



Leadership in Manufacturing

INDUSTRY WEEK'S THE VALUE CHAIN

[SUBSCRIBE](#)[SEARCH](#)[FEEDBACK](#)

- [IW HOMEPAGE](#)

Articles - Publication Date 6.1.2002

- [VALUE-CHAIN HOMEPAGE](#)

Under Fire

- [NEWS ROUNDUP](#)

Consumer cries for sweatshop-free products drive big-name brands to extraordinary lengths to monitor working conditions at contractor plants.

- [FEATURES](#)

- [COLUMNS](#)

By [David Drickhamer](#)

- [VCM QUESTIONS](#)

At Levi Strauss & Co. 20 full-time employees do nothing but monitor the company's 500 to 600 contractor factories worldwide. In addition, the San Francisco-based, \$4.3 billion company relies on the part-time input of some 40 employees specializing in quality and product integrity, as well as technical services, whose jobs regularly take them inside these facilities.

- [FUN FACTS](#)

- [EVENTS CALENDAR](#)

They're all on the lookout for violations of Levi Strauss' policies regarding safe and ethical employment practices.

"Ten years ago we primarily used quality auditors or quality people out in the field who had contact with our contractors to begin to assess them," recalls Michael Kobori, director of global code of conduct for the company. The company has since hired the full-time employees and refined its guidelines in response to issues that have come up in the field.

Nike, the Beaverton, Ore.-based shoe manufacturer, also has spent the past decade developing a formal factory-monitoring program.

"When this started, people thought that monitoring was just going in and talking to some disgruntled workers and writing a report," recalls Amanda Tucker, director of business compliance project at Nike, which has 55 people dedicated full-time to its contractor compliance program. "Everyone is realizing that this is serious business because effectively what we're doing is trying to compensate for an insufficient number or insufficient ability of national labor inspectors."

In large part, the Levi Strauss and Nike factory monitoring programs -- and



[E-Mail This Article](#)



[Reply To This Article](#)

LINKS

[Sidebar: SA8000 Sets A Standard](#)

[Sidebar: America's First Sweatshop](#)

[Sidebar: Americans On Globalization](#)

[Sidebar: Factory Monitoring -- Just Do It](#)

RECENT VALUE-CHAIN ARTICLES

[Get Ready For The Next SARS](#)
It's time to rethink your supply chain.

[Sharing Their Way To Savings](#)
Automakers and suppliers strive for interoperable inventory visibility software. The project driver: the Automotive Industry Action Group (AIAG).

[Inventory Bloat at Toyota. What Gives?](#)
Answer may lie in the supply chain.

[CRM 2.0](#)
Companies are

ADVERTISEMENT

FREE Best Practices Case Study on YORK International

- Hear a case study on the largest HVAC equipment manufacturer in the U.S.
- Learn how your business can increase its success through a holistic service lifecycle strategy



[Click here for more](#)

others like them at adidas-Salomon AG, Reebok International Ltd., Liz Claiborne Inc., Gap Inc., Toys 'R' Us Inc., and Mattel Inc. among others -- arose from activist protests and media exposés that have targeted major product brands and retailers. Rapid globalization and the unfettered quest for lowest-cost production -- coupled with the value clash between affluent countries and those in the very early stages of industrialization -- have made the pickings relatively easy. Looking at just one growth indicator, imports to the United States from China ballooned to \$102 billion in 2001, compared with \$15 billion in 1990.

building more focused customer strategies as products emphasize low cost, quick implementation and extended capabilities.

DuPont's Global Vision

To date much of the pressure has been directed at clothing, footwear and toy companies. But other industries are starting to feel the heat as well. Of the firms currently registered to SA8000 (see SA8000 Sets A Standard), there are representatives from agriculture, automotive, building materials, chemicals, cosmetics, electronics, food, jewelry and medical devices. One observer likens the growth potential to recycling and the environmental movement, which began in a few isolated pockets and eventually expanded to other industries and became more mainstream.

Special Delivery
Logistics service providers want to manage your supply chain. Are they ready?

Heavy-Replacement Planning

"Any sector that has labor-intensive manufacturing that's done under contract, particularly in the developing world, is a logical place where companies ought to be worried," notes Randy Rankin, principal of Global Social Compliance (GSC), an external monitoring firm with offices in Los Angeles and New York. "And a logical place for the activist community to go looking for the next target."

Best-Laid Plans
Diverse manufacturers are migrating to demand-planning and demand-management applications, but best practices must underpin software deployment.

What can it mean for a company hit by such protests? Throughout the 1990s, Nike remained a favorite target of protesters. Its reputation became tarnished, and in 1998, when the company reported a 50% decline in profits over the previous year, CEO Philip Knight made a special presentation before the National Press Club detailing the company's manufacturing experiences and its positive impact on local economies, and unveiling a series of anti-sweatshop initiatives.

Looking For Value
Reducing internal costs and enhancing customer value draw attention.

"There is growing public concern about the conditions around the world under which the clothing Americans buy and wear are made," says Scott Nova, executive director of the Washington, D.C.-based Worker Rights Consortium (WRC). "Ultimately all manufacturers are going to be held accountable for the conditions in their supplier factories."

Rolling On
At Schneider National, a new leader and an emphasis on executive team interaction keep the focus on 'low cost, low cost, low cost.'

For protesters, the immediate objective is to stop some of the worst abuses, including child labor, forced or bonded labor, life-threatening working conditions, harassment, beatings, sexual abuse, below-minimum wages and excessive overtime. As the activists' primary targets, the brand-name corporations are thought to have the leverage and resources -- and self-interest in protecting their good names -- to monitor and educate their contractors, and to help them stop such behavior and reform their management practices. The first step in this process is defining what practices are acceptable and those that will not be tolerated.

Right and Wrong

Levi Strauss was the first large manufacturer to develop and publicize a formal code of conduct for its contract manufacturers. Released in 1991, these "terms of engagement" are based on international labor standards promulgated by the International Labor Organization (ILO), Geneva. Today, the company's guidelines roughly mirror those of the Fair Labor Association (FLA), a Washington, D.C.-based coalition chartered in 1999 whose governing board includes representatives from industry, universities and non-governmental organizations. The FLA is funded by participating companies, colleges and universities, and grants from the U.S. Department of State. The

FLA Workplace Code of Conduct sets minimum standards that may seem surprisingly low by U.S. sensibilities, such as a 60-hour work week (48 hours plus 12 hours of overtime), and one day off per week.

"We had to balance the realities of supply chains around the world and our commitment to basic worker rights," says Aurret van Heerden, FLA's executive director. As such the principles represent a practical compromise and a first step toward addressing some hugely complex global economic and social problems. Looking at child labor alone, the ILO Bureau of Statistics estimates that 250 million boys and girls ages 5 to 14, roughly 25% of the total world population, are engaged in part-time or full-time work.

"On issues like forced labor and child labor, there are no quick fixes," van Heerden says. "If you take a classic scenario with child labor -- and I've seen this played out in Bangladesh -- somebody publicizes the problem, the employer panics and gets rid of the problem by firing all of the kids. So the kids end up in the street, probably having to earn a living from more dangerous and less desirable means including drugs and prostitution." Based on his experience, van Heerden believes the best medium-term solution to child labor is increasing the skills of mothers so families have higher incomes and are less dependent on the earnings of their children.

"If you go into almost any plant in the non-developed countries of the Far East, you're going to see things that OSHA or EPA would shut down tomorrow," says Kirk Douglass, CEO of Pivot International. Headquartered in Lenexa, Kan., Pivot is a contract product development and manufacturing company that owns manufacturing facilities in the Philippines and frequently subcontracts work to China.

"It's very easy to superimpose our values, based on the wealth of our country, and wring your hands and say, 'That's terrible,' " says Douglass. "You can make statements that sound really great at cocktail parties, but in terms of the best interests of all people involved, probably don't make any sense."

Likewise, when developing a code of conduct, vague and philosophical pronouncements won't work. Company managers must offer explicit explanations for how they define underage labor, fair wages and overtime pay, and freedom of association, that are measurable and can clearly be articulated to their supply-chain partners.

"This is an element of quality, and you don't define elements of quality ambiguously. You define it in objective, measurable terms," states Rankin, of GSC, which coordinates thousands of contractor site visits annually. "You don't tell your partner to put the sleeve on so it doesn't fall off. You tell your partner to put the sleeve on with 19 stitches per inch."

Enforcement Challenges

In the United States minimum working standards are set by the Fair Labor Standards Act (FLSA), which was passed in 1938. The FLSA regulates minimum wages, establishes overtime compensation for work exceeding 40 hours per week, and outlaws child labor. Enforcement falls to the Employment Standard Administration's Wage and Hour Division (WHD). It's a big job.

The agency currently employs 964 investigators in 51 district offices and 205 field offices who inspect workplaces either unannounced or in response to employee complaints. Focusing on low-wage industries, the agency inspected more than 38,000 work sites for the fiscal year ending Sept. 30, 2001, and issued 2,099 child-labor violations alone. Despite this effort, the

WHD estimates that 24% of garment factories in San Francisco and 64% of those in New York City are out of compliance with labor laws.

Some horrific abuses still occur, such as the 71 Thai immigrants found imprisoned in appalling conditions in an El Monte, Calif., garment factory in 1995. In foreign countries, while the local labor laws may be comparable or even more stringent than in the United States, local enforcement mechanisms are often weak or non-existent, and the burden for policing factories falls on the buyer.

"Most of the places I go all over the world, the contractor is not out of compliance because he wants to be or because he deliberately wants to cut corners," states FLA's van Heerden. "The problems with overtime, the problems with minimum wages or piece rate, the problems with harassment and abuse are because these factories are run on an incredibly crude basis. The retailers and the big brands are expecting very, very high levels of performance, and they keep raising the bar in terms of speed, cost and quality. And what these contractors do when faced with that type of challenge is work harder rather than smarter."

For those companies monitoring their contractors through internal resources, the process is typically divided among finding abuses, fixing immediate problems and establishing procedures so that they don't recur. Support from buyers is key to ongoing compliance and continuous improvement.

"We're constantly working with factory management, offering suggestions, sharing some best practices with contractors from other regions, and even from other companies, in order to get them to a place where they are implementing the kinds of management practices that we like to see," says Levi Strauss' Kobori.

But as effective as some internal monitoring programs are, they only go so far in alleviating consumer concerns about factory conditions. Activists speak of the "corporate fox guarding the labor-standards hen house." In response to such criticism, while maintaining their internal programs, some companies have turned to external firms to verify contractor compliance. The relationship is similar to how shareholders, on the theory that corporations can't always be trusted to accurately report their financial performance, rely on confirmation by external accounting firms.

In the social monitoring arena, a number of these external auditors have come from the quality and environmental certification movements spawned by ISO 9000 and ISO 14000, or other areas of inspection, including accounting, materials and laboratory testing, and safety. Verité, Amherst, Mass., is one of a few accredited external auditors that grew out of the labor rights movement. The non-profit organization's client list includes adidas-Salomon, Reebok, The Timberland Co., and Mattel.

According to Mil Niepold, Verité's director of policy, the organization made a practical choice when it was founded six years ago. "We could be outside the factory gates looking in, hoping and wishing we could get in, which is what whistle-blowers do. Or we could be inside the factory gates, going through every piece of paper in every file drawer and everything you can think of, and work on a confidential basis with our clients to make change."

A typical on-site audit for Verité, which varies somewhat depending on the size of the factory, is a two-day process that involves four people who are experts in health and safety, social advocacy and interview techniques, business processes, and who typically have some human rights experience. They have been thoroughly trained and follow standardized forms and guidance documents. A standard audit involves four key activities: a factory

walkthrough and visual inspection, payroll auditing, management interviews, and worker interviews.

"We conduct the [worker] interviews primarily off site, but always in a confidential setting, in a way that we protect the worker's identity," states Niepold. "We are very concerned about the workers' safety, and we have fears of retribution in many countries."

GSC follows a similar auditing procedure. "Our monitors look at four flows of information," Rankin says. "What does management tell us about what's going on in the facility? What do we see ourselves in that facility? What do the records -- payroll records, personnel files, or health and safety records -- tell us about what goes on in that facility? And finally, what do the workers themselves tell us about what goes on in the facility."

Inspections Questioned

It's a complex and evolving process. When visiting these facilities, the auditors are primarily looking for compliance with a company's code of conduct, and the results can be subject to interpretation. For instance, Rankin's former organization was criticized in September 2000 when an observer of an audit at a Chinese factory, who was later quoted in *The New York Times*, accused the monitoring firm of glossing over the denial of the workers' right to organize.

"The code of conduct used for this project indicated that manufacturers couldn't take illegal steps to deny people the right of freedom of association and collective bargaining. In the People's Republic of China the government has effectively done that for them," says Rankin. "So the manufacturer didn't do anything. Everybody belongs to one trade union, the All People's Trade Union. Any other trade union is against the law in China."

One general point of contention is whether or not factory visits should be announced. Labor organizations and some other groups, including the FLA and Worker Rights Consortium, contend that surprise inspections are the only way to get a clear picture of a factory's labor practices. Others say factory visits should be at least semi-announced, where a range of possible inspection dates are given ahead of time, to ensure that the appropriate people are on-site.

"While the factory does have an opportunity to do some minor housekeeping in anticipation of [an announced] visit, you can't turn a bad factory into a good factory," states Rankin. "There are times that it's absolutely warranted, and we do it, but if [unannounced visits are] your rule and not your exception, then you've got some fundamental problems with how you select your business partners."

Most parties agree that the focus of the audits should not be on handing out violations, or on exposing abuses to the public, but on fixing the problems. After their visit, the auditors will typically issue a detailed report that states where a factory is not meeting the appropriate standards. Local management is expected to develop a corrective action plan. On a follow-up visit, the auditors will review this plan, look for implementation of corrective measures and that some kind of preventative program has been put in place. If necessary, many of the external monitoring organizations also can assist with any training needed to bring a factory into compliance.

"We find whatever we find, make recommendations, and then work with the client to remediate the conditions," explains Verité's Niepold. "Frequently the brand in [the United States] will share or bare the cost of, hypothetically, payroll training, health and safety improvements or workers' rights training."

The point for the more progressive manufacturers who hire external auditors isn't to receive some sort of stamp of approval that will keep the political activists off their backs. Rather, it's viewed as a process, not an event, and compliance cannot be guaranteed from one day to the next. Activists and company representatives alike point out that the worst thing a buyer can do in the face of sub-par performance by a particular supplier is to cut off their contracts, which punishes the workers, who are now jobless, as much as their employers.

Not surprising to advocates of cooperative management practices, once these deeper relationships and support mechanisms between buyers and their suppliers have been established, the contractors frequently report productivity gains and other measurable bottom-line benefits, such as reduced turnover and improved quality. Kobori of Levi Strauss has seen the transformation and describes it as "mindshift" on the part of their contractors' managers more accustomed to command-and-control management techniques.

"A well-run business on the business side is also going to be, in many respects, a well-run business from the employee's perspective as well," he says.

[SUBSCRIBE](#)[SEARCH](#)[FEEDBACK](#)

Copyright© 1998-2003 [Penton Media, Inc.](#) All rights reserved.
[Penton Media's Privacy Policy](#)

Technical questions or bug reports?
E-mail webmaster@industryweek.com