Industrial Safety & Hygiene News
ISHN

# The corporate social responsibility mirage

Research shows minimal impact for the billions spent in the past 25 years

*May 1, 2017*

*Garrett Brown MPH, CIH*

Corporate social responsibility (CSR) programs began in the early 1990s with the promise of eliminating dangerous and illegal "sweatshops" in the global supply chains of world-renown corporations selling consumer products like garments, electronics, sports shoes and toys. Twenty-five years later, CSR is an international multi-billion-dollar industry, but unsafe, illegal conditions continue in supply chain factories throughout the world.

The lack of progress on the factory floor over two decades has been registered in the steady stream of investigative reports by news media outlets, non-governmental organizations, management consultants, and business school researchers. While international brands have benefited from positive CSR public relations with customers and shareholders, millions of supply chain workers still face lives of long hours of work; low wages, unpaid work and stolen wages; lack of legal labor rights; sexual harassment of women workers; and unsafe and unhealthy working conditions.

## What exactly is corporate social responsibility?

Researchers at the Harvard School of Business (see box) separate CSR programs as operating in three distinct "theatres" within global corporations, based on four years of surveys with 142 corporate CSR executives.

"Theatre One" is strictly corporate philanthropy, including cash and in-kind donations as well as employee volunteers planting trees or painting schools.

"Theatre Two" programs are designed to improve operational efficiency – such as the reduction of packaging materials, improved fleet fuel efficiency, or use of more efficient lighting – which may have positive environmental impacts as well as lower costs and boost profits for the corporations.

"Theatre Three" programs involve monitoring of company practices to determine compliance with one or more voluntary "CSR codes of conduct;" and efforts to change the business model to reduce corporate violations of labor and environmental laws, regulations and standards.

There is considerable confusion in business, and in the general public, about these three types of CSR programs – thinking that they are all the same – and about their actual impact on company operations. The

Harvard survey indicated 48 percent of all CSR programs are Theatre One pure philanthropy, 38 percent are Theatre Two operation efficiency programs; and only 13 percent are Theatre Three efforts to alter business models and reduce adverse impacts to workers, communities and the environment.

For occupational health and safety professionals, improvements in worker health and safety come from Theatre Three programs, perhaps with a small slice of the Theatre Two programs – at best 20 percent of all corporate CSR programs. More than three-fourths of CSR programs have no impact on actual working conditions and the persistent corporate violations of national regulations and international standards regarding wages and hours, health and safety, treatment of women workers, and workers' rights to form unions and bargain collectively.

## "Real money" spent on CSR programs

The EPG consulting firm estimated in 2014 that Fortune Global 500 companies spent $15.2 billion on Theatre One corporate philanthropy expenses. Reliable estimates of Theatre Two and Theatre Three CSR programs are impossible to come by as few corporations separate out these expenses in their accounting.

However, using the Harvard survey percentages for the types of CSR programs, the Fortune Global 500 companies likely spent in 2014 around $4 billion on Theatre Three programs and perhaps another $3 billion on the working conditions-related slice of Theatre Two programs. This means that every year more than $7 billion is spent by major corporations on CSR programs related to factory-level working conditions.

Corporate CSR activities include in-house CSR departments, extensive use of third-party auditors of supplier factories, external CSR consultants, participation in CSR conferences, and publication of glossy CSR reports. The CSR industry itself has boomed, generating numerous annual conferences, magazines, books, websites, and full-scale consultancies. There is even a professional association of CSR compliance auditors based in Australia.

Certainly, major consulting firms providing CSR compliance audits and "sustainability" advisory services are making big money. According to their 2016 annual reports: Intertek's "Products" division had revenues of $1.8 billion, with profits of $366.2 million or a return on revenues of 20 percent; Swiss-based SGS' "Certification and Business Enhancement" and its "Environment, Health and Safety" divisions had combined revenues of $805.4 million, with profits of $112.4 million or 14 percent on revenues; and Bureau Veritas' "In-Service Inspection and Verification" and "Certification" divisions had combined revenues of $1.03 billion with profits of $154.6 million or 15% on revenues.

## What to show for CSR programs?

The UK research foundation Vigeo Eiris examined the performance of 3,189 companies in 38 industrial sectors in 35 countries between September 2014 and September 2016. The objective of the study was to "analyze the commitments and actions of companies to respect and promote fundamental human rights and workers' rights, and to prevent violations of these in corporate operations and supply chain."

The conclusion of the two-year study was that "less than 4% of companies (3.66%) have formulated comprehensive commitments, policies and processes" in the area of human rights. "Similar to our 2012 review, this study finds that the respect and promotion of employees' labour rights is the human rights thematic area that is least addressed." The overall average score of the companies on human rights was 32/100 – a decline from 37/100 in the 2012 study.

A new "Corporate Human Rights Benchmark" was launched in February 2017 by a collaboration of Aviva Investors, Business & Human Rights Resource Centre, Calvert Research and Management, Eiris Foundation, Institute for Human Rights and Business, and VBDO.

The Benchmark examined 98 leading companies in three industrial sectors – agriculture, apparel and extractives. There were six measurement themes: governance and policies; embedding respect and human rights due diligence; remedies and grievance mechanisms; company human rights practices; company responses to serious allegations; and transparency. The study compared company practices to the UN Guiding Principles on Business and Human Rights and other international standards, and ranked the companies based on their implementation of the internationally recognized standards.

The results of the study were that only six of the 98 major companies had implemented more than 50 percent of the benchmark standards: Marks and Spencer, Adidas, Unilever, Nestle, Rio Tinto and BHP Billiton. The average score of all 98 companies was only 28.7 percent implementation of the benchmark standards.

Major companies with high-profile CSR programs were way down the ranking: H&M, Gap and Nike were in the 40-49 percent implementation band; apparel giants VF and Inditex corporations were in the 30-39 percent band; Starbucks and Nordstrom were in the 20-29 percent band; Walmart was in the 10-19 percent band; and retailers Ross, Kohl's and Macy's were in the 0-9 percent implementation band.

## Factory floor conditions – wages

Turning from general human rights to actual working conditions on the factory floor, 25 years and billions of dollars in CSR programs have failed to improve supply chain workers lives on the job or their life in society.

Perhaps the most fundamental issue for workers is whether they are paid wages high enough to feed their families and meet the minimum necessities of a decent life. A 2013 study conducted by the Worker Rights Consortium, Center for American Progress and the Just Jobs Network looked at garment workers' wages between 2001 and 2011 in 15 of the top 21 apparel manufacturing countries.

The research documented that in nine countries – Bangladesh, Cambodia, the Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, the Philippines, and Thailand – the prevailing real wage (adjusted for inflation) for apparel-sector workers was less in 2011 than it was in 2001.

Only in China did real wages for apparel-sector workers increase at a rate that would lift workers to the point of receiving a "living wage" within the next decade. Not coincidentally, garment production in China has fallen as production is moved by international clothing brands and retailers to lower wage countries, or moved to lower-wage regions within China which have not benefited from wage increases.

In 2016, the US-based Fair Labor Association (FLA), a CSR organization with industry funding, conducted a wage survey of 124 factories in 21 countries that confirmed that the minimum wage paid to garment workers in Bangladesh, Sri Lanka and Mexico were at or below the World Bank's poverty line for these countries.

Moreover, the FLA survey found that about one-third of the factories violated wage laws in 2015. These violations included wages below the minimum wage, overtime pay violations, inconsistent time/pay records, and delayed wage payments. Violations of overtime pay rules affected workers in approximately 20 percent of assessed factories. The FLA study results are consistent with 2016 findings by the International Labor Organization's "Better Work" program.

Meanwhile, clothing brands and retailers typically keep 60 percent of the retail cost of garments while paying supplier factories less per unit every year. In 2015, according to Women's Wear Daily, Gap had gross profits on sales of $6.3 billion or a profit rate of 38 percent; Nike had profits of $12.4 billion or 44 percent of sales; VF Corp. had profits of $6 billion or 49 percent of sales; and PVH Corp. had profits of $4.3 billion or 52.5 percent of sales. Typical retail profit margins are in the 2-4 percent range.

Kevin Sharer, former head of the biotech giant Amgen, told the New York Times in January 2017: "Global capital doesn't have a social conscience. It will go where the returns are."

## Factory floor conditions – health and safety

If the CSR programs have not impacted brand sourcing practices enough to ensure workers are simply paid their meager wages, these programs also have failed to protect workers' health and safety, even in supplier countries where occupational and environmental health regulations exist.

Literally scores of reports have documented hazardous and uncorrected conditions producing injuries, illnesses and death in the global electronics, apparel, toy and sports shoe and equipment industries. Among the reports issued in the last year are:

- "Do leather workers matter? Violating labour rights and environmental norms in India's leather production," India Committee of the Netherlands, March 2017; http://www.indianet.nl/pdf/DoLeatherWorkersMatter.pdf
- "The Poisonous Pearl: Occupational chemical poisoning in the electronics industry in the Pearl River Delta," Good Electronics, September 2016; http://goodelectronics.org/publications-en/Publication_4324/
- "Reality behind brands' CSR hypocrisy: An investigative report on China suppliers of Zara, H&M and Gap," SACOM – Students and Scholars Against Corporate Misbehavior, July 2016; http://sacom.hk/reality-behind-brands-csr-hypocrisy-an-investigative-report-on-china-suppliers-of-zara-hm-and-gap/

A steady stream of reports on occupational and environmental health issues are issued by non-governmental organizations like those above and others including the Clean Clothes Campaign, International Labor Rights Forum, Worker Rights Consortium, Asia Monitor Resource Centre, and the Asian Network for the Rights of Occupational and Environmental Victims.

The London-based Business & Human Rights Resource Centre [ https://www.business-humanrights.org ] tracks the release of all these reports, and also contacts the companies involved for their comments on the reports and underlying issues.

## Why the meager returns?

Why would corporations spend so much time and energy on CSR programs that have had such a negligible impact on improving working conditions in their global supply chains? Insights on this question can be found in the testimony of CSR insiders, on one hand, and business school professors, on the other.

## Insiders' testimony

T.A. Frank worked as a CSR auditor for a major CSR firm and conducted dozens of inspections of supply chain factories throughout the developing world. In 2008, he wrote an article in The Washington Monthly that observed:

Monitoring by itself is meaningless. It only works when the company that's commissioning it has a sincere interest in improving the situation… Now, anyone in the business knows that when inspections uncover safety violations or wage underpayments more than once or twice – let alone five times – it's a sign that bigger problems are lurking beneath. Companies rarely get bamboozled about this sort of thing unless they want to.

And many prefer to be bamboozled, because it's cheaper. While many companies like to boast of having an ethical sourcing program, such programs make it harder to hire the lowest bidder. Because many companies still want to hire the lowest bidder, "ethical sourcing" often becomes a game. The simplest way to play it is by placing an order with a cheap supplier and ending the relationship once the goods have been delivered. In the meantime, inspectors get sent to evaluate the factory – perhaps several times, since they keep finding problems – until the client, seeing no improvement in the labor conditions, severs the bond and moves on to the next low-priced, equally suspect supplier.

For the half-assed company, there are also half-assed monitoring firms. These specialize in performing as many brief, understaffed inspections as they can fit in a day in order to maximize their own profits. That gives their clients plausible deniability: problems undiscovered are problems avoided, and any later trouble can be blamed on the compliance monitor.

It is a cozy understanding between client, monitoring company, and supplier that manages to benefit everyone but the workers.

In February 2017, Michael Hobbes published an article in Foreign Policy describing his last 10 years as a human rights consultant working with CSR managers of major corporations, indicating little has changed in the CSR world in the last decade:

The way companies do it is, they create a department in charge of "sustainability" – or human rights, or corporate citizenship, or social responsibility, pick your buzzword – whose job it is to keep the NGOs at bay. That's who hires you [NGO consultants], asks for your help, sends you to their factories in dictatorships. The 15 other departments of the company, meanwhile, do exactly what they always did. Only now, they've got a guy whose job it is to dress it all up as "sustainability" and sell it to consumers.

## Advice from business school researchers

Now that CSR has been a part of corporate management strategies for 25 years, it is getting closer examination by researchers and professors at the country's leading business schools.

Jean-Etienne de Bettignies of Queens School of Business and David Robinson of the Fuqua School of Business at Duke, authored a paper in July 2015 suggesting the money, energy and influence used to push CSR programs would be better spent either radically changing the way companies operate to do less harm, or allowing more effective regulation, which would ostensibly prevent corporations from being bad actors in the first place.

The very existence and growth of CSR programs shows that government regulation is too weak, widespread violations of law continue, and corporate CSR programs over 25 years have failed to prevent the abuses. Moreover, their paper noted that the same companies that create and fund CSR programs also spend money lobbying against the promulgation and enforcement of government regulations that could stem the abuses. They also demand regulatory concessions and economic subsidies that undermine the ability of governments in supplier countries to protect workers, communities and the environment.

Heli Wang and three colleagues at Singapore Management University and the Hong Kong University of Science and Technology pointed out in a 2016 paper that even mounting pressure from stakeholders frequently does not necessarily cause corporations to end illegal and damaging practices; rather these companies simply move the operations to even more vulnerable countries displaying less resistance and greater economic needs.

Ted Yavuzkurt of Duke University's Sanford School of Public Policy, wrote in a major review of CSR programs in 2016 pointing out that "CSR spending and impact are not the same thing. Companies can spend millions on questionable CSR initiatives that do little more than produce attractive images for annual reports. Such a company would appear to have a large CSR spend, but likely little to show for it."

Yavuzkurt also declared that "companies must abandon 'feel good' projects whose primary outputs are PR reports. There needs to be systematic integration of corporate responsibility in every aspect of business."

## Conclusion

In recent years, a convergence of opinion has developed between labor rights organizations on the ground and many academic researchers that the billions spent on CSR programs have barely moved the needle in terms of improving working conditions and the lives of workers in global supply chains.

Experience indicates that little will change unless there is a corporate-wide integration of the CSR programs' ostensible goals with the corporations' actual sourcing policies and practices; unless the ineffective and corrupted monitoring by for-profit CSR auditors is replaced; and unless there is meaningful participation by factory-level workers in the development and implementation of CSR and OHS programs.

Garrett Brown, MPH, CIH, worked for 20 years for Cal/OSHA as a field compliance officer. He has visited Mexico, Bangladesh and numerous other developing countries working on garment worker health and safety issues.

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