

# Verité: Auditing Labor Standards

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## ABSTRACT

Verité is an international non-profit consulting organization specializing in training, social auditing and research. The organization's mission is, "to ensure that people worldwide work under safe, fair and legal working conditions." As one of the most respected third-party monitors of labor standards, Verité has adopted a worker-centered approach to auditing and servers as a consultant to clients (rather than a certifier), providing recommendations for improvement and remediation. Verité has gained credibility by auditing to both their own comprehensive labor standards model and to private Codes of Conduct. Despite many internal organizational strengths and external recognition, full confidence cannot be given to Verité as an independent monitor due to the confidentiality of all reports and a lack of diversified revenue.

\* The author would like to thank Miriam Swaffer, Suppliers Program Administrator of Verité for an extensive interview on Verité's work.

\*\* Any publication of information in this report (outside coursework at IR/PS) should be confirmed with Verité

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## Table of Contents

<b>I. The Corporate Social Responsibility Problem: Labor Rights .....</b>	<b>2</b>
<b>II. Overview Of Verité.....</b>	<b>4</b>
<i>A. History.....</i>	<i>4</i>
<i>B. Structure and Mission.....</i>	<i>4</i>
<i>C. Funding and Revenue.....</i>	<i>6</i>
<i>D. Programs and Services.....</i>	<i>9</i>
<b>III. Verité's Monitoring Services.....</b>	<b>11</b>
<i>A. The Monitoring Standard.....</i>	<i>11</i>
<i>B. The Monitoring Process.....</i>	<i>12</i>
<b>IV. Verité's Client Portfolio.....</b>	<b>15</b>
<b>V. Analysis: Progress and Areas for Concern .....</b>	<b>18</b>
<i>A. Program Revenue &amp; Funding.....</i>	<i>18</i>
<i>B. Confidentiality.....</i>	<i>20</i>
<b>VI. Conclusions .....</b>	<b>23</b>
<b>VII. Suggested Items for Further research .....</b>	<b>25</b>
<b>VIII. Discussion Questions.....</b>	<b>26</b>
<b>IX. Appendix.....</b>	<b>27</b>

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**I. The Corporate Social Responsibility Problem: Labor Rights**

Labor rights and the nature of the relationship between workers and employers have been issues of contention throughout history. In the recent era of globalization and the inception of codified human rights in international and domestic laws, corporations face new challenges to ensure that they respect and enforce the rights of their workers within decentralized industrial supply chains.

The International Labour Organization's Governing body identified the fundamental rights of workers to include: "freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labor; the effective abolition of child labor; and the elimination of discrimination in respect of employment."<sup>1</sup>

National labor laws also recognize additional rights of workers including a minimum/decent wage, a maximum hourly workweek, and health and safety standards in the workplace.

Manufacturing industries now face increased scrutiny over respect for these basic rights, especially as factories move to countries where federal labor standards are not adequately enforced. In the absence of effective law enforcement, third party organizations are monitoring the behavior of firms based on private standards (Codes of Conduct) created by companies themselves or nongovernmental organizations. Verité is one of the leading third-party organizations and has developed a world-known worker-center approach to monitoring compliance with labor standards.

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<sup>1</sup>International Labour Organization. International Labor Standards: Conventions and Recommendations. 15 April 2005. <<http://www.ilo.org/public/english/standards/norm/introduction/what.htm>>

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## **II. Overview of Verité**

### *A. History*

Heather White founded Verité in 1995 as a nonprofit consulting firm promoting fair labor conditions for factory workers. Prior to forming Verité, Ms. White worked for fifteen years as a sourcing agent and consultant for U.S. firms doing business in China. She holds a B.A. in East Asian Studies from Harvard and an M.S. in International Political Economy M.I.T. Ms. White's concern about the increase in child labor and deaths in factory fires led her to create Verité as a model for finding solutions to eliminate exploitative labor practices. She served as Executive Director of the organization from 1995 – 2004<sup>2</sup>.

### *B. Structure and Mission*

Verité is headquartered in Amherst, Massachusetts, with regional offices in China (Shenzhen), the Philippines (Manila), Bolivia (La Paz) and India (New Delhi). The organization directly employs approximately 30 staff and also partners with nongovernmental organizations (NGOs) abroad to conduct audits, research and training sessions. Verité's mission is “to ensure that people worldwide work under safe, fair and legal working conditions.” In order to implement this mission, Verité has “pioneered” a new model of working directly with companies and local NGOs to address human rights and labor rights abuses. Verité auditors have completed over 1,300 comprehensive factory evaluations in 65 countries and the organization has experience in industry sectors including apparel, footwear, agriculture, food processing, electronics, printing, toys and call/support centers.<sup>3</sup>

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<sup>2</sup>Dahle, Cheryl. “25 Entrepreneurs Who are Changing the World.” 2005 Fast Company. <<http://www.fastcompany.com/social/2005/profiles/Verité.html>>

<sup>3</sup>Verité. Verité Fact Sheet. <<http://www.verite.org/>>

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On the Verité website the organization is described as “an independent, **non-profit** social auditing and research **organization**.” Their 2008 Program Catalog gives a similar, yet adjusted description of the organization as, “an international non-profit **consulting organization** specializing in training, social auditing and research.” This second definition depicts Verité's role as a consulting organization and also places training before social auditing. The second appears to capture accurately Verité's consulting role with clients, as opposed to a certification role.

The Board of Directors for Verité consists of seven members who appear to have dynamic and diversified skill sets in addition to experience in corporate social responsibility. Many have backgrounds in financial management, legal advising, marketing and labor rights. David Levi is the current President of the Board with a background in venture capital funds. He recently founded GrowthWorks Capital which manages capital funds across Canada. Another member of the Board, Doug Cahn, is the principal of The Cahn Group, a corporate social responsibility consulting firm. He formerly served as Vice-President of the human rights program at Reebok International and was a founding Board member of the Fair Labor Association. Roy Jones is involved in consulting for investors and previously worked as Senior Trade Union Advisor for the Organization for Economic Cooperation and Development. Mara Manus is the Executive Director of the Public Theater of Manhattan with a background in development at the Ford Foundation and in film production. Miranda Magagnini is the Co-CEO of Icestone, an environmentally-responsible company manufacturing surface materials. Liddy Manson is COO of Freewebs and has a background in sales, marketing and human resources. Richard Perl is the President of Pacific Partners International Investments Inc with experience in business and legal

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fields. He is the founder of a Social Venture Network and Threshold Foundation<sup>4</sup>. Based on this information, no member of the Board appears to present any significant conflict of interest in Verité's governance and moreover Board members possess a variety of complementary and useful skill sets.

Dan Viederman is the current Executive Director of Verité and formerly served as Verité's Director of Research and Training until 2004. Mr. Viederman has a background in socially responsible investment funds and was previously CEO of the China Program for the World Wildlife Fund. He also served as the China Country Director for Catholic Relief Services and speaks fluent Mandarin<sup>5</sup>. His experience in China with international organizations lends credibility to his leadership of Verité, especially as they focus monitoring efforts on labor standards in China - one of world's worst violators of labor standards. Additionally, Verité's relatively small staff appears to be well qualified and most members have extensive backgrounds in labor rights or nonprofit management.<sup>6</sup>

*C. Funding and Revenue*

Verité is funded through a combination of fee-for-service programs, grants from foundations and government agencies, donations from individuals and interest income. Annual reports and financial information are not available on Verité's website, however information can be found from their 990 tax forms from 2003 – 2006. Based on this data, Verité's total revenue in 2006

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<sup>4</sup>Verité. Verité Board of Directors and Advisors. <<http://www.Verité.org/aboutus/board.html>>

<sup>5</sup>Association for Sustainable and Responsible Investment in China. Dan Viederman <<http://www.asria.org/events/singapore/april02/speakers/DanV>>

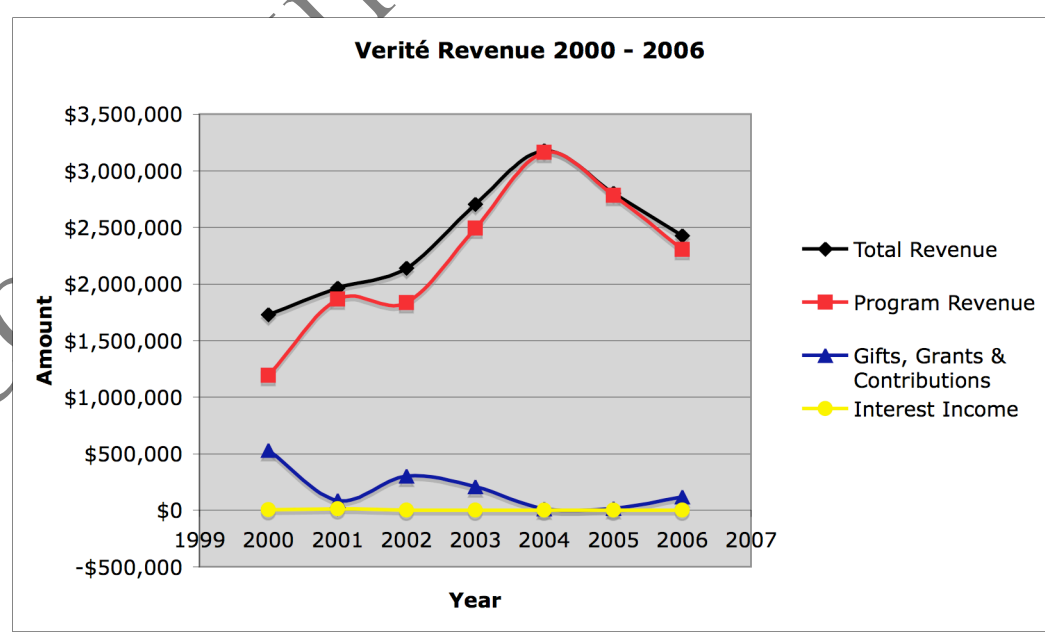
<sup>6</sup>Verité. Verité Senior Management Team. <<http://Verité.org/aboutus/managementstaff.html>>

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was \$2,425,871 – a drop from their 2004 revenue of \$3,178,979. The following table and graph show the breakdown between revenue from program fees, interest income, and gifts, grants and contributions.

**Verité's Revenue Breakdown 2000 - 2006**

<b>Year</b>	<b>Total Revenue</b>	<b>Program Revenue</b>	<b>Gifts, Grants &amp; Contributions</b>	<b>Interest Income</b>
<b>2000</b>	<b>\$1,728,171</b>	\$1,191,772	\$529,658	\$6,741
<b>2001</b>	<b>\$1,963,871</b>	\$1,865,139	\$87,010	\$11,722
<b>2002</b>	<b>\$2,142,501</b>	\$1,835,358	\$304,956	\$2,187
<b>2003</b>	<b>\$2,704,259</b>	\$2,493,977	\$209,472	\$810
<b>2004</b>	<b>\$3,178,979</b>	\$3,162,663	\$15,075	\$1,241
<b>2005</b>	<b>\$2,801,547</b>	\$2,781,610	\$18,323	\$1,614
<b>2006</b>	<b>\$2,425,871</b>	\$2,304,368	\$120,860	\$643



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As shown above, approximately 95% of Verité's income in 2006 was from program revenue – the fees assessed to clients for their services. This lack of equality between fee-for service program vs. grants and contributions appears to call into question a statement made in 2004 by Ms. Allison Devore, Verité's Director of Development, that, "we've diversified our funding to remain independent and objective as a nonprofit organization with a balanced revenue stream from individuals, government, foundations, and corporations, both as clients and as sponsors."<sup>7</sup> On one hand, it is positive that Verité is a self-sustaining nonprofit, who is not driven by the agenda of grant-makers. In fact, nonprofit organizations in the United States receive an average of 70% of income from fees for services and goods sold.<sup>8</sup> On the other hand, reliance on funding from clients who include powerful multi-national corporations could create an incentive system for Verité to attract clients by any necessary means. This financial dilemma will be later discussed.

Verité's 990 forms also show that a fundraiser was hired in 2004, which likely accounts for an increase in contributions from 0.65% of income in 2005 to approximately 5% in 2006. It also should be noted that Verité received the prestigious Skoll Foundation Award for Social Entrepreneurs in March of 2007. The Skoll Foundation will award Verité \$1,015,000 over three years to "strengthen partnerships with NGOs in dozens of countries and will train 1,500 practitioners to replicate its model by the end of 2009."<sup>9</sup> This award will yield a dramatic

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<sup>7</sup>Baue, William. "Gap-Verité Collaboration Exemplifies Award-Winning Practice on Social Responsibility." The Institutional Shareowner. 2 December 2004.

<<http://www.institutionalshareowner.com/news/article.cgi?sfArticleId=1581>>

<sup>8</sup> Lenkowsky, Leslie. "How Are Nonprofit Finances Changing? New Data Make it Hard to Tell." *The Chronicle of Philanthropy*. 9 November 2006.

<sup>9</sup>The Skoll Foundation. "Ten Innovative Social Entrepreneurs Receive Million-Dollar Awards from the Skoll



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increase in Verité's revenue from grants, gifts and donations in future years.

Prices for Verité services are also not available online, but were given to the author by Verité in their Monitoring and Supplier Assessment Services Pricing for 2007. The pricing guide provides estimates for Verité's services such as Risk Assessments, Social Compliance auditing, Remediation Check-ups, Re-audits and Worker Interviewer Packages. Verité's social compliance audit is estimated to cost between \$3,750 - \$5,710, depending on factory size and other variables. These prices appear to be fairly affordable, especially in comparison to organizations such as Social Accountability International or private auditing companies whose auditing services may cost over \$20,000. See Appendix A for Verité's Monitoring Pricing Matrix.

*D. Programs and Services*

Verité's programs and services reflect their belief that monitoring and policing alone will not lead to lasting protections for workers unless the underlying factors causing abuses are addressed. Thus, Verité offers monitoring, training, research and consultative services that strive to improve respect for labor standards through assisting and partnering with clients. As the focus of this paper, monitoring services will be discussed in detail.

Verité offers training services for all the various actors in the production process including companies, buying agents, investors, factory managers and workers. Examples include Supplier-based Trainings on performance improvement planning and productivity training, Corporate

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Trainings on supply chain risks, ethical sourcing options and internal auditor training and Worker Education and Community Enterprise on practical life skills and basic knowledge of legal protection, health and safety, and wage calculation. Past clients have included Levi Strauss, the Gap and Hewlett-Packard<sup>10</sup>

Research is another key product from Verité. The organization's Policy and Research Department explores issues of global sourcing, and has analyzed conditions worldwide making specific recommendations for changes in law, policy and investment behavior. Verité has undertaken over 30 labor rights policy interventions and detailed studies on overtime in China, the information technology sector in China and women's rights in Taiwan. One of Verité's most notable research projects was a quantitative evaluation of country compliance with core labor standards for the California Public Employees Retirement System (CalPERS) in 2002. Verité ranked 27 emerging market countries based on 42 indicators of labor standards compliance.<sup>11</sup> Based on the report's findings, CalPERS announced the withdrawal of its investments in four Asian countries because of labor rights violations. The groundbreaking report was well-received, leading one researcher to comment that, "Verité has carved out an important niche in the labor rights monitoring field, and its work should certainly be considered in constructing a new (labor) compliance measurement system."<sup>12</sup>

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<sup>10</sup>Verité. Verité Training and Education Programs. <<http://Verité.org/services/trainings.html>>

<sup>11</sup>Verité. Policy Research and Advocacy. <<http://www.Verité.org/research/main.html>>

<sup>12</sup> Compa, Lance. "Assessing Assessments: A Survey of Efforts to Measure Countries' Compliance with Freedom of Association Standards." *Comparative Labor Law & Policy Journal* 24: 283-320.

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### **III. Verité's Monitoring Services**

#### *A. The Monitoring Standard*

Verité's monitoring standard model is well respected for its high quality. The Verité model is based upon key principles from the Occupational Safety and Health Administration, the International Labor Organization and the Universal Declaration of Human Rights and other international human rights standards. The following topics are evaluated and covered in Verité's monitoring standard.

- Forced labor, child labor and contract labor
- Worker awareness of code of conduct
- Harassment, abuse and discrimination
- Freedom of Association
- Freedom of Movement
- Grievance procedures
- Discipline and Termination
- Fair Wages and Compensation for Regular and Overtime hours
- Production Quotas
- Health and Safety
- Medical Care
- Sanitation and Maintenance
- Safety in all working conditions including Machines, Hazards, Chemical safety and Dormitories

Their model claims to meet the requirements of other standards such as the Electronic Industry Code of Conduct (EICC), the Ethical Trading Institute, the Fair Labor Association, Social Accountability International's SA8000, the Suppliers Ethical Data Exchange (Sedex), and the

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Sedex Ethical Trading Audit (SMETA).<sup>13</sup>

*B. The Monitoring Process*

Verité's monitoring approach is consistently known for being "Worker-Centered." The central element of Verité's monitoring process is worker interviews, based on the belief that worker information is the only way to understand the actual conditions on the factory floor. According to Dan Viederman, "Companies can not know what is going in their supply chain regarding wages, freedom of association and harassment and abuse unless they talk to workers."<sup>14</sup>

Confidential worker interviews are a primary component of audits and approximately 50% of data to confirm a code of conduct must come from worker discussions in Verité's final analysis of a factory.<sup>15</sup>

A typical monitoring team will be comprised of a lead auditor, a specialty auditor for that industry and one to three worker interviewers. Worker interviewers attempt to speak with workers the night before an audit begins and conduct interviews both on and off-site. Verité's final report notes not only worker comments, but also the emotional state of workers – whether they seemed coached, cautious or afraid when answering questions. Any interference during worker interviews or reported threats of retribution for talking to interviewers is also reported. Auditors meet with client management teams, tour the factory to evaluate safety standards and secure all necessary documents for the audit. All information collected during audits is sent to

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<sup>13</sup>Verité. Verité Programs 2008.

<sup>14</sup>Interview with Dan Viederman. Markkula center for Applied Ethics, Santa Clara University: Kirk Hanson Interviews Dan Viederman of Verité on CSR . Available at: <<http://deimos.apple.com/WebObjects/Core.woa/FeedEnclosure/scu.edu.1166739554.01183551631.1312228521/enlosure.mp3>>

<sup>15</sup>Verité. Verité Social and Environmental Monitoring Program. <<http://Verité.org/services/main.html>>

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Verité's headquarters in Amherst, where their Quality Assurance division triangulates all information to find any inconsistencies between documents, management interviews and worker interviews on all aspects of Verité's standard.<sup>16</sup>

Auditors are not formal Verité employees, however they are considered “permanent consultants” in a long-term relationship with Verité. Auditors are almost always native to the area/country of the audit, which adds credibility to their monitoring role through their understanding of cultural practices and geographic specialization. All auditors are trained through Verité's internal auditing standard, which has recently expanded to open the RAISE Institute for training auditors world-wide.<sup>17</sup> Due to Verité's long-standing training programs, it can be fairly certain that their auditors are well qualified.

Verité always monitors to their internal standard model as described above, but can also audit against a particular client's Code of Conduct or to national labor laws. Violations of a specific Code of Conduct will be color-coded in the report delivered to clients. Reports also note when country labor laws are violated.<sup>18</sup>

Follow-up after the audit is done primarily through reports issued once all information is reviewed, verified, and triangulated at Verité's Amherst office. Initial notification is given to factories for severe violations, followed by a 7-day preliminary report giving an overview of

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<sup>16</sup>Swaffer Interview

<sup>17</sup>RAISE Institute. <<http://www.raiseinstitute.org/index.htm>>

<sup>18</sup>Swaffer Interview.

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initial findings. Within approximately 20 days, clients receive a Comprehensive Audit Report which details all findings and recommendations. A Corrective Action Report is also compiled which lists key recommendations that should be taken. Reports are carefully redacted to remove all worker sensitive information.<sup>19</sup>

A key aspect of Verité's monitoring is Confidentiality – which is a defining characteristic of Verité's role as a consultant as opposed to an independent certifier. Verité has confidentiality agreements with all clients that prohibit Verité from sharing their findings with any party. Verité does not publish a list of companies they have audited, citing the fact that conditions can change rapidly at factories.<sup>20</sup> In some cases, clients do choose to make their reports public. This may be done in order to differentiate a factory's high labor standards, or when monitoring occurs following a scandal of exposed factory violations. While Verité supports disclosure in reporting, they leave the choice to the client. Many clients choose never to disclose their reports especially in high-risk situations.<sup>21</sup>

Verité also establishes partnerships with local NGOs in areas where they conduct audits. Auditors often come from this pool of collaborators and Verité can provide training to not only to their auditors, but to local organizations that can help train workers on their rights. Partnerships with local organizations also helps Verité understand current issues in the community affecting labor rights, and provides a small level of oversight on their work as well.<sup>22</sup> (However it may be difficult to understand this level of oversight if reports are confidential.)

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<sup>19</sup>Swaffer Interview.

<sup>20</sup>Co-op America. Sweat-free and Fair Trade Products: Verification and labeling systems.  
<<http://www.coopamerica.org/programs/sweatshops/sweatfreeproducts.cfm>>

<sup>21</sup>Swaffer Interview.

<sup>22</sup>*Ibid*

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#### **IV. Verité's Client Portfolio**

Verité offers services to corporations, NGOs, investors and governments worldwide. Examples of Verité's corporate clients are Gap Inc., Levi Strauss & Co., Nautica, Timberland Company, New Balance Athletic, the Jones Apparel Group, Calvert Group and Littlewoods – all of whom provided a highly complementary assessment of Verité's work through quotes on Verité's website.<sup>23</sup> In many cases, large multinational corporations may require their licensees to receive a social audit by Verité (or other independent monitor). Verité then audits the factory and the large corporation receives full disclosure on Verité's findings.<sup>24</sup> Gap Inc. is such a multinational that has used Verité's services to monitor licensees and also partnered with both Verité and Social Accountability International to strengthen their Code of Conduct in 2003.

Many of Verité's clients are small factories in developing countries that use Verité's monitoring services as a means for differentiation to highlight their commitment to labor standards. An example of such a client is the supplier factory for the eco-friendly bag company One Bag at a Time.<sup>25</sup> The factory producing bags for One Bag at a Time was initially unreceptive to receiving a Verité audit, however, they eventually agreed due to pressure from One Bag at a Time. The supplier factory now proudly uses their Verité monitoring results to attract new contracts.

Additionally, NGOs, investors, government actors and even workers are also Verité clients who

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<sup>23</sup>Verité. About Us: Some of the Companies Working with Verité. <<http://www.Verité.org/aboutus/portfolio.html>>

<sup>24</sup>Swaffer, Miriam.

<sup>25</sup>1 Bag at a Time. <[http://www.1bagatime.com/index.php?page=misc&section=about\\_20](http://www.1bagatime.com/index.php?page=misc&section=about_20)>

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may benefit from Verité's training, research and consulting.<sup>26</sup>

What are the incentives for companies to hire Verité as a monitoring consultant? As stated earlier, the cost for monitoring may amount to approximately \$5,000 per factory, in addition to the opportunity cost of the time that managers and workers spend with auditors or preparing documents. For large corporations that may have thousands of licensees, this would be a considerable cost. The direct benefit to the corporation will be an unbiased and confidential report of actual factory working conditions with clear recommendations for remediation regarding violations. For companies who are deciding on whether or not to subcontract work to a factory, a monitoring report can give them knowledge on conditions and ultimately leverage over choosing or not choosing the factory until they improve conditions. Ideally, information on factories through auditing can avoid public scandals of violations. Auditing therefore becomes an investment for companies to preempt any damage that would be caused by labor rights abuses becoming public. The exact cost of a labor rights scandal is difficult to quantify, however, companies are aware of lasting impressions on consumers when violations are exposed.

If violations are not preempted, benefits can still be found from using Verité's services in cases where labor violations are publicly exposed. A well-known example is the Kukdong factory, a producer of apparel for Nike and Reebok located in Puebla, Mexico. At this factory workers were fired for trying to form a union and variety of other labor rights violations were exposed in late 2000. On February 5-7, 2001, Verité carried out an audit on Nike's behalf to determine Kukdong's compliance with the Nike code of conduct. The Verité report was made public in this

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<sup>26</sup>Swaffer Interview.



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case and confirmed most findings from the independent Worker Rights Consortium, including the fact that unions were not allowed.<sup>27</sup>

A second case of employing Verité's services for "damage control" was in 2005 when the National Labor Committee, a vigilante NGO exposing corporate labor violations began to protest Walt Disney Co.'s use of child labor in China. Disney responded by hiring Verité to investigate conditions in several factories. Verité then "worked with managers and workers to improve safety conditions, create a worker helpline and inform employees of their rights."<sup>28</sup> While this pertains primarily to the use of Verité's training services, it still is an example of improving relations with the public by linking Verité's name with the corporate scandal. It should be noted, however, that improved public relations is often the secondary effect of factory monitoring, and it is important and essential in many cases for management to receive training and education.

Another benefit may be giving credibility to a company's socially responsibility claims that attract a particular customer base. For example, as Gap Inc. writes in their 2005-06 Corporate Social Responsibility report, "Social responsibility is no longer just a tool to minimize bad press – it is becoming a way to drive customer satisfaction and brand loyalty. As a result, social responsibility is shifting from a risk mitigation effort to one that enhances the brand experience for customers."<sup>29</sup> This statement would also apply to small companies and factories that use Verité's monitoring as form of differentiation to attract socially conscious customers, such as

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<sup>27</sup>Verité. Comprehensive Factory Evaluation Report: Kukdong International, Mexico, Atlitxco, Puebla, Mexico. 5-7 February 2001.

<[http://www.nike.com/nikebiz/gc/mp/pdf/nike\\_Verité\\_report.pdf;bsessionid=00DWKW3LJJRAACQCGIUCF4YKAIZC2IZD](http://www.nike.com/nikebiz/gc/mp/pdf/nike_Verité_report.pdf;bsessionid=00DWKW3LJJRAACQCGIUCF4YKAIZC2IZD)>

<sup>28</sup>Gunther, Mark. "How companies fight sweatshops." CNN. 3 May 2006.

<[http://money.cnn.com/2006/05/03/news/international/pluggedin\\_fortune/](http://money.cnn.com/2006/05/03/news/international/pluggedin_fortune/)>

<sup>29</sup>Gap Inc. Gap Inc. 2005-2006 Social Responsibility Report.

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One Bag at a Time.

**V. Analysis: Progress and Areas for Concern**

Verité's work monitoring labor standards is widely recognized for its high standards and credibility. Despite these strengths, two areas of concern remain: Reliance on program revenue for funding & Confidentiality in reporting

*A. Program Revenue & Funding*

As mentioned in Section II, reliance on program revenue from clients is an area of concern.

Verité's website claims that, "Our organization has a multi-source funding structure to ensure our independence and the credibility of our findings. This funding stream ensures our objectivity and balance in reporting on factory conditions."<sup>30</sup> Similarly, a 2004 article on Verité's collaboration with Gap Inc. states that, "Verité inhabits a unique position between company and worker that lends strength to its ability to bridge differences. Its independence is a key to maintaining this position."<sup>31</sup>

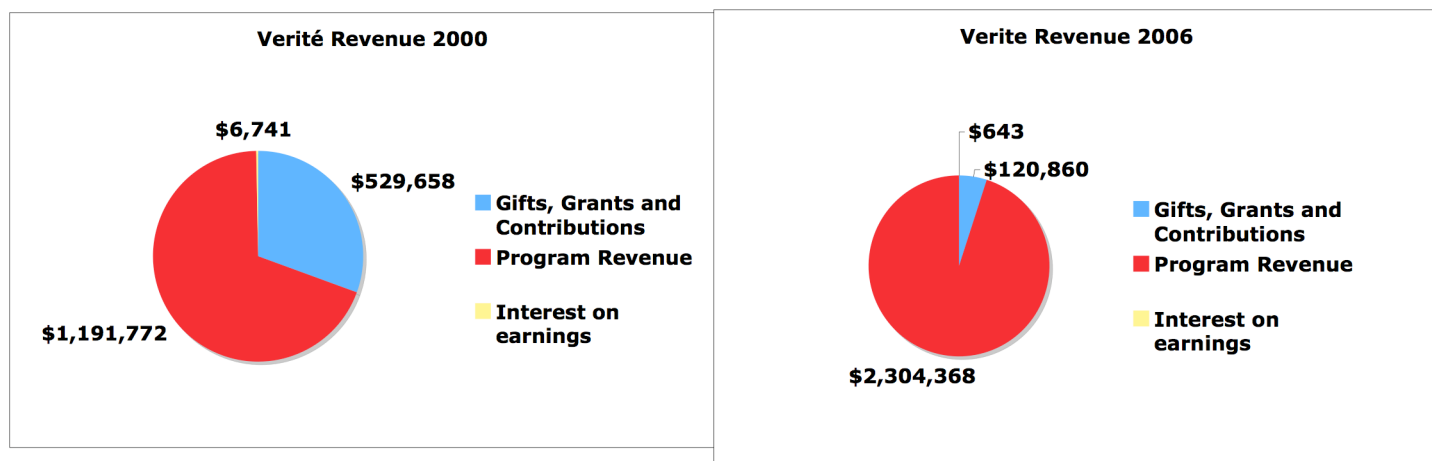
But does Verité really have full independence in its current position? Although Verité claims to have an entirely worker-centered approach to monitoring, Verité is hired and paid primarily by companies, not workers. Verité's 990 forms report that funding in the past four years was 95% from program revenue and 5% from grants, gifts and contributions. At an extreme, this situation could make it possible for large corporate clients to have leverage over Verité, since they are a

<sup>30</sup>Verité. Verité Fact Sheet. <<http://www.verite.org/>>

<sup>31</sup>Baue, William. "Gap-Verité Collaboration Exemplifies Award-Winning Practice on Social Responsibility." Socially Responsible Investing. 2 December 2004. <<http://www.socialfunds.com/news/print.cgi?sfArticleId=1581>>

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key source of income.



Dara O'Rourke, a professor of Urban Studies and Planning at the Massachusetts Institute for Technology and leading scholar on labor monitoring has expressed doubts over Verité's independence since apparel manufacturers directly pay Verité for their inspections. In 2001, former Executive Director Heather White responded that the organization tries to avoid conflicts of interest through its nonprofit status and tripartite funding from inspections, foundation grants and private contributions. She reported that 2000 was the first year Verité achieved this equal tripartite funding<sup>32</sup>, however 990 forms show a dramatic shift away from tripartite equality since 2001.

In Verité's defense, it should not be assumed that their total program revenue comes from corporations who are being audited. Some program revenue is likely from clients such as NGOs, governments and individual auditors who contract Verité's training and research services.

<sup>32</sup>Van der Werf, Martin. "Anti-Sweatshop Groups Find it Difficult to Turn Campus Idealism Into Real Change." The Chronicle of Higher Education. 5 January 2001.

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Specific information regarding the exact distribution of income sources would be useful in further examination.

It could be argued that Verité's confidentiality in reporting may mitigate some concerns over "client influence". Confidentiality itself raises issues that will be further discussed, however, if reports are not made public then the client does not have any incentive to encourage Verité to "cheat" or misrepresent information. In fact, the client would want the most honest and accurate information in a confidential Verité report, especially if they will have monitoring in the future that will be publicly disclosed. A problem arises, however, if the client feels forced to make their report public (perhaps after a public scandal), in which case they would have an incentive to attempt to manipulate Verité's reporting and could try to do so by exercising financial leverage.

*B. Confidentiality*

Another dilemma regarding Verité's credibility is their confidentiality in reporting. While confidentiality may bring a culture of trust and collaboration with clients – how can the public ever know what actually happened during an audit and how can consumers know whether the client has improved conditions for workers?

It could be argued that a lack of public disclosure on reporting could lead clients to use Verité reporting as a public relations tool for the benefits of social trust discussed in Section IV. Clients could claim that they worked with Verité auditors to improve conditions, but based on confidentiality, the public may never know the contents of the report, what recommendations for remediation were included, and if the client took any steps to remedy violations. These

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transparency issues also interfere with the ability for other outside organizations to provide any form of oversight on the work of Verité to assure their quality in reporting. Verité claims that the local nongovernmental organizations they work in partnership with push Verité to provide the highest quality of information in reporting,<sup>33</sup> but pragmatically it seems difficult for another organization to monitor the work of Verité if their reports are confidential.

More confidence could be given to Verité's monitoring if an independent certifier were able to publicly monitor factories before or after Verité engaged in their consultative audits with clients. For example, if Verité clients went on to obtain SA8000 certification, or at least some public independent monitoring to assess improvements in conditions, more credibility could be given. Of course this assumes that clients would agree to such a situation and that an unbiased third-party monitor exists (which arguably such a monitor for labor standards may not currently exist).

Dan Viederman has said that Verité provides services that companies value and confidentiality is the "price that they pay" in order to allow candid conversations about real labor problems and how to fix them.<sup>34</sup> In past interviews, former Executive Director Heather White supported public disclosure of reports and acknowledged it would be necessary if the manufacturing industry eventually were to be cleaned up. However, she added that, "our only way to get access to factories is to agree reports will not be released publicly," and commented that mandated public reporting is "unrealistic" for now at least.<sup>35</sup>

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<sup>33</sup> Swaffer Interview.

<sup>34</sup> Interview with Dan Viederman.

<sup>35</sup> Van der Werf, *Ibid.*

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A positive benefit of Verité's confidentiality is that it removes incentives to lie or misrepresent factory conditions, since the client will be the only party viewing the report and Verité's audits are not done for a Yes or No certification. It also changes the nature of the relationship between Verité and the client – allowing Verité to be a partnering consultant to assist in improvement, rather than a policing agent that the company must “behave for” in order to receive the benefits of a certification.

Additionally, while Verité keeps specific audit information confidential, general findings of factory conditions in certain areas or countries may be revealed in research to help raise awareness. Executive Director Dan Viederman is quoted regularly in articles condemning labor rights abuses by large companies. For example, in a recent article exposing labor rights violations in China by Apple Computers, Mr. Viederman stated that in China, "We see endemically excessively long hours, health and safety violations, underpayment of wages or overtime premiums. Also, there are no labor unions."<sup>36</sup>

Despite some benefits to confidentiality, how can the public know if factories are actually improving working conditions with Verité's in the absence of transparency? Ultimately, Verité has weighed the risks and benefits of confidentiality, and the organization believes that the most good can be accomplished at present with its use. As alluded to by Ms. White, hopefully Verité will one day make their auditing reports public, or at least include some level of public transparency. Such an action would set an important precedent in the monitoring of labor standards and infuse support for organizations such as the Workers Rights Consortium that

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<sup>36</sup>Kahney, Leander. Judging Apple Sweatshop Charge. *Wired*. 13 June 2006.  
<<http://www.wired.com/gadgets/mac/commentary/cultofmac/2006/06/71138?currentPage=2>>

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demand public reporting.

## **VI. Conclusions**

Though areas for concern exist in Verité's work, their model of collaboration with companies still holds tremendous potential to benefit workers worldwide. Increasingly, authors such as Richard Locke and Monica Romis have cited the need for not only monitoring, but also new management systems that elevate labor rights questions into the core operations of businesses.<sup>37</sup> Verité appears to be on this path of innovation, highlighted by their receipt of the Social Capitalist Award in 2004 for "devising ingenious ways" to fuse social progress and business success.<sup>38</sup> Due to a combination of public pressure and perhaps collaboration with monitoring organizations like Verité, multinational corporations like Gap Inc. are slowly taking responsibility for conditions in subcontracted factories as shown by the following statement in their 2005-2006 CSR Report: "We must recognize the connection between our business decisions and the impact they can have on factories, the environment and local communities."

Confidence in Verité is also supplied by the organization's high monitoring standard, worker-centered approach and detailed quality assurance process. The apparent professionalism and commitment of their small staff and their Board of Directors is also exemplary and gives the author confidence in their work. If Verité were merely interested in obtaining profits from clients, the organization would become a for-profit consulting firm where staff salaries would be much higher. Though full confidence in the work of Verité can not be given until confidentiality and a lack of tripartite funding are remedied, Verité's exemplary monitoring

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<sup>37</sup>Locke, Richard & Monica Romis. "Improving Work Conditions in a Global Supply Chain". *MIT Sloan Management Review*: Winter 2007. 54-62.

<sup>38</sup>Baue. 2004

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standard and worker-centered approach still positively contribute to improving labor conditions world-wide.

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**VII. Suggested Items for Further research**

1. Within Verité's program revenue – how much is derived from corporations vs. NGOs, and governments?
2. What program revenue is derived from monitoring vs. training and research?
3. How many clients make their Verité auditing report public?
4. How many clients actually implement Verité's recommendations for remediation? How is this measured and verified?
5. How does the public know the level of improvement accomplished if reports are confidential?
6. Do clients go on to gain certifications outside Verité monitoring? (For example: SA8000)
7. How does Verité compare to other third-party monitors such as Social Accountability International?
8. Do vigilante organizations like the National Labor Committee have trust in Verité's work?<sup>39</sup>

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<sup>39</sup>The NLC did not return the author's calls or emails, however, information from a former NLC intern points to the fact they do not have trust in Verité's collaborative model.

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### **VIII. Discussion Questions**

1. What does it mean for Verité to be a consulting organization and not a certifying organization?
2. How is Verité's income derived and what implications does that have for the organization?
3. What are the pros and cons of Verité's confidentiality with clients regarding audit reports?
4. How does Verité's link with local NGOs affect the quality of their auditing?
5. Who are Verité's competitors and why might clients choose Verité over other organizations?
6. Do you agree with the author that Verité inspires confidence by way of its "high monitoring standard, worker-centered approach, and detailed quality assurance process"? Which specific aspects of Verité's monitoring process gives you confidence in the organization? Which do not?
7. To what extent do you feel Verité actually improves worker's rights? To what extent might they be considered part of multinational corporations' public relations machinery?

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## IX. Appendix

### A. APPENDIX A: ORGANIZATION REPORT CARD

Scale 1 – 5 (poor to excellent)

<b>Autonomy from Target of monitoring:</b> <i>Low – Verité is paid directly by the target and lacks tripartite funding</i>	2
<b>Organizational Strength:</b> <i>High quality of staff and ties to local NGOs</i>	4.5
<b>Monitoring practice:</b> <i>Strong Worker-Centered approach and high level of Quality Assurance</i>	4.5
<b>Sources of information:</b> <i>Workers</i>	5
<b>Standards vs. Monitoring:</b> <i>Verité monitors to both their own standard and additional Code of Conduct or Law.</i>	3
<b>Evaluations:</b>	4
<b>Sanctions:</b> <i>Voluntary audit reports that serve for consulting not yes/no certification</i>	NA
<b>Transparency of Monitoring organization:</b> <i>Very open regarding monitoring, staff, standards and clients</i>	5
<b>Transparency of Monitoring Reports:</b> <i>Reports and list of clients are confidential</i>	.5
<b>Shadow of the state:</b>	NA
<b>AVERAGE SCORE:</b>	3.7

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VERITÉ PRICING MATRIX FOR AUDITS: 2008 CATALOG

<b>VERITÉ SOCIAL COMPLIANCE AUDIT PRICING MATRIX</b>				
Please note that average expenses are provided for estimates only. Final pricing will be determined upon receipt of complete factory information and scheduling.				
<b># of Workers in factory</b>	<b>Typical team size and average number of days</b>	<b>Base Audit Price (not including expenses)</b>	<b>Average Expenses (travel, hotel, meals)</b>	<b>Estimated Audit Price</b>
0-250	2 auditors, 1 worker interviewers x 2 days	\$2900	\$850	<b>\$3750</b>
251-750	2 auditors, 2 worker interviewers x 2 days	\$3150	\$1530	<b>\$4680</b>
751-1500	2 auditors, 3 worker interviewers x 2 days	\$3300	\$1770	<b>\$5170</b>
1500-2500	3 auditors, 3 worker interviewers x 2 days	\$3700	\$2010	<b>\$5710</b>
each additional 1000 workers	1 additional worker interviewer x 2 days	Add \$500	\$750	<b>Add \$1250</b>
<b>VARIATIONS AND ADD-ON SERVICES TO THE COMPREHENSIVE AUDIT</b>				
<b>Audit Type</b>	<b>Variation/Add On Element</b>	<b>Additional Price</b>	<b>Additional Expense</b>	<b>Restrictions</b>
<b>EHS Compliance Audit</b>	Provides full scope coverage of all EHS assessment requirements.	\$2500-\$4000 premium	1-2 EHS auditors travel, hotel and meal	<b>Customized pricing provided upon request.</b>

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## SECTIONS FROM 2006 VERITÉ 990 FORM

STATEMENT 6 (CONTINUED)  
FORM 990, PART V-A  
LIST OF OFFICERS, DIRECTORS, TRUSTEES, AND KEY EMPLOYEES

NAME AND ADDRESS	TITLE AND AVERAGE HOURS PER WEEK DEVOTED	COMPEN- SATION	CONTRI- BUTION TO EBP & DC	EXPENSE ACCOUNT/ OTHER
MIRANDA MAGAGNINI 120 BOERUM PLACE BROOKLYN, NY 11201-6281	DIRECTOR 0	\$ 0.	\$ 0.	\$ 0.
DANIEL VIEDERMAN 150 BLACKBERRY LANE AMHERST, MA 01002	EXECUTIVE DIREC 0	96,058.	9,513.	0.
DAVID LEVI PO BOX 11170 ROYAL CENTRE VANCOUVER, BC V6E3R6	PRESIDENT/TREAS 0	0.	0.	0.
DOUG CAHN 1895 J. W. FOSTER BLVD CANTON, MA 02021	DIRECTOR 0	0.	0.	0.
ROY JONES 280 KING OF PRUSSIA ROAD RADNOR, PA 19087	DIRECTOR 0	0.	0.	0.
LIDDY MANSON 1150 15TH STREET NW WASHINGTON, DC 20071	DIRECTOR 0	0.	0.	0.

STATEMENT 7  
SCHEDULE A, PART I  
COMPENSATION OF FIVE HIGHEST PAID EMPLOYEES

NAME AND ADDRESS	TITLE & AVERAGE HOURS WORKED	COMPEN- SATION	CONTRIBUT. EBP & DC	EXPENSE ACCOUNT
LYDIA LONG 17 BUFFAM RD PELHAM, MA 01002	DIR OPERATIONS 40	66,303.	9,513.	0.
DEBRA J. HERTZ 37 LEXINGTON AVENUE FLORENCE, MA 01060	GRANTS MANAGER 40	51,207.	9,513.	0.
ROBIN JAFFIN 324 MONTAGUE ROAD AMHERST, MA 01002	AUDIT PROG DIR 40	51,832.	6,348.	0.
ERIN E KLETT 76B LAUREL STREET GREENFIELD, MA 01301	DIR OF RESEARCH 40	50,307.	9,513.	0.
ALLISON M DEVORE	DIR OF DEVELOP	69,165.	3,294.	0.