

Culture or strategy?

Corporate scandals keep occurring in China. The CLSA-ACGA report highlights some typical examples:

- Yangzhou Coal providing a loan to a third party in an attempt to generate a higher return on excess cash – the third party then defaulted.
- Beijing Media's successful flotation being followed several months later by a reported loss.
- Appliance manufacturer Guangdong Kelon's board members being arrested for fraud.
- Various Chinese state bank officials being detained for corruption.

What the CLSA report does not mention (because of its timing) is that many of these poor governance issues in companies have mirrored those in the latter half of 2006 in Shanghai's pension fund scandal. This has led to mass arrests including that of the Shanghai party secretary.

This sort of scandal adds to the belief that poor governance is as much a culture as a business strategy.

To hear an interview with Paul French, visit www.ethicalcorp.com/podcasts

Useful link:

Step by Step: Corporate Governance Models in China http://ifc.org/ifcext/home.nsf/Content/Corporate_Governance

whelmed when it comes to interpreting and enforcing all the new legislation.

Meanwhile, a growing group of lawyers are specialising in corporate litigation and representing small shareholders in claims against large companies.

Generally, the chief executives of major Chinese companies have not traditionally thought they were accountable to shareholders, large or small. They thought that they had little to fear from the law or regulatory watchdogs and that telling anyone what their corporations were doing was a very bad idea. Consequently, disclosure, transparency and accountability have all been ignored.

Another report on corporate governance in China, this one issued by the International Finance Corporation, the private sector arm of the World Bank, generally supports the CLSA-ACGA findings. Companies are feeling swamped by new legislation and are doing the bare minimum rather than embracing a culture of accountability. As the IFC report says, "Too often they don't know where to start".

It is also the case, as borne out in any conversation with a senior executive at a Chinese company on the subject of accountability, that many in China do not feel they have much to learn from foreigners – the names Enron and WorldCom are well known among chief executives in China.

Dirty business, dirty governance

As more and more Chinese companies float on the stock exchange and gain new board members, and transparency and accounting demands, there is a need to assess risk from the investors' point of view. David Webb, a former bank analyst turned scourge of Chinese and Asian listed companies through his governance web site www.webb-site.com, has raised the issue of voting power, or rather the lack of it. He also highlights the lack of clarity for investors when it comes to third-party transactions, soft lending between corporate divisions and deals within the same family that constantly raise issues of transparency.

Still, some improvements have been noted. Major insurer China Life notably improved its disclosure last year while Hopson Development announced a new and more independent board and better investor communications. The CLSA-ACGA report notes that both companies saw improved returns. When it comes to the general state of corporate governance in China, Jamie Allen says: "It can't get worse. I'm fairly certain that it will continue to improve."

The corporate governance issue in China clearly is not going to go away. A raft of new IPOs by Chinese companies is set for this year (including the long-awaited China Mobile launch in Shanghai). So it looks like the pressure for better governance will only be ratcheted up both at home and abroad. ■

Supply chain management

Weak links in Bangladesh

By Poulomi Saha

Changes in the international marketplace mean Bangladesh's boom risks coming to an abrupt end. Big buyers and suppliers need to work together

Last year Bangladesh's simmering labour tensions came to the surface. Workers and trade unionists took to the streets protesting over various issues including low wages, long hours, excessive overtime, working conditions, and denial of union rights and maternity leave. There were wildcat strikes, demonstrations, riots, arson, looting and arrests.

Political unrest in the country did little to ease the tension. Opposition parties took out protest marches demanding fair elections, disrupting day-to-day business. This resulted in delayed shipments and excessive overtime for workers in order to compensate for disrupted schedules.

But despite all this, local employer groups and the government have done little to break the labour-related impasse.

A prime reason has been the constantly escalating export orders that have kept flowing into Bangladesh. Business has never been better.

The country's export earnings topped \$10 billion in the first half of last year, a large share of it owing to the textile sector. According to the Bangladesh Export Promotion Bureau, the record 24% increase in textile exports in the first six months of the year is the sector's best ever performance to date. To add to that, any fears concerning Chinese competition after the expiry of quotas under the Multi Fibre Agreement were put to rest by restrictions imposed on Chinese exports by the European Union and the US.



Bangladesh hanging on to big brand contracts by a thread?



Crucial for Bangladeshi export earnings

Labour associations encourage companies to work in co-operation with suppliers on remediation strategies, recommending termination of contracts only in the case of supplier non-co-operation

Precarious position

But while Bangladesh is rejoicing, it should not let last year's success blind it. "The fears of full liberalisation [of garment exports] will come to the surface by the end of 2008," warns Neil Kearney, general secretary of the International Textile, Garment and Leather Workers' Federation. The European Union will lift its partial ban on Chinese textile exports by the end of this year and the US will open its door to China by the end of 2008. Bangladesh, which has neither high productivity rates nor workers with a unique skillset, depends heavily on brands currently sourcing from the country.

The recent termination of Bangladeshi vendor contracts by US groups Wal-Mart and Hanesbrands is a signal that should be taken seriously. While Wal-Mart ended its relationship with its supplier over child labour allegations, Hanesbrands said pay and working hour violations were its reasons for pulling out.

The circumstances surrounding these two cases were exposed by the media and the New York-based National Labor Committee, respectively, and not by the brands themselves. This is indicative of the lack of proper auditing and monitoring by brands at their supplier factories.

Singapore-based corporate responsibility consultant Rajesh Chhabara says the current causes of labour agitation, including poor health and safety provisions at factories, have been known to brands for a long time. "Personal interviews during audits should've thrown it all up," he says. Yet they were not detected until serious workplace accidents happened last year and tension spilled on to the streets.

This lack of enthusiasm for improving conditions is worrying. "Some brands take the attitude 'why should we ask for changes when we are going to leave after 2008?'" says Aret van Heerden, chief executive of the US-based Fair Labor Association. Others are tempted by comparatively low sourcing costs in Bangladesh. "But there are many [retailers] who are trying to form the 'coalition of the willing'," says van Heerden.

This "coalition of the willing" faces the uphill task of overcoming the political inertia in Bangladesh, manifested, for example, in the govern-

ment's delay in implementing the recently revised minimum wage of \$25 per month, which is still the lowest in the world.

The rejection of a proposed programme similar to the ILO-monitored Better Factories Cambodia by the Bangladesh Garment Manufacturers and Exporters Association, a membership group consisting of many politicians and political hopefuls, has reinforced perceptions of a reluctance to improve the worker's lot.

The government has further disappointed workers by passing regressive amendments under the new Bangladesh Labour Bill, which include a rise in daily working hours to ten, mandatory overtime, restricted union rights, and the reduction in retirement age from 60 to 57.

A leading US brand told Ethical Corporation: "Bangladesh has to see its workers as assets and not as disposable entities." It said that encouraging freedom of association among workers was a huge challenge, but the most logical step forward for retailers and suppliers. The company also said retailers should place contractual obligations on suppliers to provide workers with a living wage, based on cost-of-living analyses.

Pulling out not the answer

While brand pullouts from specific factories such as those by Wal-Mart and Hanesbrands may jolt Bangladeshi employers into putting their houses in order, they still are not seen as the most effective way of dealing with a sticky situation, especially when the decision could leave many impoverished.

Labour associations encourage companies to work in co-operation with suppliers on remediation strategies, recommending termination of contracts only in the case of supplier non-co-operation. If a contract does have to be ended, buyers should look for alternative local suppliers, so production stays within the country. And buyers tend to sack the smaller suppliers more than the bigger ones, which does not produce sweeping changes in labour conditions.

But suppliers should nevertheless be wary of being dropped by buyers for non-compliance with international labour standards. Their current complacency and shortsightedness could put the future of Bangladesh's industry in jeopardy, according to Neil Kearney.

On the other hand, while it is true that Bangladesh and its two million garment workers need the buyers more than the other way round, it is also true that negative publicity is bad news in the international fashion industry, where about 30% of stock value is based on reputation. With consumer consciousness on the rise, it will become increasingly difficult to simply cut and run in response to labour violations.

It seems clear that both Bangladesh's buyers and suppliers stand to gain if they start cleaning up now. ■