



## **Manual Timekeeping and Compliance in Pakistan's Textile Export Industry: A Possible Threat Needs to Be Addressed**

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### **ABSTRACT**

In recent decades, the international demand for textiles has seen a substantial increase, positioning Pakistan's textile industry as a pivotal player in global manufacturing. International retailers are intensifying their focus on sourcing textiles and garments from Pakistan due to its strategic importance, necessitating stringent adherence to ethical and social compliance, especially aligning with international human and labor rights standards. This research explores the complexities surrounding the management of working hours in textile factories, a fundamental component of social compliance, considering that the vast majority, over 80%, of textile workers are in contractual employment. Predominantly, the industry relies on manual systems for recording time, attendance, and payroll for contract workers, leading to a plethora of issues including 'working off the clock' violations, discrepancies in overtime, and unclear wage structures. This study, based on data extracted from operational records, i.e., social compliance audit reports from several textile manufacturing units, employs quantitative analytical techniques to identify patterns and assess the implications of these manual practices. The findings highlight significant oversights in the current practices which become glaringly evident during social compliance audits, thus compromising the ethical stature of the factories. The paper underscores the critical need for refining current mechanisms to ensure strict conformity to international ethical and social standards and emphasizes the urgent improvement in contract labor management. The integration of accurate, transparent, and efficient timekeeping and payroll systems is posited as crucial for mitigating risks related to non-compliance and maintaining the sustainability and reputation of Pakistan's textile export industry.

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## **1. Introduction**

In today's globalized market, achieving comprehensive supply chain transparency remains a formidable challenge. The intricate process of outsourcing, combined with an ever-expanding network of suppliers, calls for a deeper insight into production methodologies. This heightened awareness is driven by not just the intricacies of the manufacturing process, but also by pressing ethical considerations that have recently come to the fore.

The Plaza garment factory collapse in Bangladesh stands as a grim testament to the ethical and environmental pitfalls that can lie at the inception of global supply chains. Such incidents have precipitated demands from governments, consumers, corporations, and retailers for greater clarity about product origins and the practices underpinning their creation. Common concerns revolve around the quality, safety, environmental footprint, and ethical integrity of the processes employed (Hill, 2016).

In a study conducted by Noor, U. H., et al. (2023), the influence of Environmental, Social, and Governance (ESG) factors on the financial performance of 54 non-financial firms listed on the PSX was explored. The results highlighted how compliance reports reflecting improved social compliance had a significant impact, suggesting that adherence to ESG standards can enhance the overall financial performance of a company in the long run. These findings offer valuable insights for management and policy-makers for resource allocation and strategic decision-making. Understanding the transparency in disclosures can help stakeholders assess practices and policies for better ESG evaluations (Almeyda & Darmansya, 2019)

As global outsourcing proliferates, a company's reputation is intricately linked not only to its practices but also to those of entities within its extended supply chain (Wathne, 2014). The risk is accentuated when operations are offshored to regions with minimal labor and environmental standards (Geis, 2007). The intricate web of suppliers, vendors, and subcontractors compounds the challenge, making it arduous for firms to establish standards in factories they don't directly own (Hill, Cherry, 2016).

The International Labor Organization (ILO), an esteemed UN agency, champions social justice and labor rights worldwide. Founded in 1919, it became the inaugural specialized UN agency in 1946. It formulates policies promoting rights at work, fostering decent employment opportunities, and enhancing social protection. The ILO also establishes international labor norms, buttressed by a unique supervisory mechanism (ILO, 2004).

The essence of social protection is profoundly embodied in the California Transparency in Supply Chains Act of 2010, representing a transparency approach that mandates companies to publicly declare their endeavors to exterminate modern slavery within their supply chains (Zumbansen, P., 2023). This act underscores the paramount importance of incorporating social protection measures to address and mitigate exploitative practices, fostering ethical and humane conditions throughout supply chains. By necessitating disclosure, it holds entities accountable for implementing robust social protection strategies to combat modern slavery, ensuring the sustenance of rights and well-being of individuals within the supply chain networks.



Supply chain Code of Conduct (CoC) has gained traction among corporations. Often drawing inspiration from ILO principles, these codes furnish detailed ethical guidelines. Several firms have also sculpted tailored supply chain strategies, clarifying CoCs as declarations of ethical business conduct (ILO, 2004).

Yet, labor policies, no longer the sole purview of federal governments, have proliferated into distinct provincial guidelines. This fragmentation often sows confusion, making it challenging for businesses and labor unions to discern applicable standards (Pakistan Country study, 2016).

Prominent manufacturing companies and retailers, acknowledging this challenge, have instituted proprietary CoCs. These ascertain the adherence of their suppliers to stipulated standards and local laws. Compliance is often vetted through in-house auditors or third-party evaluations, commonly termed Social Compliance (SC) audits. This study emphasizes retailers like Disney, IKEA, Gap, Walmart, Levi Strauss & Co, and Nike, elucidating their outsourcing practices in Pakistan's textile industry.

Central to this discourse is the critical nature of labor time regulation. Rapid advancements and intensifying market competition have altered work modalities, calling for adaptive organizational mechanisms. However, labor shouldn't be commodified. Recognizing these shifts, the ILO has ratified a series of standards on work hours and rest periods, which this research seeks to illuminate (International Labor Conference, ILO, 2018).

## **1.2 BACKGROUND**

The Pakistani media has recently spotlighted the pressing social compliance concerns within the country's textile industry. This renewed attention follows intensive social audits conducted by prominent textile purchasers from Europe and the USA. Should a social audit report not accurately identify occurrences of non-adherence to social and safety norms, principal companies might persist in procuring from these suppliers without addressing these concerns and enacting necessary protections for workers swiftly. These audits have driven textile mills in Pakistan to upgrade environmental and work conditions to meet stringent international standards. However, in the absence of unequivocal and obtainable mechanisms for transparency and accountability, such audits consequently pose the potential to detriment workers rather than offer them advantages (Terwindt & Burckhardt, 2019).

Huang (2015) posits that social compliance audits serve as pivotal instruments to ascertain the ethical standards and practices within production facilities. Such audits ensure adherence to the stipulated guidelines concerning work conditions, health benefits, and other labor-related ethical practices. While local laws often dictate these standards, a growing trend among retailers is the establishment of proprietary benchmarks. The objective of social compliance audits is to instill transparency in the production process, ensuring a clear and accountable relationship between suppliers and buyers.

Historically, the modus operandi for managing social compliance operations has been manual, often reliant on paper-based processes. Such methodologies can be fraught with inefficiencies, particularly when coordinating tasks, notifications, and follow-ups. Brian Dixon, a labor law expert from the firm Littler Mendelson US, emphasizes the pivotal nature of accurate employee time-



tracking for employers. Any misstep in this process can potentially spiral into significant complications (Bell Keren, 2014).

One of the recurring compliance discrepancies within manufacturing facilities is the excessive allocation of overtime. Audit findings frequently highlight the absence of meticulous records about logged work hours and payroll details. Such omissions often mask the overextension of workers, who clock in extra hours beyond the stipulated limit. Notably, many manufacturing units, especially in Pakistan, deliberately sidestep maintaining comprehensive financial documentation related to wages. This absence of formal record-keeping facilitates unjustified wage withholdings and other illicit practices (Huang G., 2015).

Despite the clear significance of supply chain monitoring, Mayer et al. (2004) note a discernible knowledge gap regarding the effectiveness and integrity of these monitoring processes. Few empirical studies have rigorously explored the determinants that influence the assessments made by supply chain monitors about suppliers' conformity to human rights standards. This research endeavors to bridge this knowledge lacuna. Drawing from existing scholarly insights on regulatory compliance and bounded rationality, it argues that monitors, rather than being pure conduits of objective information, are influenced by a gamut of social relationships, institutions, and identities. This realization holds profound implications for firms that heavily rely on outsourcing (JODI L, 2015).

Conclusively, the standards applicable to textile exports can be segmented into appearance-related, customer-specific (which may encompass physical, chemical, or other aspects), social (incorporating labor, facility, and environmental conditions), and environmental facets. Larger corporations, especially those attentive to their corporate branding, are formulating their distinct codes of conduct. They are increasingly leaning towards their in-house audit teams, moving away from mere reliance on international certifications like ISO (Ehsan Salman, 2014)

In the rapidly evolving global marketplace, the focus has transcended beyond product quality to encompass the conditions under which these products are manufactured. Today's discerning consumers and retailers prioritize not just the tangible attributes of a product but also the ethical parameters of its production environment, particularly the treatment and welfare of the workforce. Notably, the textile and garment sectors, characterized by their labor-intensive processes, often bear the brunt of these concerns. Within these industries, there is a burgeoning issue of worker exploitation in terms of remuneration, work hours, and basic rights. Despite the establishment of varied minimum wage benchmarks across sectors like power loom, footwear, silk, jute, textile, woolen fabric, and leather in Pakistan post the 2012 legislation, discrepancies in adherence persist. A salient concern is the routine imposition of mandatory overtime and the frequent denial of permanent contracts to workers, even after prolonged service periods. This current landscape raises critical questions about the alignment of industry practices with globally recognized human rights standards and the potential implications for brand image and value in the global marketplace.

The primary objective of this research is to investigate the prevalence and implications of manual recording of working hours in the textile industries of Pakistan and its subsequent impact on wage transparency and timely disbursement of overtime premiums. This study seeks to elucidate the significance of these issues about social and ethical compliance standards, as well as the established codes of conduct within the sector's retailers.



Having delineated the primary objectives of this research, it becomes imperative to further dissect the overarching theme into specific investigative queries. These questions serve as the foundation for the empirical analysis, guiding the exploration of the intricacies of social and ethical compliance within the context of the global supply chain. Therefore, to address the objectives and unravel the complexities of the textile industry's compliance dynamics in Pakistan, this research posits the following questions

- How can sustainability values be integrated into global supply policies, and what role do ethical and social compliance play in this integration?
- Who governs the standard-setting processes in compliance, and what methodologies are employed in these determinations?
- What are the impacts of compliance issues, such as improper recording of employee working hours and delays in overtime premiums, on the overall sustainability and corporate reputation of a business?
- To what extent do audited companies adhere to their stated commitments, and how is this adherence evaluated and enforced?

The importance of this study lies in the recognition that monitoring can serve as a crucial component in enforcing labor laws and codes of conduct both on a global and local scale. Accurate monitoring and observation can pinpoint challenges within contractors' factories and manufacturing facilities, gauge performance, and aid in devising strategies to enhance conditions. Conversely, flawed or inaccurate monitoring and recording may cause more harm than benefit. Such deficient monitoring may divert focus from the core issues in a factory, provide a misleadingly positive portrayal of a facility's performance, assert a company's compliance based on limited evidence, and potentially undermine the workers it aims to assist. The secretive nature of audits may lead to reports that omit multiple sources of information, are unable to be verified by independent researchers or NGOs, and contribute nothing to broader public efforts to elevate working standards and amenities for employees within factories. Corporations employing monitoring systems must commit to rendering their factory reviews and audit procedures accessible to promote transparency, accountability, and verification.

Furthermore, outsourcing is increasingly perceived as a value creation that can provide businesses with a sustained competitive edge in the market and a legitimate image in the commercial realm. Regrettably, numerous social and environmental impacts continue to afflict the global supply chain, leading to scandals for purchasing companies. A failure to manage these impacts has heightened the risk of non-compliance, subsequently damaging the company's reputation. The central focus remains on labor rights as stipulated in ILO conventions and treaties. Initiatives that concentrate on these concerns often employ terms such as social accountability or social responsibility to articulate and represent the issues they are addressing.



## **LITERATURE REVIEW**

### **2.1 SOCIAL COMPLIANCE:**

Social compliance is a crucial paradigm, representing a commitment by businesses to adhere to a diverse array of social, ethical, and environmental standards and norms, encompassing labor rights, equitable wages, and secure, humane working conditions (Bhattacharya & Rahman, 2020; Islam et al., 2021). This concept has witnessed burgeoning significance within the spectrum of the global supply chain in recent years, spurred by heightened consumer awareness and amplified demand for products sourced ethically and responsibly (Müller.S., 2021). Social compliance serves as an instrumental mechanism for delineating industrially responsible sourcing practices, with a special emphasis on factories integral to the global supply chain.

The implementation of stringent social responsibility standards is often sought by many suppliers as a strategic approach to managing and optimizing their social compliance protocols (Boiral et al., 2017). These adaptations of social compliance methodologies are typically aligned with the stipulations and expectations of buyers and their respective stakeholders, thereby facilitating harmonious and ethically sound business operations. However, it is noteworthy that incidents indicative of non-compliance are not uncommon and are reported recurrently, underscoring the existence of substantial gaps and inadequacies in adherence to prescribed norms (Jiang, 2009a; Lui et al., 2009; Jajja et al., 2018).

Despite the implementation of compliance mechanisms, there remain pervasive discrepancies and challenges in the assimilation and application of these standards. Our current comprehension of the intricate dynamics and nuances involved in the standard adoption process is relatively fragmented and warrants comprehensive, in-depth exploration and analysis. Global sourcing from developing countries is on the rise; this has been accompanied by concerns regarding poor social compliance of suppliers (Huq and Stevenson, 2018). Expanding the body of knowledge on these dynamics is paramount to enhancing the efficacy of strategies aimed at bolstering supplier social compliance, thereby contributing to the evolution of more sustainable, equitable, and responsible business ecosystems.

This endeavor not only encompasses an understanding of the intricate mechanics of compliance but also necessitates a holistic examination of the ethical implications and social ramifications associated with it. The refinement and augmentation of methodologies related to social compliance are crucial for fostering a landscape of corporate responsibility that is reflective of ethical integrity, social consciousness, and environmental stewardship. By doing so, the industries can ensure the realization of more equitable, humane, and sustainable practices across all facets of the global supply chain.

#### **2.1.1 SOCIAL COMPLIANCE AUDITS**

Social compliance audits serve as a pivotal tool to evaluate and assess an entity's alignment with its defined social policies and objectives. One could posit that these audits manifest with two distinct, albeit not necessarily conflicting, objectives. Initially, they are undertaken to manage risks, steward organizational legitimacy, foster image management, identify latent opportunities and ultimately ascertain that an entity is upholding its core values. Conversely, these audits can be geared toward promoting societal accountability, endorsing democratic principles, and fostering



sustainability. Their overarching goal in this context is to discern how an organization's pursuits either contribute to or detract from societal and ethical compliance, especially when the operational paradigm includes outsourcing. (M.Azizul Islam, et al., 2018)

In the realm of supply chain management, the decision-making associated with outsourcing has transcended the traditional 'make or buy' conundrum, morphing into intricate strategic considerations about optimal supplier selection (Williamson, 1975). Astute decisions in this domain can augment a firm's market reputation and bolster its fiscal health, concurrently mitigating the potential risks inherent in outsourcing. To safeguard their esteemed brand reputation in a competitive milieu, companies often undertake rigorous transactional scrutiny to ensure supplier adherence to globally acknowledged standards. These standards encompass facets like environmental stewardship, congenial working conditions, and the upholding of human rights. Many entities, in pursuit of this compliance, engage supply chain auditors to ensure unwavering adherence to these stringent norms (Mc. Barnett, 2007; Monteil et.al, 2012).

At one juncture, this study illuminates the internal and external audit mechanisms established by multinational corporations (MNCs) to oversee the implementation of critical social and ethical standards within their supply chains. This emphasis gains particular relevance in the context of emerging economies, such as Pakistan. While the intricacies of compliance audits have permeated discourse for some time, the current body of research focusing on open-source and social media-based audits remains nascent, especially when juxtaposed against studies exploring direct company disclosures (M.A Islam et. al., 2017).

For an incisive exploration of social compliance audits, this research narrows its lens to the garment industry, with a keen focus on Pakistan's contribution therein. Over the past two decades, global garment supply chains, operating under the aegis of MNCs, have witnessed heightened scrutiny, stemming from NGOs and media entities, especially regarding their sourcing practices from suppliers perceived to maintain suboptimal workplace standards (Hughes et al., 2007).

When embarking upon corporate social responsibility (CSR) initiatives, one anticipates an even-handed application of standards across all workforce strata, be it permanent or contractual. While the instituted codes of conduct have been instrumental in mitigating issues such as child labor and improving health and safety standards, anomalies persist, especially in Pakistan. Discrepancies such as non-payment of overtime premiums, ambiguous wage structures for contractual employees, and lack of rigorous oversight are notable. Often, auditors overseeing factory compliance refrain from challenging prevailing national labor standards, leading to oversight in addressing these issues (Crisis, 2010).

Several firms specializing in Corporate Social Responsibility (CSR) have capitalized on offering training to analysts, preparing them to conduct on-site audits. Social Accountability International (SAI), for instance, has developed a unique CSR code, SA-8000, and has trained personnel from various companies to certify their client's facilities as compliant with SA-8000 standards (Brown, 2013).



A salient case occurred in August 2012, when the Italian firm RINA Group, utilizing SAI-trained auditors, granted the ALI Enterprise plant in Karachi, Pakistan, an SA-8000 certification. Tragically, a month later, 258 workers perished in a fire at the facility, a catastrophe exacerbated by locked doors and barred windows after damaged electrical systems ignited improperly stored inventory materials (Brown, 2013).

The current landscape of compliance monitoring is fraught with complexities and ambiguities. Reports from Social Compliance (SC) audits are often perplexing, providing little insight into specific working conditions within individual manufacturing factories. For example, many reports refer to factories by numbers rather than names (Crisis, 2010). According to the Global Responsible Accredited Production (WRAP), the names of companies or retailers outsourcing from foreign factories are often withheld from reports and disclosed only if consent is provided by the involved company. This confidentiality further obscures the transparency and accountability of social compliance practices within global manufacturing and supply chain management.

## **2.2 WORKING OFF THE CLOCK**

"Off-the-clock" work refers to any professional activity undertaken outside of standard working hours without commensurate remuneration. It is incumbent upon employers to ensure that all labor, regardless of its timing or nature, is adequately compensated in adherence to local wage laws and in compliance with standards set by pertinent governing bodies (Faraz, 2013).

The U.S. Fair Labor Standards Act (FLSA) exemplifies legislative measures designed to safeguard workers' rights. It mandates that employees working beyond a 40-hour week must receive overtime compensation. Crucially, any nonexempt work executed outside of standard hours, even if deemed "off-the-clock," requires remuneration at the prevalent hourly wage.

Consistent with FLSA stipulations, employers are obligated to remunerate employees for their full working day, spanning the commencement and conclusion of their primary tasks. Judicial precedents have further underscored the need to remunerate for integral pre-shift and post-shift activities (FLSA).

Drawing from the Pakistani provincial regulation on factories (1975), meticulous records of adult laborers' daily attendance and overtime hours must be maintained to eliminate wage discrepancies, particularly among contract-based workers. Notably, the International Labour Organization (ILO) standardizes a worker's daily hours at eight, permitting an additional two hours as overtime. Pakistani legislation resonates with this, capping work at 10 hours/day and 60 hours/week. Any breach necessitates double the hourly wage as compensation for overtime. Prolonged working weeks exceeding 50 hours pose substantial health risks to workers (Spurgeon, 2003), reinforcing the importance of strict adherence to these guidelines (Lee et al., 2007).

In practice, however, the recording of actual working hours remains inconsistent. While flexi-time systems might capture project-specific hours for billing purposes, they often overlook the cumulative hours employees invest. A prevalent assertion among factory management is the voluntary nature of these extended hours, driven by workers' commitment to meeting their objectives. Nonetheless, a significant proportion of these workers receive no compensation for their added





efforts. Intense work pressure often denies them the liberty to compensate for these extra hours, further exacerbating the issue (J. KODZ ET al, 2003).

The trend of working beyond standardized hours is palpably increasing across Asia, with the Pakistani textile industry exemplifying this shift. Especially among managerial and professional groups, a significant amount of overtime remains unpaid due to escalating workloads and dwindling staff numbers. Such work conditions, aimed at augmenting output, necessitate the imperative to recognize and duly compensate overtime, specifically any work exceeding 45 hours a week.

### **2.2.1 Travel to work, working off-site and working breaks:**

Under the provision of the Fair Labor Act, travel time to work workplace is very much considered work time for both hourly pay and overtime computation. Generally, Travel to and from the workplace is not usually included in working hours, although commuters who commute by train and other public transport systems may be working during this time of commute. Some studies such as (Dex ET al.1995) found that for a full-time, married man travel to and from the workplace adds four hours on average to weekly work-related hours and a similar issue comes into consideration when trying to assess whether long working hours reduce productivity or not, since only being present in the office does not guarantee or makes sure that one is working. Similarly, one of the major critical differences between the surveys that provide the data states, For example, the LFS collects data from the employee and is thus able to record actual hours. But on the other hand, it may depend on the accuracy and honesty of the respondents or the employee who is providing the data.

Time spent by an employee or worker in travel in addition to his principal activity, such as travel from one job site to another job site during the working day, must be counted as hours worked. For example, if an employee is required to report at a meeting place to receive instructions regarding the work he is to perform as a part of his principal work activity, the travel time he spends is for the organization or the company he or she is working for. Another example includes if he or she is to perform some other work at a different site, or another example is that he or she has to pick up and carry tools or any other goods related to the venture or product he is working for. So the travel from the designated place to the workplace or any job site he is required at is part of the days and hours worked and must be counted as hours worked regardless of the defined contract, custom of the workplace, or any general practice which is being followed at a particular company or workplace he or she is working at. (Walling v. Mid-Continent Pipe Line Co, 1944).

According to Anderson, under the act, the insubstantial or insignificant periods that may be called time or work beyond the scheduled working hours, which cannot be termed as practical administrative work be precisely recorded for payroll purposes, in some cases, it may be disregarded. This rule applies only where there are uncertain and indefinite periods that involve a few seconds or minutes above the actual work schedule and where the failure to count such time exists because the extra minutes worked are much less, only in terms of minutes or seconds.

Cost and time pressures can generate a violation of worker's rights, especially for the products that use labor involvement intensively. (Barrientos et. al, 2011). Workers are requested to work unreasonable extra hours, generally not compensated with the rightful remuneration, and supervisors may stress that permitting laborers the privilege to compose or strike will generate the request for higher wages and then they will face challenges in meeting the due dates, where the employees can



draw from a substantial pool of surplus work. (Rudra, 2002). They may even have less motivation to protect the rights of their workforce, thus we may expect that the subcontracted workforce is more exposed to more violations of the rights of the workers. (Mosley, 2011)

Secondly global supply chain workers- unlike their multinational employee counterparts earn the same overtime premiums, locally owned firms with a get-together with global value chains don't win altogether higher wages than laborers in equal domestically engaged firms. Production factories seem -to have no positive or negative deliberate impact on compensation. (ILO 2015) . it in this way is not astonishing that the present activists, researchers, and purchasers can easily identify the violations of labor rights.

### **2.3. FAILURE TO PAY OVERTIME PREMIUM**

Overtime premium constitutes the monetary compensation provided to employees for work exceeding their normal hours. In several instances, this premium is bypassed, particularly for those in contractual employment. Research indicates that only 58% of all salaries were subject to the overtime premium provision of the FLSA 1978, leading to a reasonable inference that contractual employees, with their lower marginal costs, are more inclined to work overtime (Ehrenberg, 1982).

Overtime work often arises from two scenarios. Firstly, unexpected demands or machinery breakdowns may necessitate additional hours. Secondly, deliberate slowing of work to gain overtime benefits, or inefficiency, may also contribute (Rahim, 2016). The Sindh Factories Act, of 2015, which replaced the Factories Act of 1934, prescribes the rate of compensation for overtime in Section 68(1), stating a pay rate double the regular (Rahim, 2016).

Overtime calculations pose challenges for many employers, with potential costly consequences for miscalculations under the Fair Labor Standards Act (FLSA). Moreover, recent legislation has facilitated legal action against companies for alleged violations (Alaniz, 2007).

### **2.4. UNCLEAR WAGE SYSTEM**

Wages must comply with legal or industry standards, meeting the basic needs of workers and their families and providing discretionary income (ILO Conventions 26 and 131, the Universal Declaration of Human Rights, Art 23(3) and Art 25(1)). Any deductions not in line with national laws are prohibited, and employees must be fully informed about wage details (Pakistan Country study, 2016).

The research highlights a prevalent weak regulation of labor contractor laws, particularly in Asian countries, with specific reference to Pakistan's textile industry. This leads to reduced wages, nonwage benefits, or sometimes complete non-payment of overtime, rendering the use of labor contractors an appealing option for factory management (Chan, 2013).

The absence of proper documentation often results in withheld benefits and wages. The National Appellate Court directs companies to manage working hours daily, and failure to maintain records can lead to penalties. The complexity of the wage system, varying working hours, the

management of mutual obligations and rights, and the diversity of labor conditions all contribute to challenges in data collection. Recent studies have examined the “basic wage” in Pakistan's garment industry, with a particular focus on refugee workers. The law requires additional payment for overtime and weekend work, but compliance varies widely, with some workers receiving less than the legal specification (Siu Kaxton, 2010).

## 2.5 RESEARCH HYPOTHESES

The above-mentioned findings suggest the following hypothesis:

**HYPOTHESIS#1:** Manual documentation of working hours will significantly predict the occurrence of "working off the clock" violations as identified in supply chain audits.

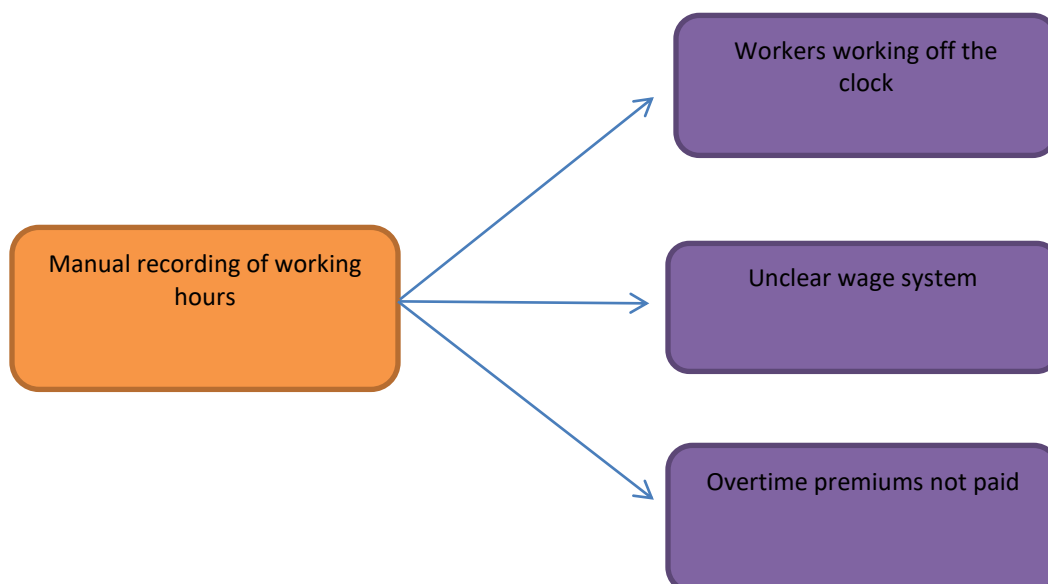
**HYPOTHESIS#2:** Manual documentation of working hours will significantly predict non-compliance regarding overtime premium payments as detected in supply chain audits

**HYPOTHESIS#3:** Manual documentation practices for working hours will significantly predict discrepancies in wage systems as flagged in supply chain audits.

## 2.6 CONCEPTUAL FRAMEWORK

Very few studies have attempted to do the research in depth on the impact of manual recording of working hours on issues like overtime premiums not paid, working off the clock, unclear wage system, and violation of social and ethical compliance during SC audits. As all the variables are interconnected with each other and there is an intense relationship between them, improper recording of the working hours of the workers is responsible for many severe violations in the social and ethical compliance of the industries with subject to overtime premiums not paid and inequality in the wage system.

### The Research Model:





### **3. RESEARCH METHODOLOGY**

#### **3.1 RESEARCH APPROACH & TYPE**

The explanatory research approach was employed in this study, focusing on social compliance issues such as the recording of working hours, unpaid overtime premiums, unclear wage systems, and working off the clock within Pakistan's garment factories. A detailed literature review informed the hypotheses, which were then constructed, applied, and tested to understand the impact of the independent variable on dependent variables within Pakistan's garment industry context.

#### **3.2 RESEARCH DESIGN**

The causal research design was implemented to explore the relationships between independent and dependent variables. This approach enabled the study to analyze impacts and draw relevant conclusions.

#### **3.3 RESEARCH POPULATION**

The target population consisted of textile and garment manufacturing industries within Pakistan. Factories were randomly selected, as a comprehensive study was infeasible due to limited information sharing. Only factories willing to provide SC audit reports were included. The study focused on factories in Karachi, Lahore, Faisalabad, and Multan that export goods, selecting them based on similar social and ethical compliance violations related to manually monitoring working hours.

#### **3.4 SAMPLE SIZE & SAMPLING TECHNIQUE**

Given the sensitive and confidential nature of factory audit reports, this study necessitated the use of a convenience sampling technique, a subtype of nonprobability sampling. This method was predominantly adopted due to the stringent accessibility constraints associated with acquiring factories' audit reports, emphasizing the high level of confidentiality and reluctance among factories to share such information. The significant barriers in data accessibility warranted the need for a sampling method primarily based on the availability and willingness of factories to share their audit reports. The employment of convenience sampling in this study is acknowledged as a practical approach due to the inherent constraints in accessing confidential and sensitive data, aligning with the methods discussed by Creswell (2014).

This research capitalized on the investigator's existing relationships with the management of some factories, enabling the acquisition of 90 confidential and previously unpublished Social Compliance (SC) audit reports. However, it is crucial to acknowledge that the scope of the relationships did not extend to all potential factories in the population, resulting in a convenience sample, representative of factories amenable to disclosing their information. The selected reports were those that provided insights into common issues associated with manual recording systems and were available due to the unique rapport with factory management, thereby determining the sample size based on the available and pertinent reports.

This approach, while pragmatic given the context and constraints, may inherently possess limitations concerning the generalizability and potential biases of the results, and this is duly acknowledged in interpreting the findings of the study. Nonetheless, the obtained sample has provided



invaluable insights into the prevalent issues within the domain of factory compliance, contributing substantially to the extant body of knowledge.

### 3.5 SOURCE OF DATA

Secondary data were employed, drawn from confidential and unpublished social compliance audit reports. A convenience sample of 90 audit reports was analyzed thoroughly.

### 3.6 DATA COLLECTION

Data were collected from secondary sources, specifically social compliance audit reports, which were confidential and unpublished. Obtained through third-party agents for foreign buyers outsourcing from Pakistan, these reports were shared by textile plants in Karachi, Lahore, Faisalabad, and Multan. Assurance was given to factory management regarding the confidentiality of the information, emphasizing that specific factory names would not be disclosed. In total, 90 SC reports were analyzed for the study.

### 3.7 DATA ANALYSES METHOD

Data were analyzed using Minitab's 17th edition. Various statistical procedures, including regression analysis and coefficient correlation, were applied to assess the data.

## RESULTS

The 17<sup>th</sup> edition of the mini tab is used to analyze the data Two of the statistical procedures are applied.to examine the data as regression analysis and coefficient of correlation, which shows the relationship between the independent and dependent variables.

<i>Integrated Multiple Regression Analysis for the Effect of Manual Recording of Working Hours</i>					
Dependent Variable	Model Equation	R-Sq(adj)	F-Statistic	P-Value	
Working off the Clock (WOC)	$WOC = 1.009 + 0.09387 * ROWH$	36.2%	51.52	< 0.001	
Overtime Premiums Not Paid	$OPNP = 0.1923 + 0.1390 * ROWH$	76.3%	287.90	< 0.001	
Unclear Wage System (UWS)	$UWS = 1.817 + 0.02844 * ROWH$	1.8%	2.61	0.110	

#### 4.1 MANUAL RECORDING OF THE WORKING HOURS WILL LEAD TO WORKING OFF-THE-CLOCK ISSUES (HYPOTHESIS 1)

The null hypothesis **H<sub>0</sub>** is, that “manual or improper recording of working hours will not affect the workers in case of working off the clock. the statistical result in the form of regression analysis, as driven from the Minitab, determines that since the (p=0.000) which reflects the significant relationship between the response working off the clock violation and the predictor recording of the working hours. The regression analysis suggests that an increase in recording of working hours manually will also increase the working off-the-clock issues. The model explains 36% of the variation in working off-the-clock violations.”

It is investigated that regression is denoted by R Shows the value of R-square i.e., 36.9%, adjusted R-square i.e. 36.2%. the predictor (recording of working hours) explains 36.9 % of the variation in the working off-the-clock observations. The adjusted R-square is 36.2% which is a decrease of 0.7% (36.9%-36.2%).



**Table 1:** Regression equation of Working off the clock versus Manual recording of working hours.

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Working off the clock (WOC) = 1.009 + 0.09387 recording of working hours (ROWH)

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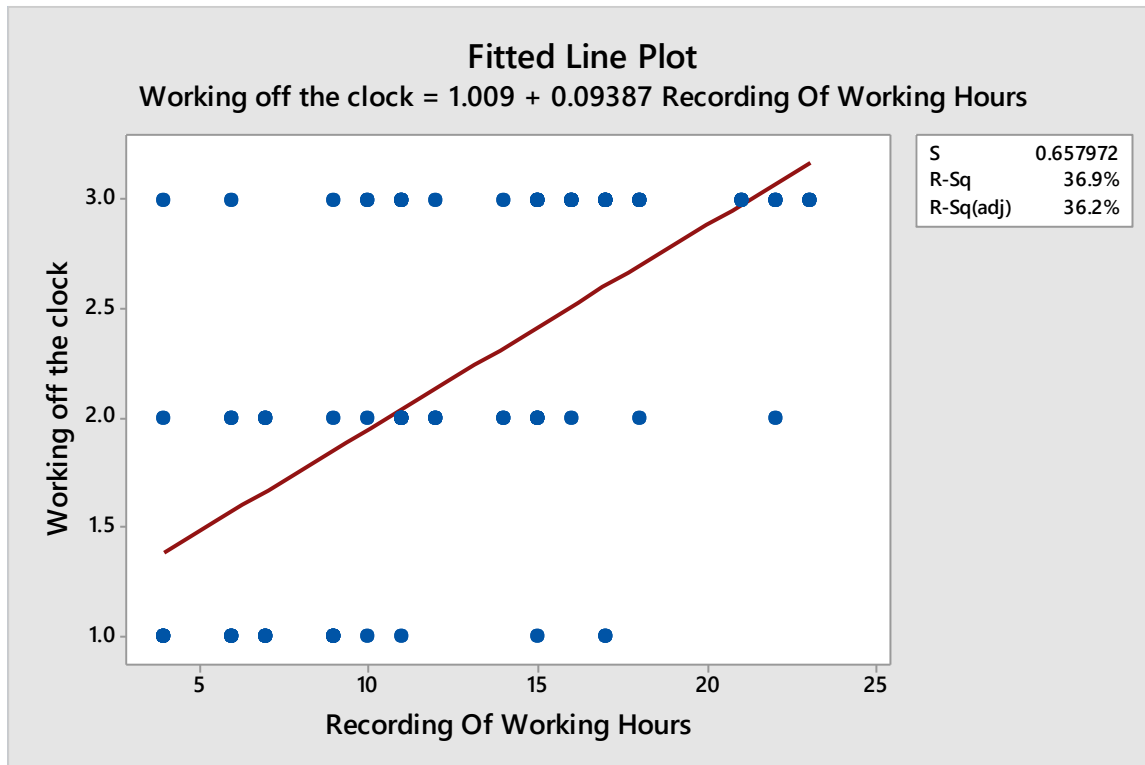
**Analysis of Variance:**

SOURCE	DF	SS	MS	F	P
REGRESSION	1	22.3024	22.3024	51.52	0.000
ERROR	88	38.096	0.4329		
TOTAL	89	60.400			

---

**S = 0.657972      R-Sq = 36.9%   R-Sq (adj) = 36.2%**

**Regression Analysis Graph:**





**Correlation Analysis:**

**Manual recording of working hours while working off the clock:**

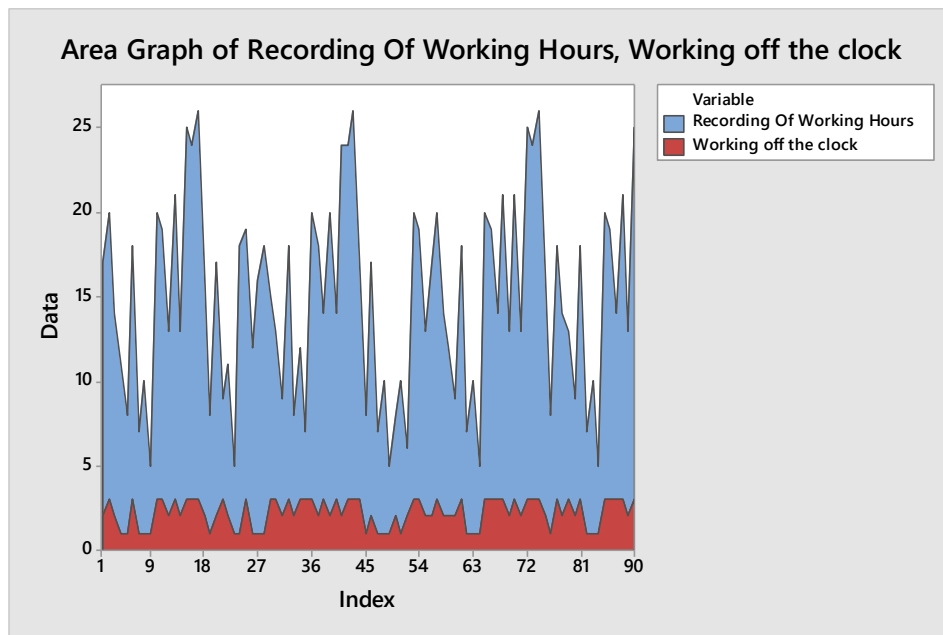
As mentioned in Table 2, the correlation supports hypothesis#1. A moderate positive relationship ( $r = 0.608$ ,  $p < 0.5$ ) exists recording of working hours and working off the clock. This shows that if manual recording of working hours is observed in social compliance audit discoveries, there is a high probability that working off the clock will also be witnessed in the SC audit reports. The area graph of ROWH and WOC interprets the comparable findings.

**Table 2:** Relationship of manual recording of working hours with working off the clock.

	Recording of working hours
Working off the clock	0.608

**Pearson’s Correlation**

**Area graph of recording of the working hours (ROWH), working off the clock (WOC)**





## 4.2 MANUAL RECORDING OF WORKING HOURS WILL LEAD TO IT NOT PAID (HYPOTHESIS 2)

The null hypothesis **H<sub>0</sub>** in this case is that manual or improper recording of working hours will not lead to overtime premiums unpaid. The statistical result in the form of regression analysis, as driven from the Minitab, determines that since the (p=0.000) which reflects the significant relationship between the **response** overtime premiums not paid violation and the **predictor** recording of the working hours. The regression analysis suggests that an increase in the recording of working hours manually will also increase the overtime premiums not paid. The model explains 76% of the variation in OT not paid violations.”

The predictor (recording of working hours) explains 76.6 % of the variation in the OT not paid observations. The adjusted R-square is 76.3% which is a decrease of 0.3% (76.6%-76.2%).

**Table 3:** Regression equation of overtime premiums not paid (OPNP) versus Manual recording of working hours. (ROWH)

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$$\text{Overtime premiums not paid (OPNP)} = 0.1923 + 0.1390 \text{ recording of working hours (ROWH)}$$


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### Analysis of Variance:

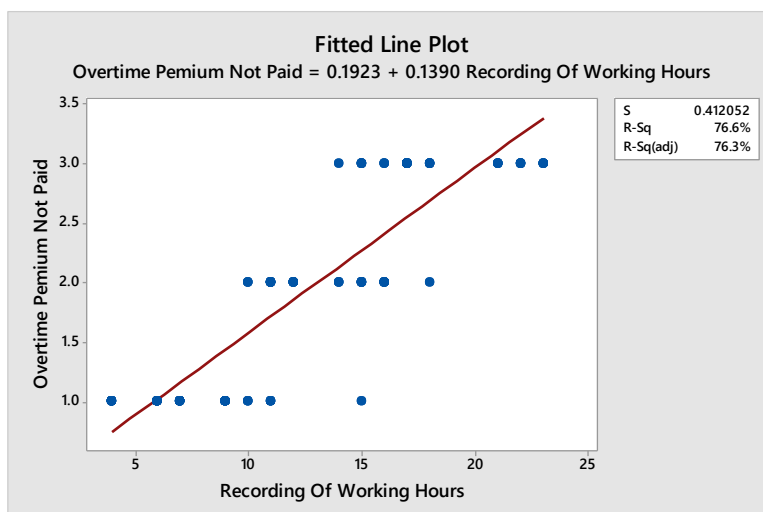
SOURCE	DF	SS	MS	F	P
REGRESSION	1	48.8810	48.8810	287.90	0.000
ERROR	88	14.9412	0.1698		
TOTAL	89	63.8222			

---

S = 0.412052

R-Sq = 76.6%

R-Sq (adj) = 76.3%







**Correlation Analysis:**

**Manual recording of working hours with OT not paid:**

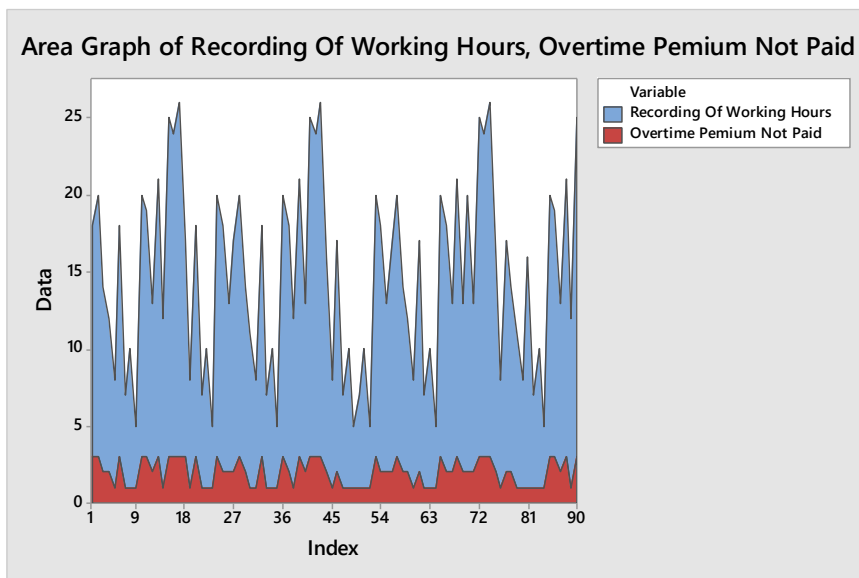
As mentioned in Table 4, the correlation supports hypothesis#2. A very strong relationship ( $r = 0.875$ ,  $p < 0.5$ ) exists between the recording of working hours and OT not paid. This shows that if manual recording of working hours is witnessed in social compliance audit discoveries, there is a great probability that OT not paid will also be observed in the SC audit reports. The area graph of ROWH and OTNP interprets similar findings.

**Table 4:** Relationship of manual recording of working hours with overtime premiums not paid.

	Recording of working hours
Overtime premiums not paid (OPNP)	0.875

**Pearson’s Correlation**

**Area graph of recording of working hours (ROWH) and overtime premiums not paid (OPNP)**





### 4.3 MANUAL RECORDING OF THE WORKING HOURS WILL LEAD TO UNCLEAR WAGE SYSTEMS (HYPOTHESIS 3)

The null hypothesis  $H_0$  is that manual or improper recording of working hours does not significantly impact the unclear wage system prevailing in the factories. The statistical result in the form of regression analysis as driven from the Minitab determines that since ( $p = 0.110$ ) which reflects that the relationship between the **response** unclear wage system violation and the **predictor** recording of the working hours cannot not be established. The regression analysis suggests that an increase in the recording of working hours manually does not affect the unclear wage system to that extent. The model explains 2.9% of the variation in unclear wage system violations, so the null hypothesis will be accepted.

The predictor (recording of working hours) explains 2.9 % of the variation in the unclear wage system observations. The adjusted R-square is 1.8% which is a decrease of 1.1% (2.9%-1.8%).

**Table 5:** Regression equation of unclear wage system versus Manual recording of working hours.

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$$\text{Unclear wage system (UWS)} = 1.817 + 0.02844 \text{ recording of working hours (ROWH)}$$

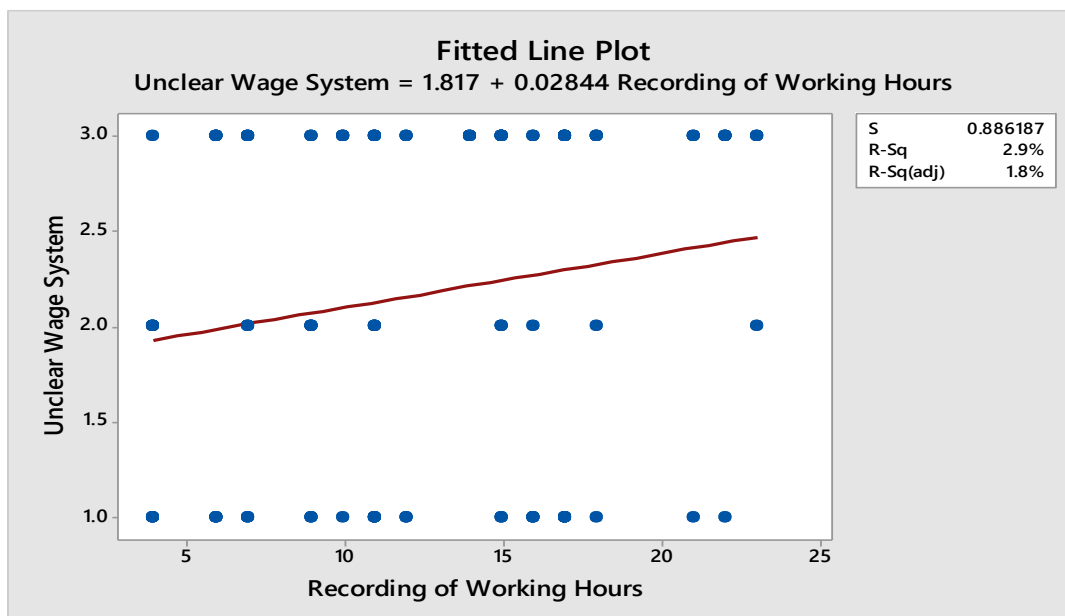

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**Analysis of Variance:**

SOURCE	DF	SS	MS	F	P
REGRESSION	1	2.0467	2.04670	2.61	0.110
ERROR	88	69.1089	0.78533		
TOTAL	89	71.1556			

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**S = 0.886187      R-Sq = 2.9%      R-Sq (adj) = 1.8%**





**Correlation Analysis:**

**Manual recording of working hours with an unclear wage system:**

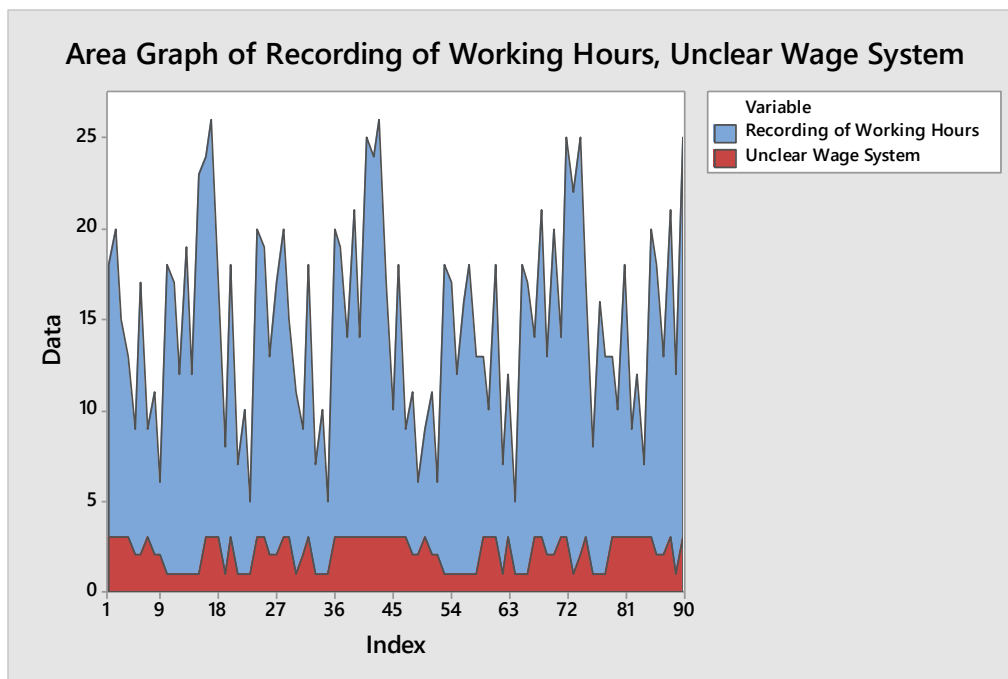
In contrast, an unclear wage system was not witnessed in all the 90 SC audit reports which were viewed with a recording of the working hour's violations; therefore, it can be observed that very little or no relationship can be recognized between ROWH and UWS violations.

**Table 6:** Relationship of manual recording of working hours with unclear wage system

	Recording of working hours
Unclear wage system (UWC)	0.170

**Pearson's Correlation.**

**Area graph of recording of working hours (ROWH) and unclear wage system (UWS)**





#### 4.4 SUMMARY OF HYPOTHESES TESTING

S.NO	HYPOTHESIS	R-Sq %	RESULTS
<b>H1</b>	Manual recording of working hours will lead to working off-the-clock issues.	36.9 %	<b>Reject the null hypothesis</b>
<b>H2</b>	Manual recording of the working hours will lead to overtime premiums not being paid.	76.5%	<b>Reject the null hypothesis</b>
<b>H3</b>	Manual recording of the working hours will lead to an unclear wage system.	2.9 %	<b>Accept the null hypothesis</b>

#### 4.5 Discussion:

In this investigation, the primary emphasis was on prevalent social compliance challenges within the textile industry in Pakistan, specifically regarding the manual recording of working hours, unaccounted overtime (referred to as "working off the clock"), unpaid overtime premiums, and ambiguous wage systems. The literature review formed the foundation of this study, gleaned insights from prior works to discern a pronounced positive correlation between the dependent and independent variables. A total of 90 confidential and previously unpublished Social Compliance (SC) audit reports served as the backbone of our data collection, making data acquisition a considerable challenge.

From the analysis, three hypotheses emerged, each rooted in four core issues identified within the textile factories leading to social compliance discrepancies.

The first hypothesis postulated that the manual recording of working hours might inadvertently contribute to employees working off the clock. Our analysis corroborated this assumption, revealing a significant positive correlation between irregularities in working hours documentation (ROWH) and unaccounted work hours (WOC). This misalignment can stem from inadequate tracking, leading employers to remain oblivious to actual hours worked by employees, including potential overtime.

Our second hypothesis delved into the relationship between manual recording of working hours and the failure to pay overtime premiums. The data reinforced this hypothesis, showcasing a



robust correlation. In essence, inconsistencies in the recording of working hours can obfuscate the true extent of work rendered by an employee, leading to inadvertent oversight in overtime premium payments.

Conversely, the third hypothesis suggested that manual documentation of working hours might engender ambiguous wage systems. However, this was not substantiated by our findings. While many SC audit reports acknowledged issues with unclear wage systems, these challenges were not predominantly attributed to the manual recording of working hours. There are possibly other determinants at play, but given the constraints and scope of this study, we confined our analysis to the outlined variables for clarity and precision.

## **6.0 Recommendations:**

**Enhance Labor Inspections:** Regularly monitor both established and emerging factories with unannounced inspections, ensuring consistent compliance with labor laws.

**Promote Transparency:** Prioritize open communication about labor laws, worker rights, and disputes, fostering an environment where violations are readily identified and addressed.

**Adopt Automated Systems:** Transition to mechanized time-tracking for employee working hours to minimize discrepancies and ensure accurate wage compensation.

**Educational Initiatives:** Collaborate with trade unions and industry leaders to raise awareness about labor rights and best practices, underlining the importance of maintaining global labor standards.

**Institute Penalties for Non-compliance:** Establish strict consequences for consistent labor law violations, including potential export license revocations, emphasizing adherence within the global supply chain.

## **6.1 Limitations and Future Research Directions:**

The present study bears particular limitations primarily due to its reliance on secondary data and compliance audit reports from various textile factories engaged in exporting goods. The authenticity of these records may be compromised as auditors are frequently presented with falsified documents concerning working hours, logs, and payment registers. This occurrence has necessitated a dependence on firsthand comments from industry stakeholders and secondary records from third-party audit firms that claim the data's accuracy over falsified documents.

Looking ahead, there is an urgent call for further investigation in this field to bridge the existing knowledge gaps. The persistence of manual recording of working hours in an age of technological advancement prompts critical questions about the underlying reasons for this practice and the associated challenges. A comprehensive exploration of these issues could illuminate strategies for rectification. Moreover, future research should probe into optimal methodologies for conducting social compliance audits, with a particular emphasis on enhancing factory compliance and refining audit practices. Such inquiry not only contributes to the existing body of knowledge but also potentially catalyzes systemic improvements within the textile industry.



## **6.2 Conclusion:**

The present research has embarked on a nuanced exploration of the effects of manual recording of working hours on various critical issues such as working off the clock, non-payment of overtime premiums, and unclear wage systems within Pakistan's textile and garment sectors. The investigation's relevance resonates with a broader global context where many foreign retailers sourcing textile goods from Pakistan remain uninformed about the working conditions endured by factory and production line employees. A consistent pattern of disregard for labor laws and regulations, as delineated by international organizations like the ILO and FLSA, has culminated in a persistent rise in noncompliance issues. Such lapses are directly tied to ruptured business relationships with buyers, subsequently endangering the sustainability of global supply chain businesses.

Through rigorous empirical scrutiny, this study has affirmed the hypotheses regarding the profound relationship between the recording of working hours, non-payment of overtime premiums, and working off the clock. However, the research did not successfully establish a corresponding level of significance between the manual recording of working hours and the prevalence of unclear wage systems within the textile industry of Pakistan. Beyond mere academic contribution, the insights gleaned from this study furnish practical implications for suppliers and factory management. By unearthing those practices that profoundly influence the findings in social compliance audit reports, the current research paves the way for better implementation of worker protection laws. It advocates for an equitable and secure working environment, transcending distinctions between permanent and contractual employees. Ultimately, the study serves as both a beacon and a catalyst, illuminating areas of concern and stimulating actionable measures to enhance the integrity and humane treatment within the textile and garment industries.



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