

SGS S.A.

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History of organization

SGS was originally founded as shipment inspection company by two entrepreneurs in Rouen, France in 1878. One of the entrepreneurs, a Latvian immigrant, recognized that many volumes of grains were lost or stolen during loading and unloading and decided to defend the rights and property of the exporters by providing verification for the importers.¹ Out of this humble beginning, SGS has grown into one of the largest and most complex auditing organizations in the world.

Headquarters was moved from Paris to Geneva Switzerland during World War I in 1919. The company developed rapidly in the post-war period by expanding to other countries as well as diversifying their services. New services included inspection and analysis of raw materials, minerals, metals, and agriculture. The company's growth stagnated during World War II, but again expanded in the post-war period. SGS started its Industrial Services business in 1955, aimed to inspect industrial machines and goods. Their Oil, Gas & Chemical Services began shortly thereafter. The Governments & Institutions Services division was initiated as new markets emerged during decolonization.²

Growing awareness of environmental issues and the call for a more sustainable future compelled the company to include Life Science Services, Systems & Services, and Corporate Sustainability divisions. This shift brought about SGS's involvement in social auditing of factories. In their sustainability report, SGS states that their priorities in achieving sustainability are ethical conduct, economic performance, occupational health and safety, talent acquisition and development, energy and climate change, and sustainability services.³

Today, SGS employs more than 80,000 and has offices in nearly every country across the globe. The company claims that it is well positioned for growth and well adapt to a changing world.⁴

Purpose of the organization and services offered

SGS is a public limited company that provides auditing, monitoring, consulting, testing, and training services to clients. It also provides certification and verification. Some of its services do involve auditing factories and monitoring clients' cargo, transit, and trade to make sure they are following international and national laws and are being sustainable in practice.

The company is involved in the following industries: agriculture and food, automotive, chemical, construction, consumer goods & retail, energy, finance, industrial manufacturing, life

¹ [SGS Website, History report](#)

² [SGS Website, History report](#)

³ [SGS Sustainability Report](#)

⁴ [SGS Website, History report](#)

sciences, logistics, mining oil and gas, and the public sector.⁵

SGS claims to be the world leader in verification, inspection, testing, and certification. Their main focuses are improving productivity, safety, social sustainability, and quality as well as reducing risks. SGS offers a “Factory Acceptance” test certification, which ensures that equipment and facilities meet all contractual requirements. SGS also certifies brands and provides brand protection, labeling, and testing services. They do so by using laboratories to detect potential risks to the brands and perform protection audits.⁶

SGS offers social responsibility services within its Sustainability division. These services include advising on implementation of standards and relative benefits, social responsibility risk assessment and optimization of the supply chain, environmental regulation training, and social audits against third party standards.⁷

Below are SGS’s sustainability services offered, as noted in the 2013 SGS Sustainability Report:

- ISO 17075 accredited stack testing: Control air pollution that is produced by incinerators and power stations.
- Water monitoring: Provide water monitoring near industrial sites to control pollution.
- Energy efficiency in buildings program: Aims to reduce CO₂ emissions from buildings through investment in more efficient lighting, heat and air conditioning systems.
- Corporate brand monitoring: Ensure green process design, carbon footprint evaluation for products and packages, and sustainable facilities and production.
- Accreditation: Verify CO₂ emissions trading and test air quality.
- Eco-innovation: Test components of electric cars, to support safety, reliability and eco-innovation.
- Certification: Biomass (ensure biofuels are being produced in a sustainable way), Bonsucro (test produces for safe ingredients), Roundtable on Sustainable Biofuels (ensure sustainability of biofuels), etc.
- Testing: Assess noise pollution, model groundwater dispersion and test soil and water for contaminants.
- Toy Safety Directive: Test toys for chemicals and restricted substances in compliance under the chemical provisions of the EU.
- Supply Chain Audits: Help with supply chain management and social responsibility to traceability and training.⁸

As is evident from the list, the vast majority of the focus of SGS’s Sustainability division is on environmental impact, not social. More information about SGS’s social responsibility audit services are listed in the section regarding the role SGS plays in monitoring.

⁵ [SGS Website, Homepage](#)

⁶ [SGS Website, Company in Brief](#)

⁷ [SGS Social Responsibility Solutions](#)

⁸ [SGS Sustainability Report](#)

Members of organization

SGS does not have members, but has a searchable client directory.⁹ Upon searching for apparel based clients, many results were returned. For example, in Bangladesh, SGS provided Bova Apparel Ltd. with Quality System management certification on the company's cutting, sewing, finishing and export of products. In China, some of the client companies listed are Qingdao Hitex Apparel Ltd., Dalian Join-Me Apparel Co. Ltd., and Changzhou Esquel Knitting Apparel Ltd., all participating in SGS's Quality System management certification and Environmental Management system certification. In Pakistan, Kings Apparels Industries (Pvt) Ltd. and U.S. Apparel (Pvt) Ltd. all used social accountability certifications in addition to the Quality system management certification.

A noticeable pattern is that SGS's apparel clients listed are not retailer companies or brands, but rather supplier companies that provide the clothing to the retailers. Most of them used the management certification or the social accountability certification from SGS. (The explicit aim of the Quality System management certification is to help the supplier develop and improve performance in leadership as well as a systems approach to business. SGS describes the social accountability certification as a demonstration of the supplier's commitment to social accountability while improving the management and performance of the facility.)

Governance

There are 9 members of the SGS board of directors which oversee the organization: Sergio Marchionne, Paul Desmarais Jr., Shelby R. Du Pasquier, Ian Gallienne, Dr. Cornelius Grupp, Dr. Peter Kalantzis, Gerard Lamarche, August Von Finck, and Francois Von Finck. All 9 of the members have corporate backgrounds. Sergio Marchionne is the current CEO of the Chrysler Group LLC and Fiat S.p.A. Paul Desmarais Jr. is the CEO of Power Corporation Canada (financial services) and a board member of Suez (a water waste management, and energy company). Shelby R. Du Pasquier is also a board member of Swiss National Bank and Stonehenge Trust Holdings. Ian Gallienne is the managing director of Ergon Capital Partners S.A. Dr. Cornelius Grupp is a board member of Schoellerbank AG. Peter Kalantzis is the chairman of Movenpick Holding AG, Clair AG, Von Roll Holding AG and Lamda Development Ltd. Gerard Lamarche is a board member of Lafarge, Legrand and Total S.A. (He is also a board member of the Auditing committees of these three companies.) August Von Finck is a board member of Generali Deutschland. Francois Von Finck is the managing director of Carlton Holding and Custodia Holding.¹⁰

Some of the board members have direct connections to the industries being monitored. Sergio Marchionne sold his stake of SGS to Groupe Bruxelles Lambert G.A. (GBL). (Paul Demarais Jr. also has significant ownership of GBL.) SGS is partially owned by GBL, which is controlled by Pargesa Holding. Power Corporation Canada owns half of Pargesa Holding and Paul Desmarais Jr. is the CEO of Power Corporation Canada. Desmarais is also the CEO of Suez, which holds 12.3% of shares in GBL. Ian Gallienne is the Managing Director of Ergon Capitals. Ergon is sponsored by GBL, which also sponsor SGS. Gerard Lamarche is the board member of Lafarge and Total, which combines to owns 25% of the shares of GBL.

⁹ [SGS Website, Certified Client Directory](#)

¹⁰ [SGS Website, Board and Executive Management \(Board and Committee\)](#)

SGS is organized into ten divisions, each led by an Executive Vice President (EVP) and provides services to a specific industry: agricultural services, automotives, consumer testing services, environment, governments and institutions, industrial, life science, minerals, oils, and systems and services certification.

Under each division, there is a “quality, health, safety and environment” section, which contains a sustainability section in each division. This sustainability section lists services offered: social sustainability, economic sustainability, environmental audit, waste and recycling services, closure planning and monitoring, crop and forest services, product and packaging, infrastructure and building services, sustainable process design, and energy services and carbon services.¹¹

The company is also organized into ten geographic regions, each is lead by a Chief Operating Officer (COO). The geographical regions are Northern and Central Europe, Southern Central Europe, Eastern Europe & Middle East, Western Europe, Africa region, North America, South America, China & Hong Kong, Eastern Asia, and South Eastern Asia & Pacific. The EVPs, COOs, Senior Vice Presidents, CEO, Chief Financial Officer, and General Counsel make up the Operations Council.¹²

Geographical focus

SGS operates and oversees its operation in 134 countries all over the world. It has no explicit geographical focus. Its headquarters is in Geneva, Switzerland and it has 1,650 offices around the globe.¹³

Finances and payment for services

SGS is a for-profit organization. It is publicly owned by shareholders. The publicized announced shareholders are Groupe Bruxelles Lambert (15%), August Von Finck (14.97%), Bank of New York Mellon Corporation (3.18%), and Company-owned shares (2.19%).¹⁴

As stated during the 2014 Annual meeting of shareholders of SGS SA, the profits from 2013 were 716,901,451 CHF (Swiss Franc).¹⁵ ¹⁶ Total reported revenue in 2013 was 5.8 billion CHF.¹⁷

Factories and brands may pay for social responsibility audits and services either online via credit card through SGSonSITE or offline through bank transfers or checks. Upon payment, clients can access to download services, online products that help the clients with testing, inspection, analysis, sampling and certification. SGS is committed to protect the information and privacy of its clients; information about whether factories or brands pay for certain services is unavailable.¹⁸

¹¹ [SGS Website, Industrial Manufacturing \(Quality, Health, Safety and Environment\)](#)

¹² [SGS Website, Board and Executive Management \(Operations Council\)](#)

¹³ [SGS Website, Office Directory](#)

¹⁴ [4 Traders Website, SGS](#)

¹⁵ [SGS Website, General Meeting of Shareholders](#)

¹⁶ 1 Swiss Franc = 1.12 US Dollar, [Currency Converter](#)

¹⁷ [SGS 2013 Annual Financial Report](#)

¹⁸ [SGS Website, Terms and Conditions \(User Agreement\)](#)

Role the organization plays in monitoring, costs of inspection, and training of auditors

The Social Sustainability division of SGS provides social responsibility services to the clients, most notably including training and factory inspections.¹⁹ SGS has their own auditors that conduct inspections. SGS is accredited and acknowledged by the following organizations to provide audits in accordance with their standards:^{20 21 22 23}

- BSCI (Business Social Compliance Initiative) aims to monitor the client's compliance and performance of the supplier network against the requirements of the BSCI code of conduct.
- EICC (Electronic Industry Citizenship Coalition) intends to give clients a framework for monitoring the compliance and performance of suppliers against the EICC code of best practice.
- ETI (Ethical Trading Initiative) audits attempt to demonstrate the client's commitment to improving the working lives of people across the globe who grow or make consumer goods by following the ETI Base code.
- Garments without Guilt certification aims to ensure that suppliers are free of child labor, forced labor, discrimination, and sweatshop conditions while practicing responsible environmental behavior.
- ICS (Initiative Clause Social) audits assess the suppliers' compliance with the ICS code of conduct.
- ICTI (International Council of Toy industries) audits aim to maintain compliance with the ICTI code of conduct to ensure ethical production of toys.
- SEDEX Members Ethical Trade Audit is a set of auditing practices that intends to streamline social auditing and reduce redundancy.
- SA 8000, a certification standard overseen by SAI (Social Accountability International), is regarded as one of the highest quality social certifications a factory can be awarded.
- WRAP (Worldwide Responsible Apparel Production) certifications intend to ensure ethical production of apparel products.

In addition to using these third party standards, SGS offers their own "SGS Code of Conduct Solution," discussed in the following section.²⁴

SGS provides the training for auditors and management. The beginning of the auditor training series is awareness training, which provides trainees with introductory knowledge of industrial standards, regulations, and management practices. Implementation training provides trainees with technical knowledge to help them implement management systems. Auditor training provides auditors of other third party organizations necessary knowledge and skills to

¹⁹ [SGS Social Responsibility Solutions document](#)

²⁰ [SGS Website. Social Sustainability \(Social Responsibility\)](#)

²¹ [SGS Social Responsibility Solutions document](#)

²² [SGS Social Responsibility Audit Solutions document](#)

²³ [SGS Sustainability Reporting document](#)

²⁴ [SGS Website. Code of Conduct Solution page](#)

conduct certain inspections. SGS also hires auditors with experience in an industrial environment and experience of dealing directly with clients.²⁵

Standards and code of conduct

SGS advertises that it will tailor services to meet the specific needs of individual client. SGS offers their own “SGS Code of Conduct Solution.” Specific details about this program are not available, but SGS advertises that it can customize services to meet the needs of clients on the topics of child and young labor, forced labor, health and safety, freedom of association, discrimination, disciplinary practices, working hours, and compensation.²⁶

An example of SGS working with a client to produce a customized code of conduct and auditing program is their collaboration with the PRELIMS Group. The PRELIMS Group code of conduct contains the eight categories mentioned. Notably, the code specifies that suppliers must pay wages in accordance with the local minimum and strive to pay wages that meet “basic” needs. The suppliers must also meet local legal requirements for overtime compensation and any mandated benefits. The code protects the right to form or join a union and prevents discrimination.^{27 28}

SGS advertises the following services for the design, implementation, assessment/monitoring, and capacity building of CSR programs:²⁹

- Services for design: “Advice on available standards and relative benefits, development of labor laws and country briefing sheets, assistance in developing tailored approaches to meet business needs, benchmarking codes against Peers and Best Practice, advice on communication codes and program responsibility risk assessment and optimization, cost optimization of supply chain control, and strategic program development and management.”
- Services for implementation: “Environmental regulation training, buyer training seminars, audit tool creation, validation of suppliers’ procedures, internal auditor accredited courses, and tailored code awareness training.”
- Services for assessment and monitoring: “Social audits against third party standards and corporate Codes of Conduct, on-going corrective action monitoring, collaborative audits with unions of NGOs, tailored audits to specific requirements, and integration of social, quality, security, environmental and business integrity elements.”
- Services for verification: “Capacity building workshops, continuous improvement monitoring, impact verification of corporate citizenship programs, advising Social Responsibility program implementation, root cause analysis, sustainability report assurance, capacity building in own operation, advising on corrective action plan and improvement training on specific

²⁵ [SGS Website, Social Sustainability \(Auditor Training\)](#)

²⁶ [SGS Website, Code of Conduct Solution page](#)

²⁷ [SGS PRELIMS Ethical Trade Audit Guide](#)

²⁸ [PRELIMS Group Website, For Suppliers page](#)

²⁹ [SGS Social Responsibility Solutions document](#)

topics.”

Of particular interest are the services of “buyer training seminars,” “root cause analysis,” and “collaborative audits with unions or NGOs,” but no relevant details are provided.

Wage requirements

SGS ensures that wages of its own employees are in compliance with the local minimum wages. If no minimum wage exists, one must be established by the collective bargaining agreements between SGS and union representatives. As part of SGS’s remuneration governance implementation, it aims to evaluate the adequacy of entry-level salaries by relevant workforce families, with a view to reporting on these in 2015.³⁰

As far as wages in factories being audited, SGS does not publicly take a position, and presumably defers to clients or the protocols of third party auditing standards.

SGS launched a Minimum Wage Search app which allows clients to find out the legal minimum wage in a particular location. The latest industry news and updates are also available on the app. The app is free to any user that submits his/her business, job title, city, and e-mail.³¹ SGS also published a minimum wage map of China, which users can click on a province or city to find out the minimum wage of that location.³²

Attitude towards unions, freedom of association rights, and worker input

The freedom of association is mentioned in SGS’s Compliance Code of Integrity for its own employees, not for employees of the client companies.³³ SGS also seems to include unions representing their own employees in discussions about wages.³⁴ Freedom of association is listed as one of the elements of SGS’s code of conduct, and although details of their code are not available, mentioning the topic implies that SGS at least considers the right of the freedom of association when it is providing services to clients. SGS advertises that they conduct “collaborative audits with unions or NGOs,” although no description of this is provided.³⁵

Monitoring protocols

SGS’s monitoring function varies depending on which service is being provided. Third party auditing systems have different protocols that monitors must follow, and SGS auditors are accredited to follow these procedures.

Perhaps most insightful is the PRELIMS Group auditing system developed in conjunction with SGS; the Ethical Trade Audit guide provides information regarding these protocols.³⁶ SGS

³⁰ [SGS Sustainability Report 2012](#)

³¹ [SGS Press Release on the Minimum Wage app](#)

³² [SGS Website, China Wages Map](#)

³³ [SGS Code of Integrity](#)

³⁴ [SGS Sustainability Report 2012](#)

³⁵ [SGS Social Responsibility Solutions document](#)

³⁶ [SGS PRELIMS Ethical Trade Audit Guide](#)

performs audits to determine if clients are following the PRELIMS Group code of conduct and are acting in accordance with national and regional laws.

Audits take place at the earliest available date and are scheduled on a semi-announced basis. A four week window is given for the audit, which takes place at any time during this period.

The audit starts with an opening meeting with the factory management team and is followed by a tour of the factory or other business-related facilities. Interviews with management are conducted. Next, there is a documentary review of health and safety records, personnel files, and interviews with any union representatives and privately held interviews with employees. (SGS states that the factory, brand, or business cannot interfere with the choosing of the employees for interview. The interview will last approximately 20 minutes and the interviewees will be guaranteed confidentiality.) Lastly, there is a closing meeting with the factory management. The whole auditing process usually last one day.

All the information gathered during the auditing process is confidential to SGS and the client. The client will receive a Corrective Action Plan Report that lists all instances of noncompliance.³⁷

SGS also audits brands. The Brand Protection Audits “protect, maintain and build brands by inspecting and reporting on a dealership’s compliance to existing internal codes of practices during the sales process.” There are two main types of brand audits: “standard” and “mystery.” The standard audits assess factors that influence customers and brand image. The mystery audits review behaviors and processes that impact the customer experience.³⁸

Transparency

The types of audits and services for factories and brands can be found online. Documents giving descriptions (and advertisements) of these services are available and SGS seems to put effort into cultivating its socially responsible image.

SGS does not make its audit reports public, but it allows factories or companies to publish audit reports if they wish. Some audit reports of clothing factories can be found online. In a particular auditing report for the Xiamen Aibort Clothing company, viewers can see the general information of the company, the export data, supplier management, service capacity, product research, and the certification of the management system.³⁹

Track record

SGS and its subsidiaries provide many services to controversial industries such as animal testing and nuclear power. The company also does subcontract work.⁴⁰ SGS was involved in a scandal in Pakistan over its pre-shipment inspections. It was caught paying Benazir Bhutto (then president of Pakistan) and her family in the 1990s to exchange for SGS contracts in

³⁷ [SGS PRELIMS Ethical Trade Audit Guide](#)

³⁸ [SGS Website, Brand Protection Audit](#)

³⁹ [Xiamen Aibort Audit Report](#)

⁴⁰ [SGS Code of Integrity Brochure](#)

the country.⁴¹

SGS was also involved in a scandal over its Forest Stewardship Council certification. It allowed companies to collect timber from forests that had been declared “well managed,” sustainable enough for extraction. In 2007, SGS declared the entire 112,100 hectare of Uganda’s Mount Elgon National Park to be well managed. The audit took just three days and the claims were based on “future improvements” rather than its current status.⁴²

Financially, SGS has warned that it may fall short of its ambitious growth forecasts because of a slowdown in key European markets. SGS has missed expectations and cut jobs. Chief executive Chris Kirk said that “there’s going to be further price pressure as customers are squeezing us to reduce prices and our competitors have spare capacity and can therefore reduce prices.”⁴³ This quote gives a tacit nod to the “race to the bottom” and implies a similar dynamic in the auditing industry, perhaps leading to reduced quality of inspections.

SGS offers a great deal of management training services. However, very little training is offered about factory conditions and none are aimed at workers.⁴⁴ SGS’s Factory Audit services also have a similar management-oriented attitude and use language about identifying potential risks and increasing efficiency and productivity.⁴⁵

According to Clean Clothes Campaign, when a company outsources social responsibility to an auditing group, it gives away some control and the client company is relieved of some responsibilities and economic risk. However, responsibility may not be well-placed in the hands of an auditing company, as serious consequences can result from overlooking violations. The most serious case that SGS has been implicated in was the collapse of the Spectrum Sweater factory of Bangladesh in April 2005. The tragic collapse buried hundreds of workers and killed 64. According to Clean Clothes Campaign, the factory had undergone a “quality audit” carried out by SGS.^{46 47}

SGS came under public scrutiny for its poor performance at the Rosita Knitwear factory in Bangladesh. In February 2012, just 10 months after SGS had certified the factory as BSCI compliant, disgruntled workers who had been victims of harassment, abuse, and stolen wages ransacked the factory. A different auditing company, Verite, was then called in to inspect the factory and found a litany of violations, none of which were mentioned by SGS. Verite was critical of SGS’s flawed reporting, as were other organizations, such as the Institute for Global Labor and Human Rights.^{48 49}

At the GP Garments Avissawella factory in Sri Lanka, management terminated hundreds of employees, including the entire union delegation. A lengthy legal case over discrimination and

⁴¹ [SGS vs. Pakistan case](#)

⁴² [FSC Watch: Uganda Mt. Elogun National Park](#)

⁴³ [Reuters Report on Price Pressure](#)

⁴⁴ [SGS Professional Project Management Training](#)

⁴⁵ [SGS, Factory Audit Services](#)

⁴⁶ [Clean Clothes Campaign, *Looking for a Quick Fix*](#)

⁴⁷ [Ethical Consumers: Corporate Watch](#)

⁴⁸ [Clifford and Greenhouse, *Fast and Flawed Inspections of Factories Abroad*, New York Times, 1 September 2013](#)

⁴⁹ [Christian Dem, *System for inspecting overseas factories has serious -- and potentially deadly -- flaws*, Daily Kos](#)

unpaid compensation ensued. During the unresolved dispute, SGS certified the facility as a “Garment without Guilt” factory, raising questions about the quality of SGS audits, the orientation of SGS towards workers rights, and the legitimacy of the “Garment without Guilt” standard.⁵⁰

SGS’s track record of weak audits is not new. At the turn of the century, SGS was employed by Disney to inspect factories. A series of violations followed, exposing flaws in the auditing system. Unfortunately, more details about this case are not presently available.⁵¹

⁵⁰ [NetWorkWear, Made in Sri Lanka](#)

⁵¹ [China Labor Watch, Code of Conduct is no more than false advertising, 2010](#)