Tom Deluca, Vice President of Product Development and Safety Assurance for Toys R Us, sat back in his seat 35,000 feet above the Pacific. On his way home from yet another trip to China, he contemplated the 40 meetings he had just held with vendors. As a Signatory to the SA8000 voluntary workplace standard, Toys R Us had committed to convincing its suppliers to adopt the standard. On each trip he met as many suppliers as possible in face-to-face meetings. With well over 3,000 factories producing toys, apparel and other products carried in Toys R Us stores, he knew this would be an uphill battle.

At the heart of his mission was the goal to ensure that the Toys R Us name would remain synonymous with childhood delight. The customers expected high quality, value and assurance that the toys and clothing they purchased were not manufactured by children or under dangerous or unhealthy conditions. Deluca felt that Toys R Us could go beyond that assurance and the SA8000 standard would be the way to do it. He had convinced management that it was the right thing to do. Now how to reach out to the suppliers and convince them too? And once he reached them, how to measure and report on the impact of this workplace standard?

Toys R Us

In 1948 Charles Lazarus opened Children’s Bargain Town, a baby furniture store, in Washington, DC. He recognized an opportunity for growth as his customers made frequent requests for baby toys and toys for older children. In 1957 he changed the format of his store, creating a toy “supermarket” under the name Toys R Us, carrying a large selection at discount prices. Within ten years, Toys R Us had grown to four stores with annual sales of about $12 million.

In the late 1960’s Lazarus sold the Toys R Us stores to Interstate Department Stores, Inc., a retail conglomerate. Interstate entered bankruptcy in 1974. Lazarus oversaw the restructuring, selling off most of the non-toy businesses. In 1978 the company emerged from bankruptcy under the new name Toys R Us, Inc. with sixty stores across the US.

At the time, the toy supermarket was a revolutionary concept. By adapting the idea of self-service and selection that was found in food retail and combining it with the strategy of selling brand name products for less in a one-stop shopping environment, Lazarus transformed the toy industry.

During the 1980’s the company experienced a significant wave of growth as the retail concept took hold. At the start of the decade, Toys R Us owned 80 stores in thirteen states. By 1990, it had expanded to 404 stores in 41 states and Puerto Rico, achieving a 22% market share. International expansion was also a major factor in the company’s growth and product offerings were diversified to include children’s clothing.

In 2004 Toys R Us, Inc. managed two retail chains under the “R” Us name: Toys R Us and Babies R Us. In addition, Toysrus.com gave the company an online presence. The stores could be found in 49 states and in 29 countries around the world.
The Toy Industry

The toy industry is a fickle one. Toys sell based on fashion and trends and more than half of the industry’s sales occur in the fourth quarter. High marketing costs and high variability of success in the marketplace were therefore offset by low production costs.

To maintain low production costs, toy manufacturers utilize suppliers in low wage countries, primarily in Asia. In 2002 more than 70% of toys produced for the US market were made in China. In many cases, toys were manufactured by contract suppliers, owned independently of the brand manufacturer. These suppliers often farmed out pieces of a contract in order to make deadlines. Therefore, for any one toy, dozens of factories could have been involved in producing it.

While this trend to produce in low-wage nations was not new, in the 1990’s, non-governmental organizations (NGOs) were raising awareness about working conditions occurring in these countries. Revelations of the use of child labor and reports of sweatshops producing goods for major brand names from Nike to Kathy Lee Gifford hit the newsstands. Though many of the low-wage nations had laws regulating working conditions and prohibiting child labor, enforcement in those countries was negligible. In addition, companies were unaccustomed to being questioned by consumers and interest groups about the practices of their contractors and several were targeted by boycott campaigns.

For the toy industry, the risks were high. As a brand name manufacturer or retailer, the taint of child labor could be ruinous in what was already a volatile, unpredictable business. The industry had come under fire from consumers before. In the 1970’s the U.S. Consumer Safety Product Commission was created by Congress. An independent federal regulatory agency sought to reduce the risks of death and injury caused by consumer products, including toys. The CSPC worked with the toy industry to created voluntary initiatives to regulate the safety of toys. This work had extended to China because of the large percentage of toys produced there. Seminars were conducted for Chinese toy producers, and audits of the toys and the factories became more common to ensure that the toys were safe and that the conditions in the factories were conducive to quality production and the safety of the workers.

While quality and safety issues became a prime concern for the toy industry, working conditions and labor rights became an interest to consumers. In reaction to the exposure of sweatshop conditions in factories in the early and mid-1990’s the toy industry began to take steps to address the issue. In 1996, the International Council of Toy Industries (ICTI), a trade group, issued a code of conduct for its members, twenty toy industry associations. At the same time, many toy companies established their own internal codes of conduct to soothe consumer fears.

Toys R Us Takes Action

Toys R Us (TRU) was one of the companies that chose to design its own code of conduct. The decision to take action on the issue of workplace conditions was not difficult. According to Deluca,
“In the mid-90’s there was a lot of publicity about labor issues - child labor, forced labor and generally working conditions in areas in Asia, particularly in China. I followed the articles, knowing most of our toys come out of China. It made sense that TRU should look into engaging in this process.

One reason why I got involved is that my other hat is in toy safety compliance. Our program on toy safety, which I developed, has been in place since the 80’s. As a company, we need to be proactive. After all, the end users of our products are children. In the 80’s we needed to take a strong stance on protecting the users of our product. We took the same attitude with regard to human rights issues and suppliers.”

As Deluca shepherded the issue through the company, he met with little resistance.

“I sent some articles to the CEO. He sent a note back saying “you’re absolutely right – you do it.” The stage had been set by our safety assurance program and it was a logical step for us to be involved here. Nobody wants to see child labor anywhere. And because of my background with import suppliers, I already knew how to operate and interact with them, although I wasn’t knowledgeable on these particular issues.”

In order to craft an in-house code of conduct, Deluca researched the few organizations that had developed codes at the time. The Council on Economic Priorities was bringing together business leaders, trade unions and non-governmental organizations (NGO’s) to create an international voluntary social accountability standard. Deluca participated in the process and with the aid of CEP, incorporated much of what would become SA8000 in TRU’s own code of conduct which was launched in 1995.

**SA8000**

The SA8000 standard was issued by the CEP in 1997. Patterned after quality management (ISO9000) and environmental management (ISO14000) standards, SA8000 aimed to bring the same rigor to the management of social issues in the workplace. Much like the ISO systems, SA8000 required an independent audit to certify a facility and follow-up surveillance audits to verify that the certification was still valid. Performance elements for SA8000 were derived from UN and ILO conventions and declarations. The SA8000 standard was not limited to the toy industry, but could be applied in any sector, except extractive industries. It covered nine areas: child labor, forced labor, health and safety, freedom of association and right to collective bargaining, discrimination, working hours, compensation, and management systems.

SA8000 provided a format by which facilities could undergo third party audits to verify and attest that they were providing a decent workplace, through compliance in all nine elements. Corrective actions recommended by auditors were part of the process to help bring facilities into compliance. Training for facility managers and workers was also a major component of SA8000 implementation.
By November 2003, certifications had been earned by more than 300 facilities in 38 countries, representing 36 industries and over 190,000 workers. Eleven companies had become signatories to the standard, which committed them to seek certification for company-owned or supplier facilities and to publicly report on progress towards that goal. By including verification and surveillance audits in the system, SA8000 squarely addressed the shortcomings of other, mostly industry-created standards, which provided no confirmation that companies were following through on stated codes and policies.

Choosing SA8000

Though Toys R Us developed its own code, it became one of the advisors to the SA8000 standard. In 1998, Toys R Us became a Signatory, adopting SA8000 as the standard for its supply chain. The decision to adopt SA8000 instead of another system was made for two reasons:

“The standards arena is very competitive. There are a number of initiatives that are toy and non-toy related. We decided to support SA8000 because it is applicable to all of our businesses, which include juvenile clothing, juvenile, infant and baby products. We did not want to be in a position where we would have to support more than one standards initiative. SA8000 is all encompassing.

During our examination of all the codes that were out there, we felt that SA8000 was by far the best one because of way it was developed. There is a highly diverse Advisory Board, it used an accreditation process to accredit certification bodies who go out and do audits on behalf of clients. There’s a complaint system to facilitate complaints from factories and customers. These complaints are heard, reviewed, and judged. I’m not aware of any other system that is as comprehensive.”

Convincing Suppliers

Bringing the suppliers on board was the biggest hurdle to overcome in the campaign to improve working conditions. Deluca’s strategy was to employ the personal touch, talking with each vendor in person. This was as much a function of the culture in Asia, in which business is done on a one-on-one basis, as it was a function of the newness of the concepts and the competition between standards.

The issue that suppliers continually raised was cost. The answer was not simple. There are many variables which affect the cost to implement SA8000 standards including the condition of the factory and the ability of its management. Deluca explained it to vendors this way,

“The cost should be treated in same way as if they had bought a new piece of machinery. This can be depreciated over a few years in China. If you amortize cost over a number of years, why not invest? They would be making an investment in their single biggest asset – their employees.”
Deluca’s approach was to advocate adoption of SA8000 as opposed to another voluntary standard. He would follow up with letters describing SA8000’s implications for Toys R Us and for the supplier. However he would not ask for their buy-in at the meeting. In fact the suppliers then would have to follow up with SAI, if they decided to explore compliance with the SA8000 standard.

**Implementing SA8000**

As a Signatory to SA8000, Toys R Us committed to working with its suppliers to help them become certified. Scope quickly became an important issue. The number of suppliers was so great, it would take a long time to reach them all. Deluca visited about 40 vendors per trip to China. Communicating how SA8000 works and its benefits was sometimes done in writing, just to reach more decision makers.

The sourcing for name brand products was largely out of the control of TRU because Toys R Us is a retailer and not a manufacturer. Therefore the company chose to apply the SA8000 requirements only to the producers of its store brand products, which include toys as well as apparel. As Deluca states,

> “Part of the problem in requiring SA8000 more broadly is that when we write purchasing orders, we write to what we call marketing companies, like Hasbro, or other brand name toy makers. We don’t write to the factories that they use. In fact, we don’t always know the factory name. That factory might even be working under another code.

> The factory could also be producing for more than one marketing company and we don’t know it. How many times do we have to audit the factory? The retailers are competitors and don’t talk to each other about who their suppliers are. We could all be auditing or talking to the same factories.” (See Exhibit B: Organizational Chart of a Typical Toy)

TRU applies its internal code when it takes on new vendors. As Deluca states, “It’s a quick process. We get a top line view of what a new vendor is like. We only look at what issues are in the code.” For vendors that have been in place longer, the company works to bring them up to speed.

> “Our intent is never to put anyone out of business. Our intent is to define what is wrong, come up with an action plan, and make sure it’s carried out. If during the course of an audit a number of serious problems are found, they could fail certification. But failure is not the end all. It only highlights what serious issues are found. As long as we have the cooperation of the factory, we will continue to work with them. Once they stop participating, that raises a problem. But we have not had to strong arm a vendor yet. We need to have a dialog in place.”
A significant piece of the implementation is training. Workers and managers at a facility implementing SA8000 must understand how it works and what is required to maintain their certification. Training managers to prepare for a certification can take a minimum of a year. Toys R Us subsidizes training in countries like China and Vietnam to facilitate factory certifications.

**Measuring the Results**

In the first few years, the reach of the program was limited. Deluca did not want to demand that suppliers follow the code, but instead let them choose their path. To date, TRU has not yet reported numbers on how many suppliers have signed on to explore being certified under SA8000, or on how many have actually been certified, but Deluca expects that this type of reporting will be done in 2004. For 2003, it is estimated that 86 vendors have signed up, 20 are in the process of getting certified, and 100 are not certified.

Anecdotally, audits have demonstrated that factories in the process of getting certified were paying better wages and had better working conditions overall. Safety measures were better and quality had improved because the workers were more engaged. There was less absenteeism because workers were also better trained and informed about safety and health issues and therefore were not as prone to injury or illness. Workers also had improved opportunity for advancement in factories working towards certification.

Financially, it is more difficult to measure the impact that the SA8000 program has had for TRU. Because TRU writes orders to marketing companies, it can not track when the toys on its shelves have been produced at an SA8000 certified facility versus a factory certified under a different code. As a gauge for new suppliers, the elements of SA8000 have been useful as part of TRU’s internal code. In the apparel division, there is a high turnover in vendors, and the code guides the process in selecting which will win TRU’s business. SA8000 has also been a useful investigative tool when issues have been raised by interest groups. With clear criteria by which to judge and monitor working conditions, it is easier to verify allegations against factories.

**Looking Forward**

Nine out of ten companies have a code of conduct. The toy industry association has its own code, though much more lax than SA8000. Meanwhile suppliers have become knowledgeable about social compliance and human rights issues in response to customer demand. As these codes multiply, they become both costly and time consuming for vendors, leading to what some call code fatigue. To combat this proliferation of conflicting requirements on suppliers, some have called for a consolidation of the codes. However, all standards are not equal. Many do not require the certification or verification that basic elements of the codes are being met. Few call for public reporting, which would improve the transparency lacking in the current system.

Though it will be difficult to reconcile the differing interests behind the many codes, TRU was strategic in choosing SA8000 over other less stringent standards,

“TRU thinks it’s the best one out there – the best process, the best code. And we hope that once we get to point of convergence, the code that is used as a reference is SA8000. There are many other codes that are not as strong – a very few that SA8000 would have to ratchet up to.”
While tracking results has been difficult because of the volume of data necessary and the current lack of precise information from factories, Toys R Us is committed to SA8000 for the long-term. For Deluca it boils down to three main points:

“First, it makes good business sense. Second, as a company, we want to do it. Third and most importantly, it is expected of us.”

2 http://www.toy-tma.org/industry/halloffame/1990.htm
3 http://www.toy-tia.org/industry/statistics/imports.html
4 http://www.toy-tia.org/industry/publications/fbcurrent/safety.htm