

CSR's Failure to Protect Workers – Hansae Vietnam Case Study

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Maquiladora Health & Safety

Support Network

CIHC – San Francisco – December 2017

Presentation Outline

- The holiday dilemma: Christmas gifts from sweatshops?
- What has not worked = CSR
- What could work = WSR
- What OHS professionals can do

Global Supply Chain Factories

- Very long hours of work
- Very low pay
- Pay delayed, under-paid, or never paid
- Unsafe and unhealthy conditions
- Physical abuse and sexual harassment
- Child labor
- Basic human and labor rights ignored

Bad conditions continue: How do we know?

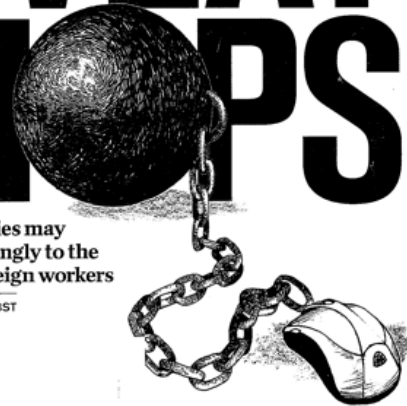
- News media reports
- Factory reports from non-governmental organizations (NGOs)
- Reports from Multi-Stakeholder Initiatives (MSIs)
- Reports from transnational corporations themselves

BusinessWeek

AMERICA'S HIGH-TECH SWEAT SHOPS

How U.S. companies may contribute unwittingly to the exploitation of foreign workers

BY STEVE HAMM & MOIRA HERBST

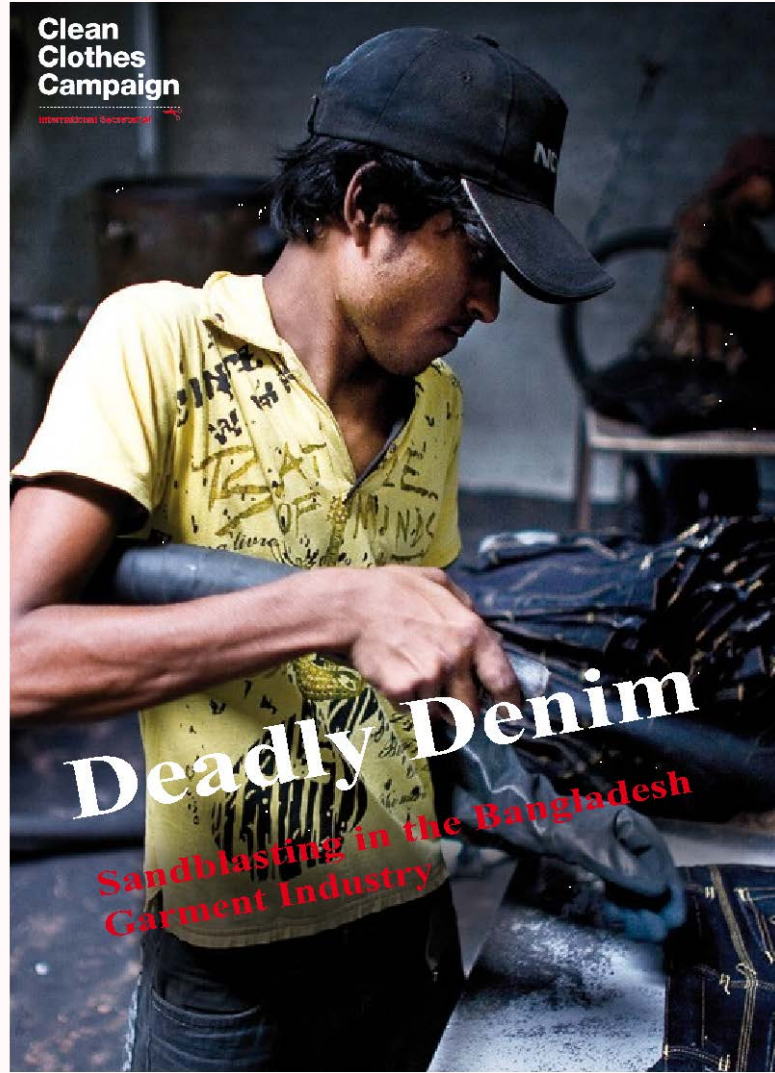


Clean
Clothes
Campaign

International Labour Organization

Deadly Denim

Sandblasting in the Bangladesh
Garment Industry





The Poisonous Pearl

Occupational chemical poisoning in the electronics industry in the Pearl River Delta, People's Republic of China

Authors: Labour Action China (LAC)
Labour Education and Service Network (LESN)
Centre for Research on Multinational Corporations (SOMO)

Supported by Bread for All/Swiss Catholic Leuten Fund

September 2016





**STORIES OF WOMEN WORKERS IN
VIETNAM'S ELECTRONICS INDUSTRY**

Hanoi, November 2017



TOWARD FAIR COMPENSATION IN GLOBAL SUPPLY CHAINS:

FACTORY PAY ASSESSMENTS IN 21 COUNTRIES

AUGUST 2016



Corporate Social Responsibility

- Harvard Business School study:
 - “Theatre One” – philanthropy, 48%
 - “Theatre Two” – efficiency programs, 38%
 - “Theatre Three” – working conditions, 13%
- Three-fourths of CSR spending has no impact on the factory floor
- \$7-8 billion a year – CSR codes, audits, departments, reports and conferences

Hansae Co. Ltd.

- Korean company founded in 1982
- Factories in China, Guatemala, Indonesia, Nicaragua, Saipan and Vietnam
- 2015: sales of \$1.4 billion; operating profit of \$125 million (9% of sales)
- 93% of products sold in the US



Hansae Vietnam

- Factory established in 2001
- Now 12 separate factory buildings with 800-1,000 workers in each - 10,000 total, majority women
- Brands: Gap, Nike, Pink, Polo, Hanes, Zara
- Retailers: Macy's, Kohl's, JC Penny, Target, and Walmart

Hansae VN (address) : Km21, Trans-Asia Super Highway Lot D2 TayBack CuChi Industrial Zone, Ho





Hansae Vietnam

- 2015: strikes at 2 plants producing for Nike (10-year buyer from Hansae)
- 2016 inspections
 - July 2016 – FLA inspection confirms WRC report issued in May
 - October 2016 – Joint WRC and FLA inspection on site
 - December 2016 – reports issued with identical findings

2016 Findings

- Labor law violations:
 - Extensive wage theft
 - Illegal recruitment fees
 - Forced overtime
 - Illegal denial of sick leave
 - Chronic verbal and physical abuse
 - Managers holding 15 of 17 union leadership positions

2016 Findings

- OHS violations:
 - Temperatures in factories > 90 degree limit
 - No ergonomic program or equipment
 - Unsafe use, storage and disposal of hazardous/flammable chemicals
 - Insufficient number and denial of use of toilets
 - Non-functional OHS program

CSR Audits in 2015

- 26 separate CSR audits
 - Brands: Gap, Hanes, Li & Fung, Nike
 - CSR companies: Bureau Veritas, Elevate, ITS, SGS, UL Responsible Sourcing
- 20 one-day and 6 two-day audits
- Two audits claimed to inspect all 12 factories
- Standard two-person audit teams

2015 Findings

- Unknown Results:
 - Secret audit reports and findings
 - Secret corrective action plans, if any
 - Secret verification, if any, of hazard control
- What is known:
 - Longstanding labor law and CSR code violations continued after audits
 - Readily apparent OHS violations were not corrected

CSR Case Study

- 26 separate CSR audits failed:
 - To correct illegal and unsafe conditions
 - To address the causes of two wildcat strikes
 - To eliminate practices and conditions evident in competent inspections in 2016
- CSR audits every other week failed to protect workers' health or their rights

CSR: A Systems Failure

- **Rana Plaza** – 1,138 dead
 - Brands: Loblaws, Walmart, Benetton, Children's Place
 - CSR: Bureau Veritas, BSCI
- **Ali Enterprise** – 289 dead
 - Brands: Kik (Germany)
 - CSR: UL Responsible Sourcing, SAI, WRAP
- **Tazreen Fashion** – 112 dead
 - Brands: Walmart, Sears, Dickies
 - CSR: BSCI, brands

25 Years of CSR

- **Success** in protecting:
 - Brand image
 - Corporate reputation
 - PR with customers, investors, media
- **Failure** in protecting:
 - Workers' health & safety
 - Workers' legal rights
 - Women workers in particular

Why CSR Fails Workers

Three key factors:

- Sweatshop business model
- Ineffective, corrupt monitoring
- Lack of any meaningful worker participation in developing, implementing and maintaining programs

Sweatshop Business Model

Constant conflict between CSR claims and actual sourcing practices:

- The “iron triangle” of price, quality and delivery time
- The “race to the bottom” of relentless drive to cut per unit price year to year
- Short-term contracts mean constant uncertainty

Sweatshop Business Model

- Harsh penalties for missing delivery dates
- Deliberate overloading of factories = overtime and inevitable subcontracting
- Lack of brand financial support for mandatory factory-level CSR programs
- **Net result:** squeezed factories whose managers can only meet their own profit goals by operating sweatshops...and fabulous profits for the brands

Apparel Industry Profits on Sales Revenue

Clothing Brands

Company	2015 Sales	2015 Gross Profits	Profits on Sales
PVH Corp	\$8,241,000	\$4,327,000	52.5%
VF Corp	\$12,282,000	\$5,994,000	48.8%
Nike Corp	\$27,799,000	\$12,448,000	44.7%
The Gap Inc	\$16,435,000	\$6,289,000	40.7%

Retail Stores

Macy's	\$28,105,000	\$11,242,000	40%
Nordstrom Inc	\$13,508,000	\$5,100,000	37.7%
Kohl's Corp	\$19,023,000	\$6,925,000	36.4%
Target Corp	\$72,618,000	\$21,340,000	29.4%

Source: Women's Wear Daily, May 11, 2016

WHAT DOES THAT \$14 SHIRT REALLY COST?



SOURCE: O'ROURKE GROUP PARTNERS LLC, APRIL 2011
MACLEANS.CA

Apple's Gross Profits on iPhone 7 and 8+

iPhone 7

\$219.80 materials

\$ 5.00 labor (2.2% of mfg costs)

\$224.80 total manufacturing costs

\$649 retail cost for consumers

\$424 gross profit per phone (65% of retail price)

iPhone 8+

\$288.08 materials

\$ 7.36 labor (2.5% of mfg costs)

\$295.44 total manufacturing costs

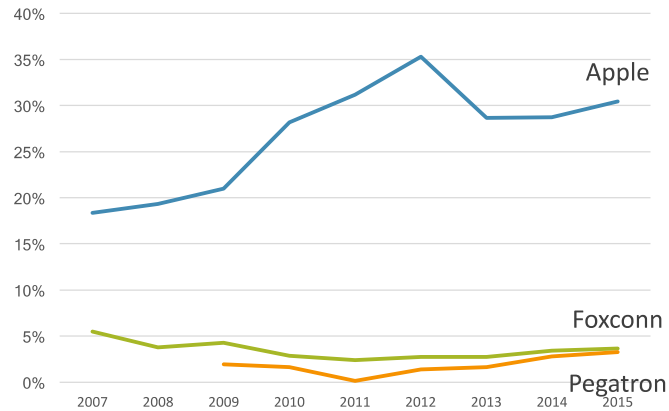
\$799 retail cost for consumer

\$503 gross profit per phone (63% of retail price)

Source: IHS Markit research firm, reported by Fortune magazine and Fox News

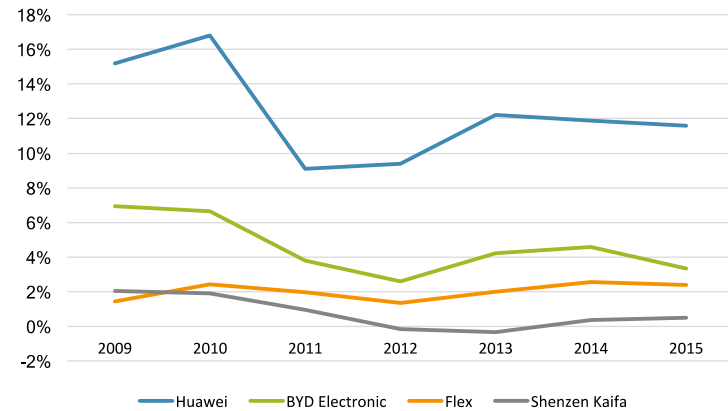
Operating Margin

Operating Margin: Apple, Foxconn and Pegatron compared



Source: Mergent Database (2016)

Operating Margin: Huawei, BYD Electronic, Flex and Shenzhen Kaifa compared



Source: Mergent Database (2016), Huawei Annual Reports (2015, 2011, 2010)

Sweatshop Business Model

“The US is really putting us into a dilemma,” says Li Wencheng (a Disney supplier in Dongguan, China), “Clients talk about high-quality products and human rights in one breath, and in the next they are telling us we have to cut prices.”

- John Liu and Stephanie Wong,
Bloomberg News, February 11, 2009

Ineffective Monitoring

- Unqualified auditors - corrupt auditors
- “Drive-by” and “tick the box” inspections
- Growth and outsourcing
 - Bureau Veritas, Intertek, SGS - public companies with their own profit goals
 - Subcontracting actual inspections
- Inescapable conflicts of interest
 - Negative audits do not generate new business

The New York Times

Fast and Flawed Inspections of Factories Abroad



Jonathan Browning for The New York Times

Zaichun Ye, right, a consultant at Verité in China, seeing if a worker is wearing chain mail gloves at a textile factory in Yuhang in Zhejiang province.

By **STEPHANIE CLIFFORD** and **STEVEN GREENHOUSE**

Published: September 1, 2013 |  129 Comments

THE
CHINA
PRICE

THE TRUE COST *of* CHINESE
COMPETITIVE ADVANTAGE



ALEXANDRA HARNEY

An insider's voice

“Just about everyone, at least off the record, will tell you that monitoring doesn't work and auditing of supplier factories doesn't work, because people cheat.”

- John Ruggie, Harvard University and former UN Secretary-General's Special Representative for Business and Human Rights, *Women's Wear Daily*, October 2009

Workers Missing from the Picture

- CSR buzz words of “worker empowerment” must give way to genuine, meaningful participation by workers
- OHS roles for workers:
 - Conduct inspections and identify hazards
 - Investigate accidents and exposures
 - Evaluate and verify hazard abatement
 - Peer training with co-workers

Workers' role

- On site all day, every day
- Direct knowledge of the problems
- Ideas for possible fixes
- Verify whether fixes work
- Whether suppliers are “gaming” the audits

Worker Participation

- What's needed:
 - Workers with the authority to act
 - Workers without fear of retaliation
 - Workers with paid release time
 - Workers with training and information
 - Workers able to speak and act on their own behalf, to exercise their rights under the law

Worker Participation

“We have inspections of factories, both announced and unannounced. But we just don’t have the assurance that things will be the same the next day. Factories in China are incredibly sophisticated at finding ways to fool us. The best monitors are the workers themselves.”

- Doug Cahn, Reebok CSR Director, *Financial Times*, December 2002

Worker-driven Social Responsibility

- Alternative to voluntary self-regulation
- Three practical experiences:
 - Fair Food Program
 - Florida farm workers – Vermont dairy workers
 - Alta Gracia garment factory, DR
 - Bangladesh Accord on Fire and Building Safety

WSR Principles

- Workers must be equal participants in designing and implementing programs
- Obligation for global corporations must be binding and enforceable
- Buyers must afford their suppliers with the financial incentive and capacity to comply

WSR Principles

- There must be swift economic consequences for non-compliance
- Correction of hazards and violations must be measureable with clear deadlines
- Verification of corrective action plans must be independent and rigorous

Global solutions

- **New business model**
 - Integration of CSR goals and sourcing practices
 - End the “race to the bottom” in pricing
 - Establish long term relationships
- **Establish a genuine “one global standard”**
 - Support OHS/labor law enforcement locally
- **Genuine worker participation**
 - Training, authority, paid release time
 - Support workers’ right to speak, act and organize

What we can do

- As OHS professionals at work – advocate for effective programs here and abroad
- As consumers – demand brands/retailers obey the law and make good on their CSR promises
- As citizens – demand governments do their job to protect workers here and abroad
- As OHS professionals – support OHS initiatives and capacity-building projects

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