

Varying audit standards and codes of conduct can lead to confusion at factory level, according to umbrella groups, who say collating best practice will lead to harmonisation across the industry.

Pay on the production line

It has become a familiar tale. Brands are not keen to be thrust into the limelight when it becomes public that suppliers' standards are below expectations and put pressure on factories to conform. At the same time, they expect the cheapest price and the shortest lead times which pressurises factories to set up longer shifts, pay lower wages or scrimp on training or safety aspects. The Rana Plaza disaster in Bangladesh in April 2012, where more than 1,100 workers were killed when the complex collapsed, highlighted both the poor physical working conditions and the fact that some suppliers had been sub-contracting work to meet tough targets, unbeknownst to their customers. Setting forth conditions that need to be met by suppliers can offer some kind of reassurance that standards are being met – although the sheer size of some large brands' supply chains means that vetting and regulating these is difficult and costly.

When Timberland reported the results of its first-quarter factory audits last year, it found 80% of inspected factories (48) did not meet the standards it had set out and were "accepted to be upgraded" (minor issues). Nine were "accepted" (15%) and three were rejected (5%).

At work at a garment factory in Gazipur, Bangladesh.

UN Photo/Kibae Park

Instigated by owner VF Corp, which bought Timberland in 2012, the new audits in 2013 found 43% of suppliers had unsatisfactory working hours (exceeding 60 hours per week, 12 hours per day or more than six consecutive days) while 8% were paying below minimum wage and 1.3% were using prison or debt-bonded labour.

In 2013, adidas issued 66 warning letters to suppliers across 14 countries, and terminated nine agreements for social and environmental non-compliance. It interviewed 1,800 workers in the Philippines, Vietnam, Mexico, China and Thailand. "Many were encouraging. Suppliers paid wages on time, complied with legal minimum wage rates, and the wage structure consisted of many non-monetary benefits," it said. "Other findings were less positive. There were instances of under-payment of overtime, workers not being well informed of the current legal minimum wage, the piece-rate system being the overly dominant method of calculating wages, and the lack of a direct link between the wages paid and the factory's economic performance."

The groups said mitigating the root causes is a "main focus" and it will look at suppliers' wage-setting mechanisms and integrate Fair Wage components into its monitoring tools.

While these findings sound worrying, they are echoed by other companies. It is also worth noting that a large number of companies either do not undertake these kinds of inspections or keep their findings private.

FDRA's new standard

However useful a code of conduct is, if manufacturers have to sign or adhere to more than one it can be confusing, says Matt Priest, president of the Footwear Distributors and Retailers of America (FDRA), which counts Nike, Puma and Wolverine among 300 members. He cites the example of one customer insisting a fire extinguisher is placed in a certain position on the wall versus a competitor who expects the opposite, meaning the factory is forced to keep moving it. There are bigger issues at stake, and a standard adopted across the industry would promote "synchronicity and drive uniformity", he says – particularly for the footwear industry which has a "unique dynamic".

In July 2014, the association launched its own code of conduct. FDRA's factory compliance and enhancement committee, chaired by Mike Jefferson, president of global operations at Wolverine Worldwide, analysed dozens of existing codes and collated what it deemed as best practice into one document, which has been offered to brands and factories on a take-it-or-leave-it basis: "You can adopt the whole thing as your own or take pieces out of it, or you can ignore it for the time being; people can use as they see fit," says Mr Priest.

"We've had companies that didn't have one and are now using ours; some that are supplementing what they currently have and a couple are considering replacing their own so they can help us drive this forward as an industry standard."

The code covers management systems, conditions, structural safety and transparency. The challenges, he says, are "what they've always been": the working hours and wages. "There are obviously zero-tolerance issues – child labour and enforced labour and those kind of things, but there are other issues that are driven by the seasonality and the demands of the industry.

"We hope there will be continuous improvement. Those factories that adhere to the code understand that it's a work in progress, and transparency is key for it to be successful. Beyond that it's about moving in the right direction and enhancing the way in which factories pay their people and how many hours are worked."

Monitoring whether there is in fact 'continuous improvement' is another challenge. The FDRA hopes that if the code can be adopted on a large scale, it will enable them to draw up an audit process to vet against. To aid this, it launched a factory recognition programme at the end of last year, where brands and retailers can nominate factories that they feel adhere to the model. "We have a sub-committee that reviews submissions and nominations as well as recent third-party audits to see whether or not the factories meet, or are trying to meet, the code."

Last November, it announced the first eight factories to be recognised Responsible Footwear Manufacturers. The recipients are, from China:



'Succeeding in business is about more than making money. It is about treating our employees, our suppliers and their workers fairly,' says adidas CEO Herbert Hainer.

adidas

Dongguan Mayflower Footwear, Guangzhou Zhujiang Properwell Shoes, Panyu Leader Footwear, Putian Chengyi Footwear, Serena Shoe and Serena Shoe; and, from Vietnam: Hue Phong Footwear and Yangzhou FuHeng Shoes.

Launching new audits will be a difficult task though, he admits. "One thing we all know is that there's audit fatigue."

ZDHC's work in progress

The Zero Discharge of Hazardous Chemicals (ZDHC) group – whose members include adidas, New Balance and the European Outdoor Group – also has its sights on a new audit standard, with an emphasis on chemicals management. Factories have been taking part in pilot audits to evaluate how well the draft protocol works.

The feedback has flagged up what ZDHC refers to as "many opportunities for improving". The audit, which included 300 questions, was thought too comprehensive by some. Factories said they would have to allocate more time than they had envisaged and said it seemed designed for large facilities rather than small- to medium-sized operations, and some questions needed clarifying. Auditors admitted they would need additional training to use the tool effectively.

Version 2.0, which is due to be published soon and whose details will be made public, will include a chemicals-specific audit that facilities can use as a self-assessment if desired.

"Long term, the intention is to have multiple stakeholders adopt this tool as industry standard for use as their generic environmental audit and/or self-assessment tool," said the group. "It is our hope that this tool will be included in the suite of tools used by the Sustainable Apparel Coalition, Outdoor Industry Association, Global Social Compliance Programme, Leather Working Group, Better Work, Fair Labor Association and more, towards scaled adoption and a new approach in the apparel and footwear industry for chemical and environmental management."

These groups join organisations such as Worldwide Responsible Accredited Production and AsiaInspection that already have well-established processes in place. Some brands will continue to carry out their own audits until they are convinced of the benefits of other tools or due to the complexity of their chains; others might gravitate towards more generic options.

Great progress is being reported in some regards: Timberland has met its greenhouse gas targets two years ahead of schedule and wage rises and extra benefits are being secured [Nike supplier Yue Yuen in August agreed to extra benefits to the tune of $53 million]. "There's notable traction taking hold in supply chains worldwide: corporations putting their money where their mouths are and governments moving forward on legislation," said Sebastien Breteau, CEO of AsiaInspection.

As of this January, the minimum wage for full-time workers in Cambodia was increased by 28% to $128 a month. The United Nations has now called on global brands to help manufacturers absorb the rising costs.

"There's onus on all of us in this process, whether you're on the customer side, the trade association side or the factory side to help drive this along together," says Mr Priest.

