

To Norges Bank

17 December 2021

Recommendation to terminate observation of Nien Hsing Textile Co Ltd

Summary

In July 2018, the Taiwanese company Nien Hsing Textile Co Ltd (Nien Hsing) was placed under observation due to the risk of systematic abuse of labour rights at the company's textiles factories. Nien Hsing produces yarn, fabric and apparel in Taiwan, Vietnam, Lesotho and Mexico.

The Council's 2018 recommendation was based largely on investigations into working conditions at the factories in Lesotho, where female employees were subjected to widespread sexual harassment. During the observation period, Nien Hsing has implemented substantial changes to address gender-based violence and harassment. The *Anti-Gender Based Violence and Harassment Program*, which was established through agreements with brand-named customers, trade unions, women's rights organisations and Nien Hsing, has been crucial for driving these changes. The Council's investigation from 2021 shows that the company's corporate culture has changed, harassment has been reduced and employees find that complaints mechanisms work. Management's attitudes have also changed, and the company is now working more systematically to prevent labour rights abuses at its factories.

The Council deems the risk of systematic labour rights abuses at the company's operations to no longer be unacceptable and recommends that observation of Nien Hsing be terminated.

Contents

- 1 Introduction 1**
 - 1.1 Matters considered by the Council on Ethics 1
- 2 Background 1**
- 3 The Council on Ethics investigation in 2021 2**
 - 3.1 The impact of Covid-19 2
 - 3.2 The implementation of the Anti-GBVH Program at Nien Hsing’s factories 2
- 4 Information from the company 4**
- 5 The Council on Ethics' assessment 5**
- 6 Recommendation 5**

1 Introduction

In July 2018, Norges Bank decided to place Nien Hsing Textile Co Ltd (Nien Hsing)¹ under observation due to the risk of systematic labour rights abuses at the company's textiles factories. The decision was based on a recommendation by the Council on Ethics.

Nien Hsing produces yarn, fabric and apparel (jeans and leisurewear). The company has nine production facilities in Taiwan, Vietnam, Lesotho and Mexico, and employs around 20,000 people.

At the close of 2020, the Norwegian Government Pension Fund Global (GPFPG) owned 2.18 per cent of Nien Hsing's shares, valued at approximately USD 2.7 million.

1.1 Matters considered by the Council on Ethics

Under section 5(7) of the Guidelines for Observation and Exclusion from the Government Pension Fund Global, the Council may, on the basis of new information, recommend that Norges Bank's decisions to observe or exclude companies be revoked.²

2 Background

The Council on Ethics' recommendation from 2018

The Council's recommendation to place Nien Hsing under observation was based largely on investigations into working conditions at four of Nien Hsing's factories – three in Lesotho and one in Vietnam – in the period 2017–2018. The findings at the Lesotho factories were particularly serious, with female employees experiencing widespread sexual harassment by managers and supervisors. The Council's investigations also indicated numerous violations of statutory health and safety provisions, and restrictions on freedom of association.

The Council's decision not to recommend that the company be excluded from investment by the GPFPG rested on the fact that Nien Hsing was in the process of making changes and implementing measures which could improve working conditions, and the company's acknowledgement that it had to take immediate steps to address the most serious issues. The Council on Ethics therefore recommended that it be placed under observation in order to monitor developments at the company.

The Council on Ethics' observation in 2019

Since the recommendation was issued, Nien Hsing has introduced anti-harassment guidelines with which all its factories must comply. This also includes a code of conduct for managers and supervisors at all levels.

A significant step forward came on 15 August 2019, when Nien Hsing and three brand-named customers, trade unions and women's organisations agreed to implement a programme of measures to combat gender-based violence and harassment: the *Anti-Gender Based Violence and Harassment Program* (Anti-GBVH Program). A key element in the programme was the creation of an independent investigatory body – Workers' Rights Watch (WRW) – with a mandate to receive and investigate complaints of gender-based violence and harassment at the

¹ Issuer ID 129587

² [Guidelines for Observation and Exclusion GPFPG 29 November 2021 \(regjeringen.no\)](#)

company's factories in Lesotho. See below for further details. The agreement also emphasises employees' right to unionise without company interference.

The Council noted these improvements but deemed it too early to determine whether the changes that Nien Hsing had implemented were effective.

3 The Council on Ethics investigation in 2021

In the autumn of 2021, the Council was able to undertake a limited investigation to assess the impact of the measures to combat gender-based violence and harassment had had. The investigation was based on a review of factory documents, as well as phone interviews with employees and managers at two of Nien Hsing's factories in Lesotho and executives at head office.

3.1 The impact of Covid-19

The pandemic has had major consequences for Nien Hsing and the textiles industry in Lesotho. All of Lesotho's textiles factories were locked down for more than two months in 2020. A partial lockdown was imposed in January 2021, with certain factories operating at 50 per cent capacity. In June, garment factories closed once again due to a national strike.³ Shipment delays and rising prices for raw materials and services have further impacted the industry.

These business interruptions and a substantial decline in orders impacted Nien Hsing's financial situation, prompting the company to close three of its facilities in Lesotho over the course of 2020 and 2021. By the end of 2021, Nien Hsing's workforce in Lesotho will be reduced to around 4,300 workers, less than half of the pre-pandemic total.

3.2 The implementation of the Anti-GBVH Program at Nien Hsing's factories

The Anti-GBVH Program requires Nien Hsing to implement a wide range of measures to combat gender-based violence and harassment. Central to the programme is an independent body, the Worker Rights Watch (WRW), which is authorised to investigate worker complaints, determine whether/which norm violations have taken place and decide how the situation should be remedied. The WRW is, in this connection, also authorised to impose disciplinary measures on perpetrators.

The brand-named customers that have signed the Anti-GBVH Program agreement are required to ensure that Nien Hsing is complying with its provisions. If Nien Hsing is guilty of significant and protracted non-compliance, the brands must instruct Nien Hsing to remedy the non-conformances. If necessary, the brands may scale back their orders if Nien Hsing does not fulfil the agreement.

An Oversight Committee manages the programme; its members include representatives from the three brands, the trade unions and women's rights organisations, as well as a neutral chair.

³ *Lesotho Times*, "14 Percent Wage Hike For Factory Workers," June 22, 2021, <https://lestimes.com/14-percent-wage-hike-for-factory-workers/>. The strike ended in June 2021 after the Lesotho government announced new minimum wages for 2021–2022. The minimum wage for factory workers was increased by 14 per cent.

Nien Hsing and the American organisation Worker Rights Consortium (WRC) are observers with respect to the programme.

In addition to the investigative body WRW, the programme includes the provision of information and training to all employees and managers at the factories in Lesotho. The objective is to disseminate knowledge of the programme and how employees can safely report incidents relating to gender-based violence and harassment. Furthermore, all employees must attend a two-day workshop at which the company's code of conduct, as well as rights, rules and principles relating to gender-based violence and harassment are reviewed.

The Anti-GBVH Program was formally launched in February 2021, after extended delays due to the Covid-19 pandemic. By October 2021, almost 2,300 workers, supervisors and managers had completed the workshop.⁴ Informational materials, such as posters, pamphlets and "Know Your Rights Booklets", had also been developed and widely distributed at the Nien Hsing factories.

So far, the WRW has received 20 complaints. Harassment was identified in seven of these cases, while six complaints are still under review. Norm violations were not identified in six cases, while one complaint was subsequently withdrawn. In the cases where the WRW found that harassment had taken place, Nien Hsing was ordered to issue formal warnings, provide training or reassign the perpetrator to a different part of the factory.

Based on the interviews, it seems that labour rights compliance and the corporate culture at Nien Hsing's factories have improved substantially since 2018. In 2018, 63 per cent of the women interviewed reported having personal knowledge of GBVH at Nien Hsing's factories. In the latest inquiry, 29 per cent of female workers reported knowledge of GBVH in their workplace. None of the workers had themselves experienced harassment since the programme had been established. While previously most female workers were aware or had personal experience of GBVH, this is no longer the case.

Most of the workers interviewed, expressed trust in the complaints mechanism and a willingness to use it, which is a major improvement compared with 2018. Nevertheless, a minority still expressed a certain reluctance to report harassment for fear of retaliation or because they did not think it would lead to any changes.

The interviews showed that the majority of employees were aware of the Anti-GBVH Program and the complaints mechanism, and that they had gained a far better understanding of what constitutes gender-based violence and harassment, what their rights are and what opportunities they have to seek help.

Nien Hsing has also implemented other policies and practices which have contributed to the reduction in GBVH cases. In 2018, the use of short-term contracts was widespread. Supervisors had the authority to determine if and when a worker would receive permanent employment status, which strongly contributed to the widespread harassment. It was not unusual for supervisors to demand sexual favours or bribes from temporary staff in return for permanent employment. In 2019, Nien Hsing stopped using short-term contracts and extended new-hires' probationary period from three to four months as part of an agreement with the trade unions. In addition, probationers have been granted special protections under the Anti-GBVH Program.

Furthermore, in 2018, Nien Hsing signed memoranda of understanding with the three unions at the factories, guaranteeing important trade union rights. Relations between factory

⁴ This represents more than 35,000 total hours spent in training by the company's employees.

management and the unions have improved, and support for the unions has increased. This, too, helps to prevent harassment.

According to the interviewees, Nien Hsing's management has cooperated with the WRW's investigations into allegations against employees, and is considered to respect and comply with the provisions of the Anti-GBVH Program.

4 Information from the company

Nien Hsing publishes little information on how the company works to prevent labour rights abuses at its factories. Although the company's labour rights policies are available on request, there continues to be little published information on how it ensures their implementation and compliance.

Since 2018, the Council has communicated regularly with Nien Hsing. The company has provided details of what it is doing to improve working conditions and labour practices at its factories and has commented on the draft observation reports and this recommendation. The Council has also met with Nien Hsing in Taipei.

Nien Hsing has informed the Council that it has "launched several projects and improved internal policies to create a more sustainable working environment." This includes setting up an externally managed hotline for worker complaints (in addition to the WRW complaints mechanism). Since 2019, Nien Hsing has conducted annual employee satisfaction surveys, which also encompass workers' relationships with their supervisors. In the company's view, these surveys provide valuable feedback for its efforts to improve the working environment. According to Nien Hsing, senior management regularly raises the importance of upholding labour rights in meetings with factory managers and supervisors.

In September 2021, Nien Hsing established an ESG Department at its headquarters, which will "fully engage with the GBVH project". The department is responsible for handling grievances.

Nien Hsing states that it has a good working relationship with the WRW. However, it is concerned that investigations take a long time and that investigators often lack an adequate understanding of the production process and how the operation works, which Nien Hsing believes may lead to misjudgements. Although the training sessions are helpful, many employees find the two-day workshop too time consuming.

Nien Hsing concludes in a report to the Council on Ethics that:

"We realized that it's not enough to only comply with market standard regulations and there is more to do. We have been listening to our employees, fixing issues, improving management system and seeking to create something beyond in terms of human rights. The GBVH project may be delayed due to the pandemic, even though the trainings and investigation may not be efficient, we are ready and confident to take full ownership of the project to fight GBVH issues."⁵

⁵ Nien Hsing Textile October 2021: Progress report to the Council on Ethics.

5 The Council on Ethics' assessment

In its 2018 recommendation, the Council emphasised that Nien Hsing had to quickly address and mitigate the most serious norm violations, make significant changes in the factories' managements and rapidly implement effective measures to reduce the risk of harassment and labour rights abuses at its factories.

Over the three years the company has been under observation, the Council finds that Nien Hsing has taken significant steps to address GBVH at its factories in Lesotho. The Council believes that the Anti-Gender Based Violence and Harassment Program, which was established by agreement between Nien Hsing and customers, unions and women's rights organisations, has been critical in driving this change. The follow-up investigation in 2021 indicates that the workplace culture at Nien Hsing has improved, that incidents of GBVH have declined, and that the grievance mechanism has gained most employees' trust.

The question is whether the progress made so far will have a lasting effect, also without the Anti-GBVH Program. In its assessment, the Council emphasises "the tone from the top" and Nien Hsing's pledge to continue working to prevent GBVH at its factories through policies, guidelines and clearly established procedures. The Council notes that the company is now working more systematically to prevent labour rights abuses at its factories, and that a great deal of time is devoted to training employees, supervisors and factory managements, which has been important for raising awareness and understanding of the work to combat gender-based violence and harassment.

In the Council's opinion, this may indicate a shift in the company's corporate culture which is necessary for sustained improvements. While this points to a positive development, the Council continues to hold the view that greater transparency and reporting would further enhance the credibility of Nien Hsing's efforts to improve working conditions at its factories.

6 Recommendation

The Council on Ethics concludes that the risk of serious or systematic labour rights abuses at Nien Hsing's factories is no longer unacceptable and recommends that the observation of Nien Hsing be terminated.

Johan H.
Andresen
Chair

(Sign.)

Svein Richard
Brandtzæg

(Sign.)

Cecilie
Hellestveit

(Sign.)

Trude
Myklebust

(Sign.)

Siv Helen Rygh
Torstensen

(Sign.)