

# **MONITORING THE MONITORS: A CRITIQUE OF PRICEWATERHOUSECOOPERS (PwC) LABOR MONITORING<sup>1</sup>**

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## **EXECUTIVE SUMMARY**

This report presents the first systematic public analysis of the monitoring methods employed by PricewaterhouseCoopers (PwC) to inspect factory labor practices around the world. The author accompanied PwC auditors on factory inspections in China and Korea, and evaluated PwC's findings for a factory in Indonesia.

In these inspections, PwC auditors found minor violations of labor laws and codes of conduct. However, the auditors missed major labor practice issues. Auditors failed to note:

- Hazardous chemical use and other serious health and safety problems;
- Barriers to freedom of association and collective bargaining;
- Violations of overtime laws;
- Violations of wage laws;
- Timecards that appeared to be falsified.

These omissions are due to problems in PwC's monitoring methods. PwC auditors gathered information primarily from managers rather than workers, depending largely on data provided by management. Worker interviews were problematic. All interviews were conducted inside the factories. PwC auditors had managers help them select workers to be interviewed, had the managers collect their personnel files, and had them bring the workers into the office for the interviews. The managers knew who was being interviewed, for how long, and on what issues.

PwC auditors conducted very limited inspections of health and safety conditions in the factories. The auditors failed to note a number of critical workplace health issues.

The factory inspection reports PwC produced did not convey an accurate picture of the conditions in these factories. The reports are so condensed that they miss major issues and paint a false impression of a factory's compliance with local laws.

This analysis shows that PwC's monitoring methods are significantly flawed. Universities and firms interested in auditing labor conditions in the factories producing their goods should consider other monitoring methods and should demand improvements in current monitoring schemes. Independent monitoring can play a positive role in improving factory conditions, but only if it is much more transparent and accountable, includes workers more fully, and can be verified by local NGOs and workers themselves.

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## INTRODUCTION

One of the key issues surrounding “sweatshop” issues today involves the development of systems for monitoring conditions in the thousands of factories around the world which produce garments, shoes, toys, and other goods. Governments, non-governmental organizations, and multinational firms are all currently working to develop systems and protocols to track production practices and treatment of workers in far-flung supply chains. Monitoring labor practices has become a linchpin of efforts to analyze and improve factory conditions around the world.

This report presents an assessment of the world’s largest private monitor of labor and environmental practices – PricewaterhouseCoopers (PwC). PwC performed over 6,000 factory audits in 1999, including monitoring for Nike, Disney, Walmart, the Gap, Jones Apparel, and other multinational shoe, garment, and toy companies. PwC also monitors for a number of universities and their licensees. PwC is leading the development of corporate monitoring systems and is poised to become one of the main auditors for, and most influential participants in, the Fair Labor Association and the Worldwide Responsible Apparel Production (WRAP) monitoring programs. In many ways, PwC is setting the standard for what corporate monitors will do, how they will do it, and how much they will charge.

Until now, because their reports are secret, no independent analyst has been able to evaluate the monitoring procedures of PwC or any of the other main auditing firms. This report thus presents the first detailed assessment of PwC’s monitoring methods and audit tools. The findings of this report provide clear evidence of the limitations of PwC’s monitoring systems. This should send a cautionary note to universities, manufacturers, and others considering hiring monitors or joining monitoring initiatives involving firms such as PwC.

The report is based on an analysis of PwC’s written auditing protocols and a detailed assessment of factory audits conducted by PwC auditors in Shanghai, China and Seoul, Korea. The analysis for this report was conducted while doing research for the Independent University Initiative (IUI), a research project supported by Harvard, Notre Dame, Ohio State, the University of California, and the University of Michigan. This report however, is neither endorsed nor sanctioned by these universities or the IUI.

It should be noted that all of the problems identified during this research occurred while PwC auditors knew they were under close scrutiny. PwC auditors were informed months in advance that I would accompany them on these audits. Presumably, PwC sent their best, most experienced auditors to conduct these inspections, and these were representative of PwC’s general auditing procedures. This raises even greater concerns about normal auditing procedures.

## WHAT PwC MISSED

The most striking finding from analyzing PwC’s monitoring protocols is not what they found, but rather what their monitors missed in their factory audits. I accompanied PwC auditors on their inspections of garment factories in China and Korea. After reviewing the reports PwC produced for the audits which I participated in, it is clear that PwC auditors overlooked major violations of local labor laws and corporate codes of conduct, including:

- Hazardous chemical use. Benzene, a carcinogenic chemical, was being used as a spot cleaner in both the Korean and Indonesian factories. This was a clear violation of company codes of conduct and a direct threat to worker health. PwC failed to note the chemical’s use in either factory.

- Barriers to freedom of association and collective bargaining. In the Chinese factory the union was run by management. PwC failed to note this in their report. PwC auditors failed to identify barriers to worker organizing in China and Korea. In the Korean factory, PwC auditors skipped over all interview questions regarding freedom of association during the worker interviews. The auditor explained this omission by saying, “There is no union in this factory, so I don’t need to ask these questions.” PwC reported that both of these factories were in full compliance with freedom of association requirements. For the IUI project, PwC audited 13 factories in 7 countries – including countries that are alleged to block free trade unions – but found no cases of noncompliance on freedom of association issues in any of the plants.
- Violations of overtime laws. In the Korean factory, overtime was neither recorded nor paid. Even on the day we were in the factory the workers were working overtime (based on our interviews and visual inspection). Nonetheless, PwC failed to note overtime violations in their report and rated the factory as “Acceptable” on working hours issues. In the Chinese factory, PwC auditors actually made verbal recommendations to the factory managers on how to exceed national overtime laws.
- Violations of wage laws. In the Chinese factory, workers were paid through a piece-rate system that required workers to work overtime at a rate that was actually less than the minimum wage. Workers were working overtime to catch up with their required quotas. PwC failed to discuss the piece rate pay system in their report or to recommend procedures to bring wages into compliance with local laws. PwC auditors in Korea recommended that the factory circumvent overtime wage laws by paying a “bonus” wage to workers instead of legally mandated overtime wages.
- Timecards that appeared to be falsified. PwC auditors failed to note that workers timecards were written by hand in the same pen, indicating likely falsification of time cards, in the Chinese and Korean factories. PwC auditors asked managers in the opening meeting to supply time cards and other factory records, allowing them enough time to alter these records. PwC auditors took factory records at face value, rarely questioning or verifying information.
- Health and safety violations. In addition to overlooking benzene and other chemical exposures in the Korean factory, PwC auditors failed to note worker exposures to chemicals and machine hazards in the Chinese factory. For instance, workers in a hot dyeing section had no protective equipment (no shoes, no gloves, no eye protection), and workers in a cutting room had no protective gloves or machine guards. Workers in the Korean and Indonesian factory were exposed to other carcinogenic chemicals, in addition to benzene, which PwC failed to report.

The PwC auditors also failed to adequately assess issues of sexual harassment, discrimination, deductions from workers’ pay, and disciplinary practices.

#### **MANAGEMENT BIAS IN PwC’S AUDITS**

PwC employs a standard audit tool for all of their monitoring around the world. The PwC auditing program is focused and designed primarily to solicit information from factory managers, rather than workers. The program includes efforts to prepare managers for the process, provides guarantees to managers about confidentiality, and even involves sending them a questionnaire before hand to prepare them for many of the issues that will be evaluated.

Most information is gathered from managers. In the Chinese factory, the managers were actually asked to enter wages and hours data into the PwC spreadsheet. Worker interviews were also

biased towards management. PwC auditors asked the managers to help them select workers to be interviewed, had the managers collect the workers' personnel files, and then had them bring the workers into the office for the interviews. The managers knew who was being interviewed, for how long, and on what issues.

The PwC monitoring system failed to protect against the major challenge of evaluating factory conditions – access to reliable information on normal operating conditions. To understand normal operating conditions, it is necessary to gather sensitive information from workers and other sources. The PwC auditing methodology largely ignores these crucial, non-management, sources of information. Factory managers have incentives to cover up or hide problems, and they are given ample opportunity to do just that.

### **FAILURES TO COLLECT INFORMATION FROM WORKERS**

The PwC program does not effectively gather information from workers. There is no pre-visit information collected from workers and no opening or closing meetings with workers. There is no protocol to explain the program to workers. There is no strategy for helping workers collect and then provide accurate, verifiable information. Workers are not given the chance to gather information before the audit, such as recent pay stubs or records of pieces worked on specific days to compare to management reported hours and wages. Workers don't have records in front of them to compare to management records. Workers are chosen "at random" throughout the plant.

All worker interviews were conducted on-site, inside the factory. In the China case, the interviews were conducted in a manager's office. In the Korea case, the interviews were conducted in a hallway just outside the manager's office. This opens the workers to potential intimidation and reprisals for critical comments.

The interviews were conducted from a standard interview form. The PwC auditor in China read the questions without looking up at the workers. Each interview lasted between 7 and 10 minutes. In Korea, both of the auditors were young male accountants.

The weakness of the auditing tool was compounded by its poor implementation. Many questions were skipped during the interview. The PwC auditor decided it was not necessary or useful to ask certain questions. In the Korea case, the auditor skipped entirely the sections on Freedom of Association and collective bargaining, and often omitted questions on discrimination, forced labor, and child labor.

The PwC program does not attempt to systematically compare what managers say to what workers say. There is no protocol for assisting auditors to compare management and worker statements, impressions, and overall analyses of key issues.

PwC failed to take seriously the challenges of interviewing workers or to establish a context within which sensitive issues could be discussed. Little effort was made to establish a relationship and rapport with workers. From my experience inspecting over 100 factories in Asia, interviewing workers in a factory conference room (with managers sometimes within earshot) is very unlikely to elicit honest and critical perspectives. Workers need a reason to be candid. Incentives are currently aligned against workers taking any risks by reporting problems. The challenge of getting accurate information on very sensitive subjects from potentially vulnerable workers should not be under-estimated.

PwC made no effort to talk to workers outside of the factory such as in their homes or in local gathering places. No effort was made to get information through intermediaries –people or organizations workers trust – such as NGOs, neighborhood organizations, church groups, unions,

local researchers, or newspaper reporters. PwC also failed to use safer means of soliciting information from workers such as anonymous complaint procedures, postage paid mailers, or telephone hotlines.

### **FAILURES TO ASSESS RESTRAINTS ON FREEDOM OF ASSOCIATION**

The PwC program did not adequately address sensitive issues such as freedom of association, collective bargaining, or forced labor. The PwC auditing tools and interview procedures failed to assess the underlying context for workers rights or organizing.

As mentioned, in the seven countries in which PwC conducted audits for the Independent University Initiative study, it found not one case of noncompliance on freedom of association or collective bargaining issues. These inspections included factories in countries in which repression of free trade unions is alleged, including China, Mexico, Pakistan, and El Salvador. In their program, PwC did not evaluate whether a factory in China with a management controlled union was in compliance with freedom of association codes, or whether a factory in Mexico with a government-controlled union was in compliance.

In the PwC monitoring program there were no questions asked which would gather information on how workers currently collectively respond to problems. Or what they do if their pay is reduced or withheld or delayed? Or what they do if their managers force them to work overtime against their will? And there were no questions that would get at the atmosphere for worker associations. In the cases where unions did exist, PwC failed to evaluate whether the union was a government-controlled, management-controlled, or an independent worker organization.

It is also unlikely that PwC's interview questions could ascertain accurate information on forced or child labor if it existed in a factory. The program fails to take seriously the difficulty of persuading workers who are under threats of physical or psychological punishment to provide accurate information. The program appeared to assume that factory managers would provide this information honestly.

### **FAILURES TO ADEQUATELY ASSESS HEALTH AND SAFETY PROBLEMS**

The PwC auditors did not conduct adequate health and safety inspections. Many developing countries have quite strict health and safety laws on the books. Korea for instance has laws equivalent to US OSHA. The PwC checklists were so general and vague that they could not evaluate if a factory in Korea is in compliance with local laws, or even whether the factory is providing a safe and healthy workplace.

Even for low-tech garment factories, the PwC audit program missed most key health and safety issues such as ergonomics, stress, noise, heat, chemical exposures (from spot removers), blood borne pathogens (from tagging guns), airborne particulates, electrical hazards, or training and hazard communication programs. Despite the widespread availability of effective checklists on all of these issues, the list used by PwC omitted many crucial items.

Interviews with workers also failed to evaluate important health and safety issues. Interviews and the walk-throughs did not adequately assess hazards associated with certain jobs, specific exposures, personal protective equipment (PPE) and training for exposed workers, individual illnesses and accidents, or worker concerns about general health and safety issues. PwC did not analyze existing safety programs, employee training, or equipment and facilities.

The PwC audit methodology also failed to interview or study the conditions of workers that face hazardous exposures in specific production areas.

## **FAILURES TO ADEQUATELY ANALYZE WAGES AND HOURS**

PwC's audit methods also failed to adequately analyze wages and hours issues in these factories. As labor inspectors can attest, there are many, many ways to avoid paying workers their mandated wages. What is on the official books is often different than what workers are actually paid.

PwC did not attempt to identify whether common strategies for paying sub-minimum wages were in use, nor did they prepare workers to answer questions on which they would have detailed information. The PwC program is not specific enough to gather information such as the number of hours worked in a recent week or the number of pieces sewn on a given day. If available, these data could be compared with figures provided by management to begin to assess its credibility.

The PwC audit program also did a poor job of analyzing deductions from pay. There are many tricks to deducting fees from wages. The audit program did not assess whether workers understood all of the deductions on their pay slips, or compare these to what workers believed they were being paid.

The PwC auditors failed to inquire about or explain discrepancies in time cards such as hand-written times for workers in the China factory. The time noted to start the shift was recorded by the time clock, but the time-out (when the workers ended their shift) was written by hand for several weeks. PwC did not evaluate who or how time cards are controlled. They did not verify that the workers themselves were punching in and out.

As mentioned, in China the PwC auditors actually had the factory managers enter working time data into PwC's spreadsheet. Managers could easily manipulate this data while entering it into PwC spreadsheets. The auditors did not compare individual worker's time cards to management reported hours.

In Korea, the auditors did not use a spreadsheet during the factory visit. Wages and hours were analyzed by hand, and similarly depended on management reported information.

## **INCOMPLETE FACTORY INSPECTION PRACTICES**

Actual factory walk-through inspections were extremely brief and cursory. In the Korean factory, the factory walk-around lasted only 30 minutes (out of a total 5.5 hours at the factory). The PwC auditors analyzed only very basic life safety issues, checking fire safety issues, blocked aisles, and bathroom cleanliness. The visual inspection was not systematic. Factory managers accompanied PwC during the entire inspection.

PwC auditors did not appear to have adequate knowledge of occupational health issues or hazard recognition. The auditors used no monitoring or sampling equipment such as simple sound level meters, tape measures (to check aisle and exit widths), current pens (to assess electrical hazards), or even a temperature gauge. The monitors did not use a checklist for health and safety issues.

## **FLAWED REPORTING**

PwC's system for reporting the findings of its audits also leads to problems. The monitoring summary reports that PwC provides to its clients – in this case the university study team - are too condensed to be meaningful. The reports reviewed for the factories I visited in China and Korea do not convey an accurate picture of the conditions in these factories. They miss many major issues, and paint a false impression of the factory's compliance with local laws.

The reports do not provide enough information to seriously assess firms along important performance practices, or to analyze best practices and worst practices. The PwC reports present a simple analysis of compliance versus noncompliance. The auditing process does not provide enough information to evaluate the complex issues facing workers in different political and economic contexts around the world.

PwC also appears to cut and paste liberally from their reports. Language from reports on two factories in Korea were identical in places, as was language from reports on two different factories in China. Language identical to the Chinese reports was even found in a PwC audit of a shirt printing factory in Wisconsin.

Nike recently made public three PwC reports (available at [www.nikebiz.com](http://www.nikebiz.com)). These highlight how little information is actually provided in the PwC reports.

## **CONCLUSIONS AND RECOMMENDATIONS**

Monitoring can be an important component of efforts to enforce labor laws and codes of conduct around the world. Proper monitoring can identify problems in contractor factories, measure and evaluate performance, and help to chart strategies for improving conditions. However, flawed monitoring can also do more harm than good. It can divert attention from the real issues in a factory, provide a falsely positive impression of factory performance, certify that a company is “sweat-free” based on very limited evidence, and actually disempower the very workers it is meant to help.

PwC is now one of the key corporate players in labor practice monitoring. The company conducts more audits than any other company in the world, and is a powerful participant in several monitoring and certification schemes. However, if the three cases reviewed for this report indicate the state of their art, there is much reason for concern about PwC’s monitoring systems and findings.

PwC’s monitoring is flawed in a number of important regards. While the company’s auditors were able to find minor problems in the factories I inspected with them, they consistently overlooked larger, more important issues. PwC’s audit reports glossed over problems with freedom of association and collective bargaining, overlooked serious violations of health and safety standards, and failed to report common problems in wages and hours.

In my opinion, these problems go beyond the level of poorly trained auditors and flawed audit protocols. The significant and seemingly systematic biases in PwC’s methodologies call into question the company’s very ability to conduct monitoring that is truly independent.

And while there is no one perfect way to monitor a factory, there are clearly better and worse monitoring practices. One clear recommendation from this research is that monitoring systems such as PwC’s must be much more transparent and accountable. The confidential nature of PwC’s audits allows the company to produce reports that exclude many sources of information, cannot be verified by other researchers or NGOs, and fail to support broader public efforts to improve factory conditions.

Universities and corporations implementing monitoring systems should commit to making their factory audits and auditing methodologies public to support this kind of transparency, accountability, and verification.

Consumers obviously need to be able to compare factories and firms through harmonized or comparable audits. Procedures are thus needed to compare monitors and their monitoring

methods. This kind of harmonization and accountability exists in the financial auditing field, but not in the labor practice arena.

There is also a need to establish systems which insulate against conflicts of interest for monitors. Monitors who have a financial relationship with companies they are auditing – such as through accounting or consulting services – should be excluded from monitoring these same company’s labor and environmental practices.

It is also critical that workers be involved more centrally in monitoring practices. Workers are almost always closest to problems in a factory. They should thus play a central role in analyzing and reporting on working conditions. Workers should be given clear assurances and protections for reporting problems, and local NGOs and worker-support organizations should be involved in monitoring and verifying these conditions.



## **APPENDIX A**

### **EXAMPLES OF PwC MONITORING PRACTICES**

#### **Shanghai, China Factory**

On June 15<sup>th</sup>, 2000, I inspected a 300 worker garment factory outside of Shanghai with two PwC auditors. The PwC auditors were both financial accountants with short-term training in social auditing. The factory included knitting operations, fabric finishing, dyeing, sewing, and packing. The factory exported 100% of its products to customers in the US, Europe, and Japan. The factory's main product is knit apparel. During the inspection I was able to evaluate factory conditions and analyze PwC's auditing protocols and methods.

The PwC inspection began with an opening meeting with factory managers in which PwC auditors explained the process of the inspection, what would be covered, and how. Auditors asked factory managers a series of overview questions on factory practices and compliance with local laws on hours of work, freedom of association, forced labor, wages, etc.

#### **Walk-Around**

The PwC auditors then conducted a 45 minute walk-around inspection of the factory floor to evaluate health and safety and other issues. The factory walk-around inspection for this factory was completely unsystematic. The inspection started at the end of the production line, and jumped around from section to section. The auditors did not use checklists. The PwC auditors took almost no notes during the walk-around. The auditors clearly had little training on how to do a health and safety audit.

The auditors did note a number of health and safety issues in the factory, many after they noticed I was looking at a particular hazard. However, the auditors missed more health and safety issues than they found, including:

- Blocked aisles in the knitting room and fire exits.
- Inadequate worker health protections in the dyeing section. Workers were wearing flip-flop sandals around the hot-dye machines. Workers did not have respiratory protection while pouring dyes into mixers.
- No machine guarding of large chains and sprockets on a polar fleece machine, and machine guards missing on many sewing machines.
- No information on chemical use in the factory. No labels explaining the contents or health effects of the spot cleaners used in the plant. No evaluation of respiratory protection for workers using chemicals.
- Failure to provide mesh metal gloves to workers using hand cutting tools.
- No needle guards on sewing machines.
- Over-crowded dorms with inadequate bathroom facilities. The dormitory had 12 women to a room and 48 women per floor. Each floor only had one bathroom, and each bathroom had only two shower heads and four toilet stalls.

#### **Worker Interviews**

PwC auditors selected 15 workers to be interviewed from the factory floor during the walk-around. These were selected based on "looking young." PwC then selected 10 names from the payroll list based again on age or low pay. This seemed to me to be a questionable sampling method, as this selects only the most vulnerable and weakest workers to interview. These workers are less likely to know about general practices or trends in the factory, or to complain about problems. PwC then gave this list of 25 names to the factory manager. The human resources department then pulled together the workers' contracts, pay-roll, and time-cards.

One of the PwC auditors conducted all of the interviews. Each interview was based on a standard survey instrument. Interviews last 7-10 minutes per worker. By the end of the 3.5 hours of interviewing, the PwC auditor was extremely tired and asked the questions in a rote fashion. The auditor seldom looked up at the workers while reading the questions and recording the answers. The auditor did not attempt to build rapport with workers. She did not ask where they were from or how long they had been in the factory, or even which section of the plant they worked in.

The PwC auditor actually answered some of the questions in the survey without asking the worker, assuming she knew the answer without asking. She did not follow-up on uncommon answers. She never supplemented the survey with additional questions (as they are instructed to do) to obtain a better understanding of conditions. The auditor was also embarrassed to ask several questions in the survey related to discipline and so skipped those questions.

The PwC auditor recorded one of two answers for every worker regarding working hours. She wrote either 50 or 60 hours per week for every worker. The auditor also filled out the same answer for every worker on starting time and quitting time, and required hours of work. She wrote no information on overtime or days off. This information was clearly inaccurate based on an analysis of worker's time cards which I examined on site.

The health and safety information from the interviews was largely useless. For example, not one worker mentioned a health problem. Workers did not seem to understand the questions about personal protective equipment. The auditor failed to explain concepts that the workers did not understand.

The questions on freedom of association did not address the actual situation in the factory (and in China for that matter). The PwC auditor did not explain what a union is, or what role workers might play in it. Because the factory has a management run union, the PwC auditors found no problems on freedom of association. Questions regarding collective bargaining were skipped entirely.

In the concluding meeting and report, the PwC auditor summarized what she learned from interviewing the 25 worker interviews. She noted only two things: "Seven workers don't know how to use fire extinguishers. Some workers don't have copies of their ID cards."

### **Payroll analysis:**

As mentioned, PwC asked the factory's managers to input the data on wages and hours into the PwC spreadsheet.

The PwC auditor reviewed 1 to 2 months of timecards. The auditor did not find any problems with the time cards. However, even based on a very cursory review, I found a number of significant problems, including timecards that weren't signed by workers, timecards that were almost identical, making it look like one person was punching in for others, and timecards that were hand-written.

From the timecards reviewed it was clear that many workers were working far in excess of maximum overtime laws. One worker worked 316.5 hours and 20 consecutive days in April, while the legal maximum is 204 hours per month. Another worker worked 303.5 hours and 12 consecutive days. The factory manager explained, "Timecards are just used to make sure workers show up on time."

The factory's payment system operates according to a piece rate system. In sewing for instance, the workers get paid according to a production quota, as well as being evaluated by managers on

quality, timeliness, and extra production. Under the piece-rate system, salary has little connection to the working hours.

By using the piece rate system, the factory was violating local laws and university codes on overtime wages. And while PwC did note that overtime pay was “not properly compensated,” they did not analyze the underlying payment system which leads to this or recommend changes. Under the piece rate system, some workers were also likely being paid below the minimum wage during normal working hours. PwC failed to analyze this. When asked about the obvious solution to the overtime pay problem – paying workers the legally mandated pay rate of 150% – one PwC auditor explained simply, “It is not possible to multiply the piece rate by 1.5” for overtime work.

### **Concluding Meeting**

The PwC auditors ended the day with a meeting with factory managers to discuss the problems identified during the day and to present a list of recommended corrective actions. They noted the most obvious problems and asked the factory managers to resolve these.

PwC found:

- The factory is in “acceptable” legal compliance.
- 20 cases of overtime violations.
- 20 cases of overtime pay violations.
- Cases of exceeding the 6 consecutive day rule.
- No violations of freedom of association or collective bargaining
- No violations of child labor.
- No violations of forced labor.
- No cases of discrimination.
- No problems with disciplinary practices.
- A list of minor health and safety issues, including:
  - There were no emergency lights installed in the workshops or the canteen.
  - There was no alarm system installed in the facility.
  - No emergency evacuation plan was posted in some workshops.
  - Exits in knitting and sewing workshops were locked during working hours.
  - Several employees sampled were not trained in the use of fire extinguishers.
  - Some workshop exits did not have “Exit” signs installed. Some doors not used as an exit were not marked as “Not an Exit”.
  - There was no water supply in the male washroom near the canteen.
  - No knife guards were installed on the cutting machines.
  - Workers in knitting workshop were not provided with earplugs and masks.

As PwC stated in their final report, the factory manager “accepted all findings and recommendations and proactively expressed his intention to enhance and modify current practices to ensure that all of the findings from the monitoring visit will be corrected in their new facility as a matter of priority.”

The PwC auditors then went on to verbally recommend how the factory could circumvent overtime laws, explaining that the factory can apply for a waiver of maximum hours from the provincial government during the peak season in order to legally exceed overtime laws.

## **Seoul, Korea Factory**

On June 21<sup>st</sup>, 2000, I inspected a 60 worker garment factory in Seoul, Korea with two PwC auditors. These two male auditors were accountants with short-term training in social auditing. The factory was primarily a sewing factory for football jerseys and sweatshirts. The factory had cutting, sewing, cleaning, ironing, and packing operations. The factory exports 100% of its products.

### **Opening Meeting**

The PwC auditors asked the manager a list of questions on the factory's production and his treatment of workers. They asked for instance, if he used any involuntary labor or child labor? Whether there were any cases of harassment or discrimination in the factory? Whether the workers were allowed to freely associate and form a union? Whether there were any health and safety problems in the factory? To each question on this list the manager either answered "No, of course not," or joked with the auditors about how he likes to oppress the workers.

### **Walk-Around**

The factory floor inspection lasted 30 minutes for this factory. The factory's president accompanied the PwC auditors around the factory and answered questions.

The auditors noted a small number of health and safety issues in the plant, including "toilets were not marked 'Gents' and 'Ladies,'" and a warehouse (actually a closet) should be marked "Danger" on the door. The PwC auditors missed more issues than they found.

For instance, they completely overlooked the use of spot cleaners called "Benzol" and "Pull Out #2." Benzol is a trade name for Benzene, a carcinogenic cleaner. Pull-Out #2 contains methylene chloride and perchloroethylene, also carcinogens. All of these chemicals have been banned by the licensee sourcing from this factory. PwC failed to identify this use of banned substances.

PwC also failed to note that workers were not provided adequate protections while using these chemicals. The ventilation for the chemical spraying area was inadequate. Personal protective equipment was inadequate. Workers had no training in chemical handling. In addition, sewing machines lacked needle guards and some sewing machine belts were unguarded.

### **Interviews**

Workers were selected off the factory floor for interviews. The president of the factory actually wrote down the names of the workers and then went and got them for each interview. Workers were selected based on looking young or having low wages.

Most of the workers in this factory were women between the ages of 30 and 50. Both of the PwC auditors were young men.

The interviews were conducted in a hallway just outside the main work room. Interviews lasted 15 to 25 minutes each. The factory president went and got each worker and brought them into the hallway where the interviews took place.

The PwC auditor skipped entirely over the sections of the survey on Freedom of Association and Collective Bargaining (Section C), child labor (Section D) and forced labor (Section E). The PwC auditor explained "there is no union in this factory, so I don't need to ask these questions."

The auditors reported the factory was in compliance with Freedom of Association and Collective Bargaining standards.

One of the PwC auditors was uncomfortable interviewing the workers and laughed when he asked the questions on disciplinary action (questions 49 and 54), and when he asked questions on access to toilets (question 70).

The interviews revealed that workers did not understand the contents of the licensee's Code of Conduct. When asked what was in the code, workers answered with a range of guesses from "environment" to "child labor."

None of the workers knew that overtime was required to be paid at 150% of normal working hours. Workers explained that this factory does not pay overtime.

The PwC auditor often lumped questions together (such as all of Section F on Non-Discrimination), then marked all of the answers the same.

The PwC auditor completely missed the health and safety issues associated with one of the workers interviewed regarding use of the benzene-based spot cleaners. He did not think to ask this woman about the chemicals she uses or the health impacts she has experienced. The auditor also failed to ask about the use of "Pull Out #2."

### **Closing Meeting**

In the closing meeting, the PwC auditors primarily joked with the factory manager and discussed the few problems they identified, including:

- The factory wasn't paying required medical insurance.
- The factory wasn't paying required pension.
- The factory needed to install a sign for the storage room with dangerous materials, and signs for the toilets.

The auditors did note verbally several problems with time cards. However, they explained that these inconsistencies "are not a violation but it should be improved." The manager explained the "We don't really use the time cards. So we sometimes fill them out by hand. Sometimes there is an additional 10 or 20 minutes here or there."

The auditors also verbally discussed the lack of records on paying overtime at the required 150% rate. The PwC auditors recommended that "you pay a 'bonus' instead of paying overtime." PwC essentially advised the company on how to circumvent the local labor law by not paying overtime.

## **Jakarta, Indonesia Factory**

On July 1<sup>st</sup>, 2000 I inspected a garment factory just outside of Jakarta, Indonesia that produces university apparel for several prominent licensees. According to factory managers, PwC had inspected this factory at least two times in the last year, including one occasion with a student involved in a Nike auditing project.

Neither Nike nor the factory would provide me with a copy of the PwC audits of this factory. However, based on my discussions with Nike and Reebok (which also contracts from the factory), it is clear that PwC failed to identify major health and safety issues in this plant.

As in the Korean factory, this factory was using a benzene-based chemical called “Benzol” for spot removal and another product called “Pull Out #2” which contains methylene chloride and perchloroethylene. Approximately 20 workers were being exposed to Benzol in the factory. Use of these chemicals is against Nike and Reebok’s company policies.

In this factory, there was no chemical information sheet, Material Safety Data Sheet, or other information on the potential health impacts of exposure to Benzol. The managers were unable (or unwilling) to provide even a label or empty container showing what was in Benzol.

I asked the workers exposed to this substance if they had any information on the chemicals or their health impacts. In each case, the workers said that they didn’t think there were any health effects from the chemicals. This lack of worker training is particularly troubling because of the potentially fatal effects of exposure to benzene.

In addition, there was inadequate personal protective equipment for the workers using Benzol. Benzene can be absorbed through the skin and yet no proper gloves were being worn by employees handling Benzol. A small number of respirators were available, however, these were either being worn incorrectly or not at all. Out of six workers using Benzol in one small work room, two had on respirators (although these were clearly not fitting tightly and thus not providing any protection) and one left her respirator hanging on a wall. Ventilation was also inadequate in this area. The factory had no respiratory protection program in place for these workers.

Other health and safety problems identified in this factory included: noise problems in the embroidery section; a lack of machine guarding in the warehouse; a lack of machine guarding on band-knives in the cutting room, and failures to post safety signs in the Indonesian language.

PwC staff have reportedly stated that they were not paid to look at health and safety issues in this factory, only management documentation. This however, once again, calls into question the independent nature and comprehensiveness of PwC’s auditing process. This case shows that auditors often only evaluate the issues that they are paid by the manufacturers to evaluate.

## **APPENDIX B: ABOUT THE AUTHOR**

Dara O'Rourke is an Assistant Professor and Acting Head of the Environmental Policy Group in the Department of Urban Studies and Planning at the Massachusetts Institute of Technology (MIT). Dr. O'Rourke has inspected over 100 factories in Asia as a consultant to the Swedish and Dutch governments, the United Nations Industrial Development Organization, the United Nations Environment Programme, the World Bank, and as an academic researcher. Dr. O'Rourke's research focuses on industrial environmental issues and strategies for preventing pollution and workplace health problems. He is currently engaged in research on labor standards and independent monitoring systems. Dr. O'Rourke received his Ph.D. from the University of California at Berkeley.

The analysis for this report was conducted while doing research for the Independent University Initiative (IUI), a research project supported by Harvard, Notre Dame, Ohio State, the University of California, and the University of Michigan. This consortium of universities undertook to investigate the situations of workers in the plants that produce their logo-garments. The university consortium hired PwC to conduct the factory auditing for the study. Dr. O'Rourke was hired to participate in the factory monitoring, to provide additional analysis of working conditions, and to evaluate monitoring methods. The project allowed him to evaluate PwC's monitoring methods and practices in detail. This report is neither endorsed nor sanctioned by the universities, the IUI, or MIT.

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