

# CASE STUDY: PRIMARK

## The Corporate Impact of Human Rights Abuse and Effective Due Diligence

### Abstract

Primark has refocused its corporate social responsibility in response to the deadly Rana Plaza tragedy, implementing key ethical initiatives to ensure supplier compliance with ethical standards and increased transparency surrounding employment practices. Human rights PR scandals have had a lasting impact on consumer perception of the Primark brand, illustrating the necessity of acting pre-emptively to mitigate latent risks within the supply chain. Primark's prioritisation of worker rights through the reformation of their auditing process and application of meaningful due diligence has been largely successful in addressing supply chain human rights abuses, particularly where workers have been personally engaged to provide authentic testimony about working conditions. Primark has contributed significant resources to promoting sustainable sourcing, in a wider attempt to destigmatise the consumer notion that 'fast fashion' perpetuates unethical practices, and to make amends for historically poor labour practices.

### Introduction

Jack Cohen, founder of Tesco's, famously claimed that success in business is simple; "pile it high, sell it cheap". Few companies reflect this philosophy more astutely than Primark. The high street fashion retailer, owned by Associated British Foods, has seen impressive increases in revenue over the last decade: from £1.6 billion in 2007 to £7.1 billion in 2017.



Primark's business model is responsible for the company's rapid expansion. The 'fast fashion' trend popularised by the retailer has won over consumers through wholesale undercutting of high street competitors. Primark has become a driving force in the fashion industry. Where consumers are increasingly conscious of their spending, Primark's universal appeal and accessibility have driven its UK fashion industry market share to 7%, second only to Marks and Spencer's at 7.5%.

Yet providing markedly cheaper garments - the price of a T-shirt as low as £2 - carries associated challenges for the Primark brand. The company has struggled to shake the pre-fixed consumer notion linking cheap products with unethical sourcing. This public perception, combined with a host of alleged human rights violations throughout the supply chain, has publicly represented Primark as either wilfully or negligently exploiting cheap labour to maximise their profits.

This case study will provide an in-depth analysis of the damage caused by this perception to the Primark brand, and the subsequent steps Primark have taken to challenge this negative image by becoming more ethically responsible. Their response to the negative PR has overall been positive, demonstrating that proactive and meaningful due diligence to combat supply chain abuse can be both practical and realisable.

## Corporate Overview

Currently there are 362 Primark stores spanning 11 countries, employing over 68,000 people. Primark has been recently expanding into the US market, establishing their first store in Boston in 2015.

The company has a diverse target demographic including students and other low disposable income groups. It has particular traction with women aged 16-24 (according to GlobalData, over half of this demographic have shopped at Primark this past year). Primark reacts to trends quickly and promotes seasonal items to ensure the relevancy of its products.

Primark's popularity with its target demographic is reflected in YouGov BrandIndex's data, indicating that public perception of the brand is moving in the right direction. Among all respondents, Primark's impression score (whether a customer has a positive impression of a brand) has risen from -0.9 to +2.7 since 2017 – the second largest improvement in score this year of any retail company. Moreover, with an Impression score of +11 among those earning less than £25,000, it's no wonder Primark has dominated the retail industry.

## Due Diligence Processes

In 2013, the deadly Rana Plaza building collapse in Bangladesh exposed the scope of human rights abuses within the retail industry, shining a light on unfair supplier practices and drawing attention to the corporate responsibility of companies to safeguard worker rights. The factory was used for manufacturing garments by 28 different brands, including Primark, and was plagued with a host of human rights abuse allegations, including suppression of unionisation, withholding of pay and gender inequity.

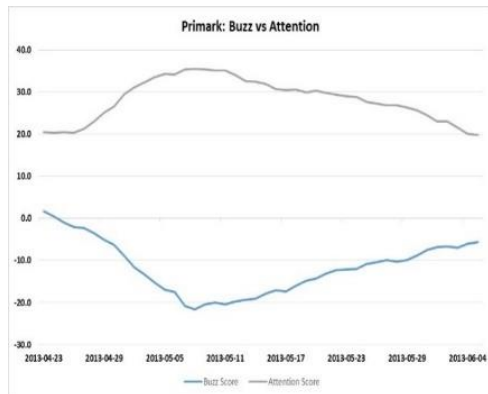


Prior to the building collapse, some workers were threatened to continue work, despite mounting concerns about the structural integrity of the building after cracks appeared. While the commercial areas of the building were evacuated, industrial suppliers forced workers to continue their labour amid threats of withholding one month's pay for absence. The subsequent collapse of the building resulted in the deaths of 1,138 workers and injuring a further 2,000, marking the most lethal structural failure accident in modern history.

These entirely preventable deaths on such a massive scale represent a salient symbol of how fashion retailers had lost control of their supply chains in pursuit of increasingly cheap overseas labour.

The response by Primark to the tragedy was initially mixed. They were heavily criticised when it was revealed that the meagre \$200 compensation they offered to families of the deceased could only be claimed if DNA evidence of their relative's death could be supplied. Unsurprisingly, this unsympathetic approach did little to mitigate the strong public backlash against the company.

YouGov BrandIndex measures a company's Buzz scores (whether people have heard anything positive or negative about a brand in the past 2 weeks), and Attention scores (measures recent awareness of the brand, regardless of sentiment).



Prior to the disaster, Primark had a Buzz score of +1.7. Two weeks following the disaster the Buzz score plummeted to -20.8, with their Attention score peaking at 35.6. These results evidence the largely negative public image of the Primark brand, with the high Attention score implying this was a belief shared across the consumer base.

Two months later Primark had recovered reasonably well with a Buzz score of -8.8. This was largely attributed to the company's re-structuring of due diligence processes and implementation of key initiatives to protect against further abuses.

Primark suffered a huge impact on brand reputation following the 2013 Rana Plaza tragedy. Having struggled to regain consumer confidence resulting from the 2008 BBC Panorama exposé revealing the exploitation of child labour in the manufacture of Primark clothing, executives recognised the need to be proactive in eliminating labour abuse and to be accountable for their supply chain management.

It was unfortunate that it took a catastrophe of the scale of Rana Plaza to evoke meaningful action on protection of worker rights. However, the speed with which Primark and other responsible retailers mobilised to sign the Bangladesh Accord within 2 months of the disaster should be applauded. The legally binding agreement, designed to build safe and fair working conditions for Bangladeshi workers, has been universally praised as transformative and a key incentive for suppliers to raise their ethical standards. The terms of the agreement mandate independent auditing programs, public disclosure of all inspection reports, implementation of democratically-elected health and safety committees in all factories, and empowering workers through a complaints mechanism and the right to refuse unsafe work.




Primark have gone above and beyond the requirements of the Bangladesh Accord, implementing complimentary policies to more robustly tackle the systemic failures that led to the Rana Plaza tragedy.

Foremost, Primark developed its own Code of Conduct for suppliers to adhere to. They stipulated ethical standards in conformity with the Ethical Trade Initiative (ETI) Base Code and the ILO Declaration on Fundamental Principles and Rights at Work. A Code of Conduct is a mere statement of intent if not enforced; it is then simply a corporate formality. For this reason, Primark took steps to ensure application of rights conferred by the Code.

They partnered with local experts to more effectively operate in regions where an understanding of cultural norms and practices was necessary. Given the high illiteracy rates of factory workers, Primark has worked alongside local NGOs and designers to produce cartoon-style posters to visualise the Code, and to communicate worker rights in a digestible manner.

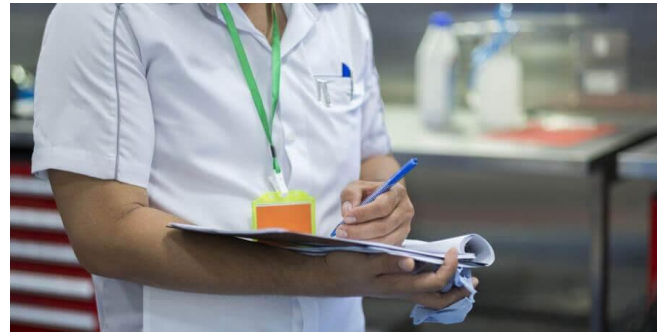
In direct response to the Rana Plaza disaster, civil engineers are now an integral part of Primark's Ethical Trade team. They are routinely utilised to assess the structural integrity of factory buildings to maintain health and safety standards. The expansion of their Ethical Trade team is a strong indication of the seriousness with which Primark now addresses human rights abuses: from just two members in 2007 to over 90 in 2018.





Media scrutiny following the Rana Plaza tragedy has catalysed greater transparency within supply chain management, refocusing the role and responsibility of businesses to protect worker rights. The ensuing PR crisis underlined the importance of vocal participation in addressing ethical concerns and in impacting public perceptions of a brand. YouGov BrandIndex attributes Primark's fast recovery in their brand's health to their robust response to the Rana Plaza crisis.

In pursuit of further transparency, Primark has reformed its auditing process of supplier factories. During this process, confidential worker interviews are undertaken to provide an authentic perspective on labour conditions, especially where supervisors create artificial environments to hide abuses. Confidential interviews subvert a problematic aspect of auditing; workers under duress are not honest about their welfare through fear of repercussion. Nevertheless, conducting periodic audits and confidential interviews are insufficient when performed in isolation. These must be practised in conjunction with measures that protect workers year-round when there is no external oversight. This concern can most effectively be addressed through supporting free and unsuppressed unionisation of workers. Collaborations with local trade unions would give workers a greater voice in their treatment; backed by the authority of the retailer, suppliers would have less scope for abuse and castigation of workers. Primark has worked towards this end through the ACT initiative, a combined effort with other companies and the trade union IndustriALL to formalise the role of trade unions within the retail industry, underpinned by the requirements of the UN Guiding Principles.



Primark's failure to publicly report the findings of their audits does however significantly undermine their efforts to improve transparency and accountability. Opaque inspections hidden from public scrutiny is a retrograde step in Primark's efforts to become more ethically responsible. Their justification that it maintains the 'authenticity' of their findings by protecting confidential interviewees does not hold up to scrutiny; information enabling identification of specific workers could easily be redacted before publication. In consideration of concerns surrounding competitive advantage and related issues of transparency with supplier lists, the least that can be expected of companies is a transparent collaboration with independent NGOs and trade unions to ensure findings of abuse detailed in audit reports are acted upon. This ensures a degree of accountability and assurance that human rights violations are not being swept under the carpet, even if this precludes public access to data.

This failing within Primark's due diligence process was raised by the Corporate Human Rights Benchmark 2017 report. While this report acknowledged the work undertaken at a policy level to mitigate worker abuse, it criticised their lack of appropriate action upon discovery of human rights violations within the supply chain.

In 2016, Primark conducted 2,994 audits and over 100 impromptu 'spot-checks'. Rigorous re-evaluation of the auditing process ensured the prioritisation of labour welfare.

Through inspection reports, independent research and engagement with workers, key problem areas have been identified and addressed. All audits now include stringent checks for illegal or inhumane labour practices. Retention of identification papers or passports is prohibited, wages must be paid in full and on time, freedom of movement must not be suppressed, contracts must be written in the worker's own language and explained clearly, worker agreement must not be obtained through duress or coercion, and worker rights must be made easily available. Moreover, it is pivotal that independent auditors are used and not those hired by the suppliers; this ensures impartiality and high monitoring standards. All supplier factories are audited prior to production to certify they meet the standards set out by the Code of Conduct. Furthermore, undisclosed sub-contracting is expressly forbidden as this places workers at significantly greater risk of exploitation due to lack of oversight and enforcement of ethical standards.

Primark's Modern Slavery statement, as required by the TISC provision in the Modern Slavery Act 2015, details their issues with excluding workers from the due diligence process and the importance of engaging them to develop a comprehensive assessment of working conditions. Primark have facilitated an open dialogue with workers through their Drawing The Line (DTL) initiative. This participatory tool seeks to highlight risk areas and problematic labour practices by gathering groups of workers and focusing discussion around their understanding of workplace rights and aspects of their employment. This holistic approach permits better informed due diligence and auditing processes.



As a leading member of the Ethical Trade Initiative (ETI), Primark recognises that corporate social responsibility extends well beyond supplier compliance with ethical standards. Systemic initiatives must be implemented in conjunction with local schemes; one-size-fits-all policies rarely tackle culturally-specific issues effectively. To this effect, Primark has developed initiatives that directly address the most pressing concerns in specific regions. The most prominent is the Sustainable Cotton Programme launched in 2013, in collaboration with CottonConnect and the Self-Employed Women's Association. This programme focuses on cotton production in Northern India and the endemically low access to education and training in the region. Further research underlined that this disproportionately affects women in the workforce, where gender discrimination underpins labour practices and remuneration for work. This long-term initiative was designed to engage labourers on the ground, with training focused on achieving sustainable and efficient cotton production to increase crop yield and pay for the workers.

The positive impact of the programme has prompted an expansion to support 10,000 more farmers over the next five years, and the training of 5,000 new cotton farmers. The success of this initiative is a testament as to how culturally-specific actions can have a greater impact than generalised policy. It reaffirms the necessity of collaborating with local experts and NGOs to ensure action is relevant and meaningful.



Efforts to empower the female workforce are reinforced by a Farmer Field School implemented by Primark, an educational service designed to teach sustainable farming methods and management of an increased cash flow. The programme has been successful by all accounts. 1,251 female farmers engaged with the programme in 2013.

By 2016, average profits for workers increased by 247%, input costs reduced on average by 19.4%, and there was a significant decrease in the use of pesticides, fertilisers and water usage.


## **Corporate and Social Benefits**

The wider benefits of integrating human rights due diligence in supply chain management are clear; safeguarding workers from exploitation and securing protective labour standards have a major impact on their livelihood and wellbeing. Corporations have a social responsibility to investigate and then mitigate any supply chain abuses. Pleading ignorance or denying responsibility for supplier abuses is no excuse.



Responsibility extends beyond the welfare of labourers, also encompassing the community and environmental impact of supply chain operations. The fashion industry is a major contributor to pollution. Grossly inefficient and environmentally harmful manufacturing processes involving the overuse of pesticides and chemicals contribute significantly to global warming. McKinsey and Co estimated that for every kilogram of textiles produced, 23 kg of greenhouse gases are emitted. Contextualised with the sheer number of garments produced - over 100 billion items annually since 2014 - fashion retailers have a responsibility to curtail unsustainable practices and prevent the acceleration of climate change. Understandably, companies have finite resources to commit to due diligence and sustainability initiatives, but ethical considerations should play an important role in corporate decision-making given the impact on people's lives.





Primark's Sustainable Cotton Programme illustrates that prioritisation of human rights and sustainability does not have to come at significant business cost. Workers received education, training and increased pay yet the company reaped the benefits from an increased cotton yield and better quality products.

Companies should view due diligence as a form of risk management. From a corporate perspective, it makes sense to identify and remedy potential risks that could develop into a PR scandal and result in damaged brand reputation. Human rights scandals are a hot topic for media outlets. Being viewed as a company that perpetuates human rights abuses is hugely detrimental for their business and will compromise their brand's image long after the immediate fallout.

This notion was corroborated by '*Sustainability in Corporate Communications and its Influence on Consumer Awareness and Perceptions: A study of H&M and Primark*'. This investigation contrasted consumer perceptions and awareness of the ethical commitments of two leading UK retailers, Primark and H&M. Interview-based findings revealed that consumers perceived Primark's online ethical communications to be credible, with genuine intent to atone for past mistakes. By contrast, H&M's ethical initiatives appeared to consumers as disingenuous and motivated by a desire to publicly appear ethically responsible rather than a sincere attempt to prevent abuse in their supply chains. Despite this criticism, the interviewees overwhelmingly found H&M to have a better overall ethical image than Primark. Interestingly, Primark's reputation as an unethical business preceded them, notwithstanding their initiatives being considered more effective and honest. The results indicate that pre-fixed consumer notions moulded by PR scandals prevail in determining a company's ethical image, regardless of future endeavours to tackle abuse in their supply chains.

It is imperative that latent risks should be acted upon pre-emptively to avoid the possibility of scandal, as this will have a lasting negative impact on the public perception of a brand. Reacting to human rights abuses only after the media have highlighted them will ultimately do little to revive positive perceptions. Indeed, this may only be the tip of the iceberg. Media reports on poor labour practices can be a catalyst for further industry regulation, while unchecked human rights violations could result in costly civil lawsuits. In many contexts, sufficient due diligence will provide a satisfactory defence to a legal charge if it can be shown a company had taken all reasonable steps to mitigate human rights abuses.

The corporate impact is particularly salient when considering the consequence of increasing ethical awareness of consumers on their spending habits. Now more than ever, consumers are making an active choice about the companies they support and the practices they endorse. Recent polls suggest a third of UK consumers claim to be very concerned about the origins of their products. A YouGov study in collaboration with the Global Poverty Project revealed that 74% of those surveyed would be willing to spend an extra 5% on their clothes if they could be guaranteed that the labourers worked in safe conditions and received fair pay. This is especially striking when it is considered that if the fashion industry added just 1% of its profits to workers' wages they could lift 125 million people out of poverty. There is a growing spotlight on overseas business operations. It is therefore in their competitive interests to respond to this trend in sustainable consumption.