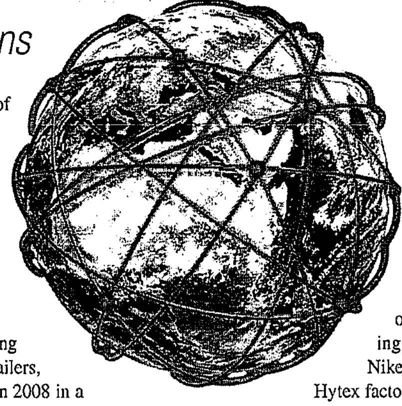
Fatal flaws of FOREIGN FACTORY AUDITS

"A spectacular failure" to improve conditions



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More than 20 years of global corporate social responsibility (CSR) monitoring — "social audits" by "independent, third party monitors" of corporate codes of conduct — have failed to detect unsafe and illegal conditions, failed to correct unsafe conditions that have been observed, failed to engender any long-term changes in factory conditions, and failed to even identify where and by whom the brands' consumer products are being made.

CSR monitoring has been a spectacular failure at improving working conditions. But it allows brands to claim a "good faith effort" to improve working conditions in their supply chains, and that "everything is getting better."

Key critiques of CSR Monitoring

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Flaws of CSR monitoring

The first ten years of CSR audits were done by financial accountants Then MIT Professor Dara O'Rourke, now at UC Berkeley, accompanied accounting auditors in Korea and China in 2000 and wrote a detailed report on how non-financial issues went basically unevaluated in the audits (see box for reference information).

In her 2008 book "The China Price," Alexandra Harney, former *Financial Times* correspondent, details how suppliers can mislead CSR monitors in China.

"Fabrication engineers" routinely generate multiple sets of financial, wage and hour records, customized to meet the CSR codes of any client. Clean, quiet "trophy factories" are open for guided tours. But "shadow factories" around the corner, where the production is done, are never visited by inspectors. Workers are coached (and threatened) to ensure they know what the "correct" answers are about pay, overtime hours, or working conditions.

Profit motives

A second flaw: as CSR auditing became a business in its own right, profiled in *The Economist* and *Forbes*, monitoring companies developed their own profit projections. Low-paid, lightly-trained inspectors spend short amounts of time ticking off items on a standardized checklist, so that they can rapidly move on to the next plant and increase the auditors' accounts-payable invoices.

T.A. Frank, who spent several years conducting audits of factories producing for international brand retailers, wrote up his experiences in 2008 in a *Washington Monthly* magazine (see box) article titled "Confessions of a Sweatshop Inspector."

Several CSR firms have discovered the real money is in charging to train other inspectors, who will conduct the actual on-site visits. Social Accountability International (SAI) developed its own CSR code — "SA 8000" — and makes its money training employees of other companies to certify their clients' plants as "compliant with SA 8000."

In August 2012, the Italian firm RINA Group, using their SAI-trained auditors, gave the Ali Enterprises plant in Karachi, Pakistan a clean bill of health and a SA 8000 certification. A month later, 258 workers were killed in a fire where workers were trapped behind locked doors and barred windows after damaged electrical systems ignited improperly stored flammable materials.

A similar thing has happened with "Occupational Health and Safety Management System 18000" (OHSMS 18000) certifications issued by for-profit third party auditors. In March 2012, the Fair Labor Association (FLA) conducted inspections of three Chinese factories operated by Apple-supplier Foxconn. The FLA inspectors noted (see box) that the Fu Tai Hua factory in Shenzhen had received a OHSMS 18000 certification despite having a management-only health and safety committee that never met, conducted no inspections, investigated only a handful of accidents, had no worker participation, and had no lockout/tagout program or adequate hazard communication program.

Conflicts of interest

The for-profit consulting companies providing CSR audits have every incentive — if they want to keep their clients in a very competitive market — of providing monitoring reports that meet their clients' needs.

The December 26, 2012, front-page article in the *New York Times* about alleged improvements in Apple's Chinese electronics factories is a good example of a PR white-wash where virtually the only sources of information about changes are the electronics companies themselves and their corporate-funded CSR consultant, the Fair Labor Association.

Industry-organized CSR organizations have all the usual codes and monitoring, but near-zero credibility with anyone. Multi-Stakeholder Initiatives (MSIs) involving brands/retailers and non-governmental organizations have more credibility, but just as significant conflicts of interest. The Fair Labor Association, for example, is funded by the very corporations (now including Apple) that the FLA is supposed to be monitoring.

A history of failure

The list of audit failures over the past decade is a long one. European retailers had repeatedly audited the Spectrum Sweater factory in Bangladesh while construction was underway in the year before it collapsed (2005), killing 64 workers. The owner added five floors to the four-story building without engineering plans or building permits.

Nike, which had sourced from the Hytex factory in Malaysia for 14 years and conducted dozens of CSR audits, conducted its last inspection in February 2008 before the plant was found in August to be confiscating the passports of migrant workers from Burma, Bangladesh and Vietnam and forcing them to work off their "recruitment fees" before returning the passports.

In 2011, Apple suppliers in China had two explosions caused by aluminum dust, despite repeated CSR audits by Apple and CSR consultants. The first fire in May killed four workers and seriously burned 15 more in Chengdu. The second explosion in December occurred just hours after a CSR inspection of the plant in Shanghai, injuring 59 workers, including 23 hospitalized for burns. Despite four fatalities in May, the same hazardous conditions were allowed to explode in the second plant five months later.

In 2012, the Tazreen Fashions factory in Bangladesh catches fire, killing 112 workers unable to escape because of locked fire exits, no exits leading outside the building, and no emergency plans. The factory had been audited by Walmart and others three times in the year before the blaze, the last one being in April before the November fire.

Global supply chains will become safer only with a sea-change in the international business model and the active participation of informed and empowered workers.

Today's business model places priority on the brands' "iron triangle" of the lowest price/the highest quality/the fastest delivery from contractors. Contractors are provided with ever-shrinking, razor-thin profit margins by the brands. Government regulation is meaningless due to corruption and lack of resources. Garment workers desperate for work cannot refuse any job, no matter how dangerous. A near total lack of worker participation in plant-level health and safety programs excludes the people with the greatest knowledge of daily job hazards on the job. ISHN

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