

**The Decent Work Enterprise:  
Worker Security and Dynamic Efficiency**

**By**

**Guy Standing**

**International Labour Office, Geneva**

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\* Director, InFocus Programme on Socio-Economic Security, Geneva.

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## Preface

For more than a decade, colleagues and I have been conducting surveys of enterprises in many countries across the world, starting with a national survey of 3,100 firms in Malaysia in 1989. In the course of that and subsequent work, I have been privileged to visit several hundred factories, several mines, and several large agricultural estates and plantations. I have interviewed numerous employers and managers, some desperate, some flourishing, many with labour problems, some exuding knowledge, some clearly not nearly as competent.

In the main, my visits and discussions with employers have been done with the objective of learning and refining the questions addressed to them to obtain the full ‘story’ of what is happening in the enterprise.

More relevantly, the methodology was refined, and large numbers of people became involved in conducting the actual enterprise surveys, which have so far resulted in detailed data being collected from many thousands of industrial enterprises in Africa, Asia, Latin America and central and eastern Europe. Hundreds of people have been involved in visiting factories and farms, often in inhospitable environments or in awful climatic conditions. They are the unsung contributors to this paper.

There are numerous issues that can be analysed through the *Enterprise Labour Flexibility and Security Surveys* (ELFS), which is the instrument that we have developed through all those factory visits. However, one question kept recurring: What sort of practices would constitute a Good Firm? It seemed reasonable to think that one could identify good or decent practices, and it seemed reasonable to be able to think that one could measure them. Initially, I called the ideal a “Human-resource oriented enterprise”. But this was a term I quickly came to dislike, because it implied that workers were being treated as “resources”, rather than individuals with rights and an active role in firms. By the mid 1990s, when invited to present the idea at the Enterprise Forum in the ILO, I referred to it as “**a socially decent enterprise**” and a “Human Development Enterprise”.<sup>1</sup> In 1999, the obvious term came to mind – **the Decent Work Enterprise**.

The essence of the approach is that a good enterprise is efficient and profit-oriented, but is also committed to decent work practices. These mean providing all workers with adequate *security*, and in particular providing workers with Voice, with negotiating capacities. The nucleus of the idea was proposed in the 1980s, and was proposed and discussed when I was an economic adviser in the Prime Minister’s Department in Malaysia. It was also proposed in South Africa, as part of a set of policies for the post-apartheid labour market; it was publicly endorsed by the Ministry of Trade and Industry in 1997. And it was proposed and debated in a tripartite conference in Kiev in December 2002.

It is important to note that whatever is proposed should be acceptable to both employers and trade unions. This means that for employers, whatever is proposed must be voluntary, with an emphasis on incentives for good practices rather than on penalties for bad practices. And it means that for workers, there should be a prominent place for worker Voice, or what we call *representation security*. Above all, it should be an approach that is *consensual, based on bargaining between workers and employers, backed by government*.

<sup>1</sup> G.Standing, “The Human Development Enterprise” (Geneva, ILO, 1996).

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This is a paper written in a personal capacity. It does not represent the views or conclusions of the ILO, and opinions expressed should not be attributed to the ILO. That stated, my colleagues and I do hope that the ILO will wish to consider the essence of the proposal in its future work.

There are so many people who have contributed to the work since the first ELFS that it is almost unfair to single out individuals. Nevertheless, I particularly want to acknowledge the great assistance over a decade provided by László Zsoldos, and dedicate this paper to his superb work. Also it is a pleasure to acknowledge the contributions of Tatyana Chetvernina and her team in the Centre of Labour Market Research, Russian Academy of Sciences, in Moscow, and Natalya Vlasenko and the wonderfully enthusiastic team of statisticians in the State Committee of Statistics of Ukraine. They have been involved in all rounds of the Russian and Ukrainian surveys. Thanks should also go to all those who have worked with us over the past three years in Azerbaijan, Brazil, Chile, China, Indonesia, Moldova, Pakistan, the Philippines, South Africa and Tanzania.

Gratitude is also due to the former director of the ILO's Employers' Department, Hans Hammar, for giving me an opportunity to present the idea at the inaugural Enterprise Forum and to the ICFTU for enabling me to do the same at a conference in Brussels. And I want to thank Azfar Khan, who has been coordinating our enterprise surveys over the past two years or so, and Jose Figueiredo and Ellen Roskam for their comments.

Finally, it is a pleasure to acknowledge with gratitude the financial assistance provided by the Government of the Netherlands, the Rockefeller Foundation and the UNDP, which in one or more countries have helped us finance the fieldwork that made this and many other analytical papers possible.

Guy Standing

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## 1. Introduction

In recent years, there has been a global industry in the business of Corporate Social Responsibility (CSR) and Socially Responsible Investment (SRI). Poor old Milton Friedman has been quoted and misquoted innumerable times as the straw man to be mocked as socially irresponsible, for writing “*The social responsibility of business is to make a profit*”.<sup>2</sup>

The man who was chief executive of Enron deserves rather more prominent a place as the straw man. When asked at Harvard Business School what he would do if his company was producing a harmful product, Jeffrey Skilling replied, “*I’d keep making and selling the product. My job as a businessman is to be a profit centre and to maximize return to the shareholders. It is the government’s job to step in if a product is dangerous.*”<sup>3</sup>

Most employers would surely reject such opportunistic amorality. They would feel better about their craft and themselves as citizens to embrace the notion of corporate social responsibility. The basic idea behind CSR is the scarcely novel claim that there is more to life and business than making profits. The challenge, obviously, is to go from abstract loosely worded notions to practical, politically feasible, economically functional and socially desirable practices.

The ILO is and must be seriously involved in this area. And all parts of the ILO should be engaged, since it embraces aspects of social protection, of labour standards, of employment and of collective bargaining (“social dialogue”).

There are several perspectives. There is the matter of saying what enterprises should not do. For example, they should not hire children to do dangerous work. And there is the matter of saying what they should do (for ethical or societal reasons) or what it would be good for them to do (if feasible and sustainable, other laudable considerations permitting). The ILO has set out its stall in promoting *decent work*, and this must mean promoting the latter two as well as the former.

Most observers would agree that firms should try to do more than observe minimum standards of decency. A growing number seem convinced that they should do many socially responsible actions. But the literature and the multitude of consultants in the CSR/SRI industry seem rarely to consider the desirable limits of company activities and the notion of “*corporate citizenship*”. We have been here before. Consider a simple example. Is it desirable for a company to fund and manage a local school? Among the societal risks of such apparently philanthropic corporate citizenship is that if the company subsequently suffered from an economic downturn, so might the school; similarly, the management of the firm may be tempted to induce the school to focus on subjects and the inculcation of attitudes that it currently perceives as desirable for its purposes. History does have lessons to teach the CSR lobbyists. Corporate paternalism had its zenith in the 1920s.

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<sup>2</sup> M. Friedman, *New York Times Magazine*, Sept.13, 1970, pp.32-33. Emphasis added. See also, M.Friedman, Capitalism and Freedom (Chicago, University of Chicago Press, 1962).

<sup>3</sup> Quoted in P.C.Fusaro and R.M.Miller, What Went Wrong at Enron (New York, John Wiley and Sons, 2002).

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It would be well for the CSR movement to recall the drawbacks as well as the appeal of corporate citizenship.<sup>4</sup>

This paper proposes an approach to the identification and measurement of what is called a **Decent Work Enterprise** (DWE). Actually, it would be more correct to call it a Decent Work Firm, since the unit on which it focuses is the actual establishment or workplace, rather than the broader concept of an enterprise, which may consist of more than one establishment. However, for present purposes, the term DWE will be used.

At best, if the proposal were accepted and legitimized by the ILO, it would be a complement to several of the existing initiatives. It would also be *consistent* with all the main international and national approaches that have evolved in the past decade.

Before coming to the proposal, it may be useful to take stock, however briefly, of what is happening in the general area. Those familiar with the CSR and SRI may wish to skip to section 3.

## 2. Corporate social responsibility: Background debates

In the past quarter of a century, attempts to guide companies to behave “socially” and “responsibly” have been numerous. The stimulus has been due, in part, to the growth of multinational and transnational investment, in part to a loss of faith in statutory regulations (pushed by the World Bank, IMF and others in the 1980s, in particular), in part to growing concern over ecological sustainability, in part to the growth of “civil society”, and in part to the liberalization drive led by GATT and then the WTO (World Trade Organization). The result has been a spawning of “codes of conduct”, CSR “reporting systems” and third party “social auditing” proposals.

As far as **codes of conduct** are concerned, a potentially significant development has been the statement by the new WTO director-general that he supports such codes. A criticism is that by no means all firms that claim to adopt codes of conduct share compliance information with the public (less than one in four), and even fewer subject themselves to third party auditing.<sup>5</sup> In any case, and perhaps because they allow for a wide array of interpretations, codes have proliferated, without consensus on what they should include or on how they might be used to best effect. It has been said, correctly,

*“Making a code fully operational takes years. Management systems are still in their infancy, which makes it hard to assess the effectiveness of these private initiatives. Clearly, the intense code activity of recent years has kept a spotlight on undesirable practices.”*<sup>6</sup>

As far as **CSR reporting** is concerned, there has been an extraordinary growth in its incidence, usually focused on environmental and social issues. A recent survey found that 45 per cent of the world’s largest 250 companies now produce such reports, up from 35 per

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<sup>4</sup> Although she was not referring to the danger of paternalism as such, Maria Livanos Cattai, secretary-general of the International Chamber of Commerce, put the issue well in saying, *“There’s a place for business philanthropy, and it is called the business foundation. And there’s a place for Business Inc., which is to create wealth, jobs and value, and that’s what it does best”*(Quoted in *Financial Times*, 19 March, 2002, p.6).

<sup>5</sup> J.Ruggie, “Managing corporate social responsibility”, *Financial Times*, October 25, 2002.

<sup>6</sup> Barbara Fliess, “Better business behaviour”, *OECD Observer*, No.229, November 2001, p.53.

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cent in 1999.<sup>7</sup> The trouble is that there is a plethora of guidelines on what such reports should be, and much of what has been done is undoubtedly partly public relations. As one CSR consultant put it, “*The increase in reporting is good news. But there’s still too much fluff about.*”<sup>8</sup>

At the global level, the most newsworthy development has been the United Nations’ **Global Compact**, launched in Davos in January 1999, and formalized in New York in July 2000. This pushes for what has been called *voluntary corporate citizenship*. All of those three words raise awkward questions.

There are advantages in having a voluntaristic approach. After all, there are laws and institutions to ensure or to try to ensure compliance with minimum standards. An advantage of a voluntary approach is that *aspirations* can be set higher; a second is that it is easier to obtain a *consensus* on principles and practices to espouse. A downside of a voluntary approach compared with a mandatory one is that there may be a higher probability of deceit and “window dressing” (or “bluewash”, as it has been called), because everything depends on moral suasion and the appeal of belonging to a club of laudable people.<sup>9</sup> Of course, this is part of the appeal. However, critics say that there is still a “*free rider*” problem in that firms that do not adhere to a voluntary code of conduct may be able to lower their costs and out-compete those that do.<sup>10</sup>

The view that CSR should be voluntary has been subject to extensive criticism. Thus, in the early 1990s the G77 (Group of 77 developing countries) had a dispute with the OECD, the G77 wanting a binding code, the OECD advocating a non-binding one. Later, spokesmen from developing countries came to suspect any proposal for mandatory schemes as a disguised form of protectionism.

Rather than discuss this further, let us just recall that the Global Compact requires companies wishing “*to embrace universal principles to make globalization more stable and inclusive by embedding markets in shared values*” to commit themselves to nine principles, covering protection of human rights (supporting them in general and ensuring their own firms respect them in particular), core labour standards on freedom of association, child labour, forced labour, and anti-discrimination, and environmental protection (supporting a ‘precautionary approach’, undertaking environmental initiatives, and encouraging ‘environmentally friendly technologies’). There has also been talk of adding a tenth principle, on opposing corruption. By early 2003, over 700 companies had signed up to the Global Compact, somewhat short of the target of 1,000 set by the Secretary General of the United Nations two years earlier.

<sup>7</sup> KPMG, KPMG International Survey of Corporate Sustainability Reporting 2002. See [www.globalreporting.org](http://www.globalreporting.org).

<sup>8</sup> Peter Knight, director of Context, quoted in “Sustainable business”, *Financial Times*, August 23, 2002, p.VIII.

<sup>9</sup> Among the organizations that have pushed for a mandatory approach of multilateral rules to enforce labour and environmental standards are Friends of the Earth and Greenpeace. The British charity Christian Aid has even proposed that there should be a “global regulator” to enforce a code of conduct. It is often presumed that opposition to voluntarism comes exclusively from unions and NGOs. However, some executives have also been against it. Sir Geoffrey Chandler, former Shell executive and senior civil servant, told a recent public meeting that “*voluntarism never works*” (Supplement on CSR, *The Observer*, 2 February, 2003, p.6). More often, the scepticism comes from spokesmen for the trade unions. Thus, David Coats of the UK’s TUC asserted, “*Much of the CSR stuff companies do is little more than a smokescreen to avoid statutory legislation. Most corporate responsibility programmes do not involve workers’ rights. These tend to be dealt with separately*” (*The Observer*, London, 8 July, 2001).

<sup>10</sup> E.V.K.FitzGerald, Regulating Large International Firms (Geneva, UNRISD Technology, Business and Society Programme Paper 5, 2002). This is a moot point, addressed in a later section.

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Apropos of the following DWE proposal, it is worth noting that it is an effort to move from global abstract principles “downwards” to firms. This is a potentially good feature of the Global Compact, although it imposes a responsibility on those driving the intellectual strategy to make the micro-behavioural requirements sufficiently specific. However, the danger of elitism – enlisting big name executives and brand names who can meet at Davos and at other attractive venues, and do little more – should not be dismissed.<sup>11</sup> The Compact has no capacity to check whether or not a chief executive’s stated commitment to the nine principles actually change company behaviour. The hope is there, and the United Nations’ unit dealing with the Compact believe that through it “*United Nations’ values are penetrating the texture of leading companies*”.<sup>12</sup>

A feature of the Compact is that it has no monitoring or regulatory function. Another is an uncritical view of globalization that seems to be driving it. According to the executive head of the UN’s unit dealing with the Global Compact, “*poverty is caused by too little globalization, not too much*”, while the Compact “*tries to stay away from politics – we are beyond ideology*”.<sup>13</sup> This position does raise questions. Ideology is about values and ethics, and only if one stays in the abstract realm of overarching principles can one be “beyond” it.

A second global initiative is the **Global Reporting Initiative (GRI)**. Conceived in 1997, and launched by the US-based Coalition for Environmentally Responsible Economies in partnership with the United Nations Environment Programme. This is a detailed and ambitious attempt to induce companies to report on “the triple bottom line”. The GRI is “*an international multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental and social impact of organization-level activity*”.<sup>14</sup> As demonstrated in its Sustainability Reporting Guidelines, it is all very complicated. The GRI makes it clear that the Guidelines are not intended to be a code or set of principles of conduct, or a performance standard, or a management system.<sup>15</sup> Such a complex venture will require very sensitive handling. The only way to do justice to the GRI’s scope and ambition is to study the extensive documentation already generated on its behalf. According to GRI chief executive, Allen White, by mid-2002 more than 2,500 corporate environmental or sustainability reports had been published. As of early 2003, the GRI requires reporting on 57 “core indicators” of performance and 53 “voluntary indicators”.

Perhaps this breadth and complexity highlights a difficulty inherent in this sort of initiative. It tries to cover all the angles, and consequently is in danger of becoming choked with detail and with bureaucratization under the weight of the offsetting voices steering the initiative. Perhaps somewhat unfairly, it has also been criticized for apparently proposing a

<sup>11</sup> It was unfortunate that the person appointed by Kofi Annan as special adviser on the Global Compact, the former chief executive of ABB, withdrew after a year when it was revealed that he had received about \$50 million in pension benefits, some of which he was asked to repay (*Associated Press*, 1 March, 2002). To critics, such a pension did not seem consistent with corporate social responsibility.

<sup>12</sup> Quoted in “Making a commitment to corporate citizenship” (*The Financial Times*, 12 February, 2003). One is tempted to comment that one would have hoped that such companies would have long done so.

<sup>13</sup> Quoted in *ibid.*

<sup>14</sup> Global Reporting Initiative. See also, [www.globalreporting.org](http://www.globalreporting.org).

<sup>15</sup> Global Reporting Initiative, Sustainability Reporting Guidelines 2002 (Boston, 2002), p.8.

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“one-size-fits-all” reporting framework, applicable to all sectors, all size groups of firms and so on.<sup>16</sup> These issues have probably been taken into account by the key people driving the GRI. However, as should become clear later, the difficulties may make something like the proposal made in this paper a useful instrument to be linked with the GRI.<sup>17</sup>

To some extent, the GRI and other initiatives have built on guidelines established by the OECD and the ILO in the late 1970s. The OECD issued its **OECD Guidelines for Multinational Enterprises** in 1976, which it revised in 1991 and in July 2000; the ILO issued its **Multinational Enterprise Declaration** in 1977.<sup>18</sup> The OECD Guidelines encourages corporations to adhere to standards of *disclosure, labour relations, environment, bribery, consumer interests, competition, taxation and technology*.<sup>19</sup> A significant change following the 2000 revision was the establishment of national contact points (NCPs) to monitor the voluntary Guidelines, which the ILO believes has strengthened their implementation.<sup>20</sup> At the time it was agreed, the US Government representative said that the revised Guidelines would promote “*a race to the top*” in standards of corporate behaviour.

The **European Commission** has also become more active in recent years in promoting CSR. In 2001 it published a Green Paper (consultative document), and then, following receipt of submissions from numerous organizations (‘more than 250’), in July 2002 it issued a ‘Communication’ in which “*the Commission presents a EU strategy to promote CSR*”.<sup>21</sup> This is a succinct statement of what is the mainstream set of views on the subject, placing emphasis on the voluntary nature of CSR (contrary to the position advocated to it by trade unions and various other non-governmental organizations), and a need for transparency and credibility. It advocates a “*balanced and all-encompassing approach to CSR*” It recognizes the different situation with respect to small and medium sized enterprises, and commits the EC to support for the ILO’s core labour standards and the OECD’s Guidelines for MNEs.

<sup>16</sup> For instance, BP has argued that the GRI over-aggregates data from across the company, and has thus not used the GRI guidelines. In response to this type of criticism, one GRI board member has claimed, “*We are in year five of a 30-year process.*” A.Maitland, “Businesses are called to account”, *Financial Times*, 28 March, 2002, p.11. This might worry those who believe matters are urgent.

<sup>17</sup> Moreover, applying the GRI can be very expensive. One company that compiled a report using the GRI guidelines, Baxter International, the healthcare company, stated that its exercise cost US\$625,000 over the two years it took to complete it. A.Maitland, “*Pressures mount for greater disclosure*”, *The Financial Times*, 10 December, 2002.

<sup>18</sup> Other broad codes of conduct for multinationals have included **The Global Sullivan Principles**, drafted in 1976 for employment practices in South Africa, the **UN Centre for Transnational Corporation Draft Code of Conduct for Transnational Corporations**, drawn up in 1977 and abandoned in 1992, and **The Caux Round Table Principles**, drafted in 1986 by a coalition of business executives from North America, Europe and Japan.

<sup>19</sup> At the time of its revision, the government of Mexico objected strongly, claiming that although the guidelines were voluntary and not legally binding, it believed such voluntary standards had deprived Mexico of investment from other members of NAFTA (*Financial Times*, 24 June, 2000).

<sup>20</sup> International Labour Organization, “*Information note on corporate social responsibility and international labour standards*”, Working Party on the Social Dimension of Globalization, Fourth Item on the Agenda, Governing Body, Geneva, March 2003, p.11. This is a useful review of the various initiatives. The ILO has also established a business and social initiatives database (BASI). See [www.ilo.org/basi](http://www.ilo.org/basi).

<sup>21</sup> European Commission, Directorate-General for Employment and Social Affairs, Corporate Social Responsibility: A Business Contribution to Sustainable Development (Luxembourg, OPEC, 2002). This can be accessed via <http://europa.eu.int>.

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The “strategy” the European Commission proposes is impressive – to increase knowledge of the positive impact of CSR, developing the exchange of information on good practice, promoting management skills in CSR, facilitating convergence and transparency of CSR practices, and integrating CSR into Community policies. It has launched a Multi-Stakeholder Forum on CSR at the EU level.<sup>22</sup> In this, as in so much of the CSR movement, the biggest challenge will be to move beyond general abstract principles to practical measures. It is relevant to note that when the EC launched consultations on rules to guarantee “socially intelligent restructuring” at the beginning of 2002, it ran into heavy opposition from UNICE, the European employers’ federation.<sup>23</sup>

The World Bank has also stepped up its interest. It initiated a programme called **Business Partners for Development** (BPD) to encourage firms, governments and community groups to pool expertise to tackle social issues in developing countries.<sup>24</sup> And its International Finance Corporation (IFC) has established an **IFC “corporate citizenship facility”**, in part to help its clients and private firms in emerging markets to identify appropriate investment opportunities. The IFC has developed a framework for measuring private investment sustainability, which includes assessment of workers’ health, safety and welfare. Actions that companies are asked to take include compliance with ILO Conventions, paying “somewhat higher wages than average” and meeting the ILO Code of Practice on HIV/AIDS.

Not to be outdone, the **World Economic Forum** launched the WEF’s global corporate citizenship initiative in 2002, and focused on the need for rebuilding trust in its 2003 Davos meeting. The 31 chief executives included in its survey all stated that they were starting to develop measures and targets for their ‘leadership teams’ on CSR or corporate citizenship. A point to be recalled is that a majority said there was a merging of the corporate citizenship and corporate governance agendas in their companies, no doubt due to the loss of trust engendered by the Enron and other corporate scandals of the recent past.

There have been numerous national initiatives. In the USA, the CSR movement, spearheaded by the GRI, has been ostensibly boosted by the establishment of **Business Strengthening America** (BSA) in December, 2002, whose aim is “*to encourage civic engagement and volunteer service in corporate America.*” This has had the strong support of President Bush and some high-profile corporate executives. The early signs are that this is designed to improve the image of corporations in the wake of business scandals and to encourage businesses to “*do well by doing good*”. It does not seem to be a means of focusing on what is appropriate to do in their own domains, and thus may exist outside the reporting frameworks.

A relatively promising tendency in the USA has been *shareholder activism*, led by major pension funds. But another recent tendency has been for leading companies to invest in the monitoring process by non-governmental organization. In 1999, Nike gave US\$7.7

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<sup>22</sup> The section of the Communication on this Forum does not mention that there would be involvement of any non-EU organizations. However, it seems there will be observer status for the ILO, OECD and the UN’s Global Compact Office.

<sup>23</sup> As it’s Secretary General, Philippe de Buck, stated in January 2002, “*When Anna Diamantopoulou [EU Social Affairs Commissioner] calls for a long discussion on corporate restructuring, we say ‘Stop’.*”

<sup>24</sup> [www.bpdweb.org](http://www.bpdweb.org).

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million to the International Youth Foundation to set up the Global Alliance for Workers and Communities to monitor the practices of sub-contractors.

In the UK, there is the DFID-backed **Ethical Trading Initiative** (ETI), a tripartite body consisting of employers, unions and campaigning groups, which developed a code based on ILO Conventions.<sup>25</sup> And the **Business in the Community** (BITC) sets out to help companies quantify performance on a range of indicators on marketplace, environment, workplace, community and human rights.<sup>26</sup> In March 2003, the BITC issued a **Corporate Responsibility Index**, which perhaps comes closest to what is to be proposed in the next section of this paper. But its scope is quite different, as its methodology.<sup>27</sup> It sets out to measure firms' performance in terms of five specified 'divisions' – environment, employment, community, human rights and consumer issues. It is thus very broad in scope. It is also, so far, very limited in the number of companies it covers, merely 122 as of March 2003. It also seems to be a tool for pointing out poor or 'irresponsible' performance.

In Denmark, a *social index* has been developed by the Danish Ministry of Social Affairs, and is intended to measure the social responsibility of companies. Enterprises that obtain verification will receive an "S-label". The Danish Confederation of Trade Unions (LO) has proposed that to obtain this label, companies should be measured by actual performance.<sup>28</sup>

Among the many national-level and more informal initiatives, mostly done by individual consultants or small consultancies, one can mention AccountAbility's 1000 (**AA1000**) framework.<sup>29</sup> Presented by its designers as an auditing complement to the GRI, this has been well advertized, and is designed to improve the accountability of organizations by increasing their social and 'ethical' accounting, auditing and reporting. Like the GRI (and others), it espouses a 'multi-stakeholder' approach, and covers a broad range of issues.<sup>30</sup>

Another approach is '**the ISO model**', notably **SA8000**.<sup>31</sup> In January 2003, the International Organization for Standardization (ISO) established a CSR Advisory Group (with ILO, IOE and ICFTU on board) to consider a CSR management framework in this mould. And in February 2003, it recommended that ISO should carry out a survey of the worldwide state of the art on social responsibility codes and guidelines and to consider preparation of "*a management system guideline standard that specifically includes a*

<sup>25</sup> For a good review of the ETI and difficulties of implementation, see R.Crowe, "Hard labour to put code into practice", *Financial Times*, 12 June, 2001.

<sup>26</sup> See [www.bitc.org.uk/corporate-impact](http://www.bitc.org.uk/corporate-impact).

<sup>27</sup> For its Business Impact Self-Assessment Tool, see [www.business-impact.org/review/](http://www.business-impact.org/review/).

<sup>28</sup> Danish Confederation of Trade Unions, *Corporate Social Responsibility – A discussion paper* (Copenhagen, LO, 2002), p.19. The LO has also proposed an interesting "Workplace Knowledge Index".

<sup>29</sup> AccountAbility, *AccountAbility 1000 (AA1000) Framework: Standards, Guidelines and Professional Qualification* (London, The Institute of Social and Ethical AccountAbility, 1999).

<sup>30</sup> For a review of multi-stakeholder monitoring initiatives, see M.Urminsky (ed.), "*Self-regulation in the workplace: Codes of conduct, social labelling and socially responsible investment*", Working Paper Series on Management Systems and Corporate Citizenship, No.1 (Geneva, ILO, 2001), pp.28-34.

<sup>31</sup> This is based on ISO9000, an auditing technique specifying corrective and preventive actions.

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*process for the self-declaration of conformity by organizations and excludes conformity assessment involving third-party certification”.*<sup>32</sup>

The broad range of issues covered by such ‘standards’ as the ISO model and the AA1000 framework raises the familiar problem of lack of rigour and sharpness. This may be lessened by approaches that are more focused on labour standards per se, such as the proposals of the **Fair Labour Association**, which has conducted “anti-sweatshops” campaigns, and **Social Accountability International**. But in all such cases, there are heavy demands placed on inspection and auditing, which seem to be left largely to international consultants and accounting firms. This also raises problems of conflict of interest.<sup>33</sup>

Being ethical can pay, at least in Umbria, Italy. There, companies certified under the SA8000 ethical workplace standard have been given preferential treatment under law when bidding for local government contracts. The Region of Umbria has introduced a law that allows SA8000-certified firms - of which there are 26 in Italy - to join a dedicated SA8000 register. Providing they are competitive on cost and quality, firms on the register will receive priority when companies are chosen to run franchises or carry out contracts on behalf of the local government. The Region of Umbria says it has introduced the measures to promote “*a wide spread of knowledge of the importance of the social responsibilities of companies and consumers*”.

It is interesting and directly relevant to the following proposal that there is a widespread impression that the CSR ‘reporting’ movement has made less progress on labour and work issues than on environmental and economic issues. As the Information Note for the ILO Governing Body of March 2003 concluded,

*“the labour and employment information disclosure in this type of report is generally quite weak.”*<sup>34</sup>

In reviewing the issues typically reported, it added: “*The subjects least frequently reported on included equal remuneration (a fundamental category), job security, the effect of technology on employment quality and quantity, disciplinary practices and establishing linkages with national enterprises.*”

We will come back to this in the following sections, since it relates directly to the proposal that will be made there.

The CSR movement is related to the proliferation of **corporate governance initiatives**, which were in part stimulated by the protracted debate on the relative appeal of the continental European “stakeholder” model and the Anglo-Saxon “shareholder” model.

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<sup>32</sup> ISO Press Release, February 19, 2003. The group was chaired by a Senior Vice President of Alcan Inc.

<sup>33</sup> For discussion of these dilemmas, see G.Standing, “*Ratcheting labour standards*”, in A.Fung, D.O’Rourke and C.Sabel (eds.), Can We Put an End to Sweatshops? (Boston, Beacon Press, 2002).

<sup>34</sup> ILO, 2003, op.cit., p.8. It draws on work done by the ILO’s Multinational Enterprises Programme on Corporate Social Reports.

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No doubt, the characterization of these two types was somewhat simplified and even misleading.<sup>35</sup> Nevertheless, since the late 1990s there has been a period of agonising over what should constitute good corporate governance.<sup>36</sup> Among the outcomes were the Cadbury Commission and the Turnbull Report in the United Kingdom, the King Report in South Africa, the OECD's Principles of Corporate Governance, and the World Bank's *Corporate Governance Forum*.

Again, we will come back to some of the underlying issues in Section 8 of this paper in connection with defining a Decent Work Enterprise. However, it is relevant to note that in several countries the authorities have made a link between new codes of corporate practice and stock market regulation. Thus, the Johannesburg Stock Exchange requires all listed companies to adhere to the King Report's Code of Corporate Practices and Conduct.

While the consultancies and international groups are competing to set guidelines and standards for CSR reporting, the pressure to adhere to CSR principles is coming mainly from the growth of investment funds and related pressure groups for **Socially Responsible Investment (SRI)**. This is an exciting aspect of globalization. There are *funds* that have been established to steer investment to highly rated companies; there are elaborate *ratings*; and there are *indexes*. But as of early 2003, one could say that there is no evidence of convergence on one type of SRI, one type of SRI fund, one type of rating or one type of index.<sup>37</sup> Nevertheless, the sheer scale of the phenomenon is impressive. In 2002, Calvert, a US consultancy, estimated that by 2012 SRI would comprise 10 per cent of all US mutual fund assets.

Many of the SRI funds have been set up by big commercial funds, and many belong to the Social Investment Forum, a non-profit membership organization set up to promote SRI. Many of these funds, although apparently not yet a majority, include labour relations' criteria and perhaps a big majority include equal opportunity and non-discrimination criteria.<sup>38</sup> Some of the ratings agencies include the full range of the ILO's core labour standards.<sup>39</sup> Many of the funds have been given somewhat exotic names; among the more intriguing are the Domini Social Equity Fund in the USA, which "*seeks to invest in companies that involve employees in day-to-day operations*" (whatever that means), and

<sup>35</sup> Characteristically, *The Economist* has written a robust defence of the Anglo-Saxon model, claiming that it is "far from heartless". *The Economist*, Special Report, December 14, 2002. Basically, it argues that the state has always regulated corporate behaviour so as to steer companies to be socially responsible, citing US President Teddy Roosevelt as epitomising that approach.

<sup>36</sup> The following comment is for reflection. The notion of balancing the interests of "multi-stakeholders" is fuzzy. What does "balance" mean in this context? There is no principle on which a manager can use to guide decisions and no benchmark on which to judge the outcome. In this regard, I agree with Dick Ellsworth. R.R.Ellsworth, Leading with Purpose: The New Corporate Realities (Stanford, California, Stanford University Press, 2002). He is also good on why shareholders should not be regarded as the owners of corporate assets. Where he is far less convincing is in his argument for 'consumer primacy'.

<sup>37</sup> For instance, some SRI funds focus mainly on "sustainability" of financial returns, investing in companies that at best have a positive impact on society and the environment, and at worst are "broadly neutral". See, for example, the report on the SRI part of the Morley Fund Management, the supplement on CSR in *The Observer*, 2 February, 2003.

<sup>38</sup> Social Investment Forum, "*Report on socially responsible investing trends in the United States*", available on [www.socialinvest.org](http://www.socialinvest.org). This reported that investments using one or more SRI criteria had risen in the USA from US\$40 billion in 1984 to over US\$2.34 trillion in 2001.

<sup>39</sup> These include EIRIS (Ethical Investment Research Service) and PIRC (Pensions and Investment Research Consultants Ltd). For reference to others, see ILO, 2003, op.cit., p.7.

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the Social Awareness Fund of Friends Ivory, which “favours companies that provide excellent workplaces and strong benefits to increase employee loyalty.”<sup>40</sup>

Finally, there are the “sustainability stock market indexes”, the two most well-known of which are the **FTSE4Good Index**<sup>41</sup> and the **Dow Jones Sustainability Index**. The latter was set up in 1999. The FTSE4Good Index was launched in 2001 and screens companies on a wide range of issues, from human rights to ecological record.<sup>42</sup> Whereas the Dow Jones Index compilers invite companies to apply, the people responsible for compiling the FTSE4Good Index study about 2,200 companies and exclude some sectors and types of producer, in effect excluding about 55 per cent of all companies registered on the FTSE All-Share. This has made it somewhat controversial among major pension funds.

Less well known are the indexes used to guide purchasing practice, such as the UK’s **Co-op Bank’s Ethical Purchasing Index**. These indexes are generating other activities. Thus, the consultancy Sustainable Assets Management (SAM) has carried out a survey for the Dow Jones Sustainability Index to determine how many companies are taking account of CSR performance in determining remuneration. In the UK, there were plans in early 2003 to launch an **Ethical Exchange**, a kind of alternative stock market for what are being called Alternative Public Offerings.

The promotion of CSR has become part of government policy in a growing number of countries, including Belgium, Denmark, France, the Netherlands and the UK. In the latter, activities have proliferated. There is now a Minister with responsibility for CSR. UK law requires pension funds to disclose how they view social, ethical and environmental issues in their investment decisions. The government-backed **Ethical Trading Initiative** brings together unions, companies and NGOs to draw up codes of conduct on labour rights. And the UK’s DFID is working with the Canadian International Development Agency to promote CSR in development. In France, the amended *Nouvelles Régulations Economiques* (NRE) is a law requiring all nationally listed corporations in France to report to shareholders and stakeholders on various sustainability issues from 2003 onwards.

*In sum*, Corporate Social Responsibility is so well entrenched as a slogan that its immediate future is assured. According to an international survey conducted by PriceWaterhouseCoopers in 2002, 70 per cent of the executive directors of global corporations believe that CSR is vital to their company’s profitability. And an Environics International survey in 2002 suggested that there was widespread support for the view that companies should go beyond “financial philanthropy” to solve “social problems”.<sup>43</sup>

Some major corporations are using CSR or corporate citizenship performance to determine executive remuneration explicitly. Is the following a sign of things to come? Olav Fjell, chief executive of Statoil, Norway’s largest oil company, linked CSR to his contract:

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<sup>40</sup> These beg for scepticism, but are cited in ILO, 2003, op.cit., p.7.

<sup>41</sup> FTSE, “*FTSE develops standard for socially responsible investment*” (2001), available on <http://www.ftse4good.com>.

<sup>42</sup> Companies in some sectors are excluded altogether, such as tobacco and weapons’ manufacturers. Others are screened by EIRIS, an ethical specialist firm, on environmental sustainability, positive relationships with “stakeholders” and human rights.

<sup>43</sup> Reported in “The financial case for behaving responsibly”, *The Financial Times*, 19 August, 2002, p.6.

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*“Indicators related to health, safety, environment and employee satisfaction are included, among others, in my performance contract and are thus used for determining my bonus and form part of my performance review. So far, there are no indicators covering bribery and corruption, security and human rights and community development – but these topics are on the board’s agenda and are thus indirectly part of the review of the CEO.”<sup>44</sup>*

Doing good socially has become part of the executive’s job. However, it is far from clear whether the power to do good should be extended to the point where firms become the primary instrument of many aspects of social policy. The critics should not be dismissed as cynics or unethical apologists.<sup>45</sup> There has been a tendency for rhetorical abstraction to swamp practical, operational measures. The advocates and apologists should not be dismissed as utopians or opportunists looking for consultancy contracts.

Most CSR advocates recognize that society and the ecology depend on responsible behaviour to a much greater extent than can be captured by detailed legislation and complex regulations. In the middle of the critics and advocates, something is emerging as part of the evolving *global governance*. In that, realism requires a balance between idealism and common practice – the realm of decency.

A key point to bear in mind is that companies should not be expected to take over responsibility for social policy, and should avoid becoming paternalistic. As Kofi Annan told a meeting of the Swiss business community in March 2001:

*“Clearly business is about making profits, and public policy is the responsibility of States. If the 20<sup>th</sup> century taught us anything, it is that when one tries to do the other’s job, all sorts of things go wrong.”<sup>46</sup>*

This statement is tantalising, since the first part seems to contradict the essence of the CSR movement and the basis of the Global Compact. But it also returns us to a dilemma emphasized at the outset of this paper, the danger that corporate welfare and ‘social responsibility’ could exceed as well as fall short of desirable boundaries. All those working in this field need to keep that dilemma in mind.

### 3. A Decent Work Enterprise: Basic Principles

The question we should pose at the outset is straightforward: **What principles and practices would constitute a Decent Work Enterprise for the 21<sup>st</sup> century?** If one believes in the idea of decent work, one should be able to devise a reasonable answer to this complex question.

<sup>44</sup> “Tools to build a reputation”, *The Financial Times*, 20 January, 2003.

<sup>45</sup> Again, it is worth noting that not all critics come from “the left” or from disappointed ecologists wanting a more mandatory approach. Some economists have argued that CSR is doing harm and is part of what one, the former chief economist of the OECD, has called “*global salvationism*”. D.Henderson, *Misguided Virtue: False Notions of Corporate Social Responsibility* (London, Institute of Economic Affairs, Hobart Paper No.142, 2001).

<sup>46</sup> United Nations Office at Geneva, March 28, 2001. See also <http://www.unog.ch>. *The Economist* put it more sharply, “*It is no advance for democracy when public policy is “privatised”, and corporate boards take it upon themselves to weigh competing social, economic and environmental goals. That is the job for governments, which remain competent to do it if they choose*” (*The Economist*, 17 November, 2001, p.84).

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Without going into any detail, for reasons of brevity, the philosophical position taken by the ILO's Socio-Economic Security Programme is essentially the following, which shapes the attempted answer to the question. A decent society – not a utopia – is one committed to the extension of *real freedom*, which is a combination of what Isaiah Berlin called *negative liberty* and *positive liberty*. This means that individuals and social groups should have *basic economic security*, for otherwise they cannot be expected to be able to make rational decisions, and *good opportunity for the pursuit of occupation*. The former requires at least a minimum degree of income security coupled with basic Voice security, i.e, an assurance of a stable and decent level of remuneration coupled with the assurance that there will be both collective and individual representation in case of dispute or bargaining.<sup>47</sup>

Now, it may seem that the following is a long way from those abstract principles. However, to give more immediacy to the proposal, let us stipulate that a Decent Work Enterprise should adhere to the following four contextual principles:

### 3.1 The Dynamic Efficiency Principle

A Decent Work Enterprise must be compatible with sustainable dynamic efficiency. Such efficiency comes from the existence of mechanisms that put legitimate pressure on workers and managers to raise long-term efficiency and, therefore, long-term profitability. Dynamic efficiency is more than *allocative efficiency*, which is a static concept about the utilization of existing factors of production, and is different from what is often called *X-efficiency* (the management factor). Dynamic efficiency comes from the pressure to improve the production process, work organization and incorporation of new techniques or products.

For employers and managers, this principle is the *sine qua non* of decent work, and it should be respected. Without all forms of efficiency, a firm cannot survive in the longer term.

### 3.2 The Shadow-of-the-Future Principle

*Dynamic efficiency* is derived from having rivals that are strong. This leads to the idea that all interests need to be equally strong in terms of their bargaining and representation capacities, in order to limit short-term opportunism. The shadow-of-the-future principle means that those negotiating with each other today should be anticipating that they will be doing so tomorrow and for a long time after that. This is likely to limit opportunism and exploitative tendencies.<sup>48</sup>

Managers may not *like* having strong, well-informed negotiators sitting opposite them, and vice-versa. And they may not *like* the prospect of having to sit opposite them again and again. But these conditions tend to be the best because those involved are best placed to know when to compromise and when to press the other side to improve *their*

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<sup>47</sup> This set of philosophical foundations is elaborated and justified elsewhere. See, for example, G.Standing, Beyond the New Paternalism: Basic Security as Equality (London, Verso, 2002).

<sup>48</sup> For instance, this condition is likely to induce the reciprocities that engender a high *effort bargain*, whereas reliance on individualised sanctions and incentives is likely to undermine the reciprocities that make up an organizational community. This is linked to the misnamed notion of *social capital*. S.Bowles and H.Gintis, "Social capital and community governance", *The Economic Journal*, Vol.112, No.483, November 2002, pp. F419-436.

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efficiency and competence. By the same token, societies are more likely to be dynamic to the extent that their major organizations reflect internal pressures to be equitably efficient.<sup>49</sup>

This is related to what might be called a maxim of good governance:

*The powerful need protecting from themselves.*<sup>50</sup>

To recognize the wisdom of this aphorism, one only has to recall the Enron debacle and other notorious cases where *agents* (executives) became *principals* (major shareholders), and then opted for short-term opportunism, maximising their incomes while acting as leeches on their companies. There was no governance structure to curb their predatory instincts.

Note that the main idea is *negotiation*, not “dialogue”.<sup>51</sup> The key to dynamic efficiency and equity is pressure on all parties, and this comes not from “dialogue” but from negotiation between equals, where each side has to make compromises, and have both their own legitimate interests and shared interests.

### 3.3 The Security Difference Principle

The third principle is that any practice or institutional change is just only if it improves the position of the “worst-off” or most vulnerable groups, or at least does not worsen it. This draws on John Rawls’ “difference principle”, and is one of the two fundamental principles underlying the ILO’s Socio-Economic Security Programme and the ILO’s *decent work* agenda more generally.<sup>52</sup> In other words, practices that result in worsening the situation of vulnerable or socially vulnerable groups are in contradiction with decent work. This implies that firms should be *equitable*, through minimising the vulnerability of all groups.

A supplementary rule may be called the **Efficient Inequality Principle**. This may be stated as saying that decency requires that differentials in wages and benefits should be only determined by efficiency criteria. So, differentials in earnings, benefits and status should be minimized to the point where dynamic efficiency is preserved – with the Rawlsian caveat that priority should be given to improving the situation of the worst-off groups.

<sup>49</sup> A.D.Chandler, “*Organizational capabilities and industrial restructuring: A historical analysis*”, Journal of Comparative Economics, Vol.17, No.2, 1993, p.310.

<sup>50</sup> It has been stated aptly that power is the facility not to have to learn. In effect, restricting an individual’s power induces pressure on that person to learn, and to keep learning, which is the ultimate source of dynamic efficiency.

<sup>51</sup> There is a sense of ‘social dialogue’ that is patronising, which is not what is meant in the ILO. But, for example, when someone says, “*Social dialogue ensures a balance between corporate flexibility and workers’ safety*”, one should respond that this depends on whether or not it is backed by incentives and sanctions, and by negotiating capacities. Decent work dialogue requires equality in the negotiations

<sup>52</sup> J.Rawls, A Theory of Justice (Oxford, Oxford University Press, 1973).

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### 3.4 The Paternalism Test Principle

A fourth principle is that no groups should be subject to controls that are not applied to the most “free” groups in society. In general, this is a view shared by mainstream employers and unions, and can be transferred to labour practices in firms, as stating that *the same rules of behaviour and treatment should apply to all groups of workers.*

A trade union view of this is well expressed by the ICFTU’s Jim Baker, in the box below. But many employers, and certainly many social observers, would also agree that paternalism ultimately constrains freedom and is conducive to inefficiency rather than the reverse.

*“A code of conduct or social label cannot guarantee that workers’ rights are fully respected throughout the production process. However, in some cases they can be used to help workers organize themselves. The international trade union movement is not interested in developing procedures where workers are “protected” from the outside without the involvement of the workers themselves. We do not want a paternalistic system but want to change the balance of power within individual work sites. That said, if the combined impact of consumers, NGOs, codes of conduct and changes in attitudes within companies can create a situation in which workers have more freedom to organize themselves and defend their own interests, that will be helpful.”*

-- Jim Baker, Director, ICFTU “Multinationals” Department<sup>53</sup>

In the literature on socially responsible companies there has been neglect of a tendency for “good employers” to turn into “paternalistic employers” and worse. As an example of the danger, consider a description of successful US companies.<sup>54</sup> *The Economist*, without irony, summarized some of its main messages:

*“Successful companies put a huge amount of effort into turning new recruits into company men and women, sending them on in-house training courses (both McDonald’s and Walt Disney have their own “universities”), influencing the way they speak and dress, and encouraging them to spend time with other company people. Procter and Gamble, a consumer goods company, ruthlessly rejects applicants who do not conform to the “company type”. Wal-Mart, a discount retailer, gets new recruits to raise their right hand and swear to smile at their customers, “so, help me, Sam”. Until recently IBM expected its workers to wear white shirts. “Nordies”, as the employees of Nordstrom, a retail chain, happily call themselves, start every day with the collective chant: “We want to do it for Nordstrom”. ”<sup>55</sup>*

This is not too attractive. Indeed, it is frightening. It is a powerful argument for independent Voice regulation and for economic democracy that can constrain any tendency to go from management to manipulation, from incentives to cultural coercion. This is a big concern for the development of good enterprises.

<sup>53</sup> Interview, Trade Union World, No.5, May 2002, p.7.

<sup>54</sup> J.C.Collins and J.I.Portas, Built to Last -- Successful Habits of Visionary Companies (New York, Century, 1995).

<sup>55</sup> “Career opportunities”, *The Economist*, 8 July, 1995, p.69.

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Both the Dynamic Efficiency Principle and the Shadow-of-the-Future Principle relate to the need for enterprise *flexibility*. After more than twenty years of public debate, this is still an emotive and loaded word. But in terms of a good and efficient firm, there is a need for employment flexibility (unless the firm can change its employment in the face of economic change, it will scarcely be viable), functional flexibility (unless the firm can adjust the internal division of labour in the face of economic and technical change, it will cease to be efficient), and remuneration flexibility (unless the firm can use its wage and benefit system to induce productive behaviour, it will become inefficient).

All of this should be accepted as simple management rationality. However, to ensure that this pursuit of flexibility does not result in chronic insecurity for workers, there must be mechanisms to ensure that the flexibility is accompanied by adequate security. This requires what may be called Voice Regulation, notably through collective bargaining and the establishment of mechanisms to ensure that all groups are heard and that information is broadly shared.

#### 4. Constructing a Decent Work Enterprise Index

We may take as the fundamental premise that *decent work* depends on *real freedom*, and that this requires basic security and good opportunity for the pursuit of occupational security. The rationale for this position and the implications for policy development and institutional development are spelt out elsewhere. The underlying questions to be addressed here are: *What type of workplace and what type of work practices would constitute an environment in which decent work was being encouraged?*

We can start by stating that it is presumed that any such firm should adhere to the laws and regulations of the country in which it is operating. In other words, a commitment to the ILO's Fundamental Principles is taken as given for the sake of identifying a decent work workplace. We strongly agree with the GRI's statement,

*“an organization's contribution in the area of labour practices should not be simply to protect and respect basic rights; it should also be to enhance the quality of the working environment and value of the relationship to the worker.”*<sup>56</sup>

To identify a Decent Work Enterprise, we need to identify proxy indicators that capture the essence of the principles, practices and outcomes that deserve to be promoted.<sup>57</sup> In most cases, these would have to be measured by an indirect or proxy variable. Inevitably, this means there will be some subjectivity and pragmatism, in part due to absence of data or difficulty of obtaining measurable information on some issues. As many who have tried to judge what corporations should do, performance indicators are hard to identify and to measure.<sup>58</sup> We have, at least, attempted to do this.

<sup>56</sup> GRI, 2002, op.cit., p.51.

<sup>57</sup> Earlier variants of the approach in this paper were developed for comparing industrial enterprises in southeast Asian economies in the early 1990s. See, for example, G. Standing, “Towards a Human Resource-oriented Enterprise: A South-East Asian Example”, *International Labour Review*, Vol.131, No.3, 1992/3, pp.281-96.

<sup>58</sup> The GRI stated in its 2002 report that it was “developing its first technical protocols on indicator measurement.” GRI, 2002, op.cit., p.10. The GRI presented a “tree” of its Reporting Principles in which the key words are “auditability”, “inclusiveness” and “transparency”. It highlighted the need to inform “decisions about

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A few methodological points should be borne in mind. We make a distinction between an *index* and an *indicator*. In developing an “index” of a DWE with numerical values, sets of “indicators” of underlying phenomena can be identified. In putting indicators together as a composite index for any particular area of concern -- such as the firm’s orientation to skill formation and training -- there are difficulties of “weighting” the different variables or indicators.<sup>59</sup> There are statistical techniques for dealing with these issues, including factor analysis and discriminant analysis. However, in this sort of exercise there is a great virtue in transparency. *The more complex the way an index is constructed, the greater the suspicion that the data and reasoning have been “massaged”*. It is better to be able to interpret an index than to have to unravel it to try to make sense of it, even if we have to sacrifice a little in terms of ‘scientific’ accuracy. This is the main justification for the chosen technique in this analysis, of using an ordinal scale for the indexes that are constructed. In subsequent refinements, that could be modified.

In that context, a crucial point to make at the outset is that inclusion or exclusion of any particular indicator in a DWE index is a matter of preference, and does not affect the essence of the approach. Thus, if the authorities chose to promote the DWE idea and did not believe that, say, economic democracy should be regarded as a desirable attribute, then the relevant indicators could be excluded. In contrast, if environmental concerns were deemed desirable, indicators capturing those concerns could be included.

In constructing DWE indexes, we need sets of indicators that should reflect four general considerations, as follows:

1. there should be indicators of revealed preference, or ethical principles, reflecting the firm’s commitment to certain desirable practices and outcomes; these are called **input indicators**;
2. there should be indicators of institutional mechanisms, or processes, by which desirable outcomes could be translated into actual outcomes; these are called **process indicators**,<sup>60</sup>
3. there should be indicators of outcomes, which should reflect whether or not preferences and mechanisms are working; these are called **outcome indicators**;
4. the indicators selected must be sustainable; they must not be idealistic to the point where they would seriously jeopardize the enterprise’s long-term viability, profitability and dynamism.

what information to report”, the “quality and reliability of reported information” and “accessibility of reported information (how, when)”. Ibid, p.23.

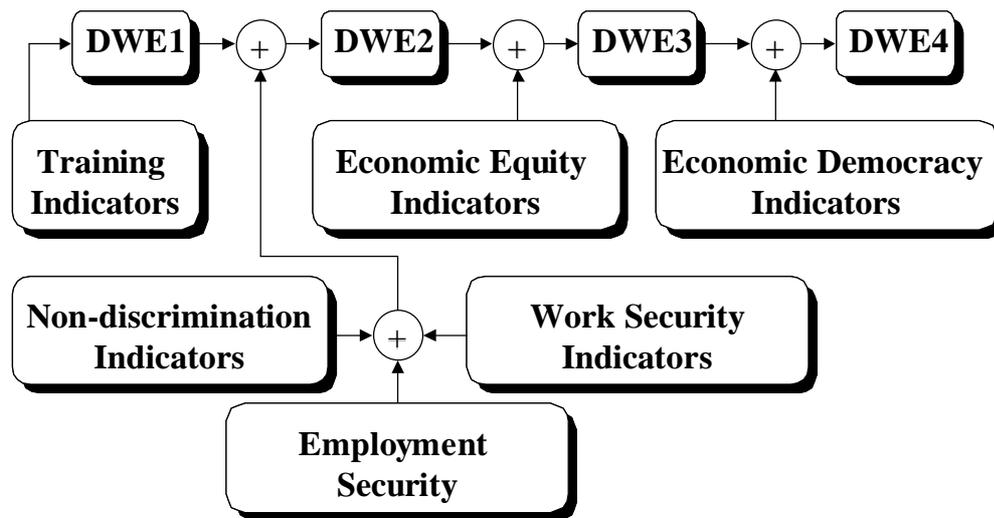
<sup>59</sup> In constructing any complex index, conceptual and measurement difficulties abound. For the proposed DWE index, the most important concern *scaling* (the justification of any particular weighting of indicators), *aggregation* (the summarising of multi-dimensional information in any single index) and *patterning* (determining that additivity is more or less appropriate than, say, a multiplicative approach).

<sup>60</sup> In what follows, little explicit attention is paid to an important set of concerns associated with mechanisms. A good enterprise should have mechanisms that minimise internal transaction costs, that is, costs required to ensure internal co-operation. It should also have mechanisms that reduce tendencies towards bureaucracy, that is, a hierarchical control system that exists because of high degrees of performance ambiguity and goal incongruency (or even goal indifference). On these issues, see, for instance, William Ouchi, “Markets, bureaucracies and clans”, *Administrative Science Quarterly*, Vol.25, 1980, pp.129-41. A bureaucracy tends to have very high transaction costs.

In this exploratory exercise, a major objective is to construct an hierarchy of DWE indexes, each of which is built by adding a new set of indicators of one of the basic spheres of labour and employment practice -- skill development security, social equity, work security, employment security, economic equity (income security) and economic democracy (Voice representation security), in that order.

In the following sections, we proceed to construct four DWE indexes, as illustrated in Diagram 1, starting with skill development, then moving to integrate work security, non-discriminatory practices, employment security, economic equity and finally economic democracy.

Diagram 1. Hierarchy of Decent Work Enterprise Indexes



Bear in mind that the DWE could be developed in such a way that differences in sector, size of firm and even economic circumstances could be taken into account. And there is no reason for the index to be defined in one country in the same way as in another. Indeed, a good enterprise in an affluent country could be defined in a more demanding way than for firms in a low-income developing country, thus avoiding any suggestion that this would be a device for imposing standards in places where it would be hard if not impossible for firms to realize without penalising themselves.

What is done is analogous to the macro-level Decent Work Index estimated for countries within the ILO's Socio-Economic Security Programme, and to the micro-level DWI. In all cases, the set of indicators for each aspect of security is converted into a normalized score, according to the following standard formula, used by the UNDP to calculate its Human Development Index. The normalization rule is as follows:

$$X_i = [X_{\text{actual}} - X_{\text{min}}] / [X_{\text{max}} - X_{\text{min}}]$$

where  $X_i$  is the normalized value of the Index,  $X_{\text{actual}}$  is the actual value obtained by the firm,  $X_{\text{min}}$  is the minimum value attained by any firm, and  $X_{\text{max}}$  is the maximum value of the Index attained by any firm. As a result, values of each index range from a minimum of 0 to a maximum of 1.

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To illustrate the application of this and subsequent indexes, we can compare industrial enterprises included in several of our enterprise surveys.<sup>61</sup> Attention will be given to the following:

1. The Azerbaijan Labour Flexibility and Security Survey (ALFS). This was a national survey of 550 industrial firms, carried out in 2002, and done in collaboration with the Government's State Committee of Statistics.
2. The Brazilian Labour Flexibility and Security Surveys. This and the Chilean survey were the least extensive and smallest of the ELFS, and were carried out in 2001, the Brazilian survey covering 500 manufacturing firms.
3. The Chilean Labour Flexibility and Security Survey (CLFS2). This was a small survey, covering 300 firms, carried out in 2001.
4. The China Labour Flexibility and Security Survey (CHLFS). This was carried out in 2001, covering over 1,000 industrial enterprises in three provinces.
5. The Indonesian Enterprise Labour Flexibility and Security Survey (ILFS). This survey was carried out in 2001, covering 1,915 industrial and service establishments, approximately half of which were small-scale units. It was carried out in collaboration with the Government's Statistical Office.
6. The Moldovan Enterprise Labour Flexibility and Security Survey (MLFS). This covered a national sample of 300 manufacturing firms.
7. The Pakistan Enterprise Labour Flexibility and Security Survey (PakLFS). This was conducted in 2001, and covered 650 manufacturing enterprises.
8. The Philippines Enterprise Labour Flexibility and Security Survey (PLFS2). This was conducted in 2001 and covered 1,300 manufacturing and service enterprises, essentially repeating a PLFS carried out in 1990. This was carried out in collaboration with the Department of Labour and Employment (DOLE) of the Government of the Philippines.
9. The Russian Enterprise Labour Flexibility and Security Survey (RLFS). This survey has been monitoring and analysing changes taking place in industrial firms since 1990, although only a small proportion of firms have been included in a large number of the annual survey.<sup>62</sup> The eleventh RLFS was conducted in mid-2002, and covered 524 manufacturing enterprises in five *oblasts* (regions) – Ivanovo, Moscow City, Moscow Region, Samara and St.Petersburg. All rounds have been carried out in collaboration with the Centre for Labour Market Research, Russian Academy of Sciences, Moscow.

<sup>61</sup> The enterprise labour flexibility surveys cover a wide range of labour and employment issues, and have been conducted in Albania, Armenia, Azerbaijan, Brazil, Bulgaria, Chile, China, Georgia, Hungary, India, Indonesia, Kyrgyzia, Malaysia, Mexico, Moldova, the Philippines, the Russian Federation, South Africa, Tanzania and Ukraine. Their design can be adapted to industrialised and industrialising economies, and it is hoped that comparable surveys will be conducted in western European countries in the near future. For a brief description, see Appendix A.

<sup>62</sup> For analysis of the first five rounds, covering the break-up of the Soviet Union and the early years of the "transition", see G.Standing, Russian Unemployment and Enterprise Restructuring: Reviving Dead Souls (Harmondsworth, Macmillan, 1996).

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10. The South African Enterprise Labour Flexibility Survey (SALFS2). This is the second survey conducted in the country, the first covering 399 manufacturing enterprises and conducted in October 1995, the second conducted in mid 1996, covering 330 firms in five urban areas of the country.
  11. The Tanzanian Enterprise Labour Flexibility and Security Survey (TLFS). This survey was conducted in 2001-02, and covered a completed sample of 392 enterprises in all sectors of the economy.
  12. The Ukraine Enterprise Labour Flexibility and Security Survey (ULFS). This survey was launched first in 1993 and has continued annually into 2003. The data to be reported relate to the national survey carried out in 2002, covering nearly 2000 enterprises from across the country.

As can be gleaned from this brief description, the ELFS have varied in size and national coverage, and therefore cross-country comparisons at this stage must be treated with caution. Nevertheless, the size and scope of the ELFS mean that there is scope for considerable inter-sectoral and intra-national analysis of the main issues associated with worker security and “decent work”.

In total, there were over 9,000 firms for which there were data on all aspects of decent work practices that the following analysis will consider.<sup>63</sup>

## 5. Skill formation: The “Human Resource Development” Enterprise

A Decent Work Enterprise should provide opportunities for skill acquisition. Ideally, it should promote a *voluntary learning environment*. While there is much talk about making firms centres of learning, this is surely an exaggeration, since the commercial interests of firms are likely to shape the extent, type and distribution of “training”. One must also be careful about idealising training. The notion of *lifelong learning*, or continuous learning, is not unambiguously good, especially if it entails *job* insecurity. The thought of having to learn new competences every few months could be unsettling and a source of discordant performance, deterring workers from trying to become excellent in a particular skills.

Nevertheless, provision of training by firms is normally preferable to its absence. And surely emphasis should be on *opportunities* for learning, coupled with reasonable prospects of a personal “reward” from investment in training. And there must be a *voluntary* culture of learning, in that those opting not to train or acquire new skills will not be penalized in any punitive fashion.

In relation to skill formation, the GRI has proposed as its relevant core indicator “average hours of training per year per employee by category of employee” and as “additional indicators” a ‘description of programmes to support the continued employability of employees and to manage career endings’ and “specific policies and programmes for skills management or for lifelong learning”.<sup>64</sup> These are attractive reporting principles. But one cannot realistically expect such detailed information from

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<sup>63</sup> The actual number with complete data is 550 + 249 + 299 + 904 + 1915 + 251 + 497 + 1208 + 524 + 325 + 392 + 1892 = 9,006 establishments or firms.

<sup>64</sup> GRI, 2002, op.cit., p.53.

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many small and medium-sized firms; indeed, the GRI proposals may even be more appropriate as indicators of accounting practices rather than for labour practices.

For the current purpose, it is proposed that in assessing firms in terms of decent work practices, the basic indicators of an orientation to skill formation are the three layers of training, namely:

- (i) entry-level training for newly recruited workers,
- (ii) retraining to improve job performance or to transfer workers to other jobs with similar skills, and
- (iii) retraining for upgrading workers or promotion.<sup>65</sup>

In addition, account must be taken of the type of training provided. For example, if a firm only gave informal, on-the-job training, then that would deserve less weight than if it involved “class room” and structured training, including apprenticeship. Accordingly, for each of the three levels of training, a distinction is made between “informal” and “formal” training, with the latter being presumed to have greater value, which is usually if not always the case. Given the economic and institutional realities in enterprises, the difference between formal and informal may be exaggerated. However, concentrated training that involves a quantifiable cost should be preferable to “on-the-job-pick-it-up-as-you-go” training.

Finally, to construct the first index, DWE1, an indicator is included to measure whether or not the establishment pays for training directly, either by funding a training institute or by paying the training fees to an institute to where it sends workers for training or by giving stipends to workers who go on training courses.

Thus, the first index is constructed by a simple addition of the indicators as follows:

$$\mathbf{DWE1 = (TR + TRF) + (RETR + RETRF) + (UPTR + UPTRF) + TR.INST}$$

where the components are defined as follows:

TR = 1 if training was usually provided to newly recruited workers, 0 otherwise;

TRF = 1 if TR was apprenticeship or off-the-job training in classroom or institute,  
0 otherwise;

RETR = 1 if there was training provided for established workers to improve job  
performance or transfer between jobs of similar skill, 0 otherwise;

RETRF = 1 if that retraining was formal, in class or institute, 0 otherwise;

UPTR = 1 if training was provided to upgrade workers, 0 otherwise;

UPTRF = 1 if that retraining for upgrading was in class or institute, 0 otherwise;

TR.INST = 1 if the firm paid for trainees at institutes, directly or indirectly, 0  
otherwise.

So, before normalization, the basic DWE1 index has a value between 0 and 7, with a zero value meaning that the firm gave no training of any sort. What the index implies is

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<sup>65</sup> Possibly, the second and third forms of training deserve greater weight than the first. Yet perversely in most labour market analyses only the first that is considered.

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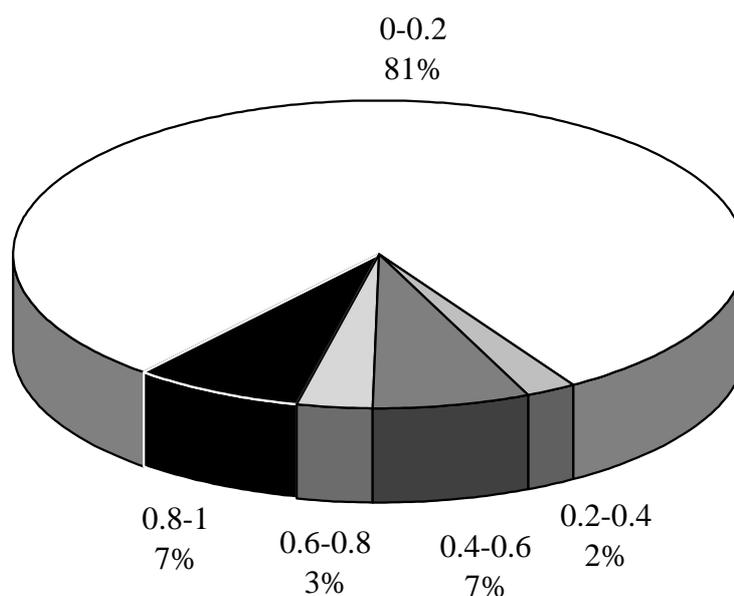
that we give each level of training an equal importance, and give formal training twice as much weight as informal training.

The current paper is intended to illustrate the results from various countries, and in that regard it should be recognized that for several of the component indexes, the indicators incorporated do not correspond to the basic model due to national differences or lack of appropriate data in certain countries. In the case of DWE1, Russia, Ukraine and Moldova had data that allowed estimation of the basic index as specified above. In Brazil, Chile and China, the TR.INST variable was omitted, so there were only values of 0 to 6 before normalization.

Figure 1 presents results for the Indonesian ELFS for DWE1, showing that in this developing country, only 7 per cent of firms had a normalized value of 0.8 or more, while over 80 per cent were very poor performers in this respect. Figure 2 shows the corresponding distribution for Chile, Figure 3 for The Philippines, and Figure 4 for South Africa, *suggesting* that in all three countries firms were more inclined to train workers than their counterparts in Indonesia.<sup>66</sup>

The pattern for Tanzania is what one would expect for a low-income African country, with the vast majority of firms having low scores (Figure 5). And the pattern for Pakistan shows a bleak picture there (Figure 6).

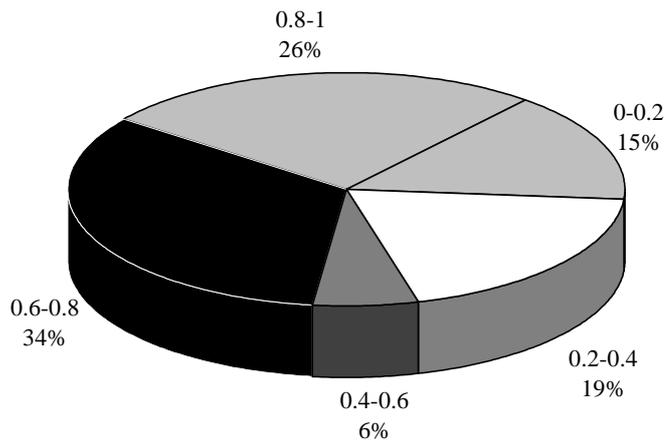
Figure 1: Indonesia: Distribution of DWE1, 2000, All Regions



Source: IndLFS1, n = 1915

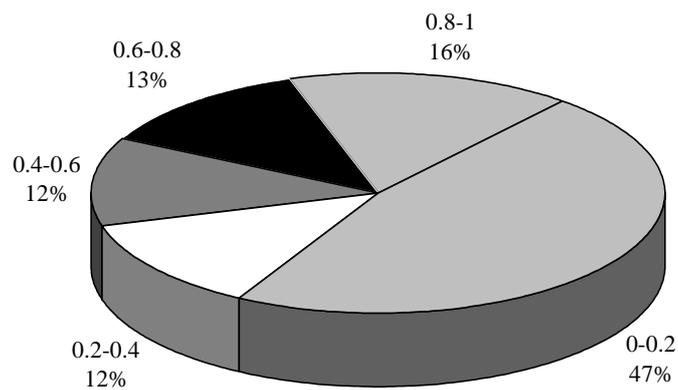
<sup>66</sup> At this stage, comparisons are cited merely for possible interest. More considered judgments would require multivariate analysis and due account for differences in sample and survey design.

Figure 2: Chile: Distribution of DWE1, 2000



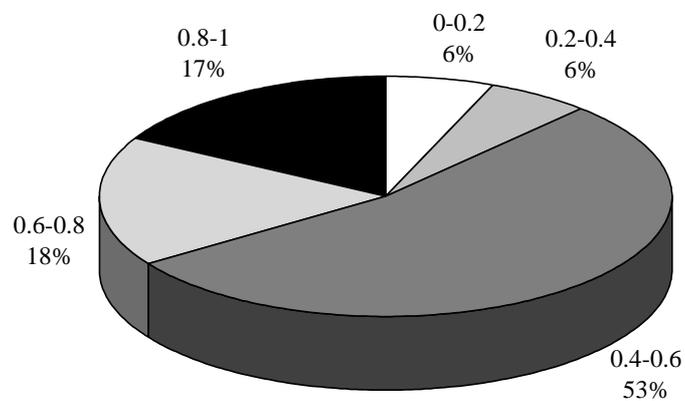
Source: ChLFS1, n = 299

Figure 3: The Philippines: Distribution of DWE1, 2000, All Regions



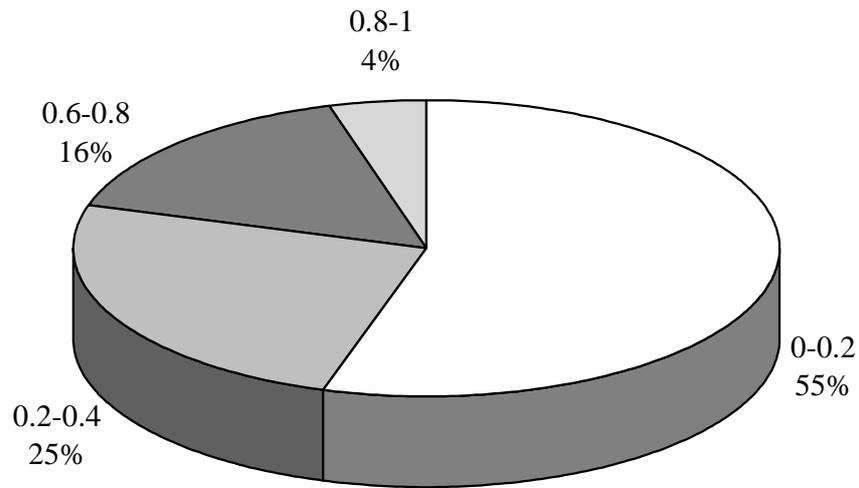
Source: PLFS2, n = 1208

Figure 4: South Africa: Distribution of DWE1, 1996



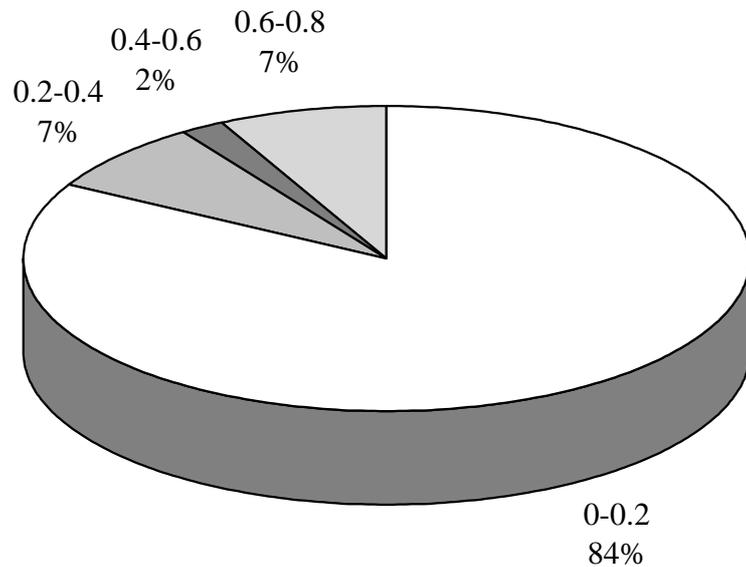
Source: SALFS2, n = 325

Figure 5: Tanzania: Distribution of DWE1, 2001, All Regions



Source: TLFS1, n = 392

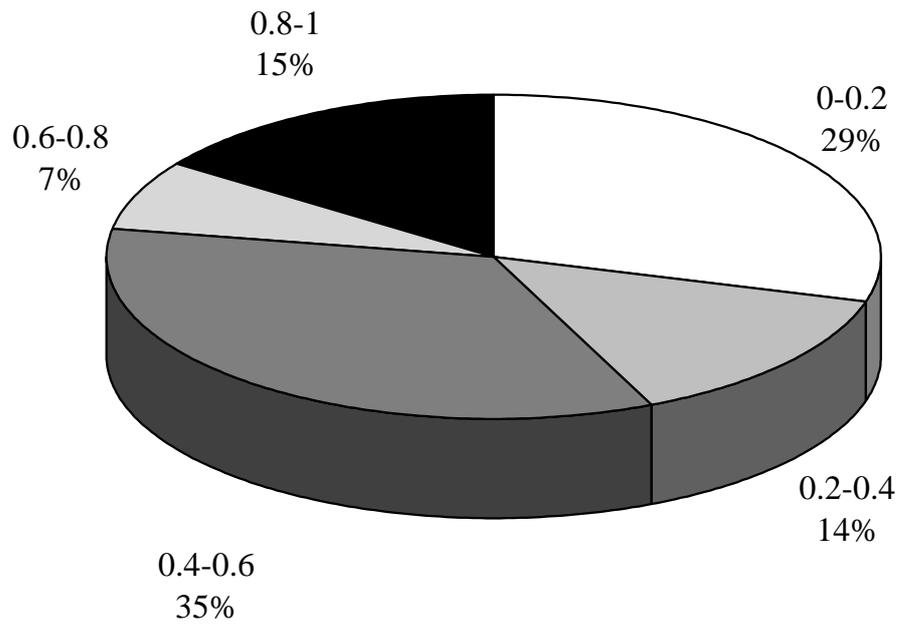
Figure 6: Pakistan: Distribution of DWE1, 2001



Source: PLFS1, n = 497

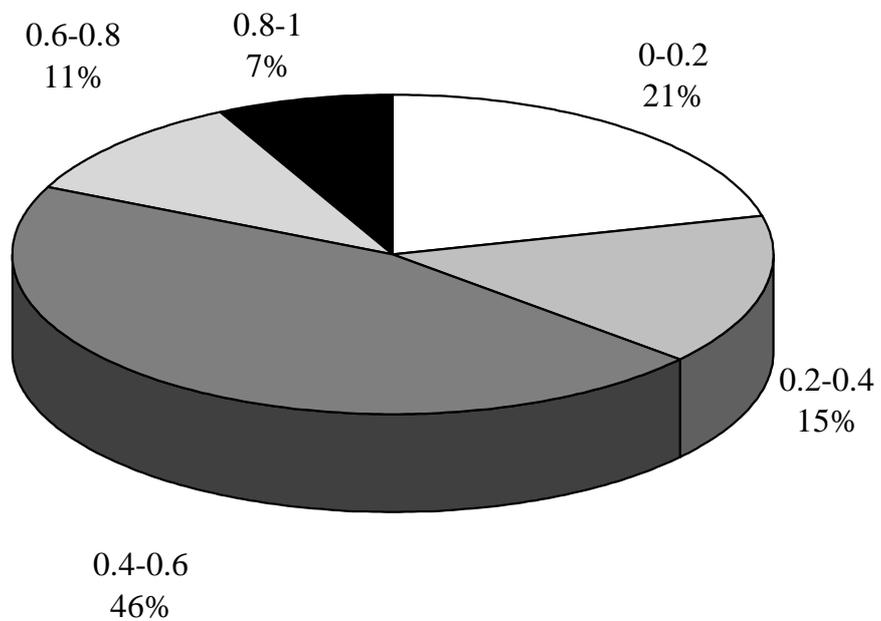
In Eastern Europe, the results for Moldova, Russia and Ukraine (Figures 7-9) indicate that in terms of formal training, firms still score reasonably well. The distribution for China (Figure 10) suggests that there the pattern is distinctively bimodal, with a large proportion scoring very low, and a large proportion very high.

Figure 7: Moldova: Distribution of DWE1, 2000, All Regions



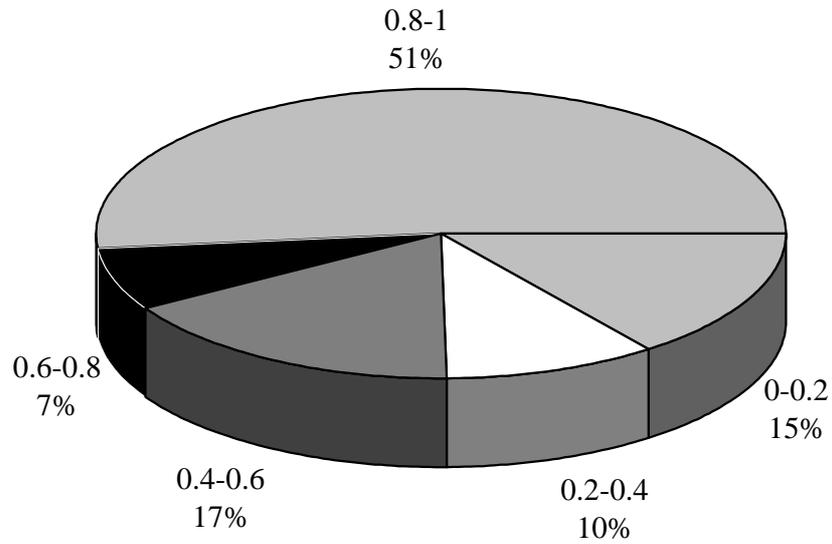
Source: MoLFS1, n = 251

Figure 8: Russia: Distribution of DWE1, 2001, All Regions



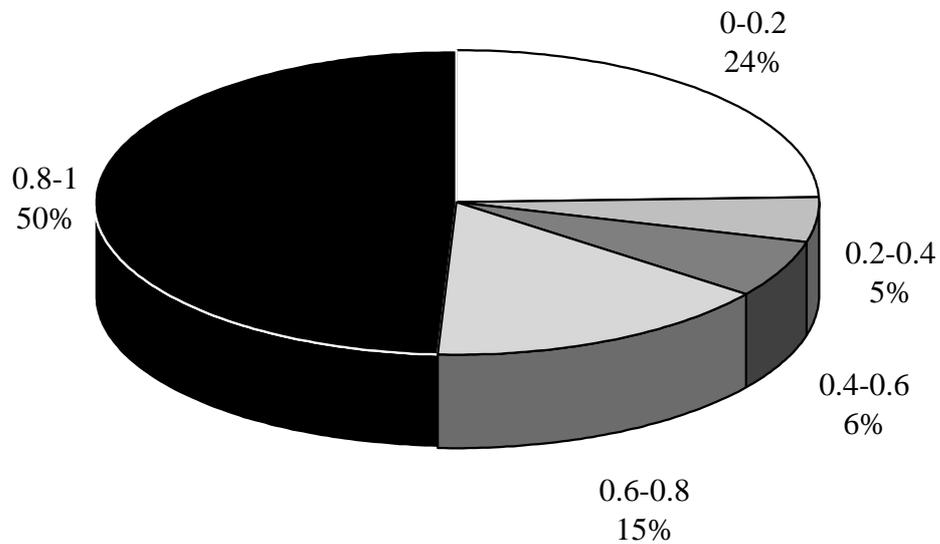
Source: RLFS11, n = 524

Figure 9: Ukraine: Distribution of DWE1, 2002, All Regions



Source: ULFS9, n = 1892

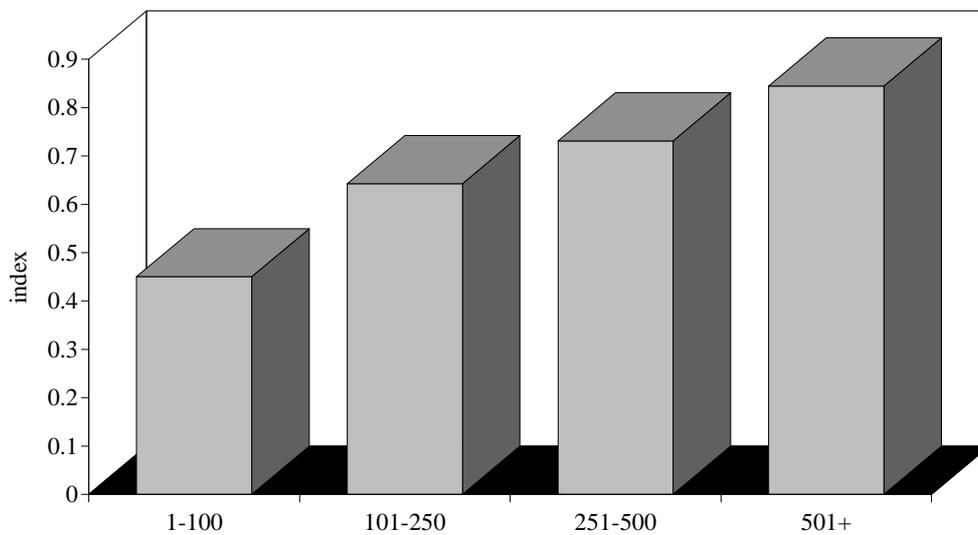
Figure 10: China: Distribution of DWE1, 2001, Three Regions



Source: CLFS1, n = 904

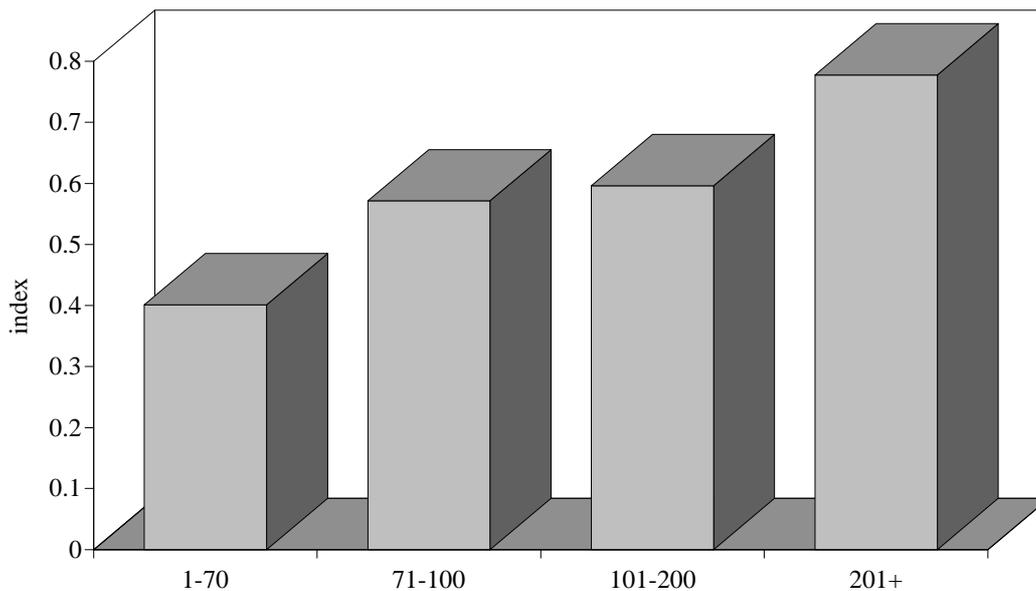
For illustrative purposes, Figures 11 and 12 show that in Ukraine and Brazil the larger the firm, the more likely it is to score high in terms of skill formation. This pattern exists in all countries for which we have data. But in developing countries the difference between small and large firms is on average much greater than in Eastern Europe.

Figure 11: Ukraine: DWE1 by Employment Size of Establishment, 2002



Source: ULFS9, n = 1892

Figure 12: Brazil: DWE1 by Employment Size of Establishment, 2000



Source: BLFS1, n = 249

## 6. The Socially Equitable Enterprise

Skill development is only the first stage in envisaging a decent work enterprise. A firm must also act towards its workers in a *socially equitable* way, most notably by providing *work security*, reasonable *employment security* and *equitable treatment* of all groups of workers, particularly women.

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## 6.1 Work security

By work security, we mean the pursuit of what is often called occupational safety and health. Decent Work is scarcely possible with poor working conditions. Although identifying good working conditions with a few proxies is not easy, there are possible *input* mechanisms and reasonable *outcome* variables that can be used.<sup>67</sup>

In all the countries covered by the survey, there are data on firms' mechanisms and outcomes on work security. There have been some differences in the degree of detail covered, and account has been taken of national institutional differences. Mainly, in terms of the input indicators, the objective is to determine whether a firm has a special department dealing with safety and health issues and/or an ongoing committee of managerial representatives and worker representatives dealing with occupational health and safety issues.

In South Africa, data were reasonably easy to obtain because there is a national scheme for encouraging and rewarding good occupational safety practices, known as the NOSA star system. In the South African survey, a work security index (WS) is defined as follows:

$$WS = SC + ACC + ILL$$

where

SC = 1 if the firm has a department or formal worker-employer committee responsible for safety and health at work, 0 otherwise (*input/process indicator*);

ACC = 1 if the number of accidents in the workplace in the past year, expressed as a ratio to total employment, was less than 50 per cent of the sectoral mean, 0 otherwise (*outcome indicator*);

ILL = 1 if the number of work days lost through illness or injury in the past year was less than 50 per cent of the sector's mean average, 0 otherwise (*outcome indicator*).

One could quibble with these, but they are reasonable proxies for good performance, and this is what we need to establish at the outset. However, in the SALFS it was not possible to estimate ILL, since data on that were not collected. Data on accidents and on the existence or otherwise of mechanisms dealing with safety issues were collected, and thus a basic WS index was estimated.

For Russia, Azerbaijan, Moldova and Ukraine, the *input* mechanism is whether or not there was a safety committee or department in the factory. In most Russian enterprises one or both have existed, although the several rounds of the surveys have indicated that there has been some abandonment. The *outcome* variables consist of, first, the number of working accidents requiring at least one day off work expressed as a percentage of the size of the workforce, and second, the number of working days lost from sickness and accidents

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<sup>67</sup> The GRI has suggested that both occupational accidents and diseases and equal opportunity policies should be reported by firms. GRI, 2002, op.cit., p.53. On the former, it suggests among "additional indicators" (beyond the core indicators) that company reports should include '*evidence of substantial compliance with the ILO Guidelines for Occupational Health Management Systems.*'

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at work. Although these are not perfect proxies, since the sickness rate may not reflect work-related factors while the work accidents may or may not be the responsibility of the enterprise, the variables should capture inter-firm differences, since external factors may be regarded as random. In effect, the indicators are easily understood and are reasonable proxies for health and safety outcomes.

Thus, the index of work security used in all the east European surveys is as follows:

$$\mathbf{WS = SAFETY + ACCID}$$

where

SAFETY = 2 if there was a safety committee and/or department,  
1 if there was an engineer or specialist dealing with safety,  
0 otherwise;

ACCID = 1 if the number of work accidents as a proportion of the workforce was less than the sector's mean average, 0 otherwise.

For China, there was a more detailed set of questions on occupational safety and health than in other countries in the ELFS, so accordingly the Work Security Index was defined as follows:

$$\mathbf{WS = SAFETY + ACCID + ACC.CL + ACC.D}$$

where

SAFETY= 2 if there was a safety committee and safety department,  
1 if there was a safety committee or department, but not both,  
0 otherwise;

ACCID = 1 if the number of work accidents as a proportion of the workforce was less than the mean average, 0 otherwise.

ACC.CL = 1 if there was any accident in the past year that resulted in the closure of the establishment for one day or more, 0 otherwise.

ACC.D = 1 if there were any accidents at work that resulted in one or more deaths, 0 otherwise.

For Brazil and Chile, and for Indonesia, Pakistan and the Philippines, a simple work security index was made necessary by the limited questionnaire used for those two surveys. It merely gave a value of 1 for firms that had a below-average number of work-related accidents in the past year expressed as a percentage of total employment, 0 otherwise.

For Tanzania, we used an approach that is designed to take account of the more “informal” nature of many establishments. For example, the most basic sign of concern for safety and health is the presence of a toilet on the premises. The definition of work security used is as follows:

$$\mathbf{WS = ACCID + T + CC + CL}$$

where

ACCID = 1 if the number of work accidents as a proportion of the workforce was less than the mean average, 0 otherwise.

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T = 1 if there are separate toilets for men and women, 0 otherwise.

CC = 1 if there are childcare facilities on the premises, 0 otherwise.

CL = 1 if there is a health clinic in the establishment, 0 otherwise.

These national differences reflect in part national perceptions of what is feasible and most urgently required in the context of the country's level of economic development.

## 6.2 Employment security

It is taken as acceptable that reasonable employment security is a characteristic of a good firm, although there has been extensive controversy about the desirability of strong employment protection.<sup>68</sup> Without going into that here, several methods for measuring an Employment Security Index are available in the ELFS.

In Azerbaijan, Moldova, Russia and Ukraine and in China the Index is measured as follows:

$$ES = R + N + RB + D + UL$$

where

R = 1 if the percentage share of the workforce without regular employment contracts was less than 10 per cent, 0 otherwise.

N = 1 if the notice period normally given to workers being retrenched was greater than the statutory minimum, 0 otherwise.

RB = 1 if the firm provided workers being retrenched with any benefits other than severance pay, 0 otherwise.

D = 1 if the number of workers retrenched was less than average for all firms in the previous year, 0 otherwise.

UL = 1 if workers were placed on unpaid leave by the enterprise in the three months before the date of enumeration, 0 otherwise.

In Brazil, Chile, Indonesia, Pakistan, the Philippines, South Africa and Tanzania, the Employment Security Index is measured with the following:

$$ES = R + N + RB + D$$

where

R = 1 if the percentage share of the workforce without regular employment contracts was less than 10 per cent, 0 otherwise.

N = 1 if the firm provides workers being retrenched with notice, 0 otherwise.

<sup>68</sup> The evidence and arguments are reviewed elsewhere. Standing, 2002, op.cit., chapter 3. Note that according to some managerial consultancies employment stability is not desirable. Thus, Towers Perrin claimed, "Top companies also plan for and achieve higher turnover rates." Towers Perrin, Perspectives on People: Performance and Rewards (New York, Towers Perrin, January 2000). See <http://www.towers.com>

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RB = 1 if the firm provided workers being retrenched with any benefits other than severance, 0 otherwise.

D = 1 if dismissal procedures are covered in the firm's collective agreement, 0 otherwise.

Again, while individual countries have variations on the measurement of Employment Security, the resultant normalized indexes vary systematically between 0 and 1, and it is felt that all the feasible variants of the Index are reasonable proxies for reasonable employment security.

### 6.3 Non-discrimination

For social equity, non-discriminatory labour practices are essential in identifying a good firm.<sup>69</sup> To be exemplary, an enterprise should act in ways that reduce or avoid labour segregation based on personal characteristics such as race, gender or disabilities. Although measuring labour discrimination and disadvantages is notoriously difficult, at a minimum, both employer *attitudes* (inputs) and *outcomes* should be taken into account. Neither preferences nor outcomes alone would be sufficient. For instance, one might have a "preference" but not put it into effect, or have no preference yet discriminate by hiring on the basis of characteristics that had the (perhaps-inadvertent) effect of excluding certain groups from various jobs.

At this stage in developing the concept, what seems to be needed is a set of easily understood indicators of social equity. For this reason, in the enterprise surveys, attention has been focused on the equitable properties of hiring practices and of training practices. In all the ELFS, the main indicators of non-discrimination are related to *gender*, although this could be adjusted to include other groups, and in the case of South Africa, as will be seen, *race* was also taken into account.<sup>70</sup>

First, in terms of recruitment, if the management reported that there was no preference for either men or women, this was regarded as a positive factor. It is *neutrality* that is regarded as equitable. Just as it would be inequitable to give a positive value if a firm stated that it had a preference for men, it would be inequitable for men if a positive value were given if the management said they preferred to recruit women rather than men, as was the case in some factories. However, we are *primarily* concerned with redressing the typical case of discrimination against women.

A second *input* indicator of non-discrimination is a stated commitment to provide training opportunities equally to men and women. Preferences here are also likely to be

<sup>69</sup> Kofi Annan, in promoting the Global Compact, gave particular attention to the need to make "sure hiring and firing policies did not discriminate on grounds of race, creed, gender or ethnic origins".

<sup>70</sup> The current approach does not deal with an important form of training discrimination, between higher-level and lower-level workers. There is international evidence that there is strong intra-firm discrimination against those with less perceived 'skill'. In an interesting commentary on our work, Stephen Smith suggested, with respect to training in particular, that under the diminishing marginal utility principle, a social welfare function might weight the desirable characteristics for those at the "bottom" of the firm more than for those at the top. S.Smith, "The firm, human development and market failure", paper prepared for an ILO Meeting on Enterprise Restructuring and Labour Markets, Turin, May 31-June 2, 1995, p.10.

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revealed, especially as there is no law against discrimination in such matters. Thus, there was a readiness on the part of managements to admit to a discriminatory preference for men, and in some cases for women.

In this sphere of enterprise policy, stated preferences – or input indicators – are weak proxies, sometimes being rationalizations of what has happened, more often being norm-induced. To ignore preferences altogether would be unjustifiable, yet it is important to complement the preference factor with indicators of actual outcomes.

Accordingly, a first *outcome* indicator of sex discrimination relates to the actual share of employment taken by women. The indicator selected in the RLFS was the percentage of higher-level “employee” jobs taken by women. If that was greater than 40 per cent then the firm was given a positive score in the index. This measure is not ideal, because the outcome could reflect differences in the supply of men and women. However, it does focus on the better type of jobs and identifies relatively good performance in a key area of discrimination.

One could modify the threshold level to be sectorally specific, giving a positive score in the index if a firm had a relatively high percentage of women in training relative to the average for all firms in the sector. This could be justified because the ratios vary considerably by sector. But this is not as easily justifiable as it might appear, since it allows for gender-based industrial segregation of employment.<sup>71</sup> Accordingly, we do not take that route.

Besides the gender variables for employment equity, another indicator of discrimination is whether or not the firm was employing *workers with registered disabilities*. So, it is appropriate to use an indicator of whether or not the firm was employing any workers with disabilities. Coupled with the gender variables, this results in an index of non-discrimination suitable for all east European industrial enterprises, as follows:

$$\mathbf{ND} = \mathbf{R}_s + \mathbf{T}_s + \mathbf{TFem} + \mathbf{FWC} + \mathbf{D}.$$

where ND is the index of non-discrimination, and

$R_s = 1$  if the management has no preference for either men or women in recruiting production workers, 0 otherwise;

$T_s = 1$  if management stated that they had no preference for either men or women in providing training for production workers;

$TFem = 1$  if women’s share of workers trained is equal to or greater than their share of total employment, 0 otherwise;

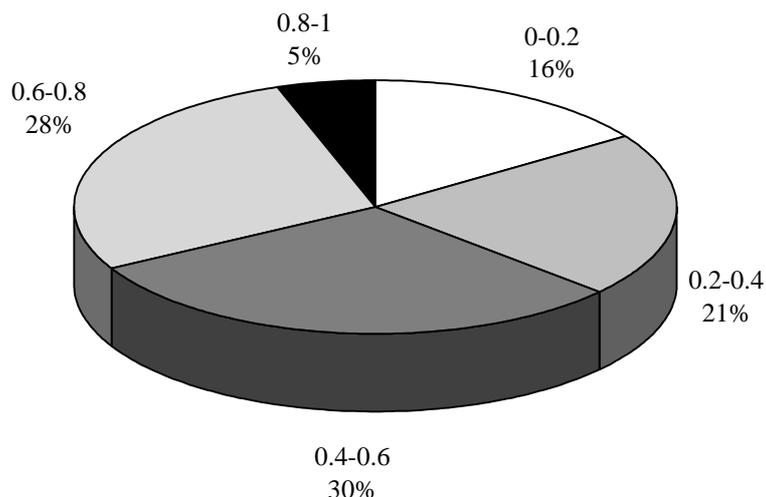
$FWC = 1$  if the female share of employees (managerial, specialist or general service workers) was greater than 40 per cent, 0 otherwise;

$D = 1$  if the firm employed workers with disabilities, 0 otherwise.

For illustration, Figure 13 shows that firms in Russian industry had a wide variety of practices and outcomes, epitomising the fragmented and unregulated nature of Russian enterprises in the past decade. What should be of evident concern is that only 5 per cent of all firms had a value of non-discrimination of 0.8 or more.

<sup>71</sup> For instance, it would be inappropriate to give a positive score to a firm in the energy sector in which merely 12 per cent of its higher-level “employees” were women just because the industry’s average was 10 per cent.

Figure 13: Russia: Distribution of Non-Discrimination Index, 2001



Source: RLFS11, n = 524

The approach to measuring non-discrimination in most other countries would be inadequate in the South African context. For there, we defined non-discrimination to give a primary focus to racial with the following proxy variables:

$$ND = R_r + R_s + T_{p_r} + T_g + TF + RWC + FWC + D$$

where

$R_r$  = 1 if the firm is operating an “affirmative action” recruitment programme in favour of non-white workers, 0 otherwise;

$R_s$  = 1 if the firm has no preference for men or for women in recruiting workers, 0 otherwise;

$T_{p_r}$  = 1 if the firm has a training programme and has provided production workers with more than 10 per cent of all training course places, 0 otherwise;

$T_g$  = 1 if firm has no preference for men in providing training, 0 otherwise;

$TF$  = 1 if women’s share of those receiving training within the firm was greater than women’s share of total employment in the firm, 0 otherwise;

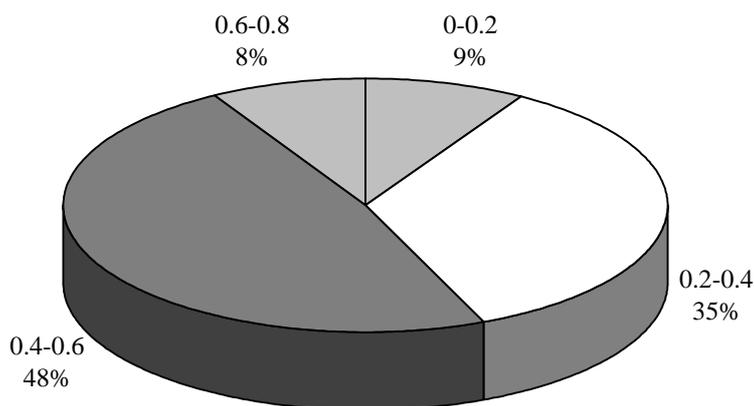
$RWC$  = 1 if over 50 per cent of employees (“white collar”) consist of non-whites, 0 otherwise;

$FWC$  = 1 if over 50 per cent of employees consist of women, 0 otherwise;

$D$  = 1 if over 1 per cent of the firm’s employees are workers with disabilities.

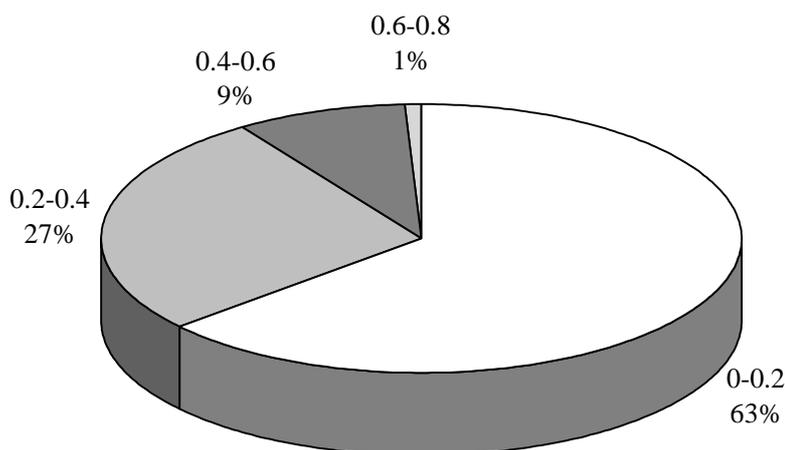
Normalising the value of ND, and adding it to the value of the Work Security Index, and then adding this to DWE1 gives the value of the Socially Equitable Enterprise. Again, simply for illustrative purposes, Figure 14 shows the distribution of the values of DWE2 achieved by Russian enterprises in 2001.

Figure 14: The Russian Federation: Distribution of DWE2, 2001



Source: RLFS11, n = 524

Figure 15: Indonesia: Distribution of Non-Discrimination Index, 2000



Source: IndLFS1, n = 1915

We now turn to the complex and more contentious issue of economic equity.

## 7. The Economically Equitable Enterprise

The literature on the notion of economic equity is vast, yet there is little on the issue of economic equity in terms of the micro-economics of the firm. What is an economically equitable firm? It is surely one in which the differences in earnings and benefits between members of it are minimized to the point where economic efficiency is not jeopardized. This might be called the *Principle of Fair Inequality* or *Efficient Inequality*. As it is rather utilitarian, one should add a Rawlsian caveat -- with priority given to improvement of the “worst off” workers in the firm.

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Economic equity is an awkward issue. But what is extraordinary is that seemingly socially acceptable wage differentials have widened dramatically in recent decades.<sup>72</sup> Plato would be disappointed by the modern world. His view was that, in the interest of fairness, the highest paid should never receive more than five times the lowest paid in society. In the USA, recent estimates have suggested that chief executives receive on average something like 600 times as much as the average worker in American firms. Surely this is scarcely compatible with a Decent Work Enterprise.

Besides reasons of fairness, there are also dynamic efficiency reasons to favour economic equity, whatever the bargaining position of various groups in an enterprise. Labour productivity depends in part on cooperation as well as on individual effort and performance. If there were wide differences between groups in the enterprise, the more disadvantaged -- or those who feel inequitably treated -- would tend to withhold "tacit knowledge" and not commit themselves to the voluntary exchange of knowledge that contributes to dynamic efficiency.<sup>73</sup> There would also be a tendency towards implicit or explicit *sabotage*. Equity induces loyalty, which induces productivity improvement. Narrow pay differentials within firms are associated with group cohesion and trust of management, as well as with productivity gains.<sup>74</sup> It has also been argued that narrow pay differentials induce worker commitment to management goals.<sup>75</sup>

This is a set of issues on which mainstream reporting systems have had some conceptual difficulty. For example, the GRI admits that "employee remuneration" is an area "that will require further attention".<sup>76</sup> It is interesting that recently the IFC as part of its Corporate Citizenship facility has urged firms to pay "*somewhat higher wages than average*".<sup>77</sup> But this is more vague than it sounds.

To create a proxy Economic Equity Index, we took slightly different approaches in the country surveys. In Azerbaijan, Moldova, Russia and Ukraine, three indicators were selected, giving greatest weight to the first, since this relates to treatment of the "worst off" in the firm.

The first indicator is very important in those countries. One awful phenomenon to emerge in Russian and other east European industrial enterprises in the 1990s was the growth of groups of workers in firms paid much lower wages than anybody else, and typically some received very low wages indeed.<sup>78</sup> An economically equitable firm should have few if any workers paid a small fraction of the average in the firm. So, the minimum wage received by the lowest paid full-time workers as the initial yardstick. If more than 5

<sup>72</sup> Evidence on this is summarised in Standing, 2002, op.cit.

<sup>73</sup> For related points, see Geoffrey Hodgson, Economics and Institutions: A Manifesto for a Modern Institutional Economics (Oxford, Polity Press, 1988), p.259.

<sup>74</sup> D.Levine, "Public policy implications of worker participation", *Economic and Industrial Democracy*, Vol.13, 1992, pp.183-206.

<sup>75</sup> D.M.Cowherd and D.Levine, "Product quality and pay equity between lower-level employees and top management: An investigation of distributive justice theory", *Administrative Science Quarterly*, Vol.37, No.2, 1992, pp.302-20.

<sup>76</sup> See, for instance, GRI, 2002, op.cit., p.52.

<sup>77</sup> A later version of this paper will follow up on the IFC's actions in this regard.

<sup>78</sup> For analysis of this phenomenon, see L.Zsoldos and G.Standing, "*Worker insecurities in Ukrainian Industry*" (Geneva, ILO Socio-Economic Security Programme, 2002).

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per cent of the workers received this wage then the firm was given a low score on economic equity. But as that does not capture any distributional factor, a positive score is also given to any firm in which the minimum payment was equal to or greater than 50 per cent of the average wage. These two indicators are only proxies for what is desired, yet with the type of data one can collect in large-scale establishment surveys they are reasonable proxies.

A second indicator is whether or not the average wage itself is equitable relative to that paid in other firms. Here, a sectorally relative measure is taken, to reflect technological and market factors. The proxy used is whether the average wage in the firm is greater than the industry's average. If it was greater, then a positive score was provided.

A third indicator relates to non-wage benefits. Economic equity is regarded as better if the enterprise provides benefits and entitlements that represent security against various personal contingencies and that improve the workers' standard of living. Since wages and incomes are only part of the remuneration system, the indicator is whether or not the firm provided ordinary workers with more than eight types of fringe, or non-wage, benefits.<sup>79</sup> Thus, for most of the countries and all the east European countries, the Economic Equity Index is defined as follows:

$$EE = \text{Min/Emp} + M + AW/AWM + FB$$

where EE is economic equity index, and where

Min./Emp = 1 if the percent of the total workforce of the firm paid the minimum payment is below 5 per cent, 0 otherwise;

M = 1 if the minimum wage paid was greater than 50 per cent of the average paid in the firm, 0 otherwise;

AW/AWM = 1 if the average wage in the establishment was above the average wage for the industrial sector, 0 otherwise;

FB = 1 if the firm paid more than eight types of identified fringe benefits, 0 otherwise.

By adding EE to HDE2 we have what might be called the **Socio-Economically Equitable DWE**.

In the South African case, our measure of economic equity is slightly different. Bearing in mind that South Africa has one of the most unequal income distributions in the world, including large wage and salary differentials, economic equity must be a prominent part of the definition of the exemplary firm. It is proposed that for South Africa the following index captures the crucial dimensions:

$$EE = \text{Min/EMP} + M + AW/W_s + W_{nw}/W + FB$$

where

<sup>79</sup> In another environment this threshold might be lower. Yet in Russia, and in other countries of central and eastern Europe, where in the Soviet era it was the norm to provide an extraordinary array of benefits coupled with a low money wage, the wage measure of income is misleading.

Min/EMP = 1 if less than 5 per cent of the workforce is paid less than half of the average wage in the firm, 0 otherwise;

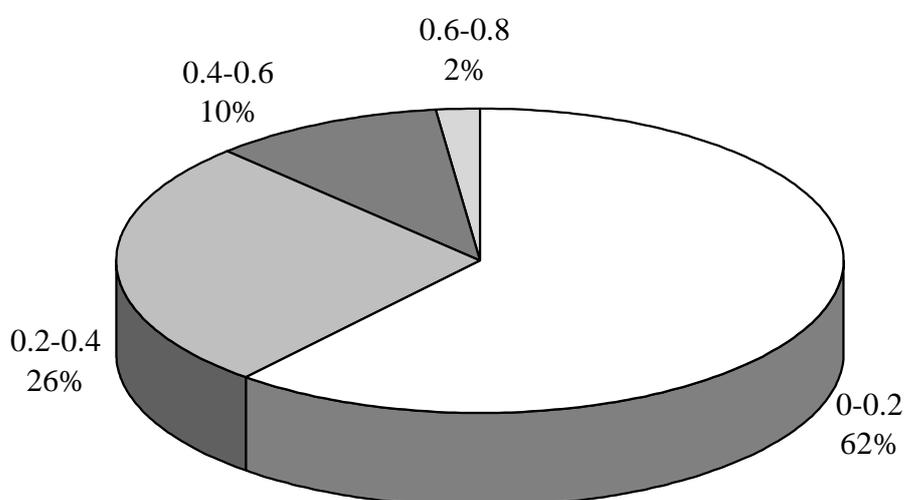
M = 1 the lowest wage in the firm is greater than 50 per cent of the average wage, 0 otherwise;

AW/Ws = 1 if the firm's average wage is above the sector's average wage, 0 otherwise;

Wnw/W = 1 if the average wage of non-whites is more than 80 per cent of the mean average of all workers, 0 otherwise;

FB = 1 if the firm provides workers with more than 8 specified non-wage or "fringe" benefits, 0 otherwise.

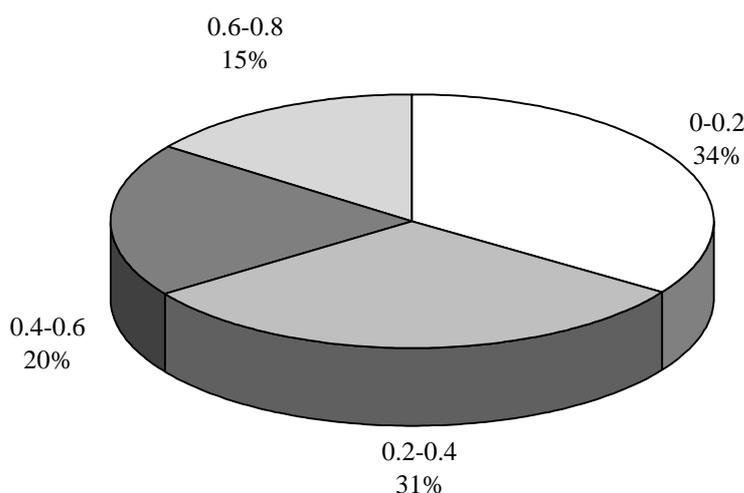
Figure 16: South Africa: Distribution of Economic Equity Index, 1996



Source: SALFS2, n = 325

In Brazil, Chile, China, Indonesia, The Philippines, Pakistan and Tanzania, economic equity was measured slightly differently, in that the racial issue was not included. As can be seen from Figure 17, over two-thirds of Indonesian firms performed rather poorly in terms of economic equity.

Figure 17: Indonesia: Distribution of Economic Equity Index, 2000



Source: IndLFS1, n = 1915

Finally, we move into the politically most sensitive sphere of corporate governance. Before doing so, recall that what is being considered and advocated is an approach dependent on negotiations between workers' organizations and employer organizations, or surrogates working on their behalf. In other words, the specific indicators could be modified to suit national values and structures.

## 8. The Decent Work Enterprise: Incorporating Economic Democracy

*“To be governed by appetite alone is slavery, while obedience to a law one prescribes to oneself is freedom.”<sup>80</sup>*

There is something missing in Rousseau's famous aphorism. To be ruled by laws and regulations alone is not freedom either. What is crucial is that there should be Voice regulation. In the workplace, the direct “stakeholders” who bear the greatest risk and uncertainty should be able to regulate decisions affecting labour and employment practices. Put differently, what is decent work without voice?

This is perhaps the greatest quandary of corporate governance for the 21st century. Can the functions of management and productive decision-making be made more democratic and accountable while promoting dynamic efficiency for the benefit of all stakeholders, which may include shareholders not working for the enterprise?<sup>81</sup> This is about what is usually called economic democracy. In that context, some observers have argued that the current focus of the CSR movement, on voluntary initiatives, unmonitored codes and expressions of good intentions, should be replaced by a campaign for economic

<sup>80</sup> Jean-Jacques Rousseau, The Social Contract, book 1, ch.viii.

<sup>81</sup> The aphorism that we have reached “the end of history” is silly. The challenge is to consider how to reverse atavistic thinking. Instead of the nationalization of property and private management, is there an acceptable sphere in which one could envisage the privatization of ownership, through democratic, widespread and accountable share ownership, coupled with socially accountable management?

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democracy.<sup>82</sup> But many observers are sceptical about the intentions of employers and managers in this regard. Thus, George Monbiot, a campaigning journalist, has claimed,

*“Because corporations have invested too heavily in avoiding democracy, CSR has become big business for greens.”*<sup>83</sup>

If the premise is broadly correct, is there any reason for this to continue to be the case? Democracy must be more than casting a vote every few years. Democracy is also about institutional safeguards, and the most effective of those is the capacity of the vulnerable to exercise restraint and direction on those in decision-making positions, giving substance to the Rawlsian principle mentioned earlier. Democracy is also about attempts to ensure co-operation in the interest of all representative groups. Successful co-operation requires “the shadow of the future”, that is, mechanisms to ensure that competitive interest groups will know that they will have to deal with each other and cooperate with each other in the future. Taking excessive advantage of a situation today may result in less cooperation tomorrow and retaliatory bargaining or even sabotage the morrow after that.

In an industrial enterprise, one side (management) has the scope for various forms of opportunism through control of information, a limited circle of people and a capacity to take unilateral decisions (by fiat).<sup>84</sup> To limit opportunism by authorities, there must be a process of reciprocal monitoring and a capacity to impose sanctions when abuses are detected.<sup>85</sup> For example, unilateral control by management may distort the choice of production technique away from the provision of firm-specific training.<sup>86</sup>

This is important in the area of enterprise restructuring, for unless there are mechanisms for Voice regulation of the restructuring, the capacity of the vulnerable to influence the outcomes will be minimal. It is also unlikely that the process would succeed in achieving an atmosphere of dynamic efficiency if the workers are sullen and become “excluded insiders” in factories.<sup>87</sup>

So, to complete the concept of a Decent Work Enterprise we need to construct an Economic Democracy Index. Once again, there are differences in what we wish to measure in the contexts chosen to illustrate the approach, although the principles are the same. Starting with the Russian case, with its historically specific transformation process, we can define fledgling economic democracy in terms of five indicators:

<sup>82</sup> For example, this view has been expressed by the US magazine Business Ethics.

<sup>83</sup> Quoted in CSR Supplement, *The Observer*, 2 February, 2003.

<sup>84</sup> There are five types of managerial opportunism, all of which could be moderated if workers had a monitoring role inside the enterprise. S.Smith, “On the economic rationale for co-determination law”, *Journal of Economic Behaviour and Organization*, Vol.16, 1991, pp.261-81.

<sup>85</sup> G.Dow, “The function of authority in transaction cost economics”, *Journal of Economic Behaviour and Organization*, 1987, p.22.

<sup>86</sup> G.Dow, “Why capital hires labour: A bargaining perspective”, *American Economic Review*, Vol.83, No.1, pp.118-34.

<sup>87</sup> One reason for wanting effective Voice mechanisms in enterprises is to limit the growth of a “survivor syndrome”. International evidence suggests that in factories subject to employment cuts, the remaining workers suffer from a sense of anger and insecurity that leads to lower labour productivity. If workers are involved in bargaining, this adverse “shadow of the past” effect can be moderated.

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First, it is taken as axiomatic that, potentially at least, workers' Voice is strengthened by a high degree of unionization of the workforce. Quite simply, having a mechanism to represent workers and employees creates the basis for both dynamic efficiency and the proverbial "sword of justice" (greater fairness for all or most groups). Without a trade union, there could not be the shadow of the future to concentrate the minds of managers and workers on developing and maintaining decent, viable and efficient employment and labour practices. This does not mean that we presume that unions will always behave appropriately. However, a strong representative mechanism is a necessary condition for Voice regulation.

In the east European cases, strong representation security is defined pragmatically as being the case if more than 50 per cent of the workers in a firm belonged to a trade union, because of the traditionally very high (artificially) average level of unionization. Ideally, it would be appropriate to identify the breadth of the union, since an industrial union should be representative of a broader group of workers than a craft union, and a union that had members who were potential workers as well as those actually in employment would be more likely to ensure that the concerns of those outside the firm in the labour market were also taken into account. But the character of trade unions would have to change before such refinements would make much sense in the Russian and other eastern European labour markets. Elsewhere an alternative indicator would be needed.

Second, the democratic potential is taken to be greater if the main union in the firm is an independent one, which in the east European context means, above all, that the administration or management should not be members of it. Traditionally, in "Soviet" enterprises management belonged to the union, and both managers and trade union representatives were subject to the bureaucratic commands of the Communist Party. Thus, symbolically and as an indicator of growing independence in bargaining, non-membership by management may be regarded as an important indicator of independent Voice. Elsewhere, an alternative indicator of union independence would be more appropriate.<sup>88</sup>

Third, as a process indicator, there should be an operational mechanism for collective bargaining. For this, the existence of a collective agreement between the union and the employer is taken as a positive sign, even though it is recognized that in recent years in the region, a collective agreement in most cases would have been more formal than substantive.

Fourth, there is deemed to be a greater degree of democracy if workers own a large percentage of the shares of the company, which has been a feature of property form restructuring of east European industry. The critical level for a positive value is taken to be 30 per cent. Although this aspect of enterprise democracy has long been controversial, many empirical studies have found that some (minority) employee ownership is conducive to efficiency, more effective economic restructuring and greater intra-firm equity.<sup>89</sup>

<sup>88</sup> In south-east Asia, the key difference is whether the union is an industrial union or a company union. This makes a substantial difference to wage levels, wage differentials and training. G. Standing, "Do unions impede or accelerate structural adjustment? Industrial versus company unions in an industrialising labour market", *Cambridge Journal of Economics*, Vol.16, 1992, pp.327-54.

<sup>89</sup> See, *inter alia*, H.A.Henzler, "The new era of Eurocapitalism", *Harvard Business Review*, July-Aug., 1992, pp.57-63; D.I.Levine and L.D'Andrea Tyson, "*Participation, productivity and the firm's environment*", in A.Blinder (ed.), *Paying for Productivity* (Washington, DC, Brookings Institution, 1990); Z.Acs and F.FitzRoy, "A constitution for privatising large Eastern enterprises", *Economics of Transition*, Vol.2, No.1, 1994, pp.83-94. Worker shareholding is often criticised by trade unionists. One claim is that it would weaken the workers' resolve

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In east European industry, given the lack of imbued work discipline and the legacy of the Soviet era in which workers' effort bargain was low and erratic, and in which monitoring of it was ineffectual, if not distorted, worker ownership and governance should have considerable potential benefits as a best-option means of overcoming the intrinsic incompleteness of labour contracts.<sup>90</sup>

Ownership of a flow of income should be distinguished from ownership of property rights. In terms of corporate governance, minority worker share ownership could be interpreted as turning workers into outsider principals -- monitoring the performance of the agent (manager), and indirectly providing a mechanism for selecting, dismissing and replacing managers. The objection to sole existence of insider principals is that a coalition between managers and workers as insiders could result in short-term concerns predominating over long-term strategy. However, if share ownership is a main mechanism of monitoring, then as minority shareholders workers and managers become outsider agents as well, having a direct interest in the long-term flow of income from their shares as well as their earnings from work.<sup>91</sup>

Fifth, in the Russian and other east European contexts, it is taken as a positive element in enterprise democracy if the top management were elected by the workers, rather than be appointed by a Ministry or by an enterprise board. This may be controversial, although to some extent it is institutionalized in Germany in the system of codetermination. But this is introduced solely for the special circumstances of Russian enterprises in the 1990s, when other appointment mechanisms were more dubious and less accountable.<sup>92</sup> The essence of the pragmatic decision is that it recognizes the positive value of direct accountability to workers in the enterprise, limiting managerial opportunism and thus encouraging behaviour in favour of sustainable long-term profit maximization, dynamic efficiency and human development practices.

to push for improved training. But if workers are among the principals, they can exert pressure on managements to look after their interests, including training.

<sup>90</sup> The theoretical point was brought out in a famous article some years ago. A. Alchian and H. Demetz, "Production, information costs and economic organization", *American Economic Review*, Vol.62, No.5, December 1972, pp.777-95. In the USA, worker ownership is greatest in such 'services' as legal practices, where work monitoring is difficult. It is ironic that in the country often regarded as the bastion of capitalism, US States have *required* all law firms to be *worker owned*. This has not been highlighted by those who regard worker ownership as incompatible with a capitalist economy.

<sup>91</sup> In central and eastern Europe, there have been efforts to promote institutional *blockholders* -- financial intermediaries holding large blocks of shares -- that could control insider managements. See, for instance, E.S.Phelps, R.Frydman, A.Rapazynski and A.Shleifer, Needed mechanisms of corporate governance and finance in eastern Europe (European Bank for Reconstruction and Development, Working Paper No.1, London, March 1993). Whatever the blockholder, it should be *active* in corporate governance, and workers having a block of shares as a group (through the union?) are likely to be active. But workers *per se* should not have substantial control, for then the *management* function would be distorted towards short-termism. It is sometimes claimed that worker share ownership would lead to short-term profit maximization, on the grounds that they would be solely interested in the income flowing to them during their job tenure. But if the workforce possesses shares, younger cohorts of workers would be looking to a long-term future, so the range of time horizons would reflect the age distribution of the workforce. Managements are the more likely to take a short-term perspective, since their tenure is likely to be short and on average they will be closer to retirement age than the average worker. The conventional argument against workers becoming principals and for managers to turn from agents to principals could be reversed. It is more risky, as the Enron and other corporate debacles demonstrated, for executives to turn themselves into the primary principals. That is when asset stripping soon occurs.

<sup>92</sup> More generally, the GRI in discussing what should be indicators of CSR refer to the 'composition of senior management and corporate governance bodies'. GRI, 2002, op.cit., p.53.

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In the 1990s, in east European industry there was a diversification in the means by which managements were appointed and reappointed. Achieving a balance in accountability of managements to workers and to the firm is difficult, since commercial decisions might be jettisoned in favour of decisions that would enjoy the short-term support of the workforce. Appointment by the workers could result in managerial conservatism and a reluctance to restructure. This is an endemic problem in any democracy. Yet in emerging firms in Russia and other countries of the region, workers have become broader stakeholders, making behavioural “short-termism” less likely, although this could be a justification for managerial appointments to be for sufficiently long periods to encourage managers to take decisions that combine concern for today’s workers and for the future of the firm.

Sixth, economic democracy is taken to be greater if there is a profit-sharing pay system in operation, implying a sharing of risks and rewards. This is a sensitive issue, since many trade unionists have been against profit-sharing pay on the grounds that it introduces income insecurity for workers who are not involved in the decision-making and who rely on their wage income to maintain their standard of living. However, if one is giving a positive value to the broadening of democratic decision-making, it is appropriate to balance that by valuing mechanisms that share the risks and potential benefits. Moreover, a firm with a high level of income dispersion that is due to its incentive systems should be regarded differently from one in which high inequality reflected managerial fiat and power.

In sum, taking account of the considerations specific to east European industrial enterprises, an Economic Democracy Index (ED) is defined as follows:

$$\mathbf{ED = TU + IND + COLL + SH + MA + P.}$$

where

TU = 1 if more than 50 per cent of the workforce is unionized, 0 otherwise;

IND = 1 if the management is not in the trade union, 0 otherwise;

COLL = 1 if there is a collective agreement, 0 otherwise;

SH = 1 if more than 30 per cent of the firm’s shares are owned by workers and employees, 0 otherwise;

MA = 1 if the top management is appointed by the workers, 0 otherwise;

P = 1 if there is a profit-sharing element in the wage determination system, 0 otherwise.

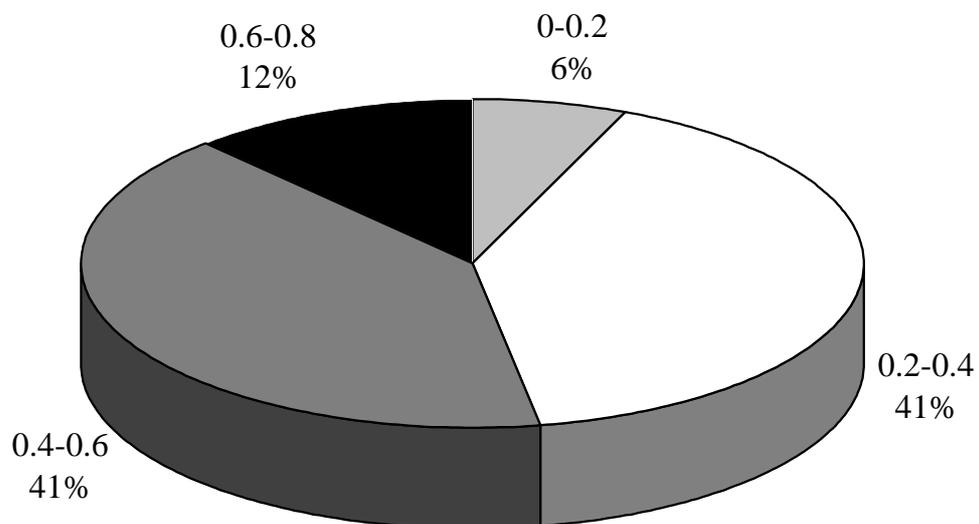
The resultant index is normalized, as before. By adding the ED index to the DWE3, as shown earlier in Diagram 1, we obtain the full **Decent Work Enterprise Index**, DWE4. For Russian enterprises, Figure 18 shows that most firms had fairly low scores, but although none had a higher score, 12 per cent had values of between 0.6 and 0.8. These might be designated the “best” Decent Work Enterprises in the Russian context.

Figure 19 gives another eastern European country, Moldova, showing that there the distribution is slightly more favourable (or less bad). Figure 20 gives the corresponding distribution for Ukraine, showing a situation worse than Moldova but slightly better than Russia. And for Azerbaijan, the distribution shows that while most had very low values, none had high scores. If the DWE index is supposed to identify exemplary standards, there should be a tapering in the distribution of firms at the upper end, with relatively fewer

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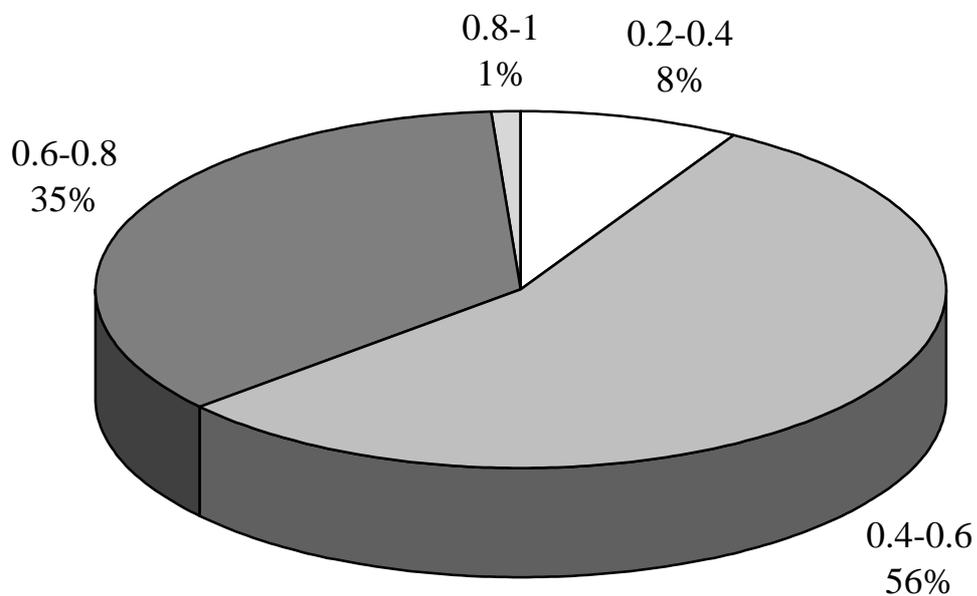
firms scoring above the median value, and no excessive bunching of values. This is shown very clearly in the Russian, Moldovan, Ukrainian and Azerbaijan examples.

Figure 18: Russian Federation: Distribution of DWE4, 2001



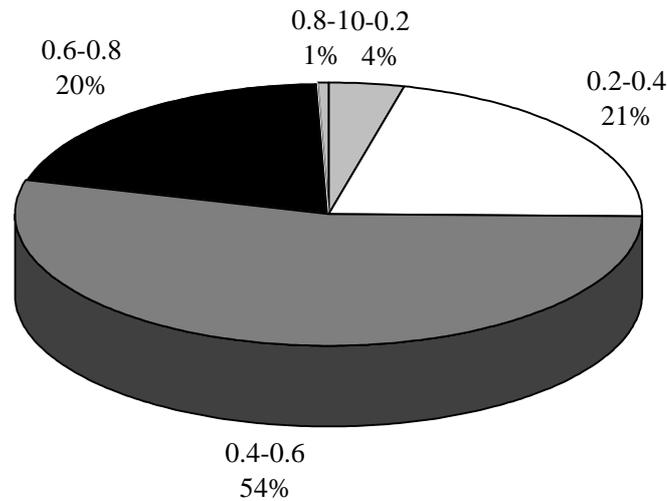
Source: RLFS11, n = 524

Figure 19: Moldova: Distribution of DWE4, 2000, All Regions



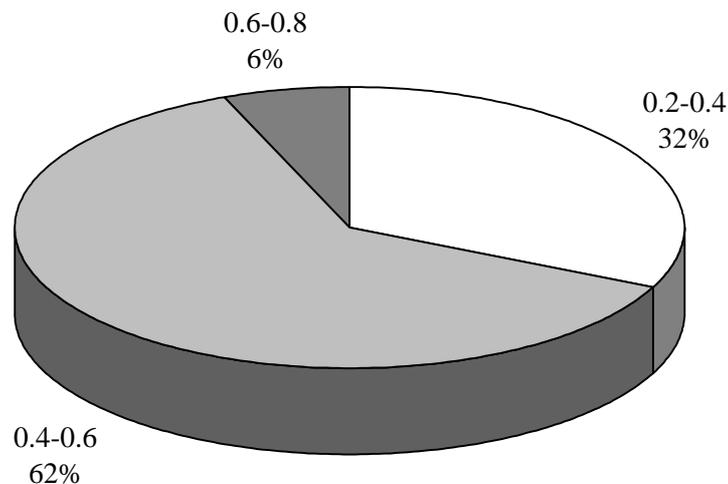
Source: MoLFS1, n = 250

Figure 20: Ukraine: Distribution of DWE4, 2002



Source: ULFS9, n = 1892

Figure 21: Azerbaijan: Distribution of DWE4, 2001, All Regions



Source: AzLFS1, n = 550

For South Africa, the economic democracy index is measured more simply than in eastern European countries, but takes account of a specifically South African mechanism that the Government has encouraged firms to operate, a Work Forum, intended to ensure greater participation by workers inside firms. Thus, the ED Index is computed as follows:

$$ED = TU + COLL + WF + SH + P$$

where

TU = 1 if there is a recognized trade union in the firm with more than 50 per cent of the workforce in the union, 0 otherwise;

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COLL = 1 if there is a collective agreement operating in the firm, covering wages and other labour matters, 0 otherwise;

WF = 1 if there is a Work Forum (or the equivalent) in operation, 0 otherwise;

SH = 1 if the workers possess more than 10 per cent of the shares of the firm, 0 otherwise;

P = 1 if there is a bargained profit sharing payment scheme for workers, 0 otherwise.

Two points about this should be noted. First, the share-owning level selected as the threshold is arbitrary, although it does suggest a reasonable level of commitment to broadening capital ownership to those most directly involved in generating the output. Second, a profit sharing scheme is regarded as a mixed blessing by many trade unionists, since it can be abused to make wages downwardly flexible. However, profit sharing is spreading around the world, and can be a means of promoting efficiency and employment, as much empirical research has demonstrated.<sup>93</sup>

In whatever variant, by adding the ED index to DWE3 we obtain the full **Decent Work Enterprise Index**, DWE4. Where do firms stand on this score? If it is accepted as a fair measure, firms should score fairly high to be classified as decent in terms of their work practices, and it should be possible to identify the *pacesetters* by the standards that could be regarded as reasonable in the particular country.

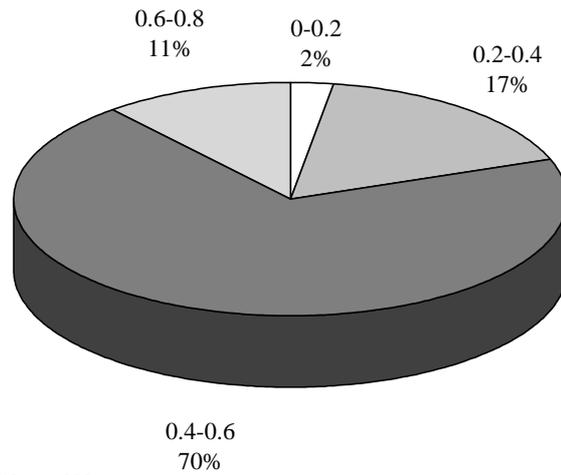
Starting with South Africa, it can be seen from Figure 22 that while only 2 per cent of firms had very low scores on decent work, none had a value of above 0.8, and the vast majority had low values. In the South African context, observers might regard the 11 per cent of firms with a DWE value of 0.6 or more as the 'pacesetters'.

When we look at a much poorer African country, Tanzania, it can be seen (Figure 23) that only 8 per cent of firms scored above 0.6, and none above 0.8, even though in several respects, the components focused on less-demanding criteria. The patterns in the Philippines and Indonesia were also rather modest, with only 9 per cent and 6 per cent respectively scoring between 0.6 and 0.8, and none in either country scoring above 0.8. But there as well as elsewhere it is the top few percent that should be regarded as the pacesetters. Finally, in China, the pattern suggests there are a few firms that scored well, and a relatively high proportion scored over 0.6 on the DWE scale, even though a majority scored below that.

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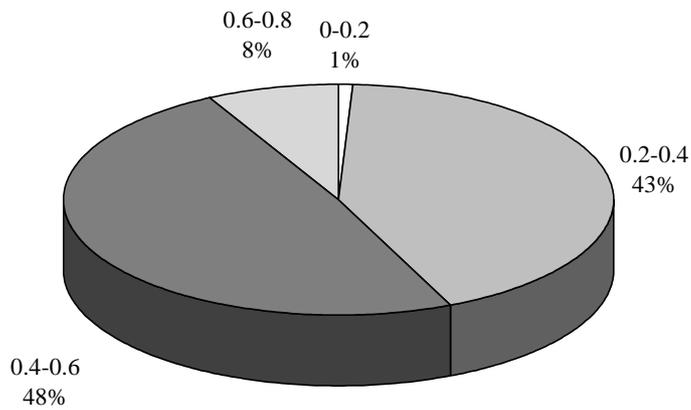
<sup>93</sup> Minority employee share ownership, as in the case of US ESOPS, has been associated with greater stability of firms, and with a reduced probability of bankruptcy and asset stripping through takeovers. For a brief review of the findings and research on related issues, see Standing, 2002, *op.cit.*, pp.219-23.

Figure 22: South Africa: Distribution of DWE4, 1996



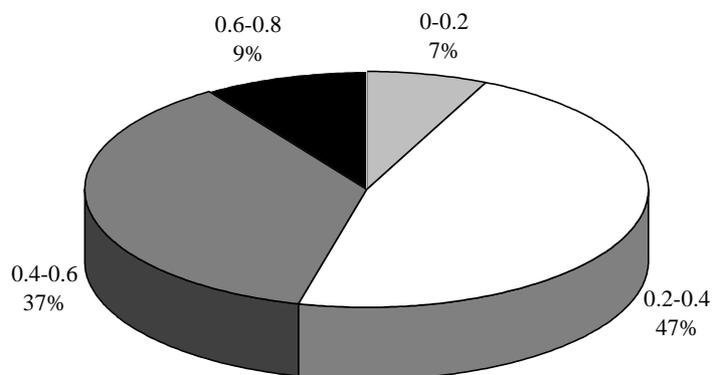
Source: SALFS2, n = 323

Figure 23: Tanzania: Distribution of DWE4, 2001, All Regions



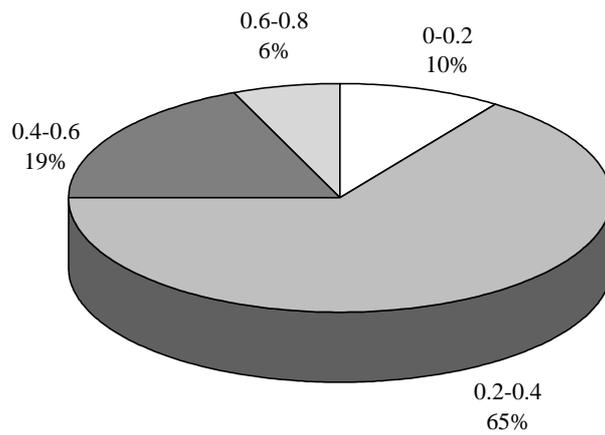
Source: TLFS1, n = 392

Figure 24: The Philippines: Distribution of DWE4, 2000, All Regions



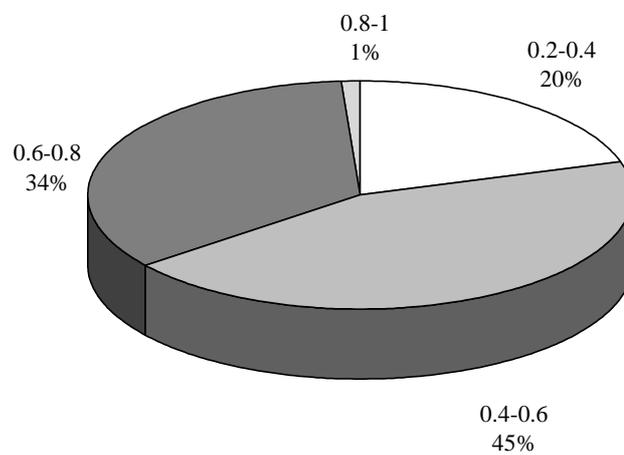
Source: PLFS2, n = 1208

Figure 25: Indonesia: Distribution of DWE4, 2000, All Regions



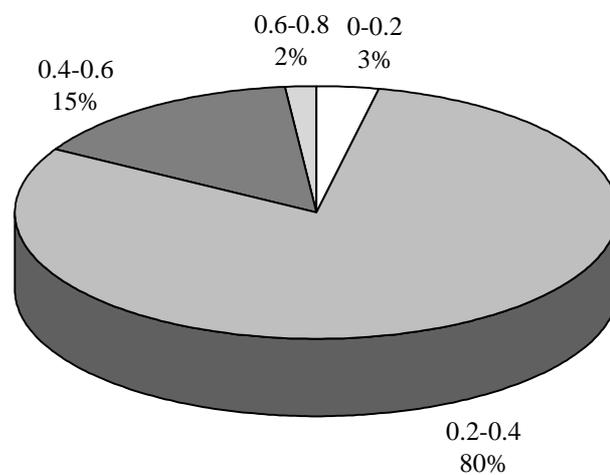
Source: IndLFS1, n = 1915

Figure 26: China: Distribution of DWE4, 2001, Three Regions



Source: CLFS3, n = 904

Figure 27: Pakistan: Distribution of DWE4, 2001



Source: PLFS1, n = 497

## 9. Determinants of the Decent Work Enterprise

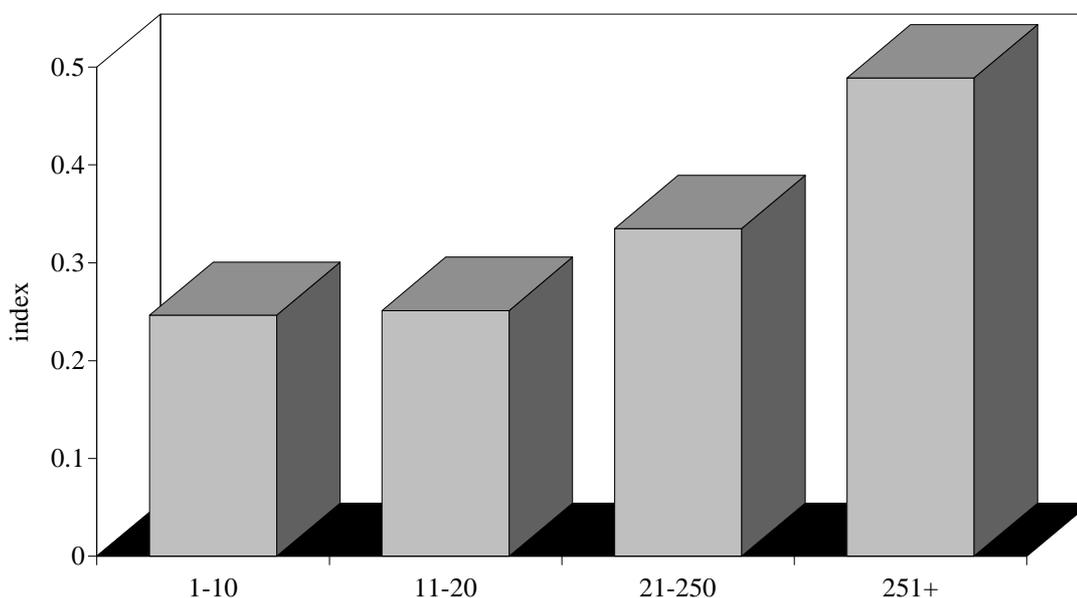
So, the distribution of firms by the scores attained on most of the dimensions of the DWE index show that only a small minority of firms achieve high scores on Decent Work. The most important point at this stage is not the actual values in the exercise, it is the concept. But what determines whether a firm is likely to have Decent Work practices?

The first point is that at least in terms of simple correlations, it seems larger firms are more likely to be operating decent work practices. Thus, Figure 28 shows that in Indonesia the average value of the Decent Work Enterprise Index rose with the employment size of establishment. And Figure 29 shows a similar, if weaker, correlation in Russia.

A second possible relationship is between ownership and decent work practices. Do public or private enterprises have better standards on average? Do foreign-owned firms do better or worse? At this stage, we just give a few illustrative results. For instance, Figure 30 suggests that in the Philippines, foreign firms were more likely to perform well on decent work practices. Figure 31 suggests that in Indonesia, firms that had minority or majority foreign ownership had higher average decent work scores. Similar results emerged in China and in South Africa. By contrast, in Tanzania it seems public (state) enterprises were more likely to operate decent work practices than either foreign or locally owned private firms.

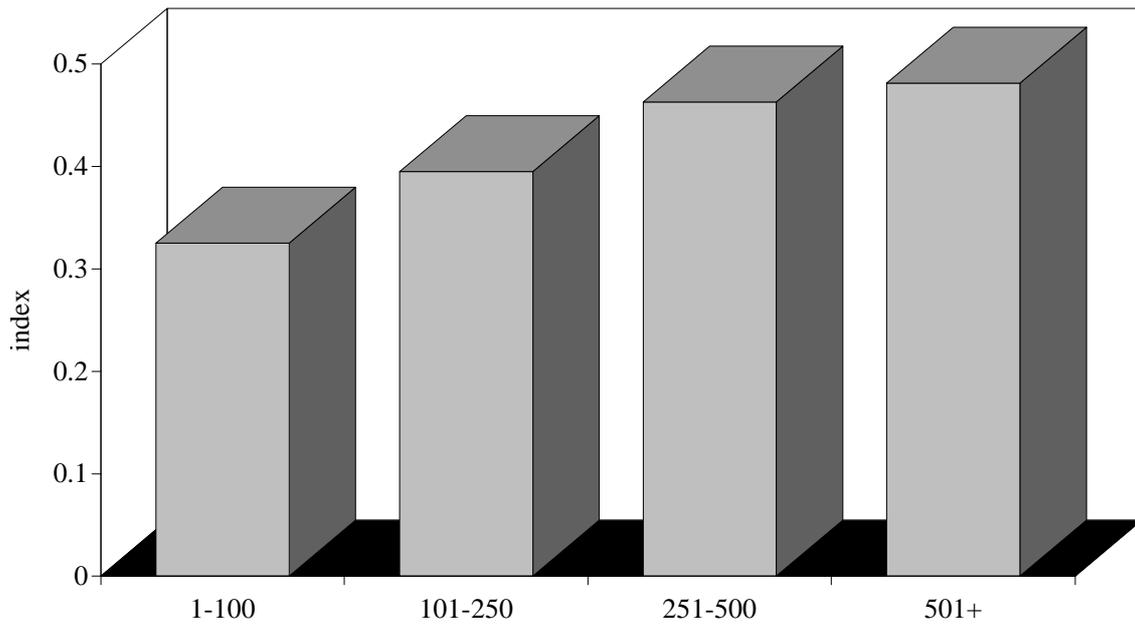
In some countries, such as Chile and South Africa, export-oriented companies may have been more likely to score high on DWE. But this did not apply in most countries.

Figure 28: Indonesia: DWE4 by Employment Size of Establishment, 2000



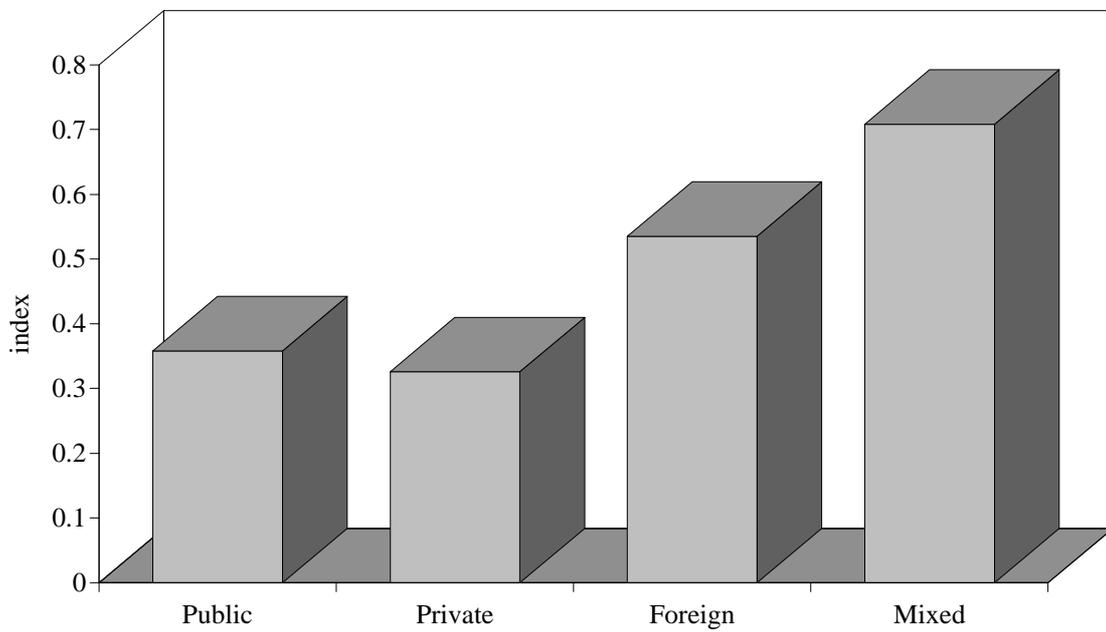
Source: IndLFS1, n = 1915

Figure 29: Russia: DWE4 by Employment Size of Establishment, 2001



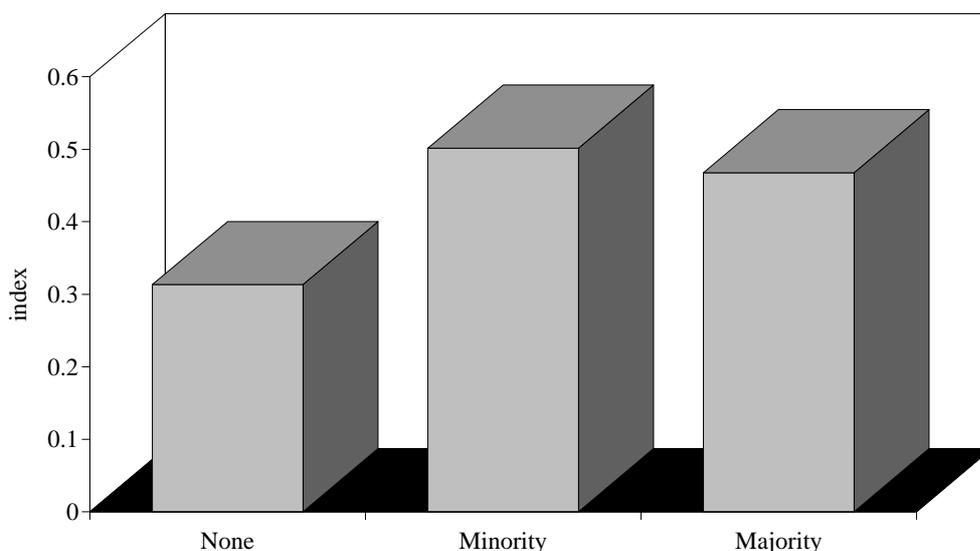
Source: RLFS11, n = 524

Figure 30: The Philippines: DWE1 by Property Form, 2000



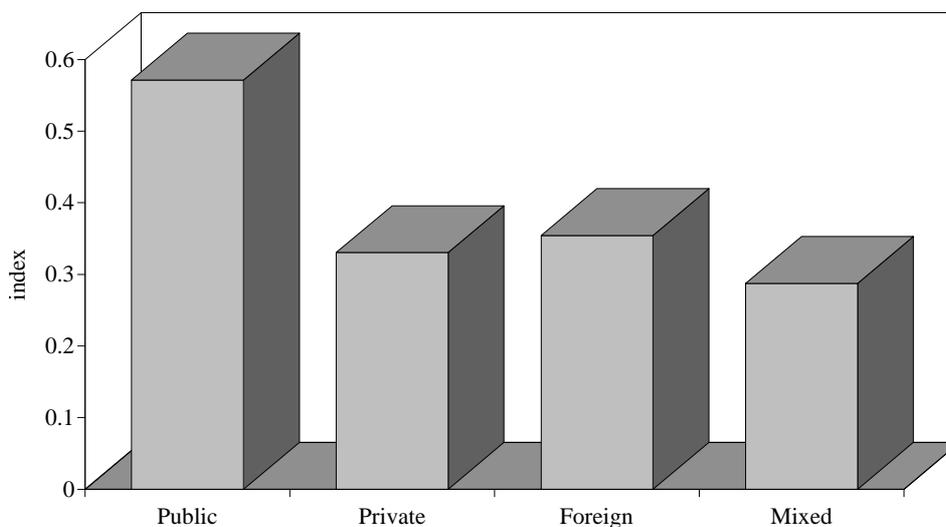
Source: PLFS2, n = 1208

Figure 31: Indonesia: DWE4 by Foreign Ownership, 2000, All Regions



Source: IndLFS1, n = 1915

Figure 32: Tanzania: DWE1 by Property Form, 2001, All Regions



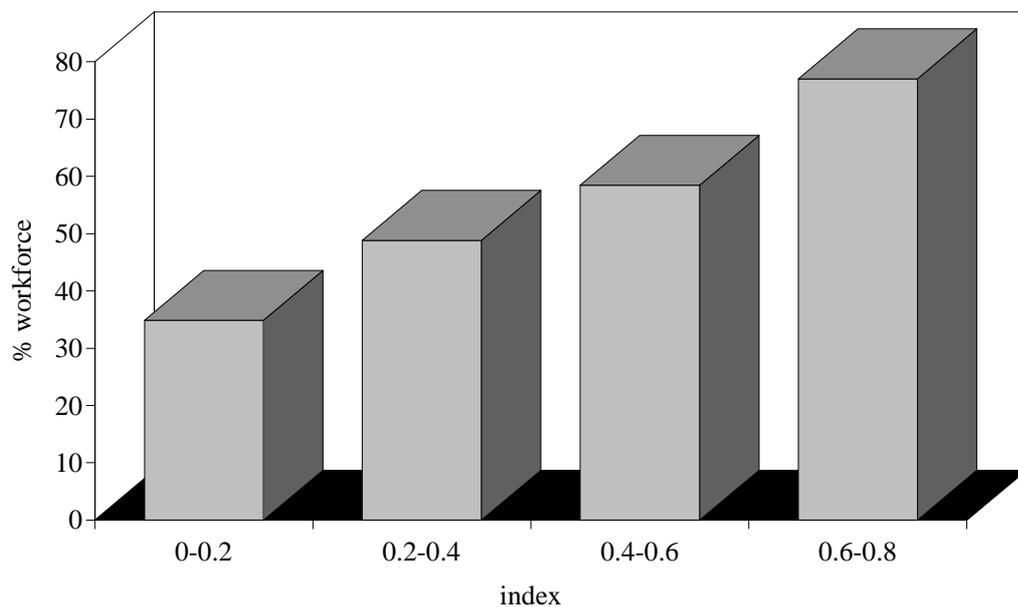
Source: TLFS1, n = 369

A third type of correlation is between workers' Voice and Decent Work practices. It may be hard to show that having trade unions in the workplace is conducive to Decent Work, although there is a *prima facie* reason to suppose that unions should have a positive effect. What is notable is that, whatever the causal relationship, in several countries, a high degree of unionization is associated with higher scores on Decent Work in respects other than the obvious one of improved Voice security, as measured by DWE3, which does not include the Voice variables.

This is borne out by the firms in Russian industry, as shown in Figure 31. It is also encouraging that socially equitable policies, or non-discriminatory practices, are more likely in firms with trade unions (Figure 34). Also for illustrative purposes, Figures 35 and

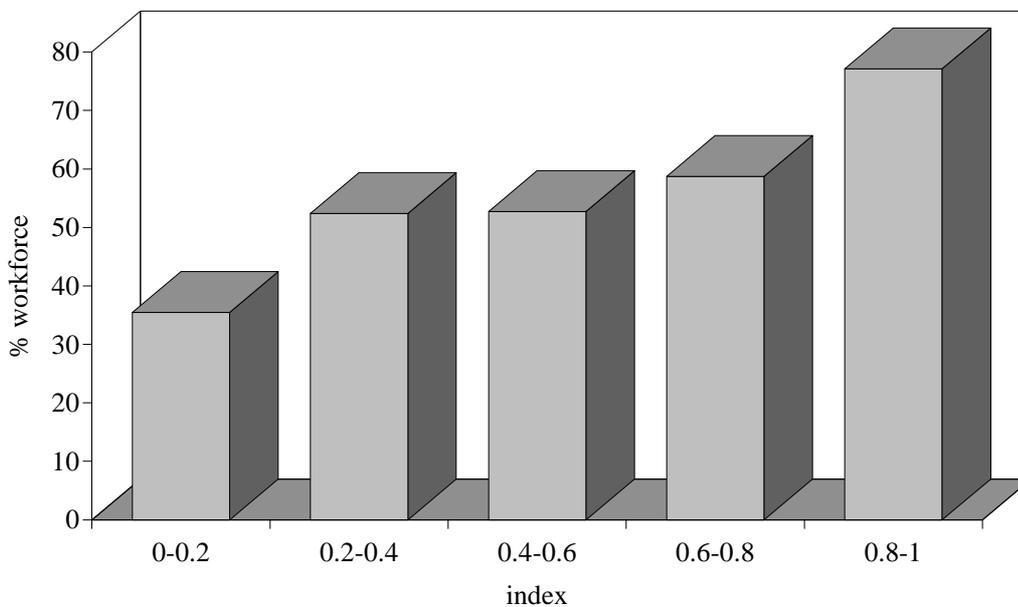
36 show that in a very different type of country, South Africa, unionization was positively associated with economic equity and with high levels of decent work practice, as measured by DWE3.

Figure 33: Russia: Percent of Workforce Belonging to Trade Unions, by DWE3, 2001



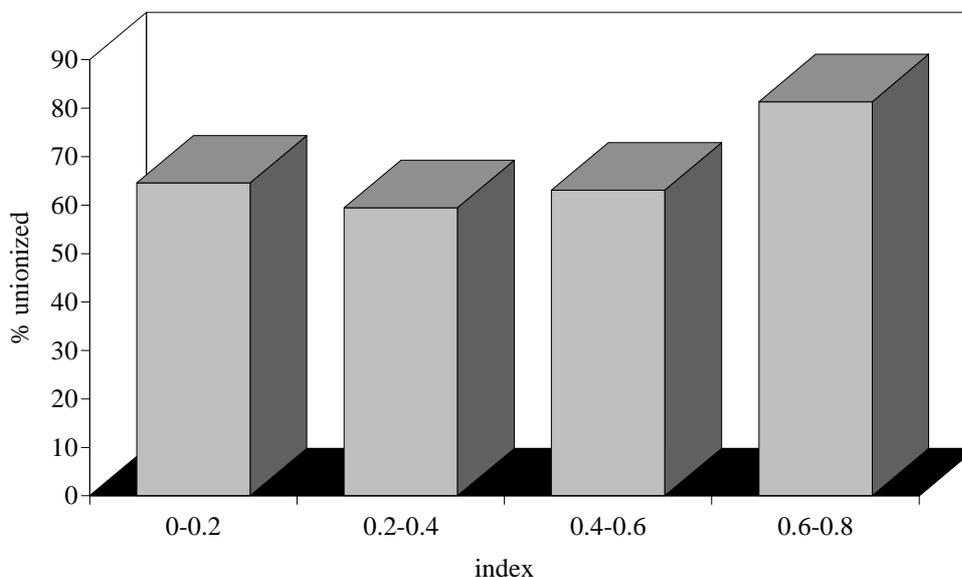
Source: RLFS11, n = 524

Figure 34: Russia: Percent of Workforce Belonging to Trade Unions by Non-Discrimination Index, 2001



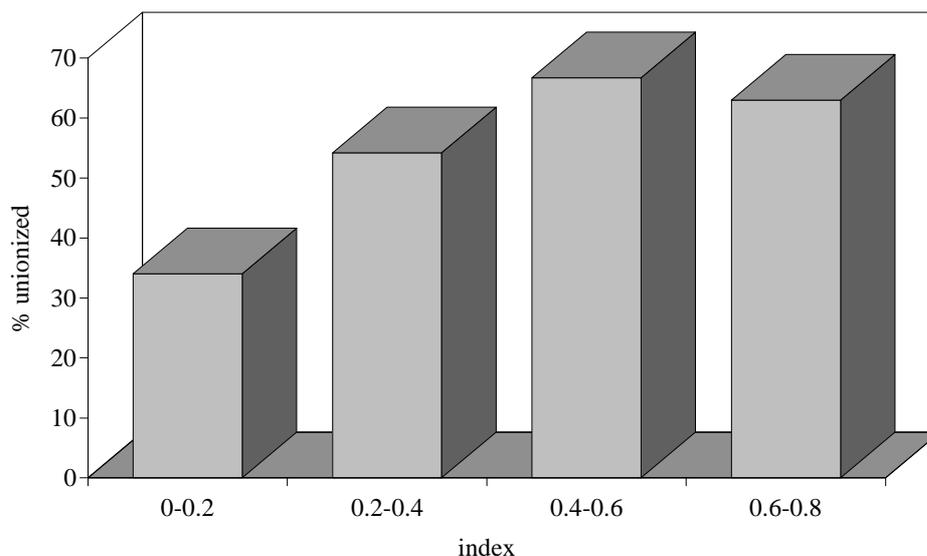
Source: RLFS11, n = 524

Figure 35: South Africa: Firm's Unionization Rate, by Economic Equity Index, 1996



Source: SALFS2, n = 318

Figure 36: South Africa: Firm's Unionization Rate, by DWE3, 1996



Source: SALFS2, n = 316

Of course, each of these simple correlations that have been shown in this section could conceal other relationships, and even be spurious. Accordingly, for all countries a set of multiple regressions were estimated for each of the sub-indexes and for DWE4 as the target index, with the following basic function:

$$\text{DWE4} = f [\text{IND}, \text{SIZE}, \text{PROP}, \text{EXPORT}, \text{REGION}, \% \text{TU}]$$

where IND is a set of industry dummy variables (1, 0), SIZE is the number of workers of all statuses in the firm, PROP is a set of dummy variables (1, 0) for the ownership of the firm, EXPORT is a dummy variable for whether or not the firm exported any of its output, REGION is a control variable for the region in which the particular firm is located, and

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%TU is the percentage of the workforce that belongs to a trade union, as estimated by management.

The full results are available on request. This section just highlights some of the findings. To summarize, controlling for industrial sector, region and property form, in most countries there was a strong positive relationship between the employment size of the firm and DWE. The coefficient was positive and statistically highly significant in Azerbaijan, Chile, China, Indonesia, Moldova, Pakistan, the Philippines, Russia, South Africa, Tanzania and Ukraine, and it was weakly significant in Brazil.

Now consider some of the components, bearing in mind that our main objective is not to produce a full analysis of these issues in this paper. In the case of employment security, the evidence from the Russian survey, for instance, suggests that in firms in the capital, Moscow, workers have greater levels of employment security than those in regions further from the capital, and that in the industrially depressed city of Ivanovo it has been generally very low. Among other findings is that in most countries there was little or no sectoral pattern. In other words, decent work practices are not conspicuously more likely in one type of industry than others.

The presence of a *trade union* is statistically significantly positively correlated with the value of DWE3 in Indonesia, Pakistan, Russia and South Africa, and is positively related to Economic Equity in Indonesia, the Philippines and Russia. It is positively correlated with non-discrimination in Indonesia and Russia, and positively correlated with employment security in several countries, including Pakistan and the Philippines. It is positively correlated with work security in Indonesia and Russia. It is positively correlated with employment security in Indonesia, the Philippines, Russia and South Africa.

## 10. Strains of Mozart? Decent Work Practices and Enterprise Performance

The big question at this stage is the following: What if the effect of operating a Decent Work set of labour practices was to undermine the economic viability of the firm? There would be no sensible point in scoring high as a Decent Work Enterprise if the company then went bankrupt.

The data from the Enterprise Labour Flexibility and Security Surveys allow us to consider this issue in some detail. Before coming to the key relationships, it may be useful to take note of several patterns that emerge from the surveys.

So, we come to the most crucial question of all. **Are Decent Work practices associated with good economic performance or do they have an adverse effect on profitability, productivity and employment?**

Before giving some preliminary results on this question, it is worth noting that it is an environmental effect that we are trying to identify. Results from elsewhere relate to the link between decent work practices and economic performance. PriceWaterhouseCoopers, the consultancy firm, carried out a 'Global Human Capital Survey' in 2002, covering over 1,000 companies in 47 countries. While the survey's methodology is dubious (there being too few firms from each of the countries to be reliable), it is worth noting one key finding:

*“taken in isolation, participation in training, management development, or performance appraisal show no links to profit margins or revenue per employee. This is*

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*consistent with the view that it is the overall system that is important, not the individual elements.*"<sup>94</sup>

Similarly, a survey carried out by BITC in 2002 found that a large majority of chief executives in Europe believed responsible practices improved competitiveness, innovation and profitability.<sup>95</sup>

To return to the big question, in the ELFS, we can concentrate on several measures of enterprise performance – **labour costs**, expressed as a share of total production costs, **employment change** over the two years prior to the survey, and **productivity** as measured by total sales value per worker. There is also a possible link between *capacity utilization* and DWE.

Note that what we are primarily interested in considering is whether operating a high Decent Work Enterprise set of practices is *compatible with good economic performance*. This means we are primarily concerned with whether or not high DWE has a *negative* effect. Moreover, we do not need to demonstrate a causal relationship; the primary issue is compatibility.<sup>96</sup>

In the first case, there is a suggestion in several countries that high performance in terms of decent work practices are associated with below-average labour cost shares, suggesting that they may be efficiency-enhancing rather than the reverse. This is shown in the case of Indonesia in Figure 37, less conspicuously for South Africa in Figure 38, more so for China in Figure 39, and to a minor extent in Moldova in Figure 40. What is striking is that in all four countries selected firms with high scores on decent work practices had below-average labour costs.

There is also a suggestion of a positive correlation between the level of *capacity utilization* and the Decent Work Index, as can be seen by the illustrative cases of China (Figure 41), South Africa (Figure 42), and Russia (Figure 43).

However, the most striking relationship is between *employment change* and the Decent Work Index. The percentage employment change could be expected to be a reasonable proxy of the state of economic health of a company. If operating very high levels of decent work practices impeded economic success, then there should be an inverse relationship between employment change and the level of DWE.

In fact, in those countries for which we have reliable time-series data, it appears that there is a *positive relationship between employment change and DWE*. This is shown for Indonesia (Figures 44 and 45), and for Russia (Figure 46), Ukraine (Figure 47) and Azerbaijan (Figure 48).

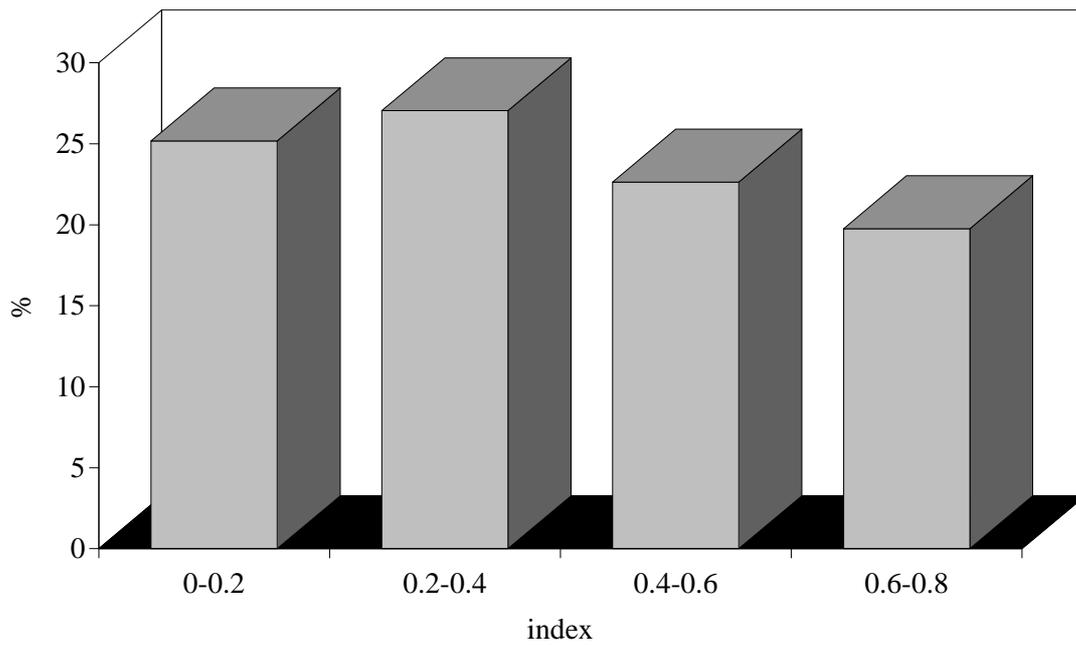
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<sup>94</sup> PriceWaterhouseCoopers, *Global Human Capital Survey 2002/3* (London, 2002), Executive Briefing, p.6. This attracted more uncritical media attention than it deserved.

<sup>95</sup> Reported in "FT Management: Focus on corporate social responsibility", *The Financial Times*, 10 December, 2002, p.1.

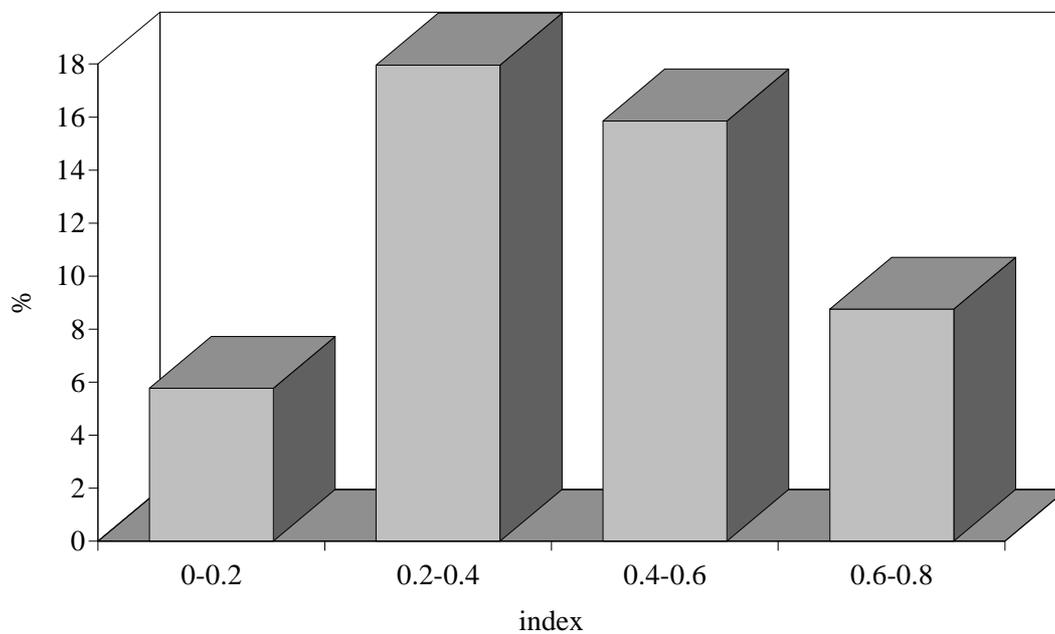
<sup>96</sup> As it happens, we have multiple round ELFS in several countries, and could show the relationship over time for those countries.

Figure 37: Indonesia: Labour Cost Share of Production Costs by DWE4, 2000



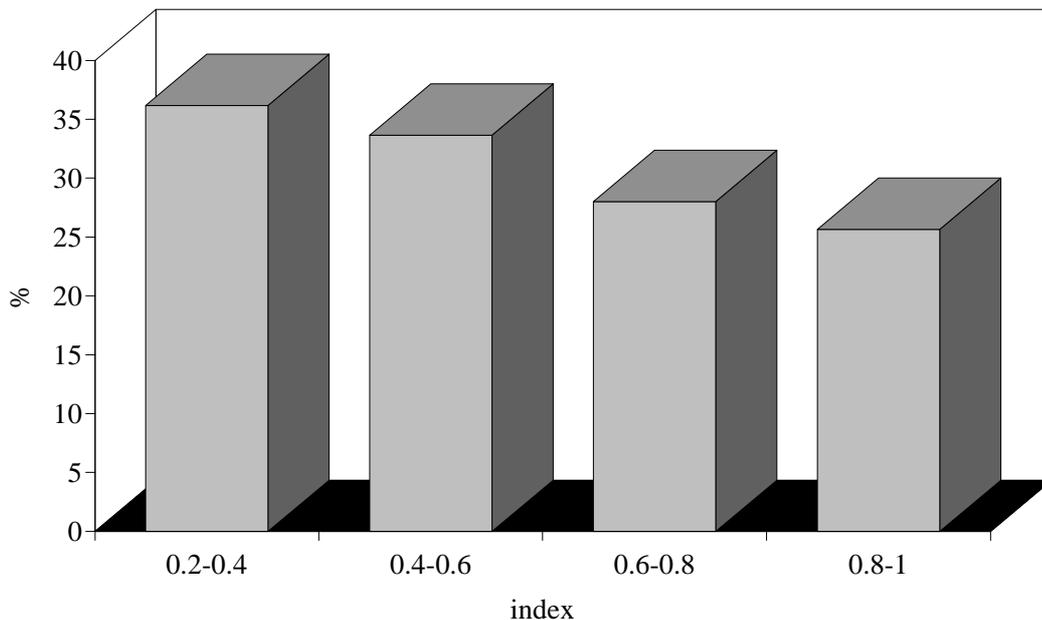
Source: IndLFS1, n = 1915

Figure 38: South Africa: Labour Cost Share of Production Costs, by DWE4, 1996



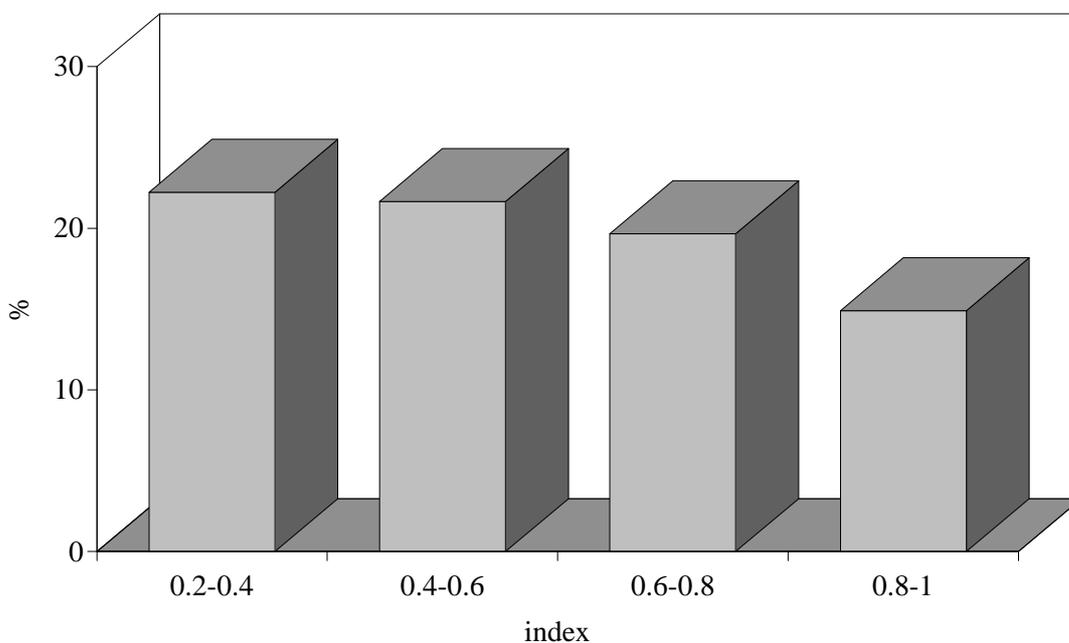
Source: SALFS2, n = 323

Figure 39: China: Labour Cost Share of Production Costs, by DWE4, 2001



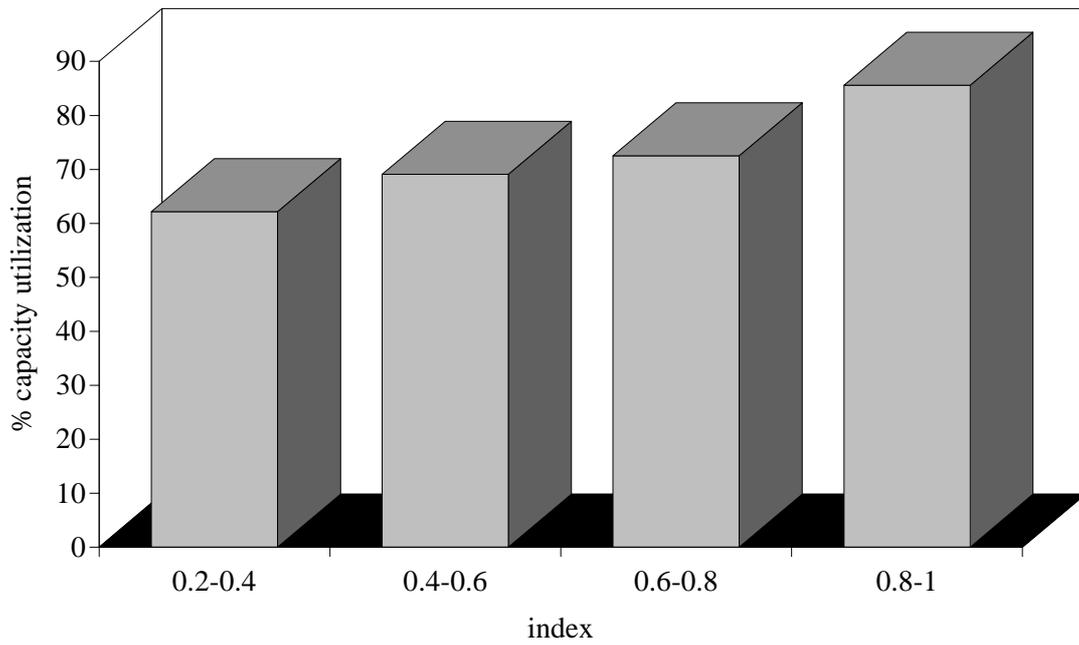
Source: CLFS3, n = 642

Figure 40: Moldova: Labour Cost Share of Production Costs, by DWE4, 2000, All Regions



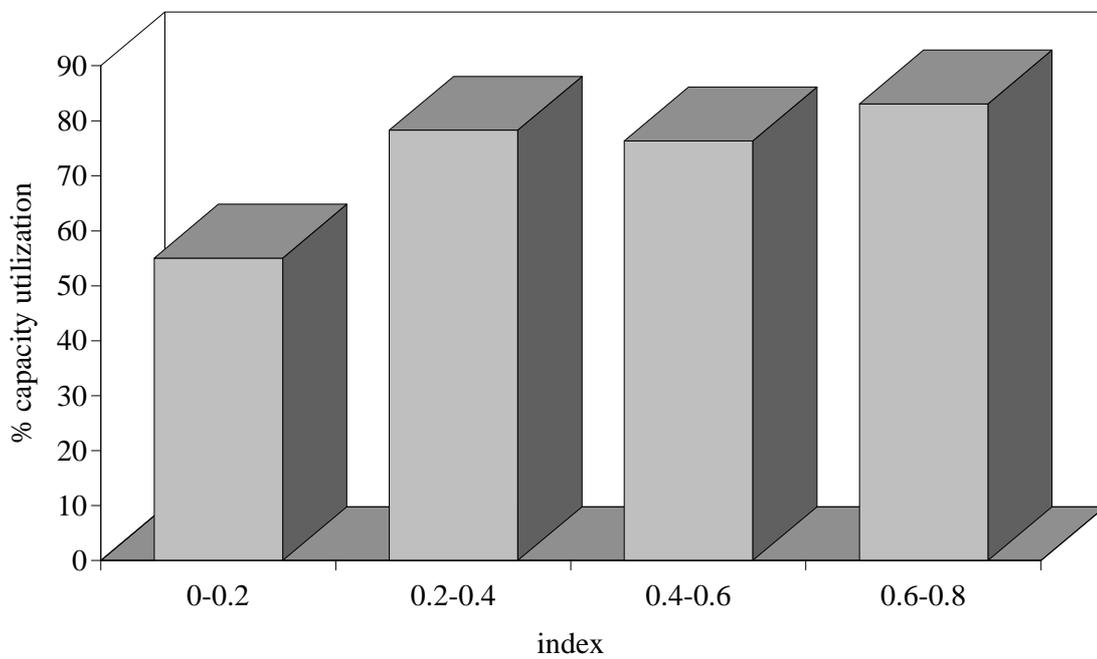
Source: MoLFS1, n = 248

Figure 41: China: Per cent Capacity Utilization, by DWE4, 2001



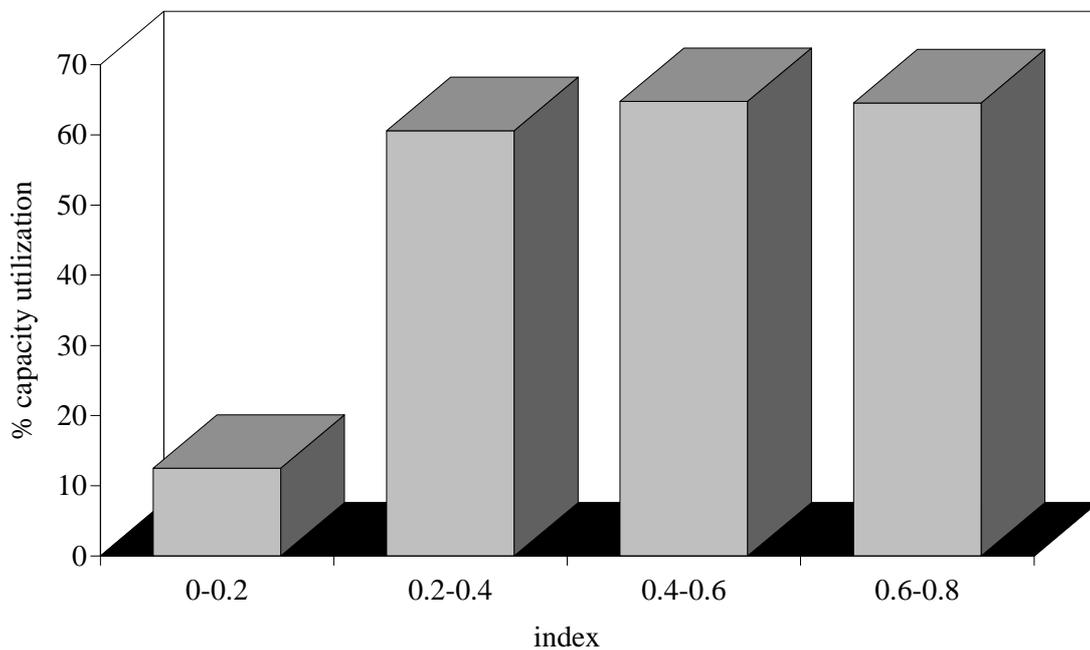
Source: CLFS3, n = 623

Figure 42: South Africa: Per cent Capacity Utilization, by DWE4, 1996



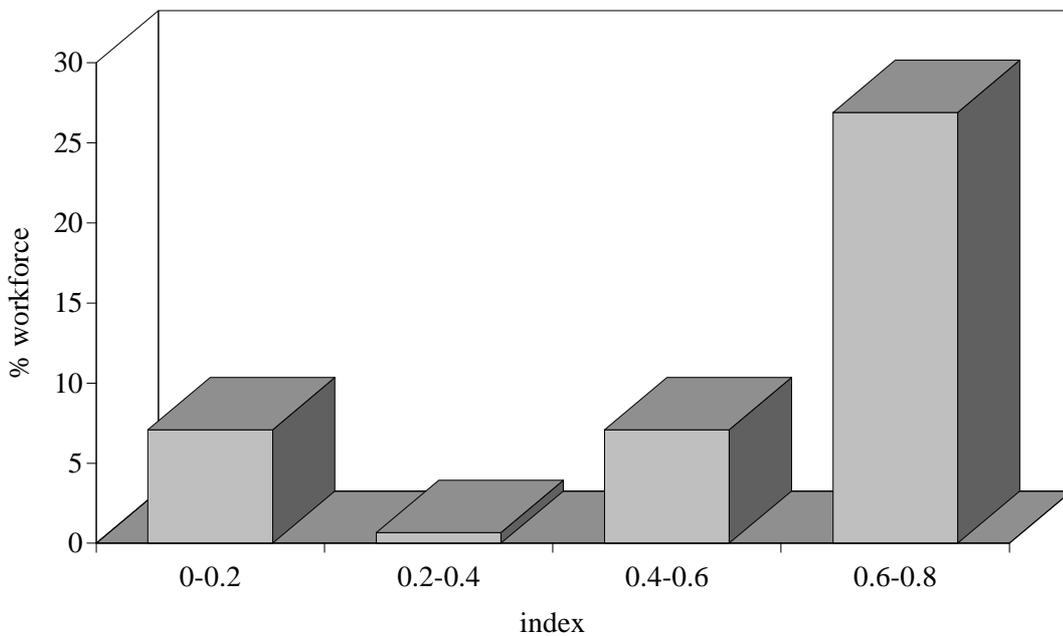
Source: SALFS2, n = 309

Figure 43: Russia: Per cent Capacity Utilization, by DWE4, 2001



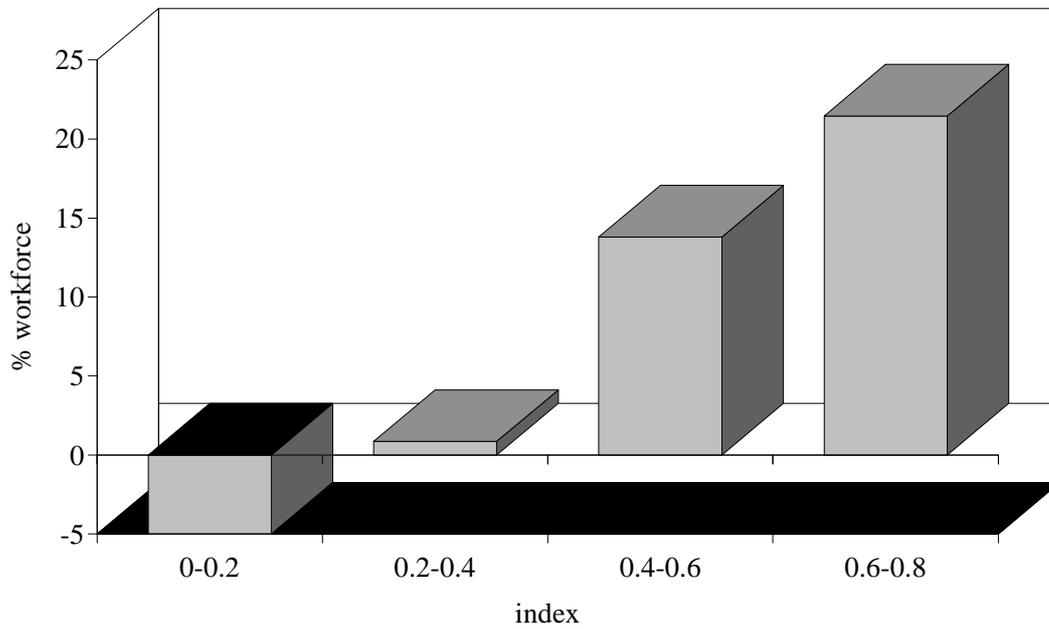
Source: RLFS11, n = 524

Figure 44: Indonesia: Per cent Employment Change by DWE4, 1998-2000



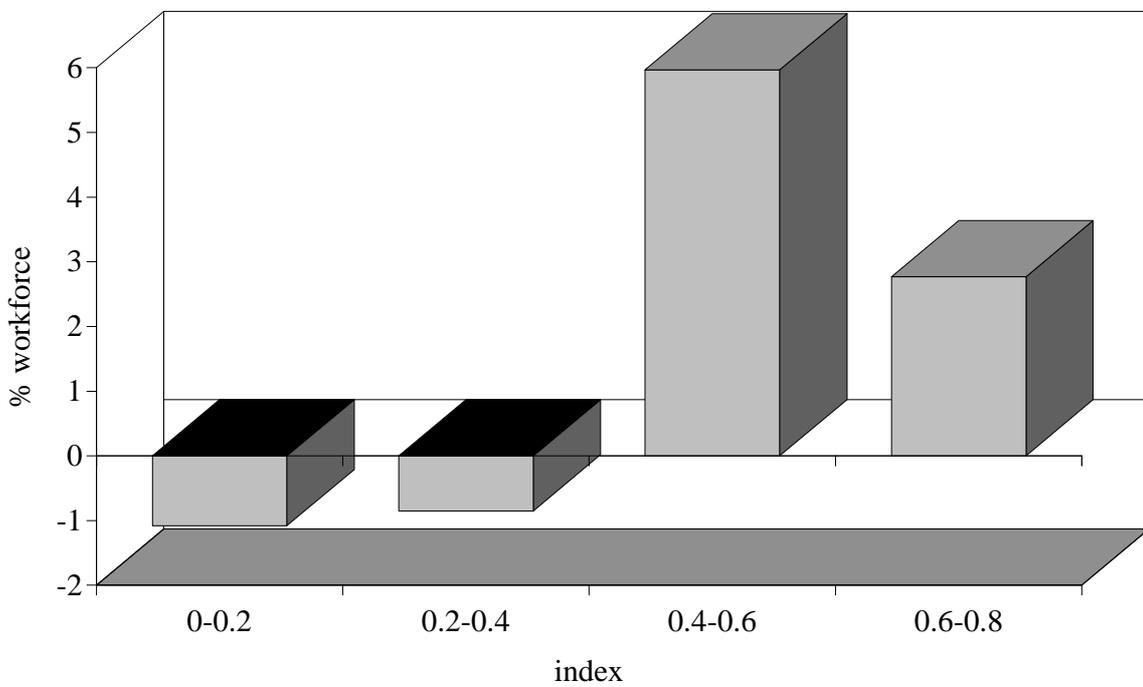
Source: IndLFS1, n = 1810

Figure 45: Indonesia: Per cent Employment Change, by Economic Equity Index, 2000, All Regions



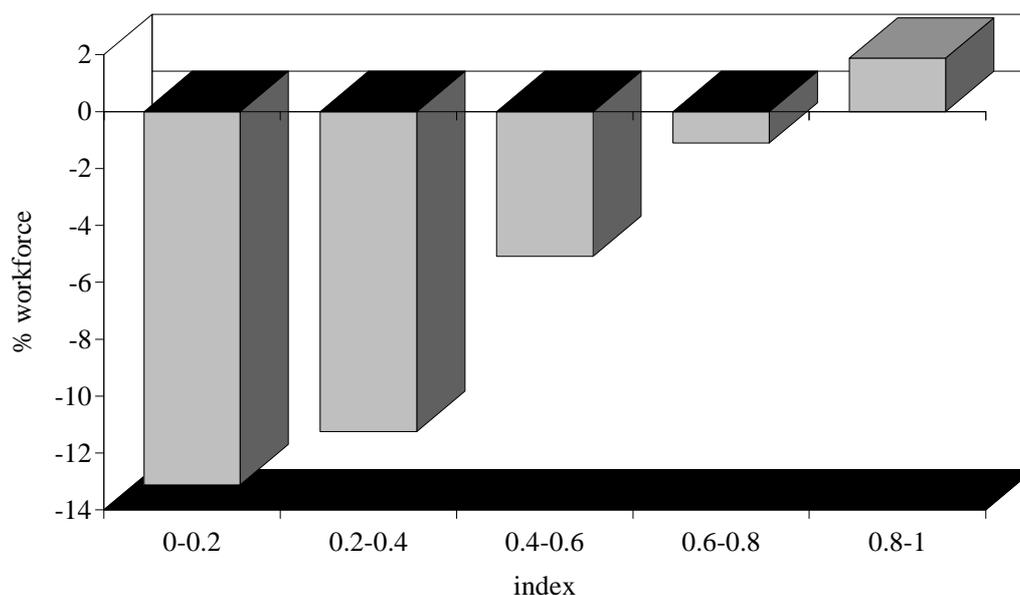
Source: IndLFS1, n = 1810

Figure 46: Russia: Per cent Employment Change by DWE4, 2001



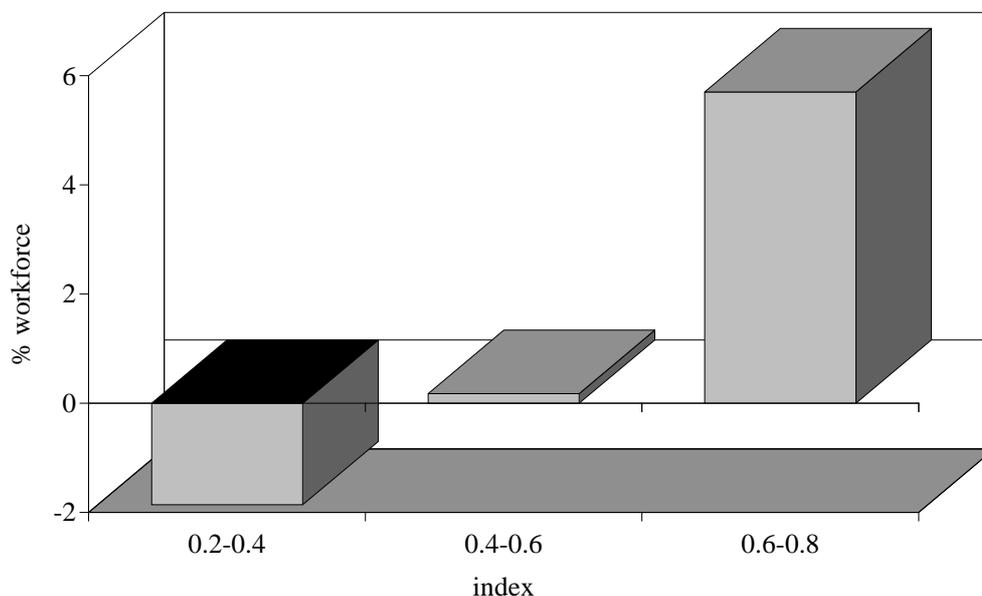
Source: RLFS11, n = 524

Figure 47: Ukraine: Per cent Employment Change by DWE4, 2002



Source: ULFS9, n = 1892

Figure 48: Azerbaijan: Per cent Employment Change, by DWE4, 2001, All Regions



Source: AzLFS1, n = 547

Finally, to explore these correlations more systematically, a set of regression functions was estimated along the same lines as for the DWE Index. The dependent variables were the logarithm of labour costs as a share of total production costs, the percent employment change, and as a measure of **productivity**, the logarithm of the value of total sales (or production in the case of China) per employed worker.

Again, the full results are available on request. It will perhaps suffice here to present a few highlights, focussing on the key relationship between DWE and productivity. In Table 1, the results are given for China. These show that a high value of DWE is strongly and positively correlated with productivity.

**Table 1: China: Productivity in Firms: OLS Regressions (coefficients with statistical significance)**

	Log. Labour Cost Share	Log. Sales per worker	
Constant	1.147	1.140	
Industry			
Agriculture	0.032	-0.233	
Mining, quarrying	-0.050	0.307	**
Energy	-0.096	0.275	
Finance, trade, business	0.017	0.224	
Hotel, restaurant	-0.149	0.471	***
Public service	-0.090	0.516	**
Property Form			
State	0.274	-0.477	***
Private	0.143	-0.153	**
Cooperative	0.347	-0.498	***
DWE4	0.089	1.075	***
R <sup>2</sup> =	0.078	0.119	
F =	5.13	9.46	

Note: All variables are binaries. Two asterisks indicate that the coefficient was statistically significant at the 5 per cent level, three asterisks that it was significant at the 1 per cent level.

In most countries, the results were less dramatic, although the coefficient on DWE4 was almost always positive for productivity and negative for labour costs. In other words, controlling for the sector in which the firm was operating and the ownership type, in no country was high DWE associated with the lowering of productivity (and thus profitability) and in some the results strongly suggest a positive effect. On productivity, the positive coefficients were statistically highly significant in Azerbaijan, China, Moldova, Russia and Ukraine.<sup>97</sup>

Controlling for sector and other factors, high values of DWE4 were significantly associated with below average labour cost shares in Indonesia. In several other countries the coefficient was negative but not statistically significant. In terms of employment change, the most crucial finding is that in no country was there a negative relationship between level of decent work practice and level of DWE.

These results are encouraging, although further modelling is required. What they show, based on information from a very large number of firms across a large number of very different countries, is that high DWE is indeed compatible with good economic performance. A sceptic at that point may ask: In that case, why do not all firms adopt high DWE? The answer must be a mixture of externalities, community effects and lack of knowledge. *Incentives* are needed. This leads to the final proposal.

<sup>97</sup> Due to an error in the fieldwork, there was no reliable productivity measure for Brazil and Chile.

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## 11. ILO-DWE Awards: A Proposed ILO Initiative

The ILO believes in and espouses *decent work*. Therefore, it wishes to encourage firms around the world to adopt decent work practices. It also believes in the virtues of negotiation and freedom of association. In recent years, it has moved away from envisaging a mass of detailed regulations, embodied in numerous Conventions and Recommendations, towards the establishment of *core* or fundamental standards by national authorities and backed by the international community, coupled with the promotion of higher standards to be achieved by bargaining mechanisms within societies, firms and local communities.

In that context, could we propose that firms that score high on something like the Decent Work Enterprise Index should be given an Award or a badge of approval by the ILO? If the ILO is serious about promoting decent work, such a proposal would surely make sense. And indeed not to do so would be almost institutionally weak. If you espouse a notion of decent work, you should be prepared to define what you mean and then move to measures to promote what you mean.

What is being proposed is not entirely novel, although it is based on a specific empirical approach and focuses on decent work. Besides the Malcolm Baldrige National Quality Award scheme in the USA, others have mooted similar ideas. In a report issued in the UK by the Royal Society for the Arts in 1995, the authors referred glowingly to their proposed “inclusive approach” to “tomorrow’s company”.<sup>98</sup> The Report did cite approvingly the *Balanced Business Scorecard*, proposed by several US scholars.<sup>99</sup> And it mentioned the “self-assessment models” developed by Baldrige in the USA and by the European Foundation for Quality Management.<sup>100</sup> However, it stopped short of trying to give measurable indexes, and skirted several crucial issues, notably the value of *adversarialism* in labour transactions, in terms of contributing to dynamic efficiency and worker security and solidarity. The DWE is thus an advance in those respects. Others, such as the BITC mentioned earlier, are among those moving in a similar direction.

A major objective in identifying DWEs is to encourage industrial enterprises to develop labour and employment practices that are exemplary or at least “decent”, which is not some utopian or outstanding level. To assist in the promotion of such enterprises, a foundation or commercial organization might wish to launch and finance a **national DWE Award scheme**, with annual competitions, award ceremonies and badges of recognition.

As a start, it might be proposed that a few ILO member countries be selected, and an Enterprise Survey be carried out to identify HDE performance criteria. In an ideal world, the survey should be an industrial census, covering all enterprises in the country. However, it need not be more than a representative sample survey, initially. An underlying objective should be to have a demonstration effect. In other words, if the process were legitimized, it

<sup>98</sup> Royal Society for the Encouragement of Arts, Manufactures and Commerce, *Tomorrow’s Company* (London, RSA, 1995).

<sup>99</sup> R.S.Kaplan and D.P.Norton, “The Balanced Scorecard -- Measures that drive performance”, *Harvard Business Review*, January-February 1992, pp.71-79; idem, “Putting the balanced scorecard to work”, *Harvard Business Review*, September-October 1993, pp.134-47.

<sup>100</sup> European Foundation for Quality Management, *Total Quality Management -- The European Model for Self Appraisal: Guidelines for Identifying and Addressing Total Quality Issues* (1992).

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could lead to interest and support from leading companies, trade unions, and government officials.

In each case, once the data from the enterprises had been analysed, a conference of managements, government officials and trade unionists should be convened, and **ILO DWE Awards** should be presented to the top 5 per cent of firms (or 10 per cent if merited on the basis of absolute values emerging from the survey). The personnel departments of the top ten (or fifty) companies might be presented with financial awards, if suitable national or other funding agency were prepared to sponsor the process, while exemplary enterprises would be awarded with a DWE Certificate and Plaque of approval. The conference at which the awards were presented could be televised, and the public relations given to the firms in question would surely be welcomed by those companies and have a beneficial demonstration effect on other firms in the country.

There are other such award systems, which have been successful. Once the process had been launched, other companies could apply for the Award, or the survey could be extended to a new sample each year. Questions of renewal of the Award could then be addressed, much as other such schemes, such as Export Performance Awards, have developed continuity. At the same time, the concept of a DWE could be used for framework legislation, and enterprise-level collective bargaining could be oriented to pushing the firm closer to the desirable model.

Although there are various indexes emerging around the world, one wonders why this has not been done before. It is consistent with an orientation to promotional standards, and with the desirability of focusing on incentives to Good Practice and ‘social auditing’. Most people relate to the enterprise in which they work for most of their adult lives. Their character and practices shape our achievements, our development, our humanity.

Yet until the emergence of the Global Compact, there was scarcely a mention of what makes a Good Enterprise in any of the UN system’s various international reports. Most notably, the United Nations Development Programme publishes an annual Human Development Report, which contains a Human Development Index to rank countries on performance, which conspicuously omits the sort of issues covered in the DWE proposed in this paper and in the national-level Decent Work Index developed in the ILO’s Socio-Economic Security Programme.

Now is the time to rectify that omission. It would be risky; it would be a bold initiative. However, if there were a will to do something, we could turn the DWE into a means of giving the ILO or any other appropriate organization a promotional edge in a vital sphere of human development, decent work practices.

The idea of ILO DWE Awards obviously leads to the idea of an *ILO label* on products or on premises.<sup>101</sup> There is no need for such linkage. But it is worth noting that the Belgian Government has passed a law to introduce a *product label* to certify that a product with a label has been made by a firm complying with core labour standards. Having labels is attractive. However, in the case of ILO DWE Awards, everything would be voluntary – the application or expression of interest in receiving an Award, the receipt of an Award and the use of it by the company should it obtain the Award. There would be no *counter-labelling*, i.e., marking products as made by firms not having DWE Awards! Thus, the customary objections to labelling, whatever their merits, would be irrelevant if ILO DWE Awards were introduced.

<sup>101</sup> Although it bears some resemblance to the former ILO Director General’s proposal on labelling, this is not the same.

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Let us conclude by making several contextual points. First, this proposal is able to circumvent a standard argument that the introduction of standards or codes is implicitly a protectionist device, since it imposes standards that developing countries would find harder to apply. In this case, the DWE could be determined at the national or even national sectoral level.

One might propose that after the national or sector ELFS, the leading 100 companies could be visited for “on-site inspections” to determine which satisfied a slightly more rigorous set of criteria to be classified as an exemplary DWE.<sup>102</sup>

## 12. Concluding Remarks

Although stable firms may be less prominent in the 21<sup>st</sup> century than they were for much of the 20<sup>th</sup> century, promoting Decent Work Enterprises could be a key to the promotion of a Good Society for the 21st Century. This would be particularly so in countries such as the Russian Federation or Ukraine, where for generations the industrial enterprise was, for better or for worse, a crucible for almost every aspect of civil society. It is also conspicuously true for South Africa where the apartheid system was entrenched and strengthened through enterprise behaviour. Yet it is true in every society, and accords with those who have argued in favour of “mutual gains” enterprise in the United States.<sup>103</sup> It is also apparent that the character of enterprise restructuring is a key to effective structural or social adjustment.

The idea of a Decent Work Enterprise, defined in terms of democratic, equitable labour practices, is suited to an era in which there is, and should be, an increasing emphasis on incentives to good practice rather than sanctions against bad practice. If “labour standards” are presented as something obligatory and rigid, then even those who support them would be inclined to do so with reservation. Some would pay only scant attention to the sins of others in case their own sins, real or imaginary, be exposed to scrutiny and condemnation. Rewarding good practices and shining the light on exemplary cases would be in keeping with mature social cultures.

It also corresponds to advanced management thinking, epitomized by top companies in the USA and elsewhere.<sup>104</sup> Enterprises that put the interest of their workers first appear to perform better than others.<sup>105</sup> There are also important externalities. Thus, economically democratic firms -- and this is the issue that is most ideologically controversial -- are likely

<sup>102</sup> Some have suggested the use of “discussion groups”, as has been done in the pilot audits conducted by SASA (Social Accountability in Sustainable Agriculture).

<sup>103</sup> T.A.Kochan and P.Osterman, The Mutual Gains Enterprise: Forging a Winning Partnership among Labour, Management and Government (Boston, Mass., Harvard Business School Press, 1994).

<sup>104</sup> See, for instance, R. Waterman, The Frontiers of Excellence: Learning from Companies that Put People First (London, Nicholas Brealey Publishing, 1994). In the USA, this was published under the title What America Does Right (New York, Norton, 1994). Waterman, with Tom Peters, was the management guru who first promoted the concept of *self-managed teams*, and recognised a basic principle of good management: “*Today’s leaders understand that you have to give up control to get results.*”

<sup>105</sup> J. Pfeffer, Competitive Advantage Through People (Cambridge, Mass., Harvard Business School Press, 1994). The danger of corporate paternalism is not recognised in the analyses of Pfeffer or Waterman. Our model is potentially more robust, through emphasising voice regulation.

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to promote democratic behaviour *outside* them.<sup>106</sup> One does not have to turn this into an ideological battleground. Rather one has to seek ways of refining the approach to secure a broad consensus, and to foster communities of Decent Work, bearing in mind the “network externalities” that should come from large numbers of enterprises adopting decent work systems.

There are many lacunae, and it may be useful to conclude by mentioning a few of them. We have applied the concept of the DWE to some relatively inauspicious countries, and believe that it would apply more easily in the USA or western Europe. In the USA, Robert Reich has proposed that firms that fail in their “responsibility” to maintain jobs should pay more tax. If that meant using financial sanctions rather than incentives to good practice, then one could anticipate considerable opposition and certainly a lack of consensus on promoting good practices that way. That would not be a promising way to promote decent work.

What constitutes a DWE could be decided by negotiation between government, employer organizations and trade union federations, perhaps with other parties being involved, depending on national agreement. The way it has been measured in this paper is illustrative, and we have specified it in several ways to take some account of national differences and priorities.

One reason for putting the emphasis on incentives to good practice rather than tax or other sanctions against those that do not measure well on the sort of measures we have been proposing is that in modern more flexible production systems there are many small firms on the technological frontier that are inherently risky ventures. They tend to come and go with short dynamic lives. For instance, it has been argued that “silicon valley” has thrived in part precisely because small firms have risen and closed quickly, so that the economy’s success has been built on the high failure rate of firms.<sup>107</sup> Such “flexible recycling” is surely an integral part of the future flexible production and labour market process, just as “flexiworkers” and unattached “proficians” (respectively those with low-skill and high-skill competencies in varying work statuses) will be part of the process. The DWE leaves out such phenomena. This is why the DWE must be complemented by community-level mechanisms of Voice and *income security*.

This leads to one of the biggest challenges for those wishing to promote something like the DWE. It depends critically on the existence of viable Voice mechanisms. In several countries covered by the ELFS, unions seem to retain strength. In Russia and Ukraine, for example, there is still a fairly high level of unionization, although its character is questionable and the decline has probably been the fastest in history. In South Africa, the apartheid era led to mass unionization as a mechanism of “the struggle”. Yet in most of the world, traditional trade unionism is on the wane (or as in Indonesia and the Philippines not growing from a very low base), with only a minority of workers being unionized. Can we realistically envisage enterprise democracy and Voice regulation without strong collective representative organizations?

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<sup>106</sup> There is evidence that skills learned in participation inside firms improve participation in the wider community. S.Smith, “*Political behaviour as an economic externality: Econometric evidence on the spillover of participation in US firms to participation in community affairs*”, Advances in the Economic Analysis of Participatory and Labour-managed Firms, No.1, 1985, pp.123-36.

<sup>107</sup> H.Bahrani and S.Evans, “Flexible re-cycling and high technology entrepreneurship”, *California Management Review*, June 1995.

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The time has come to re-examine entities such as “independent local unions”, as long as ways could be found for overcoming the traditional drawbacks to “company unions” and as long as such unions could cross sector and occupational boundaries in securing members. In southeast Asia, where the DWE idea was first applied, a positive value was given in the index if the union was classified as an *independent union*, as opposed to an *enterprise union*. For both workers and enterprises, there appeared to be advantages from independent unions, although enterprise unions were better for workers than no union. A reason for concern about the capacity of enterprise unions is that they may be co-opted by management, if not set up by management to pre-empt independent union formation or strength.

In the USA, there is a similar ambivalence about “employee involvement programmes”(EIP), which are presented either as an alternative to unionism or as a means of eroding workers’ interest in independent unionism. Yet enterprise unions and EIPs (or their equivalents outside the USA) are spreading, while traditional craft and industrial unions are shrinking. The old-style “craft”, the basis of working-class culture, was an ideal of a past age. In this era, industrial unions are facing the fate of craft unions of the past, and industrial solidarity is under pressure almost everywhere. Increasingly, loyalties cross craft and sectoral boundaries, and typically workers and employees identify more with their local community -- to the extent they identify with any social grouping.

For the DWE to be viable, worker representation of some sort is essential. The more that representation were *autonomous*, the more meaningful would be the Voice. Some analysts in the USA have sought the ideal in the form of *independent local unions* (ILU).<sup>108</sup> Most were established in the wake of the Wagner Act, which made it an unfair labour practice for an employer to dominate, interfere with, or provide financial assistance to a union.

Drawbacks with ILUs and any unaffiliated small unions include vulnerability through financial fragility, and their tendency to suffer from the “golden handcuffs” technique of managements -- to induce cooperation in return for wages and benefits. The positive aspect of ILUs is that potentially they are relatively democratic because their officers come from a smaller community. But they may have insufficient “clout” to force themselves into the boardrooms to shape corporate strategy. ILUs also fail a test of traditional unionism, which is the desire to take wages and work standards out of the sphere of “competition” by standardising them throughout an industry or an occupation. The trouble is that industrial unions cannot do that either. With globalization of production and labour market flexibility, national industrial unions cannot set labour practice rules with much effect.

Here is not the place to speculate on what type of Voice mechanism offers the best prospect for effective enterprise democracy consistent with economic dynamism. However, it is at the heart of the 21<sup>st</sup> century challenge for all those who wish to promote decent work enterprises.

The fears over the lack of Voice and a slip to paternalism should not distract attention from the fact that Corporate Social Responsibility and Decent Work practices and commitments are becoming integral parts of business strategy. The view, outlined at the outset of this paper, that firms should focus almost exclusively on making profits is being revised, since workers, the consuming public and a powerful ‘civil society’ movement are making the pursuit of good practices essential for making profits in a sustainable way.

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<sup>108</sup> S.M.Jacoby and A.Verma, “Enterprise unions in the United States”, *Industrial Relations*, Vol.31, No.1, Winter 1992, pp.137-58.

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Companies that fail and that are shown to fail in these respects are likely to become less profitable than if they succeed. And the ultimate development is that executive salaries and benefits are being linked to performance in these respects.

In sum, corporations are increasingly subjecting their own practices to public scrutiny. In that context, the Decent Work Enterprise could be a useful heuristic device. Undoubtedly, it could be refined, its components can be modified to take account of different points of view, and it can be adjusted to meet the specific conditions of different countries. It is an organising concept, which can be used to grade enterprises by explicit criteria -- principles, mechanisms and outcomes -- that can be justified as desirable or otherwise. That is its potential appeal.

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## Appendix: The Enterprise Labour Flexibility and Security Survey (ELFS)

The Enterprise Labour Flexibility and Security Survey (ELFS) is an instrument developed within the ILO over the past few years. Essentially, it is a management-based survey, involving two questionnaires addressed to managers, the first covering production and employment structure issues, and being mainly statistical, the second covering the full range of labour and employment practices in the firm.<sup>109</sup>

Implementing the ELFS requires a visit to the selected establishments by interviewers, preferably by a small team of two or three interviewers in each case. As in any professional survey, it must be conducted by a “face-to-face” interview, and not be done by mail or telephone interview. Accordingly, it is a time-intensive process that requires careful preparation, usually preceded by a letter addressed to the firm’s management explaining the main purposes of the ELFS, providing assurances of confidentiality of any information provided, and assuring the firm that its identity will not be divulged to anybody. It is perhaps this assurance that has assured a high response rate in most countries where the ELFS has been carried out.

The methodology of the ELFS has been refined through the conduct of over 40 surveys in a wide range of countries. These are summarized in Table A1.

The approach adopted in the ELFS is what might be called *modular*. The two questionnaires contain modules of questions on specific issues, such as recruitment practices, training, industrial relations or occupational health and safety practices. Each of these modules can be adapted to national or regional norms, and each can be expanded or shrunk according to the perceived significance of the issues being explored or the perceived interests of those guiding the survey.

Thus, for example, there is a core set of questions on training and retraining that is used in all ELFS. But if there is particular interest in training issues in a particular country, an enlarged module of questions on training can be administered. Over the years of testing, when such a decision is made on any topic, it has proved advisable to shorten some other part of the ELFS questionnaire, or at least to avoid including more than two enlarged modules in any one survey. This is to limit the extent of interview fatigue. Overall, on average it has been found that the interview for Part 2 of the standard ELFS Questionnaire should take about 45 minutes.

Figure A1 gives the basic conceptual model of the firm underlying the ELFS Questionnaire. Essentially, the two Parts of the Questionnaire set out to tell the *story* of the firm. It covers ownership, governance, production and related economic aspects of the firm, the employment level and structure, wages and benefits, recruitment practices, training, working practices, occupational health and safety, labour relations, retrenchment practices, the position of women (and other specified groups) and, to a certain extent, the impact of recent technological innovation.

<sup>109</sup> For a fuller description of the ELFS, see ILO Socio-Economic Security Programme, The Enterprise Labour Flexibility and Security Surveys: A Training Manual (Geneva, ILO, 2003).

Table A1: Enterprise Labour Flexibility and Security (ELFS) Surveys Carried Out

Country	Reference Period	Number of firms	Sectors	Coverage
Malaysia	1986-89	3'100	Manufacturing	National
India	1987-90	300	Manufacturing	Only Bombay
Chile	1988-91	301	Manufacturing	Grand Santiago
Philippines	1988-91	1'311	Man/Transp/Constr	6 Regions
Hungary	1989-92	400	Industry	4 Regions
Russia	1989-92	503	Manufacturing	3 Regions
Bulgaria	1990-93	501	Manufacturing	National
Mexico	1990-93	5'071	Manufacturing	National
Russia	1990-93	200	Manufacturing	3 Regions
Russia	1991-94	340	Manufacturing	4 Regions
Thailand	1992-94	306	Manufacturing	National
Bulgaria	1992-95	463	Manufacturing	National
China	1993-94	40	Manufacturing	Pilot
Kazakhstan	1994	211	Manufacturing	Capital city
Kyrgyzia	1992-95	244	Manufacturing	6 Regions
Russia	1992-95	384	Manufacturing	5 Regions
Ukraine	1992-95	348	Manufacturing	6 Regions
Albania	1993-95	342	Manufacturing	National
China	1993-95	300	Manufacturing	5 Regions
Armenia	1993-95	506	Manufacturing	6 Regions
South Africa	1993-96	400	Manufacturing	5 Regions
Russia	1993-96	384	Manufacturing	5 Regions
Russia	1993-96	384	Manufacturing	5 Regions
South Africa	1994-97	337	Manufacturing	5 Regions
Russia	1994-97	450	Manufacturing	7 Regions
Georgia	1995-97	361	Manufacturing	6 Regions
Albania	1996-97	751	Whole country	12 Regions
Kazakhstan	1996-98	500	Manufacturing	7 Regions
Ukraine	1997-99	690	Manufacturing	26 Regions
Ukraine	1998-2000	1'684	Manufacturing	26 Regions
Russia	1998-2000	400	Manufacturing	3 Regions
Philippines	1998-2000	1'300	Manuf+Services	3 Regions
Indonesia	1998-2000	2'000	Manuf+Services	5 Regions
Pakistan	1998-2000	650	Manufacturing	3 Regions
Brazil	1998-2000	500	Manufacturing	3 Regions
Chile	1998-2000	300	Manufacturing	3 Regions
Moldova	1999-2001	300	Manufacturing	National
Azerbaijan	1999-2001	300	Manufacturing	National
Tanzania	1999-2001	1'000	Manu+Prim	3 Regions
China	1999-2001	1'000	Manufacturing	3 Cities
Russia	1999-2001	300	Manufacturing	3 Regions
Russia	2001-2002	524	Manufacturing	3 regions
Ukraine	2001-2002	1892	Manufacturing	National

Diagram A1: The Enterprise Labour Market

