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# **WE Europe: A report on CSR policy and SA 8000**

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## Contents

Contents .....	2
Introduction of the research.....	3
<b>1. WE Europe B.V.: a company profile .....</b>	<b>4</b>
1.1. Introduction.....	4
1.2. History .....	4
1.3. Ownership structure WE Europe B.V. ....	6
1.4. The management of WE Europe.....	7
1.5. Financial facts and figures of WE International. ....	8
1.6. Strategy towards the market: .....	9
1.7. Membership of branch organisations .....	11
<b>2. The SA 8000 certification system .....</b>	<b>12</b>
2.1. SA 8000: an introduction .....	12
2.2. Criticism on the SA 8000 by NGO's and trade unions .....	14
2.3. Corporate Involvement Program (CIP) .....	16
<b>3. WE Europe: CSR Policy.....</b>	<b>17</b>
3.1. WE and its CSR history.....	17
3.2 .The implementation process of SA 8000 within the Company.....	17
3.2.1. <i>The certification of the Head Office</i> .....	18
3.2.2. <i>To put the demand at the suppliers.</i> .....	18
3.2.3. <i>The pre-audit phase</i> .....	18
3.2.4. <i>The certification phase of the suppliers</i> .....	19
3.2.5. <i>Implementation experience according to WE Europe</i> .....	19
3.3 Operational aspects of the CSR policy of WE Europe .....	20
3.3.1 <i>Supply chain responsibilities</i> .....	20
3.3.2 <i>Stakeholder involvement</i> .....	20
3.3.3. <i>Transparency and reporting</i> .....	20
3.3.4 <i>Independent verification</i> .....	21
3.4 Responsibilities within the company regarding CSR.....	22
3.5. The environmental policy of WE Europe.....	22
<b>4. WE Europe and its suppliers .....</b>	<b>24</b>
4.1 Outsourcing trends of WE Europe.....	24
4.2 WE Europe and the number of certified suppliers.....	25
<b>5. Conclusions by SOMO on the CSR policy of WE Europe .....</b>	<b>27</b>
<b>ANNEX 1: Abstract Monitoring and Verification Terminology guide Clean Clothes Campaign .....</b>	<b>29</b>

## Introduction of the research

SOMO is a centre for research on multinational corporations. SOMO has been critically following and researching developments in the field of corporate social responsibility (CSR) and corporate accountability for many years. SOMO's expertise in this field lies primarily with labour standards, human rights and environmental issues in developing countries, and the (inter)national initiatives that are being developed to improve corporate behaviour in these areas. This is done both through research into the actual practices of multinational corporations in developing countries, and by examining such issues as implementation, monitoring and independent verification of CSR standards.

In 2003 and the first half of 2004, SOMO conducted a sector study on the garment industry.<sup>1</sup> The study described trends and 'critical issues' in the sector from the perspective of poverty eradication and sustainable development. The trends and critical issues were identified through discussions with organisations and trade unions working on garments and textiles. The study aimed to give insights and background information for groups working on improving the situation in the garment industry and to provide arguments for civil society organisations to feed the debate on trade & investment and corporate accountability. The study was conducted by SOMO in collaboration with Southern partners. SOMO focused on the corporate structures and relations throughout the sector and the production, supply and subcontracting chains. Another part of the sector study conducted by SOMO includes a wider study on Turkey's changing position in the worldwide garment industry, country case studies on Malawi and Indonesia, and five bulletins, each focusing on a particular issue that currently directs the garment industry.

As part of the SOMO study on the garment industry, SOMO conducted two company case studies on the Dutch companies GSUS and **WE Europe**. These companies were selected for a number of reasons:

**WE Europe** was selected because of its involvement in the SA 8000 system. SA 8000 is one of the initiatives that receives much attention in the CSR debate. Therefore, SOMO was interested to assess the level of implementation of CSR norms by one of the main proponents of SA 8000, namely WE Europe.

GSUS, a small Dutch garment brand was selected because it is a young, fast-growing company. SOMO was interested to assess to what extent such a young newcomer in the field was working with CSR issues.

The case studies on these two companies have focused on their corporate structures, CSR policies and implementation systems in place. However, it was beyond the scope of this research to assess the actual labour conditions in the factories that produce for these companies.

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<sup>1</sup> This study was co-financed by the Dutch Ministry of Foreign Affairs

## 1. WE Europe B.V.: a company profile

### 1.1. Introduction

WE Europe B.V. is a Dutch family owned fashion retailer that operates in the Netherlands, Belgium, Germany, France, Luxembourg and Switzerland. Traditionally, men's clothing's has been the company's core business, and still the majority of the stores are men's clothing's stores (WE Men), where also often children's are clothing's available. The women stores are called 'WE Women' and the combined shops for men and women are just called 'WE'. In May 2004, the total number of stores was 231, of which 128 in The Netherlands, 44 in Belgium, 11 in France, 21 in Germany and 26 in Switzerland<sup>2</sup>.

WE Europe had consolidated sales of 273 million euro in the financial year 2002/2003. Compared with fashion retailers number two and three of Europe, C&A Europe<sup>3</sup> and H&M Hennes & Mauritz AB, which both have sales figures over 5 billion euro<sup>4</sup>, one can say that WE Europe does not belong to the large players in this field.

WE Europe doesn't have its own production facilities. There are about 300 suppliers from which they purchase their clothing. Some of their main suppliers are located in China, Bangladesh and India. They are making use of about 30 main suppliers<sup>5</sup>.

WE Europe is one of the few fashion retailers supporting the Social Accountability Standard, SA 8000.

### 1.2. History

In 1917 Mr. *E.H.* De Waal started a wholesale business in men clothings in Amsterdam, named, Sir Edwin. His son, *Kees* de Waal took over the management in 1961. He transformed the men's apparel wholesaling business into a retail distribution concept focused on mid-market clothing. The first shop operated under the name the '*Captain Shop*', but soon this was changed into '*Hij*'.

In 1977, the 25-year old son *Ronald* de Waal, became active in the family business. He began with the expansion abroad, starting with buying Swiss stores for men's clothing. Stores in Belgium, Luxemburg, Germany and France followed.

At the beginning of the '80-s, Mr. *Kees* de Waal was getting into trouble with the tax authorities. There was the suspicion of evading taxes by using post-box companies in Hong Kong. The investigations lasted 8 years, but at the end there wasn't sufficient evidence and Mr. *Kees* de Waal went scot-free. During these investigations *Ronald* de Waal took over

<sup>2</sup> According to the website of WE International, <http://www.we.nl/> visited at May 17 2004.

<sup>3</sup> 5 billion Euros turnover for C&A in Europe in 2000, [http://www.fashion-lifestyle.com/euro/about/companyinfo/default\\_.asp](http://www.fashion-lifestyle.com/euro/about/companyinfo/default_.asp)

<sup>4</sup> 5,805.9 million euro, turnover of 2002,

<sup>5</sup> Genova, M., (2003) "Kledingconcern WE, Gegarandeerd geen Kinderarbeid", in People Planet Profit, Vol. 1, summer 2003

the management (1984). After the acquisition of the women's clothing's retailchain Witteveen, the first 'Zij' (She) Store was launched in 1987.

In October 1998, WE International tried to take over the departments stores of Koninklijke Bijenkorf Beheer (KBB). But KKB didn't want to be taken over by Ronald de Waal and his concern, and due to the protection shield of KBB against hostile take-overs, Ronald de Waal didn't succeed<sup>6</sup> in his attempt.

As a consequence of this unsuccessful take over, there was a lot of media attention for WE, that until then avoided every media. WE International is known as a very closed company, comparable with C&A, also a Dutch family owned clothing retail company. They prefer to operate in the background. This means that WE International is reluctant in giving (financial) company information to the public. Because WE International is not quoted on the Stock Exchange, it's not obliged to publish annual reports. And they indeed choose not to, while other companies without a quotation, frequently do publish annual reports because it is their own choice to be transparent about the company. But during the time of the take-over failure, Ronald de Waal was forced to come forward and to give some openness.

In October 1999 WE International took over the Swiss Beldona Group. This lingerie chain consisted of 76 shops selling luxury brands as La Perla, Warner, Hamro en Marie Jo. With the shops of the Beldona Group the numbers of shops in Europe of WE International grew at that time to a total of 336<sup>7</sup>.

With the purpose of becoming a strong European brand the name "Hij & Zij" changed into "WE" (WE Men & WE Women) in 1999.

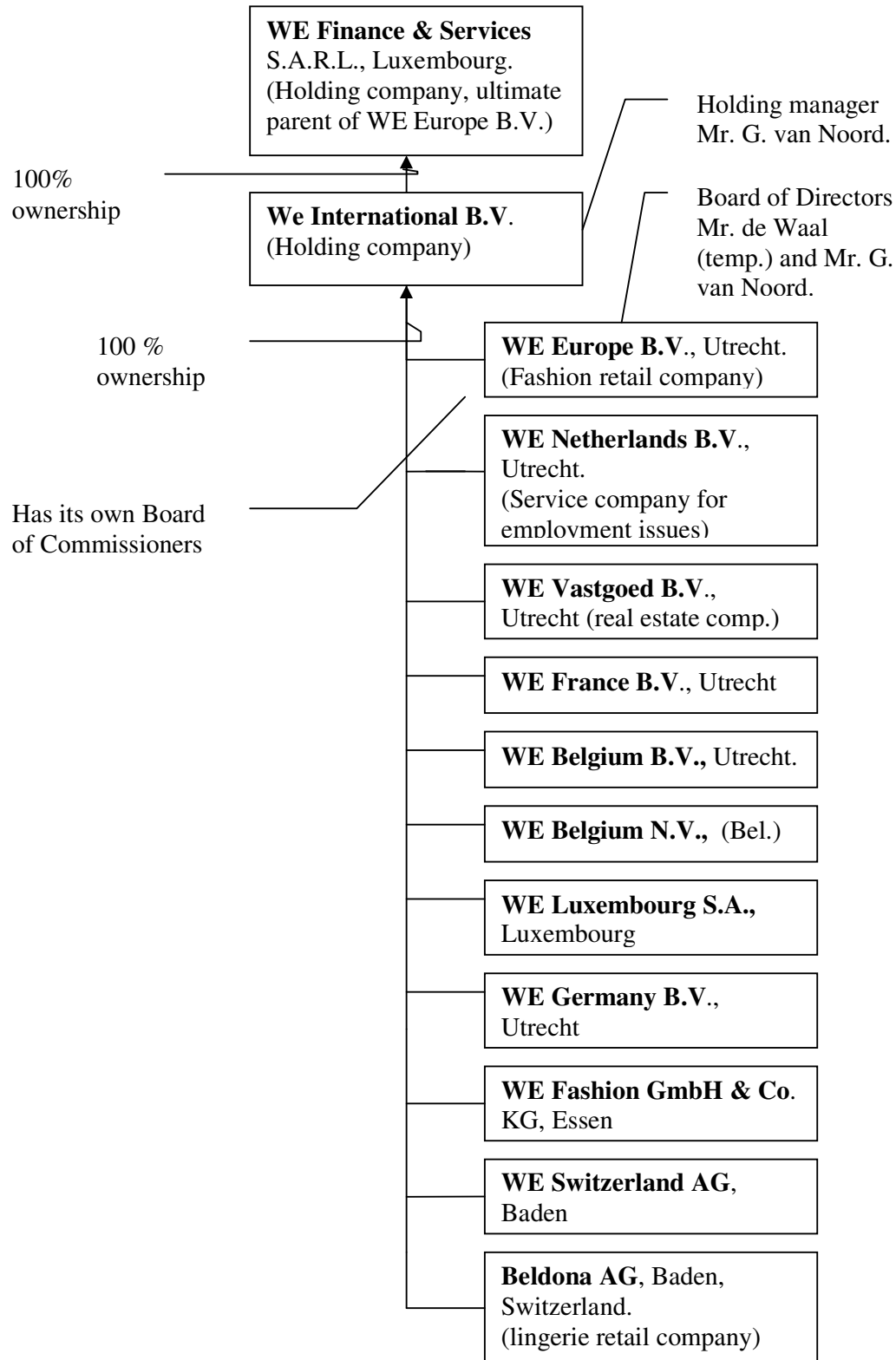
1962: first HIJ (HE) store
1978: expansion to Switzerland
1983: expansion to Belgium
1987: first ZY (SHE) store
1989: opening head offices HIJ and ZY in Utrecht
1992: expansion to Germany
1995: expansion to France
1999: HIJ/HEY/ZY get a new name: WE (WE Men / WE Women) <sup>8</sup>

<sup>6</sup> Vendex did succeed, the company is now known as Vendex KBB.

<sup>7</sup> De Telegraaf, October 18, 1999, WE neemt Zwitserse lingerieketen over.

<sup>8</sup> <http://www.we.nl>

**1.3. Ownership structure WE Europe B.V.**



The parent company of WE Europe B.V. is the holding Company WE International B.V.. The ultimate parent is the WE Finance & Services s.a.r.l., located in Luxembourg. Mr. Ronald de Waal is the owner and only shareholder of WE Finance & Services.

Mr. Ronald de Waal is a member of several private boards in Europe and the USA<sup>9</sup> and also sits on the board of the Dutch National Retailers Association, The Nederlandse Raad van Detailhandel (NRD).

#### 1.4. The management of WE Europe

After having three generations of De Waal in charge, a non family member became executive director in 1997. Ronald de Waal decided to resign as director and to become a ‘delegated commissioner’ at WE Europe. Which means that he is having more influence than a ‘normal’ commissioner: “sometimes I’m several days in Utrecht, checking the business”.<sup>10</sup>

At the time of the first interview of SOMO with WE Europe, (October 2003) the position of chairman of the Board of Directors of WE Europe was fulfilled by Mr. Jan Huisman. In the summer of 2004, a restructuring of the management had taken place, which had brought some positional changes. As a result, the position of Chairman of the Board of Directors of We Europe was still vacant at mid August 2004.<sup>11</sup> This position is temporarily fulfilled by the owner of the company: Mr. Ronald de Waal. The position of the second member of the Board of Directors (formely Mr. Dickmann) was taken over by Mr. G. van Noord. At the same time, Mr. G. van Noord is the holding manager<sup>12</sup> of WE International.

#### Board of Directors, consisting of two members.

Chairman, vacancy (temporarily Mr. de Waal))	(formely Jan Huisman)
G. van Noord	(formely Drs. A.F.C. Dickmann)

#### Supervisory Board

Ronald de Waal, Chairman  
 Drs. J.F. Balkema, registered accountant  
 D. de Monçeau de Bergendal  
 J.R.L. Travers<sup>13</sup>

We Europe is controlled by its Board of Commissioners. The buyers and salesmen of WE Europe are in the position to make their decisions quite independently.

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<sup>9</sup> The Body Shop, UK Non-Executive Director  
 WE International B.V. (NL) Chairman of the Supervisory Board  
 Saks Inc., (USA) Vice-Chairman of Saks Inc  
 Post Properties Inc., (USA). Member of the Board of Directors

<sup>10</sup> QUOTE, April 21, 1999, HIJ VAN WE

<sup>11</sup> SOMO interview with Mr. G. van Noord, Director We International B.V., 17 August 2004.

<sup>12</sup> (Holding Director)

<sup>13</sup> Annual account 2002/2003 as deposit on July 17 2003 at the Chamber of Commerce.

Mr. G. van Noord pointed out that the Board of Commissioners is not well informed about the SA 8000 system. They only check the competence and knowledge of the buying directors on this.

WE Europe has its own statutory management level (“statutaire directie”), which means that it can take its decisions independently from the Holding company<sup>14</sup>, it only has to present its yearly budget proposal which has to be approved by the Supervisory Board.

### 1.5. Financial facts and figures of WE International.

**Table. Consolidated Profit and Loss account for 2002/2003<sup>15</sup>.**

(in thousands of euro)

	2002/2003	2001/2002
Net turnover <sup>16</sup>	273,433	265,551
Costs of sales	159,353	159,105
<b>Gross result on turnover<sup>17</sup></b>	<b>114,080</b>	<b>106,446</b>
Selling expenses	65,965	66,340
General managing expenses	43,316	44,061
Total of costs	109,281	110,401
<b>Net result on turnover</b>	<b>4,799</b>	<b>-3,955</b>
Other operating income	13,641	18,883
<b>Operating result</b>	<b>18,440</b>	<b>14,928</b>

The above table represents the figures of WE International B.V., the direct holding company of WE Europe B.V. Thanks to the ‘other operating income’ the operating result was positive in 2001/2002 and also in 2002/2003, the other operating income is substantial more than the net result on turnover of the core business, which amounts 4,7 million euro. The other operating income includes rent proceeds from properties rented to third parties. On the Consolidated Balance Sheet as at 31 January 2003, the company buildings of WE International B.V. are valued at € 210,678,000.

At the moment, WE International is more successful as a real estate company than as a fashion retailer.

<sup>14</sup> At the moment however, Mr. G. van Noord is the holding manager of WE International, as well as member of the Board of directors of WE Europe, so there cannot be an independent managerial relationship between WE international and WE Europe at the moment.

<sup>15</sup> Annual account 2002/2003 as deposit on July 17 2003 at the Chamber of Commerce.

<sup>16</sup> Net turnover only pertains to turnover to third parties for merchandise supplied, less sales tax.

<sup>17</sup> The gross result on turnover is the difference between the revenues for goods supplied during the financial year and their cost price, respectively the direct costs pertaining to them.



**Table Net turnover divided according Geographical areas**

(In thousands of euro)

	2002/2003	
The Netherlands	136,350	50%
Other EU countries	71,619	26%
Outside the EU <sup>18</sup>	65,464	24%
<b>Net turnover</b>	<b>273,433</b>	<b>100%</b>

**Table NO. Of employees at the end of the financial year 2002/2003**

Shop personnel	2,295
Other personnel	395
<b>Total</b>	<b>2,690</b>

### 1.6. Strategy towards the market<sup>19</sup>:

WE Europe mission statement:

*"We are expanding our company, developing our stores and enhancing our collections by deploying the best people and working as a team to build a better future step by step".*

WE's strategy is to grow with 10 stores per year. WE always chooses A1 locations for its stores. This means that all the branches can be found in the heart of major shopping centres<sup>20</sup>. But there are also a number of shops located on "High Street" locations (Rue de Rivoli in Paris, Tauentzien Strasse in Berlin). These locations have marked a move in another direction.

Another move was made in 1999, when the company reorganised its then separate men's and women's' businesses with the WE banner. The company launched a new concept, called the WE store, which grouped both men's and women's apparel under one roof. Men's and Women's was sold separately previously.

<sup>18</sup> Switzerland is not an EU country.

<sup>19</sup> WE International Factsheet, 2003

<sup>20</sup> WE International Factsheet, 2003

**Table**                      **Number of stores.<sup>21</sup>**

	NL	BE	FR	LUX	DE	CH	Europe
WE Men	85	22	5	0 <sup>22</sup>	13	26	151
WE Women	34	15	1	-	2	-	52
WE Store	9	7	5	-	7	-	28
<b>Total</b>	<b>128</b>	<b>44</b>	<b>11</b>	<b>0</b>	<b>22</b>	<b>26</b>	<b>231</b>

The table shows that the majority are men stores. 151 out of the 231 stores are stores for men’s clothing. But women’s apparel and accessories represents the company’s fastest growth area.

WE marketing and communications director (in 2001) Aad Boon described WE apparel “between Zara and H&M in terms of style. While H&M is very trendy, and Zara a bit more fashionable, WE is more approachable, a little more traditional, but with a European touch.”<sup>23</sup>

WE, as well as H&M and Zara, can be characterised as a ‘Fast-Fashion’ retailer. Especially H&M and Zara depend on strong runway trends, which they reinterpret and recycle, sometimes within weeks. They have the trends in the store for cheap, [just] weeks after they’ve been on the runway. But others contend that these trends explains only half the story, saying that fashion items account for only 15 percent of H&M’s product pyramid, with basic items accounting for the majority of its sales. At Zara, the story is similar, although analysts said the most fashionable items account for a slightly greater percentage of the mix. According to Mr. Boon, the majority of the WE collection’s focus is basic. WE produces three principal collections per season, and besides that is also feeds the stores as it picks up on the season’s trends. The company is aiming at working women at the age group between 25 and 35 years old<sup>24</sup>.

In an interview with Quote magazine in April 1999, Mr. Ronald de Waal said he aimed at a turnover of 2 billion guilders (908 million euro) within 5 years, by taking over large department stores in Europe and by autonomous growth of 15 stores a year. As we see the turnover figures of 2002-2003, one can say that WE Europe did not succeed in its growth plans. The net turnover remained stable the last 5 years at about 272 million euro<sup>25</sup>. Also the number of stores is not growing. An article published in 2000 mentions 251 WE stores and 76 stores of the Swiss lingerie chain Beldona acquired by WE on 17 October 1999,

<sup>21</sup> <http://www.we.nl>, on May 14, 2004.

<sup>22</sup> According to the International Factsheet there is one WE Men store in Luxembourg, but this store is not mentioned on the website of WE International.

<sup>23</sup> In Womens Wear Daily, January 22, 2001, WE shines its light on Pairs; WE to open new French Stores.

<sup>24</sup> Ibid.

<sup>25</sup> Net turnover in 1999 was about 600 million guilders, which is 272 million euro, in 2002-2003 the net turnover was 273 million euro.

making it a total of 327 for the entire group<sup>26</sup>. One year later, at the time that WE was about to open its second store in Paris', on Rue de Rivoli, one of Paris' busiest shopping thoroughfares, the total number stood at 245<sup>27</sup>, and currently in 2004 there are 231 stores, which means a decrease of 20 stores in 4 years.

There are no plans for a stock quotation in the near future.

### **1.7. Membership of branch organisations**

WE Europe is member of the RND (Raad Nederlandse Detailhandel). The RND is divided into several branches, such as the VGT<sup>28</sup> active in the textile branch. The VGT is responsible for providing information and organizing activities on social responsibility issues.

At the national level, the VGT has been working together with the Ministry of Social Affairs and the Environment towards the publication of brochures for the consumers, providing information about the activities of the VGT with respect to social responsibility. This brochure also include a step-wise description of the VGT's approach towards social responsibility throughout the whole production chain. Ronald de Waal, owner of WE International, is member of the Board of Directors of the RND<sup>29</sup>.

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<sup>26</sup> De Financieel Economische Tijd, August 25, 2000, Swiss Lingerie Chain to try its luck in Belgium.

<sup>27</sup> Womens Wear Daily, January 10, 2001, WE shines its light on Paris; WE to open new French stores.

<sup>28</sup> The Association of Retail Trading Companies in the Textile Brands of the Netherlands (VGT).

<sup>29</sup> <http://www.raadnederlandsedetailhandel.nl/>

## 2. The SA 8000 certification system

### 2.1. SA 8000: an introduction

SA 8000 is a global multi-sectoral standard for monitoring and certifying *labour standards*<sup>30</sup>, in which SA 8000 stands for ‘Social Accountability 8000’. This standard was developed by Social Accountability International (SAI)<sup>31</sup> in cooperation with companies, unions and NGO’s. The SA 8000 standard is based on the Universal Declaration of Human Rights and fundamental labour standards, supplemented by various ILO core conventions on safety and health, working hours and sustainable wages. The SA 8000 system was modelled after the ISO 9000 system used in corporate quality checks. SAI trains and accredits auditing companies which may subsequently be contracted by manufacturers and suppliers to gain SA 8000 certification. Companies that have been accredited to be SA 8000 monitors by the SAI are quality-control firms such as the Swiss SGS, the Norwegian DNV and the British BVQI.

The SA 8000 system does not certify brands or product lines, it addresses workplace conditions in company’s supply chains by certifying individual production facilities for compliance with the SA 8000 code. The standard takes a management systems approach. For example, it requires companies to establish internal procedures for reviewing, planning and implementing the code. A factory that wishes to be SA 8000 certified needs to be audited by one of the accredited auditing companies that can be hired directly by that factory<sup>32</sup>. It always start with a pre-audit, the pre-audit report contains a list with all the improvements that has to be made by the company before it complies with the SA 8000 code. Once a factory is granted certification, it must undergo a periodic follow-up audit and a full certification audit every three years.

Currently there are 400 certified facilities, representing 40 industries in 40 countries. The number of certified garment facilities is 71.

**Table**      **Number of certified SA 8000 garment facilities per country**<sup>33</sup>

India	23
Vietnam	13
China	9
Thailand	6
Pakistan	6
Bangladesh	2
The Netherlands <sup>34</sup>	2

<sup>30</sup> No environmental standards.

<sup>31</sup> Formerly the Council on Economic Priorities Accreditation Agency.

<sup>32</sup> Chain store age, May 1, 2002, Making it right: sweatshops, ethics and retailer responsibility, labor.

<sup>33</sup> List of SA 8000 certified facilities as of May 2004,

<http://www.cepaa.org/Accreditation/CertifiedFacilities.xls>

Romania	2
Nepal	1
Italy	1
Belgium	1
Indonesia	1
Philippines	1
USA	1
Switzerland	1
Sri Lanka	1
<b>Total of certified garment facilities</b>	<b>71</b>

**BOX**            *The normative frame of SA 8000*

1. **Child Labour:** No workers under the age of 15; minimum lowered to 14 for countries operating under the ILO Convention 138 developing-country exception; remediation of any child found to be working
2. **Forced Labour:** No forced labour, including prison or debt bondage labour; no lodging of deposits or identity papers by employers or outside recruiters
3. **Health and Safety:** Provide a safe and healthy work environment; take steps to prevent injuries; regular health and safety worker training; system to detect threats to health and safety; access to bathrooms and potable water
4. **Freedom of Association and Right to Collective Bargaining:** Respect the right to form and join trade unions and bargain collectively; where law prohibits these freedoms, facilitate parallel means of association and bargaining
5. **Discrimination:** No discrimination based on race, caste, origin, religion, disability, gender, sexual orientation, union or political affiliation, or age; no sexual harassment
6. **Discipline:** No corporal punishment, mental or physical coercion or verbal abuse
7. **Working Hours:** Comply with the applicable law but, in any event, no more than 48 hours per week with at least one day off for every seven day period; voluntary overtime paid at a premium rate and not to exceed 12 hours per week on a regular basis; overtime may be mandatory if part of a collective bargaining agreement
8. **Compensation:** Wages paid for a standard work week must meet the legal and industry standards and be sufficient to meet the basic need of workers and their families; no disciplinary deductions
9. **Management Systems:** Facilities seeking to gain and maintain certification must go beyond simple compliance to integrate the standard into their management systems and practices.

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<sup>34</sup> WE Europe and Kuyichi Europe B.V.. Kuyichi is a wholesale fashion company based on fair trade principles and the use of organic cotton. Kuyichi designs, develops and sells its products all over Europe. Those companies are not production facilities but offices and stores.

The package of conditions outlined in the standard itself is very similar to the ICFTU model code, and thus, as opposed to the OECD Guidelines, includes provisions on living wages and working hours. Besides that, SA 8000 requires firms to ‘facilitate parallel means of independents and free association and bargaining’ in countries where it is not possible to form free trade unions (such as China). But this remains controversial, as it is not clear, for instance, what exactly what would qualify as effective parallel means of representation in countries such as China.

The advantage of SA 8000 is that the basic package of standards is translated into ‘auditable’ standards. The Guidance document that is used to verify compliance, consists of extensive checklists and examples of methods for verifying compliance<sup>35</sup>. The Guidance document provides guidance to the auditor, although auditors do not have to follow it by the letter, therefore is too much to say that the guidance document leads to verification of compliance.

Examples of evidence to assess compliance or non-compliance by auditors are given, as well as suggestions for corrective actions to be taken in cases of non-compliance. SA 8000 also includes a section on management systems that requires policies and procedures to ensure ongoing compliance with the standard. This means that SA 8000 is much more comprehensive than for example the OECD Guidelines in terms of implementation of ethical standards at the work floor.

## 2.2. Criticism on the SA 8000 by NGO’s and trade unions

In theory, NGOs could be accredited by the SAI to become auditors, but up to date it is only the large commercial quality control and traditional financial auditing firms that perform the SA 8000 audits. This has brought about the same criticism from NGOs and trade unions as with the external monitoring that individual companies use: the commercial relationship may not be trustworthy. The fact that these audit companies are directly paid by the factories being audited, raises questions of independence.

Besides that, the outcomes of the audits by commercial audit firms may not reflect the reality, because the commercial auditors are not always trusted by the workers. The commercial auditors, for example, are often seen by workers as having a relation with the management of the factories. Therefore, workers are afraid to speak openly about sensitive issues such as discrimination, harassment and forced overtime. Various studies have shown that these commercial audits may be able to detect visible violations of codes of conduct (such as health and safety issues), but they are less capable to find violations that are less visible, such as working hours, wages, discrimination, and so on.<sup>36</sup> Besides

<sup>35</sup> CEPAA, Guidance Document for Social Accountability 8000, # 5

<sup>36</sup> See for example, ["Monitoring the monitors: A Critique of PricewaterhouseCoopers \(PwC\) Labor Monitoring"](#), Dara O'Rourke, Ph.D. Assistant Professor Dept. of Urban Studies and Planning, Massachusetts Institute of Technology, September 28th, 2000

that, critics have argued that it is impossible to “certify “ that any factory is in compliance with the SA 8000 standard based on a 1-day audit, once per year.<sup>37</sup>

In sum, civil society organisations have questioned the competence of commercial auditors to perform social audits, which require different competences than financial audits. Finally, the methodology used when conducting the audits are being questioned. For example, there is a big difference between announced and unannounced factory visits. Also, whether, where, how and which workers are being interviewed is of importance. For example, whether workers are interviewed in a place where they feel confident to speak openly, and whether they have been selected by management to speak to the auditor all influences the outcomes of the audit. Civil society organisations have questioned the worker interview methodology used within the SA 8000 system.

Others criticism relates to the undefined responsibility of the buying companies (retailers). Retailers too may want to apply for the SA 8000 certificate, but obviously the supplying companies in production countries will have to make the most changes to become certified. The SA 8000 system does not require the company at the ‘top’ of the chain to enable their suppliers to make the additional changes, so the burden is placed on the supplier and sub-contractors. In the case of WE Europe, the head office also applied for the SA 8000 certificate, because the company wants all their suppliers to become SA 8000 certified in the future, and figured it would be appropriate to have the certificate themselves then as well. For WE Europe, with its headquarters in The Netherlands, applying for the SA 8000 it meant making a few minor corrections (although it took much more time than they expected in advance)<sup>38</sup>. For WE's suppliers, most of them located in developing countries, the changes that are needed to be approved for SA 8000 may have considerable financial consequences that the suppliers will have to bear themselves.

Another disadvantage of SA 8000 could be seen in the fact that there is no transparency to what degree the complete supply chain is certified, when a certain enterprise declares to be working with SA 8000.

In the developing world, the SA 8000 initiative was conceived with much suspicion because it was developed with little involvement from the South.<sup>39</sup>

#### Summary of criticism:

- The quality of the auditing is not sufficient for various reasons:
  - o the commercial relationship between the audit companies and the factories raises questions of independence.
  - o incompetence of the commercial auditors to perform social audits.
  - o No NGOs have been accredited as auditors.

<sup>37</sup> Policy Studies Journal, February 1, 2003, Outsourcing regulation: analyzing nongovernmental systems of labor standards and monitoring, Dara O’Rourke.

<sup>38</sup> Sometimes it is confusing that the headquarters of WE International is SA 8000 certified. It gives the impression that WE is only making use of certified suppliers, which is not the case.

<sup>39</sup> Labour Rights in China (LARIC), No Illusions Against the Global Cosmetic SA 8000, May 1999.

- the worker interview methodology is incompetent.
- The burden to get certified is placed on the supplier and sub-contractors and not on the retailer.
- The facilitation of parallel means of workers representations in countries as China remain highly controversial because there are no qualifications defined.
- No transparency to what degree the complete supply chain is certified.

### **2.3. Corporate Involvement Program (CIP)**

The criticism relating to the transparency should be solved by the ‘Corporate Involvement Program’ (CIP). The CIP Program enables companies to test the SA8000 standard, to implement it and to publicly report about the progress. The program consists of two stages:

1. SA8000 Explorer: Companies test the SA 8000 system as an instrument for their supply chain via pilot audits.
2. SA 8000 Signatory: A time path for implementation is set up to comply with the SA 8000 standard in the entire of a part of the supply chain via certification. The progress of the implementation is communicated by a public report which is verified by the SAI.



### 3. WE Europe: CSR Policy

#### 3.1. WE and its CSR history

The first steps to develop a CSR policy were taken in 1998, as WE Europe started to develop its own Code of Conduct. But a real eye-opener was the People's Permanent Tribunal in Brussels in May 1998, organised by the Clean Clothes Campaign. The Tribunal was attended by Mr. Frits Nagel, at that time Purchase Controller of WE Europe and responsible for developing social standards within the company. One of the most important conclusions of the Tribunal was that just having a Code of Conduct is not enough: Codes of Conduct are often used as PR-instruments and do not have real positive effects on the labour conditions in practice. Based on this knowledge, WE Europe decided that they didn't want to have a Code of Conduct without guarantees, and therefore they choose for the SA 8000 system.<sup>40</sup>

Apart from WE's public commitment to SA 8000, there is no specific written vision or Code of conduct available.

#### 3.2 .The implementation process of SA 8000 within the Company

In 2000, WE has started to work with SA 8000. Since then, WE has raised the issue at their suppliers and told them that in time, WE wants to source from SA 8000 certified suppliers only. A time frame was set, with a view to have all their suppliers certified with SA8000 by 2004.<sup>41</sup> What is clear by now, is that the timeframe has not been met.

According to WE, one of the reasons for the delay is the fact that the purchase director of WE only visits the suppliers twice a year. Moreover, the suppliers have not felt much pressure to start working with SA 8000, as apart from WE, not many buyers are asking the suppliers to comply with SA 8000. A new timeframe will not be set.

The purchase director is responsible for informing its suppliers about the role that the SA8000 standards plays within the company and what they expect from the suppliers. As social responsibility issues are not part of the selection criteria of suppliers, the introduction to suppliers about the SA8000 standard and WE's expectations in this respect takes only place in a later stage of the negotiations; what WE calls "the second visit to the supplier".

In a first visit to a possible future supplier are costs, quality and delivery-time key criteria for selection. In a second visit WE introduces its SA8000 standard in the hope that the supplier will agree with initiating a certification process towards the SA8000 standard<sup>42</sup>.

<sup>40</sup> From the interview of SOMO with Dhr. Frits Nagel on February 17 2004, he was Purchase Controller of WE International until 2002, and responsible for the implementation of the SA 8000 system at WE.

<sup>41</sup>SOMO interview with J. Huisman, Board of Directors, WE International B.V. (5 October, 2003)

<sup>42</sup> SOMO interview with J. Huisman, Board of Directors, WE International B.V. (5 October, 2003)

### **3.2.1. The certification of the Head Office**

Although the company has initially intended to begin the process of certification with its suppliers, it realized that the Head Office itself also had to be certified. This certification is related to the Purchasing process, office and logistic organization on head office in Utrecht, together with 16 stores located in The Netherlands (Amstelveen, Amsterdam, Arnhem, Utrecht and Zwolle, Gouda (2) in Switzerland (Bern and Zurich), in France (Paris (2)), in Belgium (Mechelen (2) and Antwerp(2) and in Germany (Essen)<sup>43</sup>

### **3.2.2. To put the demand at the suppliers.**

The first steps that WE Europe took when they decided to work with SA 8000 was to visit all the main suppliers in the Far East, this was done by Mr. Frits Nagel, and to ask all the suppliers to start with the SA 8000 certification process. After suppliers have been informed about the SA8000 standard within WE, they were given the time to think whether they will start implementation or not (first sign of delay in the certification process, this might take half a year), Because most of the production is obtained from the Far East, this was the first region to visit. The second region will be Eastern Europe, the third region the mediterranean region and the fourth region Western-Europe.

### **3.2.3. The pre-audit phase.**

The second phase is a pre-audit by one of the official accredited auditing companies. The independent bureaus in charge for the pre-audit and the audit are BVQI or SGS, depending on the country in question. Common problems identified during the pre-audit are related to working hours and health & safety issues<sup>44</sup>.

According to Mr. Nagel, the first pre-audits were carried out in Indonesia, Hong Kong, India and the Philippines. WE Europe is willing to financially support the suppliers for the pre-audit. In exchange, WE insists to receive the pre-audit report which contains a list with all the improvements that has to be made by the company before it complies with the SA 8000 code.

Mr. Nagel indicated that the pre-audit phase became increasingly important for WE. WE states that it is very difficult for a lot of the suppliers to comply with all the standards on short term. To prevent them from quitting with the certification process, WE Europe decided to grant the efforts made by the suppliers. Each half year, the suppliers have to show the efforts they make on improvements to the purchasers/buyers of WE<sup>45</sup>, who bring with them a checklist with the non-conformities. Sometimes, one or two standards are too difficult to comply with, but if improvements are made, WE shall sustain the relationship. So, it is not a strict demand to be a SA 8000 certified company before one can supply garments to WE Europe, but one must have the intention to get certified.

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<sup>43</sup> [www.sa-intl.org](http://www.sa-intl.org) (web site of SA8000)

<sup>44</sup> from interview with J. Huisman, Board of Directors, WE International B.V. (5 October, 2003)

<sup>45</sup> It concerns 4 buyers who are instructed by Mr. Nagel.

### 3.2.4. The certification phase of the suppliers

Although WE Europe financially support the pre-audit, the certification itself has to be paid by the supplier. Also the ‘true costs’, that is, the costs of the improvements that has to be made by the company before it complies with the SA 8000 code, are for the suppliers account.

One of the official accredited auditing companies, the Swiss SGS, the Norwegian DNV or the British BVQI, will be contracted by the supplier to gain the SA 8000 certification. Once a factory is granted certification, it must undergo a periodic follow-up audit and a full certification audit every three years.

### 3.2.5. Implementation experience according to WE Europe<sup>46</sup>

For WE Europe the most difficult area of undergoing a SA8000 certification are the working hours. Its is difficult to implement standards in a country where the socio-economical situation make the supplier perceive the (mal) practices as a necessary mean for survival. This is the typical situation of an employee that works longer hours to earn more money. The SA8000 can force to reduce the work-time, but the employee will, anyway, look for an extra job that would provide him with a second income. In cases like this, WE Europe has come to a realistic solution: allowing a maximum of 60 hours workload per week, compensated by a low working period, so that the average work-time per week is 48 hours maximum.

Another difficult area is the financial drawbacks for both the suppliers and the company itself.

**Sanctions:** For WE Europe, the process towards the SA 8000 certification is very important as well. If the social performance of the supplier is consequently developed and improved by working on the correction plans that were made, the supplier is given sufficient time<sup>47</sup> by WE to get the certification. When serious problems keep exciting without any improvements, then eventually WE Europe can only warn the supplier and put an end to the contract. So far, WE Europe has been confronted only one time with the fact of having to choose for another supplier, and this was mainly due to unconformities with the environmental norms set by WE Europe to its suppliers<sup>48</sup>.

### **Stagnation:**

At the moment, the problem for WE Europe is the stagnation of the number of certified suppliers. According to Mr. Huisman, it is very difficult for the suppliers to take the last hurdle for certification. The very last parts on the checklist are often almost impossible to correct, that can be things like an emergency exit. Because of those last corrections that can’t be made, the supplier is not able to get the certification<sup>49</sup>.

<sup>46</sup> SOMO interview with Mr. Jan Huisman, Chairman of the Board of Directors, 5 october 2003.

<sup>47</sup> If a supplier can show its improvements, then the maximum period can be longer than three years to get the certification. Source: Interview Goede Waar & Co with Mr. Jan Huisman, February 25, 2004.

<sup>48</sup> SOMO interview with Mr. Jan Huisman, Chairman of the Board of Directors, 5 october 2003.

<sup>49</sup> Interview Goede Waar & Co with Mr. Jan Huisman, February 25, 2004.

### 3.3 Operational aspects of the CSR policy of WE Europe

#### 3.3.1 Supply chain responsibilities

A corporation's social responsibility should cover all of its suppliers, subcontractors, licensees, alliances, and anyone serving the company irrespective of the formal relationship, the nature of the product or service concerned, or the geographic location.<sup>50</sup>

The supply chain responsibility of WE Europe is officially regulated with 'the Letter of Commitment'. According Mr. Nagel, as stipulated in the SA 8000 regulations, a certified company has to prove that its sub-contractors, who must be representative for more than 75% of its production volume, have signed a "letter of commitment", in which the sub-contractors state that they are aware of the standards of SA 8000 and they have the intention to apply for a pre-audit.<sup>51</sup>

Apart from this regulation, there is no supply chain responsibility down the whole chain, as SA 8000 certification takes place at the level of the individual production facility. Especially when it comes to the stages before 'cut make and trim (CMT)', WE takes no responsibility, as the companies believes these production stages are beyond their sphere of influence.

#### 3.3.2 Stakeholder involvement

Various stakeholders are represented in the SA 8000 Advisory Board. The SA 8000 Guidance Document has stipulations with regard to consultations with interested parties. For example, SA 8000 auditors are required to consult with local trade unions, NGOs, branch representatives and Government representatives. However, there is no involvement of stakeholders in the actual audit itself, the level of involvement does not go beyond the consultative phase, and many civil society organisations in production countries have criticised the low level of involvement in the auditing and monitoring, as well as the follow-up phase.

Apart from the stakeholder involvement in the SA 8000 system, WE Europe does not actively involve stakeholders in the development, implementation and verification of its CSR policies. WE Europe is open to questions from civil society organisations, and allows for interviews by NGOs and research institutes, such as SOMO and Goede Waar & Co.<sup>52</sup>

#### 3.3.3. Transparency and reporting

WE Europe is not willing to give the company names of any of the production facilities. The investments made by WE Europe at those suppliers is one of the main reasons for this, they

<sup>50</sup> CSR Frame of Reference, published by the Coalition of Dutch NGO's and Trade Unions actively promotin CSR, July 2003.

<sup>51</sup> <sup>51</sup> From the interview of SOMO with Dhr. Frits Nagel .Februar 2004, former Purchase Controller of WE International until 2002, and responsible for the implementation of the SA 8000 system at WE. However, this regulation has not been found by SOMO in the SA 8000 Guidance Document.

<sup>52</sup> Goede Waar & Co, conducted an interview with WE International as part of their project 'Gewoon Goed' oin february 25, 2004.

don't want other fashion retailers having the advantage of their investments. Another reason is the costly and confidential fashion information supplied by the styling team of WE Europe.

Besides that, it is the policy of WE Europe not to be transparent about the number of SA 8000 certified suppliers producing for WE, or the percentage of the total production which is produced by certified facilities, or a indication on the progress.

WE Europe is a family-owned company, and as such it is not obliged to publish an annual report. WE does not publish any environmental or social reports either. Mr. J. Huisman (Board of Directors) believes that reports made by civil society organisations (such as SOMO) have more credibility than a report made by the company itself.<sup>53</sup>

Another reason for not reporting on social issues is that making public the names of the suppliers could mean a risk to the future success of the company<sup>54</sup>. The branch organization VGT is evaluating whether the database of certified suppliers can be made public, allowing other companies to place order with certified production sites.

At the time of the interview with Huisman, WE was not aware of the existence of SAI's Corporate Involvement Programme (CIP). This programme has been set up by SAI in order to enable retailers to be more transparent about its progress and publicly report about the implementation. It is designed as a tool for implementation by retailers.

### 3.3.4 Independent verification

The term independent verification has led to much confusion between different stakeholders in the CSR debate. According to WE Europe, SA 8000 provides sufficient and independent verification. However, as mentioned above, there are a number of criticisms against SA 8000, which would lead to the question whether the SA 8000 audits can be seen as independent verification. In this context, verification is about establishing the credibility of claims concerning labour conditions, the observance of code compliance or of code implementation. Because the essence of verification is credibility, it must be performed by an organisation that is independent of the company or organisations whose claims are being verified. Verifiers should enjoy the credibility of all stakeholders. In order for the verification process to be credible it must meet certain quality standards relating to audits, worker involvement, complaint mechanisms and transparency, and be part of a multi-stakeholder approach. When using this definition of independent verification, the certification by SA 8000 does not meet these criteria. See annex 1 for a summary of terms used in the field of monitoring and verification.

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<sup>53</sup> from interview with J. Huisman, Board of Directors, WE International B.V. (5 October, 2003)

<sup>54</sup> Genova, M., (2003) "Kledingconcern WE, Gegarandeerd en Kinderarbeid", in People Planet Profit, Vol. 1, summer 2003

### **3.4 Responsibilities within the company regarding CSR**

Mr. Jan Huisman, Chairman of the Board of WE Europe is responsible for the CSR policy within the company and he also functions as the spokesman for the company for all The CSR related topics.

One member of the board of directors (at present Mr. J. Huisman) and the purchase director are in charge of the SA 8000 system within the company. Purchase directors and sales managers receive training on SA 8000 as well as a refresher course before they visit producers in other countries in order to receive updated information on actual social issues<sup>55</sup>.

As it concerns the implementation of the SA 8000 standard Mr. Jan Huisman works together with the purchase director and the sales director.

Purchase, marketing and sales operate from the Head Office in the Netherlands. The purchase director is also responsible for analyzing the general environmental conditions (hygiene, emergency exits, etc.) in the production sites<sup>56</sup>.

One member of the board of directors (at present Mr. J. Huisman) and the purchase director are both responsible for the implementation of the SA8000 standard throughout the company.

Purchase director/s follow a training course on SA8000 and a refresher course before they visit their suppliers in other countries in order to receive updated information on the latest social issues. Also sales managers follow a training course on SA8000 and are responsible for questions from the consumers<sup>57</sup>.

### **3.5. The environmental policy of WE Europe.**

One of the weaknesses of SA 8000 is the lack of environmental requirements within the system. The main environmental problems in the garment industry can be seen in the pre-CMT phase, such as the painting and dyeing of the fabrics. However, WE does not take responsibility for this phase of the production. According to WE, improving labour conditions in the factories often have an environmental impact as well. For example, when health and safety issues such as storage of hazardous chemicals are dealt with. There is no use of Biological Cotton by WE Europe. The reason WE gives is that there is a lack of availability and quality guarantees.

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<sup>55</sup> interview SOMO with J. Huisman, Board of Directors, WE International B.V. (5 October, 2003)

<sup>56</sup> Genova, M., (2003) "Kledingconcern WE, Gegarandeerd en Kinderarbeid", in People Planet Profit, Vol. 1, summer 2003

<sup>57</sup> Interview SOMO with J. Huisman, Board of Directors, WE International B.V. (5 October, 2003)

Despite of the weakness of SA 8000 regarding environmental issues, WE Europe did not formulate an additional environmental policy.<sup>58</sup>

### 3.6 Ensuring social standards - The joint initiative of the AVE and VGT

Another important initiative to mention here is the joint initiative of the AVE and the VGT, ‘Ensuring social standards’. WE Europe, as member of the VGT, has shown an interest in this initiative and is considering whether to participate in this, because it is based on the same standard currently used by WE, SA 8000.

The Association of Retail Trading Companies in the Textile Brands of the Netherlands (VGT) started in 2002, together with its European partner organizations, the Foreign Trade Association (FTA) and the AVE (Aussenhandels-vereinigung des Deutschen Einzelhandels) to consent on one single code of practice for social responsibility issues. The advantage for the suppliers is that they would have to comply to only one system, thus being more attractive to them, accelerating the process of certification and adherence of more suppliers to the system. The use of only one code of practice would also make it easier to provide assistance to the suppliers during the implementation of the system.

During the discussions held between de VGT, it has been agreed that, at present, the SA8000 standard is the only worldwide standard with an independent controlling system.

In 2003, the VGT and the AVE started with the implementation of the system, the FTA will follow in 2004. The following members of the VGT and the AVE are mentioned as participants in the brochure of the initiative:

Sinn Leffers	Wehmeyer
Hunkemoller (Vendex KBB)	HEMA (Vendex KBB)
V&D (Vendex KBB)	Promiss
Miss Etam	OBI
Deichmann	OTTO
Neckermann Versand	Karstad
Quelle	Steilmann
Peek & Cloppenburg	Metro Group
C&A	

The AVE sector model social responsibility is based on the AVE Code of Conduct<sup>59</sup> which is comparable with the SA 8000 standards, in terms of the standards mentioned. However the SA 8000 standards are more explicit when it comes to for example working hours and child labour. It is making use of the auditing companies of the SAI.

The AVE/VGT model follows the SA 8000 Standard by interpreting and applying it from the point of view of development policy. Within the scope of correction plans which are

<sup>58</sup> Interview Goede Waar & Co with J.Huisman, February 25, 2004.

<sup>59</sup> AVE Declaration Concerning a Code of Conduct for the procurement of Goods to ensure Protection of Welfare Standards, 1999.



recorded by the auditing company and the supplier, possible divergences shall be removed. This would be done with the assistance of AVE/VGT member firms, and possible service providers engaged by these and local networks that exist in the supplier countries or which are being set up. Thus the focus lies on consequently improving the social performance of the suppliers. The certification itself is not the most important issue, suppliers will only be encouraged to obtain the SA 8000 certificate. The supplier himself decides if on top of this, he wishes to be certified according to SA 8000 or not. In no case the certification is a prerequisite for the taking up and/or maintained of the business relations with the AVE/VGT member firms.<sup>60</sup>

Remarkable in the AVE/VGT initiative is the condition to be fulfilled by the auditing companies in charge which include readiness to cooperate with local NGO's and trade unions. Another remarkable thing in a positive way is that the costs for the coaching and the implementation of the corrective actions are borne on principle by the AVE/VGT member firms.

Very useful for garment retailers who will join the initiative will be the AVE-database which is set up to store audit results of the suppliers. In the AVE-database the suppliers are distinguished according to the following features:

- first audit commissioned
- first audit carried out (date)
- no further qualification required
- In the qualification procedure
- Re-audit carried out (date)
- Certified according to SA 8000<sup>61</sup>

Also considered as very useful are the workshops given by AVE to suppliers in production countries to introduce the SA 8000 system.

If WE Europe decides to join the AVE/VGT initiative it would mean that the company no longer put the demand at the suppliers to get the SA 8000 certification. Then it entirely focusses on the process of improving of the social performance of the suppliers instead of the certification itself. In practice, this is the line WE Europe already follows.

## 4. WE Europe and its suppliers

### 4.1 Outsourcing trends of WE Europe.

The production of the goods and garments sold by WE is outsourced to countries with low labour costs, such as Eastern Europe and the Far East. According to WE, the total number of suppliers is around 300<sup>62</sup>, but a process is started to reduce this number. The number of

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<sup>60</sup> Sector Model Social Responsibility of member firms of the Außenhandelsvereinigung des Deutschen Einzelhandels e.V. AVE, (Foreign Trade Association of the German Retail trade)., April 2003, Description of the system.

<sup>61</sup> Ibid.

<sup>62</sup> People, Planet, Profit, P+, Volume 1, Summer 2003, # 4, Interview J. Huisman



main suppliers in the Far East is about 30.<sup>63</sup> A number of 32 main suppliers is mentioned in the research of the consumer organisation Goede Waar & Co.

Most of the production volume is produced by those main suppliers in the Far East. The other (more variable) suppliers are more important for the accessories and smaller articles.

Recent trends in sourcing can be seen, more and more production takes place in Eastern Europe, due to its proximity to the market. Within Asia, there is also a shift from Hong Kong to southern locations such as Shanghai, in China. A recent new location is Cambodia, due to its low prices. India the major location for the production of T-shirts. However, according to WE, it is a difficult location because producers work with many sub-contractors thus controlling working and environmental conditions is not easy. An alternative to India would be Bangladesh, however the political instability and the frequent floods does not make it economically attractive for WE.

In the search for producers, WE Europe chooses for long term contracts and short term delivery-times<sup>64</sup>.

In some countries WE Europe has only one product line for cotton clothing, as in India and Bangladesh. But the one production line in India is more important for the production volume than the ten production lines for cotton in Turkey<sup>65</sup>.

#### **4.2 WE Europe and the number of certified suppliers**

Progress of the whole certification process within WE and its suppliers remains confidential to WE Europe. Openness about the number of producers that are SA 8000 certified is the main lack of transparency from WE. WE does not want to disclose the number of suppliers that are SA 8000 certified, nor the percentage of suppliers.<sup>66</sup> WE considers this information to be commercially sensitive. Another reason given by WE not to mention percentages or numbers, is that the suppliers and the total number of suppliers are always subject to change. Which would make giving any numbers or percentages irrelevant.

This position by WE makes it difficult for SOMO (and any other civil society organization) to assess the true level of implementation of the SA 8000 system in its production process by WE. It should be noted that most of the labour problems in the garment industry take place at the level of the supplier in the production country. The number of stores that have SA 8000 in Europe, is therefore not very relevant to the issue CSR in a garment company.

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<sup>63</sup> SOMO interview with Dhr. Frits Nagel, former Purchase Controller of WE International and responsible for the implementation of the SA 8000 system. (17 februari 2004).

<sup>64</sup> SOMO interview with J. Huisman, Board of Directors, WE International B.V. (5 October, 2003)

<sup>65</sup> Interview Goede waar & Co met Mr. Jan Huisman of WE in March 2004.

<sup>66</sup> SOMO interview with J. Huisman, Board of Directors, WE International B.V. (5 October, 2003). Before the interview took place, Mr. Huisman already stated that he would not disclose the names of the factories, nor the number of SA 8000 certified suppliers, nor the percentage of total volume produced by certified facilities.

**BOX**      *Different sources about WE Europe and its suppliers*

Information on the suppliers and the number of certified suppliers of WE.	Source of information
Less than 10% of the T-shirts sold under the WE brand are produced by certified suppliers. WE Europe wants to increase this percentage to a 60%.	Interview Consumentenbond, Melanie Peeters with WE, outcome of this interview is published in the 'Consumentengids' van December 2001
At least two of the suppliers of WE are certified, namely, Sonal Garments in India and Eastman Export in India <sup>67</sup>	Research SOMO 2001, published in the report: 'The reality behind the code', 2001.
In 2001, WE started the process to have all its 32 main suppliers certified. In June 2002, 8 of the main suppliers of WE are certified and another 6 suppliers were expected to get the certification in short term.	Interview with Mr. Frits Nagel (WE), June 2002 with Goede Waar & Co.
Total number of suppliers is 300	Interview with Mr. Jan Huisman, Chairman of the Board of WE Europe in People, Planet, Profit P+, Volume 1, Summer 2003.
It's the policy of WE not to give figures on the number of suppliers or the number of SA 8000 certified suppliers producing for WE.	Interview SOMO with Mr. Jan Huisman of WE Europe, 5 October 2003.
WE has about 30 main suppliers in the Far East. At the end of 2002, 8 of them were certified and another 6 suppliers were about to be certified. All the remaining suppliers received a pre-audit.	Interview SOMO with Mr. Frits Nagel former Purchase Controller of WE, February 17, 2004.
One of the certified suppliers of WE is located in Hong Kong. Currently, WE is making use of more than 12 certified suppliers, but it stagnates at this point.	Interview Goede Waar & Co with Mr. Jan Huisman on February 25, 2004.

SOMO cannot verify the above information on the certified suppliers, although we did try. In February 2004, the total number of SA 8000 certified garment factories worldwide was 54.<sup>68</sup> As a test, SOMO conducted a small survey by telephone and email among those 54 factories, with the question whether or not they are producing for WE Europe. But, unfortunately, this didn't work out.

<sup>67</sup> WE is not mentioned anymore on the website of Eastman Exports as a client in January 2004.

<sup>68</sup> [www.sai-intl.org](http://www.sai-intl.org) (checked February 2004)

## 5. Conclusions by SOMO on the CSR policy of WE Europe

### Conclusions

WE Europe provides a good case for the current state of affairs regarding corporate social responsibility within the garment industry. WE Europe is one of the few Dutch garment retailers that has been working towards implementation of social standards within their supply chain since the late nineties. Compared to many other garment companies that do not have a monitoring system or even a code of conduct, WE Europe is considered a frontrunner in this field. WE Europe has often been mentioned as a ‘best practice’ company because of their commitment to SA 8000. The normative frame on which SA 8000 is based, is in agreement with the CSR Frame of Reference used by the Dutch Civil Society.

Some key questions remain unanswered. First of all, it remains unknown what the impact has been of the efforts of WE Europe on the actual labour conditions in the factories that produce for the retailer. It was beyond the scope of this case study to undertake research into the labour conditions in factories supplying for WE Europe. Secondly, it remains unknown what the exact efforts have been of WE Europe in the past six years, since the company started to work on CSR and SA 8000. This is one of the key issues in the CSR debate. NGOs, trade unions, governments and the society at large expect companies to do everything they can to enable improvements of CSR standards within their spheres of influence, which include the supply chain in the case of garment retailers. At the same time, there is general consensus among different stakeholders that changes take time, especially in developing countries, and that one cannot expect from a retailer to have their whole supply chain complying with their code of conduct overnight. But civil society has the legitimate expectation that progress towards improvements is shown.

Basic assumption of the CSR policy of WE Europe is that eventually all suppliers will be SA 8000 certified. WE Europe is not transparent about how many of its suppliers are certified or which percentage of its clothings is produced by certified suppliers or the progress of certification. Therefore it is not possible to assess the level of implementation of the SA 8000 standard. A valuable addition to its CSR policy would be a public periodical report about the progress of the implementation (see also the Corporate Involment Programme paragraph 2.3).

The argument used by WE that this information is business sensitive is not valid, as progress can be shown without disclosing names of suppliers.

In the CSR debate, civil society organisations are often given the role of the ‘watchdog’, as part of the voluntary approach taken by Governments. It is argued that civil society organisations should keep the pressure on companies by pointing to critical areas where improvements need to be made. This case study makes clear that is it not always possible for NGOs to play that role if companies are not transparent about their CSR efforts.

Although the lack of transparency about the progress of certification, there are indications that the process has stalled. A possible reason for this could be that the attention from WE is moving from SA 8000 to the developments taking place at the VGT/AVE (see also paragraph 3.6 Ensuring social standards - the joint initiative of AVE and VGT).

## ANNEX 1: Abstract Monitoring and Verification Terminology guide Clean Clothes Campaign

In 2002 and 2003 SOMO coordinated a project funded by the European Commission which brought together the leading European multi-stakeholder initiatives in the garment industry. As part of this project, a terminology guide was developed on commonly used terms in the context of monitoring and verification in the garment industry.

This guide was written by Nina Ascoly and Ineke Zeldenrust involving the Centre for Research on Multinational Corporations (SOMO), the Clean Clothes Campaign (CCC), the Ethical Trading Initiative (ETI) and the Fair Wear Foundation (FWF).

Below is an abstract of some key terms that are relevant for this company profile on WE International, as they often generate confusion between different stakeholders: audit, monitoring and verification.

**Audit:** This term is most commonly used to refer to a formal, often periodic examination and checking of accounts or financial records to verify their correctness. But more generally, an audit refers to any thorough examination and evaluation of a problem. The essence of an audit is the examination of evidence and the cross checking of the evidence to establish its truth. In this sense an audit differs from an inspection that does not necessarily involve the crosschecking of information. In the context of monitoring and verification activities, an audit refers to the thorough formal examination of the labour practices of a particular workplace or company, based on corroborated evidence. The audit aims to check these labour practices against a certain set of labour standards, following a certain agreed protocol (established rules and procedures) concerning the gathering and evaluation of the various kinds of evidence. The result of an audit can be report based on such an examination. In the context of the multi-stakeholder initiatives that the CCC is participating in, the term auditing is used to refer to auditing of labor conditions throughout the garment production supply chain (sometimes referred to as an assessment).

**Monitoring:** Generally speaking monitoring means to watch or check on. In the context of the workplace, monitoring refers to the surveillance of labour practices against a given set of labour standards by a person (or persons) with a regular or frequent presence in the workplace and unobstructed access to management and staff. "Frequent", in this context, means being present in the workplace sufficiently often as to be able to detect variations from standard behaviour. In the context of a code of labour practice monitoring means observing workplaces covered by a code to determine whether the provisions of the code have been implemented and are being observed. This can be contrasted with the terms "inspection" or "audit" which can describe activities that are not continuous or necessarily repeated.

Examples of workplace monitoring include monitoring carried out by (1) a manager with a designated monitoring function, who is continuously or frequently in the workplace in

question; (2) an employee in that workplace with a designated monitoring function (for example a union delegate); (3) a government or local authority official who is assigned to a particular workplace for monitoring purposes and is continuously or frequently present in the workplace; (4) representative of the brand name company/retailer, not necessarily a direct employee of the company; but including someone hired (possibly locally or via a commercial auditing company) to carry out monitoring functions on the company's behalf; or (5) a civil society organization, for example the Central American monitoring NGOs.

The terms first, second, and third party monitoring have also been used, but generally have led to confusion. Usually businesses see themselves as the first party, the supplier as the second party, and the monitor as a third party.

**Verification:** In this context, verification is about establishing the credibility of claims concerning either actual labour practices, the observance of code provisions, or of code implementation. Because the essence of verification is credibility, it must be performed by organizations or individuals that are independent of the company or organizations whose claims are being verified (for instance the claims of sourcing companies, suppliers, trade or industry associations).

Verification can involve the same or similar activities that may have been used to implement (give effect to) a code - inspections, interviews, complaints, social audits, factory audits etc. or it may involve the re-examination of evidence acquired from these activities. Verification can concern the actual situation at a workplace or it could concern an examination of management systems and other evidence that will indicate whether a company (a sourcing company for instance) or organization has assumed the responsibilities that it claims. Claims to be verified could include those made with respect to the obligations of companies participating in a multi-stakeholder organization.

Verification cannot be credible unless it is carried out by qualified people and organizations according to previously defined rules and processes, which cannot be changed by the company whose claims concerning workplaces or suppliers are being verified. Verifiers should enjoy the confidence of the relevant stakeholders. Based on their experiences to date with verification, the CCC has concluded that in order for the verification process to be credible it must meet certain quality standards relating to audits, worker involvement, complaint mechanisms and transparency, and be part of a multi-stakeholder approach.

Current debates on the usage of selected terms

**A: audit**

An audit involves the cross-checking of information such as an examination of the entire company or its books, depending on the audit protocol. It can include an inspection.

An audit is a tool in a certain process depending on how, by whom, and where the audit is executed. Thus, an audit can be a tool in monitoring as well as in verification (see below). In the Clean Clothes Campaign initiatives, the term audit is used in different ways.

There is currently a lot of discussion regarding when exactly the term audit should be used, and in particular what constitutes an audit. For example, companies that carry out quality control or accounting tasks refer to factory visits as audits. In general, these companies are referred to as commercial auditing firms. As more and more garment retailers hire such firms to audit their suppliers, the terms audit and auditing are increasingly associated (especially by workers and worker representatives in the production country) with the factory visits made by these commercial auditors. However, despite these associations it is important to note that the term audit itself does not say anything about the quality and scope of an audit. An audit can include representative interviews with employees and management and a thorough checking and cross-referencing of documentary information (such as pay and time records). For example, the audits in the Swiss CCC pilot projects were much broader than a factory visit (which in that case was referred to as an "inspection"), and contained both interviews with the workers (outside the factory premises), as well as an "inspection" at the factory, both carried out by members of a verification team (which did not include commercial auditors). The Dutch Fair Wear Foundation uses the term audit to include factory inspection, consultation with local organizations, and worker interviews.

Of great importance (and widely debated) is who carries out the audit, in terms of their skills, qualification, credibility, and relationship to the supplier (factory being audited) and the retailer whose goods are being produced at this facility. Auditors have ranged from senior managers or auditing companies to specialized NGOs or trade union organizations, or a combination of these.

Some have used first party, second party, and third party to distinguish who carries out the auditing. Social Accountability International (SAI) for example uses first party for internal audits (the factory employs the auditor), second party for audits by the buyer or a consulting group and third party for audits by an accredited auditor.

## **B: stakeholder**

During the October 2001 conference "From Code to Compliance" a workshop, bringing together participants from the various CCC monitoring and verification initiatives, was convened to discuss the possible roles of local stakeholders.

Participants considered who stakeholders are, what their roles are, and how to facilitate the fulfilment of those roles. Participants said that local suppliers were stakeholders, though they have not been involved in key information sharing and decision making, and local trade unions. But beyond that there was not total agreement among those who participated in the workshop. Some thought that NGOs, local government (ex. labour inspectorates) and academics (who conduct research) are all stakeholders. Not all local people were seen as stakeholders. Suggested roles for local stakeholders were research and information gathering, though this in itself was not seen as enough. Local stakeholders should be able to give input. Other roles mentioned were trust building and involvement in

corrective action (ex. defining what action should be taken and how to implement a corrective action plan). Some felt that as stakeholders, workers should be involved in developing the code. Stakeholders should have a role in any institutional framework that deals with these issues. Participants concluded that the main obstacle to the local involvement of stakeholders is knowledge (ex. knowledge of the code and its relevance) and capacity (limited resources means getting involved with codes can quickly overwhelm an organization and prevent other important work from being done).

### **C: verification**

Some current discussions regarding the usage of the term verification relate to the boundaries of the verification process (what is verification and what is monitoring? are they overlapping processes?). Also being debated is the need to be more specific about the content and positioning of the verification process in relation to the interests of specific stakeholder groups (is another term needed -- independent verification, for example -- to refer to a verification process that is independent of control by any one stakeholder group?).

It is difficult to distinguish where monitoring ends and verification begins. Both currently utilize similar tools (factory inspections, worker interviews, complaints procedures) blurring the distinction between the two processes. As a result these two terms are often discussed together because, for example, any discussion of methodology for worker interviews as a tool for gathering information to monitor code compliance would also be relevant for discussions of the use of this tool for verification of code compliance. Interviews with workers can be used to gather information by auditors hired by a company, but can also be carried out by an organization involved in verification to determine if the monitoring process - including the worker interviews carried out by the auditors - was a sound one.

This relationship between the two processes was highlighted by the Swedish initiative on monitoring and verification in which the Swedish CCC participated. Companies participating in the project found that their internal monitoring systems (at that time based on factory visits and talks to management) had not uncovered what was really going on in the workplace. This came to light during an unannounced audit conducted by a team composed of representatives from an audit firm and from the project, using information collected in advance during worker interviews by local researchers, recommended by NGOs. During the audit many violations reported during the worker interviews were confirmed. The Swedish initiative tested out this type of social audit in Bangladesh, India, and China, but more in the context of verification than as part of the monitoring process. Nevertheless, the lessons learned were applicable to both processes. In this way, the findings of the verification process can be used to improve the monitoring process.

There has been much discussion about the need to preface the term verification with the term "independent." Some within the CCC see this as necessary to stress the independence



of the verification process from control or dominance by any one stakeholder group. Therefore, they have used the term "independent verification" to refer to a verification process that is part of a multi-stakeholder process and that meets certain quality criteria that reflect such a multi-stakeholder approach. To date these criteria relate to the quality of auditing, worker involvement in verification processes, the inclusion of a system to handle complaints, and obligations regarding transparency. However, others believe that it is not necessary to preface the term verification with the word independent. In their view, coining the phrase "independent verification" only gives rise to the idea that there could be such a thing as verification that is not independent. Others suggest that independence is not the correct term to use to convey the type of verification that the CCC supports, because no one is truly independent. Instead, they have proposed, the term "multi-stakeholder verification" could be used to highlight the importance of using a multi-stakeholder approach to verification.