

News

## COVER STORY

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The leading private monitor of labor and environmental practices is getting out of the business-sort of. In a move that seems designed to deflect the intense criticism associated with this kind of work, yet still keep the actual work, **PricewaterhouseCoopers** this month is cutting loose its contractor compliance group's eight-person management team. However, these managers' new company will still use the same 1,000-plus PwC staffers to provide essentially the same monitoring services to the same corporate clients.

The new company, Global Social Compliance, was founded and funded by the two U.S. partners who have been coleading the group for PwC. One of them, New York-based Randal Rankin, says that PwC's decision to disassociate itself from social auditing was partly due to unwanted attention from the human rights movement. "The firm has become as big a target as some of its clients," he explains. "The debate [over human rights] has come to focus on us and not on the issues."

**PricewaterhouseCoopers** has been a natural focus for labor advocates' dissatisfaction with popular monitoring methods. Last year alone the accounting firm conducted about 6,000 factory visits in 60 countries. (PwC says it does not disclose profitability figures or auditing fees.) The most pointed criticism came in a report released in September by Dara O'Rourke, an assistant professor in the Department of Urban Studies and Planning at the Massachusetts Institute of Technology.

O'Rourke had first trained his sights on Ernst & Young International, condemning its 1997 assessment of a Nike, Inc., supplier in Vietnam. (E&Y says it never formalized a social compliance practice, though it has done such audits as individual engagements.)

Then, last summer, O'Rourke got a crack at PwC. He accompanied the firm's auditors on factory inspections in Asia for the Independent University Initiative. In this initiative, Harvard University and the University of California had collaborated with three other schools to review the conditions under which their licensed apparel is made. O'Rourke's analysis of PwC's work was scathing. He alleged that the firm's investigators not only overlooked wage and overtime violations, but even advised factory managers on how to skirt local laws; failed to note widely recognized repression of freedom of association in China and Korea; and did not effectively canvass workers or identify key health and safety problems. By ignoring real issues while giving a stamp of approval, cautions O'Rourke, "flawed monitoring can...do more harm than good."

Rankin rejects O'Rourke's charges and dismisses O'Rourke himself as "an activist with an agenda." Rankin points out that some of O'Rourke's accusations were issued separately from IUI's official report, indicating that other organizations participating in the effort did not necessarily share his views. O'Rourke's retort: Those groups-the Business for Social Responsibility Education Fund and the Investor Responsibility Research Center-"are not in the business of telling their member companies what to do. I'm in the business of making recommendations." While O'Rourke now works with companies and nonprofits, he says he resists affiliation with either. "I certainly have biases," he admits. "I'd like to meet an unbiased academic. But I systematically analyzed the data and came to conclusions."

In a project sponsored by Nike, college students observed the PwC monitoring process in the footwear giant's contract factories in Latin America, North America, and Asia during spring break 2000. While their critique was not as severe as O'Rourke's, they did question the firm's reliance on announced visits and on-site worker interviews. Some students suggested the monitors may be too lenient with factory management. Rankin dismisses such comments as knee-jerk suspicion of global businesses. "Big companies working with big companies," he parrots the skeptics, "must not be independent and objective." He doesn't "see the approach being taken by nonprofit groups as substantively different."

One way PwC might have blunted criticism would have been to include nongovernmental organizations in their monitoring process (as both the IUI and students recommended). But the firm has had difficulty in establishing cooperative arrangements with such groups. And Rankin says that is another reason for PwC to distance itself from contractor compliance work. "A \$21 billion corporate behemoth has all of the trappings of a corporation that the NGOs don't trust," he says. His new company intends to have better relations with

activists.

Although the U.S. leadership of PwC had "concerns about the profitability of the business," says Rankin, he has high hopes for his new venture. By leveraging the group's PwC client list, he is confident that Global Social Compliance "will become the market leader at inception."

Of course, that may not be such a great prize.

-M.G.

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