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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:

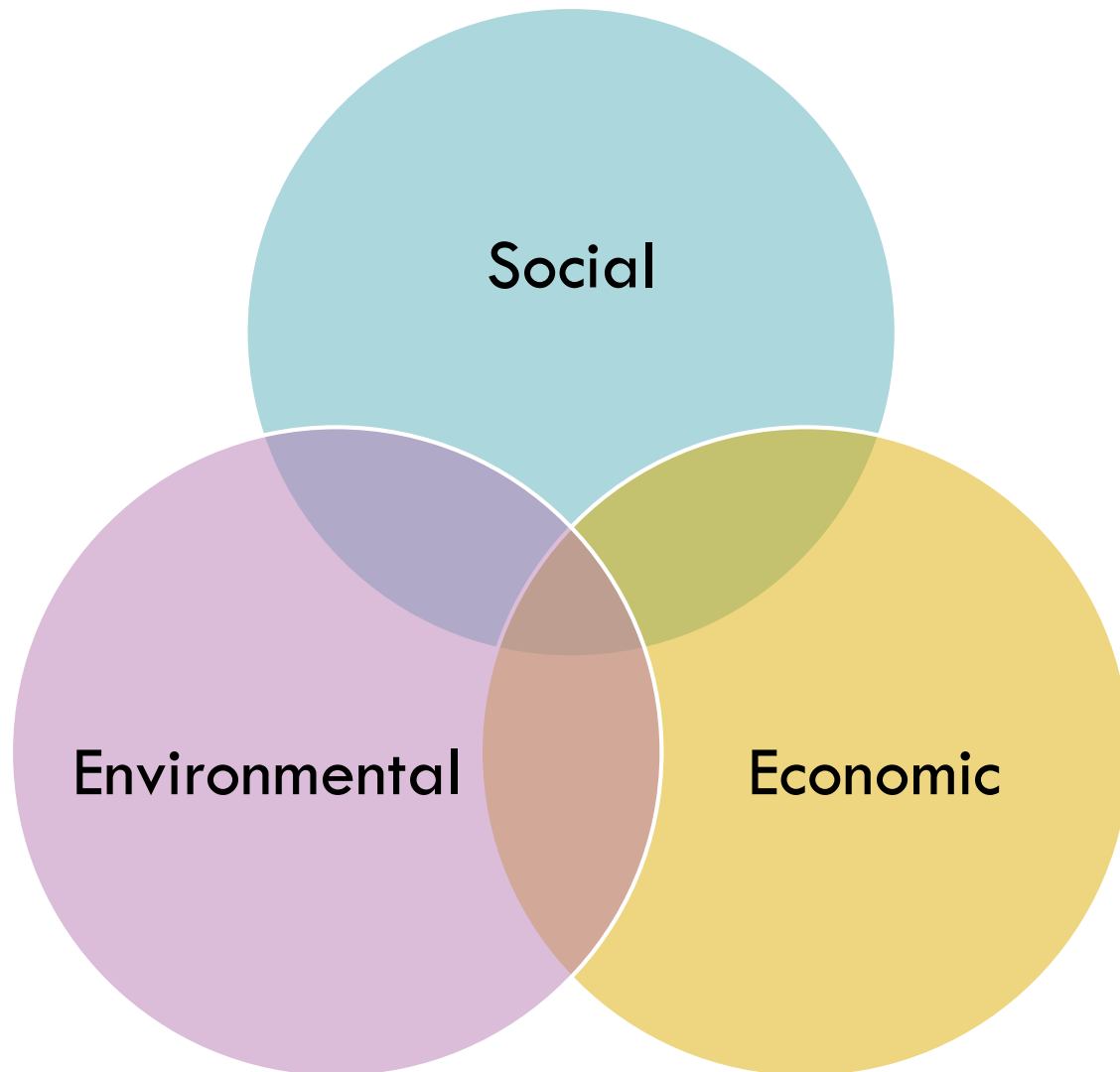
38% Total Child Labor

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



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

Solution	Economic Effect	Social Effect	Environmental Effect
<p>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.</p>	<ul style="list-style-type: none"> Requires initial investment. Long term brand equity will increase. Maintains sourcing price of cotton. 	<ul style="list-style-type: none"> Develop better living standards of children. Increase awareness of child labor practices in developing countries. Improve livelihood of farmers. 	<ul style="list-style-type: none"> Better certification standards will provide an incentive for other farmers to choose organic. Solution will include environmental preservation training for farmers.
<p>Create cotton sourcing principles.</p>	<ul style="list-style-type: none"> Costly to implement & audit. Brand's image and value to consumers improve by being the first in the industry to implement such principles. 	<ul style="list-style-type: none"> Reduce child labor in cotton farms. Improve awareness of child labor in cotton farms. 	<ul style="list-style-type: none"> Establishes clear standards to ensure the environment is being protected. Difficult to measure the impact of the principles in protecting the environment.
<p>Create and publish an annual Corporate Social Responsibility (CSR) report while progressively integrating sustainability into its business plan.</p>	<ul style="list-style-type: none"> Initial research and implementation cost. Leads to improved efficiency the company's operations and cost reduction in the long run. 	<ul style="list-style-type: none"> Gets executives on board for sustainable efforts. Consumers will be more aware of efforts, increasing brand equity. 	<ul style="list-style-type: none"> Fosters a culture where more initiatives will be undertaken. Easier to track progress and measure impact of the company's initiatives.
<p>Abandon presence in Burkina Faso.</p>	<ul style="list-style-type: none"> Could increase costs if another company does not offer the same prices for cotton. 	<ul style="list-style-type: none"> Problem would persist in Burkina Faso. No improvement to child labor problem. 	<ul style="list-style-type: none"> Provides less incentive to grow organic cotton, further damaging the environment.

A black and white photograph of a forest scene with several evergreen trees, overlaid with a bright green horizontal band. The text "Limited Brands Inc." is centered on the green band.

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

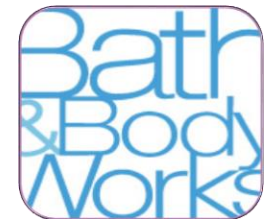
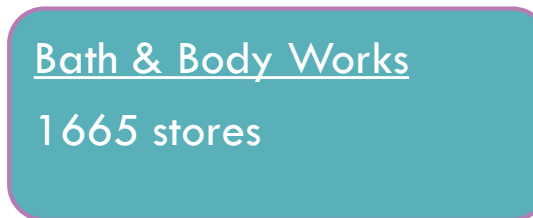
Enterprise Value

\$16.46 billion USD



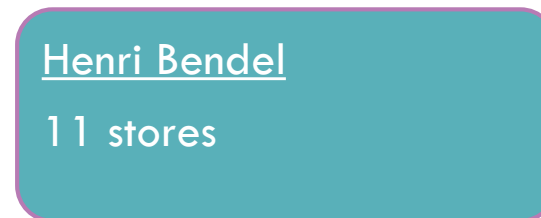
Victoria's Secret & PINK

1040 stores



La Senza

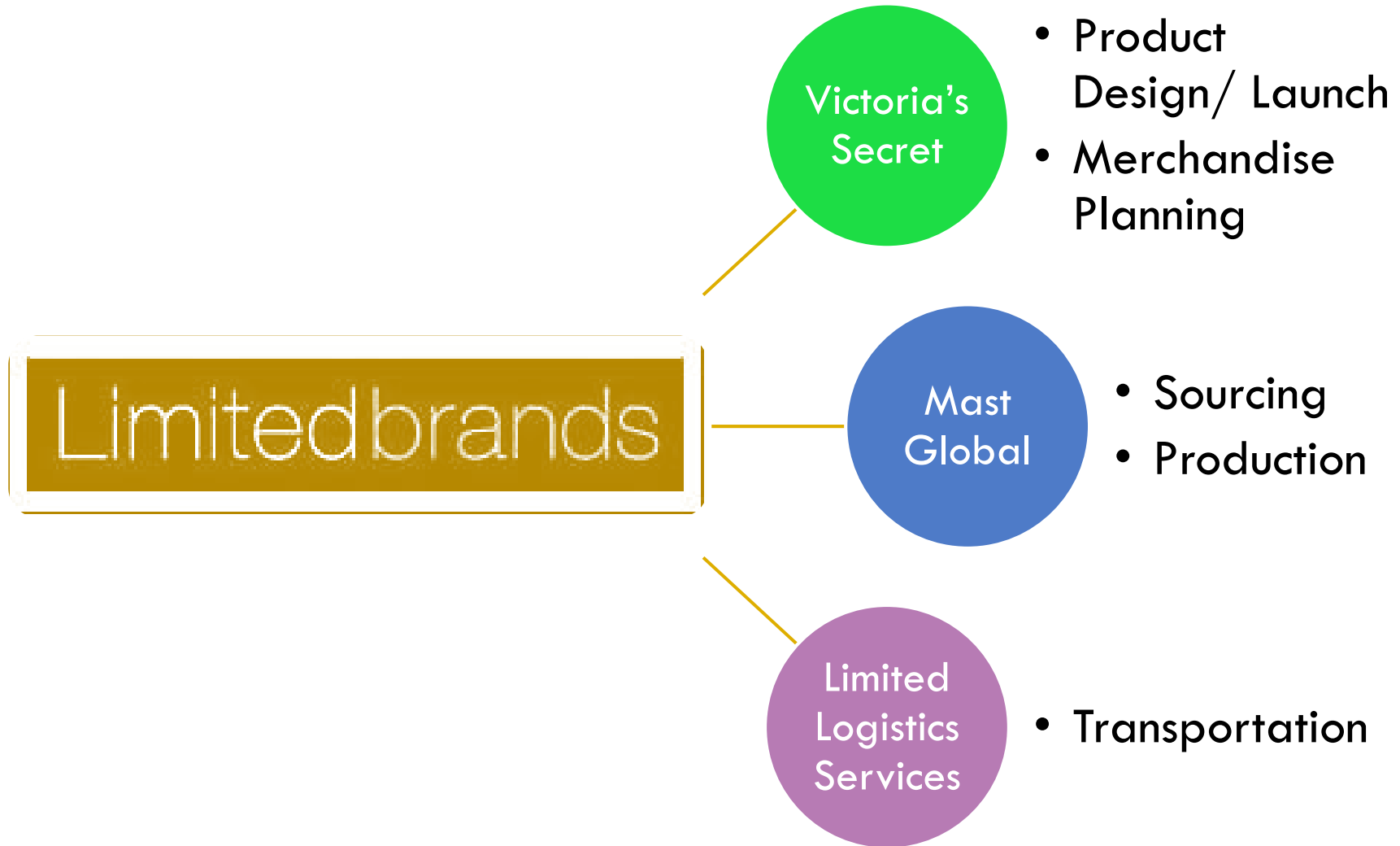
252 owned stores, 463
licensed stores



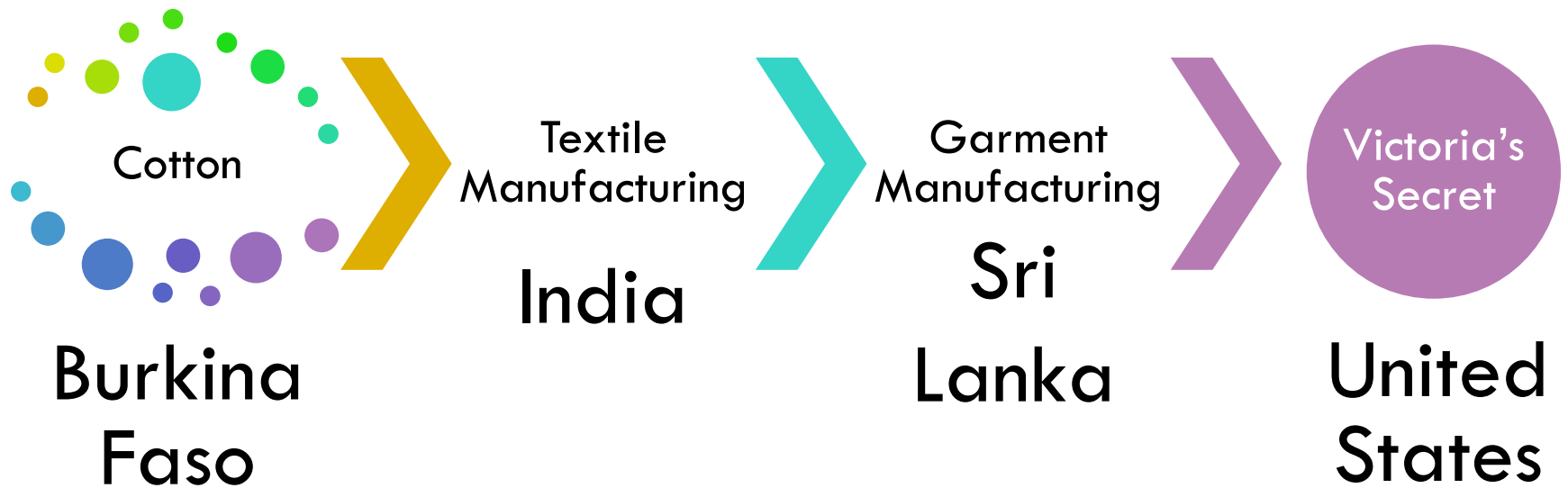
Henri Bendel

11 stores

Supply Chain Functions



Supply Chain Process



Limited Brands' Response: Weak

- Launched 3rd party investigation into allegations

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

- Dec. 15th, 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”



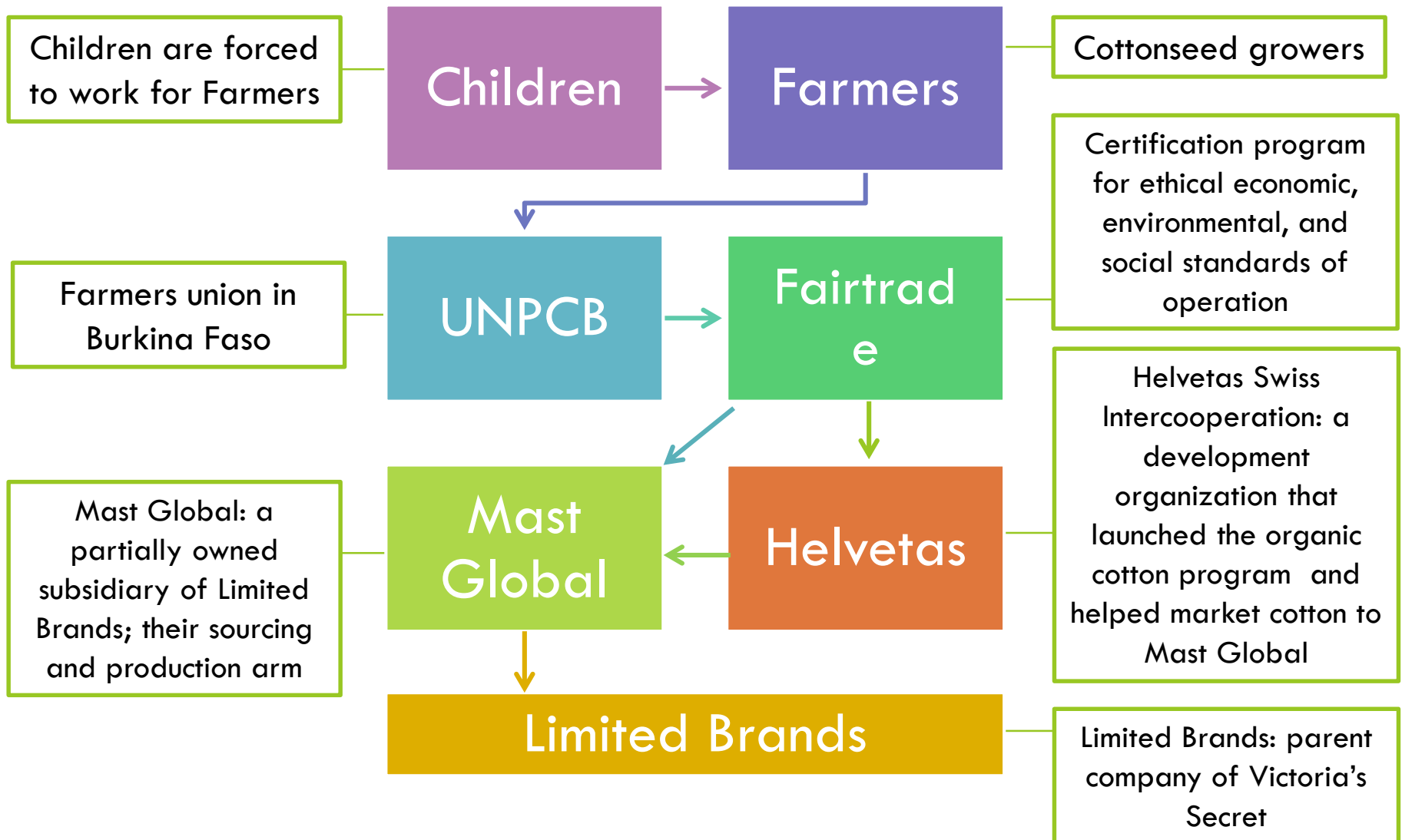


Stakeholders & The Solution

Stakeholders



Connecting the Key Stakeholders



Solution Details: Helping Burkina Faso

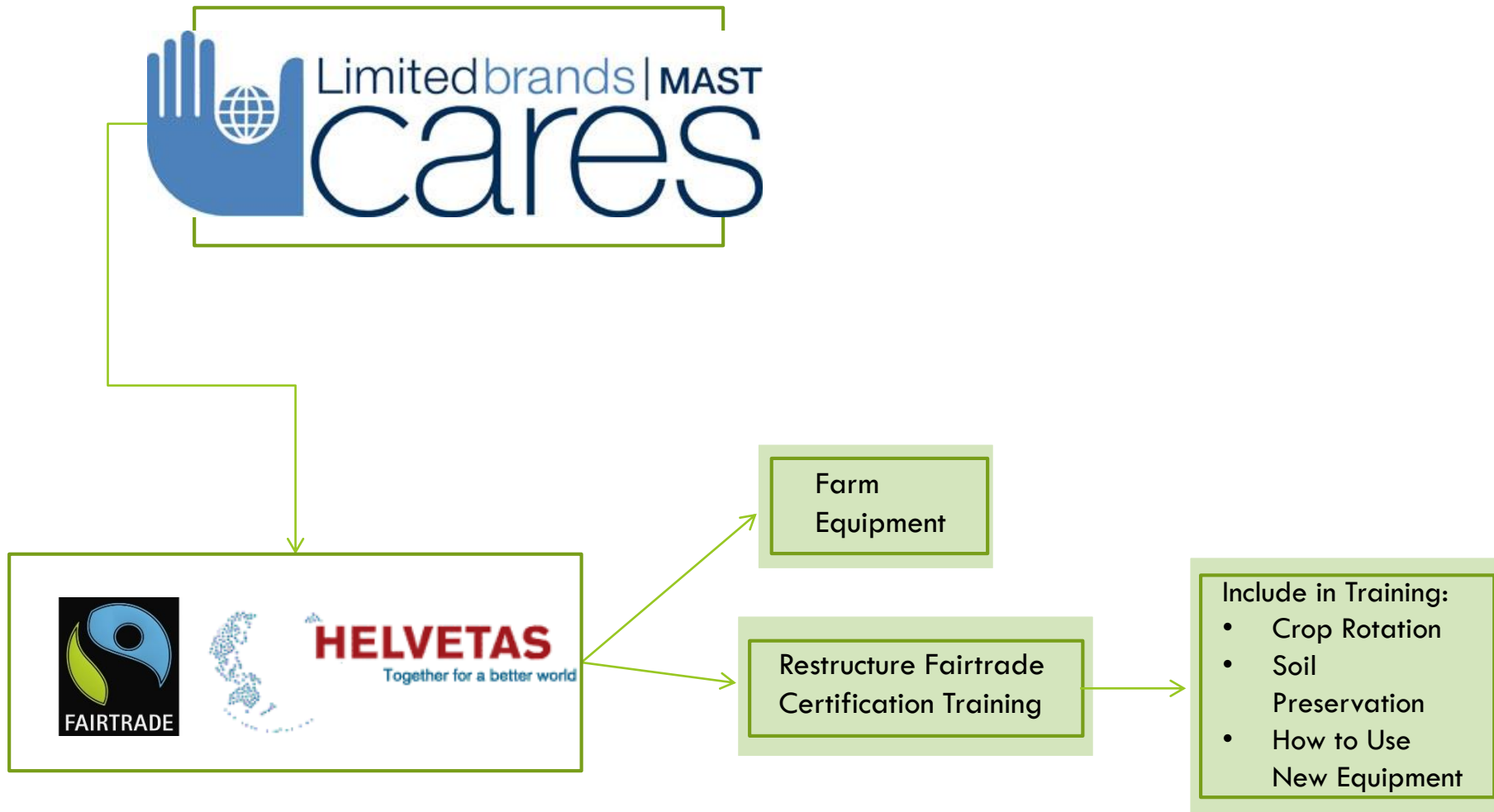
Bring Key Stakeholders Together

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



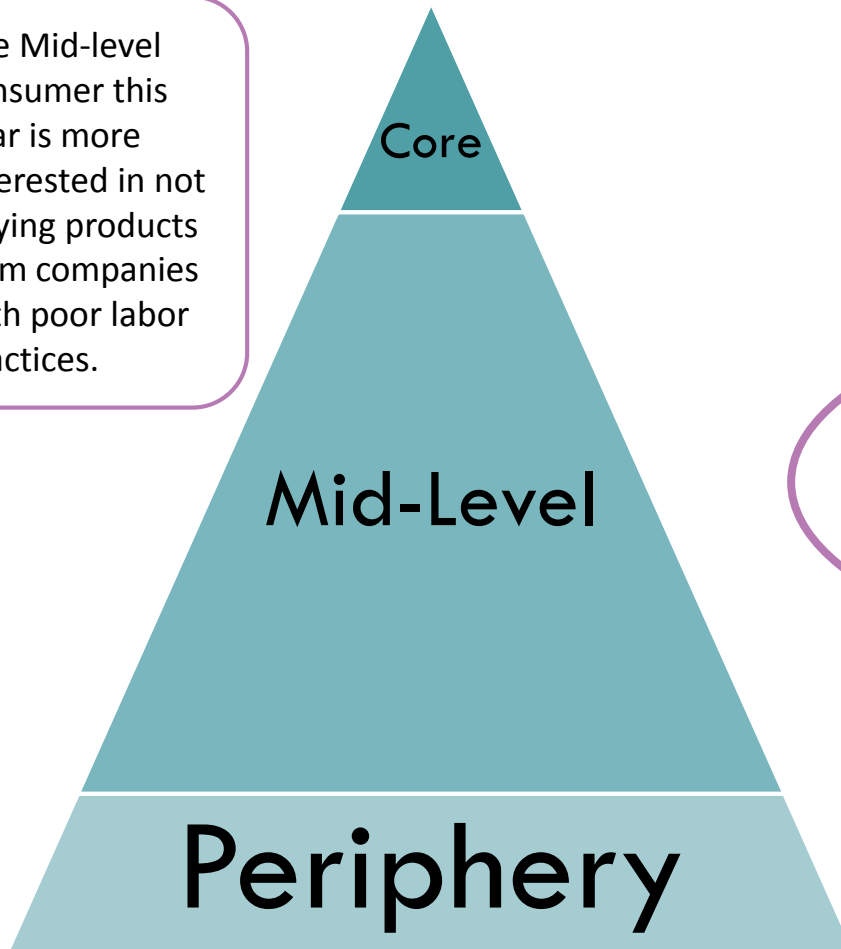
CSR Report

- 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

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



Core:
13%

- Sustainability, Authenticity, Knowledge, & Quality

Mid-Level:
66%

- Experience, Expert Opinion, Fun & Enjoyment, & Quality

Periphery:
21%

- Convenience, Price, & Brand



Review & Takeaways

Fair Farms Initiative Meets Objectives



Social

- Reduce child labor in Burkina Faso.
- Become a leader for social responsibility in the specialty retail 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.

Key Takeaways



- 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

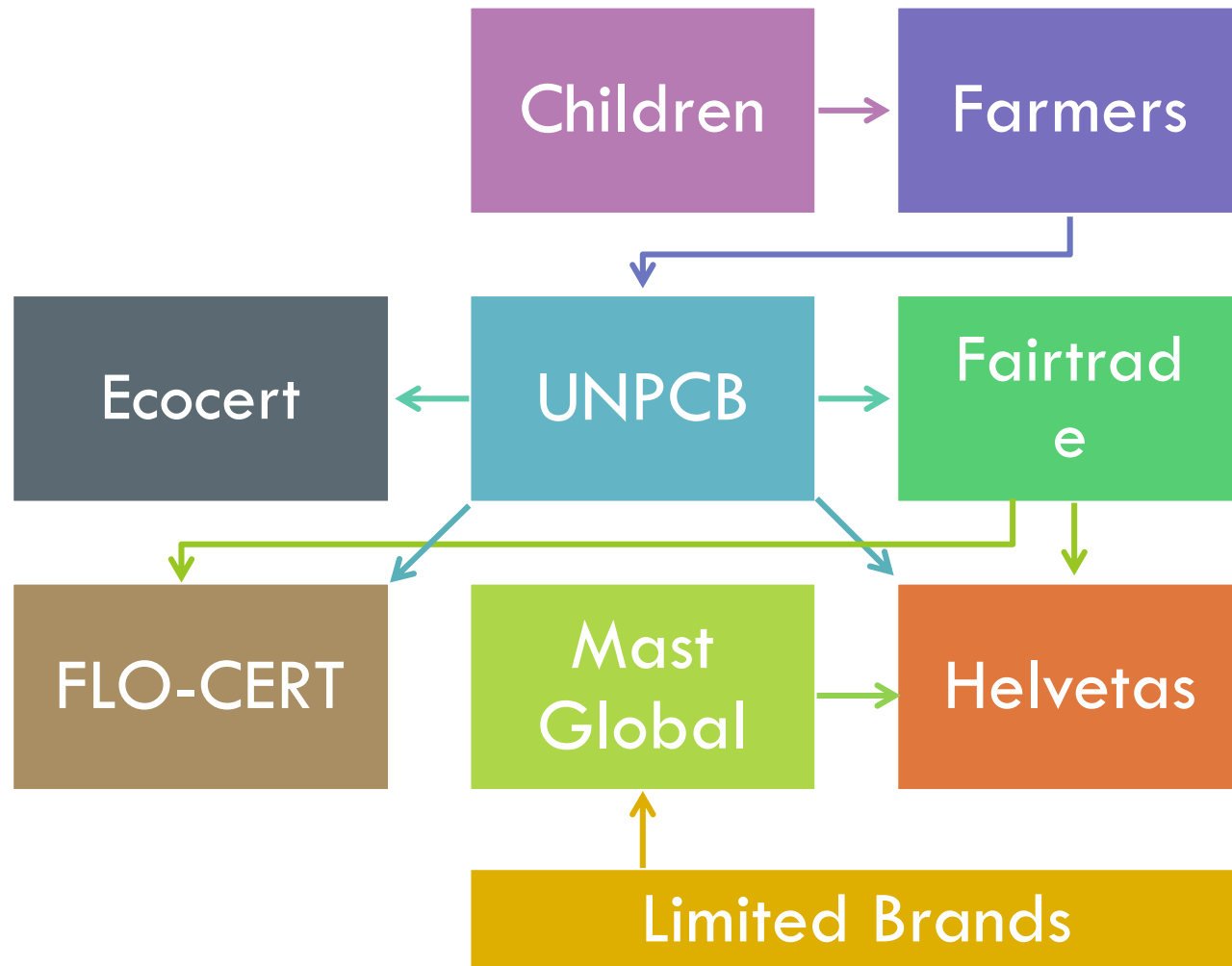
- i. [Road Map](#)
- ii. [Consolidated Financial Data](#)
- iii. [Stakeholder's Analysis](#)
- iv. [Effect of Solution on Stakeholders](#)
- v. [Stakeholder's Map](#)
- vi. [Burkina Faso Profile](#)
- vii. [Why Child Labor Persists in Burkina Faso](#)
- viii. [Estimated Cost of Ox Ploughs](#)
- ix. [ILO Conventions for Child Labor](#)
- x. [Benefits of a CSR](#)
- xi. [Industry Standards of CSR](#)
- xii. [Competitors Responses to Child Labor](#)
- xiii. [Flo-Cert & Eco-Cert Audit Standards & Details](#)
- xiv. [Burkina Faso Cotton Facts](#)
- xv. [Sources: Presentation Body](#)
- xvi. [Sources: Appendix](#)

Limited Brands: Consolidated Financial Data

Summary of Operations		2012	2011	2010	2009	2008	2007
Revenue	(in millions of USD)	\$10,634	\$9,613	\$8,632	\$9,043	\$10,134	\$10,671
Gross Profit		\$4,074	\$3,631	\$3,028	\$3,006	\$3,509	\$4,013
Operating Income		\$1,238	\$1,284	\$868	\$589	\$1,110	\$1,176
Net Income Attributable to Limited Brands, Inc.		\$850	\$805	\$448	\$220	\$718	\$676

Gross Profit	(as percentage of net sales)	38.3%	37.8%	35.1%	33.2%	34.6%	37.6%
Operating Income		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



Stakeholder's Analysis

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

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

Solution Effects on Stakeholders

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

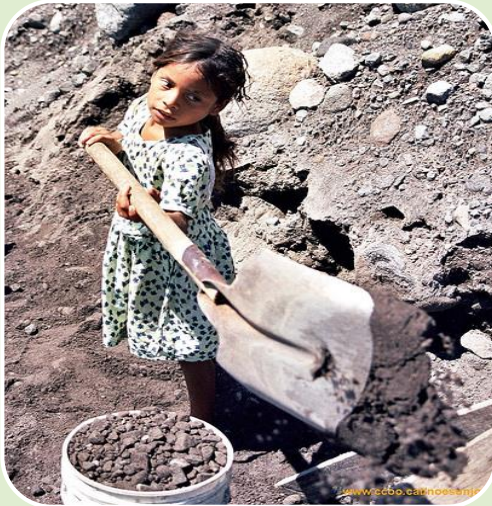
- Poverty is rampant in Burkina Faso and many need the extra income to afford food
- Education is often viewed as too costly, and generally irrelevant
- Parents face the dilemma of prioritizing short-term economic gain over long-term educational benefits for their children
- Children can often be viewed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

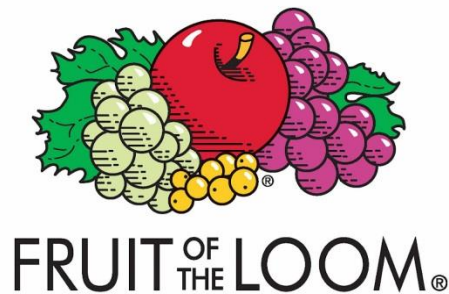
(12-14 in developing countries)

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



HANES *brands* INC

Competitors Respond to Child Labor Allegations



FLO-CERT Fairtrade Certification

Process

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

Step 1: Application

- 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 2: Audit

- 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

Step 3: Evaluation

Ecocert & FLO-CERT Details

FLO-CERT

- ❑ Approved certification body for Fairtrade
- ❑ Help train applicants to better understand how to implement Fairtrade standards
- ❑ Their skill set spans the sustainability spectrum
Works with developing sustainable supply chains

ECOCERT

- ❑ Specializes in the organic certification of agricultural products and sustainable development
- ❑ No mention of child labor standards
- ❑ Accredited by the USDA

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

□ [6]

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□ [13 – 14]

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□ [15 - 16]

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□ [23] Davey McHenry, Hartman Group UW 2012 Guest Lecture. “Marketing Sustainability – Bridging the Gap Between Consumers and Companies.”

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