

As You Sow Reports on Supply Chain Compliance Programs of Apparel Companies

by Robert Kropp

November 17, 2010

The report surveys the supply chain compliance programs of 15 US-based apparel companies, and finds that most have codes of conduct and audit their suppliers, but few hold senior executives responsible for improved compliance.

SocialFunds.com -- Realizing that the business operations of corporate supply chains have as much or more impact as the operations of companies themselves, sustainable investors and other shareowner activists have increasingly addressed the issue in their engagements. As Business for Social Responsibility (BSR) defined it in 2007, "A sustainable supply chain is a system of aligned business activities throughout the lifecycle of products that creates value for all stakeholders, ensures ongoing commercial success, and improves the wellbeing of people and the environment."

Today, shareowner activists engage with companies on supply chain compliance addressing child labor in the cotton fields of Uzbekistan and the cocoa farms of West Africa, factory working conditions in the Asian supply chains, and numerous other issues. The Carbon Disclosure Project (CDP) has a supply chain program to help assess risks from climate change in corporate supply chains.

In October, Governor Arnold Schwarzenegger of California signed into law SB 657, the California Transparency in Supply Chains Act of 2010, which requires companies with revenues of more than \$100 million doing business in the state to publish on their websites their policies addressing slavery and human trafficking in their supply chains.

Pressure for supply chain compliance began in the 1990s, when activist shareowners and others engaged with US-based apparel companies in an effort to improve working conditions in factories supplying those companies with product. As Conrad MacKerron, Senior Program Director of **As You Sow**, stated in a webinar announcing the publication of the organization's new report on the subject, "There's been international concern among social justice groups and activist investors about sweat shop conditions in the global supply chains of US companies for the last 15 years, as major apparel brands outsource their production."

Citing the well-publicized human rights abuses in the supply chains of many apparel companies, MacKerron said, "Many brands have adopted vendor codes of conduct to promote safe, just working conditions, but few companies have publicly addressed what actions they are taking to implement their codes."

The report, entitled *Toward a Safe, Just Workplace: Apparel Supply Chain Compliance Programs*, requested information from 33 major US-based companies that outsource apparel manufacturing to factories based overseas. Of the 33 companies, 15 responded to **As You Sow's** survey.

At the webinar, Jorge Perez-Lopez, Executive Director of the Fair Labor Association (FLA), an organization dedicated to ending sweatshop conditions in factories, said, "There's a dearth of reliable information on the compliance programs of different companies." MacKerron added, "This project is an effort to establish specific baselines for corporate compliance efforts."

The report ranks the efforts of the 15 companies that responded in the areas of codes of conduct, auditing, remediation, scorecard, preferred suppliers, continuous improvement, purchasing, collaboration, management accountability, and transparency. The highest grades of B+ were awarded to Levi Strauss and Wal-Mart Stores, while The Gap, Hanesbrands, Nordstrom, and Gildan Activewear all received a grade of B. The lowest grades of C- were received by five companies.

Included among the 18 non-respondents were Abercrombie & Fitch, Kohl's, Macy's, Sears, and TJX Companies.

The report found that most respondents have publicly available codes of conduct. Yet, as the report points out, "Adopting a code of conduct does not ensure that the contracted supplier is complying with each point in the code." Referring to a 2006 article by Newsweek, the report states, "Many Chinese factories used newly-developed software to manage double and triple sets of books and/or hired consultants to coach employees on how to lie about factory conditions when interviewed by auditors."

Overall, the grades for auditing by respondents were high, with Hanesbrands earning an A and nine other companies scoring at least a B-. In response to reports of suppliers engaging in deceit, the report observed, "73% of the companies in this data set have policies to address falsification of data, bribery of auditors, and coaching and threatening workers."

The majority were also found to have remediation processes in place to follow up on the findings of audits of suppliers' factory conditions.

Relatively low grades were recorded in the area of management accountability, with The Gap earning the highest grade of B- and 11 companies earning no higher than a D+. While 53% of the companies report having a Board Committee responsible for compliance review, Amy Galland, Research Director at **As You Sow**, said at the webinar, "Holding executives accountable for social compliance is new in the industry, and we think that it needs to be further developed and implemented."

In conclusion, **As You Sow** provided a number of recommendations for improved supply chain compliance. Companies need to put more resources into continuous improvement, should stipulate in their codes of conduct the right of freedom of association by workers, and evaluate their senior executives on progress in improving working conditions. Because "transparency is a core attribute of corporate social responsibility," the report states, "Companies need to increase detailed public reporting on specific supply chain audit findings and remediation actions."

As You Sow plans to update the findings of this first-time report on an annual basis.

Other speakers at the webinar included Leslie Croshaw, Senior Manager of Social and Environmental Sustainability at Levi Strauss, and Dan Henkle, Senior Vice President of Global Responsibility at The Gap. Henkle said of the report, "This is the most comprehensive look at ethical sourcing practices in our industry."

"Socially responsible investors have been engaging apparel companies on global supply chain compliance for over a decade," **As You Sow** stated in the report. "We thank them and, especially, the members of ICCR (the Interfaith Center on Corporate Responsibility) for their long-time leadership in this area."