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Wage law violations in California invite deeper scrutiny into retailers' labor practices

Article

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The news: Retailers are facing more scrutiny from shareholders and the US government over their labor practices.

- A report by the Department of Labor found significant wage law violations in California's garment industry, where **some workers making products for retailers such as Nordstrom, Neiman Marcus, Dillard's, and Stitch Fix were found to be earning as little as $1.58 per hour**.
- **Nike** is under pressure from active investor **Tulipshare** to increase transparency into its efforts to prevent forced labor and other human rights abuses within its supply chain, per Reuters.
- Ex-CEO and founder of **Starbucks**, **Howard Schultz**, was questioned by the Senate last week over the company's union-busting tactics.

A global issue: The Labor Department said that **80% of the investigations it carried out in Southern California uncovered violations of the Fair Labor Standards Act**, highlighting the scale of the issue and raising concerns about the treatment of workers in the American garment industry, as well as the practices of brands and retailers involved.

- Nor is the issue confined to the US. In February, a coalition of 20 unions, along with the **Asia Floor Wage Alliance** and **Global Labor Justice—International Labor Rights Forum**, filed a complaint against Nike with the Organisation for Economic Co-operation and Development (OECD) alleging mistreatment of garment workers including arbitrary pay cuts, terminations and layoffs, unpaid wages, and "gender discrimination at an unprecedented scale."
- The violations uncovered by the Labor Department and the allegations against Nike may tarnish the reputations of the implicated brands and expose them to potential legal consequences and consumer backlash.

Shareholders push back: For both Starbucks and Nike, growing scrutiny into their labor practices has invited action from shareholders.

- Starbucks shareholders approved a proposal—which the company opposed—calling on the Board of Directors to conduct an independent review to determine whether its approach to the union and unionizing workers is in accordance with the International Labour Organization's Core Labor Standards.
- Tulipshare issued a shareholder proposal to Nike asking the company to insert a set of model contract clauses into all its supply chain contracts that would increase worker protections.

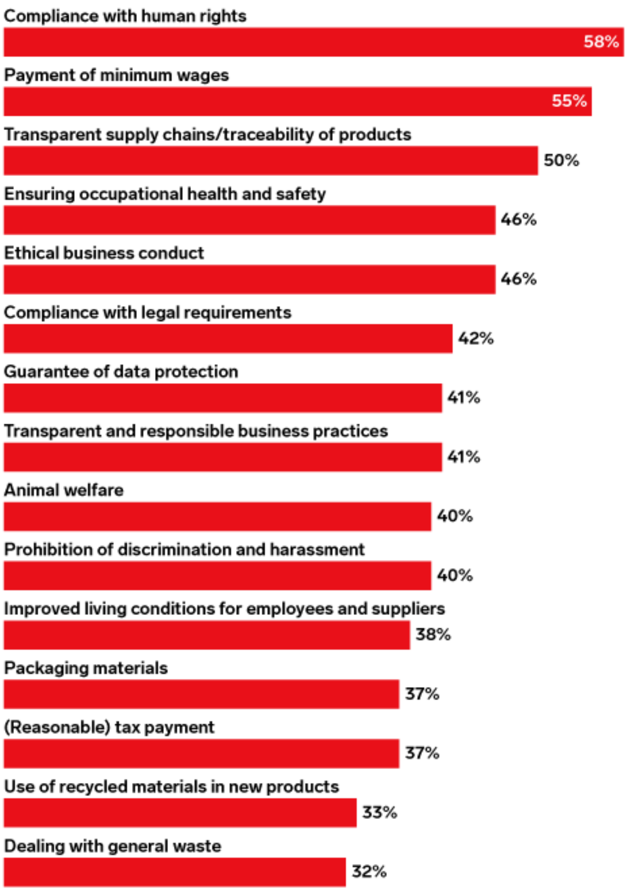
The activist investor is also requesting that the retailer disclose data for its Tier 2 and Tier 3 supply chains to increase transparency and accountability across its supplier network.

The big takeaway: The Labor Department report coupled with the allegations against Nike reiterates the need for greater supply chain transparency.

- Supply chain transparency will not only help retailers avoid running afoul of labor laws and mistreating workers, but can also help them improve sustainability by cutting down on wasteful or inefficient practices.
- Importantly, offering more insight into how items are produced and where they're made can also boost a retailer's standing among consumers, especially those looking to make sustainable or ethical purchases.
- Finally, transparency into supply chain and labor practices benefits investors by giving them better oversight of the company's operations, while reducing the possibility of negative headlines and consumer backlash as a result of worker mistreatment.

Sustainability Aspects* That Adults in Germany Would Like to Know About Before Making a Purchasing Decision, Oct 2022

% of respondents



*Note: ages 18+; *includes environmental, social, and sustainable business management aspects; top 15 displayed*
Source: PwC, "Nachhaltiger Konsum:Mit welchen ESG Faktoren können Händler bei den Konsument:innen punkten?" December 19, 2022

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