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BUSINESS

Confessions of a Sweatshop Inspector

By T. A. Frank , Washington Monthly 6/08
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I remember one particularly bad factory in China. It produced outdoor tables, parasols, and gazebos, and the place was a mess. Work floors were so crowded with production materials that I could barely make my way from one end to the other. In one area, where metals were being chemically treated, workers squatted at the edge of steaming pools as if contemplating a sudden, final swim. The dormitories were filthy: the hallways were strewn with garbageâ€”orange peels, tea leavesâ€"and the only way for anyone to bathe was to fill a bucket with cold water. In a country where workers normally suppress their complaints for fear of getting fired, employees at this factory couldn't resist telling us the truth. "We work so hard for so little pay," said one middle-aged woman with undisguised anger. We could only guess how hardâ€"the place kept no time cards. Painted in large characters on the factory walls was a slogan: "If you don't work hard today, look hard for work tomorrow." Inspirational, in a way.

I was there because, six years ago, I had a job at a Los Angeles firm that specialized in the field of "compliance consulting," or "corporate social responsibility monitoring." It's a service that emerged in the mid-1990s after the press started to report on bad factories around the world and companies grew concerned about protecting their reputations. With an increase of protectionist sentiment in the United States, companies that relied on cheap labor abroad were feeling vulnerable to negative publicity. They still are. (See "Disney Taking Heat Over China" in the Los Angeles Times this March.)

Today, labor standards are once again in the news. Barack Obama and Hillary Clinton have criticized trade deals such as NAFTA as unfair to American workers, and the new thinking is that trade agreements should include strict labor standards. Obama has cited a recent free trade agreement with Peru as an example of how to go forward. I hope he's right, but let's remember that NAFTA was also hailed, in its day, for including labor protections. Our solutions on paper have proved hard to enforce. Peru attempts to remedy some of the problems of NAFTA, but we're still advancing slowly in the dark.

In the meantime, as governments contemplate such matters on a theoretical level, what's happening on the ground is mostly in the hands of the private sector. Companies police themselves, often using hired outside help. That was the specialty of my company. Visit the Web site of almost any large American retailer or apparel manufacturer and you're likely to see a section devoted to "ethical sourcing" or "our compliance program." (Those are terms for making sure that your suppliers aren't using factories that will land you on the front page of the New York Times.) Read on and you'll often see that the company boasts of having a code of conduct that its suppliers must followâ€"a code of labor standards by which the factories in question will be regularly measured and monitored. Are they to be believed? Well, yes and no. Private monitoring, if done properly, can do a lot of good. But it's a tricky thing.

A simplified story of Nike may be the best way to introduce the origins of the type of work I was in. In the 1960s, Nike (before it was named Nike) based its business on the premise that the company would not manufacture shoesâ€"it would only design and market them. The physical goods would be produced by independent contractors in countries such as Japan or Taiwan, where labor was, at the time, cheap. In short, Nike would be offices, not factories. The idea was innovative and hugely profitable, and countless companies producing everything from sweaters to toys to exercise equipment have since adopted it. It is now standard.

The problem that arose for Nike and many other companies, however, was that the media, starting in the 1990s, began to run stories on terrible labor conditions in factories in Asia. When consumers started to get angry, Nike and many other companies were nonplussed. We're just buying these shoes, they saidâ€"it's not our business how Mr. X runs his factory. And they had a point. If, for example, I learned that my dry cleaner was paying his employees less than minimum wage, I might feel bad about it, but I doubt I'd spend hours vetting alternative dry cleaners for labor compliance. I've got too much else to worry about in life, including my shirts. But such musings hardly make for a great press release, and Nike's case included nasty allegations about child laborâ€"twelve-year-old Americans playing with soccer balls sewn by twelve-year-old Pakistanis, that sort of thing. The company's stock value sank.

In this same period, the U.S. Department of Labor, led by Robert Reich, began cracking down on sweatshops within the United States and publicizing the names of firms who were their customers. Because of this, companies such as mine began to offer their services as independent, for-profit monitors of factory labor conditions. We would act as early-warning systems against shady suppliers who mistreated their workers. Based on the reports we provided, our clients could choose either to sever their relations with a given supplier or to pressure them to improve. Business at my old company is still going strong.

In Los Angeles, where small garment shops of, say, thirty employees were the main focus, we usually worked in pairs and did three inspections a day. Outside the country, where the factories were often quite large (several thousand employees) and made anything from toys to gym equipment, we worked alone or in pairs and did one or two a day. The procedures were similar, but the inspections were more thorough abroad. While one of us might tour the work floors to note all the health and safety violations (the gazebo factory, for instance, had no secondary exits, no guarding on machines, no first aid supplies, no eye protectionâ€"the list kept going), the other might review permits, employee files, and payroll records to see what shortcomings were apparent on paper alone.

Then we would begin interviewing employees in private, usually twenty or so, hoping to learn from them what our eyes wouldn't tell us. Did the factory confiscate personal documents, such as identity cards, and use them as ransom? (This was most common in the Gulf States, where foreign laborers from places like Bangladesh could find themselves effectively enslaved. But bosses sometimes confiscated national identification documents in China, too.) Were employees free to enter and leave the compound? How many hours a week did they really workâ€"regardless of what the time cards might say?

Unfortunately, we missed stuff. All inspections do. And sometimes it was embarrassing. At one follow-up inspection of a factory in Bangkok at which I'd noted some serious but common wage violations, the auditors who followed me found pregnant employees hiding on the roof and Burmese import workers earning criminally low wages. Whoops. On the other hand, sometimes I was the one who uncovered what others had missed. A lot of it had to do with luck. Was the right document visible on the work floor? Did we choose the right employees for interviewsâ€"the ones who were willing to confide in outsiders? If we were working through a translator, was his manner of speaking to people soothing?

The major challenge of inspections was simply staying ahead of the factories we monitored. False time cards and payroll records, whole days spent coaching employees on how to lie during interviews, and even renaming certain factory buildings in order to create a smaller Potemkin villageâ€"all of these were techniques used by contractors to try to fool us. We were able to detect some of them. A collection of crisp time cards that showed every employee arriving within seconds of the next was easy to spot as having been punched by a single worker standing alone at the time clock. An employee whose recollection of hours worked differed markedly from her time sheet was another indication of shady bookkeeping. But others were hard to defeat. Employee coaching deserves special attention for its crude effectiveness. The following composite dialogue, in which every answer is a lie, is typical of the sort of thing we endured:

Me: How many days a week do you work?

Employee: Five.

Me: Any overtime?

Employee: Almost never. We get time and a half in pay for overtime.

Me: How much do you make per hour?

Employee: I don't know.

Me: How much did you get for your most recent pay period?

Employee: I can't remember.

Me: Rough idea?

Employee: I can't remember.

Me: How do you deal with the fumes from the glue?

Employee: It's no problem. We have masks. [Note: This was often trueâ€"harmful cotton masks that concentrated the fumes.]

Me: How much do you get paid for Sunday work?

Employee: We don't work on Sundays.

Me: Do you have any sort of worker representative here?

Employee: ?

Me: Someone who represents the workers and talks to your bosses?

Employee: ?

Me: What sort of accidents happen hereâ€"you know, people bumping themselves, or cutting themselves?

Employee: No accidents.

Such exchanges, needless to say, rarely produced killer testimony. Sometimes we could work around uncooperative interviewees, or we could get them to stumble over their own answers. However, just talking to employees was no guarantee of anything, no matter how gifted an interrogator you were.

Because any inspection misses something, there were factories that managed to embarrass everyone. In 2000, BusinessWeek published an expose about a factory in Guangdong, China, the Chun Si Enterprise Handbag Factory, which made bags for Wal-Mart. Titled "Inside a Chinese Sweatshop: 'A Life of Fines and Beating,'" the article described a nightmarish place in which nine hundred workers were locked in a walled compound all day, and security guards "regularly punched and hit workers for talking back to managers or even for walking too fast." The reporting, by Dexter Roberts and Aaron Bernstein, was superb. Unfortunately, that reporting led to the door of my company, which had been among the auditors monitoring the factory for Wal-Mart. While they had found excessive overtime work and insufficient pay, inspectors had missed the captive workers and physical abuse.

To be sure, the Chun Si Enterprise Handbag Factory episode was a debacle. (I have no inside account of the story, since it took place several years before my arrival.) I suspect, however, that the fault lay with Wal-Mart as much as with the inspectors. I say this because there's a broader point here: Monitoring by itself is meaningless. It only works when the company that's commissioning it has a sincere interest in improving the situation. In the case of Chun Si, inspectors visited five times, according to BusinessWeek, and kept finding trouble. Now, anyone in the business knows that when inspections uncover safety violations or wage underpayment more than once or twiceâ€"let alone five timesâ€"it's a sign that bigger problems are lurking beneath. Companies rarely get bamboozled about this sort of thing unless they want to.

And many prefer to be bamboozled, because it's cheaper. While companies like to boast of having an ethical sourcing program, such programs make it harder to hire the lowest bidder. Because many companies still want to hire the lowest bidder, "ethical sourcing" often becomes a game. The simplest way to play it is by placing an order with a cheap supplier and ending the relationship once the goods have been delivered. In the meantime, inspectors get sent to evaluate the factoryâ€"perhaps several times, since they keep finding problemsâ€"until the client, seeing no improvement in the labor conditions, severs the bond and moves on to the next low-priced, equally suspect supplier.

For the half-assed company there are also half-assed monitoring firms. These specialize in performing as many brief, understaffed inspections as they can fit in a day in order to maximize their own profits. That gives their clients plausible deniability: problems undiscovered are problems avoided, and any later trouble can be blamed on the compliance monitors. It is a cozy understanding between client, monitoring company, and supplier that manages to benefit everyone but the workers

While private monitoring can be misused, however, when it's done right it can really produce positive change. I've seen it. When companies make a genuine effort, the results can be impressive: safe factories that pay legal wages. That sounds modest, but it's actually hard to achieve in any country. Just visit a garment shop in Los Angeles.

At my company, I quickly figured out which clients cared. The first test was whether they conducted "pre-sourcing"â€"inspections of labor conditions before placing an order instead of after. This small step truly separates the top-rung companies from the pack, because to prescreen is to forgo the temptation of hiring the cheapest suppliers. (Those suppliers are the cheapest because they tend to break the rules, so they usually fail the preliminary inspection.) The second test was whether the company had a long-term relationship with its suppliers. Long-term commitments are what motivate both parties to behave: the supplier wants to preserve the relationship, and the customer wants to preserve its reputation. The third test was whether the company requested unannounced inspections as opposed to ones that were arranged in advance. The advantages of this are self-evident. And the final test was whether the company made inspection results public. This was almost never done.

Who, then, were the good actors of the trade? There are a number of them, actually, but here I'll just point out two that often surprise people. The first is Mattel, the same company that was tarnished last summer by a recall of toys that were found to have lead paint on them. Whatever the chemical flaws of their products, Mattel had a reputation among us monitors for earnestness in pressuring its suppliers to improve their labor practices. It also owned and operated a few factories in Chinaâ€"a country with dreadful factoriesâ€"that were exemplary. These facilities were regularly inspected by independent monitors, and anyone who wants to know what they've found there can visit Mattel's Web site: the reports are public. The second unexpected company is Nike, which long ago took its bad press to heart and remade itself into a role model of how to carry out thoughtful labor monitoring. Nike has become such a leader in the field that its Web site may be the single best resource for those trying to understand the difficult business of international labor standards. Not only does Nike prescreen factories, it also discloses the name and address of every factory it uses and makes public much of its monitoring.

But let's not be confined to praise. You may get the sense that I'm not Wal-Mart's biggest fan. You'd be right. I betray no confidence here, since Wal-Mart wasn't a client of ours while I was at my company. Nevertheless, I still got to visit plenty of its supplier factories. That's because any given factory usually has more than one customer, and during an audit we would always ask the bosses to name their other customers. Wal-Mart was often one of them. And its suppliers were among the worst I sawâ€"dangerous, nasty, and poorly paid even by local (usually Chinese) measures. I noticed that Wal-Mart claimed to require factories to maintain decent labor standardsâ€"but why did it seem to think it could find them among the lowest bidders?

Now, I know about good and bad actors mostly because I saw them directly. But ordinary consumers searching on company Web sitesâ€"Walmart.com, Nike.com, etc.â€"can find out almost everything they need to know just sitting at their desks. For instance, just now I learned from Wal-Mart's latest report on sourcing that only 26 percent of its audits are unannounced. By contrast, of the inspections Target conducts, 100 percent are unannounced. That's a revealing difference. And companies that do what Nike doesâ€"prescreen, build long-term relationships, disclose producersâ€"make a point of emphasizing that fact, and are relatively transparent. Companies that don't are more guarded. (When in doubt, doubt.)

As for those who feel especially strongly about the issue and kick up a (peaceful) fuss about sweatshops, I think they're doing a valuable thing. Even when they take actions that are sometimes off-baseâ€"such as continuing to boycott Nike when its competitors are the bigger problemâ€"the effect is still, overall, good: it scares businesses into taking compliance more seriously. Boycotts, protests, letters to Congress, saber-rattling lawmakers, media exposesâ€"they do have an impact. And just imagine if members of Congress or the executive branch made an effort to praise or shame companies for their records with foreign suppliers and to encourage transparent monitoring in the private sector. I suspect it would do more for international labor standards in months than the most intricate trade agreements could do in years.

I don't pretend that everything monitoring brings about is for the best. An example: Mattel's factories in China are superb, but workers there often earn less than their peers in shadier factories because their employers confine them to shorter workweeks to avoid paying overtime. Another: You may rightly hate the idea of child labor, but firing a fourteen-year-old in Indonesia from a factory job because she is fourteen does nothing but deprive her of income she is understandably desperate to keep. (She'll find worse work elsewhere, most likely, or simply go hungry.) A third: Small village factories may break the rules, but they often operate in a humane and basically sensible way, and I didn't enjoy lecturing their owners about the necessity of American-style time cards and fifteen-minute breaks. But labor standards anywhere have a tendency to create such problems. They're enacted in the hope that the good outweighs the bad.

One final thought: If you're like me, part of you feels that Peru's labor standards are basically Peru's business. It's our job to worry about standards here at home. But that sort of thinking doesn't work well in an era of globalization. We are, like it or not, profoundly affected by the labor standards of our trading partners. If their standards are low, they exert a downward pressure on our own. That's why monitoring and enforcement have such an important role to play. We don't expect developing nations to match us in what their workers earn. (A few dollars a day is a fortune in many nations.) But when a Chinese factory saves money by making its employees breathe hazardous fumes and, by doing so, closes down a U.S. factory that spends money on proper ventilation and masks, that's wrong. It's wrong by any measure. And that's what we can do something about if we try. It's the challenge we face as the walls come down, the dolls, pajamas, and televisions come in, and, increasingly, the future of our workers here is tied to that of workers who are oceans away.

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