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GLOBAL SUPPLY CHAIN

New reports shine spotlight on underlying causes of terrible working conditions in global supply chains

September 4, 2019 / Garrett Brown /  0 Comment

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This year has seen the usual flood of reports documenting unsafe, unhealthy and illegal conditions in global supply chains, but there is a growing body of research that highlight the underlying root cause of these conditions: the business model and sourcing practices of the international “brands” that sell us our clothing, electronics, sports shoes and so much more.

These reports by academics, human rights and labor rights organizations, and corporate-led initiatives document in living color how it is the deliberate policies and practices of the major apparel, electronics, toys and other consumer goods that cause and enforce abusive working conditions for millions of workers in supply chain factories around the world.

The reports show in fine detail how the highly-touted but ineffective corporate social responsibility (CSR) programs fail because they do not

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address the root causes of sweatshops – the brands’ business model; the inaccurate and corrupted CSR audits and “social monitoring”; and the lack of genuine worker participation in the development and implementation of occupational health and safety (OHS) and CSR programs at the factory level.

Among the new reports connecting the dots of the “sweatshop business model” are:

- Human Rights Watch’s “[Paying for a bus ticket and expecting to fly; How apparel brand purchasing practices drive labor abuses](#)”
- Ethical Trading Initiative’s “[Business models and labour standards: Making the connection](#)”
- The Business & Human Rights Resource Centre’s “[The price you pay: How purchasing practices harm Turkey’s garment workers](#)”
- Penn State University professor Mark Anner’s latest work on this theme, “[Squeezing workers’ rights in global supply chains: Purchasing practices in the Bangladesh garment export sector in comparative perspective](#)”
- Marc Bain’s article on the Quartz website “[Can cheap fashion ever be ethical?](#)” and
- Better Buying, a global initiative involving garment companies, September 2019 report “[Suppliers in the lowest cost locations are being pressured for even lower prices](#)”.

These reports and articles outline the fatal flaws in the 25-year-old CSR industry, and why it has not improved working conditions on the factory floor despite the expenditure of upwards of \$8 billion a year in CSR spending.

The brands’ business model starts with the “iron triangle” of sourcing – contracts with suppliers that demand the lowest possible price, the highest possible quality and the fastest possible delivery. The purchasing policies and practices have led to an inexorable “race to the bottom” in prices paid to suppliers as the brands’ pit companies, cities, and entire countries and regions against one another for the lowest possible production costs (and the highest possible brand profits).

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This means relentless cuts in the per unit price paid to suppliers with every new contract, and if a local factory balks, the brand will find another factory desperate enough to take the contract. Because the brands generally refuse to establish long-term contracts and relationships with suppliers, their short-term contracts mean constant uncertainty and frequent contract negotiations (and resulting downward pressure) for local factories.

Brands – who want to manage the smallest possible number of factories in their supply chain – also deliberately overload factories with orders they know the supplier cannot fill by the mandatory deadline. Combined with harsh financial penalties for missing delivery dates, this overloading leads to high production quotas and forced overtime for workers at the contract factory, and inevitable subcontracting to other factories, as the supplier struggles to meet its contract on time.

Moreover, the brands' publicity-oriented CSR initiatives often require local factories to undertake CSR programs without financial support from the brands. In a perverse way, these unfunded CSR mandates often undermine factory floor working conditions as resources are diverted to boutique programs (e.g., classes on computers, urban living, English, or women entrepreneurship) that look good in corporate CSR reports and press releases.

The net result of the brands' business model are the abusive conditions in local factories because root causes are completely untouched by standard CSR programs. Factory owners are under such tremendous financial and operational pressures that sweatshops are the only logical, and possible, outcome in supply chain factories.

Low pay, sexual harassment, unsafe conditions continue

The recent reports highlight the underlying cause of the “sweatshop disease,” and there are more reports on specific “symptoms” of sweatshop production in supply chains, especially in the garment industry.

Among the reports that document “starvation wages” that force supply chain workers to seek overtime work in order to feed their children and pay

their bills are:

- The University of Sheffield report “[Corporate commitment to living wages in the garment industry](#)”
- Clean Clothes Campaign’s “[Tailored Wages 2019; The state of pay in the global garment industry](#)”
- Report of the Fair Labor Association, which has industry members, “[Toward fair compensation in Vietnam: Insights on reaching a living wage](#)” and
- *The Daily Star* newspaper in Dhaka, Bangladesh report that “[Workers get \\$0.54 of an \\$18.25 polo shirt; Still buyers unwilling to hike prices to ensure better wages](#)”.

Sexual harassment and violence in the workplace are finally receiving the attention the issues deserve around the world, and in many different industries. The global apparel industry is overwhelmingly female in its production workforce, and this year has produced several reports and studies on gender-based violence:

- Human Rights Watch report on “[Combatting sexual harassment in the garment industry](#)”
- *The Guardian* newspaper in London reported “[Revealed: women making clothes for west face sexual abuse; Study finds workers in Vietnamese factories have been harassed, groped and even raped](#)” and
- A report by Global Labor Justice and the Asia Floor Wage Campaign titled “[End gender based violence and harassment](#)”.

This year’s reports on general factory conditions document continuing problems of forced overtime, abusive supervisors, and lack of respect for workers’ legal rights in numerous industries. These latest reports show that 25 years of CSR programs has made no meaningful impact on the factory floor.

This is true not only of the most iconic sweatshop supply chains in garment ([here](#), [here](#), [here](#)) and electronics ([here](#), [here](#)) and toys ([here](#)), but also in investigations of regional migrant labor patterns, such as in Cambodia, Laos and Myanmar ([here](#)).

Reports have been issued this year not only by traditional labor rights non-governmental organizations (NGOs) and unions ([here](#)), but also by new initiatives to look at conditions in specific brands and entire industrial sectors. These reports rise above the individual factory level to evaluate performance of a particular company or sector. The corporate-led initiatives – such as Better Buying, [Corporate Human Rights Benchmark](#), [Know the Chain](#) and [Vigoeiris](#) – involve the direct participation and funding by international brands, as well as by investors, and cannot be accused of an anti-industry bias.

These efforts to rate corporate performance have reported dismal results in key areas affecting actual working conditions in supply chain factories ([here](#), [here](#), [here](#), and [here](#)). The failure of CSR programs to improve working conditions in the global economy has also been the focus of a growing number of academic researchers at business schools in the United States and Europe.

Ineffective, corrupt social auditing

The second major reason why CSR programs have failed to protect workers' health and legal rights is that evaluation of the programs' effectiveness is in the hands of unqualified auditors with significant conflicts of interest.

Most “social auditors” work for “independent, third party” monitoring companies which have their own internal profit goals. Standard CSR audits are truncated, abbreviated affairs in order to reduce costs and increase profit for the audit company. They are performed by unqualified auditors (generally financial accountants) with little or no training and experience in non-financial issues, such as sexual harassment, workplace safety, and legal rights for freedom of association. Instances of outright corruption where auditors receive bribes to ignore violations of regulations or corporate “codes of conduct” also occur.

Moreover, CSR monitoring firms recognize that providing relentlessly negative audits of a client's supply chain threatens the opportunity for future contracts from that client. Auditing companies have considerable

incentives to “pull their punches” or adopt a “don’t ask, don’t tell” approach to reporting sweatshop working conditions in their client’s factories.

Among the 2019 reports that detail how the CSR auditing industry has failed supply chain workers are:

- International Labor Rights Forum’s report “[Future of Fashion](#)”
- European Center for Constitutional and Human Rights’ report “[Social auditors in the textile industry; How to control the controllers](#)” and
- The earlier report by the Changing Markets Foundation on “[The false promise of certification](#)”.

In addition, a major report on the CSR monitoring industry will be released by the [Clean Clothes Campaign](#) in Amsterdam in mid-September 2019.

Lack of genuine worker participation

The third major reason for the failure of CSR programs to improve working conditions is that supply chain workers have little or zero meaningful involvement in developing, implementing and evaluating the effectiveness of CSR or workplace safety programs that are imposed on the factory floor. As is well known in the OHS profession, effective workplace programs require the direct participation of informed, knowledgeable workers who have the authority, release time, and pay protection to play their essential role.

Both the international brands and local factory owners [are hostile to unions](#) and other organizations formed by workers to protect themselves and their rights. Without the ability to speak and act in their own name because of employer reprisals and retaliation, supply chain workers become passive spectators to ever-more elaborate – but equally ineffective – CSR programs.

The latest CSR buzzwords of “worker empowerment” are generally restricted to telephone “hotlines” – the electronic equivalent of the suggestion box outside the boss’ office – for workers to report their concerns. A [2019 blog](#) on the Business & Human Rights Resource Centre

website analyzed how these “worker voice” initiatives cannot overcome the shortcomings of social auditing.

Another [major report from the International Labor Rights Forum](#) documented how, alternatively, the worker complaint mechanism in the Bangladesh Accord was substantially different from standard CSR programs. That model was actually successful in resolving worker complaints.

The latest test case: Ethiopia

If the international clothing brands want customers to believe that they have learned their lesson and have rejected the global sweatshop model, the latest “promised land” for apparel production – Ethiopia – shows that the model is still very much in force.

In Ethiopia, wages are as low as 12 cents an hour, there’s a workforce desperate for any employment, and an accommodating government with near-zero regulations and enforcement. Ethiopia is the very picture of a poor country overrun by global suppliers (Chinese, Bangladeshi, Saudi, among others) for international clothing brands.

Major reports by the Worker Rights Consortium ([here](#), [here](#)) and the Stern Center at New York University ([here](#)) provide a detailed picture of how all the illegal, unsafe and abusive practices that the global apparel industry have inflicted on other countries are now being visited upon Ethiopia. And Ethiopia is just the gateway to other countries in East Africa (e.g., Kenya, Uganda, Tanzania) that can be forced to participate in the usual “race to the bottom” as the brands pit one country against another in the search for the greatest corporate profits.

As elsewhere in the global economy, the [garment workers in Ethiopia are struggling](#) to protect themselves through unionizing campaigns, which are strongly opposed by both local factory owners and the international brands.

The alternative: Worker-Driven Social Responsibility

Actually, in a sense, it is not fair to say that corporate social responsibility has failed to protect workers because that was never the real goal of CSR programs. The actual objective of CSR is to protect the brand image and corporate reputations of transnational corporations by generating the illusion that efforts are underway to protect the health, safety and rights of supply chain workers. CSR programs are designed to assure brand customers, corporate investors, news media and their own employees that “something” is being done to reduce sweatshops in global supply – even though these CSR programs do not address the root causes of sweatshops and are simply incapable to eliminating them.

Enhancing the “credibility” of CSR and the illusion of progress is worth the more than \$8 billion a year that transnational corporations spend a year on CSR programs, while at the same time they continue to extract the maximum profits from their global supply chains. CSR has achieved its real goal of protecting corporations, while scores of reports document the lack of substantial improvements in factory working conditions over the last 25 years.

Fortunately, an alternative approach to CSR has emerged and is gaining visibility and attention. This alternative is called “**worker-driven social responsibility**” and a network of labor rights NGOs has **developed to publicize** the advantages of the WSR approach.

There are several practical, and successful, examples of WSR that have emerged over the last decade including:

- The **Bangladesh Accord**, a legally binding agreement between clothing brands and unions (global and local) that requires independent inspections, mandatory hazard corrections, public disclosure of inspections and correction plans, health and safety training of workers and factory safety committees;
- The **Fair Food program**, which grew out of farm worker organizing in Florida, that has raised wages, improved safety, and effectively addressed harassment and violence against women farm workers;
- The **Alta Gracia apparel factory** in the Dominican Republic – probably the only genuinely non-sweatshop garment factory in the world – which

- pays three times the average wage, has a member-controlled and -led union, and an effective factory health and safety program;
- The freedom of association (right to organize a union) agreements in Indonesia ([here](#)) and Honduras ([here](#)) which were agreements between international clothing brands and worker organizations to respect the right of workers to form a union without employer reprisals and retaliation; and
 - A [new agreement in Lesotho](#) to combat sexual harassment and violence in garment factories between apparel brands, global worker rights organizations, and Lesotho unions and feminist organizations.

An underlying principle of WSR is transparency, that is public reporting by transnational corporations of the factories in their supply chains and the conditions under which their products are produced for sale. Two 2019 reports provide the details of how this approach works and benefits workers, consumers and companies: “[Full Disclosure: Towards better modern slavery reporting](#)” and “[The benefits of transparency: A business case for the apparel and footwear supply chain transparency pledge](#)”.

A related development is the “[Open Apparel Registry](#)”, which is an open source map and database of global apparel facilities, their brand customers, and a unique “OAR ID” number assigned to each facility. The registry’s database is open to the public, and can provide customers, investors, and campaigners with information about working conditions in specific factories. Such a registry could be developed in other global supply chains as well – such as electronics, toys, food, etc. – leading to real improvements in the working conditions and lives of global supply chain workers.

Conclusion

For the last two decades the world has been awash with reports about abusive working conditions in global supply chain factories. We may be at a turning point in public understanding of why these conditions stubbornly continue. The reports published in 2019 illuminate the underlying causes of unsafe and illegal conditions, that is, the sourcing policies and practices of transnational corporations themselves.

CSR programs have failed to protect workers, but have been successful in their primary goal of protecting the brand image and corporation reputations of those who designed, operate and profit from global supply chains.

An effective alternative to CSR – worker-driven social responsibility – is emerging and evolving with growing sophistication and applicability. The hope for the future of supply chain workers and their families lies with the flowering of WSR and its underlying principles of full transparency and corporate accountability.

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