

# Supply Chain Briefing Part 1: Ethical sourcing - The responsible chain gang

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Despite 15 years of auditing and monitoring, working conditions in global supply chain factories remain patchy. However, leading brands now address supply chain problems proactively. It's a familiar picture. Dirty Clothes, a report in April 2010 by the National Labour Committee, a US-based rights group, accused a Wal-Mart and JC Penney supplier in Jordan of human trafficking and abuse of young women migrant workers from Bangladesh, Sri Lanka and India.

In February, 21 workers were killed in a fire at a garment factory in Bangladesh run by Gharib & Gharib, a supplier for the Swedish brand H&M.

Bangladeshi factories producing for British retailers Asda, Primark and Tesco were accused of poor working conditions in Fashion Victims, a report by the UK campaigner War on Want in December 2008.

In July 2008, an Australian television station reported sweatshop conditions in Hytex Apparel, a Nike-contracted factory in Malaysia. Hundreds of migrant workers from Bangladesh, China, India, Indonesia, Burma, Nepal and Vietnam worked in unacceptable conditions.

And in October 2008, the UK's Observer newspaper reported on a facility in India that was using forced child labour to make clothing for the US retailer Gap.

On the other extreme, this June, the UN Industrial Development Organisation recommended the Brandix Group's "green factory" in Sri Lanka – a supplier for Marks & Spencer – as a model of sustainable production to all manufacturers around the world. Unfortunately, such good examples remain few and far between.

The frequent stories of poor working conditions in global supply chains challenge the effectiveness of the audit and monitoring programmes that have been adopted by almost every multinational retailer over the past decade and a half.

## Murky beginnings

Retailers began supply chain policing in response to allegations of poor working conditions in their supplier factories.

Economic globalisation and the outsourcing trend that started in 1980s – where production was moved to where labour was cheap – resulted in a complex web of supply chains across the globe.

A continuous search for cheap labour led to a race to the bottom in labour-intensive businesses such as fashion retailing. Multinational retailers have followed a business model where their clothing, footwear and other products are made by suppliers mostly located in developing countries. Labour and environmental laws in many of these poverty-stricken countries are either inadequate or not enforced by government inspectors.

Towards the end of the 1980s, a number of reports started to emerge alleging sweatshop conditions in contract factories making products for big brands. Stories of child labour in garment factories in Bangladesh, for example, shocked consumers and human rights activists in the US and Europe.

Similar reports from other countries such as India, Pakistan, Indonesia, China, sub-Saharan Africa, Honduras, Haiti and Jordan led to a massive anti-sweatshop campaign against retailers, including boycotts of their products.

Retailers initially responded by taking the position that they had no responsibility for conditions in their contract factories. They did not own these facilities and had no direct control over them, they said.

But a consumer backlash and, in the US, a string of class action lawsuits filed by NGOs on behalf of abused workers, eventually forced retailers to accept that improving working conditions in supplier factories was their social duty.

Almost every brand responded by introducing a supplier code of conduct. These led to the emergence of social and environmental audits and monitoring of supplier factories around the world.

The codes of conduct typically included labour and human rights standards extracted from International Labour Organisation conventions. UN declarations covering child labour, forced labour, discrimination, working hours, minimum wage, health and safety, freedom of association and environment protection were also frequently referenced.

Individual company initiatives soon resulted in hundreds of codes and multiple audits of the same supplier by several brands, leading to audit fatigue.

"There is a tremendous amount of cookie-cutter auditing taking place particularly by big retailers who have tens of thousands of suppliers and who just want a piece of paper to say they did do due diligence," says Aurret van Heerden, president of the Fair Labour Association, the US-based multistakeholder initiative for supply chain monitoring.

Brands also realised that the complexities and scale of issues in global supply chains warranted a collective response instead of individual company efforts. This thinking led to the creation of a number multistakeholder and voluntary industry initiatives including the Fair Labour Association, the Ethical Trading Initiative, the Fifa code of conduct, the International Council of Toy Industries' Care programme, and more recently the Business Social Compliance Initiative in Europe.

Certification schemes emerged, such as SA8000 by Social Accountability International and Worldwide Responsible Accredited Production (also known as Wrap).

However, the problem of duplication continues to dog the industry as the joint initiatives have not yet replaced individual company monitoring.

Though years of monitoring has improved the situation in factories supplying leading brands, reports of serious violations are not uncommon. What has however changed is the way brands respond to such reports.

For example, Nike quickly moved to remediate the problems with its Malaysian supplier after the report of violations broke out in 2008. Similarly, the company decided to sack Pakistani factory Saga Sports, its largest supplier of soccer balls, after reports of child labour emerged in November 2007 and remediation efforts failed. But observers say not every retailer takes the matter as seriously.

"The most significant improvement has taken place in health and safety as these issues are easier to identify and address," says Social Accountability International president Alice Tepper Marlin.

Tepper Marlin argues that brands have made very little progress on the issues of wages and working hours. She says that while there is improvement in getting more suppliers to pay a minimum wage and for overtime hours, not much has been done in terms of paying living wages.

Campaigners are increasing pressure on retailers to pay living wages as they say the legal minimum wage is often inadequate. Excessive working hours – a result of a low-wage culture as workers need

to work longer to earn a reasonable amount – remains the most persistent issue in the supply chain.

Retailers also don't have much to show when it comes to ensuring workers' rights to freedom of association and collective bargaining.

Observers point to a number of factors that contribute to the problem, and also reflect the failure of brands. Tepper Marlin says these include flawed merchandising practices such as last-minute changes in design or quantity, elaborate efforts by factories to coach their workers to give the "right" answers to auditors, falsification of records, and even bribing of auditors.

Other frequently cited factors that hinder progress include the fragmented nature of retail supply chains, seasonal variations in volumes of orders, hidden layers of subcontractors, lack of supplier capability, low worker awareness of rights, and poor enforcement of labour laws in supplier countries.

### **New approaches**

Leading retailers are testing new models to address some of these issues in a holistic manner. Nike, for example, is banking on "lean manufacturing", among other initiatives, to raise productivity in supplier factories so that they can pay their workers more.

Marks & Spencer and Wal-Mart have committed to aggressive reductions in energy and water use and waste production in their supply chains. Leading retailers are also moving away from supply chain "policing" to constructively engaging suppliers.

"A policing model is not a sustainable approach. It only addresses the immediate concerns and cannot tackle the root causes of the problem," says William Anderson, Adidas's head of social and environmental affairs for Asia Pacific.

Six years ago Adidas adopted a policy of partnering with suppliers, in place of policing, to help them develop the necessary management systems to address social and environmental issues.

Stakeholders, however, are raising the bar. The industry is now under pressure to take accountability for previously uncovered areas such as the way cotton is cultivated and harvested. Reduction in energy use, water consumption and waste are other new areas stakeholders want retailers to act on – as some of the bigger companies are now addressing.

Anderson says that moving down the supply chain and, for example, covering thousands of cotton farms and millions of farmers around the world is a real challenge. He says that if retailers apply a traditional compliance model, they will end up with failure. "It demands a new model. It demands a new way of thinking. It pushes us toward collaborative approach," he says.

Companies aiming to be sustainability leaders will have to live up to these rising expectations and continue to engage with their suppliers.

### **Links:**

[1] <http://www.ethicalcorp.com/users/rajesh-chhabara>