President’s Advisory Committee on Labor Standards and Human Rights

Meeting Minutes
February 1, 2017 – 8:30 a.m. – 10:00 a.m.

Attendees: Ravi Anupindi (Chair), Kristen Ablauf, Sabrina Bilimoria, Khlaed Eid, Mary-Catherine Goddard, Sioban Harlow (via Bluejeans), Nicholas Rine, Omolade Adunbi, Rebecca Wren, Kristy Demas (staff)

Absence: Michael Counts

Guests: Liz Kennedy, Vice President, CLC (in person); Noel Kinder, Vice President, Sustainable Manufacturing, Nike & his associates (via Bluejeans), Sasha McLaughlin (CLC Licensing Coordinator for U-M)

Committee Business

Chair RAnupindi called the meeting to order at 8:36 a.m. NRine moved to adopt the minutes. MCGoddard seconded the motion and the group approved. Chair RAnupindi recommended we add page numbers to minutes going forward.

Operational Leadership

KAblauf shared that she was bringing a guest to the meeting, CLC Licensing Coordinator for U-M, Sasha McLaughlin. KAblauf also shared that quarterly renewals are due February 13 and she will report on them at the next meeting.

Chair RAnupindi reported that two students – one MBA and another BBA – will be working with Liz Kennedy and Kristen Ablauf on a project to develop a guidance document for small/medium licensees on implementing social responsibility practices in their companies. The students will review various audit / investigation reports from the FLA and the WRC as well as supplier self-assessments coordinated by the CLC to collate common issues, suggested remedial actions, and implementation updates / challenges.

The student team working on non-licensed procurement study is meeting weekly. The team is down to four after one graduate student dropped out citing lack of time to devote to this project. Chair RAnupindi had consulted with the team who believe they were comfortable with a team size to four students. He proposed to use the surplus RA budget to support the MBA student on the project on licensee guidance. The BBA student wanted to take the project for independent study credit. The Committee approved this measure.

Chair RAnupindi updated the group on the WRC memos relating to two recent remediations. The first one was regarding the CAMBO factory remediation in Cambodia; the issue here was payment of legally mandated compensation after the factory shut down. The WRC also updated us on remediation at the Premium Apparel, a factory in...
Haiti, where two workers were terminated in violation of university codes of conduct. The WRC engaged with factory management and the primary buyer, Gildan, to ensure the workers’ reinstatement with back pay.

**Research and Educational Leadership**

**Graduate Student Internship Travel award:** The committee received a total of eight applications. The applications were reviewed by SHarlow, OAdunbi, KEid, and MCGoddard. Chair RAnupindi thanked them for their assistance. He collated the assessments from all the reviewers and presented them to the committee for discussion.

While the overall quality of applications were good a few applications from the School of Public Health stood out. SHarlow suggested that we be more inclusive and not give both awards to students from the same program. OAdunbi also reiterated the need for diversity. Chair RAnupindi said we should consider some applications from other units while keeping in mind quality of the proposals. The committee had a healthy discussion on the merits of various candidates, nature of the proposed work (e.g., administrative, training, assessments, etc.), scope of issues (e.g., labor rights, women’s rights, human rights) that the travel award should support, geographic focus of the work (e.g., domestic vs. international), merits of the organization with which the student proposed to intern (field organization vs. global policy making bodies), etc.

Ultimately, of the first set of three strong applications from the School of Public Health, the committee agreed that the first travel award should be offered to Lauren Smith from the School of Public Health for her proposal to work on the “Evaluation of the Formal and Informal Electronic Waste Recycling Sectors in Bogotá, Colombia”.

Of the other candidates (outside of School of Public Health), the application of Berenice Castillo, doctoral student in the Psychology department was considered. A couple of issues were raised regarding her application. The first was that her proposed work focused on issues concerning domestic Hispanic low-wage workers in predominantly service, agriculture, and subcontracted employment. Some members thought that the focus of the internship was on international issues. Many members felt that this is not a concern; rather a study of domestic issues is perhaps more timely. The other concern was that her application did not have a reference letter from a U-M faculty; her only recommendation letter was from her mentor at Cornell University. The committee suggested that we ask Castillo for an additional letter of recommendation/support from a U-M faculty. Chair RAnupindi would follow up with Castillo with a request for the additional letter. As a backup option to Castillo, the committee suggested to consider the next best application from Anthony Oliveri of the School of Public Health.
Sumerra, LLC summer internship: At the time of this meeting, there were nine applications for the Sumerra internship. Chair Ranupindi will reach out to a sub-group of the committee members for assistance to evaluate the Sumerra applicants.

**Liz Kennedy, Vice-President, CLC on the Ethical Supplier Engagement Program (ESEP)**

Liz Kennedy (LKennedy) was invited to visit with the committee to discuss the ESEP, a program regarding which committee members had requested more detailed information in earlier meetings. Liz was assisted by Sasha McLaughlin, who is the CLC coordinator for U-M.

The ESEP is intended to be a mentored monitoring and measurement process. It is designed to guide a collegiate licensee on their social responsibility practices journey including knowing what to do, where to go for help, how to report, etc. Participation in ESEP is recommended / required by the University, sometimes after prolonged or protracted lack of progress with regard to the violations is observed. New licensees are usually far behind and the ESEP gives them training wheels. The ESEP provides licensees with guidance like a coach looking over their shoulder, to ensure that the factory takes an aggressive stance to rectify codes of conduct violation.

The ESEP is implemented by Sumerra, LLC and includes monitoring and coaching. Sumerra determines the right monitor for the factory, who is trained by Sumerra and given the right tools. While some issues can be corrected during the event, others take place over longer period of time. Post monitoring, Sumerra serves as coach to the licensee on a 30-60-90 day cycle. At $2500 per visit, which includes monitoring and assistance, ESEP is considered expensive.

With three years of history behind the ESEP, some progress has been made. Some companies have evolved past the ESEP. Experience suggests that the program can lead to sustainable change provided the licensee is involved and cared enough to participate. There are, however, some concerns around consistency of the quality of monitoring. Some monitors aren’t as thorough, focusing on minimal compliance with the law without really considering the import of the codes of conduct. Regardless, monitoring by itself is insufficient; training, motivation, and alignment of organizational culture towards social responsibility is the key to lasting change.

The best time to engage the licensee is during contract renewal. Some sign the license agreement and may not have even read it – have their own opinion on what’s acceptable. Having them do a comprehensive supply chain measurement is in itself not a guarantee that they’ll have the awareness around labor standards and human rights. Licensees usually respond better if they see business value in labor standards and human rights. At the same time, a licensee should know they can lose their license if codes of conduct not followed.
This summary description was followed by discussion.

Chair RAnupindi asked how many have gone through the ESEP audit? LKennedy indicated it’s in the hundreds.

SBilimoria asked if any follow up is done on those who have completed the ESEP. LKennedy replied that ESEP is a tiny piece of something bigger. The CLC tracks it all through annual surveys and they see swings in performance. Awareness of the continuous improvement nature of these initiatives needs to be reinforced.

KAblauf added that there will be many where we have to say if we don’t see improvement we may require they maintain participation in the ESEP. LKennedy added that some view ESEP as a monitoring rather than an engagement program. Just because they have done several ESEP audits doesn’t mean they fully own it. KAbaluf suggested that to some it’s just a checklist.

LKennedy also said licensing doesn’t stand alone. Retail needs to be involved as well. Some retailers have requirements that differ from what universities require on labor standards and human rights, which could create a tension.

**Noel Kinder, VP of Sustainability, Nike (via Bluejeans);**

*also participating were Alex Leblow and Sabrina Oei, both from Global Communications at Nike.*

Chair RANupindi asked Noel Kinder (NKinder) for his perspective on the recent Hansae Vietnam factory investigations and shared that the committee had seen Nike’s letter to the U-M President and also reviewed the FLA and the WRC reports.

NKinder introduced himself and indicated he had been in this role for 7-8 months. Previously he was the manager for Nike Vietnam. He said he would give us an unfiltered perspective as someone who has spent a lot of time in manufacturing. He said that the current findings are upsetting and reiterated that Nike takes these concerns very seriously.

The initial read on the situation goes back to fall of 2015, which triggered a series of investigations by various players including the FLA and the WRC. Nike has vetted the claims and taken various steps to ensure remediation not only at the factory sites but also with the corporate headquarters of Hansae Vietnam.

To emphasize the Nike’s seriousness on the issues at stake, they have cut their orders by 50% with Hansae. With this reduction Nike now accounts for 3% of Hansae’s business.

When the WRC and FLA findings were made public Nike was working behind the scenes with Hansae on remediation. Hansae has not completed all of the remediation but making good progress. They will be re-audited in April and Nike hopes that they will be
“bronze” status by then. If not, they get three months to fix those failures. If not after three more months, there will be significant conversations about using that factory. This factory has been given more time to remediate.

OAdeunbi asked who is conducting the audit in April. NKinder said they will use a third party audit company because this factory is in the red status, which is particularly egregious. It will probably be Sumerra. NKinder said the expectation is that they will achieve the bronze. Nike grades factories at five levels: red, yellow, bronze, silver, and gold. Nike’s goal is that by 2020, 100% of their factories will have achieved bronze status; currently 88% have that status. Hansae Vietnam needs to show significant improvement going forward and make sure that the remediation is not simply window dressing.

MCGoddard asked about the incentive to Hansae. Cutting production affects the workers. Is Nike aware of this? NKinder said it’s a very fine line – they do take these issues into consideration and don’t want to trigger a reduction in workforce. Because they only represent 3% of the business, he believed it might not influence the workforce.

NRine shared that he spent a lot of time in Southeast Asia, where corruption is rampant, including by local assessors. The people who are part of a culture that is regularly able to circumvent problems by a payment. Does Nike have a good handle on who the local assessors are? NKinder agreed this can be a problem but said that local assessors are being overseen by full time staff members of Nike and monitoring organizations like the FLA. In their Ho Chi Minh office longtime Nike employees receive annual training. Per NKinder, Sumerra is a clearinghouse and they are great about selecting the best auditors who are vetted. Those on the ground are very mindful about the local assessors. NKinder also gives a lot of credit to WRC for the quality of their investigations.

RWren asked about Nike’s resistance towards WRC access to these facilities. NKinder responded by saying that have had a productive relationship with WRC over the years. He reiterated that Nike never collectively had a specific access agreement with WRC. In this particular instance, Georgetown and UWash suggested that WRC go in again after FLA went in. He said that it is important to call out that WRC findings are substantially in line with FLA’s findings and claimed that WRC has said that FLA had found most of the violations. He also said that tri-partite discussions are ongoing between Georgetown, Nike and WRC on the issue of factory access.

SHarlow wanted to know about occupational health monitoring, which is inadequate in the country and that many of the auditing groups don’t have strength in this area. Most are able to investigate labor issues but not occupational health and safety. More emphasis on OHS issues is needed. NKinder said that the area is a big passion of his but that apparel factories in general are less dangerous (from OHS perspective) than footwear factories. He also said that this is a cultural issue. SHarlow reiterated that it is
also a capacity issue. NKinder said that when recruiting engineers there is an absence of that knowledge. Nike has started to introduce the topic but there’s a long way to go. Response has been good so far but there is a lot of work still to do. Nike has people on the ground who have that expertise. There is someone on Noel’s team who has expertise in health and safety. NKinder reiterated that there is no finish line, but Nike is in the race.

RAnupindi inquired how long has Nike has been with Hansae Vietnam. NKinder responded about 8 years. RAnupindi said that the current findings were unfortunate but wondered how did we end up in this place to begin with after eight years? Nike seems to have a fairly robust internal monitoring system and engages with Better Works and the FLA. What has Nike learned after the current series of three investigations? How is it that in eight years of doing business these things were not caught? NKinder said that’s a good question but it’s important to recognize that the findings were not a surprise. Nike had been engaged with the factory for years and even before the strike issue had come up, Better Works had noted some systemic issues like improper selection of management on trade union committees.

Apparently Hansae Vietnam has been in and out of bronze status. KAblauf asked if any of the bronze status movement is in correlation to changes in management / workforce. NKinder shared that the turnover rate is about 3%. Hansae is not out of the norm with turnover. Such factories are often called a “yo-yo” factory, because of people turnover issues, lack of management capability and commitment. Sometimes it is also because when more than 25 brands source from a company there is lack of consistency in standards expected of the factories.

Chair RAnupindi asked again, what have we learned? NKinder said perhaps Nike has given red factories too much time to remediate. Nike has since compressed the time frame for remediation. If they fail, they get another three months and if not remediated by then, then they divest. Nike had extended Hansae Vietnam a grace period due to the engagement of WRC and FLA. Nike doesn’t want to cut and run. It was collectively agreed with WRC and FLA to extend the review period.

NKinder believes really strongly that dealing with these issues systemically is working – they have cut the number of factories they work with almost in half although not necessarily all because of investigative findings. Nike currently uses 665 factories, down from more that 1200 they had five years ago.

NKinder also said that Nike learned from the WRC report that forced a more robust remediation plan. As it has done in the past, Nike will continually reevaluate factories in the red status. Nike will conduct once a year monitoring and unannounced factory visits for the high risk locations. They will make sure factories remediate on issues otherwise they will be put on a path to divestiture. Nike has a small footprint at this factory – other
97% of businesses may still use them. He claimed that Nike is a leader in the heavy lifting work when it comes to remediation.

Chair RAnupindi thanked the Nike team for their participation to address questions from the committee members and ended the call.

Chair RAnupindi stated the committee still needs to process this and write something up for the president and asked members to send email to him with response to the President regarding the Nike discussion.

Meeting adjourned at 10:04.