

Ethical threads: Corporate social responsibility in the Australian garment industry



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The Brotherhood of St Laurence (BSL) sees decent, sustainable employment as an important means of reducing social exclusion and disadvantage, providing significant economic benefits to individuals and the broader community. Their own social enterprises have both international and local supply chains where BSL is committed to ensuring that workers are not exploited. However, BSL understand the complexities of ethical supply chain management, and have identified a need for more discussion among the stakeholders about how garment sourcing can be improved.

As part of developing an understanding of ethical supply chain management BSL researchers spoke to 37 organisations—23 companies and 14 industry stakeholders, including business organisations, labour rights organisations and government employees—and 13 outworkers in two focus groups. Overall, this research found the Australian garment industry slow to embrace both mandatory and voluntary mechanisms to protect workers in international and local manufacturing supply chains.

The Australian garment industry

Due to industry restructuring and tariff reductions, the Australian garment industry is no longer vertically integrated, resulting in complex manufacturing supply chains and much outsourcing. With garment production being very labour-intensive, cut-make-trim processes have moved to competitive locations where labour is plentiful and inexpensive. Consequently, many companies have little knowledge of the labour rights issues in their supply chains, with some considering these labour rights to be the responsibility of their suppliers.

According to the Council of Textile and Fashion Industries of Australia (TFIA), clothing and textile sales are worth \$9 billion each year, and the industry accounts for 10 percent of manufacturing establishments in Australia. However, as tariffs move from 55 percent in 1989–90 towards government targets of 5 percent in 2015, Australia has followed worldwide trends of off-shoring and outsourcing. Up to 50 percent of clothes now sold in Australia are manufactured overseas, mainly in low-wage countries. Outsourcing reduces companies' workforces, allows greater production flexibility, and weakens the capacity of businesses, unions and NGOs to monitor labour rights.

It is difficult to ascertain the number of outworkers in Australia, as data is both varied and out of date. Labour rights organisations interviewed indicated that these discrepancies are most likely due to the informal and hidden nature of the work, the reticence of workers to be identified, the outworkers' limited English, and the practice of extended family helping to meet deadlines.

Moving to offshore manufacturing had resulted in industry fragmentation and factory closures in Australia. Respondents repeatedly described a loss of local manufacturing capability and technology, and a shortage of skilled workers. Large and medium companies interviewed commented that it was getting harder to find contractors who could produce goods of equal quality to those manufactured overseas.

Respondents were concerned about sourcing trims and fabrics; producing certain garments, such as fully fashioned knits and shirts, in Australia; and the capacity of local manufacturers to work with some fabrics. Company representatives also spoke of the shortage of skilled patternmakers and sample machinists in Australia and felt that government and educational institutions were not addressing this deficit. Most of the business and government stakeholders and some company representatives believed that garment companies could only survive if they could capture a niche market (for example specialist workwear).

According to one government official "it's a bit naïve quite frankly to say, 'Look, we'll do all the brain power, the design work, and nothing else'... you need those different layers of support underneath the so-called brain power—the sample machinists, patternmakers and skilled manufacturers".

Keeping a manufacturing base in Australia

The majority of respondents stated a need to maintain manufacturing capability in Australia. Eighteen companies in the study were manufacturing in Australia; only five of the participating companies had moved all their production to low-wage countries. Most small company respondents said that they did not have the economies of scale to source overseas, and some medium companies only sourced offshore if they were producing enough garments to meet overseas quotas, but otherwise had garments locally produced.

Overall, 27 industry respondents stated that for Australia to foster an innovative design industry, small and independent labels needed access to manufacturers willing to produce small runs. Respondents from designer label companies also saw advantages in

manufacturing onshore, enabling their designers to work more closely with the production process to ensure quality. Two major Australian retail brands with concept stores in large shopping centres indicated that being Australian-made was part of their branding strategy. By manufacturing in Australia, they could minimise risk from changing fashion trends and weather patterns.

Manufacturing offshore

Companies interviewed identified the pressure from cheap imports from low-wage countries, compared with the cost of goods made in Australia, as one of the main reasons for manufacturing offshore. Many companies and business stakeholders felt it was difficult to 'grow your business' unless they moved at least some manufacturing offshore. Fifteen of the participating companies were sourcing overseas, mainly in China (13 companies) and India (6). Although they gave cost as the major reason, many companies' representatives indicated that foreign investment in countries like China and India had resulted in factories with state-of-the-art technology and highly skilled workforces.

They consistently commented on greater choice and better production quality overseas. Respondents from large companies said there was a greater capacity to produce volume, and access to markets in US and Europe was logistically easier from China than Australia. By engaging sourcing agents in the region, they could access trims, fabric, factories, logistics solutions, quality control, and social and environmental auditing. By contrast, industry fragmentation in Australia meant that they needed access to different suppliers for each component.

Working conditions: perceptions and realities

An overwhelming finding in this research is the lack of awareness of, and in some cases the lack of a feeling of responsibility for, the difficult working conditions faced by many garment workers in Australia and overseas. Company perceptions were formed without consultation with workers and, with the exception of a few larger companies, without a process to monitor and evaluate factory conditions. There was also a strong view that 'sweatshops' existed but not in their production chains.

Conditions in Australia

Garment manufacturing in Australia is predominantly structured around outsourcing, with sewing commonly performed by outworkers — mainly migrant women with low English proficiency. Over the past decade, state and federal inquiries have consistently found that

outworkers receive payment and conditions significantly lower than their award and statutory entitlements.

Outworkers interviewed for this research indicated that conditions had worsened in the last five years. A shortage of work had left them with very little bargaining power with contractors. One group said they were paid \$2.50 for a detailed shirt which took one hour to sew. Another group said they were paid between \$2 and \$3 an hour. When asked about hours worked, most indicated that they often went weeks without a job but when the work was available they worked long hours. “If we work eight hours a day, five days a week, we would only earn \$100 so it is not enough. It’s impossible to work less hours and earn the same as workers in the factory.”

These outworkers also said that compared with ten years ago, companies increasingly demanded quicker turnaround times. The scarcity of work and precarious nature of employment leave outworkers with little choice but to accept the job. “If you want the job, you try more hard. You can’t sleep, you work all day. You can’t do anything for your children.”

Despite the poor conditions for Australian outworkers, when asked about Australian conditions for workers in cut-make-trim processes, most company representatives did not identify poor conditions in their supply chains. Of the 23 interviewed, 14 thought conditions were good, four indicated that they varied and four companies expressed concern. The other company and two business organisations queried whether conditions were as bad as labour rights organisations claimed.

Even though outworkers account for 40 percent of total employment in the textile clothing and footwear sector, company representatives’ views of working conditions were often based on their direct contractors’ workplaces and did not include those further down the supply chain. Most company representatives were aware that outworkers were employed in their production chains, but only five large company and sportswear representatives gathered information about the outworkers’ employment conditions, many other respondents stating that this was their contractors’ responsibility. Only two had ever met an outworker or been to an outworker’s residence.

A number of business organisations and company respondents felt that outworkers were happy with flexible working arrangements that allowed mothers to work from home and be

with their children. Outworkers interviewed did state that an advantage of working from home was caring for their families. However, most said they would prefer not to work at home because conditions were poor; “When I first arrived I didn’t speak any English and I have young children, so it is almost impossible to find other work ... If I could choose I would rather to work outside home so I could learn things, experience more things and become more confident”.

Conditions in low-wage countries

The vulnerability of garment workers is not confined to Australia. Garment workers in low-wage countries work long hours at high speed, frequently with wages and conditions that do not comply with their own labour laws. Many such workers are located in countries like China that do not allow freedom of association, or in factories that actively discourage trade unions. Most company representatives interviewed had a limited understanding of conditions in their international contracting chains, and based impressions on personal opinion and brief factory visits, rather than formal monitoring. The exceptions were the six companies which had developed CSR processes for their international sourcing.

Respondents from medium-sized companies were inclined to view conditions in their offshore factories as good. Larger company representatives were more likely to comment on the huge variability of conditions overseas, admitting that sweatshop conditions did exist. However, representatives from companies with auditing processes felt that suppliers’ factory conditions were good, and were confident that breaches of their code were quickly rectified.

Most of the 15 representatives of companies sourcing overseas had visited the factories where their garments were produced. Those who had not were most likely ordering ‘off the rack’ garments they had not designed, from catalogues or trade shows. As in the Australian context, company respondents generally commented on the physical environment in which workers were employed; “From first sight it is clean, organised, efficient and streamlined”; rather than the actual working conditions.

Four companies and two business organisations surmised that because factories in China were often newer and more technologically advanced, and workers were employed in factories, conditions would be better than for outworkers in Australia. However, the condition of living quarters for migrant workers in China was an area of concern for several respondents who had visited Chinese dormitories. Of the nine company representatives, four were positive about the food, amount of space, access to hot water, and entertainment

provided; but the others commented that conditions were crowded, lacking light and ventilation. Two company representatives indicated that even though dormitory conditions were not good, they met SA8000 certification and their own auditors' criteria.

Several respondents considered it inappropriate to impose 'western standards' on countries such as China, with different cultural values and 'stages of development', and rejected the idea of universal labour laws. One person explained "They're getting paid, they've got good jobs, and they're sending the money to their family who couldn't eat off the land".

Australian law and regulation

Companies manufacturing in Australia are governed by a regulatory framework covering both factory workers and outworkers. However this framework does not address companies' responsibilities to overseas workers involved in garment production.

However, the non-compliance with award wages and conditions is widespread and considered the 'norm'. Just over a third of the company representatives interviewed knew of their legal obligation to register with either the state or federal board of reference. Both government and business organisation respondents commented that a lack of knowledge often resulted in bad industrial practice. "The difficulty for the companies is really lack of knowledge about how they can actually fix the problem and lack of will to do it, because really their priority is competing in the market."

None of the small company representatives was aware of the need to be award-compliant. Yet two believed they had ethical supply chain processes. One company advertised via swing tags that they were 'sweatshop-free'. However, discussion revealed this was based on producing in Australia and having a good relationship with their manufacturer: "I visit the manufacturer and judge for myself".

All the small and medium companies' respondents felt they lacked the organisational capacity to manage such complex legislation, and that there was nowhere to get advice and information. Interviewees from both companies and labour rights organisations felt that the government and educational institutions teaching fashion design and business were not doing enough to educate the industry, and that government was not providing adequate support for companies to adhere to the regulatory framework. Two business organisations with membership across multiple industries confirmed that, given the shrinking garment sector, they could not give priority to tracking changes in its regulatory and voluntary

frameworks. Furthermore, small businesses were often not members of industry organisations, relying on their accountants to advise on regulation. There was also a strong view from business that the tough regulatory environment and the prosecution process were resulting in companies moving their production offshore.

Voluntary codes in Australia

Companies manufacturing in Australia can demonstrate their commitment to fair and decent working conditions by signing the Homeworkers Code of Practice (HWCP). Fifteen company respondents were aware of the HWCP. Only three companies had signed Part 2 of the HWCP and just two others were considering signing in the next 12 months. Many interviewees seemed confused about the difference between the award requirement to register with the board of reference and the voluntary commitment of signing the code. Generally, business organisation and company impressions of the code were not favourable. They did not consider it a multi-stakeholder initiative that promoted best practice, and felt there was little support for it within the sector.

Corporate social responsibility

Although labour laws exist in most low-wage countries (including China), enforcement is patchy. In the absence of binding international law, workers producing garments for global networks lack protection from exploitation. In this context there is a need for companies to recognise their social obligations regarding international supply chains. Corporate social responsibility (CSR) is a concept whereby companies voluntarily integrate social and environmental and governance practices into their business operations.

Internationally there is considerable debate as to whether voluntary CSR mechanisms benefit workers in a company's supply chain. The debate was reflected in respondents' views: overwhelmingly, business organisations and companies felt that voluntary approaches were the way forward. By contrast, the labour rights advocates believed that voluntary mechanisms were useful; but to 'have teeth' they need to be underpinned by both national and international law.

In any case, it is increasingly apparent that Australia is lagging behind Europe and the US in developing a regulatory CSR framework for international supply chains. In the EU, there have been changes to the Companies Bill in the UK and a resolution by the European Parliament entitled 'Corporate social responsibility: a new partnership', which both require corporations to monitor and report on their performance in respect to human and worker rights and the

environment. In the US, the Decent Working Conditions and Fair Competition Act was introduced: if passed, this would prohibit the import, export and sale of goods made with sweatshop labour.

Australia has no such requirements. Recently the Australian Government conducted two inquiries into mandatory corporate responsibility; both inquiries recommended voluntary mechanisms, rejecting calls to introduce mandatory regulation that would increase directors' duties to ensure the interests of stakeholders other than shareholders are considered and require social and environmental reporting.

Australia's lack of mandatory regulation poses a potential threat to its export markets. Australian companies can expect more US and EU retailers to require them to report on social and environmental performance. They could be disadvantaged in international trade through not addressing these issues in their supply chains. One positive commitment the Australian Government has made to encourage CSR is the adoption of the OECD Guidelines for Multinational Enterprises. Although the guidelines are non-binding, they prescribe a role for government to ensure that they are respected wherever a company does business. Unfortunately, apart from the labour rights organisations, only four companies, one business organisation, and one bureaucrat were aware of the guidelines.

Attitudes to CSR

Six of the seven large companies interviewed had developed a voluntary CSR strategy to monitor conditions overseas. Companies which had CSR strategies were those with greater organisational capability, or those perceiving greatest risk through inaction. Most organisations interviewed identified an in-principle responsibility to ensure fair and decent working conditions because it was morally right, contributed to good business practice and assisted with risk management.

Despite this, only half of the company respondents said their company had adopted strategies to promote ethical conduct, and only a few identified working conditions as a criterion for selecting manufacturers. With the exception of companies producing in excess of one million units annually, most representatives felt that their companies lacked the capacity to implement an ethical supply chain process. Asked about the international trends in CSR, most smaller company representatives could not see opportunities or benefits from developing such a process. The study found that apart from some larger companies, the

garment sector in Australia showed little understanding, engagement, implementation, or reporting in relation to CSR.

Codes of conduct

In line with international trends, the CSR mechanism most commonly adopted by larger companies was a code of conduct. Five large company representatives indicated that they had a code of conduct; and one medium-sized sportswear company, a licensee for a large brand, was required to refer to its parent company's code. Representatives of labour rights organisations we spoke to felt that, in the absence of a regulatory framework, individual company codes were useful internally but not across supply chains. However, to have an impact on labour conditions both in Australia and overseas, there needed to be skilled labour rights practitioners auditing and advising on the development and implementation of codes.

This research found that all but one respondent company with CSR strategies had developed and implemented their codes without involvement from process workers, suppliers, unions, or NGOs. Studies of code content have overwhelmingly stated that CSR mechanisms developed through multi-stakeholder initiatives are far more comprehensive than those developed unilaterally or through business associations or employer initiatives. Company representatives explained that their codes were produced internally or through consultation with a private company with expertise in inspection, verification and certification. Most stated, however, that they had also referred to intergovernmental standards and multi-stakeholder initiatives. No company had a committee with external stakeholders to advise on their ethical procurement strategies.

Another issue was how codes were communicated to workers in their supply chain. Most companies indicated that, as part of their monitoring process, they interviewed workers in private about conditions; and companies had their codes translated and distributed to workers. Two companies had a hotline that employees could anonymously call to report breaches of the code; however, it was unclear whether this service was available to workers in their contracting chains. No company representative mentioned any in-factory training about code requirements.

A case for change

One of the most positive outcomes of this research is that nearly all participants affirmed the need for a new model for dealing with labour rights in Australian garment industry local and international supply chains. This would require a sectoral approach supported by reliable data, and designed to foster trust between labour rights organisations, workers, and companies.

Respondents also stated that government needs to be more actively involved in promoting and monitoring both voluntary and regulatory frameworks in Australia, and in assisting companies in meeting their regulatory obligations by providing training and information. Communication strategies should be tailored to suit a creative industry largely consisting of small to medium enterprises. Industry events such as fashion weeks and trade fairs should be targeted, and educational institutions should prepare graduates to understand not only technical, design and business skills, but also labour rights in the industry and its global context. Government should support a strong CSR framework, to ensure companies can compete in the global marketplace, attract investment and create decent employment.

Larger companies and business organisation representatives indicated that CSR strategies needed to recognise Australia as a small player in the international market. Small and medium company respondents believed that large companies could play a stronger role in mentoring about CSR frameworks. Labour rights organisations, companies and some business organisations indicated that industry associations and peak bodies should be more involved in educating companies and understanding CSR. Smaller companies and some business organisations believed the present agenda was driven by union and labour rights campaigners through prosecution processes and 'name and shame campaigns'. There was a general view that no satisfactory mechanism for multistakeholder dialogue exists.

Outworkers wanted to be able to talk directly to companies about their situation. They also commented that companies needed to ensure adequate timeframes and price per unit. To ensure a viable industry in Australia, initiatives are needed that encourage greater collaboration between manufacturers, outworkers and small fashion enterprises. These might include a production centre catering to the needs of small labels, employing outworkers and offering training.

In concluding the study a number of recommendations were made, these are available directly from the BSL, who can also provide readers with further information on the study.

About the authors

Serena Lillywhite is Manager – Sustainable Business at BSL. Serena is an active corporate responsibility practitioner, researcher and advocate. She has expertise and experience in responsible supply chain management, labour and human rights in China, and issues facing home based outworkers in the textile sector in Australia. Serena works in international policy and practice, particularly the OECD Guidelines for Multinational Enterprises. She is the Australian representative on the OECD Watch Coordinating Committee, and is a regular speaker at the OECD Investment Committee and other international CSR and human rights platforms.

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To read the original research, which includes references and extensive recommendations in the following areas: Keeping pace with global trends Improving CSR practices Assisting outworkers and small to medium enterprises, improving the Australian regulatory environment, ethical purchasing, stakeholder influence and capacity building. Visit the website. www.bsl.org.au or contact the authors on 03 9483 1380.



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Enquiries

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