



Supply chains

Are big brands improving supply chain labour standards?



No, says Jeff Ballinger, academic, and former union and NGO activist



Yes, says Doug Cahn, consultant and formerly of Reebok



Bargain, don't partner

Jeff Ballinger

Dear Doug,
When corporate social responsibility became the big brands' answer to anti-sweatshop activism in the mid-1990s, I did my utmost to keep at least some of our rag-tag coalition of NGOs from jumping into dialogues and partnerships with multinational companies. This was 1996 when the stories from Asia were taking a huge toll on Nike, reducing US sales and galvanising resistance to corporate-led free-trade policies.

What made me so hostile to corporate responsibility self-regulation even before the model was field-tested? The answer is threefold.

Firstly, I had seen how corporate codes of conduct had been used by companies to deflect criticism without stopping cheating and abusive labour practices in the period 1992-96. I felt that there was a serious risk of NGOs and unions legitimising the use of vague and unenforceable pledges made by brands when the evidence showed that contractor-factories were unresponsive. For example, in the early 1990s I continued to find illegal "training wages" paid in Indonesian shoe factories supplying your company, Reebok, despite your Human Rights Production Practices.

Secondly, everything I had learned in working for garment unions in the US pointed towards the application of maximum pressure until bosses were prepared to sit down in dignity with the aggrieved workers; the promise of corporate social responsibility was nowhere close to this. The brands were not the bosses of the factories and their ability to force change – especially when it came to wage issues – was (and still is) constrained by the predatory way in which they press suppliers to force down prices. This was dramatically illustrated last year after Adidas bought your former employer. When asked about higher-than-expected profits, the company repeatedly explained to reporters that it had more leverage with suppliers after becoming a bigger buyer.

Lastly, it seemed that Indonesia's sport-shoe workers had found a proxy for direct talks with those reprehensible Taiwanese

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and Korean factory managers: pressure on their government to raise the minimum wage and to badger foreign employers to pay it. Since the wage increased by nearly 300% in the period 1992-96, it seemed an inauspicious time to join combinations such as the Apparel Industry Partnership that could – and ultimately did – mute the international criticism that was crucial to these workers' hard-won success.

It is interesting to note what Nike spokesman James Small had to say in 1996 when the Indonesian workers succeeded in getting the wage up to \$2.56 a day: "There's a concern what that could do to the market, whether or not Indonesia could be pricing itself out of the market." A month earlier, Nike had paid \$200m to the Brazilian soccer team for an endorsement.

Twelve years later, the payment for big-time football endorsements has more than doubled and fees paid to universities to advertise the big shoe brands has in some cases quadrupled. Wages continue to hover around subsistence.

Neither NGOs nor unions in the US and internationally would respond to my call to

keep their powder dry by avoiding partnerships with big brands. Corporate reputations were saved and workers were left without the weapon that was just beginning to prove its efficacy.

Regards,
Jeff

Sea change in standards

Doug Cahn

Dear Jeff,

I am sure we agree that business must be responsible for its impacts on society, and that companies have influence – although experience has taught me, too, the limitations of what companies can do to address social problems. With the help of inspiring mentors from both the public and private sectors, I have learned that we can be most effective when we judiciously combine principle with pragmatism.

That's why the modern-day corporate social responsibility movement is so promising. It's a sea change from an earlier era when the only business of business was to generate profits, and companies undertook solely to maintain their licence to operate and support public charities. Global brands today have a much greater understanding of their social and environmental impacts. Many are taking significant and meaningful steps that benefit workers.

Don't get me wrong, the effectiveness of social and environmental initiatives of global companies is far from flawless. But no one who seriously advocates better working conditions would want to roll the clock back to the time when corporate efforts were few and far between. The days of sham independent monitoring, self-congratulatory public relations and superficial analysis are for the most part long gone. There will be some brands that seek merely to "game the system". But the move towards greater transparency, led by the Global Reporting Initiative, has had an opposite and ironic result – corporate reporting is rarely viewed as credible unless it is self-critical. Increasingly, it is.

The Apparel Industry Partnership, now the Fair Labor Association, is hardly to blame for the muting of international criticism that was crucial to workers' hard-won successes in the mid-1990s. If anything, the FLA's strict protocols hold participating companies accountable through truly independent monitoring and

Conventional wisdom

The International Labour Organization, a UN agency that promotes decent work, has identified eight of its conventions that it believes are fundamental to the rights of every human being at work.

The conventions cover four areas:

- freedom of association
- abolition of forced labour
- equality
- elimination of child labour

The ILO says the conventions should apply to workers in all countries, regardless of how well developed that country is.

In the last decade, more and more brands have started to incorporate ILO principles into their own sourcing policies. For example, the code of conduct used by companies in the UK's Ethical Trading Initiative, a multi-stakeholder group to improve supply chain labour standards, is based on the ILO conventions.

public reporting. Those familiar with the FLA's work in recent years acknowledge its thoughtful programme in factories to benchmark, improve and measure progress together with unions and other civil society actors.

Partnerships between NGOs and brands are not all sell-outs. Reebok learned much from these relationships, particularly about how to engage workers and encourage genuine worker participation. As a result of NGO guidance, Reebok was the first global brand to eliminate training wages in Indonesian factories. The problem, if anything, is that not enough companies sign up to rigorous and transparent protocols.

The other day I was reviewing audit reports from two factories in China. The

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first factory was one of the few that had never been audited and subjected to requirements of a global brand to improve conditions – and it showed. It had widespread underpayment of wages and poor protections for workers against hazardous conditions. The second factory had been

producing for several global brands and in spite of efforts to falsify some records, the factory, while not perfect, was decidedly better. Factories that produce for global companies have better, if imperfect, conditions for workers, including higher wages, than those that do not.

You acknowledge that there are limitations to corporate initiatives based on your experience working for garment unions in the US, and I agree. Global companies have become de-facto regulators, replacing labour inspectorates from Central America to China, Bangladesh and Vietnam. It is time that governments, factory management, trade unions and civil society assume their appropriate roles. Companies alone cannot make this happen.

Every day, companies must balance demand for cheaper goods from consumers, and better returns from investors, with the rising costs of products. Let's not throw the baby out with the bath water. The corporate social responsibility movement has opened up the door to a rich, meaningful and increasingly transparent dialogue between companies and civil society about how best to protect workers. That dialogue should be embraced.

Best regards,
Doug



Same old stories

Jeff Ballinger

Dear Doug,
Garment industry managers acknowledge, when they're honest, that the default

position of low-skilled manufacturing is exploitation and vicious cost cutting. It's in the DNA of the outsourcing model. Bud Konheim, joint founder of New York dressmaker Nicole Miller, explained in 1997: "In this industry, the only reason to change is because someone has got a great cattle prod that keeps jabbing you in the rear end."

A giant cattle prod would be a trade union in a country that really protected workers' freedom to form independent unions. Improving labour standards in big brands' supply chains through corporate social responsibility – using the model of the FLA, as you suggest – is like trying to move that 600kg beast with a twig. You'll forgive me if I don't get too excited about some "monitored" contract-factories actually complying with the local legal wage – those wages being set by some of the world's most corrupt and autocratic governments.

Maybe you can elaborate on "workers' hard-won successes in the mid-1990s". I've made trips to Indonesia and Vietnam in

the past six months and I heard the same stories from factory staff that I first tuned in to in 1988.

In Vietnam, one team leader, who had worked for 12 years in a Nike-producing factory, actually cried when she recounted that her little girl's kindergarten fee took 40% of her \$65 pay each month. An experienced maintenance guy at the same factory, near Ho Chi Minh City, spoke bitterly about shouting, abusive managers. There had been 12 strikes involving more than 22,000 workers at Nike-producing factories in the country in the previous 18 months, one of which was over forced Sunday overtime with no advance notice. Four strike leaders were sacked and spent the night in jail.

The default position of low-skilled manufacturing is exploitation and vicious cost cutting

In Indonesia, workers I spoke to were struggling to survive on wages that have been flat or falling for a decade. Nike-producing workers said they feared being cheated out of severance pay worth a combined \$20m (13,000 are expected to lose jobs in the next month). Over the past five years, they explained, five big shoe companies shut down and only about 15% of more than 40,000 workers got anything at all.

There has been a "sea change" – as you say – but not for the workers earning inflation-ravaged wages. The change I have observed is the increasing number of sweat-stained billionaires, such as your former boss at Reebok, Paul Fireman, and Jim Davis at New Balance. Taiwan's Tsai Chi Jui, boss of the world's biggest sports shoe contractor, Yue Yuen, has become the first "trickle-down" billionaire.

You knew ten years ago, when we spoke in New York, that there was absolutely nothing the big shoe companies could do to raise pitiful factory-floor wages. Outsourcing would allow you to increase profits but not to share wealth with workers. How do I know this? Because I asked you if you had ever sat down with the head of sourcing at Reebok and asked what it would cost to fix A, B and C problems (we both knew what they were). You said that you had never had that conversation. I knew then and there that corporate social responsibility was a sham.

Best regards,
Jeff



Often the best work available

Signs of progress

Doug Cahn

Dear Jeff,

If companies were to take your arguments to heart, they could understandably use them as an excuse to refrain from engaging in corporate responsibility activities. How would that protect millions of workers from abuse?

The fact is that in the Dominican Republic, a stubborn factory management was compelled to negotiate in good faith with a union, resulting in a collective bargaining agreement and higher wages. In Mexico, a stalemate between the factory, a corrupt union and the government was resolved with the siting of a new, representative, union for workers.

In Indonesia, factories worked with NGOs and factory management to provide needed inoculations and reproductive health education. Attorneys were hired to advise workers on the best strategies to obtain severance payments in failed factories.

Day care centres were installed in Bangladesh factories so that working mothers could receive the childcare they needed. In Pakistan, a truly child-labour-free football factory was established.

Elections of worker representatives were facilitated in factories in China – a bold experiment to underscore the benefits of enhancing workers' voices. Footwear facto-



Cheap clothes come at a cost

ries dramatically reduced or eliminated overtime hours. Harmful chemicals – once commonplace – were eliminated through an air quality testing and chemical substitution programme.

These protections and hundreds more like them would not have taken place without the corporate responsibility initiatives of companies. That's the sea change I am talking about.

Often working together with NGOs, governments and unions, companies are tackling problems including child labour in Uzbekistan's cotton fields, discrimination against unions in Central America, and forced labour for foreign migrant workers in Jordan. The International Labour Organization's Better Work pilot programme in Jordan, Lesotho and Vietnam alone will directly benefit more than 800,000 workers, with the full cooperation of workers' and employers' groups.

Industries across the spectrum – jewellery, extractives, agriculture, pharmaceuticals, electronics, footwear, clothing and toys – are grappling with responsibility, accountability and transparency. Leading

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companies are also examining how their own business processes may harm labour standards, and addressing these problems honestly and openly.

You chose to cite decade-old statements from corporate officials, including myself, that did not tell the full story then and don't now. These initiatives are not abstract ideas or clever PR stunts. They are significant measures taken by companies to bring real benefits to workers.

Another mentor and long-time employer of mine, US congressman Barney Frank, knows how to mix principle with pragmatism. His legislation, which I support, gives shareholders the right to vote on executive pay practices. This is an appropriate check and balance for companies whose executive compensation is out of line. I hope the Senate joins the House of Representatives in passing this legislation soon.

The corporate social responsibility

Non-compliance persists

Factory audits reveal that many suppliers are failing to put into practice the ethical standards of conduct that brands say they are asking for.

The Fair Labor Association, a US-based organisation that aims to raise supply chain labour standards in the apparel industry, reports that there were 2,511 separate violations of its own code of conduct in 2006.

FLA-accredited monitors found the breaches in unannounced audits of 147 supplier factories. This translates into an average of over 17 instances of non-compliance per factory. More than three-quarters of factories audited were in Asia.

Supplier non-compliance broke down into the following areas:

- health and safety (46%)
- wages and benefits (17%)
- code awareness (9%)
- hours of work (8%)
- harassment or abuse (4%)
- overtime compensation (4%)
- freedom of association and collective bargaining (4%)
- forced labour (2%)
- miscellaneous (2%)
- child labour (2%)
- non-discrimination (1%)

Major apparel brands participating in the FLA include: Adidas (now including Reebok), Asics, H&M, Nike, Puma, Russell Athletic and Umbro.

movement is a major, albeit imperfect, innovation of our time. Important questions remain, for example, around how we can ensure that its benefits are applied more broadly across more companies; how to get brands to collaborate and stop duplicating their monitoring and other efforts; and how to ensure that companies deliver sustainable benefits for workers.

It will take hard work to address these and other questions, and to improve upon the corporate social responsibility work already begun. I look forward to the challenge.

Take care,
Doug

Jeff Ballinger spent 15 years working in US trade unions and a similar time in NGO worker rights activism. He now teaches and researches global labour issues at Webster University, Vienna, Austria.

Doug Cahn led the human rights programme at sports clothing maker Reebok for 15 years. He is now principal of the Cahn Group, a consultancy, and president of Clear Voice, a worker hotline. ■