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Accountability in the Fashion Industry:

Loopholes in the H&M Value Chain

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"Trendy clothing is cheap as ever and cheap clothing is trendy as ever." – John Oliver

On the morning of April 24, 2013 two women entered the Rana Plaza Building, an eight-story garment factory in Dhaka, Bangladesh where they went to work every day as sewing operators for a company that manufactures garments to be sold at Western retailers. The women and several other bystanders noticed a crack in the wall and immediately reported it to the factory manager. Under pressure to fulfill orders, the factory owner ordered the women back inside. Just moments later the women and more than 1,100 other people died when the building collapsed around them, suffocating the occupants under a pile of ash and steel. The catastrophe rocked the international community and left many to ask how such a disaster could happen. Who was responsible for the neglect and how can they be brought to justice?

Rana Plaza was hardly the first time a garment worker would lose their life in the line of work nor would it be the last. The tragedy in Bangladesh was illustrative of the growing and widespread human rights abuses pervasive in the global garment industry. Scores of worker abuses all over the world—from China to Uzbekistan to India to Cambodia—are happening in the name of cheap "fast fashion" and at the expense of laborers who often work long hours, in unsafe factory conditions for wages that are below a living wage in their respective countries. These workers, many of whom are children, predominantly live in shady democracies and within developing countries where there is little or no rule of law and where political conditions are such that improvements to their livelihood are in the hands of businessmen and despots.

One aspect of the industry that diminishes accountability is that the world's top garment buyers move from country to country seeking the cheapest labor in a "race to the bottom" that incentivizes factory owners to cut corners in order to remain competitive in the global supply chain. Labor unions in these developing countries also usually have limited power for collective bargaining. Moreover, corporate monitoring is a challenge because garment manufacturers outsource the buying of finished materials and products to middlemen clouding the accountability process farther down the supply chain. While there are local and international frameworks in place to incentivize garment corporations to comply with norms and standards, they vary in scope and enforcement. Indeed, opacity in the supply chain as well as the retailers "voluntary" codes of conduct for their suppliers are the crux of the issue shaping the behavior of multinational retail organizations. U.S.-based multinational retailers often argue that to further legalize supply chain management it would be an infringement on fair trade. This quandary represents the 21st century challenge to corporate accountability where the nexus of fashion, international public policy, and human rights are at the forefront.

This paper explores the accountability process in the world garment industry and focuses on the labor practices and supply chain management of the global retail giant Hennes & Mauritz (H&M). Although there are numerous issues related to sustainability within H&M's value chain for example, water supply, animal cruelty, and environmental degradation, this paper focuses on three of the most prominent challenges facing H&M today: poor factory conditions; opacity in the textile supply chain that facilitate child labor; and low worker wages.

By industry standards, H&M is a leader in corporate sustainability. For the past ten years H&M has published an annual report detailing its corporate sustainability plan. H&M also routinely publishes financial statements, its corporate governance structure and its progress towards sustainability goals. In this regard H&M can be seen as an industry leader and role model for other corporations to aspire to. For this reason, H&M has been the recipient of numerous industry awards for its transparency in business.

Despite its progressive practices the company is not impervious to allegations of widespread abuse. Over the past decade H&M has accumulated a veritable repository of transgressions mostly pertaining to its labor practices. Some violations are a result of the systemic challenges in the supply chain for procurement, for example, the disconnection between retailers, buyers and garment factories. Some violations are simply a result of neglect. International legal frameworks, NGOs, innovative new programs and government policies have been a remarkable influence on H&M's corporate practices. Efforts to "close the loop" and maximize coordination between retailer, factory owner and labor unions are the recipe for greater accountability at H&M and within the garment industry in general. Greater coordination between and among all stakeholders can ensure prevention of another Rana Plaza incident and elevate the bottom lines for all stakeholders involved—from H&M who wants to maximize profits, to the workers who want to safely earn a living wage, to the consumers who can rest easy knowing the clothing they wear was not made at the expense of a human life.

H&M and the Rise of Fast Fashion

The global fashion industry is now an almost a three trillion dollar annual industry (World Trade Organization 2016). It is primarily driven by U.S. consumption of clothing that in the past two decades has grown at an alarming rate. Only 3% of U.S. apparel consumed is made in the United States, down from 90% in 1955 (Cline 2012). In 1930, the average American woman owned an average of nine outfits. Today, American women buy more than 60 pieces of new clothing on average per year (Cline 2012). Perhaps more disturbing is that if the American public was outraged at the events at Rana Plaza then it didn't seem to affect their buying habits. A year after the Rana Plaza building collapse, in 2014, retail sales surged to 250.78 billion—the highest in history—and U.S. clothing retail sales amounted to about $786 U.S. dollars per year per capita (Statista 2016). That is more than the average garment factory worker in Bangladesh can expect to earn in an entire lifetime. While globalization has facilitated access to diverse and abundant labor pools in developing countries, the more production that's outsourced, the cheaper prices have become giving rise to "fast fashion". Fast fashion retailers can typically produce a shipment of clothing in lead times of less than three weeks from a sketch to market.

The Hennes & Mauritz company began in Sweden in 1947 and over the past sixty years has increased its global footprint from two stores in 1964 to over 3,900 stores in 61 markets in 2016 (H&M 2016). Hennes & Mauritz company is the parent to six independent fast fashion brands: H&M, Monki, COS, Weekday and Cheap Monday. The H&M retail store on New York's Fifth Avenue is the largest H&M retail store in the world and employs over 215 people (H&M 2016). H&M is the world's second largest clothing producer also selling footwear, cosmetics, accessories and home textiles (Furlong 2015). Between 2008 and 2014 sales of H&M goods in the United States tripled from $806 million to 2.4 billion (Statista 2016). H&M is on the Forbes List as one of the world's most valuable brands (as well as one of the most 'innovative' companies) and is valued at over $67 billion dollars. It's CEO, Karl Johan-Persson, is the 28th richest man in the world with a net worth of $2.4 billion.

H&M's corporate structure is comprised of traditional shareholders and a Board of Directors consisting of seven ordinary members, two employee representatives and two deputy employee representatives. In this regard H&M is not unlike any U.S.-based corporation. However, it's widely known that many Scandinavian countries have rigorous industrial laws and regulatory frameworks for corporate behavior. Sweden is no exception. The Swedish Corporate Governance Board is responsible for enforcing the Swedish Code of Corporate Governance that are the regulatory laws that govern how H&M conducts itself publically and on the Swedish stock exchange. This is not unlike the Securities and Exchange Commission in the United States. What makes Sweden's regulatory environment unique among others is the degree of transparency required of corporations to disclose their financial statements as well as those who sit on the Board of Directors. Not only does Sweden require H&M to make public the minutes of their annual board meeting but board members must also fully disclose the percentage of shares they own in H&M stock (Sweden 2016).

H&M takes great pride in its corporate sustainability model. Since 2006, H&M has provided consumers with information on five important topics related to sustainability: water, materials, wages, working conditions and animal welfare. The H&M website lists an overwhelming amount of information—from their sustainability plan[1] to their philanthropy to their supply chain.

Despite the voluminous collection of facts and figures, H&M only recently began to disclose their yarn suppliers. First tier suppliers are suppliers who manufacture the finished garments using "Cut Make Trim" processes (CMT) (World Bank 2016). First tier suppliers typically outsource textile and yarn supplies to other factories considered "second-tier" in the value chain. The anonymity of yarn and textile sourcing in the garment industry poses a challenge to responsible supply chain management in that retailers cannot credibly assure customers their products are 100% fair trade. For this reason, H&M has come under increased scrutiny in recent years regarding its sourcing and labor practices. H&M produces 80% of its products in advance and outsources clothing production to over 850 supplier factories, 60% of who are located in Asia (H&M 2016). Outsourcing nearly all of H&M garment production

[1] [1] H&M's Seven Commitments: 1. Provide fashion for conscious customers 2. Choose and reward responsible partners 3. Be ethical 4) Be climate smart 5) Reduce, reuse, recycle 6. Use natural resources responsibly 7) Strengthen communities.

makes it impossible to monitor and control every step of the manufacturing process. Over the years that reality has resulted in numerous factory fires, wage strikes and worker deaths within H&M supplier countries.

Poor Factory Conditions

Bangladesh

The Rana Plaza disaster was just one of many tragic incidents involving a factory that supplies ready-made garments to H&M. In the past ten years factory fires have swept through H&M supplier factories in Bangladesh at disturbing rates. According to the Clean Clothes Campaign, an alliance of NGOs dedicated to stamping out worker abuses in the garment industry, since 2006, more than 500 workers have died in garment factory fires in Bangladesh in addition to the over 1,100 who perished at the Rana Plaza collapse (2016). Within the majority of these H&M factory fire cases common hazards included lack of fire exists, no fire doors, no sprinklers, insufficient smoke alarms and electrical safety risks (Furlong 2015).

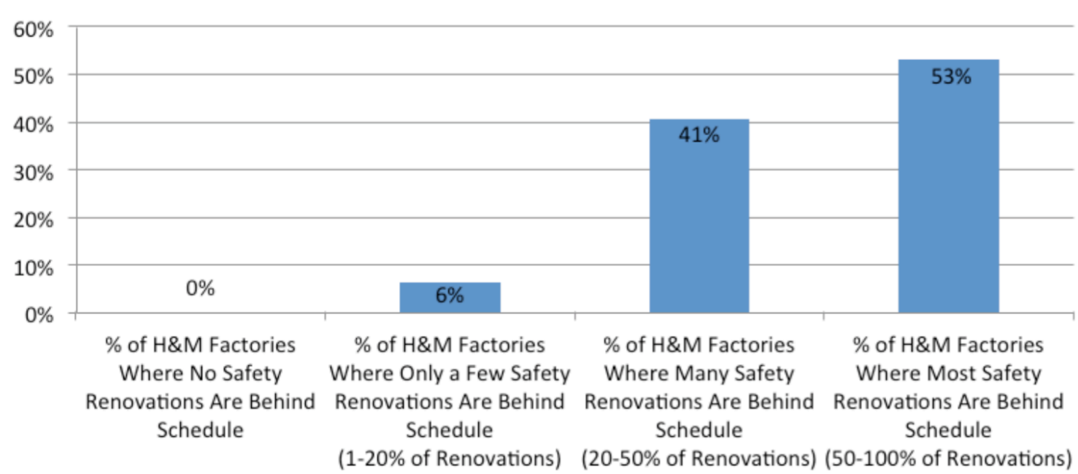
Following the Rana Plaza accident, governments, industry professionals, policy makers, labor unions, NGOs and media came together to forge an agreement that would create better safeguards for workers called the *Accord on Fire and Building Safety in Bangladesh.* As a result of public pressure, H&M was the first to sign the Accord on May 13, 2013. The Accord is a five-year independent, legally binding agreement between global brands and retailers and trade unions designed to build a safe and healthy Bangladeshi Ready Made Garment (RMG) Industry.

Orchestrated by the International Labor Organization (ILO) and the Clean Clothes Campaign, the Accord was the first of its kind that brought together over 200 apparel brands, retailers, and importers from over 20 countries. It is governed by a Steering Committee with equal representation of signatory companies and trade unions with “a neutral Chair provided by the International Labor Organization (ILO)". The Accord was designed to: 1) be legally binding between brands and trade unions to ensure worker safety; 2) provide and independent factory inspection mechanism supported by brands, trade unions and all factories; 3) disclose publically all inspection reports; 4) commit signatories to ensure sufficient funds are available for remediation and to maintain sourcing relationships; 5) provide democratically elected health and safety committee in all factories to identify health and safety risks; and 6) provide extensive training program, complaints mechanism and right to refuse unsafe work.

Two key components of the Accord are that it claims to be legally binding agreement and it features an inspection and remediation process by which factories work hand-in-hand with participating brands to address safety issues and incentivize compliance. An independent Chief Safety Inspector (CSI) conducts initial factory inspections. The inspection reports are then shared with factory owners, relevant signatory brands and worker representatives. The factory owner and companies then develop a Corrective Action Plan (CAP) that details what actions will be taken with clear timelines and a financial plan "signed off on by all parties". The Accord obliges the signatory companies to maintain its relationship with the supplier factory during the remediation process to ensure the buyer company does not "cut and run"—an industry term referring to the tendency for buyers of global brands to terminate the relationship with the factory for non-compliance. This practice disincentivizes supplier factories to make needed upgrades if there is a credible possibility the buyer may move to a cheaper, faster factory to expedite their clothing order. Another interesting component of the Accord lies within the direct bargaining between the participating brands and the supplier factories that require supplier factories to continue to provide income for workers for up to six months in the event of a factory shut down.

H&M's swift action to sign the accord was laudable. However in the years that followed its progress toward remedying the problems in their supplier factories remain largely unfinished. In a recent report published in September 2015, by the Clean Clothes Campaign, International Labor Rights Forum, Maquila Solidarity Network, and Worker Rights Consortium it revealed that H&M had been "dramatically behind schedule" in meeting the requirements of the Accord (2015). The report claims that H&M continues to put workers lives at risk by failing to correct the safety issues identified by the Accords inspectors in a timely manner. In 32 of H&M's "platinum and gold" factories (those factories that are considered to be long-term strategic partners) safety inspections found "518 structural safety violations, 836 fire safety violations and 650 electrical safety violations". A significant majority of these renovations are six to twelve months behind schedule as shown in Figure 1 below.

Figure 1 Safety Renovation Delays and H&M "Gold" and "Platinum" Factories



Even more egregious, in more than half of the factories the sliding doors and gates that impede workers' egress in the case of a fire still remain. Under the Accord provisions H&M is obliged to require its supplier factories to repair safety hazards deemed essential by the Accords inspectors. The report findings conclude that H&M failed to meet their obligations under the provisions of the Accord by taking the steps necessary to ensure the safety of the workers in Bangladesh. More importantly, the Accord's details are murky regarding enforceability of the agreement is for signatories. For example, there is no definition on the website for "legally binding". Without a precise arbitration mechanism it's highly unlikely that H&M will incur punishment as result of shirking the Accord.

Two competing coalitions were formed in the wake of the Rana Plaza collapse, the Accord as I described above, and the *Alliance for Bangladesh Worker Safety* led by retired Senators George Mitchell and Olympia Snowe (Ayres 2014). Both have similar objectives. However the Alliance, which H&M is not a party to, has an arbitration counsel and is primarily comprised of U.S. firms. Given the findings from the September 2015 Clean Clothes Campaign report it's difficult to credit H&M as being committed "to develop and improve management systems that will avoid non-compliance" or as the leader in social responsibility they claim to be.

Low Wages and Child Labor

India

The Indian Sumangali labor scheme is a system where girls from poor rural families contract with clothing factories or yarn mills on the promise that they will earn enough money for a dowry. Girls and young women are lured from their homes on the promise of fair wages and end up working for years in indentured servitude often with very little pay and in squalor (Liebelson 2014). A joint report conducted by the Centre for Research on Multinational Corporations

(SOMO) and the India Committee of the Netherlands (ICN) in 2014 found that H&M sourced its yarn from five spinning mills in Tamil Nadu India connected to a Sumangali labor scheme. In response to the report H&M attempted to rid its factories of all textile involved in the scheme. It forbid all of its suppliers to purchase yarn from the five spinning mills but complete transparency was difficult to accomplish. H&M's suppliers are not obliged to disclose where they purchase the yarn used to make the garments. In a bold move in 2014, for the first time H&M completely disclosed the names and addresses of its first and second tier suppliers in order to provide greater transparency and ensure that yarns used in sewn clothing were not made from child labor schemes in India (Berfield 2013).

Reimagining Responsible and Ethically Sourced Clothing

Better Factories Cambodia: a Model for Improving Working Conditions

Positive stories about Cambodia's garment industry are hard to find. For the past decade, news stories focused on Cambodia's garment sector were punctuated by mass faintings, mass strikes and the frequent death of union members as a result of military crackdowns (Ford 2015). Despite the harsh reality of doing business under autocratic regime according to a 2015 World Bank Report there's reason to be optimistic that the garment sector in Cambodia is providing a crucial first step out of poverty for thousands of low-skilled workers. In 2001 the *Better Factories* program, first launched in Cambodia by the International Finance Corporation (IFC) and the ILO, aimed to improve working conditions in factories and ensure the right of local workers to collectively bargain for higher salaries (Dorst 2015). The program differs from other forms of social regulation in four ways. First, factory inspections are carried out by independent *Better Factories* "enterprise advisors". Second, inspections are unannounced limiting the likelihood that factory owners can make quick superficial changes to safety codes. Third, the assessment is comprehensive and goes beyond the minimal requirements found in voluntary buyer codes of conduct like the one H&M requires of its suppliers. Fourth, *Better Factories* offers advice and training programs for workers on how to have constructive dialogue with factory managers to negotiate favorable outcomes for the workers. Key findings of the World Bank study show that improved working conditions also improve performance and that workers and managers are better able to solve disputes.

H&M has supplier factories throughout Cambodia and the company has played a significant role in the success of the program by lobbying the government of Cambodia for minimum wage increases. Over the past several years wages have increased to from $128 in 2014 to $140 in 2015 (Ford 2015). According to the Ministry of Labor, workers will be able to earn an average of $157-$168 monthly by 2017 (Varandani 2015). The World Bank study also indicates that the improvements to working conditions will last the test of time. The research suggests that improvements made through the *Better Factories* model are sustainable. First, once investments are made to improve work conditions they are rarely reversed; and second, reputation-sensitive buyers such as H&M make a different buying choices based on factories that tend to be in greater compliance with international labor standards (World Bank 2015). The Better Factories model incentivizes retailers who want assurance that their products are responsibly sourced, workers who have a clear stake in improving working conditions in the short and long run, and governments who have an incentive to improve factories to attract more Foreign Direct Investment.

As a result of the success of the *Better Factories* Cambodia program the World Bank and IMF expanded *Better Factories* to eight more countries including Bangladesh, Haiti, Indonesia, Jordan, Lesotho, Nicaragua and Vietnam (World Bank 2016). In fact, the B*etter Factories* model likely served as a loose blueprint for the 2013 Rana Accords agreement. If Bangladesh is able to achieve the same success as Cambodia has had in raising wages and factory conditions over time, there's reason to be hopeful for the plight of struggling Bangladeshi garment workers.

Conclusion

The accountability framework in the global clothing industry is robust. The International Labor Organization's Better Factories Campaign, the Clean Clothes Campaign, Sustainability Watch, the five-year *Accord on Fire and Building Safety in Bangladesh*, the *Alliance for Bangladesh Worker Safety*, the United Nations Guiding Principles on Business and Human Rights, the Swedish Corporate Governance Board and the Centre for Multinational Organizations, among many others, work to monitor H&M to ensure compliance across a range of labor, environmental[2] and corruption issues.

By all measure H&M has been a maverick in sustainability and corporate accountability in an impossibly exploitive industry like fashion. H&M was the first to ban perfluorocarbons (PFCs) across all products, ban the sandblasting of denim and they are the world's biggest consumer of organic cotton. H&M was also the first to work with Greenpeace with the goal to achieve zero discharge on hazardous chemicals across the supply chain. They were the first brand to publish their complete list suppliers and the first to sign the Rana Accord.

[2] Though not featured in this paper, another grave concern surrounding the fashion industry is its impact on the environment. Fast fashion is the second dirtiest industry in the world next to big oil. The dying and manufacturing process in textile production is chemically exhaustive. According to environmental watch groups, "pesticides used in cotton farming, the toxic dyes used in manufacturing and the great amount of waste in discarded clothing has [had] an enormous impact on the environment—not to mention the extravagant amount of natural resources used in extraction, farming, harvesting, processing, manufacturing and shipping" (Sweeny 2016).

Yet even with an impressive and demonstrable record of transparency and progressive policies behind their belt, H&M still falls short of ideal in the realm of corporate accountability. Factory workers are not only dying as a result of poor building infrastructure and hazardous safety conditions, but ongoing labor strikes for higher minimum wage in countries like Cambodia are often met with military crackdowns resulting in violence and death. Children in yarn mills in India are living a life of indentured servitude all in the name of fashion.

The world's largest consumer of garments, the United States, continues to place a high demand for low-cost, fashion-forward clothing and therefore has significant leverage in demanding industry reforms. But managing consumption is only one piece of the puzzle.

First, the fashion industry needs to acknowledge that human capital is a key part of the profit formula. Without human capital and inexpensive labor, H&M would not generate profits. Therefore incentives for different stakeholders in the global value chain must be considered in order to generate practical solutions to remedy the plight of garment workers. The *Better Factories* program is one of many models that could work globally to serve that purpose.

Second, labor rights advocates should continue to pressure their respective governments as well as corporations by mobilizing together and linking with other labor networks regionally and globally. Because the competition from factory to factory is so intense that factories cut corners and ignore safety measures, in the countries where H&M clothing is sourced, labor unions could benefit from forming regional networks in Southeast Asia for example, to share strategies and exchange information on labor practices that could be used as leverage when negotiating with factory owners and managers. For labor rights advocates in the U.S., the Clean Clothes Campaign website offers several methods to take action including living wage petitions to Congress and clothing donation facilities for recycling.

Third, companies at the top of the value chain hold the power to select which factories will make their clothes. Because H&M is the second largest retailer in the world and its decisions and actions affect a great number of people—from workers to consumers to shareholders it also wields significant influence in the industry. Even though H&M has made modest efforts to improve the working conditions in many of its factories, there is clearly room to improve their model of accountability. H&M wields enough power to be both the carrot and the stick. Its power as a global leader in the fashion industry can be leveraged to influence other brands and government policy makers to improve the livelihoods of workers, as they did in Cambodia, who are their main drivers of profit.

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