Victoria's Little Secret: Addressing Child Labor

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VICTORIA’S SECRET
&
LIMITED BRANDS INC.

ADDRESSING CHILD LABOR
Our Road Map

The Problems
- Company Problem
- Child Labor
- Evaluation Criteria
- Fair Farms Initiative

Limited Brands Inc.
- Company Overview
- Supply Chain Overview
- Violation of Labor Standards

Stakeholders & The Solution
- Connecting Key Stakeholders
- Solution Details
- Brand Equity & Consumers

Review & Takeaways
- Solutions meet our objectives
- Takeaways
The Problem
The Problem for Limited Brands

- Reputation damage from allegations of child labor from sourced cotton in Burkina Faso
- Sourcing practice runs contradictory to company values
- Missing opportunity to enhance brand image
The Problem for Child Labor

US government subsidizes American farmers

US cotton price remains artificially low

Developing countries unable to compete with artificial US prices

Resort to child labor to reduce cost structure and maximize profits
Child Labor Defined

Refers to work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development.

- ...is mentally, physically, socially or morally deprives them of the opportunity to attend school;
- Obliges them to leave school prematurely; or
- Requires them to attempt to combine school attendance with excessively long and heavy work.
Child Labor in Burkina Faso

Percentage of children aged 5 to 14 years of age involved in child labor activities in Burkina Faso during 2010:

- **38%** Total Child Labor
- **39%** Male Child Labor
- **36%** Female Child Labor

That’s 3,828,483 total children under the age of 14 in Burkina Faso involved in child labor.
Solution: A System Based Approach

Social

Environmental

Economic
Solution Objectives

Social
- Reduce child labor in Burkina Faso.
- Become a leader for social responsibility in the specialty apparel industry.
- Improve transparency of the company’s social sustainability initiatives with stakeholders.

Economic
- Improve brand equity.
- Maintain current revenue.
- Improve transparency of the economic effects of sustainability initiatives with stakeholders.

Environmental
- Work with Fairtrade International to improve auditing standards for organic farmers.
- Improve transparency of the company’s environmental sustainability initiatives with stakeholders.
### Potential Solutions

<table>
<thead>
<tr>
<th>Solution</th>
<th>Economic Effect</th>
<th>Social Effect</th>
<th>Environmental Effect</th>
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</thead>
</table>
| Increasing involvement of key stakeholders in the supply chain. Including the Limited Brands / Mast Care Foundation to improve living standards of children in Burkina Faso. | • Requires initial investment.  
• Long term brand equity will increase.  
• Maintains sourcing price of cotton. | • Develop better living standards of children.  
• Increase awareness of child labor practices in developing countries.  
• Improve livelihood of farmers. | • Better certification standards will provide an incentive for other farmers to choose organic.  
• Solution will include environmental preservation training for farmers. |
| Create cotton sourcing principles.                                      | • Costly to implement & audit.  
• Brand’s image and value to consumers improve by being the first in the industry to implement such principles. | • Reduce child labor in cotton farms.  
• Improve awareness of child labor in cotton farms. | • Establishes clear standards to ensure the environment is being protected.  
• Difficult to measure the impact of the principles in protecting the environment. |
| Create and publish an annual Corporate Social Responsibility (CSR) report while progressively integrating sustainability into its business plan. | • Initial research and implementation cost.  
• Leads to improved efficiency the company’s operations and cost reduction in the long run. | • Gets executives on board for sustainable efforts.  
• Consumers will be more aware of efforts, increasing brand equity. | • Fosters a culture where more initiatives will be undertaken.  
• Easier to track progress and measure impact of the company’s initiatives. |
| Abandon presence in Burkina Faso.                                       | • Could increase costs if another company does not offer the same prices for cotton. | • Problem would persist in Burkina Faso.  
• No improvement to child labor problem. | • Provides less incentive to grow organic cotton, further damaging the environment. |
Limited Brands Inc.
Limited Brands Overview

2012 Operations
Revenue: $10.634 billion
Gross Profit: $4.074 billion
Operating Income: $1.238 billion

Net Income attributable to
Limited Brands: $850 million

2,968 stores in total

Enterprise Value
$16.46 billion USD
Supply Chain Functions

Victoria’s Secret
- Product Design/Launch
- Merchandise Planning

Mast Global
- Sourcing
- Production

Limited Logistics Services
- Transportation
Limited Brands’ Response: Weak

• Launched 3\textsuperscript{rd} party investigation into allegations

• Shifted responsibility of the issue to Fairtrade organizations while denying key facts of the article

• Dec. 15\textsuperscript{th}, 2011 – Limited Brands “committed to a continuation of its efforts to actively oppose and combat child labor”

No action was taken to reduce child labor in Burkina Faso
Limited Brands Violates Its Own Labor Standards

- Minimum Wages
- Maximum Working Hours
- No Forced Labor
- No Child Labor
- Health and Safety
- No Corporal Punishment

“Embracing that it matters how we play the game ... to be sources of good for our communities”
Stakeholders & The Solution
Stakeholders

Limited Brands

Children

US Government

UNPCB

Farmers

Competitors

Mast Global

Fairtrade International

Consumers

Helvetas
Connecting the Key Stakeholders

Children are forced to work for Farmers

Farmers union in Burkina Faso

Mast Global: a partially owned subsidiary of Limited Brands; their sourcing and production arm

Children → Farmers

UNPCB

Fairtrade

Certification program for ethical economic, environmental, and social standards of operation

Helvetas Swiss Intercooperation: a development organization that launched the organic cotton program and helped market cotton to Mast Global

Mast Global

Helvetas

Limited Brands

Limited Brands: parent company of Victoria’s Secret
Solution Details: Helping Burkina Faso

- Bring Key Stakeholders Together
- Create a Program that Reduces the Use of Child Labor in Burkina Faso
- Increase auditing from once every three years to an annual basis.

Finalize the system approach through the development of an annual CSR report.
A Program to Reduce the Use of Child Labor: Fair Farms Initiative

- Farm Equipment
- Restructure Fairtrade Certification Training
- Include in Training:
  - Crop Rotation
  - Soil Preservation
  - How to Use New Equipment
CSR Report

- Limited Brands need to provide a CSR report with:
  - Specific goals for their initiatives
  - Accurate and relevant metrics to measure the success of each program
  - Precise financial data that links specific projects to financial performance

Provide a clear measure of progress and success for the Fair Farms initiative and a way for Limited Brands to be held accountable.
Consumers Value Social Responsibility

Core: 13%
- Sustainability, Authenticity, Knowledge, & Quality

Mid-Level: 66%
- Experience, Expert Opinion, Fun & Enjoyment, & Quality

Periphery: 21%
- Convenience, Price, & Brand

The Mid-level consumer this year is more interested in not buying products from companies with poor labor practices.

Hartman Group: World of Sustainability 2012
## Fair Farms Initiative Meets Objectives

<table>
<thead>
<tr>
<th>Social</th>
<th>Economic</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reduce child labor in Burkina Faso.</td>
<td>• Improve brand equity.</td>
<td>• Work with Fairtrade International to improve auditing standards for organic farmers.</td>
</tr>
<tr>
<td>• Become a leader for social responsibility in the specialty retail industry.</td>
<td>• Maintain current revenue.</td>
<td>• Improve transparency of the company’s environmental sustainability initiatives with stakeholders.</td>
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<td>• Improve transparency of the company’s social sustainability initiatives with stakeholders.</td>
<td>• Improve transparency of the economic effects of sustainability initiatives with stakeholders.</td>
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Child labor is a symptom of a deeper, underlying problem that is enhanced by subsidies on US cotton. Limited Brands Inc. has an opportunity to positively affect the farmers from where it sources raw materials. Doing so will make them a leader in the specialty apparel industry.
THANK YOU
Appendix

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</thead>
<tbody>
<tr>
<td>Revenue (in millions of USD)</td>
<td>$10,634</td>
<td>$9,613</td>
<td>$8,632</td>
<td>$9,043</td>
<td>$10,134</td>
<td>$10,671</td>
</tr>
<tr>
<td>Gross Profit (in millions of USD)</td>
<td>$4,074</td>
<td>$3,631</td>
<td>$3,028</td>
<td>$3,006</td>
<td>$3,509</td>
<td>$4,013</td>
</tr>
<tr>
<td>Operating Income (as percentage of net sales)</td>
<td>$1,238</td>
<td>$1,284</td>
<td>$868</td>
<td>$589</td>
<td>$1,110</td>
<td>$1,176</td>
</tr>
<tr>
<td>Net Income Attributable to Limited Brands, Inc.</td>
<td>$850</td>
<td>$805</td>
<td>$448</td>
<td>$220</td>
<td>$718</td>
<td>$676</td>
</tr>
</tbody>
</table>

| Gross Profit (as percentage of net sales) | 38.3%  | 37.8%  | 35.1%  | 33.2%  | 34.6%  | 37.6%  |
| Operating Income (as percentage of net sales) | 11.6%  | 13.4%  | 10.1%  | 6.5%   | 11.0%  | 11.0%  |
| Net Income Attributable to Limited Brands, Inc. | 8.0%   | 8.4%   | 5.2%   | 2.4%   | 6.9%   | 6.3%   |
Further Connecting Stakeholders

- Children
- Farmers
- Ecocert
- UNPCB
- Fairtrade
- Mast Global
- FLO-CERT
- Helvetas
- Limited Brands
## Stakeholder’s Analysis

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Goals</th>
<th>Solution Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children</td>
<td>Attend schooling. Have free time &amp; free will. Ensure health &amp; safety of workers.</td>
<td>Better treatment, which allows for schooling, personal development, and safety.</td>
</tr>
<tr>
<td>Fairtrade International / Helvetas / Swiss Intercooperation</td>
<td>Ensure producers are able to produce receive a fair price. Uphold standards for organic farming.</td>
<td>Increase rigor of standards for organic farming while ensuring producers receive a fair price.</td>
</tr>
<tr>
<td>Consumers</td>
<td>Purchase high quality products. Feel good about what they purchase</td>
<td>Continue to receive high quality products while being aware of what they purchase, and still feeling good about it.</td>
</tr>
<tr>
<td>Limited Brands</td>
<td>Adhere to its publically stated values. Maximize profits. Maintain brand image</td>
<td>Actively adhere to its stated values &amp; build a positive brand image while maximizing profits.</td>
</tr>
<tr>
<td>Limited Brands Competitors</td>
<td>Maximize profits. Acquire market share from competitors. Find new competitive advantages.</td>
<td>Eliminates a potential competitive advantage based on social responsibility and ethical operations.</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Increase economic development. Obtain higher standards of living.</td>
<td>Maintains current standards of economic development, while increasing living standards for children within the country in numerous ways.</td>
</tr>
<tr>
<td>US Government</td>
<td>Ensure corporations abide to existing legislation, including the Smoot-Hawley act. Enforcing such regulation costs money.</td>
<td>Ensure corporations abide to existing legislation, including the Smoot-Hawley act. Reduces likelihood of Limited Brands falling under such regulation.</td>
</tr>
<tr>
<td>Mast Global</td>
<td>Procure sourcing materials at the lowest possible cost while retaining its current customers and adhering to their values.</td>
<td>Increase customer satisfaction by aligning Mast values with those of their customers.</td>
</tr>
</tbody>
</table>
Solution Effects on Stakeholders

**Children**
- Helps reduce child labor
- Communities less impoverished by supporting organic farms
- Provides children with free time, allowing for educational opportunities

**Farmers / UNPCB**
- Receive better equipment
- Additional training on organic farming
- Additional worker productivity reduces incentives for child labor
Solution Effects on Stakeholders

**Fairtrade**
- Clarify standards of being Fairtrade certified
- Increase audit frequency and rigor
- Retain and reinforce credibility of its certifications

**Mast Global**
- Mast Cares Foundation engages in philanthropic investment in farms from where it sources
- Better publicity
Limited Brands

- Become industry leader in addressing social sustainability problems
- Limited Brands foundation engages in philanthropic donations to farms in Burkina Faso
- Build brand equity
- Publish CSR report
Burkina Faso Country Profile

- Population = 16.9 million
- GDP growth rate of 7.9%
- Main exports = Gold & Cotton
- Predominantly Muslim
- UN rates it as the world’s third poorest country
Why Child Labor Persists in Burkina Faso

- Poverty is rampant in Burkina Faso and many need the extra income to afford food.
- Education is often viewed as too costly, and generally irrelevant.
- Parents face the dilemma of prioritizing short-term economic gain over long-term educational benefits for their children.
- Children can often be viewed as a competitive advantage in the work place.
Estimated Cost of Ox Ploughs

- Cost per unit: $50
- Total Cost:
  - $50 \times 7,000\text{ farmers} = $350,000
ILO Conventions for Child Labor

- **Hazardous Work**: 18 (16 under strict conditions)
- **Minimum Age**: 15 (14 in developing countries)
- **Light Work**: 13-15 (12-14 in developing countries)
CSR as an Investment

- Stronger financial performance and profitability
- Improved relations with investment community and better access to capital
- Enhanced employee relations, productivity, and innovation
- Stronger relations with communities through stakeholder engagement
- Improved reputation and branding
Victoria’s Secret is Behind the CSR Curve

- Competitors have CSR reports

![](image1.png) ![](image2.png) ![](image3.png) ![](image4.png)
Competitors Respond to Child Labor Allegations

Moratorium
FLO-CERT Fairtrade Certification Process

Step 1: Application
- Completion of an application questionnaire by a party interested in Fairtrade Certification
- Scope check evaluating the viability of the applicant.

Step 2: Audit
- Auditor prepares the audit and informs the operator
- For the visit the auditor meets with important members at the location such as boards representatives and worker’s committees’ representatives to explain the audit
- The auditor inspects the documents such as the accounting and labor documents
- The auditor interviews different people and crosscheck the info with each interviewee
- The auditor visits the physical sites
- The auditor discusses strength and weaknesses of the organization
- The auditor sends a report to Flo-cert for evaluation

Step 3: Evaluation
- The applicant has time to correct non-conformities and their corrective measures are evaluated
- After certification, operators are audited every 3 years, so ensure the operator is still in compliance with Fairtrade standards
## Ecocert & FLO-CERT Details

<table>
<thead>
<tr>
<th>FLO-CERT</th>
<th>ECOCERT</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Approved certification body for Fairtrade</td>
<td>□ Specializes in the organic certification of agricultural products and sustainable development</td>
</tr>
<tr>
<td>□ Help train applicants to better understand how to implement Fairtrade standards</td>
<td>□ No mention of child labor standards</td>
</tr>
<tr>
<td>□ Their skill set spans the sustainability spectrum</td>
<td>□ Accredited by the USDA</td>
</tr>
<tr>
<td>Works with developing sustainable supply chains</td>
<td></td>
</tr>
</tbody>
</table>
Facts about Cotton in Burkina Faso

- Organic cotton only makes up about 2% of the cotton in Burkina Faso (2012)

- Cotton provides about 700,000 jobs, equivalent to about 17% of the population (2008)
Sources: Presentation Body

  http://www.google.com/finance?q=NYSE:LTD&ftype=ii
Sources: Presentation Body

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- http://www.flo-cert.net/flo-cert/87.html