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## THE MEDIATING ROLE OF WORKING CONDITIONS ON THE RELATIONSHIP BETWEEN SOCIAL COMPLIANCE AND EMPLOYEE RETENTION

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### Abstract

*Organizations operating in the global market are faced with the challenge of satisfying the requirements of buyers for social compliance. Existence of a working environment safer and comfortable for the workforce provides evidence of social compliance. Sri Lanka is regarded as a country which maintains a very high standard in relation to employing workers, in comparison with other countries in the Asia Pacific region. However, the wellbeing of employees in the apparel sector of Sri Lanka is questionable where their intention to leave is high even in the presence of social compliance. Mediating role of working conditions in the context of social compliance in retaining employees has not been the focus of many studies conducted in the apparel sector of Sri Lanka. This study aimed at identifying whether working conditions could improve the relationship between social compliance and employee retention. A pre designed questionnaire was used to collect data. The responses of a sample of 143 blue collar employees in the apparel sector of Sri Lanka revealed that working conditions mediate the relationship between social compliance and employee retention. The implication of this result is that by improving the working conditions employees can be motivated to stay in the job.*

**Key words:** Social Compliance, Working Conditions, Employee Retention,

### Introduction

Employee turnover occurs when employees leave their jobs and must be replaced. Replacing exiting employees is costly to organization and destructive to service delivery. It is therefore imperative for management to reduce, the frequency at which employees, leave to the minimum. Retention is a voluntary move by an organization to create an environment which engages employees for long term. (Chaminde, 2007). The main purpose of retention is to prevent the loss of competent employees from the organization as this could have adverse impact on productivity and service delivery. However, retention of high performing employees has become more challenging for managers as this category of employees frequently move from one job to another as they are being attracted by more than one organization at a time. (Samuel and Chipunza, 2009)

Globalization and the diffusion of industry supply chains to developing countries have provoked a fierce debate over how best to improve labour standards in these emerging centers of production. Child labour, hazardous working conditions, excessive working

hours and poor wages continue to be a problem at many factories in developing countries, creating embarrassment for the global brands that source from those factories. Given the limited capacity of governments of many developing countries to enforce their own labour laws, multinational corporations have developed their own “code of conduct” for suppliers, as well as a variety of monitoring mechanisms aimed at enforcing compliance with these codes. Monitoring for compliance with codes of conduct is currently the principal way that both global corporations and labour rights nongovernmental organizations address poor working conditions in global supply chain factories (Romis, 2007).

In the current global market environment, in which Sri Lanka strives to enhance its share of exports, the challenges have not been easy to overcome. Social compliance has become extremely important for any industry related to the export- oriented market. It’s not only regarding existing labour law of the country and the buyer code of conduct but also making a working environment safer and comfortable for the workforce. As buyers from major markets are increasingly insisting on adherence to social compliance norms, conformance with the rules of accountability, not only its policies and practices but also for its supply chain has become important. A social compliance program is usually expected to ensure adherence to rules of social accountability, initiated by certified conformance to international standards such as SA8000. Companies need to focus on the social concerns of internal and external stakeholders and their impact on business. Compliance of apparel companies of Sri Lanka with stakeholder concerns is reflected in the commitment towards civil and human rights, compliance with employment, health and safety, hygiene and environment laws and betterment of the society (Owen et.al., 2000).

It is evident from the data available in the industry that a major problem faced by manufacturing organizations in the apparel industry of Sri Lanka is the loss of its top and critical talent, over a period of one year from the date of recruitment. Employees are resigning or being terminated in the first few months of employment indicating high rates of exit of competent employees. As a result organizations face difficulties in recruiting and replacing employees. This results in high amount of sub-contracting/home working as well as temporary worker engagement and operating extensive hours to cover shipments while violating the laws of the country. The expectation is that effective social compliance and employee work condition factors would allow organizations to increase the level of retention of employees and overall productivity. However what is indicated by the high turnover rate is that social compliance practices have not had the expected outcomes. It is explained in literature that if employees’ expectations towards the organization are not fulfilled, the consequences for job satisfaction and commitment to work result in the employees deciding to leave the organization (Arnoux-Nicholas et.al., 2016). Cottini et.al. (2011) has also explained that workers in hazardous workplace conditions are indeed more likely to leave their current employers voluntarily.

A possible cause for this behavior is explained in deterrent theory. Accordingly, rational and profit maximizing firms decide to comply with regulation only when the expected cost of noncompliance exceeds the expected benefit (Becker, 1968; Stigler, 1970). Moreover, it is argued that a firm’s propensity to comply with regulations is positively related to the probability of detection and the expected penalty of violation. The deterrence theory has been applied to occupational safety and health (Viscusi, 1979), minimum wage compliance (Ashenfelter & Smith, 1979), and to private monitoring of

minimum wage in the US garment industry (Weil, 2005; Weil & Mallo, 2007). They find that more stringent forms of monitoring by manufacturers are associated with better contractor compliance with minimum wage regulations. Deterrence theory predicts that reputation-conscious buyers who face a higher probability of detection and expected penalties for poor working conditions in their supply chains are more likely to rigorously regulate their suppliers than other buyers. The implied meaning of the deterrence theory is organizations attempt to comply with social standards at the minimum levels possible. The ultimate impact of deterrence may be the employees not receiving the expected benefits of social compliance. Moreover, findings of Lund-Thomsen & Nadvi (2010) suggest that there are difficulties in applying social standards in certain institutional contexts. The researcher identified a tension, from the suppliers' perspective, between what buyers wanted to enforce regarding social compliance and what local actors - including employees, owners and managers - perceived to be appropriate. This tension existed regardless of the governance mode. For example, the Bangladeshi supplier firms are compliant for fear of the large social unrest that would accompany unemployment if the buyer firms stopped sourcing from Bangladesh (Bell & Newitt, 2010; Ruwanpura & Wrigley, 2011).

With the above explanations it leads to a question as to whether there may be instances where social compliance may still be there in the absence of proper working conditions. Thus, this study attempts to identify whether working conditions could mediate the relationship between social compliance of a company and the intention of its employees to stay in the job.

The rest of the paper is organized as follows. Section 2 addresses the literature on social compliance, working conditions and intention to stay. In Section 3, the research methodology is described. The results of the survey are presented in Section 4. Section 5 discusses the results in relation to the literature and presents managerial and theoretical implications.

## **Literature Review**

This section explains the literature related to the theories and empirical findings on social compliance, working conditions, and employee retention .

### ***Social Compliance***

The social compliance consisted of four dimensions: Corporate/ Supplier Compliance & National Laws, Private voluntary customer code of conduct, Stakeholder involvement on business and Consumer ethical concerns (Lund-Thomsen, 2008; Lund-Thomsen & Nadvi, 2010).

### ***Corporate/ Supplier Compliance & National Laws***

Supplier compliance with social norms has been the interest of many buyers located in many parts of the world. They have even formed arrangements among themselves to ensure that suppliers adhere to social standards. Multi-principal collaboration aimed at assessing supplier compliance falls into the category of "coopetition", where competing firms in the same industry work jointly towards the same

goal, ensuring suppliers' compliance with shared codes-of-conduct. While cooptation combines the benefits of cooperative and competitive behaviours, it is seen by some as producing greater benefits than pure collaborative agreements (Le Roy and Fernandez, 2015). Buyers use shared information and knowledge to analyze the environmental and social deficiencies of suppliers; they learn from one another and define corrective actions for non-compliant suppliers (Arya and Salk, 2006). Alignment of the principals will also improve the relationship with the suppliers as the trust-based social contract developed by the collaborating buyers gives the supplier a consistent message which is easily translated into strong incentives to comply (Tate et al., 2010).

### ***Private Voluntary Customer***

The underlying assumption is that information collected through factory audits will be used by labor rights NGOs to exert pressure on global brands to reform their sourcing practices and buy the brands themselves, which rely on this information to police and pressure their suppliers to improve standards within their factories (Conroy, 2007). If these factories fail to remediate workplace problems, brands are expected to switch their orders to other producers.

### ***Stakeholders & Corporate Social Environmental Responsibility (CSER)***

The main idea is that an organization's success is dependent on how well it manages the relationship with stakeholders such as suppliers, NGOs, government agencies, (Freeman, 1994) whereby they can influence Corporate Social Environmental Responsibility activities by either limiting or stopping the provision of resources to the organization (Frooman 1999; Yang and Rivers 2009). Stakeholder theory can be associated with the literature of CSER broadly as it provides a suitable theoretical framework for analyzing the relationship between an organization and broader society, to provide direction to the organization in terms of transforming intangible social and environmental issues into tangible stakeholder interests (Clarkson, 1995; Donaldson and Preston, 1995). Reflecting this, CSER is seen as a voluntary activity that organizations undertake to satisfy societal or stakeholder obligations which may include social, economic, legal, ethical and environmental responsibility to stakeholders and the society in which they operate (Carroll & McCombs, 2003; Gray 2010; Varenova et al. 2013). According to stakeholder theory, a principal function of organizations and their management is to handle stakeholders' diverse expectations and demands as they are perceived as essential to understanding the problems in the advancement of CSER practices. However, this premise does rely upon the notion of stakeholders' involvement with the organization. Freeman (1994) reported the significant role of various stakeholders and their influence on organizations' CSER activities and failure to satisfy stakeholder groups may cause corporate failure (Deegan et al. (2002).

There is some support that organizations try to manage only powerful stakeholders for their survival, which is consistent with legitimacy theory (Gray et al. 1996; Deegan and Islam, 2014). For example, Deegan and Islam (2014) assert that international buyers who outsource products from developing countries force organizations to comply with agreed standards in respect to child labour and working conditions. However, organizations have economic, legal, ethical and discretionary responsibilities to all

stakeholders in the broader community. Carroll & McCombs' (2003) conceptualization of CSER is embedded with various moral and ethical considerations providing normative "prescriptions", in terms of fairness and equity. According to stakeholder theory this suggests that the organizations' CSER behavior is morally motivated, whereby "all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits and [...] there is no prima facie priority of one set of interests or benefits over another" (Donaldson and Preston, 1995, p. 68). This suggests that there is need to gain the views of the 'secondary' stakeholders (NGOs, media and government etc) on CSER not only to advance their interests but to understand their influences and relationships with organizations.

### ***Consumer Ethical Concerns***

Ethical consumption is defined as the purchase of a product that concerns a certain ethical issue, such as child labor, animal well-being, fair trade and organic produce. People engage in ethical consumption to benefit the natural environment and others (Pelsmacker et al., 2005a).

### ***Employee Retention (Intention to Stay)***

Employee intentions to stay may be defined as an employee's cognitive response to the working conditions of a particular organization and to the economic condition of a nation as whole, which stimulates an employee not to search for better alternative jobs. Intention to stay has been described as a set of cognitions including not thinking of quitting a job and refraining from the search for alternative employment (Tett and Meyer, 1993).

Retaining top talent remains a primary concern for many organizations today. Critical analysis of workforce trends points to an impending shortage of highly-skilled employees who possess the requisite knowledge and ability to perform at high levels, meaning that organizations failing to retain high performers will be left with an understaffed, less qualified workforce that ultimately hinders their ability to remain competitive (Rappaport. Bancroft, and Okum, 2003).

Existing literature (Abassi and Hollman, 2000) highlights factors affecting problems in employee retention in the organizations such as hiring practices; managerial style; lack of recognition; lack of competitive compensation system; toxic workplace environments. Others include lack of interesting work; lack of job security; lack of promotion and inadequate training and development opportunities, amongst others. These are intrinsic motivational factors which can assist managers to influence employee retention in their organizations. The problem, however, is that managers have failed in identifying and properly use these variables as retention strategies thereby resulting in the prevailing high turnover rate in the organizations.

### ***Working Condition/ decent work***

The concept of decent work integrates fundamental rights of workers (ILO, 1999a). As per ILO prescription (ILO, 1999a), the essential rights are related with freedom of association, quality of work and the nonappearance of enforced labour and child labour

in any abusive form. Finally, social dialogue comprises rights of workers in deliberations with employers regarding work-related issues. Anker et al. (2002) identified 11 statistically measurable dimensions of decent work. Among them, practice of decent working hours, presence of unacceptable work including child labour and the practice of workplace relations through social dialogue are the towering indicators.

International Labour Organization (ILO) conceptualized the decent work (Barrientos & Smith, 2007) highlighting four interdependent pillars such as access to employment and productive income, standards and rights at work, access to a social protection system, and voice at work through social dialogue (Bell & Newitt, 2010). Social upgrading is thus treated as an aggregate of quantifiable and non-quantifiable 'elements' or 'aspects' of the ILO's decent work. Therefore, the degree of social upgrading is conceptualized by the elements of decent work embraced. The more elements of decent work a firm has embraced, the more socially upgraded it is considered to be.

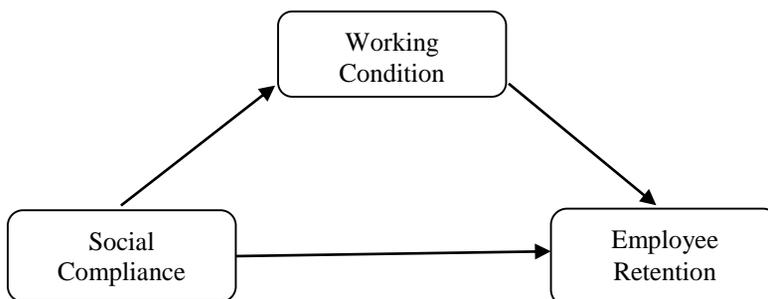
### ***Impact of Working Conditions on Employee Retention***

Dawis and Lofquist (1984) explain that the extent to which an employee is willing to stay in the job is determined by the expectations of the employer and the employee. According to their explanation the employment contract consists of the expectations of both the employee and the employer. If there are mismatches, adjustments between these two parties has to take place. Even after the adjustments take place the employee may not be satisfied. When no more adjustment proves possible, the person leaves the job. This explanation implies that in order for an employee to stay in a job, his/ her expectations must match with what the employer is ready to provide.

## **Methodology**

### ***Conceptual Framework and Hypotheses***

A conceptual framework as shown in Figure 1 was developed for this study in order to analyze the relationships identified among the three constructs explained above; social compliance, working condition, and intention to stay/employee retention.



*Figure 1: The Conceptual Framework*

The conceptual framework explains that working condition could mediate the relationship between social compliance of an organization and employee retention in the job. Following are the hypotheses that were derived from the conceptual framework.

H1: Social compliance positively influences employee retention.

H2: Social compliance positively influences working conditions.

H3: Working conditions positively influence employee retention.

H4: Working conditions mediate the relationship between social compliance and employee retention.

### **Data Collection**

A survey instrument was developed with the indicators identified for each of the constructs as shown in Table 1 in order to proceed with the questionnaire development and data collection. A five point Likert scale was used to measure the perceptual evaluations of the respondents for the questions presented in the survey instrument.

The survey instrument was administered among 143 blue collar employees in the apparel sector of Sri Lanka. Data collection took place over a period of 14 days from 20<sup>th</sup> November to 04<sup>th</sup> December 2018. The sample of 143 blue collar employees represented four companies in which supplier compliance/ company COC and national laws, private voluntary customers code of conduct, stakeholders & CSER involvement on business and customer ethical concerns were in existence. Majority of the respondents of the selected sample were in the group 18-25 years, representing 49.65% of the sample. 81.12% of the sample consisted of female employees. More than 50% of the employees in the sample were those who have completed their O/L as a highest educational qualification. Majority of the respondents have worked in the organization for more than 3-5 years.

For the purpose of this research, convenience sampling was used, and convenience sampling involves selecting sample elements that are most readily available to participate in the research and in a position to provide the information required by the researcher.

**Table 1: Operationalization of Constructs**

Construct	Dimensions	Indicators	Reference
Social Compliance	Corporate/ Supplier compliance & national laws	Adherence to code of conduct	Lund- Thomsen (2008)
		Violating COC has identified either major or minor misconduct	
		Management regularly keep updates on local law amendments	Lund- Thomsen & Nadvi (2010)
	Providing regular trainings on COC and local law amendments		
	Private voluntary customer	Is there any production improvement because of adhering to COC Complying with customer COC Conducting internal audit by covering all related codes	Conroy (2007)

	code of conduct	<p>Providing regular training on COC updates</p> <p>Customer audit result and numbers of non-conformities</p> <p>New order placements/withdrawal based on audit results</p> <p>The amount of company LTO</p>	
Social Compliance	Stakeholders involvement on business	<p>Complying with stakeholder's COC</p> <p>Conducting internal audit by covering all related codes</p> <p>Creating good working environment based on COC</p> <p>Ensuring employees' human rights</p> <p>Creating opportunity for Collective Bargaining, freedom of association, and employee welfare based on COC</p> <p>Stakeholders surprise audits/ visits will help to maintain consistent standard in the workplace</p> <p>Providing regular training on COC updates</p> <p>New order placements/withdrawal based on audit results</p>	<p>Clarkson (1995)</p> <p>Donaldson (1995)</p> <p>Carroll (2003)</p> <p>Varenova et. al. (2013)</p> <p>Deegan et.al. (2002)</p>
	Consumer ethical concerns	<p>New order placements/withdrawal based on audit results</p> <p>Customer attraction based on audit results</p> <p>Based on audit results the buyers tend to place new orders</p> <p>Ensuring the job security and number of LTO</p> <p>Company involvement on CSR projects</p> <p>Company involvement in sustainability</p> <p>Improvement of company efficiency and productivity</p>	<p>De Pelsmacker et.al. (2005)</p> <p>Caruana (2007)</p> <p>Korthals (2001)</p> <p>Matthews (1994)</p> <p>Harper &amp; Makatouni (2002)</p> <p>Shaw &amp; Duff (2002)</p> <p>De Pelsmacker et.al. (2005)</p> <p>Friedman (1995)</p> <p>Rudell (2006)</p>

Working condition	Freedom of Association	Vosko (2006)
	Health & Safety	Benanch et. al. (2014)
	Wages & Benefits	Bosmans et.al. (2016)
	Working Hours	
	Workplace Grievance	
Retention	Anti-Harassment & Anti-Abuse	
	Willing to stay on this company	Tett & Meyer (1993)
	Hard to leave the friends	
	Considerable factors prior to resign from the company	

### *Analysis*

The unit of analysis of this study is the individual employee. The responses of individual employees to the questionnaire were used to establish the internal consistency of the measures used in the questionnaire. Regression analysis was carried out to test the hypotheses that were developed at the outset of the study. Hypotheses 1, 2 and 3 were tested using bi-variate regression analysis while hierarchical regression analysis was used to test hypothesis 4.

### **Results**

Reliability of the measures used in the survey instrument could be established by examining them for internal consistency. Data collected from the sample of respondents revealed that the measures are consistent with the Cronbach alpha exceeding the threshold value of 0.7, as shown in Table 2.

**Table 2: Results of the Reliability Test**

Variable Name	Cronbach's Alpha	N of Items
Corporate/ supplier compliance & national law	0.912	5
Private voluntary customer code of conduct	0.884	8
Stakeholders' involvement on business	0.937	7
Consumer ethical concerns	0.917	7
Working Conditions	0.886	6
Employee Retention	0.709	3

Role of the mediator variable was the most important concern of the study. The mediator is considered an intervening variable which explains the relationship between a predictor variable and a criterion variable. Mediator variable in this study is the working condition. It is the variable that was used to explain the relationship between the predictor variable social compliance and the criterion variable employee retention.

In addition to the analysis of the mediation effect, testing the first three hypotheses provided results for the relationships between social compliance and employee retention, relationships between social compliance and working conditions and also the relationship between working conditions and employee retention. Tables 3 to 14 provide the model summaries, ANOVA tables and the coefficient tables that produced these results.

**Table 3: Model Summary: Social Compliance and Employee Retention**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.806 <sup>a</sup>	.650	.648	.44736

**Table 4 ANOVA Table: Social Compliance and Employee Retention**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	52.490	1	52.490	262.275	.000 <sup>b</sup>
	Residual	28.219	141	.200		
	Total	80.709	142			

**Table 5 Coefficient Table: Social Compliance and Employee Retention**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	52.490	1	52.490	262.275	.000 <sup>b</sup>
	Residual	28.219	141	.200		
	Total	80.709	142			

The  $R^2$  value for the relationship of social compliance with Employee Retention in Table 3 was 0.650 which indicates that social compliance explained 65% of the variation in employee retention. The calculated F ratio as shown in Table 4 is significant at 1% level of significance ( $p < 0.001$ ) and supported the reliability of the explanatory power of the model.

The results of regression analysis shown in Table 5 reveal that social compliance has a regression coefficient of 0.806 with the 0.01% level of significance. Hence social compliance can be considered as a predictor in determining employee retention. This shows that social compliance has a significant positive effect on employee retention.

**Table 6 Model Summary: Social Compliance and Working Condition**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1		.893 <sup>a</sup>	.798	.796
				.40518

**Table 7 ANOVA Table: Social Compliance and Working Condition**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	91.302	1	91.302	556.136	.000 <sup>b</sup>
	Residual	23.148	141	.164		
	Total	114.450	142			

**Table 8 Coefficient Table: Social Compliance and Working Condition**

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	.547	.137		3.986	.000
	Sct	.860	.036	.893	23.583	.000

The model summary in the Table 6 revealed that R squared is recorded as 0.798. Hence it indicates that the social compliance explained 79% of the variation in working condition. The calculated F ratio in Table 7 is 556.136 which is significant at 1% level of significance ( $p < 0.001$ ) supports the reliability of the explanatory power of the model.

Hence social compliance can be considered as a predictor in determining the working condition. This shows that social compliance standards have a significant effect on working condition.

The results of regression analysis shown in Table 8 reveal that social compliance has a regression coefficient of 0.893 with the 0.01% level of significance. Hence social compliance can be considered as a predictor in determining working condition. This shows that social compliance has a significant positive effect on working condition.

**Table 9 Model Summary: Working Condition and Employee Retention**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.872 <sup>a</sup>	.760	.758	.37070

**Table 10: ANOVA Working, Condition and Employee Retention**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	61.333	1	61.333	446.311	.000 <sup>b</sup>
	Residual	19.376	141	.137		
	Total	80.709	142			

**Table 11: Coefficient Table, Working Condition and Employee Retention**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.14	.131		8.679	.000
1	wct	.73	.872	23.583	.000

The  $R^2$  value in Table 9 for the relationship between working condition and employee retention was 0.760 which indicates that working condition explained 76% of the variation in employee retention. The calculated F ratio in Table 10 is 446.311 which is significant at 1% level of significance ( $p < 0.001$ ) and thus supports the reliability of the explanatory power of the model.

The results of regression analysis shown in Table 11 reveal that working condition has shown a regression coefficient of 0.872 with the 0.01% level of significance. Hence working condition can be considered as a predictor in determining employee retention. This shows that working condition has a significant positive effect on employee retention.

**Table 12: Model Summary, Social Compliance, Working Condition and Employee Retention**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874 <sup>a</sup>	.764	.760	.36904

**Table 13: ANOVA Table, Social Compliance, Working Condition and Employee Retention**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	61.642	1	30.821	226.305	.000 <sup>b</sup>
	Residual	19.067	140	.136		
	Total	80.709	142			

**Table 14: Multiple Regression Coefficient Table, Social Compliance, Working Condition and Employee Retention**

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
	(Constant)	1.115	.132		8.451	.000
1	Sct	.111	.074	.138	1.507	.134
	Wct	.629	.077	.749	8.197	.000

The R<sup>2</sup> value for the multiple regression, run with social compliance and working condition as predictors and intention to stay as the dependent variable was 0.7640 as shown in Table 12. This indicates that the social compliance and working condition together explained 76.4 % of the variation in employee retention. The calculated F ratio is 226.305 in Table 13 which is significant at 1% level of significance ( $p < 0.001$ ) and thus supports the reliability of the explanatory power of the model.

Table 14 shows that social compliance beta value 0.893 declined to 0.138 after the inclusion of working condition, reflecting the mediating effect of the working condition. So, it means that the conceptual framework which was constructed is nomologically valid and factors which were taken into consideration are relevant to the real condition of apparel sector of Sri Lanka.

## Discussion and Conclusions

This research intended to investigate the mediating effect of working condition on the relationship between social compliance and employee retention. The deterrence theory was helpful in explaining why some companies are not adhering to the social compliance requirements and some are adhering due to fear of losing their business. The fact that working conditions may be overlooked when firms are engaging in social compliance only as a legal requirement, was argued upon with the aid of deterrence theory. Based on bivariate regression analysis, ANOVA analysis, and coefficient analysis a positive relationship could be identified between social compliance and working condition, social compliance and intention to stay as well as working condition and employee retention. The mediation effect of working condition was evident from the results of the hierarchical regression analysis. The implication of this result is that by improving the working conditions the employees can be motivated to stay in the job.

The perceptions of the employees on social compliance show that social compliance is in practice in the apparel sector of Sri Lanka. Their perceptions on working conditions in the apparel sector of Sri Lanka are also positive. At the same time results reveal that if working conditions are improved, employees can be encouraged to retain in their jobs. In other words managers need to know that the working conditions require more attention as a strategy for employee retention. This is what Dawis and Lofquist (1984) explained when they said that management must always attempt to reduce the gap between the perceived expectations of the employees regarding the working conditions and the existing working conditions. Managers may encourage open dialogue with employees to

show that they care and are interested in the employee. Insights gained through this exercise can be used as a means to demonstrate commitment and concern to employees by way of improved working conditions.

Conducting internal audits based on working condition will enable corrective and preventive actions in place to avoid, minimize the identified non-compliances. It's an advantage to have risk assessment which covers the clauses in the social compliance standard and reduce the severity of the identified risks. This will help to improve the working condition of the facility and improve the intention to stay and retain employees in apparel sector.

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