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The Minimal

Impact of

Corporate Social

Responsibility in

CHINESE

FACTORIES

## **INTRODUCTION**

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Monitoring of factories has been a valuable mechanism for corporations to discover the actual conditions in Chinese factories. Auditors go into factories around the world to create comprehensive reports for corporate executives and their shareholders. Yet almost all of these reports stay within corporate offices. Little is ever publicly revealed of factory conditions. Factory abuses only tend to become public when workers, journalists, human rights groups, or local activists groups bring them out into the open. Major brand names rely on their reports to prove to consumers that their products are manufactured in safe and humane working conditions. Monitors are the final line of accountability for brand names to prove to the public that their factories are compliant with the brand names' code of conduct. But are monitors conducting fully effective audits? When the anti-sweatshop movement began in the early 1990s, students mobilized to help workers around the world. Brand name companies have taken auditing into their own hands - with the development of Corporate Social Responsibility (CSR) departments and by hiring third party monitors to forestall the public reaction to labor abuse charges against brand names and accountability has been diluted by the many layers of contracting, and brand names are quick to pass blame to subcontractors claiming often that they were not aware of abuses.

Monitoring agencies face a lucrative consulting environment; many groups are making large profits by providing these reports. Monitoring should be conducted by organizations that have no ties to the corporate brand names. If corporations are committed to the working conditions of the employees that make their products, then they should funnel their funds into different avenues such as worker training programs (I.e. capacity building) and to pressure the local government to enhance the effectiveness of their own monitoring programs.

## **MY TIME AS AN AUDITOR**

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Over the past few years, I have had the opportunity to see many different factories in Hong Kong, China and Southeast Asia. Being able to meet and talk to many different third party monitors, as well as local monitors in China have allowed me to gain a stronger and broader perspective on the problems that face monitoring agencies. In several occasions, I was given the opportunity to conduct audits, participate in trainings, develop guidelines and interview workers. In one of the visits, I was able to recollect on the frustrations from management and the monitors.

I remember driving around the factory - peering out the window... tall, cramped buildings towered above me on each side of the car. Rusted pipes jutted from the old, dirt-covered buildings. The presence of inhabitants was made visible with rows and rows of clothes hung outside the windows. The smell of exhaust burned my throat as mopeds zoomed by our car, cutting us off as they weaved through traffic. As we got closer to the old warehouse door, I noticed the massive size of the factory. The walls of the factory were perfectly melded into the rest of the apartments so that you couldn't even detect the difference between factory and apartment. The hustle and bustle surrounding the warehouse doors allowed me to feel the intensity of workers rushing to produce goods to be shipped all over the world.

A tall, thin Asian gentleman came over to greet us and politely introduced himself to us as the Vice President of Operations. He guided us to a freight elevator which delivered us to the 7<sup>th</sup> floor of the building. I was in awe of the fast paced, intense environment in which the employees worked. There were digital counters hanging from the ceilings keeping track of worker productivity on the factory floors. The numbers on the counters were increasing as products were being completed.

As we headed to the main factory floor, I could hear the low, humming sounds of sewing machines. As the double doors opened, we were greeted by an old security guard wearing slippers and

an old military uniform. He rose and bowed to us, allowing us access into the main room. When I peered around the corner, I was amazed to see thousands of middle-aged women working diligently at their stations. The prominent brand names had codes of conduct plastered to the wall so that anybody entering the room would see it. For the next three days, we conducted countless interviews, a health and safety audit, financial audits, and gained some understanding of the work and attitudes of management.

On the final day of our comprehensive audit, we sat down with the full management team to give them a briefing on our report. Near the end of the briefing, we began to discuss some of the problems that we had documented. As the list of problems grew, so did the frustration of the management team. The President of the factory got into a heated argument with the auditors on several occasions. One of the main arguments that he made was that he was tired of the constant stream of auditors that came into his factory and criticized their business practices. He was frustrated that the monitors were raising miniscule items... minor concerns. He finally hit his boiling point and told us we were targeting the wrong factories. He said, "If you want to really find the bad conditions, go to any other factory in the area". What he said had validity. As I had conducted interviews, many of the workers had spoke about how they enjoyed working at this factory for over 15-20 years because of the pay and the style of management. They said that many of their friends worked in factories in much worse conditions and were trying to get into this one. Frustrated and agitated, the managers showed us to the door and this made me really think if we were targeting the right factories?

## **ARE WE FOCUSED ON THE RIGHT TARGET?**

As social consciousness about factory conditions grow, so does the expansion of globalization. In the last 20 years, global production has shifted from Eastern Europe and Central & South America to Asia. This competition to offer the lowest wages has allowed China to take control of huge portions of entire industries. From 1980 to 1998, China had over 4.9 million employees in the garment industry, while the in the developed world, they lost 850,000 jobs. This shift made it so that the garment industry had 4/5 of its workforce based in Asia (pg.93, Mandle).

Despite the anti-sweatshop movement and human rights groups bringing light to horrific factory conditions, are we truly addressing those factories in the most need of reform? Prominent brand name corporations, such as Nike, Levis, Gap and Jessica McClintock were the first targets of groups such as United Students Against Sweatshops (USAS). But as the movement has continued to grow, so has the response of brand names. Corporate Social Responsibility (CSR) departments have been set up within the corporate brand names to help consumers feel comfortable about buying their products. For example, Jessica McClintock purchased a full page ad in the San Francisco Chronicle announcing that they had sent auditors to their factories and that they were not violating any human rights. Brands such as Levis-Strauss were the first to develop Codes of Conduct setting strict rules and guidelines for factories to abide by before contracts were approved by their brands.

Over the last 10 years, the CSR field has grown dramatically, with almost all major brand names developing such departments. Brands such as Timberland have very proactive CSR teams with strong support from its CEO and shareholders to try new projects to help empower and engage workers in their factories (Van Haden, 2007). If violations are found, the test will be if the corporate brand names act in such a manner, to correct the violations. This could be done in many ways, such as applying pressure on the factory or becoming directly involved with the training programs in the factory. Codes of Conduct

are limited in their effectiveness because they are voluntary and non-binding documents, which only require the brand names to hold themselves accountable. Since there is not an international tribunal to oversee transnational contracts, challenging corporate practices has been difficult for human rights groups. The lack of an international regulatory board makes enforcement extremely complex. Do we hold the brands accountable and charge them in their country of origin; or do we hold the suppliers and factories accountable and charge them in their country of origin?

In the summer of 2007, China passed their New Contract Labor Law which will give workers more protection than they have ever experienced. With the new law there will be several reforms: most industrial and migrant workers will now be protected, the employer will have the burden of proof to show that a contract was in place, probationary periods will be limited to reduce “unjust” lay-offs, temporary employees will be declared permanent if they are hired for more than one short-term contract, and the courts will now look more closely at the facts of a case rather than if the contract is valid (Brown, <http://www.worldpress.org/Asia/2574.cfm>, viewed on 12/7/07). But many laws in China are not enforced consistently. CSR teams have taken complete control over the monitoring of many factories. Whether it is by corporate-funded independent monitors, or in-house monitors from the brand names; this top-down approach in China has minimally affected the improvement of working conditions. Brand name corporations are concerned with their specific factories and with the creation of an image of social consciousness for their consumers, in their ultimate goal of increase profits. As the number of factories continues to grow in China, a more holistic approach in protecting workers’ rights must be analyzed. This paper will not only look at the negative impacts of an enforcement mechanism completely run by brands in a top-down fashion, but it will also look at specific strategies that corporations and other stakeholders must change in order to change working conditions in China. A bottom up movement of the working class, larger increases in corporate funded capacity building programs, a complete overhaul of the local government monitoring agencies and the transformation of

the ACFTU to an independent trade union will help begin improving working conditions for Chinese workers. These are some of the major changes that China must initiate, if it is to invest in the future of its industrial workforce.

## **AN INDUSTRY & MOVEMENT RELIANT ON CORPORATE BRAND NAMES**

One of the most consistently growing industries in China has been the apparel industry. Since the 1990s, most major brand names have shifted their production to China. It is estimated that Asia produces over 75% of the world's clothes, and China produces over 66% of that 75%. "Between 1980 and 1995, production in Asia and the Americas increase 177% and 67%, respectively, while production in Europe fell 13%. By 1998, Asian production accounted for more than half the industry. The rise in Asian production was even more dramatic in footwear, with a 424% increase" (pg.123, Esbenshade, 2004). Most major brands, such as Adidas, Nike, Reebok and Puma have been in China for years, having footwear production centralized within only a handful of factories. Brands such as New Balance, which at one time, held in great pride that their products were made in the USA, have also moved to China. Even now, some of the most eco-friendly and socially conscious brands such as Keen have made the migration. Brands, such as these have made valiant efforts in developing CSR departments to oversee their quality control and the production of their goods. But again, as I have already stated, this top-down approach creates an inherent conflict of interests. "Manufacturers have an interest in keeping the prices they give contractors low; contractors must appear to comply with the law without necessarily having the resources to do so; workers may be fired or lose income if the contractor is found in violation; and monitors are not neutral but are working for the manufacturers and, in some cases, strongly tied to the contractor community, as well" (pg. 97, Esbenshade, 2004). One of the conflicts of interest is in the purchasing and contracts negotiation process.

Even many of the most “socially conscious” brands give in to market demands. For example, company ABC has put in an order for 50,000 fleece sweaters to a factory in China. ABC has had a long standing relationship with this factory, and they have had little problems with the quality of the product. Let’s say that the fleece sweaters from ABC are popular and selling extremely fast; ABC will then put in a large rush order to the factory to produce another 50,000 as soon as possible. This is where the first typical conflict occurs. Although company ABC is socially conscious, it will seldom check with the capacity of the factory to see if the rush order can actually be completed. More importantly, since many garment factories barely break even, they will not miss out on an opportunity for additional contracts. They do not want to show to company ABC that they do not have the capacity to produce the goods necessary to hold onto this relationship. They will accept the contract, despite being already at or beyond capacity. Companies (like ABC) often overlook reports of labor violations so that they can get sufficient product to satisfy their market. Although compliance firms may report to the company that there have been continuous problems at a factory, the company will continue to use that supplier if they can obtain their orders in a timely, high-quality manner. Many companies will ignore reports and be reluctant to let go of established partnerships (pg.98, Esbenshade, 2004). Brand name corporations have a direct conflict of interest and will almost always prioritize sales over social consciousness. What type of future will this create for the Chinese workforce? If the Chinese government is relying on independent third party monitors... contracted by brands to investigate their factories... how can they ever expect to improve conditions in their factories? Brand name corporations are a critical stakeholder in the movement to better working conditions; but there are inherent flaws that make their role extremely conflicted such as: the use of voluntary non-binding codes of conduct, ineffective auditors and monitors, and CSR as a means of public relations. These contradictions accumulate into a situation that creates minimal change where dramatic change is desperately needed.



## **VOLUNTARY CODES OF CONDUCT**

Codes of conduct have been utilized as a way to prove to the public that brand names are committed to enforcing strict labor standards. By adopting Codes of Conduct, they not only make a pledge to their consumers, but make a strong statement to their suppliers and producers that they have set higher standards for contracting. Again, such codes are completely voluntary and non-binding. The only enforcement of a Code of Conduct is the brand name themselves. This brings us to the famous analogy of the fox guarding the chicken coop. How is it possible to have strict labor codes and no means of enforcing them? If China were to enforce its existing labor laws, its entire industrial base would collapse. Codes of Conduct have no legal backing to them. There is currently no international organization to actually hold brand names accountable to their codes, or penalize them in any way for violating their own codes.

With no enforcement mechanisms in place, what has been the outcome when violations have occurred? Looking more precisely at two major brand names that are well known for their strict labor codes and public commitments to Corporate Social Responsibility: Gap Inc. and Levis Strauss have created large CSR departments, but they still have major violations surface in the media.

In 1992 Levi Strauss, one of the largest apparel firms in the world, with annual sales over \$7 billion, was caught in an entanglement when 1300 workers sued their contractor for slave-like conditions. Most of those women were Chinese immigrants who had been brought to the island of Saipan (a U.S. territory) where they were forced to work grueling shifts, seven days a week. (pg. 268, Cassel, 2001). During this period, Levis put into place their "Global Sourcing and Operating Guidelines" to address the concerns brought forth into the media. However, if one were to examine each guideline closely, they were much weaker than many of the ILO standards. For example, workers were not allowed to work more than 60 hours per week, the ILO standard is 48 hours; and the pay was supposed

to be a little higher than the local minimum wage, which has been altered by governments to attract businesses, which makes it far much worse (pps. 268-269, Cassel, 2001). "Subsequent spot checks by consumer and labor groups have reported numerous instances where even these lax standards were allegedly not met. Violations were reportedly made easier in some cases by the facts that Levis Guidelines were not made known to the employees or even translated into their language" (pg. 269, Cassel, 2001). It is very convenient for corporate brand names to pass the blame in this industry. With the many layers of suppliers, contractors and sub-contractors, it is easy to point the finger at others. More recently, a case dealing with Gap Inc. and child labor violations in India has forced Gap to look more critically at their Code and monitoring system.

A journalist from the Observer, a UK paper, wrote an article on October 28<sup>th</sup>, 2007, exposing the use of child labor to produce clothes that bore the GapKids label. Children as young as 10 years old were working up to 16 hour days for little or no pay, in horrendous conditions. For large brand names such as the Gap, this sort of revelation is a huge hit in the pocket book because the negative media attention will discourage social conscious people from buying their products. Although Gap has prided itself as one of the leading companies in CSR, what does this tell us about the CSR Industry? In an immediate response, the Gap CSR department was dispatched to host an urgent meeting with all of their suppliers in the area to reinforce their code of conduct. Shortly Thereafter, corporate President Marka Hansen submitted a letter to the press and posted it on their website, stating:

*"A Message To Our Customers...*

*Recently without the company's knowledge or consent, one of our vendors subcontracted a portion of an order to an unauthorized facility in India that used Child labor to produce one particular product for GapKids.*

*We are incredibly proud of the real progress that we have made over the past decade to improve working conditions in factories that make our products... It goes against everything we believe as a company and more basically as human beings.*

*But we need to do more. Some good must come out of this. We are determined to achieve long lasting change in an effort to end the use of child labor once and for all"* (<http://www.gap.com/browse/home.do?cid=38618&mink=5058,800488,9&clink=800488>, 10/31/07).

That response by President Hansen shows that even leading CSR brands are clearly not doing enough. The obvious problem with this letter was that it was only addressed to their “customers”, which is a perfect illustration that they see this posturing only as an offset to potential loss in sales. Secondly, that they passed the blame onto a subcontractor. The fact that they were unaware of an “unauthorized facility” is not the sole fault of the supplier or contractor, but heavy responsibility must fall on the brand name corporation itself for achieving and maintaining the transparency in the production of their goods. This would, ideally, include from the construction of the raw materials, the dyeing of the materials, the cutting and manufacturing of the goods. The Third major concern is that they recognize the fact that they have been trying to improve working conditions for the past 10 years. Gap Inc. is one of the largest clothing manufacturers in the world and their annual sales top that of many developing countries. If progress is defined by finding hundreds of ten year olds manufacturing your clothing without getting paid, then I must challenge their definition. The day after the article was released, Gap spokesman Bill Chandler spoke to the Associated Press stating that “Gap stopped working with 23 factories last year over violations uncovered by inspectors. The San Francisco-based company has 90 full-time inspectors who make announced visits around the world to ensure vendors are abiding by Gap’s guidelines” (<http://www.msnbc.msn.com/id/21516766/>, 10/29/07). Although Gap may have thousands of factories around the world, they are not taking enough direct action to recognize these problems. If Gap ended contracts with over 23 factories last year alone, who’s to say if they hired more monitors, that more violations would be revealed? The only ones limiting the corporation’s efforts are themselves, and the main stakeholders that can pressure them are their consumers and shareholders. In an effort to help spread additional light on this, the Maquila Solidarity Network (MSN) also published a document stating what they believed went wrong.

*“Although factory monitoring is necessary, it is not sufficient. Audits by compliance staff or commercial auditing firms hired by brand buyers are notoriously*

*ineffective at detecting worker rights abuses or unauthorized subcontracting, and are not designed to uncover the root causes of persistent code and legal violations.*

*Constant pressure by brand buyers on their suppliers to lower their prices, coupled with instability in order volumes, is also encouraging them to take as many orders as are available at any given moment, then subcontract work in order to meet deadlines.*

*Brand Buyers therefore have a responsibility to ensure that their sourcing and purchasing practices don't encourage sweatshop abuses and child labour" (<http://en.maquilasolidarity.org/en/node/728>, 11/3/07).*

Like the relationship between the factory and company ABC, understanding the capacity of the factory can reduce the amount of labor abuse that occurs. First is the issue of buyers pressuring suppliers to lower their prices. If Gap wants to take more responsibility in the production of their goods, they must set stricter parameters to determine if factories receive contracts. Many of the developing countries have very little bargaining power over the brand names and their own laws are rarely enforced. "Developing countries see themselves as relatively powerless against TNEs [Trans- National Enterprises] both in negotiation with them and in enforcement of their national laws and regulations" (Pg. 256, Davidow et al. 1978). Most importantly, MSN makes explicit the ineffectiveness of audits conducted by compliance staff or commercial auditing groups. Many of these auditors have turned their services into a very profitable business. This brings us to the next level of CSR, which is one that has seen little criticism; the ineffective monitoring agencies.

## **INNEFFECTIVE MONITORING**

Monitoring agencies serve as the eyes and ears of the world on the conditions in factories. Unfortunately, little is said about the process or the methods in which NGOs and in-house corporate compliance managers conduct their audits. The public rely on the monitors to obtain accurate information on issues such as working conditions, wages, harassment, overtime pay, and health and safety. As corporations develop larger and more complex Corporate Social Responsibility, do they help

workers? It is rare when there are opportunities to actually monitor the monitors. A case study conducted by the Independent University Initiative (IUI), opened up the doors to criticism to an unknown industry.

The IUI was instrumental in revealing deficiencies within the monitoring industry. As one of the students who sat on the University of California Office of the President Committee on Trademark Licensing, we were able to analyze the study closely as one of the participating schools. The Committee, along with several other large public and private universities, teamed up with the Business for Social Responsibility Education Fund (BSREF), the Investor Responsibility Research Center, and Dara O'Rourke from the Massachusetts Institute of Technology. This report laid out the ground work for an in-depth look of monitoring throughout seven different countries including China and the United States (IUI, 2000). The report also went in depth to give the current status of these countries and conducted several interviews with not only key stakeholders but workers as well.

The report addressed critical arguments made against private auditing firms. One of the largest firms, PriceWaterhouseCooper (PwC), allowed the researchers to follow them on many of their own audits throughout China. PwC was aware of the researcher's visit, and thus also expected that not only were the audits that she attended of highest quality but of the newest strategies as well. After following them on several visits, her conclusions were quite shocking.

*"The Factory inspection reports [PriceWaterhouseCooper] produced did not convey an accurate picture of the conditions in these factories. The reports are so condensed that they miss major issues and paint a false impression of a factory's compliance with local laws... The monitoring methods are significantly flawed... The auditors failed to detect hazardous chemical use, among other serious health and safety violations, barriers to freedom of association and collective bargaining, violations of overtime and wage laws, and time cards that appeared to be falsified" (pg. 155, Esbenshade, 2004).*

Factory audits and capacity-building programs face many barriers in meeting their goals, with some affecting minimal change. Factories that have received high recognition from auditors and that

have multiple certification tend to receive contracts from famous U.S. brand names. With this, comes the concentration of auditors and monitors that follow these brands. As stated earlier, a major concern is that these monitors are most dense in these factories, while there are thousands that go unmonitored. .

In a large footwear factory with over 50,000 workers -.they had contracts with over a dozen major U.S. and European brand names. When asking the Corporate Responsibility (CR) manager of the factories she oversaw, she mentioned that monitors would come by on a regular basis, sometimes several within a week. The CR Manager said that these factories were in very good condition and due to the high volume of monitors coming by all the time, they had to keep the factory in good condition and presentable at all times. Like the manager that I had mentioned earlier at the garment factory, both of these managers believed that the amount of monitors was ridiculous and a waste of their time. Of course, they both understood how the industry worked, and that the main reason that auditors were there, was because the brand names received pressure back in their countries of origin. After speaking to both of them about targeting the wrong factories, it was the realization that the concept of independent third party monitors had a minimal effect. Monitors were auditing the same good factories over and over again, while thousands of factories go completely unnoticed by monitors. This doesn't mean that monitors should be eliminated, but there needs to be a critical transition of how CSR departments focus using their funds and a shift from monitoring to capacity building. Another sector of CSR that has a minimal affect on factories are third-party certification programs.

## **INEFFECTIVE CERTIFICATION PROGRAMS**

Organizations such as Social Accountability International (SAI) and their SA8000 certification, and the International Organization for Standardization with their, ISO 9001, and ISO 14000 have taken

certification programs to a global scale. Certification programs are similar to auditors, but instead of providing reports, they award factories with a certification of approval that they have met all of the organizations requirements. ISO 9001 covers labor and workplace compliance, and ISO1400 deals with environmental compliance. Certification programs have grown dramatically in popularity and many suppliers will look for these certifications before even considering a contract. But similarly to the deficiencies in monitoring, certification programs paint an even far unclear picture of the conditions within the factory. When interviewing some of the monitors in China, they did not speak highly of the certification programs. One of the monitors spoke about her friend who contracted his services to ISO 9001 and SA8000.

*“He felt like he was just a document vendor. It was just a system only built up on paperwork.. It was ineffective. In SA8000 you build up models of systems: environmental, social compliance, policies, procedures, and management systems. He felt like it was only necessary that the factories get all of the documents in place. But in practice, it is not actually implemented or enforced... The certification programs are a business that makes a lot of money. It’s good in some ways, if you really implement it, but in many situations it is just implemented through paperwork which is very ineffective” (Auditor #1, 2007).*

Certification programs will continue to thrive as more industries try to become more socially and environmentally conscious. But the smoke screen effect has created an environment where brand names can advertise to their consumers that they are purchasing from legitimate suppliers and manufacturers. The reality is that these programs are not giving accurate information and they are falsely advertising their claims as finding legitimate suppliers. If brand names rely on this information to prove to their consumer base to buy from them, there needs to be much more transparency and improvements in the certification programs.

## **CORPORATION'S REVISED ROLE IN MONITORING & CAPACITY BUILDING**

Shifting towards a new monitoring model and increased capacity building would be a major shift for CSR departments, third-party monitors and local monitors.. As stated earlier, top-down corporate lead models of monitoring and certification programs are ineffective because of their lack of accountability and enforcement. To change this dynamic, corporations must be transitioned out of the monitoring arm and reforming the Chinese local monitors must take priority. With the Contract Labor Law going into affect on January 1<sup>st</sup>, 2008 - to make legal reforms possible, a stronger presence of the government needs to enforce these laws. With 2008 coming upon us, this will be a very big year for China. Not only will they have the strictest labor code go into effect, but the Beijing Olympic games will cast a "magnifying glass" on the country and expose many of the labor violations to the world. With the increased media attention, China's public image may be completely tarnished by the horrific stories of labor abuse, child labor, environmental abuse and poverty. This is a critical year to put political and corporate pressure to make significant changes.

The first major change is the role and financing of CSR. CSR must make a dramatic shift to commit funds to programs that will help aid the growth and sustainability of an educated workforce. This can be done through capacity building initiatives and utilizing funds to provide pressure at a policy level. Taking the accountability component away from corporations will allow the government to take a stronger stance against exposing labor abuses. The second change requires the Chinese government to reform their own internal monitoring force to effectively monitor their own factories. With the new Contract Law, partnering with the ACFTU creates a two-tier monitoring system coming from the top-down and the bottom-up. The final change, (which consists of the largest stakeholder) is the mobilization of the Chinese workers. The growing number of labor unrest (through mass protests) has increased dramatically in the last decade and will only continue to grow. As in the organization of the



massive takeover Tiananmen Square, the working class of China is becoming more conscious of their conditions. Their organization is critical in proving that there is a demand for societal and structural change to the central government.

### **Capacity Building and the role of Corporate Social Responsibility Departments**

The current status of CSR departments has not proven to be an effective or sustainable model to improve the working conditions in China. As one of the largest stakeholders, corporate brand names walk a fine line of advocating for better working conditions and preventing better working conditions. In 2006, the labor bureau had pushed for a new and improved labor contract law which would show vast improvements for working conditions in China. However, it was the American Business Council that stood up during the hearings and threatened the new labor contract law that they would remove production from China if these new laws were passed. The clear direction of corporate brand names and their commitment to CSR is shaky at best. Many believe that CSR is a marketing strategy to put out negative media attention as well as commit to temporary programs to enhance their visibility in the CSR field.

*“CSR has completely turned into Public Relations and a business. The reality for the factory, is that there is no incentive or motive for the factory. All of the pressure comes from the outside. The only factor to the factory is the cost-savings aspects of CSR. However, if there is no criticism of the TNCs or the factories, then there is no motivation for the industry and there is definitely no internal motivation from the factories” (Auditor #2, 2007).*

The motivation of CSR is the root cause of where the future of CSR must make their changes. The role of corporate brand names must be reevaluated. In our current top-down model of factory monitoring, it is being lead by the corporate brand names through motivation and pressure from the consumer base. However, the corporate brand names have a clear upper hand because the only repercussion that they face to these external pressures from their consumer base is the loss of

reputation and minimal sales through negative media campaigns. Through the development of CSR departments, they have played a vital role in immediately putting out a positive response to any negative media. In the most recent case of child labor abuse found in India of a factory producing Gap clothing; The Gap CSR department not only had an immediate response to these allegations, but they have clear tactics and strategies to comfort their concerned customer base. In a press release sent out by Gap Inc., it states:

*“First and foremost, under no circumstance is it acceptable for children to produce or work on garments for us. It’s non-negotiable... Recently, without the company’s knowledge or consent, one of our vendors subcontracted a portion of an order to an unauthorized facility in India that used child labor to produce one particular product for GapKids... I’m grateful this situation was brought to our attention so we could move swiftly to investigate and act decisively – pulling the product order with the vendor and ensuring the garment will never be sold. To help the children involved in this situation, we are requiring the vendor to pay them until they are of working age and, then, offer them employment. They’ll also get the back wages and education they deserve”*  
*(<http://www.gap.com/browse/home.do?cid=38618&mink=5058,799515&clink=799515,10/30/07>).*

The most interesting comment within the press statement was when they stated, “without the company’s knowledge or consent, one of our vendors subcontracted a portion of an order to an unauthorized dealer.” This proves a clear disconnect of the responsibility and accountability that Gap must have on their products. Accountability does not leave once an order has been placed. It is the responsibility of Gap to understand the full transparency of their products. If they do not have full confidence in the factories in which they are producing in, then they should not be in those factories to start. This lack of responsibility and the passage of the blame onto the factory is a systematic problem that TNCs have used. With all of the past negative media attention, Gap (and their over 100 monitors), should provide and create policies that require factories to have produce full transparency of their operations before their contracts are approved. This lack of enforcement proves that the Codes of

Conduct that many of these corporate brand names adopt are useless and a means to keep their consumer base at ease.

As the stakeholder that profits the most, it is the public's role to hold corporate brand names accountable to their Codes of Conduct and to dramatically increase the funding to their CSR departments to promote capacity building programs and influence policy change. Capacity building programs are programs that educate and empower workers on topics such as: Chinese labor law, health and safety regulations, financial management (savings and retirement planning), personal health issues, educational advancement, management training, conflict resolution, and preventing worker abuse. These programs, at the least, are slowly educating the Chinese workforce, which is directly empowering them of their rights.

One new trend has been the creation of programs to help create a council of workers to advise the factory management. In theory, the potential impact of this group could have dramatic gains for the workers, but the reality was that the corporate brand names did not realize how much of a battle the factory was going to put up. The council of workers (which included management), would provide short and long term goals to the factory executives to help improve the conditions of the factory. However, there were many challenges that were met with management such as:

- 1) The management was insistent on taking control of the formulation of the rules and procedures of the council of workers.
- 2) The management was unwillingly to let the workers meet on a consistent basis so that the project could move forward (which delayed the progress significantly, and created a loss of momentum of the workers).
- 3) The actual original design of the working council was extremely progressive and radical and the feasibility of the implementation was not truly considered.

- 4) The corporate brand name did not realize how much pressure they were going to have to put on the factories' executives.

Although there were many struggles to work with the factory and their managers, there were many positive impacts of the formation of this council and the trainings that came out of it. Workers were now much more informed on labor, health and safety laws. Also, workers were able to participate and critically analyzing their work environment and given an opportunity to participate in negotiations regarding factory decisions. This education was vital to the empowerment of the workers. After speaking to several workers, they were surprised at the many laws that existed that they were not aware of. Although, the public may not see the affects of these educational workshops, a consciousness of labor rights is growing. If corporations are committed to improving working conditions, this is a clear avenue in which they can funnel funds into programs to help educate their workforces.

In a conversation with a CSR representative from a large outdoor clothing and footwear brand name, they had given open range to their CSR department to conduct capacity building programs that challenge the limits of what management is willing to do (Van Haden, 2007). Their capacity building programs have created new relationships with factory managements as well as enhanced the role of their CSR director in China. This trend of taking proactive steps is critical in the role that corporations can play in capacity building. Although capacity building is in its infant stage in China, this is the avenue that corporate brand names will have the most influence. Direct training of workers and management by workshops conducted by local experts, independent monitoring groups, or human rights groups, can be one of the strongest tools to empower a bottom-up movement of the workforce. This is a big step for the corporations, and there needs to be a shift from monitoring to funding programs to train the workers. This leads us to the next major change, which is a complete reconstruction of the Chinese local monitoring agencies.

## **The Increased Responsibility of Chinese Local Monitors**

Local monitors in China have gone under the radar as a major stakeholder in this industry. Similarly, how OSHA monitors work environments in the states, the local monitors set up by the government must play an enhanced role in validating safe working conditions for workers. Currently, external third party monitors, funded by the TNCs play the largest role in inspecting the factories. With this in mind, the local Chinese monitors have rarely been targeted as a problem or a solution. Rather, it is the governments excuse to claim that they actually have their own monitoring system in place. To look more closely at them, there are very clear inherent problems of the local monitors.

The Chinese government has put very little priority, training and funding into their local monitoring programs. This has lead to significant problems in their program. One of the first major problems is the amount of corruption that occurs. Many auditors, who are minimally compensated, are susceptible to bribery by many of the factory managers. This has created a problem that has been very difficult to follow and track. An independent monitor stated, “We hear about the corruption of the local auditors, and the real question is how large the number [of corruption] actually is. There is no concrete research to see how bad this problem is. Some factories told me that it is very common, and if this is the case, then it is a very big problem. This is a problem in every industry in China” (Auditor #2, 2007). The ineffectiveness of this large group proves to be a waste of money, but the government is using it mainly to inform the public that the factories are being monitored. Another major problem is the severe lack of training and compensation for these individual auditors.

Local Chinese auditors are minimally trained and severely underfunded. The gap of knowledge between the auditors is dramatic which shows a systemic problem within the inherent training module. Most commonly, many of these workers are there just for the job with no real concern for the workers. “Many auditors just take it as a job, with a checklist... the firms just hire “green hands” (those with little

to no experience) for the jobs. There is not much time, incentive or motivation or the skills to find the root causes of problems” (Auditor #2, 2007). This is a major problem in the auditing field in general. Not only have there been very few people interested in entering into the CSR or monitoring field, but the motives are all wrong. With the large increase in CSR positions in China, the demand has easily surpassed the supply. Thus, many of the CSR representatives that I worked with in China didn’t come from a human-rights or NGO background, but rather from the corporate avenue. Many of the agents were once suppliers who know the industry well, but know very little about actual auditing. This has created a façade that there are many well trained monitors out there. One commonality between local monitors and corporate/independent monitors is the severe lack of effective training.

Local monitors vary greatly in their expertise and official training. The gap between those who are well educated in issues such as working conditions and health and safety vary greatly. As a factory auditor, is it very easy to skip over major issues that need to be addressed. When I visited a garment factory, we had our typical checklist of items to go through, but the complexity of understanding a lot of the factory equipment and the safety features was challenging. Plus, there were many safety violations that were not on the checklist that definitely needed to be addressed. For example, several workers sewing dress shirts had removed a special guard that would prevent their fingers from being stabbed by the needle. Many of the workers had clearly pushed it out of the way for convenience and many of the workers had either removed them or bent them out of the way completely. The auditor that I had worked with had over 25 years of experience and covered many more items that were on the checklist. Many of the local auditor’s routine do not even come close to the thoroughness of many of the independent third party monitors.

*“They are just like robots that go through the checklist and don’t have time to see if the management’s testimonial contradicts the workers’ testimonials... The factory will complain that they might meet auditors that just want to find faults with the factory. They don’t want to find root causes or find solutions... They just put everything*

*down on the report and do not even discuss it with the factory management” (Auditor #2, 2007).*

The standards of local auditors are completely unrealistic to actually obtain real data and to fix problems within the factories. It is common for auditors to look for problems and note them on the report; but it is just as critical that they try to figure out “root causes” of issues so that the factory management can address it and the issue will be followed-up upon. It is very typical that one auditor can be assigned up to three to four factories within week. This creates a very tough environment for auditors to truly feel invested into getting accurate statistics regarding the factory. This also forces the auditor to feel compelled to accomplish the audits as fast as possible. Since many of the auditors are paid minimally for their services, corruption becomes a major problem.

It is quite common that workers are offered bribes and shown fake documents that go purposefully unnoticed. A common practice is that many factory managers will greet the auditor and offer them a red packet full of money so that they report that the factory is in good condition and all of the items to be checked are satisfactory. Also, bribery in the form of gifts are quite common (Auditor #1, 2007). In these cases, many auditors will kindly ignore many of the apparent problems in the factory. Most independent monitors are forbidden to accept gifts, but there are rumors that this is also an increasingly large problem (Auditor #2, 2007). However, although many of these issues are major problems that have not been addressed, the role of the local monitors is critical in the success of creating a public run internal monitoring system.

The Chinese government must take strong directive in changing the entire dynamic of the auditing enforcement agency. The end goal would have local auditors taking the place of the independent third party monitors. There are several major factors that must take place to allow local auditors to be more effective.

- 1) A consistent model for training which requires all local monitors to pass a certification exam so that they are proficient in workplace law, safety and health.
- 2) A calculated system to allow auditors enough time to complete a full audit. For example, a larger factory would require additional auditors and more time to complete.
- 3) A comprehensive and consistent checklist that all auditors will use.
- 4) A system of fines that will punish the factory for labor violations financially.
- 5) A system of fines that will punish brands (TNCs) if they are knowledgeable of over- contracting orders.
- 6) Monitors who are trained culturally in dealing with migrant workers' issues and can speak the local language of the workers and
- 7) Conduct unannounced spot checks on factories.

These critical steps will look more holistically at the role of the local monitors and put in place a system that gives local auditors the power to enforce the national labor laws. Chinese labor laws main ineffectiveness is their inability to be enforced. Finally, the issue of recognizing the migrant workforce as a major stakeholder by the central government must be one of the top priorities. This can be addressed through policy reform of the Hukou system.

### **A Chinese Working Class Insurgence**

Workers in China are beginning to realize the value of their worth in China. In several urban areas, workers have pushed for an increase in their minimum wage and won. Their increase has given hope to workers that they have a voice in the growth and expansion of the country during their time of industrialization. Also, in the last decade, there has been a large increase in worker strikes. Although the government has actively pursued to minimize these strikes and to nullify them as soon as they begin,



the media has played a critical role in bringing their issues to light. A growing awareness is beginning to occur regarding the conditions that many of these migrant workers are in. However, the largest problem is that the current model to improve working conditions is still a brand-lead top-down model.

The Trans-National Corporations (TNCs) (through pressure from the public) have taken the leading role in attempting to improve the working conditions of their contracted factories. This top-down model in China is the main strategy to get into the factories because it is one of the main ways to get into the factories. This TNC lead model is problematic in sustaining realistic change as mentioned earlier.

Human rights and non-profit organizations have minimal access to the workforce and are usually limited to organizing at a small community level, usually outside of the factory. “Although these local community organizations may seem weak, the numbers of them are growing and little by little, they are having a stronger impact on educating the workforce” (Auditor #2, 2007). As the increase of local community groups grow, the prioritization of capacity building at the local level will create a more sustainable change in the attitude of the Chinese workforce. Currently, a large majority of the capacity building has been lead by TNC funded independent monitoring firms. This movement has been completely top-down model which is not sustainable. “The current influence of the TNC lead capacity building programs has structural problems” (Auditor #2, 2007). The sustainability of these programs are fragile at best and even to convince the factories participation is a constant battle.

Many of the factories in China have been resilient in letting the TNCs participate in capacity building programs. At best, many of the factories will tease the thought of educational workshops and programs but mainly to improve the relationships between the factory and the supplier. During my time in China, many factories were resilient to participate in capacity building programs. If TNCs are going to play in any type of effective role, their advocacy and participation in capacity building programs is critical.

## **CONCLUSION**

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With the top-down model of corporate lead monitoring, brand names do have a role in helping create better working conditions in China. However, with their current entanglement with independent monitoring, there must be dramatic shifts in utilizing their role as a major stakeholder. The potential power that TNCs have to influence capacity building and influencing local policy issues can be some of the most strategic methods of the use of their power. At the same time, there must also be a refocus by the Chinese government to look at their role as well.

China will see improvements in their industrial workforce with the increased attention that workers are slowly empowering themselves. The sentiment for a bottom-up movement in China is definitely growing. “It is the workforce that will make the biggest change in the policy. In the long run, they are the main force that will change their own conditions. Although the top-down model is the main approach, it has definite structural problems” (Auditor #2, 2007). The mobilization of the Chinese working class will determine the success of their movement. More so, the government needs to take responsibility in monitoring their own factories.

Local monitors must take the reins of the monitoring industry in China. However, they must learn from some of the effective third-party monitoring agencies, and put in place, long term – sustainable plans. The overhaul of this public servicing sector should be supported by the brands, as this relieve them TNCs the funding allocation to monitor themselves, and those funds could be reallocated towards capacity building an influencing policy change. Finally, with the reformation of the Hukou residency program, this will help create long term solutions for Migrant residents to gain access to their social security, health care and schools.

Slowly, China must recognize these changes as major steps to help bring social equity to their industrial working class. However, if China waits too long and stalls to make these changes, the wealth that is incurred will blind side many of the stakeholders from ever making these changes. In reality, that has already happened, but there is a growing consciousness amongst this social class that will soon be hard to ignore.

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