

**Report**  
**Technical meeting of social auditors operating in Turkey**  
**Ankara, 18<sup>th</sup> of May 2005**

***Background and justification***

The International Labour Office is currently conducting a six-month research project funded by the European Union to investigate the prevalence and main issues in the field of social auditing in Romania, Bulgaria and Turkey. As part of this project, a one-day workshop was held in Ankara on the 18<sup>th</sup> of May 2005 to get inputs from social auditors working for multinational brands and private auditing companies. The one-day workshop was a collaborative effort between the ILO and the 'Joint Initiative on Corporate Accountability and Workers Rights' (Jo-In). Jo-In is interested in the different code implementation strategies and will develop common guidelines for the implementation of those workplace standards it deems to be of priority concern in the apparel sector, specifically freedom of association and collective bargaining, wages and hours of work.

The objectives of the meeting were:

- To report the preliminary findings of the ILO research;
- To highlight the main issues, challenges and opportunities facing social auditors;
- To develop a better understanding of the methodologies employed in social auditing and monitoring.

28 social auditors from brands, private auditing companies and private consultants attended the meeting.

**Report of meeting**

*It should be noted that what follows does not represent a critique of the social conditions of factories in Turkey, as the majority of auditors present at the meeting have been conducting audits in a number of different countries. The vast majority of problems they cited below were endemic to the industry in general. Where Turkey is given as an example, it merely reflects that specific information is available that may or may not be available in other countries and should be regarded by the reader as a case study of problems that can occur anywhere in the industry. Furthermore, the opinions and figures expressed below are those of the auditors who participated in the seminar and do not necessarily reflect the opinions of either the ILO or the JO-IN initiative.*

**1. *Introductory presentations***

Mrs. Gulay Aslantepe, Director of the ILO office in Ankara opened the meeting emphasizing the role of ILO as an international tripartite body responsible for international labour standards. She also discussed the activities of ILO in the area of Corporate Social Responsibility urged the participants to share best practices and learn from each other during the meeting. She stressed that the meeting was taking place under Chatham House Rule, and that no comments would be attributed to a specific person. She hoped that this would encourage the participants to share their experiences openly.

The ILO presented the preliminary research findings of the regional project, which looks at the prevalence of social auditing. Initial results indicate that many Turkish companies in certain sectors undergo social audits (almost half in the garment industry for example), while

this number is significantly lower in both Bulgaria and Romania. The final report of the research will be available in July 2005.

## **2. *Group Discussions***

Following the introductory presentations, the participants were split up into four different groups. Each of the groups was asked to discuss the following topics in depth:

- Freedom of association and collective bargaining;
- Hours of work, wages and overtime;
- Subcontracting.

The groups were asked to discuss what they are looking for when examining factories on a specific issue, how they find this information, what problems they usually encounter, and what, if any, remediation practices they employ.

Some of the participants expressed concern about the “sensitive nature” of some of the methodologies employed by auditors, which may tip factory managers on how to pass social audits without needing to make any changes. The discussion that follows therefore does not provide any information on “sensitive” methodologies.

In general, there is a large discrepancy between the power and the influence that brand auditors have as opposed to independent (third party) auditors. Where brands have an opportunity to follow-up with the supplier company, monitor their progress and sometimes even provide training sessions, third party auditors are restricted to sending detailed reports of their findings to the brands that hired them. The follow-up, if there is any, is often done directly by the brand and in this way third party auditors are sometimes deprived of the opportunity to make a positive contribution to the raising of the standards within factories. Other issues, such as trust, communication and general openness are positively affected where there is a direct, long-term relationship between the auditor and the supplier company. Improvement plans for corrective actions (sometimes referred to as remediation) are quite common among the brands and usually have a six-month to one-year time frame.

## **3. *Freedom of association and collective bargaining***

### **3.1 *Overview***

Although some mention is made of freedom of association in most corporate codes of conduct, a reliable estimate from the auditors (two of the groups independently reached the same conclusion) indicates that only about 10-15% of brands give real attention to this topic in social auditing. In most cases, even where attention is paid to the freedom of association, only the managers are asked whether or not they allow unions. However, it should be noted that some auditors are very advanced in this area and conduct detailed interviews (and sometimes training) for employees and management on issues dealing with freedom of association. However, in general, the subject does not appear to be a priority for most auditors. It also is not a major factor in passing an audit. Auditors did report that factories that are unionised have greater stability than those who are not. The number of unionised factories they visit as a percentage of all factories is very small.

Despite the fact that freedom of association is not a priority for most auditors, it does sometimes become an issue for brands if they receive specific complaints from unions and/or employees about anti-union discrimination. A couple of brands reported pressuring the supplier company to hire back people who had been let go because of efforts to unionise the company.

With regards to collective bargaining, it is a non-issue for the majority of auditors. The only time they ask questions about collective bargaining agreements is when there is actually one in place. In this case, the response from the auditors is different, which is to check the collective agreement against local law and the brands' code of conduct.

A lot of the brands look at the issue of freedom of association as a way to improve dialogue and communication between management and employees. They therefore check to see whether or not there are suggestion boxes, complaint mechanisms and/or worker representatives in the factory. Although they realize that this does not equate with having union representation (for example, it does not allow for collective bargaining or free and fair elections), they nevertheless see it as a step in the right direction to giving employees a voice and having a more effective workplace. The auditors indicated that some factories have expressed dismay over having worker representatives, because, in their opinion, it is the first step towards unionisation (*see below*).

### 3.2 Methodology

Questions asked varied widely. In most cases, because of the relatively limited number of unionised companies, the interviews focused on whether or not employees experienced any anti-union discrimination or had independently elected worker representatives. Even though employees were often found to have been coached in the last area, according to the auditors this is pretty easy to understand after they had interviewed a few different workers.

Examples of questions related to freedom of association:

- Is there a union?
- If there is a union, are workers free to opt in or out?
- Is there any history of unionisation in the factory?
- Has anyone ever tried to form a union?
- Have unions tried to contact workers in the factory?
- Have there been any conflicts, actions and or protests in the factory, if yes, how did management react?
- Are you being prevented from being a member of a union?

Examples of questions to see if the employees have a voice in decision-making:

- Is there a parallel structure for worker representation?
- Are worker representatives freely elected?
- What mechanisms are there to communicate with top management?
- Do you know who your worker representative is?
- Is there a suggestion box?

In addition to the questions above, the auditors often talk to recently dismissed workers and conduct more in-depth follow-up questions to find out whether or not employees have been coached by management to give a certain set of responses. Another tactic employed by some brand auditors is direct contact with the trade union, which often have additional information

about the factory, although this may require considerably more effort on the part of auditors who at times find themselves having to sort out conflicting and contradictory information.

In case there is a collective bargaining agreement, this agreement is reviewed and its implementation is checked through employee interviews and job satisfaction surveys. The collective bargaining agreement is checked against the brands' code and the local legislation.

### *3.3 Challenges*

The auditors indicated a large number of problems in the area of freedom of association and collective bargaining. By all accounts, it is a very difficult subject to audit, as there are no consistent benchmarks for the auditors and they frequently receive contradictory information about this subject from management, employees and trade unions. Below are some of the most frequently cited additional problems:

- Management often perceives unions negatively. Some of the suppliers are also uncomfortable with the idea of worker representatives as they think that having representatives can lead to unionisation. The auditors also reported a perception among factories that unionisation means it should shut down;
- Lack of worker training on freedom of association. Sometimes employees are not even aware of what a union is, and even if they are they do not see the benefit of having a union;
- Labour unions are not seen as being effective;
- Brands claim they are neither for or against unions and where freedom of association is an issue, they are often willing to accept the presence of worker representatives (as an alternative to a trade union), even where these representative are not be freely chosen or have limited power have ;
- There is some competition between the unions to unionise the same factory;
- Auditors reported that workers who want unionisation are sometimes placed in a different section in the factory as punishment;
- Concern that in the past, some unions have not allowed worker representatives to be freely chosen, but have instead appointed these directly. In addition the auditors cited problems with "illegal unionisation", where new union members do not register or at least inform their employer that they are registered as a union member;
- Although courts generally rule in favour of the worker in the case of anti-union discrimination, workers do not want to risk their jobs or risk being looked upon negatively by management and fellow employees;
- Workers are sometimes enticed by management to refrain from forming a union by paying them more than the minimum wage.

### *3.4 Suggestions*

The auditors at the workshop made a number of suggestions how to improve compliance with codes of conduct in the area of freedom of association and collective bargaining. Principle among suggestions is the notion that workers and their representatives, as well as employers should receive training on what this right means and what its potential benefits are. This training would serve to overcome some of the existing stereotypes associated with freedom of association and collective bargaining and would address many of the challenges listed in the previous section. It was suggested that this training could come from a variety of sources,

including the brands themselves and national or international affiliates of employer and worker organizations. Other useful suggestions included:

- The introduction of dispute resolution centres;
- Broadening the responsibilities of health and safety committees -- in factories where there are no worker representatives -- which are often freely elected and in Turkey are required by law;
- Limiting illegal unionisation and increasing social dialogue at the company, sector and national level to increase collaboration and understanding;
- Increase and publication of research and best practice examples linking productivity increases to cooperation between workers and management.

#### **4. Subcontracting**

##### *4.1 Overview*

As with freedom of association and collective bargaining, there are numerous problems associated with auditing subcontractors. As a first step, the auditors must determine whether or not the supplier factory discloses all its subcontractors. Particularly in the clothing industry, subcontractors can be numerous, ranging from dye and fabric houses, to printers, embroideries and even home-workers. Also in the leather and footwear industries, the number of subcontractors is usually quite large. Because of these large numbers of different subcontractors in the industry and the reluctance of company managers to share all of them with the auditors, it is often difficult to find out all the subcontractors a company is dealing with.

In general, auditors reported that conditions do worsen the further down the supply chain they go, especially with regards to health and safety and the employment of apprentices.

Depending on the requirements of the brands that hired them, private auditors sometimes do audit subcontractors and sometimes do not. Auditors gave no estimate during the workshop about how many times they audit subcontractors. Auditors that audit on the basis of SA8000, for example, reported that they did audit all the subcontractors -- including home-workers -- of the exporting company.

Most brands that audit their suppliers directly audit at least some of their subcontractors. The main difference between the brands was whether or not they audit all their subcontractors. For example, several brands indicated that they exclude dyeing and bleaching of the textiles while others indicated that they audit several dyeing and bleaching subcontractors and then tell suppliers which subcontractors they can work with. The majority of brands present at the meeting indicated that they audit all subcontractors who conduct sewing processes. All brands indicated that they hold subcontractors to the same standards as their principle suppliers. In such a case subcontractors are not disclosed a common policy is to cancel all the orders. In fact, most auditors at the seminar indicated that non-disclosure or lying about subcontractors is a more serious issue for the brands than non-compliance with social standards by the subcontractors.

Because of the recent trends in the textile and garment industry of smaller orders and shorter lead times, exporting companies are sometimes forced to increase the overtime for their employees (see next section) and to outsource some of the production work to other factories.

Nevertheless, some of the brands present at the meeting reported greater compliance with regards to this issue in recent years.

The further down the supply chain these factories are, the more difficult they are to audit, particularly when it comes to work being done by employees at night from their homes or work in small apartments that have been converted to production facilities. In the case of Turkey, most auditors indicated that homework is not a significant problem but does occur in some of the big cities such as Istanbul.

#### 4.2 *Methodology*

As is indicated in the previous section, it is very difficult to verify how many subcontractors a supplier is working with. Again, it is often easier for brands that work directly with their suppliers to have a long-term, transparent working relationship where all subcontractors are openly revealed, particularly as the penalty for not disclosing all the subcontractors is cutting the orders. The opportunities that come with having a long term relationship can help the supplier factories make significant changes over time, instead of the one off approach where auditing becomes more of a snap shot of current policies and may be interpreted by the factory owner as 'policing'.

There are a variety of methods that auditors use to see whether or not the company disclosed all of its subcontractors. These techniques include:

- Checking the invoices;
- Conducting employee interviews;
- Interviewing security and/or truck drivers;
- Checking capacity reports of factories;
- Checking dispatch lists and other warehouse records;
- Working together with auditors that control the quality of the product.

A particularly effective method of finding out if a supplier is employing an illegal subcontractor is to inform approved subcontractors that they have been approved. After having made investments to comply with all the standards imposed by the brands, these approved suppliers voluntarily report a drop in orders and tell the brands if their supplier is doing business with 'unapproved' subcontractors.

#### 4.3 *Challenges*

As is indicated above, it is difficult to understand how many subcontractors the supplier companies really have. On the part of the auditor, identification of subcontractors requires very good observation and organization skills. Once an auditor has identified all subcontractors, how many of them can he or she realistically expect to audit? This becomes more and more difficult the further one goes down the supply chain. Also, a more fundamental problem may be to what extent these often small companies should be held to the same standards? Subcontractors are the ones with fewer resources and are further removed from the brands. As such, do the brands have a responsibility -- let alone the capacity -- to audit them? These are questions that are beyond the scope of this report but nevertheless raise a very important issue that caused some considerable debate during the seminar.

As mentioned in the introduction to this section, auditors usually find a myriad of problems the further down the supply chain they go, no matter which country they are conducting their audits. Besides obvious issues regarding safety and health, other problems experienced by auditors include:

- Lack of social security payments;
- Lack of written records;
- Absence of proper overtime calculation (excessive regular working hours).

As the auditors pointed out, some of these problems may have arisen due to cost pressures on the subcontractor because a financial investment the big producers have in the subcontractor.

Apprenticeships are a problem throughout the industry but particularly with subcontractors. According to the law in Turkey, for example, apprentices are paid a lower wage, have a special contract and need a licensed supervisor. There are also limits on the number of apprenticeships allowed as a percentage of the workforce in a company. Auditors reported that the number of apprentices working for subcontractors frequently exceeds the legally allowed number and that they often work well over the legally allowed time limit.

#### *4.4 Suggestions*

One suggestion that was given quite frequently during the seminar was to increase the internal compliance by supplier companies of their subcontractors. A brand in attendance at the meeting reported having recently switched to a system where they now require their most important business partners to conduct the audits of their subcontractors. These brands in turn audit only a percentage of these subcontractors every year to ensure compliance. Any change in subcontractors also needs approval from the brands under this system.

Another suggestion mentioned earlier is to inform approved subcontractors that they are the ones who are authorized to supply the factory.

### **5. Working time and compensation**

#### *5.1 Overview*

During the seminar the issues of overtime, free time and wage payments were all discussed together because of their direct relationship with each other. With regards to overtime and compensation, the most significant issue that auditors face is double bookkeeping, which auditors report encountering frequently in many different countries. Most auditors reported that the first time they enter a factory they are almost always shown the wrong books; some companies have as many sets of books as they have buyers. Multiple-bookkeeping is usually done by factories wishing to give the government and private inspectors written records that appear to be fully compliant with the law or, in case of the brand, a code of conduct. The auditors explained that it is a very serious issue for the brands and that they do not work with suppliers that do not pay social security or overtime.

One group of auditors that discussed the issue during the seminar drafted the following list to illustrate the myriad of reasons behind the keeping of multiple records:

1. Unjust distribution in tax system;

2. Inadequate planning;
3. Unwillingness to pay overtime;
4. Low equity capital;
5. Short lead-time to fill orders requiring the supplier factory to work overtime beyond legal limits;
6. Restrictions imposed on SMEs by public authorities.

It should be noted that there are many reasons for double bookkeeping, and that the above list is not exhaustive. Also, the reasons for keeping multiple sets of records are, according to some of the brand auditors, different in Turkey than in China, for example. Whereas in Turkey the intention of double bookkeeping is often to reduce labour costs by avoiding social security payments, in China auditors have at times encountered multiple sets of records because the intention is not to pay overtime or to cheat on the salary.

With regards to overtime one of the biggest issues for auditors is that there is an incentive to keep double books in order to comply local legislation (required in codes of conduct) - which is seen to impose unrealistic limits on overtime. Overtime work must be voluntary. This is not a big issue since workers are compensated extra and need the extra money. According to some auditors, overtime is less of an issue in Turkey than in countries that depend on migrant labour. In Turkey most factories employ workers that live with their families, therefore working days exceeding 12 hours are rare. Nevertheless, local legislation limits the amount of overtime to 270 hours a year, a figure cited as unrealistic by the auditors in the workshop, who estimated that as many as 95% of factories exceed this amount. One auditor explained that 130 hours of overtime a month is quite common during the busy season.<sup>1</sup>

Wages are another issue that is almost always checked by the auditors. One of the biggest issues with regards to wages is legal deductions from the pay-slips (transport, food, etc), which are unacceptable to many brands, even if allowed by law. In addition, many brands require that minimum wage must be paid in cash. As some of the auditors at the seminar were certified by international accreditation agencies, which have introduced the concept of a 'living wage', this was also discussed in the groups. Some auditors when performing international certifications under a particular initiative stressed that the notion of a living wage was defined as the minimum wage plus social benefits. The term social benefits were allowed to include non-monetary payments such as transport and food provided by the company.

## 5.2 *Methodology*

The auditors reported that there were many different ways in which the issue of working time and payments to employees was audited. Usually the auditors start by checking the last two months' payrolls, the social security records and interview with the workers. In addition to private closed-door interviews, some auditors report that they conduct group interviews and randomly talk to a few people while they are walking through the factory.

To find out whether or not the factory is correctly reporting the working time of its employees, the auditors have the option to check a wide variety of things. They can:

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<sup>1</sup> The labour law in Turkey stipulates a 45 hour working week, with the normal working day of 11 hours at the maximum. So, only after working 11 hours a day, or after having worked 45 hours a week, OT starts. This provision is interpreted differently by different auditors.

- Check production reports;
- Check random sample of time cards;
- Check whether there is coaching-interview with the workers;
- Check the entrance records during weekends;
- Check capacity and shipment reports;
- Check social security payments;
- Check the payments made to the catering services;
- Interview with the guards, drivers and company salesman;
- Check infirmary records;
- Check broken needle records;
- Interview workers outside the factories;
- Check where the workers went for their annual leave;
- Check the leave cards and payment while on leave;
- Check and compare peak season payroll vs. low season payroll;
- Cross check with production department of buyer (this method not open to private auditors);
- Talk to street sellers outside of factories

One of the most difficult points for auditors is to determine whether or not overtime is really voluntary. One approach to doing this was to ask the employees and the management for their permission. However, this may still not mean that overtime was voluntary. For example, some auditors reported that signed forms of written consent generally raised alarm bells for them as it was likely that everyone was asked to sign them as a condition of employment.

Some auditors also reported that they viewed instances where service buses came at eight o'clock even though the day "ended" at six o'clock as forced overtime.

### 5.3 *Challenges*

As in the previous sections, the challenges with auditing for overtime and wage practices are numerous. Some of the challenges are specific to the auditing process:

- Auditors must identify whether workers have been 'coached' by management to give a certain set of responses;
- They must identify 'signed' documents that are not necessarily valid as employees had signed a blank piece of paper;
- It is hard to establish whether overtime is truly voluntary;
- Auditors also sometimes have trouble getting straight answers from employees who may not be aware of everything that is listed on their pay stub.

Other challenges discussed during the seminar are industry specific, such as decreasing lead-time for orders, while others were country specific. For Turkey, one of the challenges is that overtime laws are seen as too restrictive, while the taxes for social security payments are among the highest in the OECD countries. When social costs are added to the taxes (payment for electricity, etc.), the average cost per employee is almost double the minimum wage.

The practice of double bookkeeping often eradicates trust and understanding between the buying brand and the supplier factory. For auditors, it means that they have to follow up with the companies to ensure that this practice is eliminated. If not eliminated, it can have a serious impact on the workers, and may lead to:

1. Less severance payments;
2. Reduced retirement benefits;
3. Less payment in case of a job disability caused by work accident;
4. A reduction in notice payments.

One more challenge discussed during the seminar is with regards to discrimination against young workers. By law, their working hours are reduced in some countries, leading supplier companies to eliminate hiring them, in effect encouraging discrimination against the very group of workers the laws are designed to protect.<sup>2</sup> One of the brands at the seminar noted that they asked all their suppliers to stop asking for ages of prospective employees in order to discourage discrimination.

#### *5.4 Suggestions*

The suggestions mentioned by the auditors in this section were numerous, ranging from the specific (running three shifts instead of two), to the general (better planning on the part of both the brands and the supplier companies, for example). A full list of the suggestions is listed below:

- Minimum wages should reflect differences in geographical areas. For example, minimum wages might even be too high in Anatolia, where they are not enough to survive in Istanbul. This is reflected in the fact that auditors note more instances of double bookkeeping in the bigger cities;
- Increased education on overtime standards and more involvement and training from the government;
- Working with factories to fix the problem of excessive overtime by giving more lead time;
- Suppliers must improve their target setting, planning practices and capacity management;
- For garment sector industry suppliers, the bottleneck is embroidery and press sections. The auditors suggested that companies should hire or train more multi-skilled workers to alleviate the problem of bottlenecks;
- Supplier companies should improve relations and communication with subcontractors to eliminate double bookkeeping in subcontracted companies;
- International certification agencies should put more emphasis on the disadvantages of the double bookkeeping;
- Supplier factories should think carefully about the place of the machines (circulation), the location of the workers with regards to the toilets, the cafeteria etc. to reduce downtime.

There was also discussion about supplier companies which have eliminated double bookkeeping and found that they had actually saved money by focusing on 'lean management' to reduce overtime. However, since some of the suppliers lack the skills to calculate their capacities and introduce new systems of management, it was suggested that they should get professional assistance in dealing with issues such as excess stock, value stream mapping, waste management etc. Finally, as a best practice case, one brand observed that in one of their supplier factories, a new finance manager was recruited at a time when the company employed 600 people and double bookkeeping was standard practice. The new

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<sup>2</sup> In Turkey, for example, apprentices may not work overtime and they have to get 30 days paid annual leave. There also has to be a supervisor with master license to tutor them and the total number of apprentices may not be more than 5-10% of the total number of employees

finance manager decided to perform a feasibility study and the result showed that double bookkeeping did not reduce the costs.

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