitetskontrol. Så gider vi jo ikke ligge og køre hundrede vis af kilometer for at lave kvalitetskontrol. Og da vi jo alligevel har en 15-20 underleverandører som skal besøges af vores 3 QC’ere, så kan det jo give mange kilometer når alle skal besøges.

Så har vi, så laver vi finish, og det gør vi helst her og på den måde flytter vi varerne rundt. Så har vi den anden som jeg kalder full supply, som I kommer til at se nede hos Eastern, hvor de kan det hele selv, hvor de ikke behøver blive hjulpet til at kører det igennem. Og de ligger så lidt tættere på Suzhou by, de er ikke så langt ude i periferien. Der ligger nogle lidt nord for byen og nogle lidt syd for byen og der ligger nogle ret tæt på her. Men de kan jo selv og de har deres kunder i USA og sådan nogle steder. Og hvis vi går til dem og skal have noget lavet, så vil de være dyre for os. Vi er ikke så interessante for dem.

Q: Valget er altså baseret på rent pris?
Q: Vi talte tidligere om at der er forskel på CSR standarder osv. Er de fleste leverandører nogle som er vant til at arbejde med CoC og certificeringer?
A: Det er et fåtal.

Q: Sådan nogle som Eastern er en undtagelse?
A: Eastern har mødt det fra en engelsk kunde og arbejder i øvrigt også med nogle tyske kunder igennem nogle agent virksomheder, så de er blevet mødt med det.

Q: Men det er ikke størstedelen af dem som har underskrevet en CoC fra en masse andre?
A: Nej nu har de jo her, men det har været hårdt arbejde, jeg har da ikke fået dem alle sammen endnu, og der skal rykkes og de skal… det er da ikke sådan at de har lyst til at skrive under.

Q: Så de har ikke 20 CoC allerede som de?
A: Nej

Q: Hvor meget for i lavet hos full supplier virksomhederne i forhold til de andre?
A: Jeg vil sige det er sådan en 80/20, 20% hos full suppliers og 80% ved de andre.

Q: Og hvor mange suppliers har I, du sagde en 15-20 stykker, så det er et par strik og et par link..
A: Nej så kommer vores garn og accessories suppliers oven i og det er slet ikke noget jeg kan styrer, det er udelukkende vores designere i Danmark, for hvis de finder en ny garnleverandør som har et specielt garn så har jeg lige pludselig en nu supplier, så kan det godt være der er en anden en som hvis han ikke har noget interessant garn i denne sæson så er han ude. Han er måske inden igen til næste år.

Q: Så der er det rent trendmæssigt.
A: Ja, men jeg tror faktisk Olevina har et langt bedre overblik over hvor mange aktive leverandører vi har lige nu. Ikke garn leverandør, men de andre. Så når jeg siger vi har en 15 stykker, kan det godt være det kun er en 5-7 stykker der lige er aktive nu. Der er jo nogle som er gode til noget og nogle som er godt til noget andet.
Q: Det vil sige den måde i har forhold til leverandørerne på, det er meget afbræk. I ligger en ordre et sted og en anden ordre et andet sted?
A: Nej vi har nogle som vi kører hele tiden, men nu er der jo nogle de er for eksempel specialist i grov strik, så noget som det her. Men hvis jeg nu får ordre på fin strik kan det jo ikke nytte noget at jeg gå hen til ham her. Så der er altså nogle som er godt til at lave sådan noget og nogle er gode til at lave sådan noget. Og der er jeg jo nødt til at gå hen til ham som er god til at lave det jeg har bestillinger på.

Q: Hvor længe har i arbejdet med Afasia og Eastern?
A: Afasia har vi arbejdet med siden jeg kom herud, så det er halvanden år. Eastern har vi arbejdet med et halvt års tid godt og vel.

Q: Hvorfor vælger i Eastern som full supplier og ikke specialisterne?
A: Ja men Eastern arbejder vi sådan jævnt med nu og det er fordi de er selvhjælpende altså de kan det hele selv. Det er også fordi de har et rimeligt bredt spektrum af delinger, de kan ikke klare det helt fine, men ellers kan de tage det meste.

Q: Regner I med at jeres leverandørgruppe vil bliver større eller mindre i fremtiden?
A: Når vi taler om dem som arbejder for os vil jeg ikke lade den vokse, så ønsker jeg egentligt at den skal være så lille som mulig. Fordi jeg vil gerne være stor hos nogle få, frem for at være ingenting. Og så vil jeg gerne være en fast kunde således at vi har et fast forhold så vi altid har noget kørende. For at være synlig. Og når vi har brugt kræfter på at styrer kvaliteten ind på en fabrik, så ønsker vi egentligt også bare at bliver ved med at ligge ordre hos dem, men der er altså nogle gange vi ikke kan ligge ordre fordi de ikke har den type maskiner som der er behov for. Men det er ikke uvilje fra vores side at, vi flytter ikke bare rundt for sjov.

Q: Hvordan vælger i jeres leverandører? Hvilke kriterier?
A: Vi kigger utrolig meget på kvalitet og leveringssikkerheden, det er det væsentligste. Foruden det så dur det jo slet ikke.

Q: Er prisen sådan en tertiar ting, er det de andre to ting som er vigtigst for jer?
A: Jamen prisen kommer som nummer tre vil jeg sige. For mig er det vigtigst det er at kvaliteten er i orden og de leverer til tiden.

Q: Hvor langt nede kommer så noget med at de gerne vil overholde jeres CoC?
A: Ja men vi kan ikke arbejde med dem hvis de ikke gør det.

Q: Ok det er faktisk nummer et?
A: Det beder vi jo om at få underskrevet, men, men, men der da nogle punkter som jeg garantere for at de ikke overholder, men som de underskriver alligevel. Og som Kim han siger det er jo 60 timer, det er jo set over et helt år. Altså han har jo været på kursus i det har må jo vide det. Han udviser en fleksibilitet her som jeg ikke udviser når jeg skal underskrive den fordi da jeg fik den første gang sagde jeg at den kan jeg ikke underskrive, det kan jeg ikke. Jeg kan ikke overholde den som det står, men hvis man anlægger den der fleksible tankegang omkring det man skal skrive under på, så kan jeg skrive under på alt.

Q: Men jeres politik er at I vil ikke arbejde med leverandører som ikke har underskrevet jeres CoC?
A: Jamen det kan vi ikke.

Q: Men det gør I i dag arbejder med leverandører som ikke har skrevet den under?
A: Men det kan vi ikke, vi lover vores kunder at alle vores overholder det her, men det er ikke alle som har skrevet under, men det arbejder vi jo på at få dem til.

Q: Hvad med sådan noget som muligheden for at opbygge et ”long-term relationship” er det noget i overvejer når I vælger jeres leverandører, at der er mulighed for at I kan arbejde med dem i lang tid?
A: Det håber jeg da. Vi investerer mange penge i at uddanne vores leverandører.

Q: Ok på hvilken måde?
A: Så kommer vi til kvaliteten, skal vi tage den nu så?

Q: Ja.
A: Se nå vi starter en produktion op så sender vi en af vores kvalitetskontrollanter fra produktionen ud for at sikre at produktionen bliver startet op rigtig og at den er i orden. Der bliver lavet en

Q: Hvor kommer de fra?
A: Ja men de sidder her, men de referere op til mig, de referer ikke til vores produktion eller til vores produktionschef, så hun har ingen hals eller håndret over dem, og hvis de kommer og stopper en produktion og siger at det her dur ikke, så bliver den stoppet. Så kan vores produktionschef stå og råbe og skrige og vores eksportafdeling som har lavet toldpapirer råbe og skrige. Men hvis den skal stoppes så bliver den altså stoppet. Og de referere altså til mig, eller til Olevina som er vores QC manager i Danmark. De gør det i to tempi, de kører ud på en fabrik og laver det som hedder en inline inspektion og den laver de når der er en 15-20% færdig. Og der kommer de med kommentarer til hvad de mener der skal rettes. Og hvis det ser meget groft ud så kommer de en gang til og laver en nu inline inspektion. Og det er et offisielt stykke papir som de får som bliver sendt til mig, til Olevina, til Rodger og til produktionen så alle kan se hvad der fundet af fejl her. Når varen er færdig kommer de og laver det som hedder en AQL. AQL står for Acceptable Quality Level. Og det er et system der er udviklet i det amerikanske militær hvor de laver kvalitetskontrol. Og hvis du køber 5000 tanks så skal du lave kavitetskontrol på så mange tanks og du må højst finde så og så mange fejl og der kan man ligge forskellige niveauer. Alle inden for tekstilindustrien kender AQL og hvis man siger at man kører efter AQL 2,54 så kender vi alle samme kvalitetsniveauet, så ved man hvad man kan forvente. Det betyder ikke at varen er fejlfri, men det betyder at du er nogenlunde sikker på at der er ikke flere fejl end så og så mange. Så vores kvalitetskontrollanter de bliver sendt ud og så går de ud og siger, den her ordre er på 1.000 stykker så jeg skal lave kontrol af 120 stykker. Så går man ud og plukker 120 stykker tilfældigt i nogle kasser. Og så laver man 100 % kontrol på de 120 stykker og så skriver man ned hvad man finder. Det bliver skrevet ned på både engelsk og kinesisk og så bliver det afleveret til fabrikken. Hvis den er godkendt så er den godkendt og så bliver den sendt videre. Hvis den ikke er godkendt, ja men så skal vi jo tilbage i produktionen og repareres og laves om. Og der er vi jo ude, Olevina er her jo for
eksempel i to måneder, på alle fabrikkerne og støtter dem og hjælper dem og træner dem og lærer dem op så de bliver bedre og bedre til at sikre at der ikke er fejl.

Q: Er det normal at gøre det?
A: Det er da sgu ikke andre der gør!

Q: Det må da være noget som jeres leverandører sætter stor pris på?
A: Ja men det er jeg ikke sikker på at det gør. Jeg er ikke sikker fordi det er jo også besværligt det er da meget nemmere med sådan en som ikke kontrollere noget, hvor du bare sender varen når den er færdig.

Q: Er jeres leverandører generelt så kortsigtet?
A: Ja!

Q: Så det er mere til besvær en det er en hjælp?
A: Ja det tror jeg, men altså hvis de kunne se lidt længere frem så kunne de jo godt se fordelen af at lave en ordentlig kvalitet så de ikke fik reklamation. I dag for en kineser er det vigtig at tjene en krone i dag end at tjene 100 kr om et år. Sådan er det. Helt dybest ned, sådan de alle sammen, hver og en.

Q: Er der mange leverandører som lever op til de kriterier som I gerne vil have?
A: Det ved jeg ikke, jeg har jo ikke været ude og teste så mange vel.

Q: Har I problemer med at finde nye leverandører når I har behov for det?
A: Ja, ja lidt, det er ikke så nemt at finde en nu leverandør som er i orden. Jeg tror vi kan finde nok af de der baggårds-skod, men at finde godt leverandører det er svært.

Q: Hvorfor?
A: Fordi de ikke har… De gør jo ikke rent, det er jo igen det der med sigt, du tjener jo ikke nogen penge ved at gøre rent. Hvor skulle man så gøre rent. Det ser forfærdeligt ud nogen steder.
Q: Men hvordan har I så udvalgt de leverandører som I har?
A: Olevina har været ude og godkende alle leverandører. Jeg har også været ude hos de fleste, der er måske et par stykker jeg ikke har set.

Q: Så hvis vi skal spørge nærmere ind til hvad der ligesom var valget, hvorfor faldt valget på dem der blev valgt, så vil Olevina kunne sige mere om det?

Q: Altså i forhold til kvaliteten?
A: Ja hvad enten det er kvaliteten eller leveringen. Vi begynder, vi vil til at lave sådan en liste hvor vi giver dem point efter forskellige ting, hvor vi ranker dem. Hvor vi simpeltthen også inkludere deres CSR deres CoC.

Q: Så det ville ikke være forkert at sige at det ville være meget omkostningsfyldt for jer at skifte leverandører.

Q: Hvilken type information deler med jeres leverandører?
A: Vi laver fuldt dokumentation, vi kalder det et worksheet hvor de får tegninger, de får labels instruktioner, de får strikopskrift, de får sy-informationer og alt på det enkelte produkt. Det kan være op til en 12-15 sider på kinesisk.

Q: Hvad med sådan mere langsigtet, deler i information om produktionsplaner etc?

Q: Er det jeres opfattelse at der ikke er helt den samme interesse, den samme lyst, fra jeres leverandørers side til at investere i jeres forhold?
A: Det er jo fordi vi kommer med vores europæiske tankegang og prøver og se om vi kan implementere den her, hvilket ikke er nemt.

Q: Generelt hører man også bare meget om netværk og Kina og vigtigheden af at opbygge og vedligeholde netværk? Du talte selv om tillid tidligere som værende en vigtig del af det at drive forretning i Kina?
A: så tror jeg jo på at de kan, hvis du med det samme har apati imod nogen så tror du jo ikke på at de kan. Men der har da været en stor opdrægelse.

Q: Men den opdrægelse er den så, som du siger, de har ikke så meget lyst til at få af vide hvordan de skal gøre det bedre.
A: Det er først når vi ”cutter” forbindelser at de kommer, så finder de ud af at nu vil de godt ind, så står de og siger ja men vi vil gerne ind, vi har ikke nået at lave, kan vi ikke godt. Nej! Det durerer jo ikke. Nej det er også rigtig siger de, men vi vil gerne forbedre os, vi har forstået. Ok siger jeg så, så prøver vi én gang til.

Q: Er der så nogen forbedringer?
A: Nej! De er som de er ik!
Q: Er der noget information som man ikke deler med jeres leverandører?
A: Jeg tror da at vi deler for meget med vores leverandører, fordi de kender vores kunder og det synes jeg ikke nødvendigvis at de skulle gøre. Der tror jeg måske vi begår en fejl, at vi deler for meget information.

Q: Hvad er risikoen?
A: Sådan en som Eastern skal jo bare have en import/eksport tilladelse, så kan de jo gøre samme arbejde som vi kan.

Q: Hvad er det så som I kan levere mere, eller hvad er det jeres konkurrencefordel er?
A: Vores europæiske kunder vil jo gerne arbejde med os, de ved de får varen og at der bliver fulgt op på tingene. Altså, hvis Bruns Bazar ikke købte hos os, men købte hos en af de andre, sådan derude. Så ville de jo være nødt til at skulle herud og lave inline inspektion, de ville være nødt til at skulle herud for at lave kvalitetskontrol. De ville være nødt til at skulle her ud for at følge op på leveringen hele tiden. Det var jo årsagen til at vi valgte at tage her ud. Det var jo fordi vi sad Danmark og var nødt til at tage her ud hele tiden.

Q: Hvad med sådan noget som CSR og de her ting, CoC. Tror du også at jeres kunder, at det er en medvirkende faktor til at de vælger jer, at det er mere trygt, at de har en større tillid til jer?
A: Ikke i henhold til CSR. Det tror jeg de er helt lige galde med. Det er kun hvis pressen står med mikrofonen oppe i næsen på dem, så vil de.

Q: Så vil de pege på First Factory?
se om det er et økologisk æg eller om det er et af dem fra burhøns. Du kan heller ikke smage forskel. Man kan ikke smage forskel. Det er også derfor det handler om tillid, for landmanden han kan jo altså også sige; når i år der har jeg brug for flere økologiske æg, så nu tager jeg nogle af de her. Og næste uge der har han måske for mange økologiske æg, så ryger de da op i de andre bakker og så bliver de da solgt som burhøns æg. Altså, men der er kontrol på, fordi hvis han bliver kontrollere så gør han det selvfølgelig ikke.

Q: De kontrakter i har med jeres leverandører, hvad indeholder de?
A: Salgs og leveringsbetingelser, den indeholder hvad de skal, hvornår de skal levere, hvad prisen er og forskellige forhold de opfylde. Og hvad konsekvensen er hvis de ikke levere til tiden og hvis kvaliteten ikke er i orden.

Q: Og det har i med alle jeres leverandører?
A: Ja.

Q: Og det er den samme i har med alle jeres leverandører?
A: Ja.

Q: Står der noget som helst omkring CSR i den?
A: Nej, det gør der ikke, det er en gammel en, vi har også nogle ting vi skal have ændret i den.

Q: Her I problemer med at jeres leverandører bryder kontrakten?
A: Den bliver brudt når de ikke levere til tiden og så skal de betale fly fragt i stedet for båd fragt. Og det er et alle helvedes bøvl for de synes de ikke at de skal alligevel.

Q: Ok, det er på det punkt at det sker?
A: ja, og det kan være to årsager til at den ikke bliver færdig til tiden, enten at de har lavet en dårlig planlægning, eller fordi den falder i kvalitetskontrollen.

Q: Hvad sker der så, I siger at de skal betale for luftfragten hjem og de siger at de gider de ikke…
A: Vi trækker det jo fra så vidt det er muligt i betalingen.
Q: Så det er aldring sådan at de ender med ikke at betale det?
A: Der er nogen som har fået så meget i forskud, at der ikke er nok til at betale. Garnleverandører de vil have penge forud, jeg får ikke noget garn uden at have betalt forud. Så får jeg en reklamation på noget garn, så har jeg svært ved at gøre noget ved det.

Q: Hvorfor vil de andre ikke have penge forud.
A: Det er der ikke tradition for, der er tradition for at garnleverandørerne vil have penge forud.

Q: Jeres leverandører bliver altså trukket det som fragten kostet, det brokker de sig over, men det er det?
A: Det brokker de sig meget over, men.

Q: Hvorfor tror du de brokker sig så meget over det? Det kunne man måske tro ikke ville være det samme i Danmark, hvis det er en del af kontrakten, så er man jo godt klar over sin forpligtelse.
Q: Vi har hørt en masse om at kinesere måske ikke på samme måde ser kontrakterne som det vigtigste, men i højere grad på det indbyrdes forhold som det centrale. Så de underskriver kontrakten, men tænker egentligt at man kan godt, måske forhandle sig frem til noget efterfølgende. Det er ikke som i Danmark hvor vi er meget fokuseret på at alle skal leve op til kontrakterne.

A: I Danmark når du har skrevet under på en kontrakt, så ved du jo godt at den her holder i Byretten. For du har jo skrevet under. Det ved vi jo godt, hvis vi har skrevet under så er der jo ikke noget at komme efter. Da prøver kineserne, det er nok også lidt den her forhandlingskultur. Du står jo heller ikke inde i Veromoda og siger til hende ekspedienten; det kan godt være du skal have 400 kr. for den her, men jeg vil altså kun give 300 kr. Ja men er jo begyndt på, men det er jo fordi vi har rejst i østen og vi har rejse herude og vi har lært at vi er nødt til at prutte om prisen. Og vi har jo også lært at vi er nødt til, der er jo ingen der køber fjernsyn i dag til fuld pris, jo pensionisterne gør, men det er fordi de har ikke fundet ud at af det helt. Vi andre vi prøver. Men du ved jo godt at hvis du går ind i Jack & Jones forretningen så få du intet, for ekspedienten har ingen kompetence til at give det. Det har de gjort altid herude.

Q: Så pointen er at de gøre det gennem hele forholdet, både ved forhandlingen, betalingen, reklamationen etc?

A: I alle forholdene.

Q: Vi har også snakket med folk som fortalte at kineserne ser meget pragmatisk på kontrakter. Hvis de forhold som de er indgået under forandres, forandrer det også deres forpligtelse. Hvordan opfatter du det?


Q: Kan du fortælle lidt om jeres konkurrenter herude?

A: Neeej fordi de eneste konkurrencer vi har herude det er jo en kinesisk virksomhed, en kinesisk leverandør som har import/eksport tilladelse. Der er jo ingen danskere som gør som vi. Der er ingen danske strikvirksomheder som gør som vi.

Q: Hvad så med konkurrence også i forhold til kinesiske virksomheder, de der nogen der?
A: Ja, det har så ikke dansk design. Vi har nogle højt uddannede designede siddende som ved nøjagtigt hvad det europeiske marked efterspørger. Så de kommer og præsentere noget håbløst produktudvikling som de europæiske kunder jo ikke vil have.

Q: Ser i jeres leverandører som en del af jeres konkurrencemæssige fordel?
A: Ja det synes jeg. Jeg synes at når vi er færdige med at bygge vores netværk op, så ligger der jo en stor investering, der er jo ikke nogen som kan gøre det bare sådan. Du kan jo ikke komme fra Danmark og sige nu vil jeg have 10 gode leverandører. Du finder jo ikke bare lige de rigtige.

Q: Hvor godt kender man hinanden i den her branche? Hvor godt kender I jeres konkurrenters kunder/leverandører og omvendt?
A: Det tror jeg i skal spørge Rodger om.

Q: Hvad med i forhold til IC Company og de andre design og mode virksomheder?
A: Det er jo vores kunder.

Q: Ja men ved i hvem der leverandører er?
A: Ja det ved vi jo nok godt, når man gør det er det jo nemmere at slå dem af pinden.

Q: Kender de jer, tror du?
A: Nej, det prøver vi i hvert fald at lade være med at fortælle. Men der er altså nogle kunder som forlanger at lave inline inspektion selv. Der kommer de jo så ud på den fabrik og det bryder jeg mig ikke så meget om. Jeg har en tysk kunde som har kontor i Shanghai, de kommer her. Men nu er vi begyndt at tage det hele hjem og lave finish her, så uanset hvor det er produceret henne så kommer de her, så skal vi ikke have dem ud til vores leverandører.

Q: Hvad med mærkerne får I dem sat i her?
A: Nej det gør vi hos dem, og det er jo også noget skit, men nogen gange skal de linkes i så skal de jo ske der hvor de bliver linket.

Q: Så du vil ikke karakterisere industrien som gennemsigtig?
A: Jeg er ikke sikker på at Rodger vil sige ja til det, men for mit vedkommende, man prøver jo at skjule så meget som muligt for hinanden.

Q: Så hvis nu en af dine konkurrenters leverandører er rigtig dårlige inden for CSR, laver en masse skidt, om det så vil nå til at, om du vil få en viden om det så du pludselig ikke ligger en masse ordre der?
A: Ja men jeg tror da Rodger han, Rodger har da et netværk hvor han ved sådan noget, det tror jeg helt sikker at han har. Dem vi finder af gode, det er i hvert fald nogen som Rodger har fået anbefalet. Men om vi hører om de negative, det ved jeg ikke. Men de positive dem hører vi om.

Q: Hvornår er jeres CoC bliver introduceret?
A: Vi har jo haft den af flere gange, den har jo stået på vores hjemmeside i lang tid. Og vi har fået den underskrevet at vores leverandører i Østeuropa for flere år siden. Så er vi begyndt på det herude i år, at sende dem ud. Men jeg er først ved at få dem tilbage nu.

Q: Hvor mange har du fået tilbage?
A: 11 har jeg fået tilbage, og næste spørgsmål kan jeg ikke svar på.

Q: Hvor mange der er sendt ud?
A: Ja, for jeg tror jeg mangler dem som Rodger skulle have sendt ud. Det er vores andel, jeg tror jeg mangler alle dem Rodger har sendt ud.

Q: Hvor kommer initiativet til at lave den her CoC?
A: Ja men den står på vores hjemmeside.

Q: Ja, men den har vel ikke skrevet sig selv?
A: Nååår, nej. Jamen det ved jeg ikke, det er vel noget Per og jeg vi snakkede om for 5-6 år siden eller sådan noget.

Q: Men hvilken baggrund, hvad var motivationen?
A: Jamen vi havde jo nogle kunder som, f.eks. H&M de ønskede at tjekke vores leverandører i Østeuropa. Vi lavede lidt for H&M og derfor skulle vi tjekkes. Jeg var derover med sådan en for at
kigge virksomheden igennem, tjekke efter om der var branddøre og han skulle lave interview med nogle af medarbejderne om de fik deres løn og sådan noget.

Q: Sådan et reelt audit?

Q: Så selvom de ikke beder om det i dag så har det være drevet af jeres kunder, eller jeres kunde?

Q: Så lidt firkantet sagt så er det et risikodæmpende værktoy for jer?
A: Det er for at dække os af, vi vil ikke blive taget med bukserne nede.

Q: Ser du nogle andre fordele ved at arbejde med den her CoC og den miljødel som står på jeres hjemmeside at i kraver at alle jeres leverandører lever op til lovgivningen ingen for miljø?
A: Ja, men jeg synes at risikodelen er meget stor. Fordelen er jo at hvis du har fjernet risikoen så kommer du ikke ud for produktionsstop. Men jeg ser ikke umiddelbart andre fordele.
Q: Hvad med i forhold til at være i Kina som udenlandsk firma. Som vi talte om før, er der andre krav, er et vigtigt at være på forkant?
A: Ja men det tror jeg da det er, de stiller større krav til os end de gør et en kinesisk virksomhed. Der er stillet større krav til os.

Q: Og der bliver i også kontrolleret oplever du, i hvert fald på miljø delen?
A: Ja.

Q: Er der nogen som helst syn for at det også er for at sikre sig at der begynder at blive håndhævet nogle lovgiver som der ellers er set gennem fingre med. Så er det ikke noget i behøver at bekymre jer så meget om, for så gør i det allerede?
A: Ja, det er da absolut en fordel, at du har, at du er lidt på forkant med sådan nogen ting.

Q: Det er måske ikke noget som er indgået i overvejelserne?
A: Nej det har vi ikke tænkt så meget over.

Q: Hvordan har I valgt lige præcis det indhold som I har?

Q: Er der nogen bevidst grund til at miljø slet ikke er nævnt i den?
A: Nej, det kunne det jo godt have været.

Q: Der er jo også så dan en som UNGC, hvis I kender til den?

Q: Så I har skrevet under på UNGC?
A: Antikorruptions delen
Q: Nu har du siddet her ude i Kina et godt stykke tid og når vi snakker om at det er en forholdsvis standardiseret CoC, hvad mener du at fordele og ulemperne er ved dette?
A: Jeg tror da nok at hvis den skulle, så tror jeg den skal da nok målrettes noget mere efter de enkelte lande, i stedet for bare at have en standard. Jeg tror du skal målrette. Jeg synes da også det kunne være spændende at få antikorrumpation med og se hvor mange der så ville skrive den under, for så tror jeg ikke jeg ville få mange tilbage.

Q: Er det et stort problem herude?
A: I KINA?? JA!

Q: Er det noget i oplever?
A: Nej jeg oplever det ikke

Q: Du oplever det ikke, men du ved det er et stort problem?
A: Det er fordi vi prøver at følge loven, vi prøver ikke at snyde, vi betaler folk hvad de skal have, vi betaler skat. Vi betaler gud-hjælpende alt det vi skal betale i skat. Vi snyder ikke engang i skat. Det er helt normalt at man gør det. Og vi prøver ikke at opnå nogen fordele ved at snyde. Vi prøver at overholde hele vejen igennem. Og når man overholder loven hele vejen igennem er der ikke nogen grund til at lave bestikkelse. Men hvis det er sådan at du prøver at bryde loven eller opnår nogle fordele, det opnår du kun ved bestikkelse. Jeg er dybt chokeret over beløbsstørrelsen nogen gang. Inden for byggeriet taler vi om millioner.

Q: Så korruption er noget du mener bør indgå i jeres CoC?
A: Ja det synes jeg helt afgjort, for det er noget jeg synes der skal bekæmpes.

Q: Når First Factory, når I sidder og kigger på den her CoC, har I så nogen holdning til at der er nogen dele af den som der vigtigere end andet? Ville I kunne rangordne dem efter vigtighed?

Q: Er der nogen af dem du ikke ser som et problem i Kina?
A: Børnearbejde er ikke specielt vigtig, det er ikke et problem her, den er ikke i spil. Det er den heller ikke i Vietnam. Den kunne godt være det i Bangladesh. Jeg ved ikke om det er et muslimsk
problem. Altså i Tyrkiet har jeg oplevet det massere af steder jeg har været rundt. Jeg har aldring set det her og jeg har aldring set det her. Selv om man nogle gange kan være i tvivl fordi de ser unge ud. Men når de har kørekort er det svært at beklage sig.

Q: Hvad med så dan noget som ”freedom of association and the right to collection bargaining”. Hvordan forholder det sig i Kina? Må man overhoved de her ting?
A: Altså vi giver dem om lov til det, men jeg tror da ikke de kan lave en fagforening. Og det er jo et communistisk parti, det kan jeg jo ikke gøre så meget ved. Men for min skyld må de da gerne lave en lille fagforening herude. Det vil jeg da ikke forhindre dem i, så på den måde følger jeg godt at jeg kan skrive under så det punkt. Men om det er lovligt i henhold til regeringen her i Kina, det ved jeg jo godt at det ikke er.

Lars: De arbejder altså fra 8 til 17 med en times pause. Det er 8 timer om dagen og det gør de 6 dage om uge, det er fast. Det er 48 timer om ugen. Det har de hver uge. Så er det meget ofte at de har 2-4 timer mere i overtid om aftenen, nogen gange er den halv ti ti inden vi lukker og slukker her. Hvis den er 10, så har de jo fået 5 timer minus en halv time, så i hvert fald 4 timer. Det er 24 timer ekstra om uge. Så er jeg jo langt over det her. Så kan jeg så sige til dem nå de har haft de her 12 timers overtid, så siger jeg, det er så torsdag aften, nu er i nødt til at gå hjem. Og så kan jeg ringe hjem til First Factory og sige til dem at de der prøver som skulle sendes, som var så vildt vigtige, som skulle være på messen i København, kan i ikke lige ringe og meddel Bruns Bazar at de kommer altså ikke for vi har altså nået de 12 overtimer. Hvad du hvad jeg få af vide så?

Q: Og det er tilmed internt i First Factory, så det må jo være endnu værre nå det er mellem virksomheder.
A: Bruns Bazar, ja men hvad ville de ikke sige, hvis jeg kom og sagde at jeg kan altså ikke nå det for jeg har haft de tolv overtimer og det er jeg nødt til at opfylde over alt. Derfor siger jeg at det der punkt der, det er der ingen i Kina som kan overholde. Og de mennesker som beder os om at skrive under på den, de vil samtidig bede os om ikke at overholde den, for de stiller nogle krav til os som er urimelige. Men så er det man siger at så lang tid det ikke er tvunget, så kan jeg godt skrive under. Jeg tvinger dem jo ikke til at arbejde over 12 timer.
Q: Alle dem der arbejder her, bo de herude også?
A: Vi har et dormitory.

Q: Er det alle som bor der?
A: Nej, dem af dem som kommer nede fra midt Kina, vest Kina

Q: Er det de fleste af dem som gør det?
A: Nej, hvis man kigger her på kontoret, så er der mange af dem som kommer langt væk fra os. Men de får så lidt mere i løn, så de vil ikke bo sådan. De er vant til at leje en lejlighed. Det kommer an på hvad dit mål i livet er. For dem som arbejder her på kontoret, der er det jo et mål i livet at lave et godt stykke arbejde, der kommet lidt op i behovspyramiden, ik. Dem som har giftes sig og som har en søn som bord hos færens forældre og som har taget toget hertil for at tjene så mange penge som muligt for at de kan sende penge hjem til forældrene og til barnet og får at have råd til at købe en togbillet. Der gælder det om at tjene så mange penge som muligt og bruge så få penge som muligt. At bruge så få penge som muligt deler det er 1. at bo nede i dormitory, det er gratis. 2. arbejder jeg over så får jeg to måltider varm mad om dagen og så behøver de ikke køber mad. Nu har de både bolig og mad dækket ind gratis. Og så alle de penge man tjener kan man sende hjem.

Q: Altså hvor mange bor over på dormitory?

Q: I forhold til når I sender jeres CoC ud til jeres leverandører, hvad får de så af vide?

Q: Så du har heller ikke nogen ide om de har nogen forståelse for indholdet og hvorfor I gerne vil have dem til at skrive under?
A: Jeg tror der er sådan en general oplysning i Kina om at vi i Vester gerne ser menneskerettighederne overholdt.
Q: Menneskerettigheder, det er måske så meget sagt, det er vel basalt set blot deres egen lovgivning
I beder dem om at overholde?
A: Det har vel også noget med menneskerettigheder at gøre.

Q: Det er jo i princippet en overholdelse af kinesisk lovgivning.
A: Måske ikke lige den med organisationsretten. Men ellers ja.

Q: Hvorfor tror du det svært at få leverandørerne til at skrive under?
A: Jeg tror som ikke det er svært med jeg tror der er nogle af punkterne de føler de ikke kan
overholde. Det er lidt som jeg siger, jeg skal ikke overholde det med arbejdstiden.

Q: En ting er at de føler de ikke kan overholde den, men er det dit indtryk at der er en forståelse
vigtigheden af at overholde den?
A: Ja men hvorfor er det vigtig, hvorfor er det vigtigt at folk ikke må arbejde over? Hvorfor er det
vigtigt at vi i Danmark har nogle love om at man ikke må arbejde over mere end 4 timer om uge?
Hvor er det vigtigt? Jeg forstår ikke det er vigtigt.

Q: Ikke normativt vigtigt, men vigtigt for kunderne fordi de ikke ønsker at løbe den risiko?
A: Ja, men jeg kan ikke se… Jeg kan forstå at hvis du kommer ud et sted hvor der sidder et barn på
8 og sidder og syr på en maskine hvor den kan få fignerne stukket i stykker. Eller står med en
elektronisk strikke maskine og de er 12 år gamle. Det forstår jeg godt kan være et problem. At det
kommer til at stå på forsiden af avisen: "Nu er der et barn som er slået ihjel fordi det skulle strikke
en bluse til Bruns Bazar". Det kan jeg forstå der er et problem, men jeg kan altså ikke forstå at det
er et problem om folk må arbejde, når de nu gerne vil.

Q: Hvorfor er den så overhoved med, hvorfor har i den med?
A: Fordi den skal være der.

Q: Men hvad nu med de andre ting, som at man ikke skal udlede spildevand, at det er vigtigt at
korruption?
A: Ja men det burde også komme med synes jeg. Da den skal sendes tager jeg bare den vi har. Det
can da godt være man skulle gå ind og kigge på den og få den målrettet, det har jeg ikke spekuleret
på, men det synes jeg måske er en god ide. Hvis jeg så skal stille krav til spillevand. Jeg her svært ved at stille krav til spillevand. Jeg kan jo ikke bare stille et krav. Der er du jo nødt til specifikt at gå ned og finde ud af hvad det er for nogle krav der bliver stillet. Og der er der altså forskellige krav alt efter om du arbejder på Macau eller i Suzhou. For vi skal stille langt højere krav til fabrikker i Suzhou end man gør på Macau. I Macau leder man det jo bare direkte ud i havet, her er der jo nogen mennesker ned i gennem systemet som vasker deres tøj, måske nogen som bruger det som drikkevand.

Q: Lad os så sige at de ting var inkluderet, det her brede miljømæssige og korruption. De her lidt mere grove brud. Tror du at leverandørene så ville have en forståelse for dem, og forstå at det er vigtigt at medtænkte fordi der måske er nogle fordele ved at leve op til nogle af de har ting fordi det kunne blive en konkurrencemæssigfordel?
A: Kun de mest fremsynet. Jeg kunne godt tage dig hen til en virksomhed hvor du kunne møde en taiwansk kvinde som kunne fortælle dig om hvor vigtigt det har at opfylde GOTS standarder for at opnå konkurrencemæssige fordele.

Q: Har i nogen som helst aktiviteter med jeres leverandører i forbindelse med CSR eller CoC?

Q: Nu har du fået mange af dem underskrevet tilbage, er der nogen områder hvor du har en fornemmelse af at de bare skriver den under og så regner med at det går selv om de godt er klar over at de ikke kan overholde det område?
A: Det håber jeg sandelig ikke! Jeg har ikke høre nogen der ikke ville skrive under endnu. Du kan se vi har endda også oversat den til kinesisk.

Q: Hvad ser du som værende fordel som leverandører ved at skrive under på jeres CoC?
A: Jamen der er ingen fordel for leverandøren, den eneste fordel du har det er at du ikke bliver taget med buksener nede. Og det kan måske give dig en eller anden konkurrencefordel. Det kan være nogle kunder der kræver det og så står du først i køen. Men ellers få man ikke nogen fordele ud af det, det tror jeg ikke på.
Q: Det bliver ikke nemmere at holde på medarbejderne eller noget i samme stil?
A: Jamen det ved jeg ikke, hvis du gerne vil holde dine medarbejdere, så er det jo ikke om du skriver under på det har stykke papir eller ej, så er det om du giver dine medarbejdere nogle forhold som de er interesseret i at arbejde under. Og det kan da godt være at der er en eller to af de der punkter som medarbejderne er ret ligeglade med og det kan da være der er et punkt som slet ikke står der som den virksomhed tilbyder som er så attraktivt at de har nemt ved at tiltrække arbejdskraft.

Q: Jeres virksomhed, dem i har ansat, I gør jo mere end en kinesisk.
A: Vi giver dem lidt mere i løn.

Q: Så fortalte du også at I ikke har de her problemer med at holde på medarbejderne.
A: Det er fordi vi giver dem en loyalitetsbonus. Og den bliver større og større jo længere tid de har været her. Så de kan se frem til en større og større bonus.

Q: Det kunne man ikke gøre i forhold til en leverandør?
A: Give dem noget mere for at lave varen? Nej det tror jeg ikke.

Q: Er det nogen som helt incitamenter forbundet med at de underskriver kontrakten, jeres CoC?
A: Fra vores side er det fordi vi gerne vil vise at det vil vi gerne overholde.

Q: Men det er ikke sådan at de får lov at tage en højere pris, eller få bedre leveringstider?
A: Det får vi jo ikke lov til! Nej. Vi lever under konkurrencemæssige vilkår og det her er en del af det.

Q: Efter din mening, hvad bliver jeres leverandører motiveret af? Ville de blive motiveret af at kunne få lov at tage nogle højere pris eller få bedre leveringstider?
A: De bliver motiveret at penge, penge, penge. Penge er gud. Det er deres eneste religion i Kina.

Q: Ser du eksempler på at kunderne er med til at gøre det svært for leverandørerne, på trods af at det er køberne som oftest stiller kravene?

Q: Er det dine kunder?
A: Nej det er dig! Forbrugerne. Jeg vil hellere have færre ting og de ting jeg har de er gode.

Q: Gør i noget selv i First Factory for at prøve at balancere det bedre mellem at bede leverandørene overholde de her ting og samtidig også presse på pris og leverancerider og kvalitet etc.?
A: Nejmen det er to adskilte ting. En ting er at vi siger til dem at vi skal have nogle ordentlige forhold. Olevina er ude og sørge for at der bliver gjort rent og at der ser ordentligt ud og at der er nogle ordentlige forhold for medarbejderne, for vi tror jo ikke på at de kan lave et kvalitetsprodukt hvis tingene ikke er i orden. Det er en afdeling, en anden afdeling er så at vi skal have en ordentlig pris. Vi har jo nogle targetpriser, vi ved jo godt hvad tingene må koste.

Q: Så man kan sige at den kvalitetskontrol og så CSR, de social og miljømæssige ting, dem ser du som meget tæt forbundet?
A: Jamen jeg tror ikke Olevina gør det, det tror jeg ikke hun gør, men det er sådan jeg ser det fordi meget at det arbejde hun gør, det er at gå ud og sige til dem at næste gang jeg kommer så er det altså gjort rent, jeg vil ikke se det svineri. Og på den måde skaber hun dels bedre vilkår for produktion, men så sandelig også bedre vilkår for de medarbejdere der er.

Q: Så fungere hun som en slags audit for jer?
A: Det kan man godt sige.

Q: Bruger I nogen former for audits?
A: Ja det gør vi så nu hvor vi kommer ind i IMO. I første omgang bliver vi certificeret her, så begynder vi at tage vores underleverandører, men vi vil lige certificeres selv første, fordi vi skal til at have nogle ordre. Der er jo ikke meget ved at rande rundt og certificere 30 underleverandører og
så siger tyskerne; nej vi vil ikke handle med Kina. Og så har man brugt en masse penge. Så nu tager vi lige selv og bliver certificeret først og så meddeler vi dem derned at nu kan de altså få certificerede produkter. Og så hvis det så kommer i gang og ikke selv kan klare det intern og vi er nødt til at bruge nogle leverandører, så er jeg jo nødt til at få nogle af vores leverandører certificeret.

Q: Er der nogle af jeres leverandører som får strikket ting hos underleverandører?
A: Ja, men de fleste gange uden vores viden, for så bliver vi sure. Vi vil vide hvor vores varer bliver lavet henne.

Q: Hvordan kan man kontrollere det?
A: Kun ved at komme ud og se at de ikke er der!

Q: Kommer Olevina ud uanmeldt?
A: Jeg ved egentlig ikke om de siger de er på vej når de kører, det ved jeg egentlig ikke.

Q: Ud over det her med working hours og overtime og så noget, er der andre områder hvor i ligesom har en mistanke om at jeres leverandører ikke overholder de ting de skal, inklusiv de miljømæssige dele?
A: Jeg tror der er et problem mere som kan være i en kinesisk virksomhed og det er at reklamationerne bliver kort ud på medarbejderne. Det tror jeg. Jeg bryder mig ikke om at medarbejderne skal betale, det er altså normalt i Kina at kører det ud på medarbejderne. Du skal jo selv have den profit du skal have ellers kan du jo ikke have den Benz du skal have.

Q: Har du oplevet det?
A: Ja jeg har oplevet det den modsatte vej. Min kone og jeg, vores maid, hun slår nogen gange noget i stykker og første gang hun slog noget i stykker der var hun meget ked af det og hun kom at spurgte hvor meget det kostede for hun ville gerne betale. Jeg sagde at det skulle hun ikke. Det var normalt i Kina at når man ødelagde noget så betalte man. Jeg prøvede at fortælle hende at dem som var ansat af mig de fungerede under mit principal ansvar og der er det så mig der er ansvarlig. Så når hun slår noget i stykker er det mit ansvar. Det betyder ikke at jeg acceptere at hun slår noget i stykker, men hun skal ikke betale. Men hvis hun bliver ved med at slå noget i stykker, så skal jeg ikke have hende, så kan jeg ikke bruge hende, så ryger hun ud. Men jeg kraver ikke penge. Og det
er normalt kinesisk at man kører den ned. Det gør vi ikke her. Og det bryder jeg mig da heller ikke om hvis vores leverandører gør.

Q: Ved du om dine underleverandører arbejder med deres underleverandører i forhold til CSR?

Q: Ser I jeres ansvar for CSR og den her CoC at den rækker til første led, jeres leverandører, eller ved I gerne på sigt begynde også at medtænke hvordan leverandørerne kan kører det videre til deres leverandører. Eller stopper det ved jeres?
Q: Hvordan definere i CSR, hvad er det for jer?
A: Ja men kan Kim ikke svare på det han har jo taget sådan en eksamen i det. Ja men altså jeg synes ikke jeg kan sige det anderledes end jeg har sagt, det er sådan en almindelig anstændighed, at opfører sig ordentligt over for andre mennesker og også mennesker som er uden for virksomheden, dine børn og børnebørn altså det er sådan en almindelig anstændighed ik. Der er da lang vej endnu i Kina.
Interview Olevina Byrialsen QCM 31. oktober 2008 Suzhou China


Q: Altså i Kina?
A: Ja, men det er langt væk her fra, og det er ikke inden for denne branche, det var inden for konfektion at jeg var ude nogen steder og det var forfærdeligt. Det er så hvad er det en 6-7 år siden. Tingene forandrer sig meget hurtigt herover, men i det her område, i den branche her, det jeg har set her, nu taler vi fabrikker. Du kan godt se svinerier, du kan godt se mange steder hvor der kunne altså godt være lidt mere ordentligt, lidt mere struktur på tingene. Men det er jo ikke det CSR drejer sig om på den måde, det drejer sig som hvordan folk bliver behandlet og vi bruger børn, om folk de har gode vilkår, i hvert fald vilkår som vi siger det er sådan skal mennesker i hvert fald behandles. At de får løn for deres arbejde at de får løn til tiden, at de kan komme hjem til deres familier. At det ikke er slaver vi arbejder med under dårlige vilkår. At de ikke sidder og fryser og skal sidde med jakker på og hansker fordi der er frostgrader inden i rummet. Så der er, på den måde får man det ikke dårligt her.

Q: Hvad med miljø delen af CSR?

Q: Men det din generelle opfattelse at når du komme ud til jeres leverandører at de er meget lydhøre for hvad I siger til dem og de vil rigtig gerne lærer ting fra jer?
A: Ja, det er min opfattelse, det er at de er lydhøre. De er så også kinesere. Det kan godt ske at de er lydhøre, men det betyder ikke at tingene ligesom sker, og rettet ind. Det kommer jo meget an på, det er igen noget med uddannelse at gøre. Ledelsen er det nogen der er uddannet, ved de noget om management. Ved de noget om hvordan man opbygger. Det er ligesom det var derhjemme for mange som starter en systue der var jo fordi de kunne sy, de havde typisk være direktricer eller sådan noget. Så startede de en systue, så køber de nogen maskiner og så få de nogle syersker. Nogen gjorde det rigtig godt, specielt hvis de også havde lært noget om regnskab eller noget. Men for andre kunne det da også gå grundligt galt fordi lige præcist den del af det der hedder udvikling

Q: Er det så dit indtryk at de er uddannet, altså lederne?
A: Ja det er de selvfølgelig på de større virksomheder, det er de bestemt ikke på de små, men der taler vi også om finishing, nu taler vi ikke om en stor strikfabrik hvor der er elektroniske maskiner. Der er det jo nogen som ved hvad det er de i gangsætter. De har hele baglandet med sig, ingen tvivl om det. Og der ser vi også typisk en moderne fabrik. Linking, der er vi mere nede i frøperspektivet. Der sidder en helt masse unge mennesker, ikke børn, absolut, men meget unge mennesker. Det kan være 18, 19, 20, 21 år. De skal have nogle rigtig gode øjne, for det arbejde. Og de kan lide det, altså de er søde og smilende og glade. Det er jo bare hårdt arbejde at side og linke hele dage.

Q: Så der hvor du ser de største udfordringer, det er så hos farverierne?

Q: De standarder, hvor kommer de fra? Er det lovgivningen, eller er det international organisationer som sætter standarden?
A: Der foregår jo mange ting i verden og mange ting de foregår jo også med et… suk… CSR, CoC, alt er jo blevet misbrugt. Ligeså vel som vor herre i den dårlig sags tjeneste. Og dækker over en virkelighed som er en helt anden. Og kunne man finde et system der gør at når du går med i CSR så er der knageme godt nok noget du skal skrive under på som du er ansvarlig for at det er det du gør. Så skal man ikke for lavet noget hvor folk de går og i kausisk soda her op til, hvad der for øvrig er i
farvningen. Det skulle simpelthen, altså jeg får jo fuldstændigt røde knopper. Hvis sådan noget fis, for så synes jeg vi er over i noget, nej, jo vi er over i nået så ekstrem varm luft at, ja, så når i skal lave en master, så må I rigtig gerne være meget barske især på det område at tingene ikke bare bliver et navn. Bliver en reklame i sig selv.

Q: Men hvordan ser du det, vi taler meget om at der er en lovgivning og man kan vælge at ligge under, man kan vælge lige at opfylde lovgivningen og man kan vælge at gå over. Og at folk skal gå rundt i kausisk soda, om det er i Kina eller der hjemme, det er ikke lovligt. Men det er heller ikke, når vi taler om jeres CoC, så der det heller ikke noget som ligger over, den følger den kinesiske lovgivning:


Q: Men et af problemerne i hvert flad i Kina, eller det største problemet det er at loven ikke bliver håndhævet fordi vi har i hvert fald kigget på de overordnede rammer og hvor udviklet er den her lovgivning. Og lige præcis Kina er vi i en situation hvor lovgivningen er på standard med de fleste europæiske lande. Men det der er problemet er håndhævelsen og korruptionen og alle de ting som gør at men fortolker den forskelligt af forskellige årsager, det er noget af det vi tænkte på da vi kiggede på jeres CoC. Er det i virkeligheden en udfordring at få loven håndhævet for jer. Eller handler det om at have nogle krav som ligger over lovgivningen.

A: Jeg tror du skal have nogle krav, altså lovgivningen her, der tror jeg. Der er selvfølgelig noget lovgivning, men det er sådan mere en praktiske lovgivning i forhold til ind og ud af landet. Moms og ditten og datten. Der er en lovgivning der gælder alle. Korruptionen ser vi bort fra her, for den kan du ikke kalkulere med her vel. Men så er der en anden lovgivning og der er, mener jeg at der må hvert enkelt, alt afhængig af branchen, nu er det ikke fødevarer vi arbejder med, det er noget andet. Der må vi have en overordnet lov som siger hvordan vi vil have det. Fuldstændigt uden at
skele til hvad siger kinesiske lov. For lige der, der har de nok ikke nogen specifik lov. Det tror jeg ikke. Der er en forskel på om du arbejder for (for er det rigtige ord, red.) det japanske marked eller om du arbejder for det amerikanske marked. Tolerancerne de er forskellige, der er nogen lande der lukker mere øjnene for nogen ting eller ikke vil have det, eller at det eneste som er interessant det er prisen og til den pris der bliver man nødt til at se bort fra det og det og det. Der er vi jo anderledes, men altså selvfølgelig er prisen vigtig, men vi vil have de her ting produceret på en ordentlig måde. De må ikke indeholde de her ting, men det skal også foregå rigtig. Vi kan ikke se på at der nogen der for det første bliver syg af noget der har med vores ting at gøre. Vi kan heller ikke se på de folk der arbejder med vores ting at de skal arbejde under umenneskelige vilkår, fordi der er for kort tid så de bliver presset til at arbejde 20 timer i døgnet. Nej ikke tale om. Altså der skal man begynde at grave i egen navle. Vi er jo selv med til noget af alt det her. Hvad kan vi gøre, vi skal jo hjælpe med skabe de rigtige betingelser for at folk kan komme til at arbejde ordentligt og have et ordenligt liv med det de gør. Så det er vores ansvar. Og der er vi hævet over en hver given lovgevning.

Q: Hvad er dit indtryk i forhold til den kinesiske tekstilbranche i dag. Om du kan tegne et billede af hvordan du ser den?

A: Nu siger du tekstilbranchen og det er strik vi er i her. Nu tror jeg i har været inden på det i går, det er noget med at de har fjerne nogen eksport licenser. Det er jo godt for det gør det hele lidt nemmere. Hele den der transport gang og den der papir gang den har været enorm tung. Og det synes man også må være i kinesernes interesse at tingene kan glide på en helt anden måde. Og der arbejder de med at bliver lidt mere åbne. Der er også mere knus og klam. Der er lidt mere åbenhed. Jeg har hele tiden troet, jeg blev spurgt til at møde for et godt et år siden, afslutningen på mødet med bestyrelsen; hvad så Olevina, tror du på det med Kina, har vi gjort det rigtige ved at flytte til Kina? Hvor jeg sagde, jeg er ikke et sekund i tvivl. Vi har gjort det rigtige og så skal vi også tro på at vi har gjort det rigtige også skal vi også arbejde ud fra det. Fordi det med at blive ved med at tro at græsset er grønnere der, så kommer vi aldrig videre med at udvikle ekspertiserne inden for det vi gerne vil. Det har der jo været så meget af. Så skulle man der hen og så skulle man der hen. Og det var den som kom første der ud, som løb først derud som kunne slå sig ned som tjente pengene, ja der er også penge i det, men der er sandelig også penge i at du udvirker dig der hvor du er, så hele workflowet, arbejdsgangen, sikkerheden, det hele. Det går hen og bliver hvor vi tænker i den retning i det produkt vi arbejder med. Og der synes jeg vi har gjort et godt valg. Vi har vores kontor, vi, kineserne de bliver også påvirket af at vi er her, at vi tager hensyn til hinanden. Vi siger ikke
bare til folk at du skal blive til klokken ti i aften, der hjemme. Ja men jeg skal til, det kan jeg ikke, min søn har fødselsdag. De lærer lidt at sådan gøre man bare ikke, man spørg, har du mulighed for at være her længere før vi har brug for det. Altså har den der kommunikation. Og der synes jeg efterhånden at det samarbejde mellem dansker og kinesere det bliver bedre og bedre.

Q: altså intern?

Q: I forhold til det i producerer, er det så vigtigt at det er Suzhou I er i. Dette område?
A: Ja det synes jeg det er. Som jeg sagde til dig før, jeg har været i dele af Kina hvor jeg sagde; der kunne vi slet ikke kunne producere. Fordi der er steder hvor CSR, det kunne aldring nogen siden komme på tale.

Q: Men hvad med ekspertisen, ville det være et helt andet billede hvis I rykkede, du siger efter, man kunne også sige er det nu her i Kina vi skal ligge?

Q: der er mange der taler om at man skal længere ind vest på i Kina, at arbejdskræften er blevet for dyr her ude øst på. Men er det nødvendighed for det I laver når det er strik.
A: Man kan blive ved. Jeg tror alle led presser hinanden prismæssigt. Alle. Og det der så er vores opgave herover, for vi er også presset på prisen, det er at sige ok, vi er presset på prisen, det betyder at hvor kan vi hente de penge. Ja men det kan vi gøre ved, vi må også ud og presse prisen, så vi kan gå ud og være med til at skabe et bedre workflow. Så altså effektiviteten bliver højere, så de ikke skal til at rette alt det de har lavet, så kunne de lige så godt have lavet to hold i stedet for en som
skulle pakkes ud igen. Altså skabe en god effektivitet, så de får nogle stykker igennem som er i orden. Det er der indtjening ved. Det er der rigtig mange penge i. Der kunne kineserne lærer meget og der forsøger vi at lærer dem meget. Og lave deres egen kontrol igennem fra led til led, lad være med at sende sortepej videre. For abekatten bliver ved med at være der indtil den sidder på hvert eneste stykke til sidst. Det koster penge det koster fly. Og alle de penge der nu engang bliver brugt på de her ting; reparationer og frem og tilbage og fly til sidst. Forestil jer hvis man ku sige, men du godeste, jeg har prøvet at illustrere det på en fabrik når det har irriteret mig tilpas. Fordi for pokker jeg har ikke siddet og lært, men nej… Kan I ikke se, nu har i de her 1.400 stk. De 1.400 stk. i minutter, det tager ikke længere tid at lave de ting ordentligt. Det tager overhovedet ikke længere tid, lav det ordentligt første gang. Man skal lære at have det der billede inden i sit hoved. Lær at gøre tingene rigtigt. Ros dem, sørg for at alle får ros for et veludført arbejde. Og kritiser og sig det der, det kan du altså gøre bedre og det skal du. Tilbage. For efterhånden, det er ren NLP så får de vent den der, deres harddisk bliver omprogrammeret. I at de…når ja det er da også rigtigt. Fordi, i kineserens øjne der er der hele tiden en som skal fange fejlen bagefter. Men vi siger, det er ikke rigtig, der er ikke en som skal fange fejlen, det er hvert enkeltes ansvar. Så bliver det dejligt, hun har lavet sit ordentligt, det her er ordentligt. Det vil sige at alt det der er ordentligt det tyger videre til den og så har vi en ordre der er færdig, så får i en ny ordre som i kan producere. Så tjener i penge og vi tjener penge. Ingen reklamationer. Ingen fly.

Q: Du siger at I er presset på prisen hele vejen igennem kæden, jerøs fokus på CSR giver det mulighed for at tage en højere pris hos jeres kunder?


Q: Det er jo helt rigtigt, men hvis I er nogle af de først som begynder at tænke på den her måde, så er der måske også mulighed I, i hvert fald i et stykke tid til have mulighed for at kunne tage en højere pris end jeres konkurrenter?
A: Ja, men, det er rigtig, sælgerne, jeg tror i hvert fald de skal bruge det som meget vigtigt overfor vores kunder og føle et ansvar over hele måden vores vare bliver produceret på og til sidst hænger på kroppen af andre folk. Så folk de ved at de har på, tænk sig det jeg har på her det er lavet forsvarligt hele vejen i gennem. Hvor er det dejligt. I stedet for at man siger, det er godt jeg ikke ved hvordan det her er lavet.

Q: Ser du det er forbrugerne der skal få den holdning?
A: Ja, forbrugerne skal få en bevidsthed om det, lige så vel som det de putter i munden skal du have en bevidsthed om hvad det er for noget og hvordan det er kommet til. Men sådan skal det også være, nu er man meget bevidst med børnelegetøj. Men det er fordi at hele verden værner om deres børn. Hvis hele verden bare værner om mennesker, så mennesker og ikke bare børn, men mennesker. Så ville alle nemlig være bevidste om det de putter på deres krop. Og det kommer da, det er uanset om vi er oppe i de store brands eller ej. Det er bevidstheden om at det jeg har på, tænkt sig det er kommet til af glade mennesker som har fået en løn for at gå på arbejdet og er blevet behandlet ordentligt.

Q: Hvordan ser du det er i dag, hvem presser jer til at fokusere mere på CSR?
A: Nej jeg tror det er en holdning i virksomheden, vores chef han er, han har en meget, han er…Nu har jeg kendt Per Nybo i mange år, jeg har arbejdet sammen med ham…Jeg var kvalitetschef på First Concern hvor han også var før. Og han har altid.. vi kan mærke det ude ved os, vi skal… Der skal være ret at være, vi skal have rigtig god kost hver dag. Det skal være sundt, det skal være… Ja sådan er det. Jo vi skal motionere. Og han bedrager gerne, det er hele hans holdning og det er selvfølgelig også at der hvor vi producerer der skal folk bare behandles ordentligt. Men det nytter ikke noget at en person tænker sådan, det skal gå hen og blive en verdens holdning.
Q: Så det er ikke sådan at Day siger til jer, vi har altså også lige et andet punkt?
A: nej det er en holdning der starter ved Per Nybo. Det kan ske de også har den, men det er ikke noget de siger til os.

Q: Er det dit indtryk at det vil komme mere og mere?

Q: Har i oplevet presset fra dem?

Q: Og den ser du ikke i Danmark på den måde?

Q: Hvad med sådan nogen som Noir. Det er i hvert fald ikke så fodformet. Er det nogen som kunne blive jeres kunder, hvis det var sådan at I var langt fremme inden for det her?
A: Der er ved at ske et ryk, men der er jo altid nogen som skal gå først, og resten de hænger så på til sidst, nu er det gået hen og blevet et pres. Hvor mange var der på listen til det seminar, det var faktisk ikke så mange. Men det kommer. Og så skal man ikke halse bagud, så skal man være fremme i skoene, være tidligt ude og være klar over det. Inden i sit hoved skal man egentligt også have, man skal egentligt inden man overhoved hører CSR, så skal man være sådan. Altså man skal
have den holdning uden at den er blevet diktere af noget CSR. Det skal være noget iboende i os mennesker.

Q: Kan du fortælle lidt om dit job?
A: Jeg er kvalitetschef, det vil sige det er mit ansvar at alt det som kommer ud til kunden at det ser ud som kunden forventer. Det er noget af et job. Det kræver selvfølgelig noget kvalitetsstyring og noget uddannelse og en masse, en masse fiasko/succes fra person til person. For alle mennesker kan tåle at få af vide det var bare ikke godt nok, hvis de også få af vide; det var rigtig godt. Og jeg bruger meget NLP når jeg underviser folk. Jeg bruger meget alt folk skal tro på sig selv og de skal godt nok være stolte af sig selv når de laver noget godt, for så laver de noget endnu bedre næste gang. Også hele tiden få drejet det inden i hoved til Yes, det er godt. Og der er der mange måder at gøre det på. Og det er også noget med ikke bare at tale til den enkelte person. Du skal nogle gange kalde alle sammen, sammen om det her. Der er jo ikke nogen enkel person som er skyld i at der bliver gjort noget godt. Der er jo ikke en alene som har ansvaret. Det kræver en frygtelig masse, også hende som gør rent og arbejde med kvalitet, der kommer vi meget ind på hele CSR’s fundament. Fordi jeg holder meget øje med mennesker, hvordan de opføre sig, hvordan de taler til hinanden. Jeg kan mærke på min ryg hvis der er nogen der ikke bliver talt ordentligt til, de ignorere eller behandler ordentligt.

Q: Det er internt?

Q: Hvordan ser du sammenhængen mellem kvaliteten og CSR?
A: At der er gode forhold for medarbejderen er kun en styrke, det er kun en styrke i forhold til kvaliteten, for glade mennesker arbejder ganske enkelt bedre. Og tilfredse mennesker arbejder
bedre. Hvis du ved du er rigtig god, så er du rigtig god til det, hvis du er rigtig god til dansk, så kan du også gå hen og blive ret god til matematik. Det er simpelthen bare fordi du får af vide at du er god til noget kan du mere. Det er rigtig, det virker, sådan er det bare. Sådan er det med børn, sådan er det at have med mennesker at gøre, sådan er det at have med arbejdere at gøre. I det øjeblik du føler at du er god og at du har et ansvar. Det ansvar er det her. Gør det nu rigtig godt. Jeg var rundt, vi var ude og se og kontrollere, og når vi så ser at det de har ansvaret for det er godt så sige ja det er sgi godt. Du skal se hvordan de blomstre og ranker ryggen. Og de arbejder bedre videre og det er bedre for os for der er ingen fejl der kommer igennem. Havde jeg nu bare kommet ind som så dan et sart dyr der siger; prøv at se her, den her har I overset. Så står man jo der, man ser ingen ting, der er jo ingen motivation.

Q: Du nævnte tidligere nogle af de CSR udfordringer som der er indenfor denne branche. Hvor i værdikæden tro du de største udfordringer er?
A: Jeg synes der er kæmpe problemer, det er jo ikke så meget i forhold til hvordan de bliver behandlet som sådan, det er mere i forhold til hele det psykologiske adfærdsmønster og hierarki. For her arbejder jeg også med hierarki, det vil sige det er ikke normalt at man tager hensyn nedad. Så den skal jo vendes og det kan man ikke kommandere folk til for sådan er de opdraget. Det kan du kun gøre ved at vise de yngre generationer. Du kan kun gøre det ved at vise at sådan gør man. Sådan behandler man folk.


Eksempel med jordskælv, First Factory gav 20.000 RMB på vegne af medarbejderne, men de ville også selv samle ind og blev meget vrede da Lars sagde at det behøvede de ikke for virksomheden havde givet for dem.

Q: Har du noget indtryk af hvor mange af jeres leverandører som har hørt om en CoC før eller har underskrevet noget tilsvarende?
Q: Kan du fortælle os lidt om Eastern?

Q: Hvordan er Eastern så i forhold til jeres andre suppliers?
kan lave knaphuller og sy knapper i og så videre. Og så skal det vaskes og dampes igen og pakkes. Så det er delt op i tre rigtig mange gange. Hvor i mod på Eastern der skal det ikke dele op for den virksomhed har det hele i sig. Og det er jo anderledes, så man arbejder både med den type fabrik og ligesom vi gør også rigtig meget at vi er nødt til at gå ud og få strikket på elektronisk maskiner og flytte det hen til at linke et andet sted, fordi de specialiserer sig.

Q: Er Afasia, ligner de så Eastern?
A: Nej Afasia er jo ikke en producerende virksomhed, det vil sige de producere garn, de andre de forarbejder garnet. Afasia de laver garn og de har laboratorier og det hele.

Q: Hvor mange af jeres leverandører er ligesom Eastern?

Q: Men hvad får dig til at tænke at du ikke kan store på dem. Hvornår mærke du det?
A: Fordi det kan jeg se. Når jeg kommer ud og jeg får af vide, vi skal egentligt være færdige her. Og jeg ved hvad led man skal igennem. Så siger vi hey, hvor er det så henne, nu burde der være så
meget. Må jeg have lov at se jeres bøger. Hvor meget udkom kommer der hver dag. Så kræver det blot at man har almindelig sund fornuft. Og siger jamen hallo.

Q: Men er du ofte ude for at du hører at de siger nogen ting, men så kan du fornemme at det ikke er som de siger?
A: Ja meget, meget, meget ofte. Næsten dagligt. Og det skal du også have dem fra. Og det er ikke ved at råbe og skrige. Det er ved at sige prøv at hør her lad være med at snyde en gammel ræv. For det er hvad jeg er nu. Det kan ikke betale sig for så bliver jeg bare noget så forbistret negativ. Og det bliver bare noget så svært. Og det skal man også lære kineserne, for de siger det de tror man gerne vil høre. Så de fortæller ikke om de problemer der er. Sådan er de per definition. Det må ligge i opdragelsen. Men så skal man have lært dem at sige godt der er et problem kom og fortæl det. Fordi så kan vi jo se om vi kan finde en løsning sammen fra begyndelsen af. Men her der snyder I, dækker over problemet. Så finder man du af hey der da noget helt galt og så skal man til at afslører at de lyver. Og når de lyver og jeg skal hen og fortælle en kineser at de lyver for mig, så mister de anseelse. Det er knageme også flovt at lyve og det skal det også være. Også skal man til at starte fra scratch med at lose et problem der kunne have været løst her med det samme. Det skal man have lært dem, lad være med at dække over det for vi er her af den sammen grund. Vi må hjælpe hinanden med at finde en løsning, hvis tingene er på en eller anden måde løbet lidt af sporet. Der findes som regel en løsning.

Q: Når I sådan ligger en supplier på is et stykke tid, hvordan reagerer de på det?
gælder før I starter med at stikke så må de ringe at nu er vi så langt for at sparer tid. Så skal der tjeke op på de strikstrykker at de er i orden. Men typisk det er hvad han sagde; ja men jeg blev presset til at fortsætte, så var det hele jo lavet da vi kom for at tjeke. Men det var så en anden der siger, du kan ikke holde pause du bliver nødt til at køre, for vi skal overholde en deadline. Så siger jeg, det kan godt være i skal overholde en deadline, men har vi fået den rigtige produktionstid? Har vi fået de dage der skal til for at lave den her produktion eller presser man bare folk til at gøre det umulige? Fordi så er vi jo nogle banditter, så overholder vi jo ikke det her. Fordi der er en produktionstid og der er en ETD og det skal vi gerne overholde. Men der går jo også nogen foran som skal sørge for at man få de rigtige betingelser, de rigtige godkendelser til tiden. Så stik tager så lang tid, link tager så lang til, finishing tager så lang tid. Og hvis ikke den tid er der så er vi jo ude i at presse mennesker. Der hvor det ikke er sundt mere.

Q: I er en kunde som folk gerne vil have?
A: Nu har vi mange ordre, vi har mange små ordre, men vi har også mange pænt store ordrer. Og mange små ordre, det er jo også for at forkæle nogle kunde der siger vi vil gerne lave nogle specielle vare, meget delikat og sådan noget. Men det er ikke dem vi sælger flest af, det kan godt ligge i få stk. Men så skal man jo sørge for at det bliver interessent på den måde at de både får de store og de små, men det er også det som gør at det er meget vigtigt at vi kan strikke noget her på maskinerne og så man kan få det linket et sted. At der er nogen der acceptere de små ordrer. Men de små ordrer, dem er der ikke nogen der drømmer om fordi, det er jo ikke det man bliver fed af, vel. Så meget realist skal man være. Men i og med at man har et godt samarbejde, hvor de både får store, men så skal de også tage de små, så kan alle egentligt godt være glad. Jo jeg tror der er nogen de vil rigtigt gerne arbejde for os fordi de skal, det er lige præcist, det skal være ordentlige varer. Og det er sjovt at lave noget der er ordentligt. De sukker lidt over de høje kvalitetskrav, det sukker alle over indtil man lærer det. Men det tager altså lige præcist lige så lang tid at sy den som sådan eller linke den sådan som hvis du sjusker. Det er kun et spørgsmål om måden at se tingene på. Når ja. Og när de så selv har set det, når de ligesom bliver skolet, prøv nu lige at gøre sådan her, og så de selv oplever, hold da op det er da også rigtig. Og så får jeg også ros for det her jeg laver her og det har jeg ikke brugt længere tid på. Men det er fordi de er vant til at se at det niveau at det egentligt er lige. Nogen synes at sådan en streg her, det egentligt er meget lige, fordi det har det lært alt tid, det er da ok lige nok. Og andre de synes at sådan en som går den vej, den er jo lige, bare ikke 90 grader.
De skal jo også have defineret, hvad er det som er rigtig, hvad er perfekt. Og hvad er god eller hvad er dårlig. Altså hvad er forskellen.

Q: Hvis nu at du skal se på hvordan i udvælger leverandører, hvad er det så for nogle ting som er vigtigst? Rangordne følgende; pris, kvalitet, leverings tid, miljø og social mindset og mulighed for long term relationship.
A: Altså giv mig lige den der. Pris og kvalitet naturligvis, kvalitet er noget vi må uddanne i hvis det er sådan at der er slinger i valsen. Levering er også yes, absolut. Men er det noget vi skal bruge. Det der social mindset, ja, long-term relationship, det vil vi meget gerne have og har det da også i nogen tilfælde, for det giver en fordel for forståelsen.

Q: Her i long-term relations med Eastern og Afasia?

Q: Hvis du nu skal rangordne dem?
A: Så må det være prisen og troværdig levering nummer to og kvalitet, det er der vi kommer ind i træningen, så den er nummer tre.

Q: Hvor ofte besøger du de enkelte leverandører?
A: Ja men jeg kommer rundt hele tiden, så er der så også nogen steder at der skal være ekstrem fokus for der kan man se at der er noget de ikke lige har styr på. Der har vi haft en ordre som jeg bogstaveligtalt har holdt i hånden. Det er nogle modeller der er flyttet herover nu, der skal klippes, virkelig klippen og sys altså på overlock fordi det er specielt sat sammen. Det kan også være fast stof og strik sammen og det er der ikke rigtig nogen som er vant til at gøre eller er trænet i. Så det er ikke noget man bare kan placere derude. Der skal man ud og lærer dem at klippe og lærer dem at dampe. Man skal faktisk have dem i skole og lære dem fra A til Z og så være der hver dag og det
har bare været en rigtig sej omgang. Og det er jo ikke vores virksomhed det er jo ikke min
virksomhed. Så jeg går stort set ind og tager over ude ved dem.

Q: Sætter de pris på det? Kan de se værdien i at lærer nyt?
A: Altså de har lavet en færdig ordre som er blevet leveret til tiden hvor der garanteret ikke bliver
lavet reklamation på. Den er tjekke 100 % så der kommer et produkt de kan være stolte af.

Q: Jeg tænker så læringen i det, sætter de pris på den?
A: Selvfølgelig er der læring i det. De lærer hvordan de skal afmærke så man kan være sikker på at
tingene passer. For hvis du sætter en lynlås i noget hvor der er en bredt ensfarvet stykke her og der
er nogle striber her ude, så er det svært at få det til at matche, så skal du lærer dem at lave
afmærkninger. Det kender de ikke til. OK. Så siger man; husk det til næste gang vi har samme
situation. Det glemmer de så, men femte gang, det er igen så husker de det.

Q: Men bliver der sat pris på det?
A: Ja, jo, men jeg er også en pain in the ass, men jo det gør de. Det gør de fordi jeg går gerne hen og
tager ved. Jeg har både sorteret og gjort ved. For at vise dem at der hvor jeg kommer fra.

Q: men de synes du er irriterende lige nu og her når du kommer?
A: Ja, men samtidig vil de også gerne gøre mig tilfreds. Så jeg kan komme og sige at det var godt.
Men det kan jeg jo ikke sige hele tiden når vi sender 250 stk. tilbage på trods af at de er blevet holdt
i hånden som skal repareres, vel? Men det færdige produkt er i orden, men det er altså også
tålmodigheds arbejde at få uddannet en rigtig god samarbejdspartner for det kræver at de skal have
flyttet en syn på hvad der er godt, i stedet for at sige, øh jeg men vi skal følge så høje kvalitetskrav.
Så siger jeg, nej lad være med at sig det. Der findes kun et kvalitetskrav, der findes kun en kvalitet.
Og den er god. I kan lige så godt gøre det hver gang, så bliver alle jeres kunder glade. At det så er
os der skal lærer jer det, det er en anden ting. I kommer til at tjene penge på det og i kan vokse. Hvis
I så også lærer at holde styr og orden. Der skal være styr på det, tingene kan ikke bare ligge i bunker
og ikke vide hvad der er hvad.

Q: Så i investerer mange ressourcer i jeres leverandører?
A: Vi investere mange ressourcer i noget der faktisk, det er jo ikke betalt det her. Det er selvfølgelig vores egen interesse at få skabt et produkt til sidst som er godt og som vores kunder er glade for. Men det er også i vores interesse at få skabt en samarbejdspartner der efterhånden ved det her. Om så vi selv har brugt timer på at uddanne dem.

Q: Er det dit indtryk at I gør dette mere end de fleste kunder. Bruge flere ressourcer på at uddanne jeres leverandører?
A: Ja det tror jeg faktisk. Altså nu er det selvfølgeligt mit arbejde vi taler om her, det er jo mig der kommer rundt. Og det ligger egentlig også uden for det jeg skal. Og alligevel gør det jo ikke. For når man har ansvaret for kvalitet, så har du jo ansvar for måden det kommer frem på osv. Så det går ind under der. Og der er heller ikke nogen som siger, uh Olevina du må altså ikke bruge så meget tid på det. Fordi det kræver det simpelt hen. Og du kan hele tiden lærer nogen noget så de får skabt en bedre virksomhed. Der er altid noget som hænger ved. Og så, lad os så siger, in the end of the day, så kan vi bare sende en Carla ordre derud og bliver produceret uden at de skal holdes i hånden hverdag. Det kan godt ske at det tag et år. Får det er helt godt, men så tager det den tid det tager. Men så har vi også fået skabt en god samarbejdspartner, hvor pris og det hele hænger sammen med at vi også selv har investeret meget i det. Det gør vi også andre steder vi kommer rundt, der siger vi også I bliver nødt til, kan vi ikke bytte om på de to personer, hende her er bedre til det der, det har jeg set. Og hende hun er mere ansvarlig. Altså simpelthen også lærer dem. I sidste ende for vores skyld, for det gør vores liv nemmere, men det gør også helt automatisk deres virksomhed bedre.

Q: Vil du så sige der er store omkostninger forbundet med at skifte leverandør, som f.eks. med Elite?

Q: Men der mister First Factory så også nogen ressourcer, pga. alt den tid du har brugt på at uddanne dem?
A: Ja, men på så en kæmpe stor virksomhed, der går du ikke hen til hver enkel syriske, det kan du slet ikke, den er enorm stor. Der bliver du nødt til at gå til ledelsen og til de der supervisors og sige til dem, ved du hvad, du har ikke gjort det der godt nok. Altså der er det ledelse du går til og siger I
har godt nok ikke styr på det her. Den virksomhed som jeg taler om, der er det virkelig vigtigt for os, også andre steder, mindre virksomheder, der ku du gå hen og tager fat i hvert enkel. Når du kommer op i sådan nogle store virksomheder, det kan du slet ikke. Der bliver du nødt til at gå til ledelse og sige på at hør her. Hvis I gjorde sådan og sådan så ville det blive bedre.

Q: Kan du nævne tre udfordringer ved at arbejde med kinesiske leverandører?

Q: Er det dit indtryk at der er mange leverandører i det her område som lever op til de krav som i stiller?
A: Ikke per automatik.

Q: Det er pga. jeres kvalitetskrav?
forventninger til dig og han skal gøre klart at min forventning til dig det er altså at jeg får ting til tiden, hvis jeg skal overholde at levere til tiden, altså hvis alle er klare i deres meldinger og der ikke er nogen der går hen og udøver magtmisbrug fordi man er ejeren eller os der er igangsætterne eller sådan noget. Magtmisbrug det kan jo sagtens bruges i tredje land. Det kan det jo.

Q: Før talte vi om hvordan i udvælger leverandører er det de samme kriterier I bruger når i rater jeres leverandører løbene?

Q: Er der andre typer information som i dele med leverandørerne? F.eks. hvis de ikke lever fuldt ud til deres CoC, får de det af vide på en tilsvarende måde?
A: Altså, hvis det bliver opdaget af os, at der var et eller andet der overskred fuldstændig den limit der er i vores menneskesyn, så vil de afgjort få det af vide.

Q: Så det er hvis I tilfældigt opdager det, så får de det af vide, men det er ikke noget som indgår i en general vurdere?

Q: Men det er ikke sådan at I har tænkt på at inddrage jeres CoC i jeres trafik-evalueringssystem?
A: Jo, men skal jeg jo ligesom have af vide at ledelsen hvordan jeg skal håndtere det og så må vi tale om det.

Q: Men er det noget du har tænkt kunne være en god ide?

Q: I hvor høj grad ser du jeres leverandører som en konkurrencemæssig fordel?

Q: Kan du give dit indtryk af, eller din forståelse af hvorfor First Factory arbejder med en CoC og hvad motivationen har været for jer?
A: Jamen grunden til at Per Nybo, det er fordi han altid tænker i de baner og at han er vant til det. Lige fra det hed, det ikke hed CSR, så. Det er at vi skal arbejde ud fra de der forsvarlige, altså vi

Q: Vi ser i hvert fald også CoC’en som et CSR tiltag.
A: Ja, jeg synes CoC de har lavet benarbejdet. CSR de, der er det hårde arbejde gjort inden. Det er sådan som jeg ser det.

Q: Så motivationen har været at være en ansvarlig virksomhed? Ikke så meget som risk management?
A: Jeg synes man fortjener i den grad at man fortjener at komme i et dårligt lys hvis man går ind for noget CSR eller CoC kun for at dække sig til på falske betingelser. Så hvis man kunne gøre sådan at det ikke er muligt, så ville jeg blive rigtig glad. Det ved jeg ikke om man kan. Det ved jeg ikke.

Q: Jeres CoC, har du nogen holdning til hvordan du ser mulighed for at bruge den i Kina?
A: Muligheden for… Du bliver jo nødt til at forklare dine leverandører hvad det er du gerne vil. Og hvilke forventninger du har til dem. Og så hvis den leverandør siger; ja men det har jeg slet ikke nogen problemer med eller hvor er det jeg eventuelt skal gøre noget bedre eller stramme lidt op. Uden at de ved hvad det er, så kan de jo ikke svare på det vel. Så der bliver nødt til at der kommer nogle og definere hvad det er vi forventer på den måde.

Q: Har i gjort det?
A: Nej for det der CSR det er meget nyt, nu her. Og før hed det CoC. Men hvis vi skal til at gå ind i noget CSR så er der også en papirgang der skal være, der er også noget samtale med vores leverandører.

Q: Jeres CoC er blevet skrevet under af 11 leverandører. Når den er blevet sendt er der da nogen som har forklaret f.eks. formålet med den?
A: De har fået af vide hvad det er de skriver under på, og den står også på kinesisk, jeg kan se den står både på kinesisk og engelsk. Og du får ikke nogen til at skrive under på det hvis det er noget
som er langt fra, fra det der er sandt. Selvom kinesere gerne vil sige det du gerne vil hører. I det øjeblik det kommer til en underskrift vil de gerne være sikre på at det er rigtig det de har gjort.

Q: Er der nogle af aspekterne i jeres CoC som du vil vurdere er mere vigtig for First Factory end andre?
A: Nu kan jeg se den er på her, men jeg synes det er forkert at man generaliserer med børnearbejde. For børnearbejde to timer om dagen i Bangladesh gør at de har råd til at gå i skole. En jeg synes er vigtig at have med i Kina det er den der, de andre er ikke så vigtige, men den der, antallet af timer. Fordi der kan der sagtens være nogle steder hvor folk de simpelthen bliver presset til at arbejde alt for mange timer og det er ikke godt for dem eller nogen. Det er uacceptablet. Alle mennesker kan tåle at arbejde over engang i mellem, men ikke sådan generelt.

Q: Hvad med sådan noget som brug af underleverandører? Er det noget deres leverandører gør brug af?
A: Ja nogle af vores suppliers, de bruger subsuppliers og det gøre de af den ene grund at ude på landet i små bitte landsbyer, der er nogle huse der her en enkelt linking maskine eller en håndstrikmaskine eller sådan noget. Og det kan de brødføde et par familier men. Du kan ikke stoppe det. Vi siger vi vil ikke have det. Vi vil vide hvor vores ting er, men der er lige præcist der slår vi i dyner for vi kan ikke kontrollere det. Og så kan man gå ud og slå folk i hovedet, men i det øjeblik du herinde som kineser får en ordre som ikke er stor, så får du en pris for det. Så er du jo kineser, så ved du godt at derude der koster arbejdet slet ikke ret meget og der kender du nogle og de vil gerne have lidt at lave. Så sender du det der ud og så tjener du lidt mere på den vare og de er glade og du er lidt mere glad. Og vi er glade indtil vi finder ud af at der er noget galt. Men det er ikke børn. Jeg har været ude i den mest charmerende lille flække overhoved. Der var så hyggeligt. Det var nemlig lige præcist, men tror det er løgn. Går ind så inden midt i så nogen gange hvor alle folk boede, der var der lige pludseligt to strik maskiner og en link maskine. Og jeg kunne jo, altså jeg syntes ikke det var specielt charmende, men. Og de vidste også godt, de sad der med store øjne og tænkte hold da op, der kommer hun og ser det her. Men stemningen den var simpelthen så sød, jeg kunne hverken blive sur eller noget som helst. Fordi alle havde det faktisk godt. Og så leverede de til en virksomhed herinde. Det var nok noget familie eller noget. Og så kan jeg sige nok så meget at det vil jeg ikke have vel, men jeg sagde ikke noget om at det ville jeg ikke have, men jeg tækkede at det de lavede var i orden i det mindste. Men eller har jeg en holdning at vores suppliers de må ikke
bruge supersuppliers, MEN det gør de i Kina. Sådan er det bare. Og så er der nogle gange hvor man siger hvor mange forbud skal vi lave vi er jo i Kina. Hvor mange forbud, hvis det er virkeligheden her. At sådan gør man. Jamen hvis det ellers er lavet forsvarligt og ellers hygger sig med det. Det har var hyggeligt, de havde ikke engang elektrisk lys, tro jeg ikke engang. Så det var kun noget de kunne gøre om dagen og så kunne de brødføde sig selv og deres nærmeste. Og det var den mest charmerede lille landsby. Nogen gange tror jeg vi er nødt til at sige at nu er vi i Kina og ude på landet i Kina der gør man sådan. Og vi har nogle ordre der er så små at det er forsvarligt med dem. Det ville jo aldring kunne lade sig gøre med større ordre, nu er vi nede i noget der lige 150 stk. eller sådan noget. Der er det næsten oplagt. Der må man nogle gange putte det out of record og gøre som om det aldring er noget du har hørt eller set. Så længe at det der kommer ud af det, det er i orden. Og vores leverandører de siger det ikke, og de har fået af vide at det er forbud. Men det gør de altså bare. Og så er de ikke vant til at man kommer ud. Og hvis man lukker øjnene for det her over, så er man et fjols. Så er man ude med forbud bare for forbuddets skyld. Selvom man ved, så tror man at man kan vaske sine hænder bare fordi at man har sigt at det er forbudt. Men ting bliver jo ikke uugjort bare fordi du har sagt det er forbudt.

Q: Er der noget som du mener mangler i jeres CoC i forhold til at vi er i Kina?
A: Nej det er der ikke, fordi jeg synes vi arbejder så meget ud fra de betingelser som der er.

Q: Hvad er så dit indtryk af hvordan jeres leverandører har modtaget den?
A: Jeg tror virkelig de har tænkt da de så den at det der, sådan gør vi eller sådan gør vi ikke.

Q: De har læst den og tænkt; det kan vi godt overholde?
A: Ja ingen tvivl.

Q: Føler du også at de har en forståelse for hele indholdet og ideen bag?
A: Det vil nok være en gradueret udgave, nogle gør. Det er ikke sikkert at alle har forstået det hele. De har forstået i store træk hvad det drejede sig om og hvorfor. At det simpelthen er nødvendigt at gøre på sådan en måde for at forsvarre sig på det europæiske marked.
Q: Når de så har skrevet under på de har to ting som du har fortalt de har meget svært at overholde er det så fordi de har tænkt, det vil vi da gerne prøve, eller det gør vi i så vid udstækning som muligt?

Q: Hvordan tror du Eastern har tænkt det? Er de i den ”gode” gruppe?
A: Ja det tror jeg altså det er igen noget med ledelse og struktur og hele det diktat som kommer. De har været per definition, skolet noget anderledes herover. Så andre de er kommet med sent og er startet med små virksomheder. De aner slet ikke hvad sådan noget er for nået. Der skal være nogen som kommer og fortæller om det første gang, for det er jo ikke noget der kommer automatisk.

Q: Er det så dig der har fortalt dem, er det dig som har sagt?
A: Ja, men det er vel Rodger og Lars som er her som har fortalt leverandørerne om vores CoC

Q: Kan du nævne nogle fordele som jeres leverandører ser ved at skrive under og leve op til de her ting?
A: Ja dem som tænker langsigtet, dem som tænker kort sigtet, nej. Det skal ligesom sive ind at de bliver nødt til at tænkte langsigtet.

Q: Tror du de fleste tænker kort- eller langsigtet?

Q: I forhold til jer, er der så nogen forskel på om de underskriver eller ej? Er der nogen reward i form af bedre pris, flere ordrer etc.?
at vi har altså det har punkt, det er vi nødt til at få styr på. Sådan arbejder vi og det er vores samarbejdspartnere nødt til at gøre også.

Q: Hvis du skal nævne et par ting som jeres leverandører bliver motiveret af hvad ville det så være?
A: Det er gensidig respekt og det er over for leveringstid, det vil sige det kan ikke nytte noget at vi bare presser hvis vi ikke selv lever op til og give varen til den tid de forventer det. Så gensidigt respekt- ja. Aftale overholdelse.

Q: Hvad er dit syn på virksomheder med tilsvarende placering i værdikæden som jer og deres delansvar for at leverandørerne ikke kan leve op til de ting de skriver under på i diverse CoC?
A: Ja, det er jo ikke, ja. Der er jo ikke noget der ikke er så enkelt at det ikke også kan være tilfældet. Fordi, hvis… Hvad kommer først. Vi skal have produceret en vare og vi skal have fundet et sted at få den produceret og vi skal aflevere denne her varer om fem uger og vi mangler en leverandør. Så vil vi da primært gerne at vi allerede der kan se at, i forhold til CoC, CSR, der kan vi godt forsvarer det her. Men jeg må så være ærlig nok til at sige at hvis vi har en ordre som skal produceres igennem, og vi har en deadline og kunden er vigtig og det hele er vigtigt. Så kommer det nok lige først med den her ordre og så må vi lige gå ind og snakke om det andet bagefter. For der er jo ikke tid.

Q: Hvordan forholder I jer til det trade-off der er mellem at sige at i skal leve op til alle de her ting i vores CoC, men vi skal også have lave priser og lang betalingsfrist etc.?
A: Det er også det at jeg siger at tingene skal hænge lidt sammen. Og alt det arbejde jeg kender til med CoC som jeg har lavet, der var jeg jo så ubehageligt tilfreds med det at jeg har ringede til Falck og fik dem til at sponsorere metervis af Falck kasser. Jeg kontaktede slagterierne sammenslutningen for at få de der handsker i small, medium og large fordi jeg ville simpelthen ikke være bekendt at komme rundt til de der fattige fabrikker og sige at det skal de bare. Og der var også rigtig mange der var gode til at sponsorer. Men jeg vil sige nogen gange springer kæden af, det går hen og bliver utroværdigt – så går det bare hen og bliver et stykke papir.

Q: Hvor oplever du oftest at der er interesse konflikter mellem jeres leverandører og jer?
A: Tid og økonomi.
Q: Så ikke nogen interessekonflikt når det kommer til jerens CoC?
A: Nu er det jo ikke det vi tales om. Når man skal have en vare på plads så er det første man taler om jo ikke CoC, så taler vi om pris og levering. Det andet skal være noget som er sat på plads en gang for alle. Det er ikke noget vi tager op og blander sammen når vi skal have produceret en varer. Det er i forhold til at vælge en leverandør. Der skal den ligesom, for så skal vi ikke arbejde i det hele tiden. Fordi det kan man ikke. Du bliver bare nødt til at vide at de arbejder med de ting og sådan er det og det ved vi og så holder man alligevel lidt øje med tingene.

Q: Så det er alligevel et udvælgelseskriterium når I vælger nye leverandører?
A: Ja, men som jeg sagde før, hvis vi har en ordre som står akut og skal laves, så bruger vi ikke otte dage til at arbejde i CoC før vi får ham til at lave den her ordre.
Interview with Darren (Wong Zhi) responsible for yarn purchasing 3. November 2008 Suzhou China

Q: Can you tell us about your job?
A: I am a yarn purchaser I am in charge of the purchasing department and my daily work is to place orders with the with the supplier to ensure quality and the colors and details and furthermore I also have the responsibility to source the yarn from Asian area - in Hong Kong area, Taiwan and mainland China.

Usually we work with 30-40 yarn suppliers but when it comes to accessories we have more. I don’t know how many because my colleague is in charge of accessories but I think at least… well it depends if you define by the legal accessories suppliers – the definition of this is that it is a registered company which can give us an invoice but we also buy from trim from the local market and here we cannot get a receipt (fabiau). Of course this is not illegal but you know in China, sometimes the definition of legal and unlegal is different here.

So with accessories we don’t really know because it is different here from in Europe. In Europe the trim companies have their own companies but in China it is convenient to by the accessories from the local market we have a lot of markets here and we have the middlemen who deals with accessories. Especially for a company like us which his a small-medium sized we need these suppliers.

Q: Do you work with CSR as part of your daily job and could you please try to describe your understanding of CSR?
A: Actually in my previous job experience I was a salesperson and I was kind of involved with Coc because we had a lot of customers who was auditing us. Li & Fung and Walmart and Tesco, I have applied for the Tesco auditing and they would give us guidelines for how to work. My previous workplace was a supplier to Walmart and Tesco so they required auditing. The company was a trading company, not owned by the government. It was a big garment company and we exported a lot to tjeeto , do you know tjeeto it is a big German coffee company and also a big supplier to the Walmarts kids-clothing.
To be very honest I sometimes talk about a cheating department because to some extent every supplier in China does the cheating part. I also had this experience in my previous work. And I don’t know maybe the suppliers in Europe do the same?

Q: When you call it the cheating department is it then because you will have to hide certain things from your buyers?
A: After graduation I worked for a big big garment manufacturer they were supplier to the Gap, do you know Gap? And the Liz Clayborne and also suppliers to brands like Ralph Lauren. Their buyers require they must be certified but frankly speaking if they follow the CoC and auditing restriction 100% they cannot make the cloth from the prices they get. Also I think the buyers should take more responsibility because on the one hand they squeeze the margins for the Chinese suppliers but on the other hand they require the COC standards – this is impossible, you know. In my opinion the Chinese suppliers are forced to cheat. If the buyers paid maybe a little bit more then maybe they were not forced to cheat.

Q: Can you give examples of how many companies cheat or maybe how there was cheated in the company you worked in previously?
A: I think often the buyers know this but they maybe don’t do anything. But you know, Walmart cannot for example audit every hour of every day. So when Walmart’s people called me and say audit people will come tomorrow or maybe this week, then we could arrange for the workers not to work overtime this week and people can then go home early. Especially for the garment industry the overtime is everywhere. Especially, during the Christmas time when we need to ship the goods to the US or Europe in order to meet the Christmas selling. The overtime during this period is crazy.

Q: But how is your impression that the workers feel about the overtime?
A: They don’t like the overtime. As far as I know workers (where I previously worked?) would do overtime up to three days with sometimes only one hour sleep. If there is a deadline, the factory does not have the choice, the only alternative is that they will have to pay the airfare price because there is no time to send the goods by ship. Ant this price is often huge.

Q: But to your knowledge, does the workers get extra paid for overtime?
A: Yes they get extra pay, always. In some factories the workers salaries depends on how much garment you make so of course you make more to get more but this is not so here (in the Yangtze River Delta?)

Q: Can you explain if pollution is important to work with in the garment industry?
A: As far as I know this industry does not do much harm to the environment. But for the dying houses these do a lot of harm to the environment. Nowadays the Chinese government strictly control the environmental problems for instance they closed a lot of dying houses because they didn’t treat the water properly. These factories have been closed in the past three years, step-by-step so if the factory cannot meet the standard it will be closed. Today, China does a lot within this aspect so it is more difficult to pollute than before. But of course in China we have so many suppliers maybe for some of the smaller ones it is more difficult to control for the government.

Q: Can you tell about the current development within the industry?
A: In this industry the Chinese industry has within the last year come up with some more strictness of the wellness of the workers with the new labour law with better salaries and less overtime (or higher payment for overtime)

In Canton area and this area – it is the Yantze area there has been done a lot for the welfare of the workers.

Q: Is this area where they do the most within this regard.
A: Yes of course and in Canton area but unfortunately in the Canton area (and Jiajinag province) a lot of factories have had to close down. They go bankrupt because of the situation in Europe and the US with the crisis and they get fewer orders. This area has not yet been as badly affected as the Canton area we are the engine of the Chinese economy. I think the situation here is connected with the situation overseas. I think it is not fair that the overseas companies they grasp a lot of margins here but they leave the pollution to us and blame us but to some extent they bring these problems to us. They grasp a lot of margins. We supply a lot of cheap products to the US and Europe. My personal opinion is that part of the problem is that they force us to lift the exchange rate but if they do this they cannot buy the cheap products.
Q: On the political level there has been a change in mindset of how to treat the workers and environment but is it your impression that the factory managers you deal with understand this?
A: Nowadays more managers understand this. My previous boss he had a dying house and the restrictions and rules bring a lot of side effects to the companies like my boss’s. Their margins have narrowed down, they have big problems and their factories must downsize they have to fire a lot of people to meet the requirements. The fluctuation of the exchange rate and the new labour law means that the owners must pay more to their workers.

The government thinks that the owners of the factories they make a lot of fortune during the uptime of the economy and hence they should share some of the responsibilities so they pass the responsibility on to factory owners. The CPI and inflation (consumer price index) in China is very high. If the workers continue to earn the same they cannot make a living. The government knows this and believes the owners should take their share of the responsibility.

Q: Do you see any big opportunities within the industry? (To be successful within the industry what do you need to focus on?)
A: At this moment in time this industry is not very promising for the Chinese suppliers. And the future for this industry I also don’t see as very promising. Maybe a lot of suppliers in this area will eventually shut down.

Q: What does First Factory do in order to be competitive?
A: Well, the overseas companies such as First Factory have the connection to the overseas buyers so they can get higher margins; this is not possible in the same way for the Chinese suppliers.

Q: Do you think that it can be an advantage then for Chinese suppliers to put more emphasis on CSR then in order to remain competitive or is it only a higher cost for them?
A: If the economy can remain stable for a while then maybe it can be a plus for them but with the situation today I don’t think it is an advantage. I know of many examples where a Chinese supplier gets a certification an maybe they can use this as a sales point because it can bring more orders but don’t mistake it is also a big challenge if you ask me. Because sometimes the opportunity to work with the big buyers like Wal-Mart and Tesco is not even a good thing. A lot of suppliers in China ends up bankrupt because they have cooperated with Wal-Mart. I know they way for instance that
Wal-Mart do business with Chinese suppliers. I call it new-colonialism. It is the same think the UK did to the African people. The difference is we can grasp 10 maybe 10 percent of the margins from them but the African people got nothing. The good thing is Africa kept a good environment but China we are polluting and that is not good. This is my personal opinion and not the opinion of all Chinese people.

Q: So certifications even though positive are also costly for the Chinese producers?
A: Let me put it this way, for the small suppliers they do not have the money to get certifications but for the bigger suppliers they are forced to get the certifications because they have to have this to get to work with the bigger suppliers.

Q: So you get an Industry where the big suppliers are more focused on these areas than the smaller ones?
A: Yes

Q: But where do you believe the workers are treated the best?
A: It is hard to say. Maybe the workers who work at the bigger factories can earn more because they do more overtime and they actually have got something to do. But some small suppliers don’t have as many orders. But one thing is for sure the most efficient workers are employed at the bigger factories.

Q: Where in the value chain within this industry do you see the biggest challenges/problems?
A: The biggest problems have to do with the price for the finished products. If you can get the higher margins you can get money to do CSR and auditioning. If the companies really benefitted from the auditioning – really, then I think everyone would be more willing to follow the standards. The whole supply chain should do a team work.

CSR is a big challenge to every industry in China not only this industry. But if you work for an overseas company such as a joint venture company then they strictly follow the law and CSR standards. My wife worked for a German company Tessa and they get higher welfare – there salary are comparatively higher than in China. They get more welfare standards , they get a refrigerator, they get cool beverages in the summer time, they get vacation with paid summer time etc.
Q: So the foreign companies in China are doing a lot within employee welfare?
A: Yes of course. Their situation here is different.

Q: Is it your impression that First Factory is pressured by someone to focus more on CSR?
A: I don’t know if customers are pressuring FF maybe they are but you should talk to our sales people in DK because I am not dealing with the customers. But I can tell there is a pressure here because I can see some of our customers have specific restrictions but they have no money or time to audit our suppliers here in China. It could be certifications like økotex 100 or intertec ecology because I applied for økotex 100 from Schweizereland for Tesco and also INtertec ecology. The two are different. Økotex 100 are only certified for the products but intertec has a whole flow chart.

Q: You say that you know your customers have certain restrictions. Which kinds are these?
A: Environment or CSR. I have not read their manuals thoroughly but I just make a quick look through and here I have seen some restrictions like working hours etc. But the situation at FF is good because our workers do work overtime but not that much and it is paid and it will not exceed the law requirements. But the salaries will maybe still be very low from your point of view

Q: And many factories will exceed the law requirements?
A: Of course of course. Ha ha

Q: The suppliers you work with are they used to working with CoC?
A: For most of the yarn suppliers they do not do this. Maybe some of them but I have not talked to them about this topic before.

Q: But the yarn suppliers also have to sign the CoC from FF?
A: Yes.

Q: Have you been involved in letting them know about the CoC?
A: Yea I have sent it to all of them.

Q: And it has been signed by all of them?
A: Yes

Q: Also Afasia?
A: Yes of course. But I think Afasia does the best job among our suppliers within CSR because they are well controlled within a lot of things.

Some of our suppliers are just middlemen they do not have their own factories so they can just sign. But they just have a small office with a girl at the computer they are not the ones doing the overtime but their suppliers maybe are. They have a lot of subcontractors but I don’t know all these so maybe they are doing the overtime.

Q: Can you tell us about Afasia that we will meet today?
A: Afasia is a Hong Kong owned company, maybe a public stock company. They have two companies here to my knowledge maybe three. They also have the knitwear factory in the nearby province but they are not our suppliers we only buy the yarn from them. They have two dying house one is for cotton. They have another dying house it is for another blend of wool. They have a GM here, he is a professional GM they just hired him in China, he is a Malaysian, but also half Chinese. They have a lot of certifications, e.g økotex 400.

Q: How much of your yarn do you get from your suppliers?
A: We get all the cotton yarn but how much of the total share is hard to say I have been here only one year. But I would say 10-15 percent at least. You know in the knitwear industry we use a lot of yarn. We use maybe 2-3 tons of yarn every year and cotton is normally in so we buy cotton quality from Afasia.

Q: Can you tell us from which criteria you select suppliers?
A: We select our suppliers from the exhibitions held in Shanghai. Normally the designer decides what kind of yarn will be used, we don’t care about the suppliers. We want to know if the suppliers can supply the legal invoices if they are suppliers from China. Our own criteria are related to technical aspects, if they can deliver the products quickly, if they can meet the deadline, if the quality is steady, if the color is ok.
Q: What about price?
A: Price of course, you know we are not big buyers for most of them. Sometimes if the prices do not meet our customers requirements we discuss with the suppliers if they can lower the price. But sometimes the price cannot be competitive enough because our orders are not big enough to pressure the suppliers.

Q: So the price is quite similar with your different suppliers?
A: Yes quite similar.

Q: If you need to range the criteria?
A: Quality is the most important aspect of the five and them comes delivery. And maybe the payment term. The longer the better

Q: What about to establish a long-term cooperation with your suppliers is this important.
A: Yes we consider it very important to develop long term relationships.

Q: Why?
A: Because it is not a good thing to change the quality each time, especially if your customer has a short lead-time and high quality requirements it is sometimes very risky to change the supplier because maybe the quality will also change. It can bring both penalties from suppliers and customers.

Q: And what about the CSR aspects is this something you are interested in when you select suppliers?
A: To be very honest, no. Maybe now that we want to apply for the IMO certification we care about these aspects. To my knowledge Lars has decided to apply for this certification. Maybe in the future he has some more requirements.

Q: You have been at FF a little more than a year. How would you describe your relationship with the yarn suppliers?
A: Actually we are friends, I am friends with most of them. But we are not to close friends because if you are to close friends and there is a problem you cannot get mad at them. Especially for Chinese people because we are a different culture maybe it is difficult for you to understand. But as I explained we are not big buers. Sometimes we cannot just say this is not ok or returned anything, then we might get penalties from the suppliers.

Q: So how do you solve such issues?
A: We must reach a balance. It of course depends on each situation how we can solve it and make our choices. But when it comes to quality we have zero endurance. If the quality is not ok it is not ok.

Q: Is it then difficult for you to put a lot of demands on your yarn suppliers because you are not very big?
A: As I explained we are kind of friends so maybe we do something as friends to solve the problems.

Q: Are there many suppliers in the area, which lives up to your selection criteria?
A: Yes, it is easy to find yarn suppliers here in China.

Q: So if a supplier does not live up to your criteria you can just find a new?
A: For the normal quality yes but for the fancy yarn we need time to find alternatives. But it is not easy job to find a new supplier, especially when the lead time is very short.

Q: So in this way you are dependent on you supplier?
A: Yes

Q: For how long do you thing Afasia will continue to have Afasia as a supplier?
A: For as long as possible.

Q: If you got an offer of a similar product as the one Afasia is providing you but at a lower cost would you then consider changing supplier?
A: Not at first. First we must ensure that the quality lives up to the same standards. We will not just change the quality suddenly. Maybe the quality is not as good as Afasias. Even if the quality is better and the price is lower you still need to find a back-up you know.

Q: What do you think is important to build a good relationship with your suppliers?
A: First of all it is important to establish the trust in each other. You do not hide something from each other in a good relationship. And if there will be a problem you must together find a solution as quickly as possible. If the supplier say no sorry we cannot help you we say no – these suppliers we cannot use.

Q: Have you had any examples where a supplier has hidden something from you?
A: Of course, we have had all kinds of situations. I need to think to find an example. We cannot call it cheating but sometimes if the quality is not so good e.g. the color of black is different they would say yes yes we died it it the raw yarn but in fact they died it in some already coloured stock yarn and we will have some problems about the color. But they just tell me we died in raw yarn but really they just want to use up their stock. Sometimes it is hard to tell you know because it is held as a secret in the company.

Q: How does living up to the CoC fit with how you rate your suppliers.
A: I understand your question but if you choose a supplier today according to CSR it is impossible to find a supplier in China.

Q: Why?
A: If you just want to find a supplier here in China it is an easy jb. If you want to find a supplier within CSR hæ hæ it is mission impossible and I am not Tom Cruise. I think it is a similar experience in Bangladesh. Have you been to Bangladesh, I have been there and the situation is even worse.

Q: Is it possible to include CSR in the way you rate your suppliers?
A: It is possible. But most of the suppliers cannot meet the CSR requirements. Some of them they can meet them but most of the no.
Q: How important is it to share information with suppliers?
A: We share knowledge sometimes. They tell me about mud composition or the dying temperatures or things like that. But not all people will ask these questions. I o because I have interest in this.

Q: Do you invest a lot of time with your suppliers?
A: Not yet because I do not have a lot of time you know. I need much time to communicate with our designers and many other things. Maybe in the future.?

Q: Do you believe your suppliers would like you to spend more time with them?
A: Of course. When I was on the other side of the table and was the supplier company I liked to exchange the infomation with the buyers. I had a good relationship with most of the buyers in Li & Fung and during the holidays we sometimes had coffee together we sometimes had dinners or lunch together.

Q: How was this beneficial in your work with the suppliers?
A: We had a better understanding of each other we had better how to say, well relationships. When you do a lot of interaction and work with one person you have a bonding relationship you cannot just say oh it is not ok what you deliver you know

Q: I don’t know how it is for Europe it is a different culture, maybe it is not as important but in China the bonding is very important.
A: Ok, but would you also use your relationship when dealing with problems in production or something like that?

Of course, I think maybe I t is kind of the same thing for me when I work with European people. Sometimes we have the color standard from the buyers but some times of course the final product will have a small colour difference. If I can face then face the buyers directly then maybe they will say it is ok anyway. But if I have not got a channel through to our buyers then it is easier for me to get them to change their opinion.

Q: Do you know why first factory has chosen to introduce a CoC?
A: To get more customers, of course. It is a salespoint . It is the icing on the cake.
Q: Do you think it is also to be able to get a higher price for the products?
A: Maybe, but I have nothing to do with the price.

Q: Do you know when it was developed and introduced?
A: Maybe a long time ago but I have only been with First Factory for a year. For us, the Chinese employees I think not a very long time because maybe the Board of Directors have had the awareness about this CoC for a long time but not the employees here. We are decision-followers not decision-makers

Q: Can you use the CoC in your work with the yarn suppliers?
A: Yes but as I told you I am a decision follower. IF the decision is to integrate this CSR thing to the buying of yarn then we will need to follow it. And also for our Chinese suppliers it has not been there for a long time

Q: So this hasn’t happened yet?
A: No

Q: How applicable do you think First Factory’s CoC is within this Industry here in China?
A: Different companies have different CoC and different definitions right?

Q: Yes
A: Some company’s care about overtime and some people care about something like the facilities I mean dormitory, cafeteria.

Q: But how do you feel about First Factory’s CoC is it a good idea to have it?
A: Partly but not 100 %. Within a short period it is simply not possible to ask the suppliers to meet this.

Q: So will there be benefits in the long run you think?
A: It depends very much on First Factory’s expectations about CSR and this CoC that they want the suppliers to follow. It is very easy to say just sign this paper and say now we will just come to your factory to audit you.

I think maybe the western companies can follow these CoC but not the Chinese companies. The requirements have to be very simple if they should follow it but at least what they can is improve according to our instruction, this is for sure. If I told you the suppliers can follow it 100 percent I don’t even think you would trust me, is that right – you are not fools…Ha ha ha.

Q: So what is important to include in FF’s CoC?
A: First of all I would like to say that the awareness of a CoC is quite common in Europe, when your hear CoC you have a sense of the meaning, but for Chinese managers and all people they are just starting to know what it means. But the details in it not many Chinese people get this.

But for me what is very important is overtime, this has to be strictly limited. People should not be allowed to work overtime like crazy. Sometimes it is not human!

Q: Have you got any opinion about the limit?
A: Maybe 2-3 hours per day. So maximum should be 10 hours per day I think. And then we get of at Sunday.

Q: Does some of the workers want to work more?
A: Yes of course. But the problem is I know the Italian and French people they work less and they become bored, it is a problem right for Europeans. Nowadays the French government requires the workers to work more but they want to work less. They complain about prices of the products from China. But Chinese people are intelligent they work they know they get more.

Q: Is there anything else that should be included in FF’s CoC in your opinion?
A: There should be dormitory’s. At least they should get some housing allowances and maybe pensions. But this is not quite common for the workers to get here in China, And Salary. At present though the salary of the workers is not bad with the new labour law. So if the salary should rise more it should be if the buyers are willing to pay more and I don’t think this will happen.
Q: What about Child labour is this an important issues in China?
A: No no, you don’t find this here. The workers all have the ID so they can show so it is not necessary not here it is in the law. But China is a big country so you find many things here.

Q: But overtime is also stated in the law?
A: Yes but this is not followed that strictly not for Chinese companies. Maybe the overseas companies follow it more strictly, I think they do this

But you know I don’t know about all of China. I can just say that Child labour you don’t find at the factories here but maybe you find this further west, I don’t know I haven’t been there.

This place is just one area. I think it is the same thing in Europe, you can find child labour some places but it is not common.

So overtime is crucial but as I said if you want the goods before Christmas and if you only give a very short lead time but the workers will need two weeks to finish it we need to work anyway. Overtime problems are not caused by the Chinese suppliers it is caused by the western buyers.

Q: Does the workers on the factory’s come from this province or from somewhere else in China?
A: A lot of them come from other parts of China. Let me explain you many of these workers they used to live in villages, actually they are farmers. It is a special phenomenon in China. Nowadays we don’t need so many people to be farmers to make the food and actually this is very poorly paid to be a farmer in China so instead people choose to work in the cities. The industry in the Yantzche River area includes Shanghai, Jiajiang, Jiangsu area. We are now in Jiangsu area. Jiujiang delta area (pearl river delta) is in Canton so people go to work in the nearest areas. The definition of near is far away to you. And then they only go home one time a year maybe 1 week or sometimes two weeks. They are use to this. This is the way for them to get money to provide their families. We do not have a high welfare system like yours. The workers need to work to pay for medicines, they do not get any pensions and they need to pay for their child’s school and for their parents. We are not like Europe we have a large responsibility to our own family. We are very close to our family, different from you.
Of course for some people from the cities they get the pension and medical pension so they don’t need this as bad.

Q: How did the suppliers react when you asked them to sign FF’s CoC?
A: I think some of the suppliers had some kind of awareness already about what a CoC is, they had a general idea. Some of them already have buyers who want the same kind of restrictions towards them. Some of them are just middle men as I explained they do not have the production, and some of them I think just treated it as a piece of paper, no more. It varies.

Q: Will it change anything that you have asked your suppliers to sign a CoC?
A: It changes something because even though I told you before that in my previous work the factory cheated at auditions. The factory also did some basic work to improve. They redecorated the dormitory, they redecorated the cafeteria, they shortened the working time over time and they started to pay a little bit more to the workers.

Q: So just to get them to sign to CoC will contribute to a difference?
A: Yes you can say but it is also a dilemma if they change to sharply. But in the long run they also now if they don’t change anything then maybe they won’t get the buyers. But if the buyers show a willingness to pay more I think they are more likely to change.

Q: Do you feel the suppliers have a good understanding of the purpose behind FF’s CoC?
A: Yes. The Chinese managers also want to respect the employees we have a long tradition for this. I think this is the negative side effect brought by the industrialisation. Maybe in the old time when we were farmers we live more in harmony. The Chinese people have experienced very sharp changes. Not like in Europe were you have fought for many years for CSR and human rights and the environment.

For the most Chinese companies the purpose of working with a CoC is to get business and orders. For overseas companies I don’t know. But one thing is for sure. The overseas company has a better understanding of these issues. As I told you the Chinese has a more bonding relationship with each other. So sometimes maybe the workers need to work overtime but this is ok because they have a
bonding relationship with the boss. My father-in-law has a company doing hardware and he cares about workers. Maybe the salary is not so high but the relationship with the workers is close.

Q: Are there any areas where you suspect the suppliers will try to cut corners?
A: Often when they cheat is not always with bad intentions. Maybe they think this quality is just as good as the one we ordered so there are no problems. Sometimes they just don’t know about these things so they think it is all right. If they knew it was a problem they would not have dyed the wool, in my opinion. If we sense they will do these things on purpose we will not use these suppliers.

Q: Are there any benefits for your suppliers if they live up to the CoC or is it only a cost? (like worker retention)
A: If the suppliers are big enough if they are certified by something like Walmart or Gap then maybe it is a salespoint for the suppliers. I don’t think many of our suppliers can benefit from living up to CoC because they are too small. They don’t even have the capacity to receive the big orders.

Q: Is it hard to keep the employees in China?
A: For the very big companies in China this is not a big problem only for the small companies. But maybe in the Canton area they have had these problems for the past couple of years because the factories are very pressured but they need the workers and these are limited. So they have to pay more.

But I think in China sometimes you cannot trust the things said in the radio or on television.

I agree with you.

Q: How do you think FF could help the suppliers to live up to the CoC?
A: I think they need the authorisation of the professional auditing firms (intertex), I mean I am not a professional in this matter. I have attended a forum about CSR one time and maybe this will help. But for me to help I need time. Not just to send the paper’s by fax to them.

Q: What do you believe the suppliers would want in order to work with the CoC?
A: I think they want to see the monetary rewards from doing this. But I mean even if we pay them more for our products they won’t do this. IF you have the influence of the big buyers then you can force them but this is another story.

Maybe in the long run the suppliers will improve themselves because they realise if they do not do this they don’t get any business. But this is the very long-run.
Interview with Roger (Zhong Bo) CPO 30. October 2008 Suzhou China

Q: What is special about the textile industry in China today?
A: This industry, the textile industry, is not a very good business in China today. The Chinese factory’s have very high competition. At the same time the RMB price has increased. A lot of the orders have therefore been moved to other countries like Thailand and Laos but we have advantages because we can produce a better quality than these other countries. An important thing is also that we have a very high standard when it comes to equipment and machines. In many cases the countries like Thailand or Laos will still have hand-machines but in China we have a lot of high standard machines and I can tell you these machines are produced in Germany and Japan so they can make very complex patterns.

Q: Are there any legal or political issues, which influence the businesses within this industry?
A: What do you mean? Our business is legal.

Q: No no what I mean is how can maybe new laws or political attention make it more complicated for businesses within this industry?
A: I think that now when the government can see that we have reduced our export because of fewer orders to Europe and the US the Government will see that they need to support this industry and make it easier for the companies. So maybe we can get more VAT refunds next month we will get 2 percent more. I think soon we will get more support from the government because of course they don’t want to see all the factories close down.

Q: Can you tell some more about the challenges for this industry and maybe also mention the opportunities if you see any?
A: I don’t know what to say

Q: What about the new labour law, has this had an impact in this industry?
A: Yes this is a big problem because the salary’s has gone up.

Q: Is it a problem for FF?
A: Our company’s salary is much higher than at the local supplier level. But for the suppliers it is a big problem because when the factory’s needs to protect workers rights and pay more we don’t know if they will continue to ask for more and more.

Q: And the government checks if every company oblige to the labour law?
A: Yes. But for the local supplier level sometimes they will say you need to follow the labour law but maybe step by step. If they do not do this then many factory’s will close down immediately Because they cannot afford this extra cost of salary increases.

Q: What about changes in law related to environmental changes – has there been any?
A: No I don’t think so

Q: Are there more strict demands for foreign companies?
A: I don’t think the government would like to encourage more companies to start up within this industry because in China the textile industry is very strong they don’t necessarily think more is more is better. Instead I think they want companies with the highest standards. Of course they will protect the industry because they are interested in maintaining this industry but they will not continue to give more good conditions for the foreign companies or for the factories either. Ten years they for instance they offered tax reductions for foreign companies in this industry but today it has become less and less.

Q: So if you are a foreign company or a factory that is polluting a lot you will be forced to close down eventually?
A: Yes yes

Q: If we consider CSR and companies working with this, what is most difficult in order to make it work? Are there any problems at the supplier level?
A: The big problem is overtime you know. I this line of business we will always have to ask the employees to work more sometimes because otherwise you will have to delay the order and then we need to pay for the airfare and this is very expensive. But in our company if the workers work the whole night we can pay them double salary or we will give them a day off later.
Q: So in which way does FF try to solve the problems related to overtime?
A: Normally we pay double. But working time is sometimes very long. If the employees work 10 hours per day we need to pay 2 hours overtime.

Q: Do you see a pressure for First Factory to be more social and environmentally responsible?
A: No no. I don’t we have any problems with this because our company is running very good. Then also there is no problem for instance for local government. Because we pay tax you know and that is the most important here ha ha ha. Then they can see that the company is profitable. Also a foreign company is very different from a Chinese company. The foreign company we want to pay the government the tax required by law but the local Chinese company they will try to avoid paying

Q: So if your local suppliers need to do live up to social and environmental issues and this cost money do you believe they will try to avoid this to?
A: I don’t know exactly. But when it comes to the tax I know they will avoid this. This I think is different in Denmark? But it is no legal, but sometimes in China you don’t consider so much if it is illegal but more how can I get around this payment.

Q: And how can a local company avoid to pay tax in China?
A: Oh I don’t know. Maybe they make black money I don’t know.

Q: The suppliers you work with in FF why have you chosen to work with them?
A: Because they can make very good quality for us and because they can keep the delivery time (ETG)

Q: Do you work with big or small suppliers?
A: Our suppliers are medium-sized. We try not to work with the very big suppliers because we do not place very big orders with them.

Q: Are all of your suppliers Chinese companies or do you also use some suppliers from maybe Taiwan?
A: They are all Chinese but sometimes we also use some Taiwanese yarn suppliers but not when it comes to the Knitting suppliers.

Q: How many suppliers do you have?
A: What do you mean, yarn or trim?

Q: Both?
A: 40

Q: What kind of suppliers do you have?
A: Yarn, Trim, just like bottoms, Tap, Knitting, Linking

Q: How many yarn suppliers do you use right know?
A: 20 or 18 I am not sure. Because we have a lot. We use many different yarn suppliers.

Q: And how many knitting suppliers?
A: 8

Q: and linking ?
A: 8. and they do knitting after they do knitting

Q: And how many Trim
A: This is what we call the accessories suppliers.

Q: Do you think the numbers of suppliers will increase or decrease in the future?
A: The same. But next year it might be less. I think this has to do with the financial crisis around the world. I think some will close down because they cannot get orders.

Q: Is this a good or bad situation for you?
A: This is not good for us because next year it will be more expensive. Next year the suppliers, which are left, will maybe say I want 10 Yuan more otherwise I will not take your order. So the prices will go up
Q: Would you say your suppliers are use to sign a CoC like FF’s?
A: Our suppliers will have to follow the laws.

Q: But are they used to sign a CoC?
A: No not most of them I think but some of them already knows about these kinds of papers.

Q: Do most of them know about it?
A: No not most of them.

Q: How do you select your suppliers?
A: We provide them with small orders and in this way we are able to test if they can deliver to the standards we put up. Here it is important that they know how to follow our instructions and information. A good supplier is one, which listen when we explain where and how they should improve. They have to be willing to do this otherwise we cannot use them. But sometimes some of our suppliers they will try to cheat us and say ok I will improve within these and these areas but soon you discover that they didn’t do what they promised. This type of suppliers is bad for business.

Q: Is there a big difference in the price quota you get when you approach suppliers?
A: No no the prices we get are very close, they may vary with 2-3 Yuan. Let me explain it like this. In China: Price we can discuss and For First Factory we a special advantage because we have our own production so we know how much time knitting, linking etc. takes. In this way we can say to our suppliers, we know the procedure we know the time so we also know if the price they are offering us is correct.

Q: From these 5 criteria which ones will you consider most important?
A 1: Quality
2: Price
3: Long term relationship
4: Delivery time
5: Oh when it comes to social and environmental standards we mostly done care when we choose supplier. But I mean to begin with if you want to establish a company in China youself you must
focus on these issues and pass the test to even have a company so in the beginning it becomes the most important one.

Q: How long have you worked with your suppliers?
A: I have worked with FF for 5-6 years so this is also how long we have worked with these suppliers. (The company was built up around Roger because he had established the contact with the supplier base in the very beginning)

Q: So you have a close and long-relationship with FF’s suppliers.
A: Yes

Q: So when the suppliers sign do you think they will follow this?
A: I think they will follow more and more because this is also a demand coming from the government. But it is unrealistic to ask them to improve at once it has to be step by step.

Q: In which ways do the government require this?
A: First of all we have our law. We cannot use child labour etc.

Q: And how does the government make sure it is followed?
A: They do when it comes to child labour. But not so much when it comes to overtime. Here the government don’t check. They don’t visit our factory but some of the suppliers in the countryside they need to check. I am not sure how they check but I know nobody uses Child labour.

Q: Can you tell a little bit about the suppliers we are going to meet?
A: Eastern is a knitting factory. They can make the whole order and deliver the finished products to us. I like this factory very much because I don’t like when I have to spent a lot of time…interrupts…

Q: Are they also more expensive?
A: Yes a little bit. Maybe 1 or 2 Yuan so not to much

Q: And can you tell about Afasia?
A: They are a very big company. They only do dying.

Q: Are there many good suppliers in this area?
A: It is not so easy to find new suppliers. Maybe they will do the first order perfect but the next order will be bad and the one after this even worse.

Q: What happens if one of your suppliers has a competitor and they offer you the identical product only cheaper? Will you then switch supplier?
A: If every criteria match then we might look at the working conditions for the suppliers. IF the factory is clean and looks nice, if the workers have air conditioning in the summer and heating in the winter then ok of course we would choose them everybody likes low prices. But to have all this and give lower price. This is very difficult.

Q: How much is a employee at the factory paid?
A: 2000 RMB a month. I know this, But you know I don’t wan’t to check their book-keeping ha ha. Our workers also know how much salary they can get from other companies and then they compare. So very quickly you will know if you pay much more than other factories.

Q: So would you say it is expensive to change a supplier for FF?
A: No we are the experts you know in this line of business so it will not cost a lot of money to change the supplier because we make the samples ourselves so what we need is to share this information with our suppliers so they will know exactly how they can make the product in the right way.

Q: But at the same time you say that not many suppliers can live up to your standards?
A: That is right, not many.

Q: Lars told us that FF spent time with suppliers to ensure that the suppliers improve e.g, quality?
A: Yes no time we spent a lot of time.

Q: Is it your impression that your suppliers are pleased with the help they get.
A: I think they should be grateful because we make them better. This is beneficial for them to get more customers if they can provide good service and good quality etc. This will provide them with more business in the long run. But sometimes I feel they need to pay more attention to what we say.

Q: So how would your supplier react if you stopped ordering from them?
A: I think all factories wants to have long-term relationships with their customers and not change customers all the time. Because they in time can get more as well as larger orders.

Q: Is this also how they think when it comes to FF which is maybe a smaller customer.
A: We are not at big customer but also not very small. I would say we place middle-sized orders. Actually I think many factories like the middle customers. If the customers are very big then the unit price of each product will be very low. Also with middle customers they can get paid very quickly and this is very important.

Q: What kind of information do you share with your supplier?
A: Not so much. I we have the same customer then of course I will not share information about this with them.

Q: Do you sometimes have this?
A: Yes.

Q: And you know this then?
A: Yes, we often have same customer as our sub-supplier. And sometimes if I am looking for a special fabric I cannot let them know this. Because of course they also want to be able to show the customer this fabric themselves.

Q: But what information is then shared with your suppliers?
A: We tell them about our yarn supplier, dying houses, electronic machines factories. We will tell the supplier for instance you will need to use this electronic machines factory to do the knitting. So we share information about our other suppliers.
Q: What about information about production scheduling time. For instance that you would like to reserve this and this time with you in the future
A: Yes of course we do this, otherwise we will have a problem.

Q: How does this work.?
A: We call, send mail, fax them that we place an order in two month because often we will get this information from our customers some time before. But sometimes it is difficult to do this. For instance for the electronics machine factories because sometimes they cannot wait. This is also because sometimes the information we get can be two or three days delayed. So if we get our information too late we have a problem even if we did book the capacity earlier on. Then maybe they will take an order from another company.

Q: How you had examples when your suppliers broke your contracts with them?
A: Yes we have.

Q: How did they brake it?
A: They could not deliver on time and they will have to pay the airfare but they don’t want this. And it is very difficult to solve a problem like this. When this happened we could not work with them again.

Q: So you had to brake off the relationship after this?
A: Yes but this only happens very seldom that we brake of the relationship. Most of our suppliers can live up to the delivering time and follow the terms of the contract.

Q: Do you know your competitors.
A: Yes. If we have the same customer I will know about this because our customer will let us know about them. And then maybe they will tell us oh they try to cheat us. And sometimes we use the same sub-supplier like for instance the printing factory so we know each other like this.

Q: So lets assume that one of your competitors use a lot of overtime work will you have this knowledge then. Will your competitors tell you?
A: Rodger does not answer, just sits quit!
Q: Do you know which suppliers your competitors use?
A: Yes, exactly

Q: And they know your suppliers?
A: Yes

Q: So if one of your competitors delivers bad quality you will know this?
A: Yes. Then the customers will come to us and ask us. Can you make this better than your competitor.

Q: So in this industry everybody knows each other?
A: Yeah. We also meet each other.

Q: You meet each other?
A: Yes we will meet each other in the printing factory. But we never talk business.

Q: Howe come?
A: It would be very unwise to discuss business because we use the same customers. Nobody wants to share the style they are making, how many pieces they are making. You cannot tell your competitors this. It is very easy for other suppliers to just copy the product and then just offer another price to the customer. This is why we never talk business.

Q: What about bad quality would you talk about this?
A: No. but customers will always tell us. If our competitor cannot solve the problem then they will come to us.

Q: Do you think the different suppliers FF work together with, is that a competitive advantage for the company?
A: No I don’t think so. The main problems are the technical problems. The suppliers may have big capacity but sometimes there are technical problems and they don’t know how to solve this. This is where we have our advantage because we can tell the customer. Ok we will try to fix this. We can make suggestions. This is because of our design house in Denmark and the designers know the
thinking of the customer, they have the same way of thinking. This is because also Lars is also an
expert within this field but in China the owners they just want to do business and only think of how
much money they can earn. But in FF most of us have very good knowledge about this. This
knowledge is very important because this is our advantage.

Q: Why have FF introduced this CoC?
A: I really don’t know

Q: Do you have an idea of why?
A: No ha ha.

Q: Do you think it is a good or a bad idea?
A: I think even if we don’t have this paper we still think about these things and do like this. So it is
not so important with this.

Q: What about your suppliers?
A: Maybe they need to improve within this in the future.

Q: Are some of the points in the CoC more important than others or are some not relevant in China?
A: From my perspective what I think is very important is the quality and the prices.

Q: So this is not important?
A: No.

Q: What about environmental pollution is this important to include?
A: I don’t understand what you mean

Q: Ok. This CoC put a lot of emphasis on social issues like overtime etc. but nothing is said about
the environment.
A: Yes this is important you know for our next life ha ha.

Q: What about bribery?
A: I don’t think this is a problem

Q: Have you told your suppliers about this CoC?
A: Yes and they have all signed it

Q: What did you tell them when you informed them about this?
A: I translated it to Chinese so they could read it before they signed it.

Q: How did they react when you sent it?
A: They didn’t tell me anything when I sent it. They just signed it.

Q: Do you think they understood the purpose and content of it?
A: Yes yes.

Q: Do you think they find it important?
A: For some of them they find it very important. Because point two, point three nobody can say they will not do this. But with point 6 I think none of them can agree.

Q: Are there any others it will be difficult to live up to? What about freedom of association? Are they allowed to do this in China?
A: Yes that is no problem. Ok they can form a union? Yes no problem. But number 6 they won’t agree with.

Q: Still some of the suppliers haven’t signed the CoC. Do you know why they haven’t signed?
A: Most of them have signed. Because, there is two different types of companies. One is normal and with licenses and pay taxes and VAT and the other is small company they only get invoice and VAT with 6 percent but this is not very important for us we are focused on the bigger companies that can invoice with 17 percent. These are two different.

Q: Do you think even if they signed the CoC that they might not live up to? Where they maybe just try and cheat?
A: No only number 6.
Q: Are there other areas, which are difficult?
A: Most of the things they can do.

Q: You deal with the suppliers everyday right?
A: No no.

Q: Who does this?
A: Normally my responsibility is to control the prices and the ETD you know delivery time. The rest is for QC and production manager.

Q: Do your suppliers gain anything from signing the COC and living up to the Coc? Is ther any benefits?
A: I don’t understand what you mean.

Q: Do you think if the supplier does all in the CoC will it help them in any way?
A: Maybe but I don’t think so.

Q: If your suppliers do everything in the CoC do you give them any rewards? Such as better arrangement on production or more orders etc?
A: In fact I am focused on the prices and delivery time.

Q: What motivates your suppliers, what is important?
A: Prices and payment.

Q: Have you told the suppliers anything about your CoC or just told them to sign?
A: Yes I just send it to them.

Q: Have you talked in FF about the CoC?
A: No

Q: The suppliers have said nothing about the CoC?
A: No. I think before they signed it they read it.

Q: Does any of your suppliers work with sub-contractors. Do you have your knitting done elsewhere than on the factories?
A: Yes they do

Q: Is this ok with FF?
A: Most of the time it is ok but sometimes we have problems with this.

Q: Why?
A: Because of the delivery time and quality.

Q: So sometimes if you go to your supplier to check the quality the product is not there? It is at your supplier’s sub-contractor?
A: No, we only check the product at our supplier level. But we can find out where it is produced. Of course we prefer that they produce themselves. in their own factory.

Q: Do you know these sub-contractors?
A: No, I don’t know who they are

Q: Do you know how much is done in the factory and how much at the sub-contractor level?
A: I think 70 percent is done in the factory and 30 percent at the subcontractor level.

Q: In Denmark we talk a lot about CSR and why it is important.
A: But I just think it is very difficult to use CSR here in China. Because we have a different way of thinking.

Q: What does Chinese people think about it?
A: I can’t explain but it is totally different.

Q: Can you give example of how it is different?
A: For example, If a man in Denmark delivers to a company he will finish and deliver and knows his responsibility. But a man in China will try to find excuses, as many as possible and say this is not my problem

Q: What happens if the supplier delivers the items to late?
A: Then we will give the supplier a warning. We will say ok you have delivered to or three days to late. If finally we say you need to pay the airfare they often say no I can’t pay because you didn’t inform me. So therefore we will always give them warnings before.

Q: When you hear CSR/CoC what does it mean?
A: I think I need to spend some time to understand the it better. Can I tell you later ha ha ha. I think I need to read, see understand.
Interview Lawrence Pan Afasia manager. 3. november 2008 Suzhou China

Q: How long have Afasia been established?
A: This factory was been established in 2003, for about 5 year this factory. Before this factory I was work in demolishes, in the same group, for about 7 years. And now in 2003 I come here to set up a new factory, this factory.

Q: How many employees do you have here?
A: Around 400 employees

Q: Are there any specific reason that Afasia have chosen to place the factory here?
A: We think here near Shanghai, because Shanghai is the center of the commercial and everything, so also near Hanzhou. So our group set up office in Shanghai and in Hanzhou. So this location is close to both.

Q: Why is Hanzhou important?
A: You know in China, Zhugang and Ganzu province is very important. Hanzhou is the capital of Zhugang province. It is like a car, Shanghai is like the motor, the engine, Ganzu is the front wheel, Zhugang is the back wheel, you know? It’s a car. But Hanzhou is the capital of Zhugang province just like Nanjing is the capital of Zhugang province.

Q: But is it important in this industry to be place geographically exactly here?
A: Yes, very important I think, you know if our, if we need a lot of the products to export then we need to be near Shanghai port. Very near the goods and export to the Europe and USA. It is very convenient here.

Q: You are certified with ISO 9001 and 14000, do you have any other certifications?
A: Yes, we are, you know our factory in this area, Hutos city, we get the honor. The government they very much like this factory, because of our wastewater treatment. Every time the government comes to check the water everything is up to the standard. The COD; the BOD, the colour everything. Every time they come and check this factory, it is no problem.

Q: Is that a problem for your competitors to have this high standard, is it difficult for other factories.
A: You know normally for a dyeing factory the drain water, you see the water is very clear no colour. It is impossible. But country, the standard, they set up the water, the wastewater in classes, class 1, class 2, class 3. We achieved class 1. After we achieved class 1 we put the water through the water treatment plant to treat again. So the water is no problem. For other dyeing factories, they can not achieve this. Because we invest a lot of money. The technology is from Taiwan. A lot of the domestic they can design, but our boss say, maybe the Taiwan is more advantage. So they take the Taiwan, the cost is high, but no problem we show them the wastewater is no problem.

Q: Why is it more important to spend this extra on treating the water, if every one else is not?
A: You know the thinking is not the same. The dyeing factory, if the water from this factory in 5 years. In 2003 just set up this factory, the government not very strict, so a lot of factory they do not do this very strictly, but our concept, our boss concept is that a dyeing factory is not a short term investment, it can be 10 years, 20 years. If we continue and the water is a problem, the factory is a problem. So from the beginning, if you set up a dyeing factory you must do the important things. Water must be approved by the government, this is very important.

Q: So you wanted to make sure that if the government was going to make it stricter in the future, you were ok?
A: Yes!

Q: And is the different in conception?
A: Yes it is a different philosophy.

Q: Can you tell us a bit about your industry, how it work and how it might be affected by political, economical or legal changes?
A: Yes, the new labour law has had influence. The new labour law is a big problem for the factory because it has a big influence in the economics in regards to the costs.

Q: For salaries?
A: For salaries yeah, for salary. Although we admit we are not up to 100% of the new labour law, we are in front in the industry.

Q: So a lot of your competitors are even lower? They do not pay enough salary or?
A: They have big problems with paying enough for the overtime. That is a big problem.

Q: Can you tell us about the opportunities in the industry right now?
A: Right now we get a lot of support from the government, we get more permission and more acceptable received by the government. On the other hand the government enforces the new labour law more strictly, but that also means it is easier to attach workers to the factory, because the workers are willing to work for them.

Q: Are there any other opportunities at the moment, you say easier to get workers?
A: Yes easier to get workers then other factories which is very important because you want to have a steady team. Otherwise when you start to get a lot of orders in you will be short in manpower, but our manpower is steady.

Q: Is it possible for you because of all your initiatives to take a higher price for your products?
A: In price maybe we do not have advantages in competition but because of our good water treatment we are received by some big manufactures, so the market is competitively high. It is an advantage.

We do a lot to manage our supply chain to meet the demands and law in Europe; actually we are starting to do this job, we are studying the law in Europe, that law called REACH. It will involve not just us but our whole supply chain in order to try and meet the requirements. We do this in order to stay competitive in the environmental aspects.

Q: Do you experience a pressure on your business from your surrounding to do these things, to be better for the environment and for the workers?
A: The new labour law is a direction, a guideline that the government gave to us, you should improve in this direction. But I also think that it should be classified into different levels, A, B, C, D, E levels. The worst is then maybe the mineral industry, the worker work maybe 20 hours per day, their salaries are delayed by the owner. This industry should be the main of the new labour law, the government should pay more focus to this industry. For this industry in this area (dying) the new labour law is just a guideline, direction. Given the time to adjust we will achieve this goal.
Q: So you feel a pressure from the government with this new labour law, but do you feel a pressure from other sides as well?
A: The economic crises in Europe and USA

Q: What about NGO, customers?
A: No!

Q: So your customers they do not care that you have certifications and that you do good for the environment?
A: Our big customers are mostly interested in the environment and they want to make sure that it is in order here before they place an order with us. Some of our customers will visit to see the factory and get a general impression of the situation here. So most of the pressure is from the government and the big customers?

Q: What kind of things do the customers request from you with regards to the environment and workers rights and these things?
A: The first concern is the quality of the product itself. The first concern! The second is about the social responsibility in respect of the environment, the customers do not want a supplier that is going to be an environmental burden on society. The third concern is of the workers rights, the overtime pay, the dormitory. They will make small enquiries about these things but it is not big concerns. Sometimes they will visit the dormitory and ask question, but it is not really so important for them.

Q: So it goes quality, environment and social, but what about the price, where does that fit in with your customers?
A: Of course price – it is the first one. But the price has nothing to do with responsibility.

Q: Can you tell us, in relation to the industry, if it can be difficult for Chinese companies to work with workers rights and the environment, is this a challenge?
A: People from Europe look at these things with their own eyes, from their own point. They look at this with Western eyes. Frankly speaking we have not done enough, especially from their point of view, but we are doing so much better than just 10 years ago. And we are doing a lot better then
Bangladesh or India. Maybe we do not need to go to audition there because they have done nothing. Here, there is still room to improve, but we are doing something, we are improving all the time. With our present situation in China, if you comparer this factory with similar here in China it is in front, maybe if you comparer this factory with one in Europe it is not the ideal situation, you know. Because these restrictions and CSR, it is all from Europe. Of course you look with your own eyes, from your own perspective, from your own angle.

Q: That is quite interesting, can you tell a bit more about what you feel the European customers should do to better understand?
A: The situation differs, I thing that maybe a good solution would be to audit all supplier in China and classify them in Class A, Class B and Class C. Because the situation is different, the groundwork of the economic is different. Now we are developing country, not developed country. You must have this awareness, and you should encourage factories that are doing something. Give them further direction to adjust in the future. You can encourage this by given more orders or give good prices. For some factories that has done nothing, you can refuse to give them orders. Or put them on a list within the Europe. Of course I have also experienced this; price is naturally very important and you should adjust a little bit. Some customers are very strict about CSR, we need to adjust to this and we are willing to do so. But the problem is that with the one hand they demand strict CSR and with the other they try and lower the price. So we are forced to adjust in another way. It is unreasonable.

Q: Is this a big problem?
A: Of course, some customers are like this, but I do not like this kind customer. I do not like this, they want us to do every thing, follow all the standards in the US and in the Europe and then they give the price, maybe an Indian price. So how you can do this? I do not know. He wants you to go another way. I think Wal-Mart is such a customer, it is unreasonable. You need everything, environment, social, every thing, but the price, you do not want to pay for it. Not in Europe can you do all these thing and get this price.

Q: Is that a big problem in the industry?
A: Yes the price is not so high, so it is difficult to live up to all these requirements. The problem is that some of the customers they do not care about these things.
Q: So you have many competitors that do not do as good as you are on environment and social issues and since they are pressured hard on price it is difficult for them to change this?
A: We have chosen not to work with these customers who are not willing to pay a reasonable price, because our costs can not be covered. But of course we have competitors that work with these customers and they say they live up to the requirements, but it is impossible.

Q: So most of your customers they appreciate that you put a great emphasis on workers rights and the environment?
A: Some of the customers want to witness it with their own eyes so they can see that you can ensure that you have this environment, this facility and the workers rights and that you can ensure the quality of the product.
We have our own laboratory that is certified to test the material. It is certified with CNS which means that it is internationally acceptable. But this is a cost as well!

Q: Do you have/know of competitors that want to look like they do better within these aspects but really they are not?
A: It is a different case, they have competitors that just use dye stuff that they maybe just make themselves. It is potentially risky, the quality is not so good, it might contain harmful components. But we are not like that, our system builds on feasibility. We check each batch of products to ensure that each batch is qualified in relation to the standards required. A lot of our competitors do not have the checking system which means that the do not have the information, which risks the situation. They do not have control.

Q: But it is not normal in the industry to try and cheat with these things?
A: It is hard to say because cheaters are everywhere. But we also have the laws and they do not really encourage cheating. One thing I am sure if is that many of our competitors do not have the awareness and this control.

Q: Please tell us about your customers, what are some general characteristics?
A: Basically 95% of our products are export oriented, but the way is different, some yarn is sold to JV’s like First Factory, some yarn is exported by the trading companies in China and some yarn is bought by the fabric producers.
Q: Are most of the customers you work with, interested in your signing a CoC?
A: 30% of our customers ask us to sign CoC, it is mostly the bigger companies that have this request.

Q: How many customers do you currently have?
A: 50-60

Q: How have this developed? Increased, decreased since you started here?
A: It depends, if we talk about after we formed our own sales team in 2005, before that we sold through our mother company, the number has increased.

Q: Would you rather have few customers that take large orders or many customers that take small orders?
A: Of course, few customers with large orders.

Q: Ok but if we say that the output is the same, would you rather only have a few customer taken all of your production or would you prefer to have a larger about of buyer?
A: It is a dilemma you know. Because if you chose two customers you can save a lot in the sales cost and production efficiency, but it will bring a higher risk, because if you have a lot of smaller customers this risk will be lower. The cost will be high with a lot of customers, the sales cost. But on the other hand it dose not matter so much if you lose one. Normally we will have 10-15 large customers.

Q: Can you tell us about the duration you work with your buyers? Is it long term relationships, shorter relationships, how does it work?
A: Of course we expect long term relationships, because then we get the opportunity to get to know the customer company, culture, and the requirements. Of course we have some new customers, but they also expect a long term relationship with their suppliers. They do not prefer short term relationships. Of course we all invest a lot of costs in a new relationship, find the supplier, request/produce samples etc. So nobody expects to close it with a short relationship. It is important to invest a lot of time in the customer supplier relationship in this industry.
Q: The CoC that First Factory has asked you to sign, have you signed that?
A: Yes.

Q: Do you think that more and more customers in the future will want you to sign a CoC?
A: Yes there is no doubt about it, it is an increasing trend.

Q: Do you know why, why do you think?
A: After China entered into the WTO the whole world has become a global marked the trend that we need to be received by the buyers. It is like a team play machine, now we play our role. We receive a lot of requirements from the buyers in USA and Europe so we need to follow their regulations. It is a trend. The only problem is how fast can we undergo this development?
We play an important role in the world now day, that is why they have these requirements for us. When we first opened the door to the outside world, thing were different.

Q: It is clear that Afasia is doing quite well with all these social and environmental issues, but there are also a large number of smaller companies in China that might not understand for the “teamwork” in the supply chain. Do you have any comment on how it will be possible for the companies further up in the supply chain these companies?
A: I have an example from our own suppliers, the sub-suppliers, like chemical or like this for the dye. We have our own evaluation system in order to rate our suppliers and find out if the suppliers and meet our requirements. If the suppliers can not meet the requirements they are deleted. If the suppliers have made an effort, but are not there quite yet they get a change. But if the suppliers want to do business with us they must do something and improve.

Q: So it is important to evaluate your suppliers?
A: Yes every year.

Q: You told us earlier that you thing that your customers should give a higher price for good CSR work. Do you do that with your suppliers? Reward them for good CSR work?
A: We do evaluation and than, for example, last year we did cooperation with a company, but this year we can not. I tell them which is good and which is not good and we gave them three months to correct, but they did not.
Q: Ok, what kind of criteria do you rate your suppliers on?
A: Some time we find they do the packing badly. Sometimes the led does not close so during transportation the chemicals spill out and it goes to our factory and it is very dirty and polluting and the quantity is less.

Q: Based on what criteria do you think First Factory selected you as their supplier?
A: First thing is the quality, then the lead time, then the service, after sales service.

(Darren comments; it is true, that is how we select our yarn suppliers)

Q: Is it easy to fill your capacity, can you sell all the yarn you can make?
A: We are running at full capacity every day. Or almost, we are running at 90%, the financial situation globally is also affecting us a bit and we can therefore only run at 90%

Q: The amount of resources you have put into the relation with First Factory would that be a substantial loss if First Factory stopped ordering yarn from you?
A: Not special, they are a small customer.

Q: Can you tell us about the relationship with First Factory? Is it different then the relationship with other customers?
A: I think that with the customer they are very focused on quality products. Last time Lars Birk was here he told us that they do the uniform for the Danish post service and the army and these thing. I thing a customer like this, who is supplying to the government will be more strict for the environmental issues, harmful chemicals etc. I think this is a big influence for our factory. So everything we do we will check it in our lab, and then we also double-check for the international standards. Although First Factory is not a big customer they also do quite fashionable knitwear, there customers standards are very high. So more attention is paid to the quality and to the chemicals. So we might be a good supplier for them, but we also benefit from them.

Q: So in that aspect First Factory is a good and valuable customer, because you can learn from each other?
A: Yes
Q: Are there other things that you think are important in order to build a good relationship with a customer?
A: First of all, the philosophy, the culture of the customer is important, if they are willing to raise potential problems and challenge beforehand, before placing the order. This gives clear lines and enables us to say if we are able to do the order or not. If we are, then we will fulfill the order rightly, if we are not then it is important for us to let the customer know this and then we will not try.

Q: In relation to information sharing, are there areas where you would like there to be more information sharing than the case is today?
A: It is quite important to us to understand better the developments in the end marked, our customers are often closer to this development and to the information. We always look for customers who are willing to share this kind of information, customers with whom we could do product development together with. It is a question of information, developing new products, new colors, new dyeing methods.

Q: Is it sometimes difficult to live up to the contracts you have with customers? What are the difficult areas to live up to?
A: The big challenge is often in relation to the environment, some customers, maybe the products are export oriented and they want to write in the contract the requirements in this aspect, but sometimes the information needs to be very detailed and we are not an encyclopedia, so this can be quite difficult and costly.

Q: How well do you know your competitors in the industry?
A: We have a good understanding of our competitors with regards to capacity, to quality, to product base and in respect to customer base. It is a precondition to compete.

Q: But do you also know more soft information about them? Share information, meet etc?
A: We do not share information, we do not meet. It is a different situation, we work in the same industry so we are “enemies”.
Q: Are there any of your competitor that work with environment and workers rights, CSR in general, as much as you do?
A: Yes of course, especially for environment, but for capacity and check, only the bigger ones. We are just medium factory, in our sizes not many at all.

Q: But the bigger factories they work as much with CSR as you do?
A: Well I am sure we go further. We want to be in the front.

Q: Regarding the CoC from First Factory, do you know what there motivation is, there goal? Why do they want you to sign the CoC?
A: They want assistance from us in order to achieve their goal, so that they can get more customers to move their production from Europe to China. We work together in order to meet the standards in Europe and to ensure to the customers that the production here in OK.

Q: Do you think it is a benefit to First Factory more then it is to you or how do you see this?
A: Win-win

Q: Would you ever ask your suppliers to sign a CoC as well?
A: No.

Q: Why not?
A: It is simple, if we do the products for this company we lose. Also we calculate the order to find if we can get a profit. Their company they can also calculate and find a profit. This is basic, if each part find that they lose the money then it is not possible.

Q: What do you see as important points in a CoC?
A: It is important to have the social part of in the CoC, the hardest part is the workers right, the overtime.

Q: Why is overtime so difficult in China?
A: When they recruit the works they make it very clear. Normally you work this many hours and we pay you for the overtime if you are willing to, we will not force people. But this happens that workers are forced to work overtime, so it is important to have that in the CoC.

Q: When do your suppliers supply you with?
A: Dye, chemicals and raw yarn.

Q: Is it difficult for your suppliers to live up to the same high standards as you do?
A: We must choose the suppliers accordingly, some suppliers, small suppliers are not very good and can not reach our standards. But if we do a formal bid and everything is ok, then it is ok. You know in China most JV factories they already have this process, so we have most of our thing we buy from this kind of supplier, JV supplier.

Q: But there are also Chinese companies that are not as good?
A: You know some are ok, some are not so good, but some small they only do another type – the domestic marked and there the chemical and everything is not very strict.

Q: So it is like there are almost two markets, an international marked and a domestic market and in the international market the standards are much higher?
A: Yes of course! There are requirements on the domestic market but they are not so high, I think medium. Give it 3-5 years and it will slowly reach to the higher level. I think we must give it time you know.

Q: Why do you think they will reach higher in 3-5 years?
A: Because the price of the goods might go up, you know. And also the education level in important. Before not so many had a good education, but now the education level is going up. Now there are a lot of college students, they know a lot of things, they can check the internet. Even the government, before they were all older people, now they are a lot younger and a lot better educated.

Q: But the domestic suppliers are under the same regulation as you are?
A: Well yes we have the national standard, and they live up to the national standard, but the Chinese standard is not as high as for the Europe or USA. For example formaldehyde is a very harmful
substance. In Europe they have two standards, one for adults and one for children. For children the content must be below 30, but in China there is only one standard, only for adults, that is the same as in the US, below 70. We do not have any regulation or standard for children. So I think there is a difference. In Europe they think of everything very carefully. But in China it is very simple, very basic. So if you only have to supply to domestic companies, producing to the domestic you do not have as high standards that you have to live up to. And it is not so strange, in Europe you have had very long time to adjust to these things and develop all this, but here in China we only had 20 or 25 years to do the same, so it is not strange that we are not as far.

Q: So when you say that you think the standards will raise, do you see that it is the government that will push or do you think it is the consumers or how will push for the change?
A: I think the consumer is more important. I think the consumers will start to have higher requirements and the government will feel this pressure, as well as the companies, from the consumers and start to change the requirements.
As well the competition is cut throat, so in the start the requirements might be set up by the government, but suddenly companies will start to find that it is a sales point towards the consumers with all these things. So a result of the competition is that the brands will keep raising the standards, that is also why you see the big brands they have there own standards/certifications.
The customers is already starting to change – higher and higher standards.

Q: Now you have a customer like First Factory that wants you to sign a CoC. In your opinion what can these companies do in order to help or motivate or make it easier for you to live up to this CoC?
A: This is a very sensitive question no? Most of the factories in China they face this kind of problem; human right and environment. For me it is very good to answer this question. This is not just on factory’s job to do, this is the whole society the whole culture. If this factory goes very on the top, the very very top. So there are a lot of factories behind. So the top will die. Everything high cost, overtime fee, environmental protection every too expensive. It is impossible. You will not make a profit, all the money you will make, you have to give to your workers, dormitory very large, air-condition very expensive, then you are just a hotel. The workers must help the factory to get a good profit and the factory take maybe 30 % to return to the workers, to give good wage. This is the cycle, the circulation is good. Otherwise I think the company will die.
Q: But you say that you have to live up to higher requirements than the domestic suppliers, what kind of reward or benefit do you get for this higher standard?
A: We are willing to invest in these aspects to get a better price for our products and to invest more to do better. But we have to be careful not to get too far ahead, because then the margin can not cover this investment.

Q: What are three things that make a good customer?
A: 1) Good company culture, if the culture is not and they do not understand what we can deliver more than the competitor, then they are just going to try and squeeze the price. 2) Good long term relationship, the company might be in a hard time, but with a good long term relationship the companies will help each other, so the long term relationship will be very good for the cooperation. 3) Another point the price and payment terms, we shall all live up to the contract and respect the contract. Otherwise there is no trust.

Q: In Europe we always hear a lot about trust and China. What is it about trust and China?
A: It is a different culture, we trust in Chinese culture, it has something to do with emotional, we paid something to relations. Maybe we do not make a contract, sometimes so strict, we do not live up to the contract word by word, but we pay more attention to emotional things. It is something that has to do with the history of the culture. We trust the people, not the contract. Maybe in the future, but personally I think it will be a pity if the culture is lost.

Q: When you get a new customer or a new order what are the most important aspects? Please rate?
New customer): because it is new I think it is important to understand each other and to hope for future order, so to build long term relationship is the most important. The new customer, maybe the order is not very big and with a new customer a big order is very risky. With a small order the delivery time is very important, because we can not give high priority to small order.
Old customer, new order) See the paper!

Q: What do you see as the advantages and disadvantages of auditing?
A: I think auditing for quality is a good think, because we can then help each other in order to improve the quality. But auditing for COC is not such a good thing, because if you are not in a high
level you must cheat in order to pass, you are forced to cheat. They want you to improve after audition, but they do not, the just keep the same and cheat a little bit more.

Q: Is cheating a big problem in the industry?
A: In this area you know it is quite common to cheat with audits, but as I told you the first move is from Europe, the companies there cheated the public, the customers. They say; we care, we have a lot of restrictions and we care about this. The problem is that they want a cheap price with the greatest margins. How is that possible?
Interview Annie Tang Production Manager 30. October 2008 Suzhou China

Q: How long have Eastern been established?
A: Since 1999

Q: How many employees do you have?
A: Around 300

Q: Can you tell us about your capacity? How much can you produce per month?
A: It depends but from 60,000-100,000 pieces per month.

Q: Do you know why Eastern has chosen to place the factory right here in the Yanzhe River Delta?
A: Because this is the hometown of the owner.

Q: Is this a good place to have a factory like this?
A: Yes, because the transportation is very easy and because this is the main center for this kind of knitting production.

Q: Does Eastern have any certification like ISO or IMO or others?
A: Not yet, but we always ask all our employees to follow these standards. It is important for us that the factory takes good care of the employees. We are going to apply for ISO 9001 in the future, but this will take some time.

Q: What makes you different from your competitors?
A: We are very focused on quality, it is our main point and we believe that we are better then the competition when it comes to this.

Q: What are the opportunities and challenges that you see in the industry today?
A: Well first of all the major challenge is the change towards electronic knitting machines. This is a very big investment that we are not sure we are able to bare. But we also need to be able to deliver the more difficult styles and qualities. So at some point we have to do something. The opportunity on the other hand, is for us to keep focus on our unique quality. If we keep this as our guide we should be ok.
Q: Do Eastern experience a pressure to care more about workers rights and the environment?
A: We do feel a pressure from the government, the new labor law makes it more difficult to live up to but we have to try. This means that the production costs have increased because of higher salary. The most difficult thing is the overtime, often we have to finish the orders in very short time in order not to delay the products. If they are delayed it can be very expensive for us because we have to pay for airfreight.

Q: What do you customers request in this relation?
A: We have some German customers who want us to sign a set of rules. But this is only German. But we do not see this as a problem, the government makes the rules that we have to follow and we do so it is not really a problem, besides the higher salaries and that it is more difficult to fire workers now.

Q: Do you have any competitors who have difficulties following the regulations from the government?
A: No I do not know of anybody, we have to follow these laws.

Q: Can you tell us about your customers, what are some general characteristics about them?
A: Our customers are generally large garment companies, like Gerry Weber. They are from Italy and German and often have a range of sub-brands in their portfolio.

Q: How many customers do you currently work with?
A: At the time we have around 10 customers that we would consider steady, reliable customers. It is very important for us that we build long term relationships with our customers, and for that reason we will rather have fewer customers for a longer time, then more customers in for a shorter time. We have not worked with First Factory for very long, but like with all our other customer relationships we are building for a good long partnership. We hope they will appreciate our quality and for this reason keep using us in the future.

Q: What is a big order for Eastern?
A: A good large order is around 10-20,000 pieces this it the ideal size for us and for the capacity of the factory. We have very rarely revived orders up to 90,000 pieces. But this does not happen very often and it is not something we strive for.

Q: Why do you then take in orders as small as 500 pieces?
A: First Factory often gives us order sizes around 1,000 pieces. It is like an investment for us. Today First Factory might only give us small orders, but they are very focused on quality and that is important for us. Then maybe later First Factory will start placing larger orders with us. This is business.

Q: How Eastern signed the CoC from First Factory:
A: I have not seen this CoC before now, so I do not know if Eastern has signed it. I am the production manager, the CoC does not really have anything to do with my work. It is the owner that knows about this. We have contracts with all our customers, that is the real contract, so that is what we will try and live up to initially.

Q: Has any other customers asked you to sign a similar document?
A: One other customer, a large German one has asked us to sign a similar document. They also come and audit the factory.

Q: Do they tell you when the come to audit?
A: Yes they always tell before hand.

Q: Do you think more customers will ask Eastern to sign similar documents in the future.
A: I don’t know. May more will ask us in the future, but not so many I think. I do not really understand why we need this document. We have the government, they do the law that we have to follow and that we follow.

Q: What do you think First Factory find important when they select suppliers?
A: First of all I think they look for good quality, this is very important for First Factory. Second are the delivery conditions, our ability to deliver on time. Price and capacity is third and forth. The last that they look at is the social and environmental aspects of our production.
Q: Why do you think First Factory have selected you as supplier?
A: Our quality is very good and I already told you this is why First Factory gives us orders.

Q: Is it easy for Eastern to fill your capacity?
A: Yes, it is quite easy, we almost always run on full capacity. But I do think this will be a bit more difficult in the future. I am nervous that we will receive less orders from the US and Europe because of the financial crisis. However the biggest problem however is the planning of the orders so that we do not have too much extra unused capacity.

Q: Can you tell us a bit about your relationship with First Factory?
A: We have a good relationship with First Factory, it is not our oldest relationship, so far we have done around 10 orders for them, but we hope to continue long into the future.

Q: Why is it a good relationship?
A: First Factory needs high quality knitwear, and we produce this. But First Factory is also willing to help us improve the quality where it is needed. That is important for us.

Q: Is there anything in the relationship with First Factory that you are especially happy about?
A: As already told we always like customers with high level of quality demand, who are also willing to help us improve. First Factory does this.

Q: What kind of information do you receive from your customers?
A: We get the production specification. How should the final product look, the different parts and how they should fit together.

Q: Is there any other information that you would like your customers to share with you?
A: No I do not thing so.

Q: There is no information that would help you as a production manager?
A: Don’t know? No nothing.
Q: Do you have signed contract with all your customers?
A: Yes.

Q: Is it sometimes difficult for firms like yours in this industry to live up to these contracts?
A: The most difficult thing to live up to is delivery times. Often the lead times are very short or we have issues with the quality or something like this. Then we always try and negotiate the delay with the customer, sometimes they agree to postpone the deliver other times they do not. It is very expensive for us to change the fright from boat to plane, but we have to sometimes.

Q: What other consequences in involved in not living up to the contract?
A: No consequence. We just have to pay the airfreight.

Q: What happens if contracts are broken?
A: We are often in a situation were we have to send the order by air because we can no deliver it on time. Other then that it is not big reason for any change in the relationship, because we make sure to negotiate the situation before it becomes an actual problem.

Q: How well do you know your competitors?
A: Some of them we know well and others not very well, I sometime visit other factories to check if how they do things, and to see what they do good and not so good.

Q: Do you also know the customers of your competitors?
A: No not really.

Q: Are any of you competitors working with works rights or environmental certifications or something like this?
A: No I do not thing so, some of the have to sign CoC like this one from First Factory, but they do not work with the thing you talk about.

Q: Do you have any idea about why First Factory wants you to sign this CoC?
A: I do not know.
Q: What would you think?
A: Well I actually think it is unnecessary. We should just stick to the contract, this kind of rules really do not make since. We already do everything according to the government policies so we do not really care for this kind of rules.

Q: Do you have an idea about why First Factory wants you to sign the CoC?
A: I do not know.

Q: Can you think of any positive things about having rule like these in the CoC?
A: I can not really thing of any thing.

Q: Do you work with any sub-contractors?
A: Yes we do.

Q: And what do they supply?
A: Knit pieces mostly

Q: Do the sub-contractors have to sign CoC’s as well?
A: Yes

Q: Who want them to sign these CoC?
A: Actually the boss wants them to sign a contract, this makes it a lot easier to handle if there are any problems.

Q: Like this CoC?
A: No, no not like this kind of contract, one about the price and delivery.

Q: Yes, but does the sub-contractors have to sign this kind of CoC?
A: No, no.

Q: Do you have problems with working hours, keeping them at an acceptable level?
A: It depends on the different departments, some departments will work more hours maybe, because some times the delivery times are very short so we have to use overtime in order not to do delays.

Q: Do you think it is also easy for the sub-contractors to live up to the rules in the CoC?
A: I would say that it is also ok for the sub-contractors, they might have the same kind of problems with overtime as we do, but the other areas should be fine.

Q: In your opinion what is a good customer, can you name three things?
A: I thing Gerry Weber is a very good customer because they have many different brands, they place large orders with us and we have very good communication with the merchandisers and the QCs. It is easy to talk to them, we understand each other very well.

Q: You talked about some German companies do audits here, do you perceive that to be a good thing?
A: Yes I thing it is a good thing for us, the quality controls really help us to do better and learn more about quality in the different stages of the production and we learn about production planning. Then we get better and receive more orders. The other audits are more just taking time.

Q: When you look at there rules here in the CoC, which you say are not so important, do you think that there should be some other rules included that are more important?
A: Actually I thing it is unnecessary to focus on this kind of rules or policies. These policies are made by the government. We just take care of the orders, the production, the quality. This is what I care about.

Q: When you get a new customer what are the most important things?
A: Building a long-term relationship is number one, this is very important for us. Second is a high level of quality. The higher level of standard that the customer requests, the more we are able to learn and separate ourselves from the competition.

Q: So you will rather have good relationships then high prices?
A: Yes we want to have long term cooperation with our customers. We believe this give us the most benefit in the end. Sometimes the price will be high, sometimes low. It is not the most important
thing, we can earn more on the next order maybe. As long as the customer comes back, that is business.