



## International Labor Rights Forum

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### International Labor Rights Forum Statement Regarding Wal-Mart's 2006 Ethical Standards Report

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15 August 2007 - Wal-Mart Stores, Inc. released its 2006 Report on Ethical Sourcing<sup>1</sup> today, touting increased factory audits and “new approaches” to guaranteeing basic labor rights for its massive workforce. In the report, Wal-Mart CEO Lee Scott acknowledges that “improvement of factory working conditions in our supply chain remains a challenge.” Unfortunately, the report plays with numbers (reducing, for example, the target percentage of unannounced inspections), ignores plants that have been of particular concern, gives only a vague sense of how exactly it codes factories, and avoids clear goals for the future. Most importantly, without a commitment to *paying the price* required to lift up the company’s exploited workers, Mr. Scott’s attempt at frankness about challenges comes across as a gross understatement.

Several of the report’s claims concerning improved supervision of supplier factories ring hollow. For example, responding to years of complaints that Wal-Mart routinely alerts managers before it inspects factories, the report applauds the company for raising the percentage of unannounced audits to 26 percent of all audits in 2006. Yet this falls short of Wal-Mart’s goal of 30 percent for the year (announced in its 2005 report) and is well below the percentage of audits that are conducted unannounced by other companies, such as Reebok, which claimed 46 percent of its audits were unannounced in 2005. How much effort would it take for Wal-Mart to simply not alert its suppliers about impending inspections?

Sadly, looking forward, Wal-Mart does not offer any new, concrete benchmarks for improving workers’ conditions. The company says it “wants to create a breakthrough model that is based on positive reinforcement and incentives rather than policing and punitive measures.” Some components of this “model” appear good, such as establishing “longer-term supplier relationships,” but Wal-Mart admits that “details of the strategy, including milestones and metrics, are still being developed” and that we will have to wait until the next year’s Ethical Sourcing Report for specifics. In other words, there are no goals for the coming year.

If anything, Wal-Mart appears to be trying to lower expectations. While, as noted, the company once set a goal of 30 percent unannounced audits, it now writes, “We believe 25 percent is the ideal balance between announced and unannounced audits” (in the report’s appendix, 25 percent is actually described, deceptively, as “increasing the percentage of audits that are unannounced”). Factories rated “Green” were once re-audited after one year, but they are now given two years because this “gives factories increased incentive for achieving a Green rating.” Of course, this also gives factories longer to resolve “Green” problems, such as missing pulley guards on sewing machines.

After years of Wal-Mart critics raising concerns related to Wal-Mart’s approach to their compliance program known as the “Ethical Standards Department,” Wal-Mart needs to engage and listen to its critics. For instance ILRF has sent numerous letters of concern related to various factory situations, all of which have been ignored, such as one pertaining to the T.O.S. Dominicana Factory in the Dominican Republic, where unpaid overtime and verbal harassment of workers are both common. Furthermore Wal-Mart’s purchasing policies have created a dire situation at the factory-level, where managers are forced to accept orders from Wal-Mart while knowing full well that it is *impossible* to produce orders according to the multinational’s

Standards for Suppliers<sup>2</sup>, given the price Wal-Mart is paying. It is Wal-Mart's purchasing policies, in addition, that create a situation of overtime hours per week reaching over 100 hours, as factories meet the unreasonable delivery schedules.

In conjunction with multi-stakeholder consultation, it is imperative that Wal-Mart begin to identify and work with independent grassroots monitoring organizations, such as COVERCO in Guatemala, that have been able to add an integral perspective to the monitoring and remediation process. Working with NGOs, trade unions and other stake holders in the vicinity of its supplier factories will provide Wal-Mart the ability to have a more well-rounded monitoring approach, in which the company is able to receive ongoing information from the very sources that are trusted by workers in their communities.

While Wal-Mart includes basic information about their ongoing programs, such as the Model Factory Program and the Factory Five Program in the report, it's unclear what the measurable goals of these programs are. Wal-Mart includes information about what it has done in Jordan, but ignores another country they have focused on, the Philippines. Wal-Mart doesn't mention the situation at the Chong Won Fashion, Inc. factory in Cavite, Philippines, in particular: the factory had been audited several times by Wal-Mart, but Wal-Mart wasn't able to find clear violations documented<sup>3</sup> by the Worker Rights Consortium. These included forced overtime, non-access to drinking water, and freedom of association violations. It wasn't until organizations like ILRF, Maquila Solidarity Network, Workers Assistance Centre, United Students Against Sweatshops and Clean Clothes Campaign came to Wal-Mart with concerns about this factory that Wal-Mart took the time to have a closer look.

Wal-Mart continues to divulge information related to the types of violations found during its audits but doesn't identify its plan for fixing these violations, either in the short-term or long-term. Wal-Mart provides a thorough list of the frequency of violations, but doesn't even indicate what color-coded rating the various violations received in their audits. ILRF is pleased to see the percentage of "Orange"-rated factories decreasing, though it is unclear which violations merit an Orange rating. Finally, ILRF is alarmed by the high number of violations present in the Far East Region and would like to see more information about Wal-Mart's plan to focus on the violations occurring in over 50 percent of factories in a given region, such as working off the clock.

The 2006 report paints efforts at corporate social responsibility as an uphill battle, clouded by "complex issues"—an altogether accurate depiction. Sadly, Wal-Mart's refusal to rethink its core business strategy, which consists of paying absolute bottom prices for its products, all but ensures that it will make little progress in respecting workers' rights. And the company's refusal to open itself to genuine, independent monitoring means that we will have to look elsewhere other than its annual reports for an objective reading of factory conditions.

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<sup>1</sup> <http://walmartstores.com/Files/2006ReportonEthicalSourcing.pdf>

<sup>2</sup> <http://walmartstores.com/Files/Wal-MartStandardsforSuppliers.pdf>

<sup>3</sup> [http://www.workersrights.org/Freports/Chong\\_Won\\_Report\\_2-21-07.pdf](http://www.workersrights.org/Freports/Chong_Won_Report_2-21-07.pdf)