

# **Social Responsibility: A Case Study of Patagonia's Supply Chain in Vietnam**

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## Introduction

Patagonia is an outdoor, technical, and casual apparel company renowned for its adherence to environmental and social responsibility. Globalization and the race to the bottom have caused low cost labor for apparel manufacturers to shift outside the U.S. To remain competitive with other manufacturers in terms of quality and pricing, Patagonia now outsources production of its more complicated clothing styles to foreign countries. These countries include China, Thailand, Vietnam, Japan, Turkey, Portugal, Mexico, Costa Rica, Colombia, El Salvador, Israel, and the Philippines<sup>1</sup>. In selecting factories to supply them with their cloth products, Patagonia looks for factories with fair working conditions that impact the environment minimally. This case study will focus on Patagonia's adherence to the bar it has set in selecting suppliers based in Vietnam.

On Patagonia's website, the company maintains a list of its suppliers from around the world. The company currently publishes its factory list on its website with eight<sup>2</sup> of them from Vietnam. According to Patagonia's website, factories must meet or exceed the standards set in their code of conduct in order to be considered as a potential supplier. Their code of conducts sets a number of labor standards including, but not limited to areas in forced labor, child labor, wages and benefits, hours of work, etc. They also claim to work closely with NGOs and other brands that share their factories to improve working conditions. Patagonia has conducted their own social audits and relied on monitoring done by the Fair Labor Association (FLA) to ensure decent working conditions are in place in factories overseas. Additionally, the apparel company has its own Social and Environmental Responsibility (SER) team that conducts these audits and visits factories regularly to conduct to ensure compliance.

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<sup>1</sup> <http://www.patagonia.com/us/patagonia.go?assetid=37493#publish>

<sup>2</sup> [http://www.patagonia.com/pdf/en\\_US/factory\\_list\\_061909.pdf](http://www.patagonia.com/pdf/en_US/factory_list_061909.pdf)

In attempt to verify the claims Patagonia makes with regards to social responsibility in their factories, this report examines the audits the FLA has performed on their website<sup>3</sup>, audit reports from the Better Work Vietnam<sup>4</sup> program, and articles on Patagonia's own website, an interview with an auditor and other sources of online information.

## Factory Selection Process

In selecting their sourcing factories, Patagonia ensures that their Workplace Code of Conduct<sup>5</sup> is either met or exceeded by suppliers at some level. Their Code of Conduct lists several factors and guiding principles they look for in selecting factories including the following:

- Forced Labor
- Child Labor
- Harassment, Abuse, and Violence
- Nondiscrimination
- Health and Safety
- Freedom of Association and Collective Bargaining
- Wages and Benefits
- Hours of Work
- Overtime Compensation
- Women's, Disabled, Ethnic Minorities, and U.S. Veterans Rights
- Environmental
- Quality
- Sub-Contracting
- Compliance with Law

According to the most recent FLA audit report performed in one of Patagonia's factories, these codes are posted on the factory walls and workers are made aware that they may bring to

Patagonia's attention any witnessed violations of these codes. Patagonia also only works with those factories that are willing to improve working conditions. The outdoor apparel company not only focuses on the quality of the potential factory, but also on three other criteria including business

<sup>3</sup> <http://www.fairlabor.org/trackingcharts.php>

<sup>4</sup> <http://www.betterwork.org/Vietnam>

<sup>5</sup> [http://www.patagonia.com/pdf/en\\_US/CoC\\_English.pdf](http://www.patagonia.com/pdf/en_US/CoC_English.pdf)

factors, environmental factors, and social performance<sup>6</sup>. Once factories are selected, Patagonia tries to stick with them as long as possible instead of looking for another factory that meets their guiding principles and Workplace Code of Conduct. Their social and environmental (SER) responsibility team will work with the factory over a long period of time in an effort to reach that code of conduct compliance<sup>7</sup>. Given the detailed walkthrough and answers about the factory selection process they provide on their website, the average consumer would be prone to believe that Patagonia is a very socially responsible company. Perhaps more so than other apparel companies, but that would require a separate study with a comparison to other brand names CSR programs. Patagonia however has not yet published a CSR report<sup>8</sup>. Environmental responsibility though is reported on their website through a special section titled the "Footprint Chronicles". Although from the forthcoming analysis of audit reports from Better Work Vietnam and from the FLA, Patagonia factories are not 100% compliant with their own Workplace Code of Conduct. When and if a factory is found to fall out of compliance, Patagonia purports to work with the factory devise a corrective action plan. Their own Director of Social/Environmental responsibility will work with the factory to list the problems and corrective actions. Further audits will follow and Patagonia's SER team will continually follow up with the factory. Patagonia has severed relations with a factory that falls out of compliance in the past, but only if that factory fails to make efforts to improve working conditions. The FLA discourages companies from cutting off relations because it can lead to conditions becoming worse and layoffs ensuing as a result.

## Patagonia and Vietnam

In terms of their factory selection process, Patagonia does not have any country specific sourcing policies. The audit protocols and mechanisms they use for evaluating factories are global and

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<sup>6</sup> <http://www.patagonia.com/us/patagonia.go?assetid=37493#manufacture>

<sup>7</sup> According to an interview with Kim Ascoli, Global Research Manager at STR

<sup>8</sup> <http://www.patagonia.com/us/patagonia.go?assetid=37493#audit>

independent of the country. Altogether, there are local labor regulations that will differ from country to country. Being a socialist republic, Vietnam does not allow freedom speech and the press and hence, freedom of association listed as one of Patagonia's guiding principles in their Workplace Code of Conduct will be subpar in comparison to democratic countries. Vietnam does not currently have any legislation in place that would allow factory workers to join unions. Per Better Work Vietnam's December 2009 compliance synthesis report regarding freedom of association and collective bargaining:

*"Factories monitored failed to comply with core labour standards on freedom of association and collective bargaining. The lack of compliance is partially rooted in Vietnamese legislation, which does not recognize the right to organize and the right to strike of workers, but does not permit them to establish or join organizations of their own choice: Enterprise-level unions must be approved by and affiliated with the Vietnamese General Confederation of Labour (VGCL). Factories are, therefore, bound to fail the "freedom of association" compliance test".*

Another issue specific to Vietnam is the issue of corruption. Auditors, especially local staff, may be more prone to accepting bribes. This is probably the largest blow dealt to any auditing company in Vietnam. Such a problem is mitigated by international organizations such as the International Labor Organization (ILO) that help administer the Better Work Program, by requiring that the country manager be a non-national.

## **Fair Labor Association**

### **About**

The Fair Labor Association (FLA) is a nonprofit organization that has been working to improve factory conditions worldwide since 1999. The FLA is a collaboration between companies, universities, and civil society organizations. Their monitoring and evaluation processes follow their own Workplace Code of Conduct which is based on ILO standards. Companies may join the FLA in order to commit to upholding the FLA's standards for fair working conditions by regularly monitoring and providing reporting for their supplier factories. If any violations are found, companies are required to take correction actions accordingly to resolve those violations. It not only falls on the companies to report violations, but on any third party as well. Any individual can blow the whistle and report factory violations to the FLA. The FLA regularly conducts unannounced audits on up to 5% of Patagonia's factories annually. These are called Independent External Monitoring (IEM) reports and are then made available to the public on the FLA's website. IEM reports go over the noncompliance findings of unannounced audits conducted by the FLA. Finally, as a greater strategy to combat labor rights violations and realizing that monitoring alone was not a long term solution, the FLA developed FLA 3.0.

### **FLA 3.0**

FLA 3.0 is a new sustainable compliance methodology that Patagonia utilizes in two of its factories: one in China and one in El Salvador. This methodology involves factories themselves completing assessing their level of compliance rather than external partners coming in to evaluate factories for compliance. More specifically, this involves the following steps: (1) FLA member nominates a factory to complete a self-assessment, (2) worker surveys conducted, (3) results are received by FLA, factory, and Patagonia, (4) results are analyzed and reviewed by the factory in question, (5) results are discussed with Patagonia, (6) the factory decides on a plan to address concerns raised by the assessment, (7) the factory implements the plan, (8) progress is measured by the factory, (9) an independent party measures the factory's progress, (10) results are shared with the public.

According to Patagonia's website<sup>9</sup>, there are currently no factories undergoing this new compliance methodology in Vietnam. Additionally, self-assessment reports from FLA 3.0 factories are nowhere to be found on Patagonia's website even though Patagonia states that these reports would be made available in October of 2009. It remains to be seen why this rigorous process has only been initiated in Patagonia's supplier factories in China and El Salvador and not Vietnam. Since FLA 3.0 has only been introduced since 2008, it's very well possible that Patagonia has only decided to experiment with it in a couple of factories first before including more of its factories.

## **Funding**

The FLA is funded by its own member companies that undergo these audits, by colleges and universities, and with grants. Since the member companies themselves provide funding, there is some incentive for FLA staff to misreport or provide misleading information in audits that could benefit Patagonia. This brings into question the FLA's credibility as a monitoring organization since Patagonia has a stake in the organization's operations.

## **Audit Report Analysis**

This section will go over the FLA's most recent Independent External Monitoring (IEM) Report<sup>10</sup> performed on August 27 - 28, 2009 in one of Patagonia's sourcing factories. The report investigates a specific factory in Vietnam utilized by Nike, Patagonia, and Eddie Bauer with 4,790 workers that is shared. Each page of the audit report goes over a labor standard that is in non-compliance with a further explanation followed by any corrective action taken. Under the Code Awareness section, this factory in particular has not put all new workers through the orientation training program and the participatory companies have not established a means by which workers may report any issues of non-compliance with workplace standards. According to the plan of

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<sup>9</sup> <http://www.patagonia.com/us/patagonia.go?assetid=37495>

<sup>10</sup> [http://www.fairlabor.org/fairlaboradmin/trackingchart\\_files/090384807G\\_Vietnam.pdf](http://www.fairlabor.org/fairlaboradmin/trackingchart_files/090384807G_Vietnam.pdf)



action, Patagonia posts workplace code of conduct posters on factory walls with an email address included that allows workers to communicate their concerns in Vietnamese. Eddie Bauer on the other hand does not yet have a similar mechanism for reporting. The remaining pages of the report detail non-compliance fall under the health and safety category. A total of six cases of non-compliance were found in this category relating to sanitation, ventilation and facility maintenance, chemical management and training, personal protective equipment, permits and certificates, and routine fire drills. Not surprisingly, this is also the same category that Better Work Vietnam reports as being the highest area of non-compliance with 184 violations in total.

As mentioned before, freedom of association is listed as the first area of non-compliance. This echoes the comments provided by Better Work Vietnam in their audit report in that Vietnamese legislation is not receptive towards workers forming unions, unless they are affiliated with the Vietnam General Confederation of Labor (VGCL). Freedom of association is defined per standards and conventions set by the International Labor Organization which states that workers should be allowed to form organizations independent of those which already exist and of any political party. This is not the case in Vietnam as the VGCL is connected with the Communist Party in Vietnam.

### **Board of Directors**

The FLA's board of directors is a 19-member body of advisors that comprises representatives from participatory companies, colleges and universities, and civil society organizations. Board members from the private sector include leaders from Gildan, Hanesbrands, Phillips-Van Heusen Corp., adidas-Group, Outdoor Cap, and Nike. With one third of the board of directors from the same companies that the FLA audits, how credible is the FLA as an evaluator? These leaders certainly have some input into the strategy, operations, and reporting methodology of the FLA. Given their incentives and proportional representation on the board, is it possible that the audit reports are

biased to favor one group of constituents on the board over another? Answers to these questions may never be found, but they should at least be raised to question the credibility of the FLA.

## **Better Work Program**

### **About**

The Better Work Program is a program designed for the purpose of evaluating and improving working conditions in global supply chains. They ensure that labor standards are upheld. The program was created out of a partnership between the International Labor Organization (ILO) and the International Finance Corporation (IFC). Both organizations are global brand name NGOs. The former is known for its preeminence as a supporter, encourager, and model for core labor standards worldwide. The latter is the private sector arm of the World Bank engaged in funding economic development projects in developing countries. ILO is also a subsidiary of a greater global entity since it is a specialized labor agency of the United Nations (UN). The Better Work Program currently operates in five different countries including Haiti, Jordan, Lesotho, Cambodia, and Vietnam. Since their inception in 2009, they have published

### **Funding**

A majority of financing for the Better Work Program's operations comes from governmental donors including Australia, Canada, the European Union, Finland, Germany, Ireland, Italy, Japan, Jordan, Luxembourg, the Netherlands, New Zealand, Norway, Sweden, Switzerland and the United States. A small portion of the program's funding comes from the private companies who are international buyers and partners in the program. Since a smaller portion of the Better Work Program's funding comes from buyers of the program, there is probably a lesser chance of corruption and misreporting. However, the amount of funding and budget was not disclosed on their website.

## **Impact Measurement**

The short term and midterm goals of the Better Work Program in Vietnam, known as Better Work Vietnam is to improve working conditions for 150,000 workers in the first two years and up to 700,000 workers over five years. In order to measure the effectiveness of this program, the program has enlisted the help of Tufts University to develop monitoring and evaluation tools that will follow up to 700 factories. Monitoring and evaluation will be done before, during, and after the program so relative comparisons can be made during each successive stage of the program. Analytical tools for measuring impact will keep track of the following categories and their respective indicators over time to assess the program's effectiveness and make correction actions as necessary:

### **Enterprise Performance**

- Labour standards compliance rates at factory and industry levels
- Improvement in compliance over time
- Worker turnover
- Labour-audit costs saved
- Production capacity
- Relationship with buyers

### **Economic Development**

- Export growth by value and volume
- Employment
- Wages

### **Human Development**

- Worker household income
- Worker remittances
- Educational attainment
- Mental, physical and reproductive health

## Audit Report Analysis

This section will go overview in the compliance issues identified by the Better Work Program.

Assessments were conducted December 2009 over a course of four days in each of the 32<sup>11</sup> factories and consist of interviews with managers, union and worker interviews, document reviews, and factory walkthroughs. Since the Better Work Program has only been in operation since 2009, only one audit report is currently available. The program has designated that reports will be published every six months that provide a summarized overview of compliance issues in all factories participating in the Better Work Vietnam program. The following bar chart illustrates several labor standards and the number of factories found to be non-compliant in each respective area.

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<sup>11</sup> Two out of eight of Patagonia's factories are included in this number



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Figure 1. Labour standards and violation counts<sup>12</sup>

<sup>12</sup> <http://www.betterwork.org/EN/Publications/Documents/Better%20Work%20Vietnam%20-%201st%20Compliance%20Synthesis%20Report.pdf>

As we can see from the chart, there are non-compliances across all categories with the highest number being concentrated in the health and safety area. The high number of violations in this area is due to lack of proper labeling, employee training around hazardous materials, worker protection, and welfare facilities. Unfortunately, the audit report does not break down the specific factory that is non-compliant so it is not possible to determine if Patagonia's specific factories are non-compliant with their Workplace Code of Conduct. However, this at least provides a broad picture of the landscape of working conditions in Vietnamese factories and this report does include coverage of two of Patagonia's sourcing factories. Their participation in Better Work Vietnam does at least exhibit their commitment to upholding or at least making efforts to uphold their Workplace Code of Conduct.

Patagonia Workplace Code of Conduct	Better Work Program Vietnam Audit
<b>Forced Labor</b>	1 Violation
<b>Child Labor</b>	9 Violations
<b>Harassment, Abuse and Violence</b>	N/A
<b>Nondiscrimination</b>	39 Violations
<b>Health and Safety</b>	184 Violations
<b>Freedom of Association and Collective Bargaining</b>	87 Violations
<b>Wages and Benefits</b>	43 Violations
<b>Hours of Work</b>	50 Violations
<b>Overtime Compensation</b>	3 Violations
<b>Women's, Disabled, Ethnic, and U.S. Veterans Rights</b>	N/A
<b>Environmental</b>	N/A
<b>Quality</b>	N/A
<b>Sub-Contracting</b>	36 Violations
<b>Compliance with Law</b>	N/A

Figure 2. Patagonia's Workplace Code of Conduct and corresponding number of non-compliances reported by Better Work Vietnam

(Source: Data from "Better Work Vietnam: Garment Industry 1st Compliance Synthesis Report" - August 20, 2010)

Figure 2 lists each of the criteria Patagonia has listed in their Workplace Code of Conduct and the corresponding number of number of factories Better Work Vietnam has found to be in non-compliance through their December 2009 factory audit. Categories that were not mentioned in the

audit report are marked as N/A. In order to verify Patagonia's claims, these numbers should at least be reduced during next year's audit.

## Advisory Committee

Taking a closer look at the stakeholders in this program will help determine the credibility of this organization and their practices as an evaluator of factory compliances. A select group of individuals provide input into the Better Work Program's strategic and operational goals on a semi-annual basis. These individuals are from donor governments, employers' and workers' organizations, international buyers, and academics. From the list of members<sup>13</sup>, two out of the 14 individuals serve in the private sector and are from H & M and Levi Strauss & Company. Both individuals serve in a management capacity in their company's CSR department or supply chain responsibility department. Since both of these apparel companies also participate in the Better Work Program and utilize some of the sourcing factories assessed by the organization, the question is raised as to whether or not these audits are credible. The advisory members from H & M and Levi Strauss & Co. may provide any number of kinds of input into the decision making process that is favorable towards their company's PR. For example, those individuals could advise the organization to censor information in audit reports or tone down rhetoric that would tarnish their respective company's CSR image. Such advice could include artificially reducing the number of violations, refusing to include pictures in audit reports, or paying off other advisory members to share their same views at the meeting table. However, it should be noted that the other 12 advisory members come from international non-profit organizations or governments that may have less of an incentive to be motivated by profit as their private sector counterparts.

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<sup>13</sup> <http://www.betterwork.org/EN/aboutbetterwork/Pages/advisorycommittee.aspx>

## Specialized Technology Resources, Inc. (STR)<sup>14</sup>

Specialized Technology Resources is a private sector organization that works with clients to examine their supply chains and ensure the safety, quality, and social responsibility of their products. In short, STR is not an advocacy group like the FLA, but rather is a consulting company focused on helping companies manage their social image in relation to their supply chain. Cara Chacon has been Patagonia's Director of Social & Environmental Responsibility since January 2009. Prior to Patagonia, she was STR's global director for training and education<sup>15</sup> where she trained 150 auditors worldwide on CSR compliance business issues. Is it a coincidence that Patagonia decided to hire her to be their new social compliance director? Did Patagonia hire her for her extensive CSR background and audit experience or for her connections to STR? Several former STR trainers and auditors also now work in Patagonia's social responsibility department. Patagonia most likely only looks to hire some of the most experienced and highest quality individuals from the auditing industry to enhance their knowledge and expertise of CSR issues, which might explain why a number of their employees in their social responsibility department are STR veterans.

### Funding

STR is a publicly held for-profit organization that is paid on a per-audit basis by their clients. The organization is a subsidiary of STR Holdings, Inc. The parent company provides solar panel encapsulation and quality assurance services. Since the company is accountable to both shareholders and to its own clients, skepticism remains about their credibility. As long as there is a profit motive, corruption and adverse reporting is still possible. As a private company, it is also their responsibility to protect their clients and sign the necessary agreements in regards to information sharing and privacy. Since STR is not a nonprofit organization, this organization is less

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<sup>14</sup> All information in this section was garnered from an interview with Kim Ascoli, Global Research Manager at STR and an IR/PS alumni

<sup>15</sup> <http://www.linkedin.com/in/carachacon>



credible than their nonprofit counterparts. Their mission is to boost the image of their private sector clients and not necessarily expose wrongdoings in their clients' supply chain factories. As such, credibility of this organization should be even more so in question than nonprofit organizations that have participatory apparel companies serving on their advisory committees.

## **Comparing Audit Reports: Better Work Vietnam vs. the FLA**

Overall, the audit report done by Better Work Vietnam is more detailed on a qualitative level. However, the FLA audit report focuses on one factory where as Better Work Vietnam's audit report provides a broad picture of working conditions in Vietnamese factories. Not only are areas of non-compliance noted as they are in the FLA's audit report, but supplementary qualitative information is appended as well explaining limitations of their assessment and future plans. However, one immediate item of note is the amount of participation by the Vietnamese government in Better Work Vietnam's program operations. The Project Advisory Committee (PAC) that guides program operations consists of members from the Ministry of Labor, Invalids and Social Affairs (MOLISA), The Vietnam Chamber of Commerce and Industry (VCCI), and The Vietnam General Confederation of Labor (VGCL). This poses a potential problem because socialist republics, especially Vietnam, have been known to be prone to corruption. Such corruption can lead to credibility issues in reporting of information and are one of the biggest blows to the auditing industry<sup>16</sup>. In discussions of limitations in the assessment process, Better Work Vietnam acknowledges that some changes were made to its assessment methodology and criteria for classifications of non-compliance. The MOLISA and the PAC had input into this process and had impacts on the the way compliance points were utilized or with the way compliance in general was reported. The FLA on the other hand,

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<sup>16</sup> Comment from Kim Ascoli, Global Research Manager at STR Responsible Sourcing

being a U.S. based nonprofit organization, was created during President Bill Clinton's presidency in 1999. Since participating companies are U.S. based and pay a fee to be a member, the FLA may not be as credible as Better Work Vietnam since there are not any international stakeholders involved. However, the FLA program has been around for more than 10 years now, while the Better Work Vietnam program is still in its infancy and learning how to best perform audits and report them information accordingly.

## Eye Witness Account

Conditions in one Vietnamese factory in central Vietnam were reported to be subpar. A local Vietnamese interpreter working with an auditing company last year reported that auditors were wined and dined in order to help convey the image that working conditions were fine in factories. The interpreter's duty was to walk alongside the auditor in select factories and perform English to Vietnamese translations and vice versa. It is unknown if this factory is a sourcing factory utilized by Patagonia, but an eye witness account of at least one factory adds to the overall picture of working conditions in factories in Vietnam.

## Conclusion

Patagonia purports to be a socially responsible company in sourcing factories that follow its Workplace Code of Conduct. While on the outside it appears that Patagonia is adhering to the strict standards it has set for itself, analysis of audit reports and one eye witness account say otherwise. The largest non-compliance is freedom of association. If Patagonia did indeed stand behind its own guiding principles then it would not have even considered sourcing suppliers based in Vietnam. The fact that Vietnam's legislation prohibits workers from forming unions and freely protesting their working conditions is a blaring violation of freedom of association. As a company whose

profit is the bottom line, it is a common business strategy to cut costs where possible and perhaps the financial costs of manufacturing clothing in Vietnam is markedly lower than that of China or other countries Patagonia has outsourced manufacturing operations. While some may argue that the violations explained in the Better Work Vietnam and FLA audit reports appear relatively minor, what they may fail to see is the qualitative information of these reports. There are no pictures of the factory floor and workers at work from these third party monitoring organizations. There are no interviews with workers praising or criticizing working conditions and no direct quotations for workers in audit reports. A simple checklist does not suffice in reporting working conditions in factories because there are real people working in these factories that are made of flesh and blood. An in-depth of a worker's perspective of factory floor conditions needs to supplement these reports. Patagonia does indeed post pictures of factories on its website, but we have to ask ourselves would Patagonia post these pictures otherwise? Patagonia also claims to have its own self auditing team and creates their own audit reports. However, these audit reports are kept private and they do not discuss in detail the audit process. Therefore, it remains to be seen how credible they can be as a whole until they become more transparent.

Vietnam has been one of the fastest growing economies over the past two decades. It is therefore not only important to investigate supply chain conditions in Vietnam because of the country's growing economic importance, but also because Vietnam provides the second largest workforce in factories supply Fair Labor Association (FLA) companies<sup>17</sup>. As more foreign companies decide to outsource their manufacturing to Vietnam as a cheaper alternative to China, the average consumer should be made aware of working conditions. Consumers being made aware will at least raise their concerns to manufacturers who may at some point make stronger efforts to improve working conditions in their sourcing factories. It is in large part up to the average consumer to set off the

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[http://www.fairlabor.org/images/stories/fairlabor/FLA%202009%20Annual%20Public%20Report%20100dpi\\_.pdf](http://www.fairlabor.org/images/stories/fairlabor/FLA%202009%20Annual%20Public%20Report%20100dpi_.pdf)

domino effect, protest, and boycott purchase of apparel products in order to encourage apparel manufacturers to make their sourcing factories more accountable.

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