

# Better Factories Cambodia: An Instrument for Improving Industrial Relations in a Transnational Context

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## Abstract

Globalization of production has created an environment for labor-management relations that involves international actors and spans countries, going beyond the boundaries of the traditional workspace. The dramatic changes brought about by globalization led to the emergence of new cross-border forms of industrial relations. This paper analyses the case of the International Labour Organization's Better Factories Cambodia (BFC) project as a transnational instrument to create the institutional space for industrial relations in Cambodia. Based on the principle of social dialogue among the social partners (the national Government and workers' and employers' organizations) as well as with global buyers, BFC's multistakeholder approach reaches beyond the workplace and may be a key instrument of industrial relations because it bridges the gap between the sphere of production and that of consumption. The empirical results reveal some of the particular strengths of the program.

**Keywords:** working conditions, better factories cambodia, industrial relations

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## **Better Factories Cambodia and the Better Work Programme**

The ILO Better Factories Cambodia<sup>1</sup> project is an innovative project that combines monitoring, remediation (including improvement suggestions and good practice sheets) and training that is designed to improve working conditions in garment factories participating in global supply chains. The project is based on monitoring and reporting on working conditions in Cambodian garment factories according to international labour standards and national law, and uses the results to help factories improve working conditions and productivity.

BFC was launched in 2001, growing out of the United States (US)–Cambodia Bilateral Textile Trade Agreement. Under this trade agreement, the US promised Cambodia better access to US markets by giving it increased quotas, in exchange for improved working conditions in the garment sector. In order to ensure a rigorous, transparent and continuous cycle of improvement, BFC implementation is guided by a Project Advisory Committee, comprising representatives from the Government of Cambodia, the employers' association (GMAC) and the trade union movement. The committee meets quarterly to discuss project implementation and to advise on the monitoring and reporting system. Tripartite social dialogue is therefore at the core of BFC operations and is key to ensuring their success. This kind of social dialogue is particularly interesting in the Cambodian context where the role of law in securing rights has been questioned (Adler and Woolcock 2010).

With the phase-out of the Multifibre Arrangement quota system in 2005, international buyers have played a crucial role in ensuring continuous sourcing relationships with suppliers in Cambodia and in transitioning BFC from a project based on trade-agreement-based incentives to one based on free-trade market incentives. Thanks to international buyers' commitment to continue sourcing from Cambodia after the Multifibre Arrangement phase-out due to their engagement in BFC (FIAS, 2005), the Cambodian garment industry has continued its expansion and has established itself as an ethical sourcing location.

BFC represents a unique example for the ILO to be involved in factory-level monitoring of working conditions. Monitors observe working conditions in all Cambodian garment factories during unannounced visits. Cambodian monitors conduct a thorough assessment of compliance to international labour standards and national labour law based on observation, document review, and interviews with managers, union leaders and workers. To avoid monitor bias, each monitoring team contains at least two people, and the team members rotate so that the same team rarely assesses the same factory twice. BFC publishes the

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1 For more information, see <http://www.betterfactories.org>.

progress on improving working conditions in an annual synthesis report, which is shared with the factories' buyers.

Based on the experience of BFC, in 2006 the ILO and the International Finance Corporation (IFC), the private sector lending branch of the World Bank, partnered to establish the Better Work Programme. Better Work is based on the same principles of social dialogue with the objective to improve compliance to labour standards and promote competitiveness in global supply chains, and is active in the garment industries of Viet Nam, Jordan, Haiti, and Lesotho. Programme design is underway in Nicaragua and Indonesia, and programmes in the apparel sector are also being considered for additional countries. Similarly to BFC, Better Work carries out unannounced factory assessments to monitor on eight areas, or clusters, of labour standards. Four of the clusters are based on the ILO fundamental rights at work (elimination of child labour, elimination of forced labour, non-discrimination, and the right of freedom of association and collective bargaining) and four are based on national labour law relating to working conditions (compensation, contracts and human resources, occupational safety and health and working time). Following the assessment, a detailed report is shared with the factory. An aggregated industry-level report is issued once a year. Based on the compliance needs identified in the assessment report, Better Work offers advisory services aimed at improving compliance working alongside a management-worker committee in each factory, as well as training services. Better Work engages directly with global buyers through its Buyers' Fora both at the international and at the national level. Furthermore, financial sustainability is embedded in programme design: in large markets, the aim is for Better Work programmes to become independent and self-financing over time with an ongoing quality assurance provided by the global Better Work programme. Currently, Better Work focuses on the apparel sector, and is exploring the possibility of extending its operations to other sectors, such as electronics and tourism, through feasibility studies and consultation with global stakeholders such as sectoral unions, employers and international buyers.

Since Better Work operations are relatively recent, BFC is the best suited case study to analyse changes in industrial relations in a transnational context.

## **Data**

As the Cambodian Government has mandated that all exporting garment factories must participate in BFC in order to receive an export licence, the project eventually reached all such factories. The first wave of visits in 2001–2002 reached 119 factories with the first assessment checklist created for BFC. For the three years following the visits to these original factories, monitors used a checklist covering only the issues found in non-compliance in the previous visit, so data are unavailable for this three-year period. The next wave of documented visits began with the launch of an improved information management system in December 2005. Monitors currently visit each factory an average of once every eight months.

Table 1 summarizes the distribution of factories by both visit and time. The two "waves" described above are evident. Factories were first visited with the intention of identifying

significant violations and then revisited later with the intent of identifying progress in those areas. As a result, the early firm-level records are not as complete as for factories visited after 2006.

**Table 1. Factory counts over time**

Visit	Visit year						Total
	2001	2002	2005	2006	2007	2008	
1	85	34	7	187	30	20	363
2	0	0	18	121	136	20	295
3	0	0	0	48	185	22	255
4	0	0	0	0	80	108	188
5	0	0	0	0	12	39	51
6	0	0	0	0	0	2	2
Total	85	34	25	356	443	211	1,154

Source: Authors' elaboration of Better Factories Cambodia data.

Of the 363 factories with an initial visit, only 51 register a fifth visit. This is mainly due to a large amount of new factories being set up in the country in later years. Visits are also correlated with time, so that the large second wave explains much of the lack of fifth-visit observations. Moreover, as of 2005 the goal was to schedule visits every 6 months. In practice, this target was not feasible, and factories were visited every 8–12 months, which helps explain why only 188 factories had four visits by 2008. Learning from this experience, the Better Work Programme has set annual assessment goals, and BFC will also follow this target once it is fully aligned with Better Work.

In addition to timing issues, however, true attrition is also an issue and is perhaps most clear for the 119 first wave factories. Of these, 82 (69 per cent) have their second visit in either 2005 or 2006. The remaining 37 have no recorded second visit. Since, by law, all exporting factories are required to be visited, we believe that the lack of a second visit implies that these factories ceased operations.<sup>2</sup>

## Industrial relations measures in Better Factories Cambodia

The approximately 405 working conditions in the BFC compliance assessment checklist of questions are aggregated into 27 groups.<sup>3</sup> Of these, we argue that the following six give the most relevant information about industrial relations: collective agreements, strikes, shop stewards, liaison officer, unions, and disputes. Table 2 shows the specific questions that go

2 The Cambodian government offers a three-year tax holiday for new garment factories. This has led to factories closing down and re-opening under a new name. BFC has attempted to track these changes but has found it extremely difficult.

3 Of these 405 questions, 62 show no variation across both factory and visit. These questions are dropped from the analysis.

**Table 2. Detailed composition of industrial relations measures**

<b>Group</b>	<b>Description</b>
Collective agreements	Does management have any grievance handling procedures in place?
Collective agreements	If there is a collective bargaining agreement with a dispute resolution procedure was this followed to resolve the dispute?
Collective agreements	If there is no collective agreement, did the parties inform the labour inspector about the collective dispute(s), so the dispute(s) could be conciliated?
Collective agreements	Is the collective agreement at least as good for workers as the Labour Law?
Collective agreements	Is the collective agreement written in Khmer?
Collective agreements	Has management registered the collective agreement with the labour ministry?
Collective agreements	Has management given a copy of the collective agreement to the shop stewards?
Collective agreements	Has management posted the collective agreement in the workplace?
Strikes	Did management punish any workers for participating in the strike?
Strikes	Did management reinstate all workers after the strike?
Strikes	Did management pay the striking workers' wages during the strike?
Strikes	Did management punish any workers for participating in the strike?
Strikes	Did management reinstate all workers after the strike?
Strikes	Did management pay the striking workers' wages during the strike?
Strikes	If a court declared the strike illegal, did workers return to work within 48 hours?
Shop stewards	Does the factory have shop stewards elected by workers?
Shop stewards	Did the (last) election for shop stewards comply with all legal requirements?
Shop stewards	Are any managers or supervisors serving as shop stewards?
Shop stewards	Does management provide the shop stewards with everything required? (an office, a meeting room, office supplies, a place to display information, a copy of the labour law upon request, and two hours per week to perform their functions)
Shop stewards	Does management get permission from the labour ministry before dismissing shop stewards?
Shop stewards	Have the shop stewards been consulted and given their written opinion on redundancy?
Liaison officer	Has management appointed a liaison officer?
Liaison officer	Did management consult with worker representatives before appointing the liaison officer?

Liaison officer	Did management inform workers about the appointment of the liaison officer?
Liaison officer	Has management notified the labour ministry about the appointment of the liaison officer?
Liaison officer	Do workers have easy access to the liaison officer?
Unions	Are workers free not to join the union(s)?
Unions	Is any worker's job dependent on the worker not joining a union?
Unions	Does management deduct union dues when workers request this in writing?
Unions	Can workers freely form and join trade unions of their choice?
Unions	Has management discriminated against any worker because of the worker's union membership or union activities?
Unions	Does management get permission from the labour ministry before dismissing union leaders or candidates for union leadership?
Unions	Do unions and management engage in voluntary negotiations with a view to reaching a collective agreement?
Unions	Do these claims seem fair under the circumstances?
Unions	Does management interfere with workers or unions when they draw up their constitutions and rules, hold elections, or organize their activities, administration or finances?
Unions	Are workers free not to join the union(s)?
Unions	Is any worker's job dependent on the worker not joining a union?
Unions	Does management deduct union dues when workers request this in writing?
Unions	Does management deduct union dues from worker's wages without the worker's written authorization?
Unions	Are workers free not to join the union(s)?
Unions	Has management taken steps to bring the union(s) under its control?
Unions	Is any worker's job dependent on the worker not joining a union?
Disputes	Was the dispute conciliated in accordance with the law? (parties must attend conciliation meetings; no strikes or lockouts)
Disputes	Has management implemented the conciliation agreement?
Disputes	Has management posted the conciliation agreement in the workplace?
Disputes	If the parties reached a mutual agreement during the arbitration process, did management implement the agreement?
Disputes	Did management implement the arbitration award?
Disputes	Did management post the arbitration award?
Disputes	Did management implement conciliation agreements (if any)?

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Source: Authors' elaboration of Better Factories Cambodia data.

into each group. Given different phrasing of the various questions, we have encoded the data such that a value of 1 for compliance accords with the appropriate interpretation of each question and therefore focus on average compliance with the implicit standard for each specific area of interest.

There are a wide variety of questions that are pooled for the various groups. Some of the questions pertain to whether national labour law is followed and others are related to ILO Conventions. One of the first characteristics of table 2 that merits explicit mention is that one may argue that there are a variety of weighting schemes that might be applied to the various questions within each group that would best capture the relative “importance” of each specific question. We choose to take the most neutral approach and apply equal weights to all subquestions within a category. In other words, we effectively take the simple average across all specific questions to get a compliance average for each group.

One other point that should be mentioned about the subquestions with each category as presented in table 2 is that responses to some of the subquestions change neither across factories nor over time. In all of these cases the factors are always compliant. These specific questions are not included in the analysis that follows because the lack of variation would mask some of the variation that we are interested in across factories and over time.

Table 3 presents compliance for these 27 groups. As mentioned, each factory’s compliance measure is calculated by taking the average of all of the 0/1 compliance questions (1 indicates compliance) in each group across all factories within visit.<sup>4</sup> Therefore, a 1.000 indicates that all factories are fully compliant with all questions within that question group. A 0.800 indicates that the average compliance value for that question group is 80 per cent.

There are several factors that affect these measures across visits. The first main concern is that firms with, say, low compliance may drop out and therefore the average might increase even if there is no real change within firms. We have analysed this possibility by holding the composition of firms constant and get qualitatively similar results. Furthermore, Ang et al. (2010) specifically analyse the issue of the link between changes in working conditions and the probability of closure and find that relatively few of the 27 groups are associated with closure.

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4 In this context, compliance refers to the absence of evidence on non-compliance during each specific factory visit.



**Table 3. Compliance in aggregated working conditions indicators by visit**

Working condition group	Visit				
	1	2	3	4	5
Collective agreements	0.904	0.933	0.966	0.977	0.976
Strikes	0.975	0.999	0.999	0.998	0.987
Shop stewards	0.599	0.713	0.734	0.727	0.753
Liaison officer	0.594	0.862	0.905	0.926	0.953
Unions	0.935	0.981	0.985	0.994	0.995
Disputes	0.933	0.955	0.958	0.974	0.967
Child labour	0.800	0.734	0.745	0.746	0.750
Discrimination	0.967	0.967	0.971	0.966	0.961
Forced labour	0.996	1.000	1.000	1.000	1.000
Information about wages	0.613	0.736	0.775	0.781	0.788
Payment of wages	0.769	0.805	0.840	0.861	0.896
Contracts/Hiring	0.829	0.833	0.868	0.886	0.924
Discipline/Management misconduct	0.856	0.902	0.910	0.915	0.913
Internal regulations	0.896	0.956	0.971	0.981	0.986
Health/First aid	0.570	0.690	0.710	0.746	0.778
Machine safety	0.838	0.873	0.895	0.914	0.929
Temperature/Ventilation/Noise/Light	0.767	0.782	0.787	0.766	0.788
Welfare facilities	0.767	0.837	0.856	0.867	0.874
Workplace operations	0.697	0.757	0.775	0.786	0.804
Occupational safety and health assessment, recording and reporting	0.544	0.726	0.765	0.793	0.820
Chemicals	0.783	0.749	0.767	0.762	0.773
Emergency preparedness	0.863	0.915	0.920	0.938	0.930
Overtime	0.588	0.662	0.709	0.723	0.762
Regular hours/Weekly rest	0.756	0.860	0.887	0.892	0.898
Workers' compensation for accidents/illnesses	0.813	0.968	0.972	0.984	0.990
Holidays and annual/special leave	0.842	0.850	0.890	0.901	0.923
Maternity benefits	0.724	0.837	0.863	0.881	0.922

Source: Authors' elaboration of Better Factories Cambodia data.

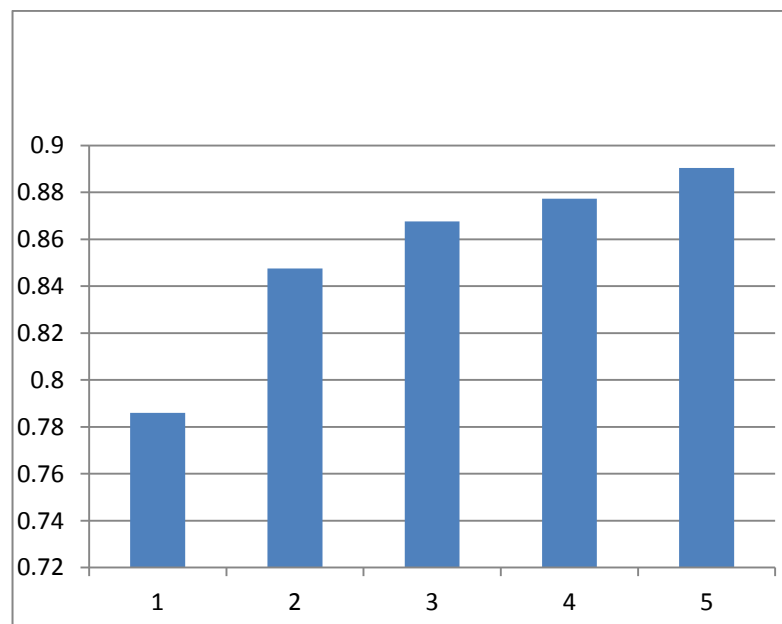
Another concern is that changes in compliance may be due to interpretation by the different monitors that enter the factories. This is possible, but the monitors enter the factories in pairs and are trained to try to apply consistent criteria when assessing even the most subjective of the questions. These pairs are rotated frequently. The compliance findings of individual monitors are periodically mapped against average findings of all monitors to detect and reduce variation. While these factors do not completely mitigate this problem, we believe that this problem is probably not significant.

Table 3 reveals a wide range of average compliance across groups, especially in the first visit. The standard deviation is 13 per cent and average values range from 0.996 (forced labour) to 0.544 (occupational safety and health assessment, recording and reporting). Most of the industrial relations measures begin with relatively high compliance – higher than the overall average across questions. The two obvious categories that stand out among the industrial relations categories are shop stewards and liaison officer. In fact, these are the only two industrial relations categories that have compliance less than 90 per cent in the first period and they begin the period significantly below the simple average across the non-industrial relations questions of 77.5 per cent. Since these stand out, and since the other industrial relations measures start with over 90 per cent compliance, we focus most of our attention on shop stewards and liaison officer in the subsequent discussion.

**Shop stewards** are elected by workers and communicate employee concerns to the employer and Labour Inspectors. **Liaison officers** are appointed by the employer after consultations with workers’ representatives. They act as a step in the dispute resolution mechanism if disputes cannot be resolved by management and workers.

On average, compliance improves across visits. The very broad increases are consistent with the goals of the BFC project: BFC entered these firms with the goal of increasing working conditions and working conditions did, in fact, improve significantly.<sup>5</sup> Figure 1 shows how overall compliance changes with visit and clearly shows overall improvement in working conditions in Cambodia since the introduction of BFC.

**Figure 1. Overall compliance**



Source: Authors’ elaboration of Better Factories Cambodia data.

<sup>5</sup> Given these encouraging results, the Better Work Programme has been designing rigorous evaluation methods to provide more formal evidence on the degree to which these improvements can be directly attributable to the Better Work model.

**Table 4. Cumulative change in compliance from first visit, all firms in sample**

Question group	Change from visit 1 to visit:			
	2	3	4	5
Collective agreements	0.029	0.063	0.073	0.073
Strikes	0.024	0.024	0.024	0.012
Shop stewards	0.114	0.135	0.127	0.154
Liaison officer	0.268	0.311	0.332	0.359
Unions	0.046	0.050	0.059	0.060
Disputes	0.021	0.025	0.041	0.034
Child labour	-0.067	-0.055	-0.054	-0.050
Discrimination	0.000	0.004	-0.001	-0.006
Forced labour	0.004	0.004	0.004	0.004
Information about wages	0.122	0.162	0.168	0.175
Payment of wages	0.036	0.071	0.092	0.127
Contracts/Hiring	0.004	0.038	0.057	0.095
Discipline/Management misconduct	0.046	0.054	0.059	0.056
Internal regulations	0.059	0.075	0.085	0.090
Health/First aid	0.121	0.141	0.176	0.208
Machine safety	0.035	0.057	0.075	0.091
Temperature/Ventilation/Noise/Light	0.015	0.020	-0.001	0.021
Welfare facilities	0.070	0.089	0.100	0.107
Workplace operations	0.059	0.078	0.089	0.106
Occupational safety and health assessment, recording and reporting	0.182	0.221	0.248	0.275
Chemicals	-0.034	-0.017	-0.021	-0.010
Emergency preparedness	0.053	0.057	0.076	0.067
Overtime	0.074	0.121	0.135	0.174
Regular hours/Weekly rest	0.104	0.131	0.136	0.142
Workers' compensation for accidents/illnesses	0.155	0.158	0.171	0.177
Holidays and annual/special leave	0.008	0.047	0.059	0.081
Maternity benefits	0.113	0.140	0.157	0.198

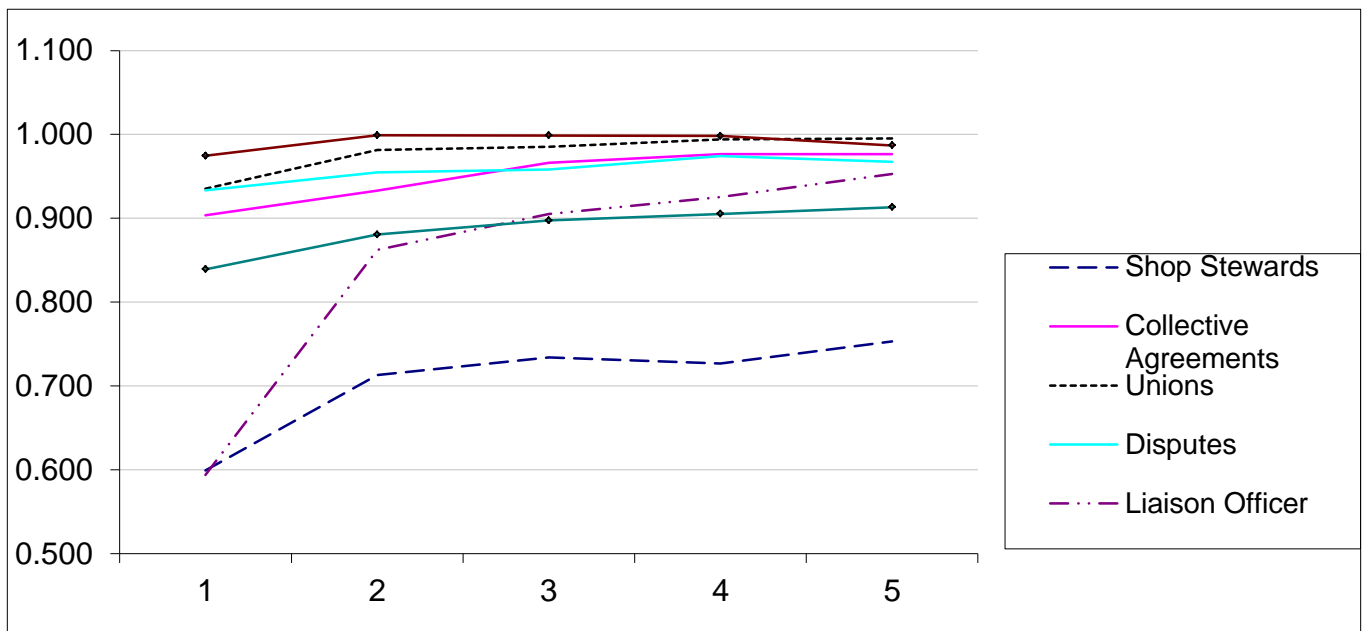
Source: Table 3.

The correlation between average values in the first and fourth visits is only 0.78, which suggests that there is uneven improvement in groups across time. This uneven improvement across visits is perhaps best illustrated with changes across different categories, such as those shown in table 4. The table shows how changes within categories grow over time by presenting the difference in each period from the average value in the first visit. In other words, the table presents the *cumulative* changes within each category. The cumulative

changes in the liaison officer and shop stewards categories are the largest, which is not surprising given that they started from the smallest base. But the increases in compliance in these areas are particularly impressive when compared to changes in all other (non-industrial relations) categories. These changes are consistent with BFC’s focus on improving communications between workers and managers. Along similar lines, the relatively small changes for the other industrial relations categories are due to their initial high base.

The data in table 4 also demonstrate the diminishing marginal changes exhibited by nearly all categories. The largest changes occur between the first and second visit and subsequent changes are much smaller. This pattern is also evident in figure 2. But it is also true that there is relatively little retrogression in the compliance measures. If anything, the pattern that best describes changes in these averages is that the significant improvement that often occurs between the first and second visit is sustained and not lost in subsequent visits.

**Figure 2. Industrial relations measures by visit**



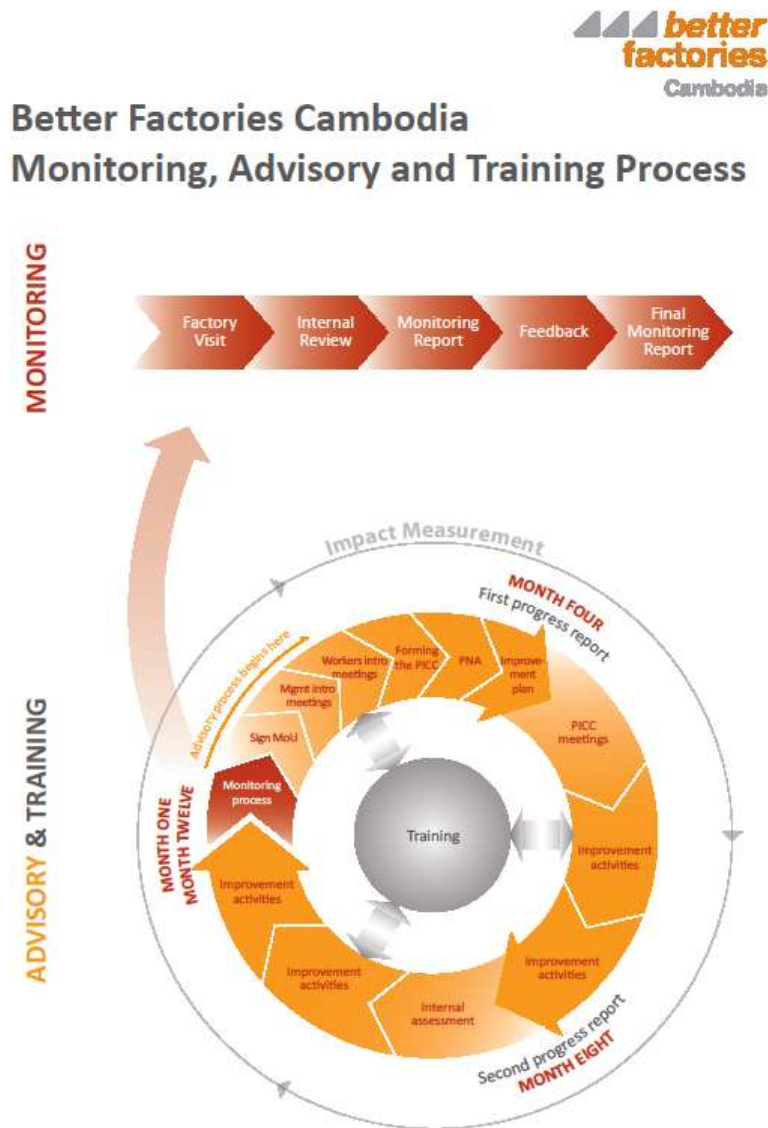
Notes: Measures are the simple average across plants and across questions within each group. The values along the horizontal axis represent visit number.

Source: Authors’ elaboration of Better Factories Cambodia data.

One key issue in industrial relations is the effect of better communications within the firm. If shop stewards and liaison officer were improving communications, these changes should be correlated with issues that directly affect workers, such as information about wages, occupational safety and health, overtime, and rest. Figure 3 illustrates one possible interpretation of the BFC model. The process begins with assessments for each factory performed by ILO-trained monitors.

The results of these monitoring reports are then analysed and then the firms are revisited with the results of the assessment to inform the firms of what problems were identified. Perhaps more importantly, however, is that factories receive suggestions, good practice sheets and information about how to address the concerns identified in the assessment. While offering a training programme implemented since 2005, BFC does not provide full-fledged advisory services as the Better Work Programme does, but it is progressively aligning itself with it (figure 3).

**Figure 3. Better Factories Cambodia model with feedback loops**



Source: Better Work Programme.

Improvement in communication and industrial relations may facilitate resolution of problems on the part of both workers and management. This therefore leads to further improvements in other areas of working conditions. Furthermore, there is a possible effect

on productivity. Improvements in productivity beyond those captured by wage increases increase both profits and the resource base available to the firms to address other, potentially more costly, concerns (such as installing air conditioners or updating plumbing, for example). To try to illustrate the role of these relationships, table 5 presents the pairwise correlation between changes in the six industrial relations measures with each other and with the other measures of working conditions. As might be expected from the previous tables, the strongest correlation is between shop stewards and liaison officer. Unions and strikes are also highly correlated, but the other industrial relations measures show relatively small correlations. In fact, of the industrial relations measures, shop stewards and liaison officer have the highest correlations with the other measures, such as information about wages (0.46 and 0.56 for stewards and liaison officer respectively), occupational safety and health (0.54 and 0.71), and regular hours/weekly rest (0.54 and 0.63). These changes are consistent with the idea that communication within the firm is accompanied with improvements in a range of human resource practices.

**Table 5. Contemporaneous correlation between industrial relations and other working conditions**

	Collective bargaining	Strikes	Shop stewards	Liaison officers	Unions	Disputes
Collective bargaining	.	.	.	.	.	.
Strikes	0.18	.	.	.	.	.
Shop stewards	-0.05	0.17	.	.	.	.
Liaison officer	0.08	0.24	0.58	.	.	.
Unions	0.13	0.43	0.21	0.28	.	.
Disputes	0.24	0.25	0.05	0.02	0.24	.
Information about wages	0.03	0.18	0.46	0.56	0.22	0.13
Payment of wages	0.06	0.16	-0.04	0.09	0.16	0.12
Contracts/Hiring	0.03	-0.16	-0.27	-0.27	-0.09	0.06
Disciplines/Management misconduct	0.01	0.10	0.16	0.26	0.10	0.13
Internal regulations	0.02	-0.01	0.24	0.26	0.05	-0.07
Health/First aid	0.11	0.07	0.47	0.50	0.12	0.07
Machine safety	0.05	-0.07	0.04	0.01	-0.04	0.02
Temperature/Ventilation/Noise/Light	0.11	-0.07	-0.03	0.02	0.02	0.11
Welfare facilities	0.09	0.11	0.40	0.45	0.26	0.10
Workplace operations	0.16	0.02	0.31	0.27	0.08	0.10
Occupational safety and health assessment, recording and reporting	0.11	0.21	0.54	0.71	0.25	0.04
Chemicals	-0.02	-0.15	0.04	0.01	0.03	-0.01
Emergency preparedness	0.12	-0.01	0.14	0.26	0.17	-0.20
Overtime	-0.04	0.05	0.26	0.24	0.18	-0.02
Regular hours/Weekly rest	0.09	0.14	0.54	0.63	0.18	0.07

Worker compensation for accidents/illnesses	0.01	0.14	0.48	0.47	0.22	0.08
Holiday and annual/special leave	0.01	-0.02	-0.04	-0.06	0.05	0.12
Maternity benefits	0.08	0.15	0.35	0.35	0.04	0.09
Discrimination	0.06	-0.06	-0.01	0.07	0.05	0.07
Forced labour	0.16	0.46	0.02	0.16	0.30	-0.01

Source: Authors' elaboration of Better Factories Cambodia data.

One potential concern with the correlations in table 5 is that they are contemporaneous in the sense that they both occur in the same time between visits. That is, it is impossible to tell of changes in one variable are driving another, if they both occur at the same time by chance, or if they are both being driven by a common third factor (such as BFC). To get a sense of the empirical relevance of the potential feedback loops represented in figure 10.3 (above) that might be the result of improvements in the shop stewards or liaison officer categories, table 6 contains the results of 54 regressions of the form

$$\Delta c_{it} = \alpha + \beta \Delta c_{jt-1} + \varepsilon_{it}, \quad (1)$$

in which  $\Delta c_{it}$  represents the change in the average value of working condition  $i$  between the current and previous visit. On the right-hand side is the change in either shop stewards or liaison officer between the prior two visits (the lagged change). The goal of these essentially univariate ordinary least square regressions is not so much to explain the change in each working condition, but instead to get a sense of what effect previous improvements in shop stewards and liaison officer have on subsequent changes in other working conditions.

Since the working conditions measures are already in percentage terms, the coefficient estimates tell us how many percentage points each working condition measure would change if the measure of either stewards or liaison officer were to increase by 1 percentage point. While the coefficients may seem small, in table 4 we observe that between the first and fifth visit the average of the stewards variable increases by about 15 percentage points. For example, given this change and the actual change in, say, contracts, these results suggest that changes in stewardship might explain about 15 per cent of the increase in the average value of the contracts average. Since BFC continued to provide information on how to address each of the issues that were identified as problematic for the factories, it seems that making early investments in shop stewards and liaison officer helped facilitate later improvements in working conditions.

**Table 6. Effect of prior changes in shop stewards and liaison officer on subsequent changes in other working conditions**

Working conditions	Shop stewards		Liaison officer	
	Coef	S.E.	Coef	S.E.
Collective agreements	0.070	(0.023)**	0.070	(0.013)**
Strikes	-0.009	(0.009)	-0.001	(0.006)
Shop stewards	-0.077	(0.028)**	0.058	(0.017)**
Liaison officer	0.022	(0.029)	-0.012	(0.017)
Unions	-0.019	(0.017)	-0.010	(0.010)
Disputes	0.011	(0.038)	-0.032	(0.023)
Child labour	0.021	(0.015)	0.017	(0.009)
Discrimination	0.026	(0.024)	0.003	(0.014)
Forced labour	0.000	(0.000)	0.000	(0.000)
Information about wages	-0.006	(0.028)	0.028	(0.016)
Payment of wages	0.034	(0.027)	0.001	(0.016)
Contracts/Hiring	0.058	(0.021)**	0.018	(0.013)
Discipline/Management misconduct	0.011	(0.018)	0.005	(0.011)
Internal regulations	-0.000	(0.013)	0.008	(0.008)
Health/First aid	0.050	(0.027)	0.042	(0.016)*
Machine safety	0.045	(0.023)	0.069	(0.014)**
Temperature/Ventilation/Noise/Light	0.045	(0.033)	0.057	(0.020)**
Welfare facilities	0.024	(0.020)	0.030	(0.012)*
Workplace operations	-0.011	(0.025)	-0.005	(0.015)
Occupational safety and health assessment, recording and reporting	0.069	(0.021)**	0.057	(0.012)**
Chemicals	0.030	(0.059)	0.046	(0.035)
Emergency preparedness	0.019	(0.021)	0.017	(0.012)
Overtime	-0.042	(0.044)	0.021	(0.026)
Regular hours/Weekly rest	0.041	(0.022)	0.052	(0.013)**
Workers' compensation for accidents/illnesses	-0.014	(0.021)	0.004	(0.012)
Holidays and annual/special leave	0.034	(0.023)	0.044	(0.014)**
Maternity benefits	0.022	(0.023)	0.048	(0.014)**

Notes: Each coefficient and standard error come from a separate ordinary least square regression of the current change in the average compliance in each working condition group on the lagged change in average compliance in either the shop stewards or liaison officer group. \* Significant at 5%. \*\* Significant at 1%. Constant terms were the only other regressor included in each regression but are not reported to save space. All regressions have 491 observations and adjusted R-squared values less than 3%.

Source: Authors' elaboration of Better Factories Cambodia data.



The results tell a slightly different story than the contemporaneous correlations found in the previous table. The first main difference is that different categories of working conditions seem to be affected, as described below. The second main difference is that there are now significant differences in the categories affected by the two variables of interest. Another important result that emerges from table 5 is that there are no statistically significant *negative* relationships. This, of course, is to be expected, but it is comforting to observe this result. This is not to say that there are not negative coefficient estimates. The estimates that are negative are generally very small (only one is greater than 0.015 in absolute value) and none of them are statistically significant. This reinforces the earlier point that working conditions, once improved, rarely regress. Sustaining improvements in working conditions could very well be the result of continued monitoring that is a key feature of BFC.

There are several differences between shop stewards and liaison officer. Previous improvements in the shop stewards category are positively correlated with improvements in collective agreements, contracts/hiring, and occupational safety and health assessment, recording and reporting.

Interestingly, a positive change in shop stewards in between the last two visits is correlated with a *decline* in the average value in shop stewards between the current and previous visit.

Improvements in the liaison officer category, on the other hand, are followed by statistically significant improvements in collective agreements, shop stewards (but not the other way around), health/first aid, machine safety, temperature, welfare facilities, occupational safety and health assessment, recording and reporting, regular hours/weekly rest, holiday leave, and maternity benefits. One potential explanation for these results is that putting the liaison officer in place offers workers a channel to bring their concerns to management for remediation. This would be consistent with the goals of BFC to the extent that fostering improvements in industrial relations are important in having a positive impact on the rest of the firm.

Given the importance of the shop stewards and liaison officer categories, it might be useful to decompose the changes in their specific questions to get an idea of what exactly is driving their movements. Table 7 shows the average compliance for all subquestions that vary either across firms or over visit within these two groups. For the shop stewards, the greatest violations emerge with regards to the last election (complying with all legal requirements) and whether or not management provides everything required for the shop stewards. These two start with compliance rates well below 50 per cent. While the second improves over time, compliance with the legal requirements for elections actually falls over visits. The other two questions that make up this category, however, start with relatively high compliance, reach full compliance, and do not fall back from full compliance. These questions therefore clearly indicate areas of change and where future research might be directed.

**Table 7. Detailed changes within shop stewards and liaison categories (compliance averages across all factories, %)**

Shop steward detail	Visit number				
	1	2	3	4	5
Did the (last) election for shop stewards comply with all legal requirements?	38.1	38.3	40.0	34.0	35.3
Does management provide the shop stewards with everything required? (an office, a meeting room, office supplies, a place to display information, a copy of the labour law upon request, and two hours per week to perform their functions)	32.0	45.1	53.7	47.3	56.9
Does management get permission from the labour ministry before dismissing shop stewards?	97.7	98.3	99.2	100.0	100.0
Have the shop stewards been consulted and given their written opinion on redundancy?	79.5	100.0	100.0	100.0	100.0
<b>Liaison detail</b>					
Has management appointed a liaison officer?	35.5	59.0	64.7	73.9	84.3
Did management consult with worker representatives before appointing the liaison officer?	90.2	89.8	95.7	95.7	96.1
Did management inform workers about the appointment of the liaison officer?	87.4	90.2	95.7	95.7	98.0
Has management notified the labour ministry about the appointment of the liaison officer?	99.2	99.7	99.6	99.5	100.0
Do workers have easy access to the liaison officer?	88.9	92.5	96.9	97.9	98.0

Source: Authors' elaboration of Better Factories Cambodia data.

In terms of liaison officer detail, the greatest first-visit violations, on average, occur with the management appointment of a liaison officer. Over visits, however, this measure greatly improves, suggesting that the appointment of the liaison officer may indeed be supporting improved communication. The other subquestions begin with much higher compliance rates and also increase compliance with visits. Unlike with shop stewards, no categories fall in compliance over visits.

## Discussion

The analysis above seems to suggest that compliance to industrial relations indicators was on average already high at the time of the first BFC visit, averaging 83.9 per cent compliance across the industrial relations measures identified above. The average across all non-

industrial measures in the first visit was 77.5 per cent. Throughout visits, the compliance rate remained high and above the other measures. By the time of the fifth BFC visit, the average across all industrial relations measures reached 91.3 per cent, while the average across other measures reached 87.7 per cent. In the framework of the analysis of the impact of BFC on improving industrial relations, it is crucial to highlight two main limiting aspects to the analysis.

First, BFC monitoring activities are related to the workplace. As a consequence, assessing compliance to international labour standards and national legislation focuses on employers' behaviour and does not monitor behaviour of any other industrial relations actor. This emerges as a crucial point when analysing the compliance rates related to strikes. In the first BFC visit, compliance to checklist questions concerning strikes was on average 97.5 per cent, suggesting very high levels of compliance to the law. However, union behaviour is not captured by BFC checklist questions. Qualitatively, BFC highlighted this issue in its first synthesis report, stating that "None of the 27 strikes held were organized by workers/unions in accordance with the applicable rules and procedures" (Better Factories Cambodia, 2001). The rules and procedures foreseen by Cambodian Labour Law are particularly cumbersome, especially concerning the prior notice of seven working days that unions have to give to employers and to the Ministry of Labour prior to the strike. These regulations render the vast majority of strikes illegal. This finding is particularly important in light of the problematic industrial relations situation that was occurring at the time of the establishment of BFC in Cambodia (Hall, 2000; Miller, 2008b). At present, strike activity remains very high in Cambodian factories. When monitored by BFC, approximately 15 per cent of factories report at least one strike.<sup>6</sup>

The example described above shows that there are limitations in the assessment of freedom of association with a solely quantitative, checklist approach (Hunter and Urminsky, 2003). Compliance to the right to organize is not measured by the presence or absence of unions in the factory. Indeed, a worker may have the freedom of joining a union but may choose not to do so. Furthermore, industrial relations do not only concern a unilateral approach in which workers see their rights being respected by their employers, but they also involve workers' responsibilities to exercise their rights in compliance with the law.

BFC actively encourages the development and strengthening of industrial relations between social partners. It does so in collaboration with existing ILO activities in the country. In particular, the ILO's project on Worker's Education Assistance to the Cambodian Trade Union Movement focuses on bringing together union federations and offers training programmes to support unions in the formulation of joint statements and collective bargaining. Furthermore, the ILO's Labour Dispute Resolution Project has worked since 2003 with unions and employers to encourage collective bargaining in the industry and has established the Arbitration Council,<sup>7</sup> which is a Cambodian independent national institution for labour dispute resolutions and is integrated into the country's industrial relations having been established in cooperation with the Ministry of Labour, employers and trade unions.

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6 See the four latest Synthesis Reports, [www.betterfactories.org](http://www.betterfactories.org). The latest report available at the time of writing was the Twenty-Third Synthesis Report, dated 31 October 2009.

7 For more information, visit [www.arbitrationcouncil.org](http://www.arbitrationcouncil.org).

The Arbitration Council provides direct assistance to workers and employers to solve their workplace disputes in an independent and transparent way.

Since its establishment, the Council has received over 800 cases concerning freedom of association, employment contracts, wages and benefits, workplace safety and health and other working conditions. Workers and managers are encouraged to settle their conflict through a mediated agreement. When this is not successful, formal arbitration is used and a decision is taken on the base of legal reasoning, supporting documents and witness testimonies. The Arbitration Council constitutes a rigorous and transparent mechanism for dispute resolution that has contributed to the improvement of industrial relations in Cambodia.

Notwithstanding the significant improvements in industrial relations brought about by BFC monitoring and implementation, it must be noted that the industrial relations environment in Cambodia remains challenging and has been hampered in the past by threats and discrimination. This tense atmosphere was brought to the extreme when it resulted in the killings of union members in 2004 and 2007. Throughout the years, BFC has acknowledged allegations of corruptions among union officials limiting the exercise of freedom of association and as a consequence hindering the right to collective bargaining.

## **Conclusions**

This paper has analysed the changes in industrial relations brought about by the ILO's Better Factories Cambodia project. Focusing in particular on specific indicators of industrial relations, such as shop stewards and liaison officer indicators, the analysis suggests that BFC's monitoring and advisory services aimed at remediation have been instrumental in creating an open environment for improved industrial relations. In turn, improved industrial relations, exemplified in this case by improved communication between management and workers, have led to improvements in crucial aspects of working conditions and workers' wellbeing, such as occupational safety and health, wages, working time and weekly rest.

Ten years on, the experience of BFC has shown that such an innovative and ambitious project, based on the principle of social dialogue among national and global stakeholders, can deliver significant improvements in industrial relations. The ILO/IFC Better Work Programme is following BFC's blueprint working on continuous improvements on industrial relations in the global context.

Similarly to other industrial relations mechanisms operating in a transnational context, such as IFAs, BFC and Better Work contribute to the creation of the institutional space for industrial relations to develop (Papadakis, Casale, and Tsotroudi 2008). The institutional space being created would work best if filled by actors from all sectors who are committed to representing workers and to improving their livelihoods by adopting measures in compliance with the law. This remains a challenging issue in the Cambodian context. Hence, whilst the efforts of BFC and Better Work are mainly directed to the workplace and to ensuring that the factory's management is in compliance with international labour standards and national law, there is continuous need especially from a broader ILO perspective to actively engage in capacity building with local and national unions (Kolben, 2004). This,

paired with the ongoing efforts of BFC and Better Work, will constructively contribute to the establishment of sound industrial relations in the exporting garment sector.

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