

**PROGRESS
NOT PERFECTION:
10 YEARS OF
MAKING AN IMPACTT**



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Impactt 10th Anniversary Report

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EXECUTIVE SUMMARY

'Progress not Perfection' is a report about 10 years of work on improving labour standards and ethical supply chain management. The report:

- Reviews how the debates and issues have evolved over the past ten years.
- Explains Impactt's model of working.
- Analyses some important data drawn from all of Impactt's site visits since January 2006.
- Draws key lessons from a series of case studies covering the most entrenched issues in tackling labour standards.

SUMMARY

Headlines screaming 'sweatshops' and reports documenting the abuse of workers in supply chains have become a staple of the news media since the mid-1990s. There are endless examples of workers with often tragic stories to tell, in countries like India, Bangladesh and China, but also closer to home, in the UK, Europe and the US. The onus is put on brands and retailers to solve these problems and ensure that workers making their goods have decent jobs. However it is becoming very clear that the root causes of these problems are complex and companies alone cannot solve them. Over the past decade much work has been done by international organisations, companies, NGOs, trade unions and governments to improve labour standards in supply chains. Yet there are still many millions of workers who have not felt any positive effects from these efforts. There are no easy answers.

Impactt aims to 'make what's good for workers, work for business'. Impactt strives to improve labour standards in a way that brings clear business benefits to every party touched by international trade, including purchasers, suppliers, factories, workers, and communities. Its work relies on an accurate diagnosis of the issues followed by coordination, strategy development, and continuous improvement that bridges two different worlds: the world of purchasers and corporate strategy and the world of the factory and workers' employment experiences.

KEY FINDINGS

From January 2006 to August 2007, Impactt conducted over 129 diagnostic assessments in Asia, America, Europe and the Middle East. These identified the critical issues that are presently affecting workers.

- 20% of sites worldwide employed child labour.
- 74% of workers worked more hours than the ETI base code limits.
- 60% of factories and production sites failed to pay the minimum wage.
- 30% held financial deposits from workers.
- 36% treated workers harshly or abusively.

The data highlights two key themes:

- The use of temporary, migrant, and agency workers – these workers are part of a mobile and global work force who often find themselves accepting pay and work conditions far below local norms. Pressure on suppliers to provide high value at low cost increases the potential for abuse of these workers.
- Freedom of Association and Collective Bargaining provides workers with freedom to represent themselves and negotiate with management. Impactt has found this freedom to be a highly effective method for workers to combat workplace injustices. This freedom, however, is a rarity.

Major challenges remain in all countries and sectors where Impactt has conducted assessments. It is clear that the problem is not that there are a handful of 'rotten apples' polluting an otherwise clean supply chain. The issues are systemic and persistent. Creativity and commitment, from all parties, is required to tackle them.

The case studies in the report outline how all elements of the purchasing process, including planning time-frames, buyer schedules, supplier communication, and shipping requirements are intricately linked to the lives of workers and are therefore, a key driver for change. The way these elements can be combined to produce measurable improvements in workers conditions are illustrated in the report's case studies on:

- Migrant and temporary labour.
- Worker representation in China.
- Tackling child labour in China.
- Reducing excessive overtime.
- Wages.
- Managing ethical trading data – Sedex.

RECOMMENDATIONS

Impactt makes the following recommendations to **purchasing companies** aiming to make real and sustainable improvements in labour conditions in their supply chains:

- Ensure ethical codes and strategies explicitly cover migrant, temporary and agency workers.
- Where freedom of association is not restricted by law, actively encourage suppliers to:
 - o Sign access agreements with trade unions allowing union or organisers access to employees during working time to discuss trade union membership.
 - o Sign a 'non-interference guarantee' formally committing not to victimise trade union organisers and to permit the formation of an organising committee without hindrance or victimisation.
- Where freedom of association is restricted by law:
 - o Encourage factories and suppliers to develop independent worker representative bodies.
- When child labour is found in a factory, put the welfare of the child first. Work with local experts to develop a sustainable plan for the education and support of each child, consulting with parents and children.
- Examine purchasing practices to understand where these are tending to cause excessive overtime working.
- Develop incentives to encourage suppliers to be open about actual working hours.
- Adopt a continuous improvement on working hours, including interim targets working towards legal limits, where these are hard to achieve.
- Understand where current wages fall short of a living wage.
- Consider how purchasing practices impact on the wages of workers.
- Join Sedex as part of a wider strategy of shifting from an audit-based approach to ethical trade to a capacity building one.

Impactt makes the following recommendations to **factories and production sites** aiming to make real and sustainable improvements in labour conditions:

- Ensure that migrant, temporary and agency workers are not disadvantaged or exploited.
- Where freedom of association is not restricted by law:
 - o Sign access agreements with trade unions allowing union

organisers access to employees during working time to discuss trade union membership.

- o Sign a 'non-interference guarantee' formally committing not to victimise trade union organisers and to permit the formation of an organising committee without hindrance or victimisation.
- Where freedom of association is restricted by law:
 - o Set up an independent worker representation body, which is transparent and accountable to workers, as a means to create effective dialogue between workers and managers.
- Earnestly try to recruit only workers above the legal minimum age and develop better documentation checks to ensure workers are old enough to work in factories.
- If child labour is found do not fire the children but take expert advice on a solution which is in the best interests of the children.
- Check that hours recorded are accurate and that workers are being paid fairly for all hours worked.
- Make a genuine commitment to reduce working hours without reducing take-home wages.
- Make sure that there is a complaints procedure in place that workers know about, so that they can let you know if they are unhappy about working hours or other workplace issues.
- Consult with workers to understand their financial needs. Where wages do not meet workers' financial needs, work with workers and their representatives, the human resources department and industrial engineering expertise to find ways to increase wages.
- Consider joining Sedex and participating in its management.

In order to make the changes needed to improve the lives of workers around the world, all parties must recognise that there are persistent and systemic labour standards issues across all sectors and countries.

The causes of these are complex, and include uneven global social and economic development, labour migration, purchasing practices and government failures.

Solutions must focus on delivering meaningful and sustainable improvements which are important to workers, rather than on protecting reputations or defending ideologies.

The emphasis must be on achieving progress, rather than waiting for perfection.



INTRODUCTION

Headlines screaming ‘sweatshops’ and reports documenting the abuse of workers in supply chains have become a staple of the news media since the mid-1990s.

There are endless examples of workers with often tragic stories to tell, in countries like India, Bangladesh and China, but also closer to home, in the UK, Europe and the US. The onus is put on brands and retailers to solve these problems and ensure that workers making their goods have decent jobs.

However it is becoming very clear that the root causes of these problems are complex and companies alone cannot solve them. Over the past decade much work has been done by international organisations, companies, NGOs, trade unions and governments to improve labour standards in supply chains.

Yet there are still many millions of workers who have not felt any positive effects from these efforts. There are no easy answers. This report illustrates some of the work Impactt has done over the past 10 years to identify labour-related issues, their root causes, and outlines some of the solutions that have been developed.

Impactt was founded 10 years ago with the mission of working with all actors in the supply chain to improve the lives and livelihoods of workers. Our approach focuses on working on the ground to develop grass roots solutions, and then bringing the

voices of workers into the corporate boardroom to inform better, more effective ethical trading strategies. This report reviews our learnings and is structured as follows:

- **Section 1:** Ten years of making an Impactt: developments in ethical trading over the last 10 years and Impactt’s approach to improving labour practices.
- **Section 2:** Findings from Impactt’s work in factories and on farms across the world between January 2006 and August 2007.
- **Section 3:** Case studies - a selection of Impactt’s projects tackling:
 - o Migrant and temporary labour.
 - o Worker representation in China.
 - o Child labour in China.
 - o Excessive overtime.
 - o Wages.
 - o Managing ethical trading data – Sedex.
- **Section 4:** Challenges and Conclusions.

“It is becoming very clear that the root causes of these problems are complex and companies alone cannot solve them”

1. TEN YEARS OF MAKING AN IMPACT

1.1 LOOKING BACK

What Was it Like in 1997?

The sportswear industry is generally acknowledged to be the first industry to be stung by the negative publicity about poor labour conditions in their globalised supply chains¹. In 1997, however, there had only been a limited response from companies, governments and investors. The Ethical Trading Initiative (ETI), a UK-based multi-stakeholder forum for sharing best practice on ethical trade issues, was yet to be formed.

Across the Atlantic, by 1997 the media's attention was truly fixed on the issue of 'sweatshops'. 1995 had been, in the words of Naomi Klein, 'the year of the sweatshop'². The Clinton Administration responded to public concerns by setting up the Apparel Industry Partnership, the forerunner of the Fair Labor Association.

Pressure Building

Hardly a week goes by without working conditions in supply chains hitting the headlines. Media, advocacy groups and development NGOs are becoming increasingly sophisticated in their understanding of the issues of ethical trade.

The debate is no longer about 'codes of conduct' and monitoring programmes. Campaign groups and some elements of the media are asking difficult questions about how products and produce are made and grown at particularly low price points. For example, a recent Action Aid report stated: "Value retailers' meteoric rise is driven by two factors: an ability to force down prices, and a quick response to changes in fashion or consumer

demand. It is young women, the majority of Bangladesh's garment workforce, who make both of these possible. They earn as little as 5p per hour; wages that are insufficient to support themselves and their families, while being forced to work long hours, often over 14 hours a day for days or weeks on end."³

Given the level of publicity labour standards generates, it is not surprising that public awareness of ethical trade issues has evolved. The Cooperative Bank's 2006 Ethical Consumerism Report finds that 52% of consumers are now more concerned about issues relating to ethical sourcing than they were 5 years ago, and almost 90% of consumers think retailers must ensure that their products are manufactured in a fair and humane way. 31% claimed that they had decided not to buy an item of clothing because they were concerned about where it was produced, and under what conditions.⁴

Consumers, activists, the media and NGOs are all expecting companies to be able to act to solve the sweatshop problem. Responses from companies, however, remain mixed.

Evolving Ethical Trade Strategies From Denial to Engagement

When faced with sweatshop allegations it is no surprise that the first response of many corporations is to deny all knowledge and responsibility. In the 1998 'Nike vs Kasky' lawsuit on labour standards allegations, Nike issued press releases and other public statements rebutting the allegations, and denied that workers' rights were being abused. Compare this to Tesco's stance in April 2007. In response to Action Aid's report

discussed above a Tesco spokesman stated: "It's no secret that conditions in developing countries can be difficult. But these countries and their suppliers believe, like we do, that trade is the best route out of poverty. In conducting trade we uphold and enforce standards laid down by law and by the Ethical Trading Initiative. We are ready to listen to any ideas for making progress. But we think this will be best achieved not by framing more rules from a distance, but by engaging on the ground."⁵

This more nuanced response was commended by Traidcraft: "Tesco rightly points out that the correct approach to sourcing from developing countries is not to pull out when the going gets tough... Well done, Tesco, for continuing vital investment and trade in Bangladesh, but please address your buying practices as well as monitoring social standards in your suppliers."⁶

Monitoring to Improvement

Initially companies' responses to public concerns revolved around monitoring or auditing, what has become to be known as the 'policing' approach to supply chain management. This approach however led to as many problems as it solved. As Paul Pressler, Chief Executive of Gap states: "We thought monitoring was the answer but we've learned the hard way that it isn't. Monitoring hasn't solved all the problems and almost no factory is in compliance with our standards. Monitoring by itself is absolutely not the answer and that has led us more and more to build partnerships with non-governmental organisations governments and unions to try to tackle issues in this area."⁷ Leaders in the field have

¹ Roberts L (2002) Beyond codes: lessons from the Pentland experience, in: Jenkins R, Pearson R & Seyfang G (Eds) *Corporate Responsibility and Labour Rights: Codes of Conduct in the Global Economy*, Earthscan, London 79-89 // ² Klein, N (2001) *No Logo: Taking aim at the brand bullies*, Flamingo // ³ Action Aid (2007) *Who pays: How British Supermarkets are keeping women in poverty*, Action Aid p. 84 // ⁴ The Cooperative Bank (2006) *Ethical Consumerism Report*, Co-op, Manchester // ⁵ McAllister T (2007) *6p a T-shirt. 30p an hour for shelling cashews. Supermarkets accused of exploiting women*, *The Guardian*, 23/04/07 // ⁶ Gooch F (2007) *Letter in the Guardian*, *The Guardian*, 24/04/07 // ⁷ Pressler, P (2005) *Clothing firm finds monitoring is no panacea*, *Ethical Performance*, Vol 6, Iss 5.

“Persuading the bulk of companies to consider their purchasing practices will be one of the major challenges of the next few years”

shifted their emphasis to more experimental approaches that emphasise a deeper involvement with the root causes of labour standard violations. Dan Henkle from Gap characterises this as a journey: “Gap Inc. has travelled over the past decade from what was primarily a policing model based on a corps of internal monitors to a more collaborative partnership in which factory owners and managers are expected to take more responsibility, or “ownership,” for conditions on their factory floors.”⁸

A tiny minority of companies are now focusing resources on tackling root causes, such as the structure of supply chains and purchasing practices, and dealing with core rights issues such as living wages and the right to freedom of association and collective bargaining. The vast majority of companies active in ethical trading continue to channel an estimated 80% of their resources into monitoring programmes, which fail to involve workers in the solutions. In many cases, this results in audit fraud.

Externality to Integrated Core Business Strategy:

There are some indications that some leading companies are starting to shift their thinking from considering ethical trading as an externality, towards considering it as an element of their core business. This is most clearly demonstrated by corporate attempts to examine the impacts of their purchasing practices on working conditions. These focus on two key elements, time and money. Leading companies are exploring how management of the ‘critical path’⁹ - lead times, rigid price-points - impacts factories and workers by squeezing production times, causes excessive overtime, and contributes to a high pressure atmosphere.

There is also much discussion about whether price deflation in many consumer products sectors is contributing to low wages for workers.

Some companies are starting to examine how they can change the business model, for example, rationalising the supply base to include a smaller number of suppliers and named factories with which there is a long term relationship and forward visibility on orders. Companies are weighing up the benefits of this approach (better supplier relationships, better performance on quality and on-time delivery) with the limitations (less flexibility, less ability to move fast to keep up with trends).

Whilst ethical trading managers can be keen advocates of these measures, their commercial colleagues are often hard to convince. So far, this advanced approach has only been adopted by a very few companies. Persuading the bulk of companies to consider their purchasing practices will be one of the major challenges of the next few years.

Changing purchasing practices would be a more attractive prospect for many companies if the commercial benefits were evident. Some companies recognise the market opportunities and benefits from being improved purchasing practices. A leading UK example is Marks & Spencer, which began its communications on its ethical and environmental credentials in January 2006 with its ‘Look behind the label’ campaign.

Less than a year later, it announced ‘Plan A’, an ambitious proposal to combat climate change, reduce waste, safeguard natural resources, trade ethically and build a healthier nation. M&S’s announcements have been welcomed by

external stakeholders, by the press and their customers. A measure of scepticism, however, remains from some¹⁰. The plan seems to be working well as part of M&S’s core recovery strategy. The company’s share price increased from 505p in January 2006 to a peak of more than 700p in January 2007, and in March 2007, Marks & Spencer was voted Britain’s greenest supermarket and the one most popular with socially and environmentally aware consumers according to a poll carried out by *The Times*.¹¹

It is easy to see how some brands and retailers operating in the middle and upper reaches of the market can create business success by being better. It remains to be seen, however, whether there is a strong business case for value brands and retailers, who face more pressure on margins, can benefit from the same successes. As Dan Rees, Director of the ETI says: “Despite the growing pressures on UK retailers to address consumers’ ethical concerns, they face much greater pressure to deliver the cheapest products in the shortest possible time. Perhaps it is time for a more open and honest debate about the cost to workers of demand for cut-price products.”¹²

How Much Change?

Is all this activity on ethical trading making a difference? A mixed picture was revealed in a 2006 report published by the ETI. It showed that various efforts since 1998 have improved health and safety, working hours, wages, and the use of child labour in developing countries and in seasonal agriculture in the UK. There has been no impact, however, on wages, and limited impact on freedom of association and collective bargaining issues. The report noted that whilst overtime

⁸ Henkle D (2005) *Gap Inc. sees Supplier Ownership of compliance with workplace standards as an essential element of Socially Responsible Sourcing*, *Journal of Organizational Excellence*, Winter 2005 // ⁹ The Critical Path is a management term referring to a the series of inter-linked, time-critical tasks that must be performed in order for the buying process to proceed. It typically includes: design, planning, sourcing, sampling, production and logistics. // ¹⁰ Hearson M (2007) *Let’s Clean Up Fashion*, Labour Behind the Label/War on Want // ¹¹ Butler S (2007), *Shoppers look behind the label to vote M&S the greenest*, *The Times*, 28/03/07 // ¹² Armstrong, M (2006) *Ethical traders work overtime to help*, *The Guardian* (06/11/06)

hours had been reduced in some cases, this had sometimes led to a reduction in workers' overall pay. The report also indicated that positive effects have been felt by permanent workers, but the growing army of temporary, migrant and agency workers who have not felt any benefit from the efforts to improve labour standards¹³.

The results of Impactt's own assessments, set out in Section 2 of this report, show that serious issues are systemic and deep-rooted. Ethical trade practitioners are continuing to find considerable difficulties in making positive, sustainable change to foster genuine improvements in the lives of the most vulnerable workers around the world.

Critical Issues and Continuing Challenges

Oversupply of Cheap Labour

A key factor behind the failure of many efforts to improve labour standards, particularly amongst marginalised workers, is the changing labour market. The labour market is now truly global, with workers traveling vast distances to find work they hope will bring them more money than they would earn at home. Migrant workers tend to be employed on a temporary basis and are more vulnerable to abuse, less able to organise, and

“A key factor behind the failure of many efforts to improve labour standards, particularly amongst marginalised workers is the changing labour market”

“Is all this activity on ethical trading making a difference?”

therefore often find themselves accepting pay and work conditions far below local norms.

The corporate drive for competitiveness has purchasers search the world for new products at the lowest prices; Suppliers work to meet the demands of purchasers, and the use of migrant and temporary workers to keep prices down is increasingly attractive, especially to top up the stable core labour force during seasonal peaks.

Impactt has tracked the growing use of migrant workers and temporary contacts in the UK, Europe, North America, the Middle East, Sub-Saharan Africa, South Asia, South-East Asia, and China. This trend means that working conditions which undercut local and international standards are increasingly the norm. The challenge is to develop a business and regulatory model with sufficient incentives for suppliers to go against the flow of low standards. See Case Study 1 in Section 3 of this report for Impactt's work in this area.

Audit Fraud

Attempts at policing labour standards have resulted in the increasing prevalence of audit fraud. The short film, *Secrets and Lies*, available from the ETI¹⁴, compiled undercover footage and interviews with workers and presented a worrying picture on the prevalence of audit fraud and the issues which suppliers are trying to conceal. In addition to excessive hours and low pay, managers create fraudulent documents, and coach workers on how to conceal child labour, forced labour, discrimination, and the absence of concrete health and safety management.

Where standards fall below local and international norms, where there are few

incentives for suppliers to change the way they work, and where the majority of purchasers focus their efforts on punitive policing, suppliers are left with little choice than to cook the books and coach workers to present the appearance of compliance. The ETI Impact Assessment China scoping study identified that some factory managers believe that purchas-

The challenge is to develop a business and regulatory model with sufficient incentives for suppliers to go against the flow of low standards

ing companies operate double standards by demanding social compliance at the same time as making commercial demands which require low pay and excessive hours, 'while sourcing companies operate double standards', researchers were told, 'factory owners see no problem doing the same.'¹⁵

The overarching challenge for companies here is to find ways of providing incentives for suppliers to be better employers (thereby doing away with the need for audit fraud). In the shorter term, the challenge is to identify ways to diagnose accurately what is going on in workplaces whilst providing an incentive for openness to enable diagnosis of even the most severe issues.

¹³ Barrientos S & Smith S (2006) *Report on the ETI Impact Assessment 2006*, ETI & IDS, London // ¹⁴ ETI (2007) *Secrets & Lies: uncovering ethical trade audit fraud*, DVD, ETI, London // ¹⁵ Barrientos S & Smith S (2006) *Report on the ETI Impact Assessment 2006*, ETI & IDS, London

1.3 IMPACTT'S APPROACH

Impactt works to find ways to improve working conditions in supply chains in a way that brings clear business benefits to every party touched by international trade, including purchasers, suppliers, factories, workers, and communities.

We are a consultancy, and our clients are retailers, brands, suppliers, factories, NGOs and ethical investors. We are a passionate team committed to delivering our clients' needs and making real change on the ground. Our staff come from a variety of backgrounds, including former production workers, factory managers, development professionals, productivity experts, business people and academics.

Impactt's approach is change-focused, innovative and practical - key elements include:

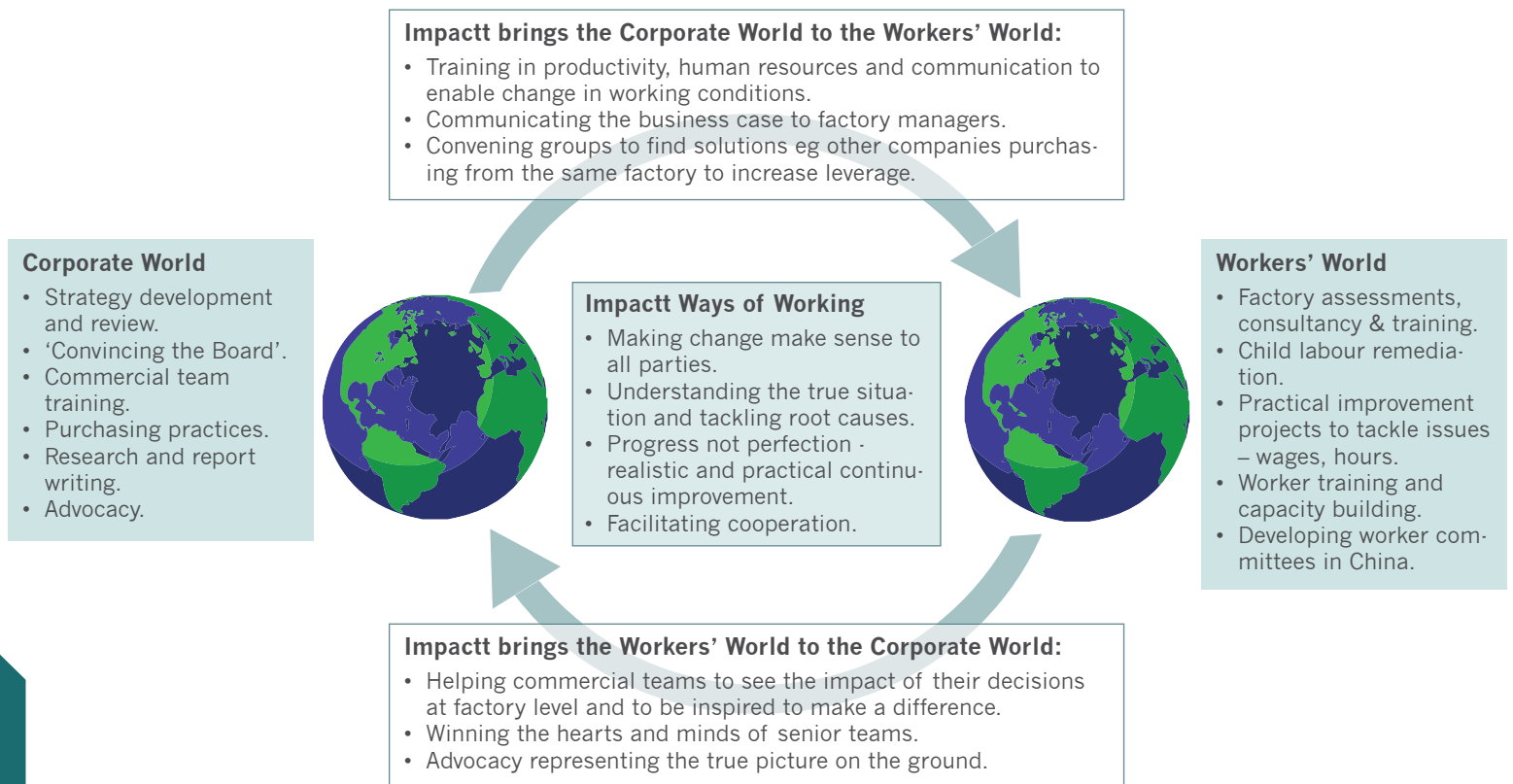
- Accurate diagnosis.
- Realistic and practical continuous improvement.
- Facilitating coordination and cooperation between different groups.
- Tackling root causes.
- Tapping into 'triggers of change'.

Impactt bridges two different worlds: the world of purchasers and corporate strategy and the world of the factory and workers' employment experiences. Usually the experiences and languages of these two worlds are so far apart that they cannot 'see' or interact with each other. Impactt works in both 'worlds'. We work with brands and companies to develop ethical trading strategies, providing business-focused advice and

training. Impactt is globally recognised for its innovative and successful work on the ground including in-depth worker interviews, ethical assessments, factory manager and worker training, practical remediation projects and in-factory consultancy. We believe that putting both of these worlds in touch with each other is in itself a powerful trigger for positive systemic change.

For any of our work to be successful, we believe that it must be founded on accurate diagnosis of the issues. Over the past couple of years, we have collected data from 166 work sites around the world, which give a picture of the experience of workers. Section 2 of this report sets out an analysis of these findings.

FIGURE 1: IMPACTT'S MODEL OF WORKING



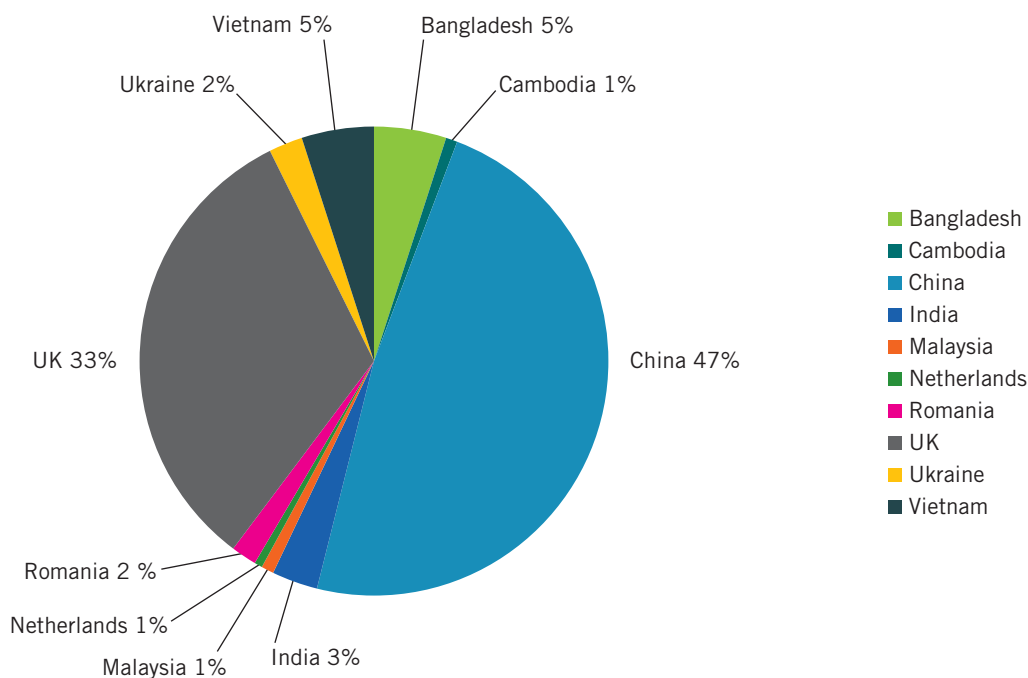
2. FINDINGS

Impactt has collected quantitative data from 129 of the production sites assessed between January 2006 and August 2007. These sites employ a total of 99,406 workers. Impactt's assessment methodology is focussed on accurate diagnosis of issues. All of the assessments in this data set have been conducted by a specialist auditor(s) working with specialist worker interviewer(s), who are always locally engaged. Some are even

former workers themselves. In some countries, we work with local NGOs to conduct worker interviews; in other countries we collaborate with social scientists. Unlike conventional audits, the assessments prioritise the testimony of workers, and focus on a forensic diagnosis of what is really going on in the workplace, and why. The data is composed of a mixture of announced and unannounced visits, with a range of on-site

and off-site worker interviews. Workers were also encouraged to telephone the Impactt team to discuss issues further after the assessments were completed. Workplaces were assessed against the ETI Base Code, ILO Conventions and local law. The team spoke to 1,379 workers (1.4% of workforce total): 52% were male and 48% were female.

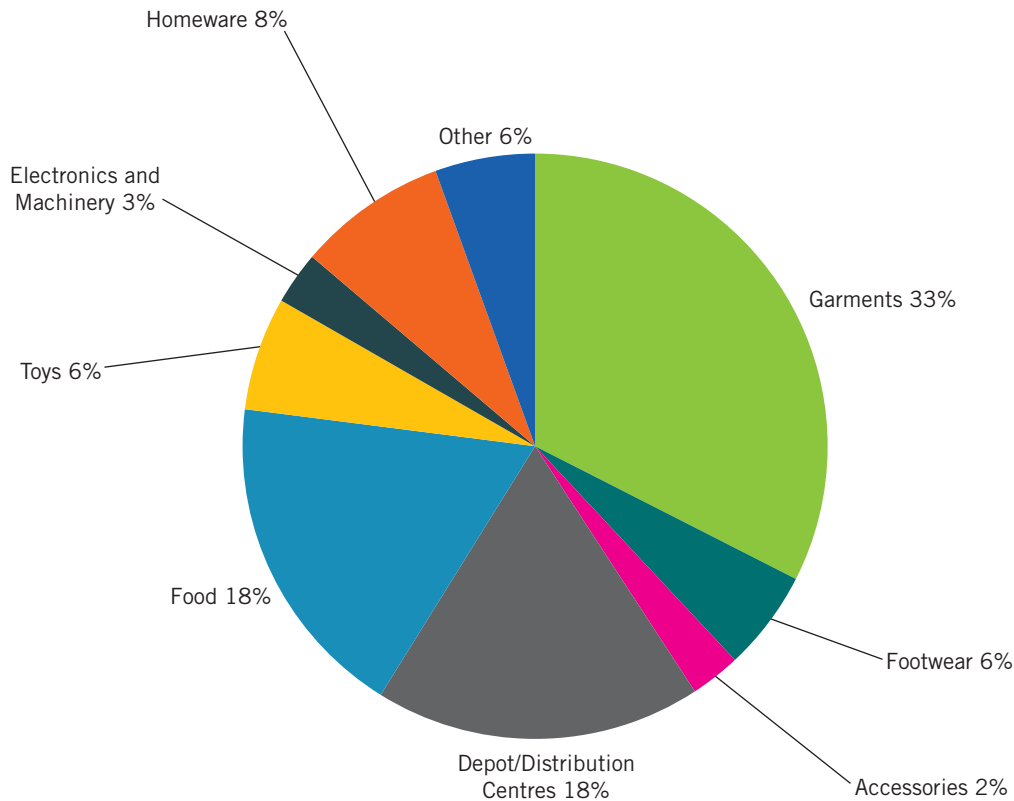
FIGURE 2: BREAKDOWN OF PRODUCTION SITE VISITS BY COUNTRY



A large proportion of these assessments took place in China and the UK, where Impactt has its main offices, but the data also includes visits in Bangladesh, Cambodia, India, Malay-

sia, Netherlands, Romania, Ukraine and Vietnam (see figure 2 above). The visits cover a wide-range of industries as illustrated in figure 3.

FIGURE 3: BREAKDOWN OF PRODUCTION SITE VISITS BY PRODUCT TYPE



Data Limitations:

- Data may over-represent the prevalence of issues since Impactt often visits workplaces, countries, and sectors where there are already indications that standards may be poor.
- The data is collected from relatively short assessments. In our experience, when we work with factories on a longer term basis, further issues and further complexities tend to emerge over time. This means that this data may under-represent the prevalence of issues.
- The prevalence of audit fraud (see p. 14) distorts the findings as we may have failed to identify all instances of document tampering. When audit fraud is successful, it will have hampered us from understanding the full scope of working practices.
- Impactt was unable to collect data on every issue at every visit we conducted. Therefore, figures are calculated based on the number of site visits for which we have data on that point/issue.
- We have not included health and safety concerns in the analysis. Health and safety issues were found at 100% of the sites visited, and range from severe life-threatening risks to relatively minor issues. We have not analysed them here since their prevalence would distort the importance of the rights based issues.



In this section, we present some of the key findings:

AUDIT FRAUD

The findings show that audit fraud is a significant issue. Of production site visits where data was recorded on audit fraud, 60% had double books. Double books seem to be particularly prevalent in China (78%), where factory managers have undergone a very high level of strict compliance auditing. Only Chinese

factories reported having more than 7 audits per year, and one factory reported having an average of 100 per year. However, Impactt also found double books in Bangladesh, India, Romania, UK and Vietnam. Of those factories which had double books, 80% had also coached workers. (Managers had coached workers in 42% of all site visits for which Impactt collated data on audit fraud). We have been able to identify coaching through a number of means. If the majority of

workers interviewed give short identical answers which support the letter of labour law and are unable to answer more circumstantial questions, we begin to suspect coaching. Workers often talk about coaching during off-site interviews, report that they are given financial incentives for lying to auditors, are regularly tested on their proficiency. We have also found coaching notes on a number of occasions.

“Of production site visits where data was recorded on audit fraud, 60% had double books”

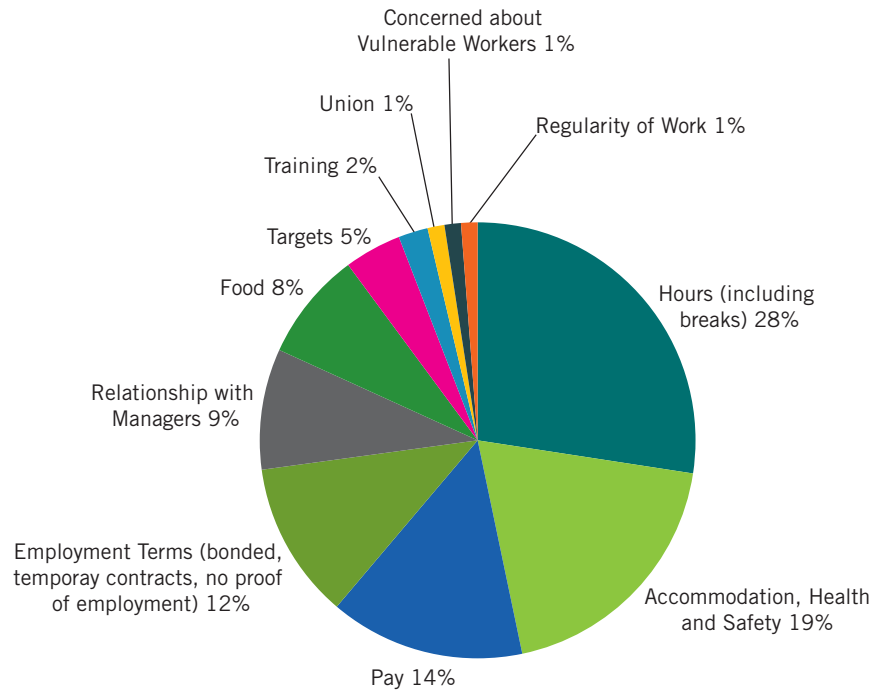
“Of those factories which had double books, 80% had also coached workers”



What is important to workers?

During the assessments, we asked workers to list 3 top issues which concerned them about their working conditions. The graph below shows the relative importance of issues to workers.

FIGURE 4: RELATIVE IMPORTANCE OF ISSUES TO WORKERS



The concerns of workers map relatively closely to the key issues identified by the assessments:

Workers' Key Concerns:	% of Sites Where Issue Found:
Working hours	74% worked more than ETI Base Code limits
Accommodation, H&S	Not analysed
Pay	60% failure to pay minimum wage for standard time
Employment terms	30% held deposits
Relationship with managers	36% harsh treatment/bullying

“Abusive or harsh treatment was found at 36% of the sites”

Working Hours

Workers at 74% of sites were working more than 60 hours per week on average (the limit set by the Ethical Trading Initiative’s Base Code 48 hours standard time + a maximum of 12 hours overtime). At 78% of the sites, workers were working more than the legal limit, per week or month, on average. At 13% of all the sites (and 24% of all visits carried out in China) workers were working more than 350 hours per month on average.

Wages

Workers did not receive the locally applicable minimum wage for standard time at 60% of all sites. In China, 84% of sites were not paying minimum wage for standard time. In many sites in China workers may take home a sum equal to the minimum wage, but this includes payments for overtime work. Failure to pay correct overtime premiums was found in 70% of the site visits globally. See Section 3 of this Report for case studies on increasing wages.

Half of the sites were levying financial fines on workers. This is widely known to be a serious issue in China (fines were used in 71% of Chinese sites for which this data was collected). Fines were also used in sites in Bangladesh, Romania, UK and Vietnam.

Forced Labour

The holding of financial deposits is a key issue which can bind workers to their employers, and is termed ‘forced labour’. A total of 30% of the sites visited held deposits. Although holding deposits is known to be a particular issue in China (44% of China sites held deposits), it

is certainly not exclusively so. In fact, deposits were found to be taken from workers in 23% of the UK site visits.

Harsh Treatment

Abusive or harsh treatment was found at 36% of the sites for which this information was available. In the UK, this figure was higher at 59% of sites. This generally tended to involve verbal bullying, shouting and harassment. Globally, 65% of multilingual/multinational sites had harsh treatment present, whereas harsh treatment was found in only 11% of sites with local workforces. Harsh treatment was found in 65% of sites where supervisors/middle management did not speak the same language as workforce, in contrast to 13% for sites where supervisors spoke the same language as workers.

The assessments found that bullying and shouting often result from a lack of understanding of both language and culture. There is clearly a need for improved communication and understanding between managers and workers. For details of Impactt’s work in this area please see section 3 of this report.

Freedom of Association and Collective Bargaining

The key to this situation can often be the degree to which workers are able to represent their views to management to discuss, negotiate, and resolve their concerns. 36% of sites assessed stated that they had a union. 50% of these were in China, and a further 12% in Vietnam, where the union would not be recognised as independent, democratic or free. At a further 6% of sites with unions, workers reported that the union was not active in

representing them or negotiating on their behalf on their conditions of work. These sites were in Romania and Ukraine.

At sites where the union would be categorised as independent, democratic and free, and where workers themselves said that the union represented them and was able to bargain on their behalf (in the UK, Romania and Cambodia), there appeared to be far fewer problems. There were no instances of coaching workers, levying fines, child labour, failure to pay the minimum wage, harsh treatment or failure to pay overtime premiums. Whilst working hours were longer than the legal limits and the standards set out in the ETI Base Code at 50% of sites within this category (as opposed to 59% and 65% of the 82 non-unionised or ineffectively unionised sites respectively), no effectively unionised sites worked more than 350 hours per month (versus 13% of non or ineffectively unionised sites).

In China, 39% of sites assessed had health and safety committees. In a context where independent trade unions are illegal, these legal groups of managers and workers are sometimes seen as a route for prompting more social dialogue in the workplace.

As the table on page 18 illustrates, our assessments found that in Chinese sites with a health and safety committee, the prevalence of pay below the minimum wage, child labour, incorrect overtime premiums, fines, abusive treatment, and harassment was lower. We found a greater prevalence, however, of extreme working hours in sites with health and safety committees.

“Deposits were found to be taken from workers in 23% of the UK site visits”

“Globally, 65% of multilingual/multinational sites had harsh treatment present, whereas harsh treatment was found in only 11% of sites with local workforces”

“In China, 84% of sites were not paying minimum wage for standard time”



Issue	% of sites in China with a H&S committee	% of sites in China <u>without</u> a H&S committee
Workers not getting national minimum wages in standard time	79%	82%
Child labour found	20%	27%
Not paying overtime premiums according to the law	85%	95%
Levy fines	65%	72%
Abusive treatment/harassment present	10%	30%
Work more than 350 hours per month on average	27%	18%

These findings may indicate that having a forum for discussion between workers and managers enables negotiation on some issues in the Chinese context. It may also indicate that factories with health and safety committees tend to have more enlightened management who are more likely to provide better employment conditions.

See section 3 for case studies on fostering worker committees in China.

Child Labour

60% of site visits showed that factories did not have a robust system of age verification. Child labour¹⁶ was found in 20%

of site visits. A total of over 400 children were found in Impactt visits between January 2006 and August 2007. Owing to the commitment of purchasers and suppliers in the supply chain, the majority of these children are now in school. Impactt has supported factories and our clients to find appropriate solutions in these situations, in order to prioritise the best interests of the children. For details of Impactt's work in child labour remediation please see section 3 of this report.

Casual/Temporary and Agency Labour

There has long been evidence that the proportion of temporary/casual and

agency labour can be an indicator that other issues may be present. The ETI's Impact Assessment confirmed this¹⁷. Impactt's data shows that on sites using temporary/casual or agency labour some issues, such as abuse, holding of deposits and child labour are more prevalent. Perhaps unsurprisingly, working hours appear to be less of an issue for sites using temporary, casual or agency workers. This may indicate that some sites are using these groups of workers effectively to keep the working hours of all workers within reasonable limits.

“[Chinese] factories with health & safety committees tend to have more enlightened management who are more likely to provide better employment conditions”

“60% of site visits showed that factories did not have a robust system of age verification”

¹⁶ Any person less than 15 years of age unless local minimum age law stipulates a higher age for work or mandatory schooling, in which case the higher age shall apply. // ¹⁷ Barrientos S & Smith S (2006) Report on the ETI Impact Assessment 2006, ETI & IDS, London

Agency Workers

Issue	% of sites with agency labour where issue found	% of sites <u>without</u> agency labour where issue found
Harassment/abuse found	56%	21%
Deposits held	32%	22%
Child labour found	20%	13%

Casual/Temporary Workers

Issue	% of sites with casual/temporary workers where issue found	% of sites <u>without</u> casual/temporary workers where issue found
Deposits held	36%	21%
Child labour found	40%	9%
Non-payment of minimum wage for standard hours	84%	43%

Impactt's work on improving conditions for agency workers is described in section 3.

“Working hours, wages and payment of overtime premiums appear to be the most prevalent issues with a worrying incidence of child labour”

“The issues are systemic and persistent”

CONCLUSIONS

The findings of Impactt's assessments over the past 18 months paint a mainly bleak picture of life for workers in many of the production sites we have visited. Working hours, wages and payment of overtime premiums appear to be the most prevalent issues with a worrying incidence of child labour.

It is unlikely that Impactt's assessments have spotted all of the issues that are present in reality at all of the sites, which would mean that our figures understate the position. Impactt's findings confirm that sites using temporary, casual or agency workers tend to have more problems with issues such as harassment, deposits and child labour,

It is also clear that managers are finding it challenging to manage the increasingly diverse, multi-lingual and multi-cultural workforce, resulting in a higher prevalence of reports of harsh treatment and abuse in these workplaces.

It should come as no surprise that there are far fewer serious issues in sites where there are independent, democratic and free trade unions, and where workers say that the union represents them effectively.

The penetration of such trade unions in the sites assessed, however, is disappointingly low. There is some indication that corporate efforts to encourage health and safety committees in China as a 'parallel means' for worker representa-

tion tend to be linked with lower prevalence of the most serious issues.

Major challenges remain in all countries and sectors where Impactt has conducted assessments. It is clear that the problem is not that there are a handful of 'rotten apples' polluting an otherwise clean supply chain. The issues are systemic and persistent. Creativity and commitment, from all parties, is required to tackle them.

In the next section of this report, we look at some of Impactt's work in finding practical ways to make progress with some of these intractable issues.



3. CASE STUDIES

This section presents 6 case studies that illustrate Impactt's work in the following areas:

- **Case Study 1:** Migrant and temporary labour.
- **Case Study 2:** Worker representation in China.
- **Case Study 3:** Tackling child labour in China.
- **Case Study 4:** Reducing excessive overtime.
- **Case Study 5:** Wages.
- **Case Study 6:** Managing ethical trading data – Sedex.

3.1 MIGRANT/TEMPORARY LABOUR:

3.1.1 THE ABUSE OF MIGRANT/TEMPORARY LABOUR: The Issue

More people are migrating for work, both internally and internationally, than ever before. These workers are an important aspect of the global economy not only in their host countries, but also for their home countries. In 2005, migrant workers sent home remittances estimated at US\$160 billion or US\$250 billion

including informal remittances¹⁸. Despite all the benefits of economic migration, there is a darker side to the phenomenon.

The tragedy at Morecambe Bay in the UK in February 2004 in which 21 Chinese migrants died picking cockles in treacherous tidal waters led to increased public awareness of the abusive employment relations and poor living conditions of many migrants working in the United Kingdom¹⁹. Many migrant workers are forced into debt or deceived about their situation. Undocumented workers (or those using false documents) are frightened that they will be arrested and deported. Migrant workers can be particularly vulnerable to abuse when they are completely dependent on one employer: the farm or labour provider that hired them. In some countries²⁰ this dependence is enshrined in law, so that migrant workers are not permitted to change employer, and if the employer is dissatisfied with a worker, the worker can be sent home without return travel expenses. This situation, whether or not it is allowed by national law, is tantamount to forced labour.

Migrant workers are also much more vulnerable to abuse in the workplace. They

are less likely to be confident about their rights and less likely to be able to organise or bargain collectively with management. There are also significant challenges in managing a multilingual workforce. Managers and supervisors who have no experience managing diversity are more likely to bridge the communication gap by resorting to shouting and bullying. Impactt's assessments of workplaces over the last 2 years have found bullying and harsh treatment of workers in 68% workplaces assessed with multilingual/multi-national workforces as opposed to 30% of workplaces with local workforces.

In Impactt's experience, it is necessary to convene a broad coalition of interests to tackle the abuse of migrant workers in supply chains, including government departments, trade unions, NGOs, retailers, labour providers/agencies and migrant and temporary workers themselves as well as police and local officials.

3.1.2 IMPACTT'S WORK ON MIGRANT/TEMPORARY LABOUR

Impactt has worked on the issue of migrant and temporary labour in a wide range of countries, including the UK, USA, Dubai, Turkey, China and Malaysia.

“In 2005, migrant workers sent home remittances estimated at US\$160 billion or US\$250 billion including informal remittances¹⁸”

“Migrant workers can be particularly vulnerable to abuse when they are completely dependent on one employer”

“It is necessary to convene a broad coalition of interests to tackle the abuse of migrant workers in supply chains”

¹⁸ *Ibid* // ¹⁹ Anderson B & Rogaly B (2005), *Forced Labour and Migration to the UK*, COMPAS & TUC pp. 68 // ²⁰ Impactt have found this to be the case in Malaysia and Dubai.

UKRAINIAN MIGRANTS WORKING FOR A UK-BASED AGENCY

One of the most serious situations Impactt has discovered involved migrant workers from the Ukraine working in the UK. These migrants had been recruited in the Ukraine by a known gangster, who was deliberately preying on rural Ukrainians with little English and education. The agent sold a dream of a new life in the UK and talked up the work and conditions. The migrant workers, however, were forced to pay £160 to the agent in Ukraine. When they arrived in the UK they were met by Iraqi middlemen who demanded they each pay a £300 introduction fee, in addition to an £80 deposit up front. The Iraqi middlemen housed these migrants in damp, overcrowded and dangerous accommodation, and contacted the local branch of an employment agency and negotiated work for the Ukrainians. The work was often cold and unpleasant.

The employment agency paid the Iraqi middlemen directly, leaving them to pay the workers, having taken a further cut. The middlemen ensured that the migrants never accumulated sufficient work to pay off their 'debts' (rent, introduction fee, etc.) the workers 'owed' them. This was all happening under the noses of the local branch of the employment agency. The agency had excellent policies at a national level, but these were not implemented at a local level. Whilst in many cases, workers often have to work excessive hours, this case shows that too few hours can keep workers in exploitative conditions as well.

Working with the supply chain, Impactt negotiated for these migrants to be taken on as permanent direct employees at the factories at which they were working. They were moved into safer accommodation and all their ties to the Iraqi middlemen were broken.

TEMPORARY LABOUR WORKING GROUP (TLWG) – Working to Develop Statutory Regulation

It is extremely unusual for a multi-stakeholder initiative, including industry and trade union partners, to jointly and unanimously call for statutory regulation, and to work together to develop a statutory regulatory framework. The corporate sector tends to prefer voluntary initiatives, but, in the case of the abuse of migrant labour, all parties agreed that, whilst a voluntary scheme was useful in preparing an industry for regulation, only the government could effectively regulate the sector.

In September 2002, The Ethical Trading Initiative (ETI) convened a Working Group to address labour conditions for seasonal and foreign labour in the UK Food Industry²¹. The TLWG was a broad coalition of retailers, food manufacturers, growers, trade unions, and labour providers with the participation of government departments. Its aim was to create a process to filter out unscrupulous gangmasters and legitimise good ones, thus ensuring good agency employers were not undercut by unfair competition. Impactt was appointed by the ETI to establish and manage the registration and audit programme and to run the TLWG Secretariat.

The Gangmasters (Licensing) Act was passed in July 2004 and the Gangmasters Licensing Authority (GLA) was established 1 April 2005 and with the authority to start issuing licenses on 1st April 2006. From 1st October 2006 it became illegal to supply workers to the agriculture, horticulture, forestry, shellfish gathering and food processing and packaging sectors without a GLA licence.

The TLWG focussed its resources on supporting the GLA to develop a credible statutory licensing scheme covering the whole of the food industry. The find-

ings of the TLWG audits were helpful in demonstrating that there was ongoing serious abuses of temporary, seasonal and agency workers across the entire food industry. The 459 TLWG audits (the largest ever survey of conditions of agency workers in the food industry) found a total of 1,998 non-compliances. Of these, 140 were defined as critical, 1,316 as major, 169 as reportable and 363 as correctable. This was particularly alarming since the audits only covered businesses willing to be audited voluntarily. It is therefore likely that the findings of TLWG audits under-reported the number and severity of non-compliances that existed across the sector. The audits showed that 4% of businesses audited were failing to pay the minimum wage, 1% were using debt bondage, 1% did not allow workers to leave without a penalty, Confidential reports showed a further 19 instances of forced labour

These audit results enabled the TLWG to press the government to ensure that the statutory licensing scheme covered the whole food industry. The activities of TLWG provided useful and practical learning for the GLA and are now the foundations upon which the statutory scheme has been built.

Because of the preparatory work done by the TLWG, the GLA has been able to establish itself and began inspection and licensing activities in the food and agriculture sectors much earlier than would otherwise have been possible. This was acknowledged by the then Parliamentary Under-Secretary, Department for Environment, Food and Rural Affairs, Lord Bach, in March 2006: "The very valuable work done by the Ethical Trading Initiative Temporary Labour Working Group to develop a voluntary code of practice, has helped ensure the early introduction of licensing for labour providers operating in the farming and fresh produce supply chain."²²

²¹ Harrison, D (2006) *The journey to licensing: The experience of implementing a voluntary code of practice in the UK agricultural industry (2004-2006)*, Temporary Labour Working Group, London p. 44 // ²² HL Deb (2006) *The Gangmasters Licensing (Exclusions) Regulations 2006*, Hansard 13th March 2006

FIGURE 5: MULTI-STAKEHOLDER APPROACH TO AGENCY LABOUR IN THE UK



MIGRANT LABOURERS IN MALAYSIA

What We Found

Foreign workers are used extensively in Malaysia to service the low-skill end of manufacturing, plantation work and domestic service. There is a legally mandated application process for foreign workers. According to some estimates, however, over 1 million Indonesians are currently working in Malaysia illegally - the largest illegal migration after the migration over the U.S/Mexican border²³. According to Malaysian law, a worker cannot leave his employer to find work elsewhere in Malaysia and workers' flights home are paid by the employer. This situation effectively bonds workers to one employer. As a result workers are

not able to freely leave their work, and seldom question their working conditions or go to the authorities. Foreign workers are often viewed as 2nd class citizens by local Malaysians, and are not well integrated into society.

What We Did

In 2006, Impactt was commissioned to work with a supplier factory using agents in Malaysia. Impactt discovered that the agents were using illegal foreign workers. Impactt also discovered that the agents did not know about their legal obligations towards these workers and that the conditions for workers provided by agencies were worse than for other workers in factory.

- Most worryingly, there were no

employment contracts between the agents and the workers.

- Agency workers were working excessive hours – 16 hours common with instances of 25 hour shifts.
- The labour providers had weak ID checks and age verification.
- Cleaners had not been paid for 3 months, many of them were starving. The only meal they got every day was given to them by kitchen staff, who gave them food out of kindness.

Impactt worked with the factory and the purchaser to develop a strategy for improving the conditions for agency workers at the factory. Impactt discovered:

- All the agents had different competencies and attitudes to change.

²³ Liow J C (2004) *Malaysia's approach to its illegal Indonesia migrant labour problem*, paper presented at the IDSS-FORD workshop on Non-traditional security in Asia, Singapore, 3-4 Sept 2004

One agency was run by Chinese management with an autocratic approach. The second agency had a number of young managers who had been educated to MBA level and were open to change. The third agency openly admitted there were illegal workers working for them, however they argued 'at the prices negotiated what did the factory management expect?'

- Impactt discovered that there had been very little discussion between the procurement department at the factory and the HR team.
- Contracts had been negotiated on price with very little regard for the needs of the agency labourers.

THE OUTCOMES

As the direct result of the Impactt visit to assess the labour standards of 3 agencies in a factory:

- Workers hours were reduced to 12 hours per day (previously as high as 16-25 hour shifts)
- Workers were paid the legal overtime premiums for the last 4 hours of the 12-hour shift (previously no over-time premium was paid).
- Contracts between the factory and the agencies were re-negotiated based on new cost structures which allowed the agency to pay workers a living wage and the correct benefits and overtime premiums.
- The worst performing agency is no longer used.
- The cleaning agency is no longer used as they had not paid foreign workers for over 5 months. To ensure these workers were paid their out-

standing monies, the factory withheld the last month's payment to the agency until they received confirmation that the workers' wages had been paid in full.

CHALLENGES AND LIMITATIONS

The abuse of migrant and temporary labour is a systemic issue. Impactt's work in this area has highlighted some instances of abuse, and worked on some solutions. However there are enormous challenges for governments, commercial organisations, trade unions, agencies, workers and campaigners to overcome these problems.

3.1.3 WHAT SHOULD BE DONE?

What Purchasing Companies Should Do:

- Ensure that the company code explicitly covers agency workers as well as workers employed directly by farms or factories.
- Ensure that staff responsible for labour standards in supply chains are aware of the issues related to migrant and agency workers.
- Make sure the company is aware of the relevant local laws relating to migrant and agency workers.
- Introduce worker rights training delivered by an independent third party.

What Production Sites Should Do:

- Understand all applicable laws and make sure that workers' conditions meet them.
- Ensure that agencies or their counterparts do not charge workers a

'finder's fee' and that workers are not in debt to the recruiting company.

- Ensure that there is a contract in place with each labour provider which requires them to pay workers at least the minimum wage after all deductions.
- Check that labour agencies or crew bosses are not taking deposits or other deductions from workers' salaries.
- Use anonymous questionnaires to ask workers what they think of their agencies and their working conditions.
- Make sure that there is a complaints procedure in place that workers know about, so that they can let you know if they are unhappy about their supervisors or about any of their working/living conditions.
- Train supervisors and managers and let them know what behaviour is and is not acceptable. This training should include guidance on avoiding intimidation, threats, sexual harassment, discrimination etc. If company policies are violated, staff should be disciplined through an appropriate formal procedure.
- Check that hours recorded are accurate and that workers are being paid fairly for all hours worked.
- Make sure that water is provided to workers while they are working and that bathrooms are accessible from all places of work.
- Look again at housing and health and safety conditions. Is there anything that could be improved to protect workers health and make them more comfortable?

“According to some estimates, however, over 1 million Indonesians are currently working in Malaysia illegally - the largest illegal migration after the migration over the U.S./ Mexican border²³”



3.2 WORKER REPRESENTATION IN CHINA: ‘Empowering Workers To Help Themselves’ Building Capacity

3.2.1 WORKER REPRESENTATION IN CHINA: The Issue

Many have commented that China’s growth has been fuelled by long working hours, poor working environments and low pay. In some factories Chinese labour groups have noted that workers are beginning to resent the conditions and long hours. In recent years there have been growing numbers of reports of worker unrest, labour disputes, walk-outs and law-suits. This is making it difficult for some factories to recruit workers, leading to labour shortages in some areas. Some factory managers have now identified the need to experiment with ways of communicating more effectively with workers and understanding their point of view in order to be able to attract and retain workers.

As the data in Section 2 of this report makes clear, production sites with independent, democratic and free trade unions which workers feel represent them effectively tend to have far fewer labour standards issues than non-unionised sites or those without effective unions. In China, where freedom of association is restricted by law, workers are unable

to join or form trade unions which are not affiliated to the All China Federation of Trade Unions (ACFTU), which is effectively closely linked with the Communist Party. Such unions cannot be said to be independent or free from interference. In the past few years, foreign firms such as Walmart have been under great pressure from the Chinese government and the ACFTU to set up unions in their retail stores. Walmart received loud international applause in 2006 when it agreed to establish unions in China, however, critics continued to question the authenticity and effectiveness of these unions.

Buying firms rarely request suppliers establish unions and it may be that in light of other issues, companies do not prioritise or understand the inter-connectedness between freedom of association and collective bargaining and other issues, such as wages and hours. In 2001, Reebok pioneered the first international supply chain experiment project regarding union establishment by implementing free elections and capacity building in its supplier factories. The Reebok project demonstrates that supporting unions is a strategic means for advancement of core international labour standards like freedom of association and collective bargaining.

With the exception of pilot projects such as Reebok’s, the majority of work on freedom of association in China has focused on fostering ‘parallel means’ for independent, free association and collective bargaining. For example, efforts to support the formation of health and safety committees. Impactt’s findings (section 2 of this report) indicated that pay below the minimum wage, child labour, incorrect overtime premiums and fines, and abusive treatment and harassment were less prevalent in Chinese factories with a health and safety com-

mittee. Despite the fact that these communication channels are not officially recognised unions, they have proven to function effectively as a forum for discussion between workers and managers, and serve to facilitate negotiations. The research findings may also indicate that factories with health and safety committees tend to have more enlightened management teams who are more likely to provide better employment conditions.

3.2.2 IMPACTT’S WORK ON WORKER REPRESENTATION IN CHINA

Impactt has worked with several factories in China to establish committees with elected worker representatives. Impactt does not view these committees as replacements for unions, but as a starting point for establishing a dialogue between workers and managers to enable a more effective union operation.

Impactt’s model of change is to build platforms and capacity for both managers and workers to communicate in more effective and constructive ways. Impactt has supported the establishment and capacity building of elected worker representatives on skills and knowledge to address various issues, and has also provided training to managers and supervisors on how to work constructively with elected worker representative committees. The results illustrate that in addition to empowering workers, these representation projects can enlighten management about the benefits of worker organisation whilst easing their concerns. Furthermore, Impactt’s findings confirm that there is indeed a business case for international companies and supplier factories to support the establishment of unions and worker committees, where collaboration

“In addition to empowering workers, these representation projects can enlighten management about the benefits of worker organisation whilst easing their concerns”

between management and workers can operationalise workplace improvements.

Figure 6 illustrates that dialogue between workers and managers in factories is primarily top-down; opportunities for workers to voice grievances or communicate problems upwards remains uncommon. By helping managers and workers establish accountable and transparent committees, workers are provided with an opportunity to express their grievances and inform management of particular problems. In order for the benefits of the committee to become realised, however, grievances should be properly addressed and followed up.

Health And Safety Committee Case Study

Between 2006 and 2007, Impactt worked with a factory on a health and safety project to support the establishment and capacity building of committee members. The committee was comprised of 7 managerial staff, 7 worker representatives, and 7 'back-up' worker representatives who were to replace the worker representatives in the case that original members left the factory. All committee members, including the back-up worker representatives participated in the training program conducted by Impactt.

Impactt provided guidance on the composition, establishment, roles and responsibilities of the committee members, and also delivered training sessions to develop their technical knowledge on health and safety, including but not limited to chemical safety, machine safety, PPE, protection of vulnerable workers, conducting accident investigations, risk assessments and regular inspections, and communication skills to discuss issues.

Project results include:

- Establishment of a reasonably effective H&S committee. The committee developed the capacity to conduct risk assessments, inspection and accident investigations,

discuss issues, make recommendations, and follow up on improvement actions.

- Heightened worker awareness. A training plan developed by the committee revealed that the factory delivered training to workers on fire safety, machinery safety, chemical use, and even organised a series of H&S competitions to promote awareness amongst workers. As a result, when the committee involved workers from production lines to identify the daily hazards they faced at work, some workers were able to rate hazards effectively.
- Significant reduction in the number of accidents. The number of accidents requiring offsite treatment per quarter decreased from an average of 8-13 cases to 4 cases in the last quarter of the project's duration. This improvement was largely due to proper accident investigation, and the implementation of preventive measures.
- Improvement in general H&S conditions. This included the installation of machine safety guards, better management of fire risks, and improved temperatures in some production areas due to the installation of more fans and air-conditioners, etc.

At the project's close, there were still many H&S issues to be addressed in the factory, but the project launched a journey of continuous improvement, wherein workers became equipped with the necessary technical knowledge and skills to identify workplace issues, voice their concerns, and work with management to make recommendations for improvement.

During the project, several labour issues were noticed and voiced by worker representatives. Whilst management has addressed some concerns, core labour issues, such as reducing working hours and fines, have yet to be tackled. The factory does not, however, have pay-related issues because previous work and training with Impactt had already

addressed legal standard wages and overtime premiums.

WORKER COMMITTEE CASE STUDY

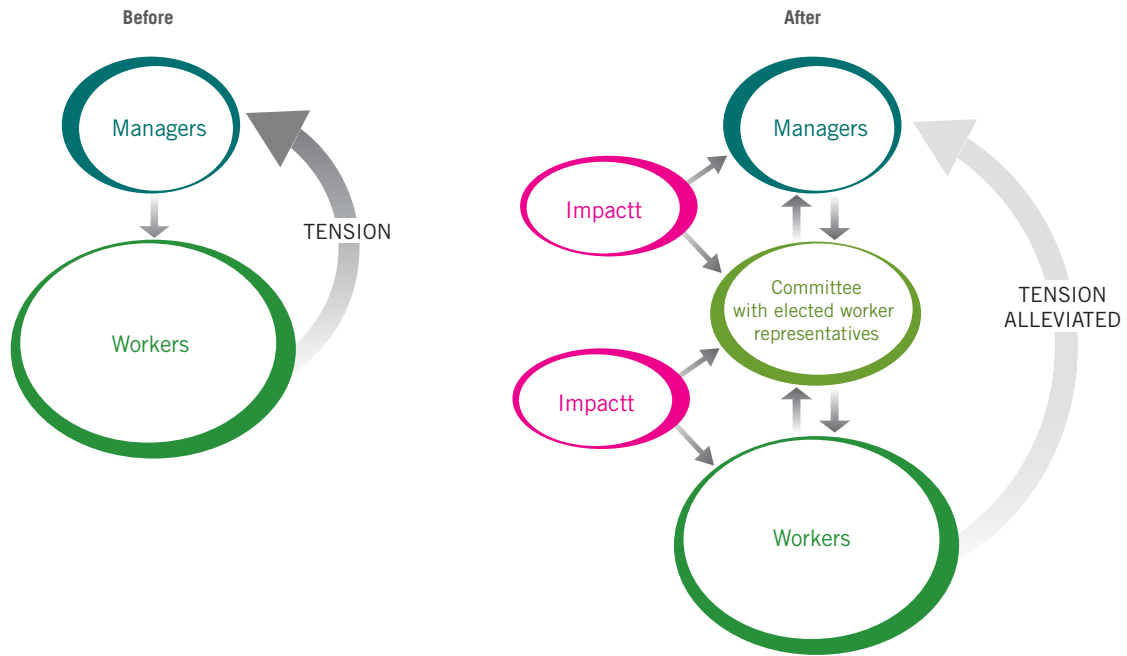
In 2007, Impactt worked with a factory in South China to support the establishment of a worker committee with 9 committee members who were all elected worker representatives. Impactt liaised with factory management on the election process, the roles and responsibilities of the worker representatives, as well as the operational mechanism of the committee, including communication channels and ways of working. A series of training sessions were delivered to the committee, including topics such as communication and bargaining skills, transparent and accountable operations, the identification of problems, supporting workers, developing work plans, and labour law knowledge.

Committee members voiced their concerns to management and some were positively actioned:

- A new canteen was built and food quality was improved.
- Electricity sockets for recharging cell phones were installed.
- More water taps for washing clothes in the dormitory were installed.
- A book corner with newspaper and magazines was set up.
- Health checks were arranged for workers working in hazardous positions.
- Mosquito repellents were sprayed more frequently.

The factory responded to livelihoods and health and safety concerns, however, improvements to worker concerns on core labour issues such as pay, overtime premiums, working hours, and wage transparency were not addressed.

FIGURE 6: ENABLING WORKERS TO HELP THEMSELVES



CHALLENGES AND LIMITATIONS

Managers are often suspicious about perceived consequences of worker organisation. As a result, many get too involved in the election process and operations of the committee. Thus, particular attention needs to be paid to addressing concerns and ensuring that a transparent and fair election is organised.

Impactt's experience validates that worker representation bodies have helped bring about positive change in workplace conditions. These changes, however, are often limited to aspects regarding health and safety, and livelihoods, because although worker representation can equip the committees with the necessary skills and courage to raise issues with management, their concerns on basic rights like pay and hours are often not properly addressed by management.

Factory owners and managers state that short lead times and ever-lowering order prices make it difficult for them to address core labour issues. Impactt understands these concerns but believes that it takes the right mindset and awareness about legal responsibilities

by production site owners for changes in core labour issues like pay and hours to be really possible.

Support and pressure from buying companies is an important driver of change on this front because these companies can increase legal awareness, support, and equip workers with needed knowledge and skills to assert their rights. This will further serve to remind factories of their legal obligations in their country of operation.

There is a risk that worker representatives may encounter considerable pressure from management when they raise core labour issues such as pay and hours. To overcome this, worker representatives and project organisers must maintain contact with the rank and file of the workforce. This serves to remind the worker representatives of their accountability their constituency (i.e. other workers), and also help alleviate the pressure imposed on them by management.

Another key concern is whether or not worker committees can function effectively when project organisers or buying companies leave their factory. Without

continued support, it is a challenge for committees to maintain their momentum to negotiate effectively.

Worker organisations should be empowered by workers' solidarity, and it is important that worker representatives remain empowered to seek support and be accountable to their fellow workers; worker representatives must be able to rely on their own membership as a source of power and sustained support. In the context of China, support from international buying companies is also crucial to creating a space for workers in their production sites to organise themselves and be able to voice their concerns to factory management.

These types of projects have met difficulties and have not achieved complete success. However, they have successfully demonstrated the positive impact and change that worker participation can generate for workplace conditions. These are beneficial to both the workers and the factories. These projects further demonstrate the important role that buying companies can play in empowering workers, and helping their production sites begin a journey towards internationally recognised workplace norms.

“These projects further demonstrate the important role that buying companies can play in empowering workers”

“Worker organisations should be empowered by workers' solidarity”

3.2.3 WHAT'S TO BE DONE?

What Production Sites Should Do:

Where freedom of association is not restricted by law:

- Sign access agreements with trade unions allowing union organisers access to employees during working time to discuss trade union membership.
- Sign a 'non-interference guarantee' formally committing:
 - Not to victimise employees or trade union organisers approaching other employees to talk about the benefits of trade union membership.
 - To permit the formation of an organising committee without hindrance or victimisation.
- Distribute copies to all workers in the appropriate language and send a copy sent to purchasers and local unions.

Where freedom of association is restricted by law:

- Think about how independent worker representation bodies could be an effective means for creating better dialogue between workers and managers.
- Set up an independent worker representation body as a means to create effective dialogue between workers and managers.
- Ensure any worker committee is transparent and accountable to workers.

What Purchasing Companies Should Do:

- Work to raise factory managers' awareness of your company's values and expectations.
- Introduce worker rights training delivered by an independent third party.

Where freedom of association is not restricted by law, encourage suppliers to:

- Sign access agreements with trade unions allowing union organisers access to employees during working time to discuss trade union membership.
- Sign a 'non-interference guarantee' formally committing to:
 - Not to victimise employees or trade union organisers approaching other employees to talk about the benefits of trade union membership.
 - To permit the formation of an organising committee without hindrance or victimisation.

(These would need to be distributed to all workers in the appropriate language and a copy sent to purchaser and local unions.)

Where freedom of association is restricted by law:

- Encourage factories and suppliers to develop independent worker representation bodies.



3.3 CHILD LABOUR: ‘Engaging The Influencers Of Change’

3.3.1 CHILD LABOUR: The Issue

The International Labour Organisation (ILO) reported in 2006 that there were 218 million children working worldwide and that 126 million of these were working in hazardous conditions. The elimination of child labour is a daunting challenge, but the report identified a number of positive trends²⁴ in the fight against child labour. The 2004 figures represented an 11% decrease in the total number of child labourers since 2000 and a 26% decrease for children working under hazardous conditions. The ILO felt that since 2000, there had been a sea-change in the levels of awareness of child labour which reflected a major political consensus on the issue.

Despite these wider trends, Impactt has found an increasing number of instances of child labour. This could be because the techniques we use to find child labour have improved, or it could indicate an increase in the incidence of child labour in the types of sites we visit. As discussed in section 2, we have discovered child workers in 20% of site visits worldwide, across a variety of contexts and industries.

Impactt’s priority in remediating child labour is to act in the best interests of the child. When child labour is discovered it is important not to act impetuously as this may leave children worse off than before. We employ a model that identifies and maps the situations and perceptions which perpetuate child labour. There are many groups of people or **‘influencers of change’** involved in a child labour situation. Factory managers may be allowing children to work in their factory because they do not have the right human resource monitoring, or they may employ children because they are cheaper and less likely to cause trouble. Parents might want their children to work because they can supplement the family income. Children themselves may feel that school is not engaging, they may not be used to the discipline of studying. There are obviously other influencers of change including governments, but as yet those influencers have been outside of the work Impactt has carried out on this issue.

We then identify all the different stakeholders involved and seek to understand what their **‘triggers for change’** are. Trig-

gers for change are about deep-seated values. i.e. what triggers people to do what they do. If Impactt can convince people that a new behaviour is more in-line with their deep-seated values than an old set of behaviours, people may choose to adopt the new behaviour. In the situation of child labour, if we can tap into these triggers and show them that their values can be satisfied by children going to school rather than working in hazardous conditions, then change is likely to occur. For example, one ‘trigger for change’ for parents is ‘wanting the best future for their children’. If parents cannot afford to send their children to school they may decide that it is better for their children to work. However, if children’s education is subsidised and if workshops can persuade them that a better future can be achieved better by sending their children to school rather than working in a factory, then they will support change. The diagram on p. 33 sets out some sample ‘influencers’ and their ‘triggers of change’

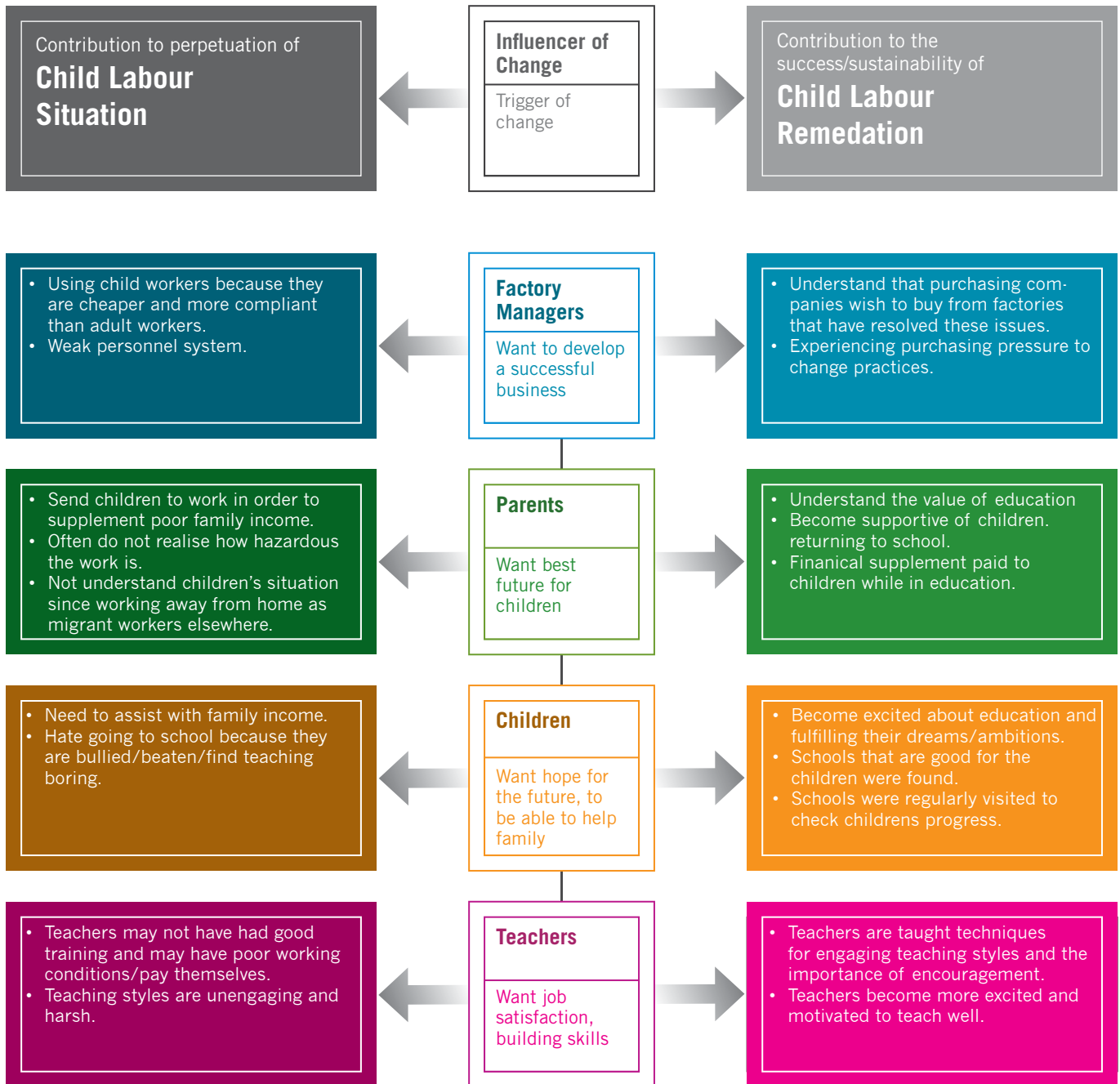
“We employ a model that identifies and maps the situations and perceptions which perpetuate child labour”

“We have discovered child workers in 20% of site visits worldwide”

²⁴ ILO (2006) ‘The end of child labour: Within reach’, ILO Geneva, p. 104



FIGURE 7: IMPACTT'S MODEL OF CHANGE – INFLUENCERS OF CHANGE, TRIGGERS OF CHANGE



By engaging with the 'triggers of change' for each group of influencers at every stage and working to create new incentives Impactt has initiated behavioural change that are long-lasting and sustainable.

“By engaging with the ‘triggers of change’ for each group of influencers at every stage and working to create new incentives Impacttt has initiated behavioural change that are long-lasting and sustainable”

TACKLING CHILD LABOUR IN CHINA

In February 2006, Impacttt first visited a factory on behalf of a UK client to verify whether the factory had addressed the issue of child labour, which had been previously discovered by an agent.

During Impacttt’s visit, children were again found working in the factory. Impacttt realised that more than one customer was buying from this factory, and with the support of the Ethical Trading Initiative (ETI), brought together a group of companies all buying from the factory. Impacttt worked with the factory, with the support of UK clients, to address the issue, and make changes to ensure that the factory remained child labour-free.

The issue was extremely sensitive and had to be handled carefully to ensure, on the one hand, that children’s lives were changed for the better and on the other that retailers did not pull out of the factory immediately. Impacttt’s work included:

- Verification of the number of children.
- Selection of a suitable local school(s).
- Visits to villages of the children to understand the underlying issues.
- Liaison with factory management.
- Workshops with children, teachers and parents to persuade each party of the benefits of children returning to school.
- Monitoring the education programme in school.

Concurrently, Impacttt also conducted training for factory management, helped to build up internal systems and conducted many workplace inspections to prevent future recruitment of child labour. Due to the large number of children involved and the complexities of the local context, the process was challenging. New schools were found for the children, support was given to the parents so the children could go to school. The children’s progress at school was regularly reviewed. Despite some significant success there were problems. Many children did drop out of school. Some parents were very supportive of their children’s education. However, others were worried about whether their children were really learning anything or were just wasting their time.

As Figure 8 illustrates, one girl, although not entirely happy with her new school wrote to Impacttt to express her thanks and determination to have a “better tomorrow”. Another 15 year-old boy wrote how happy he was about to be attending school again.

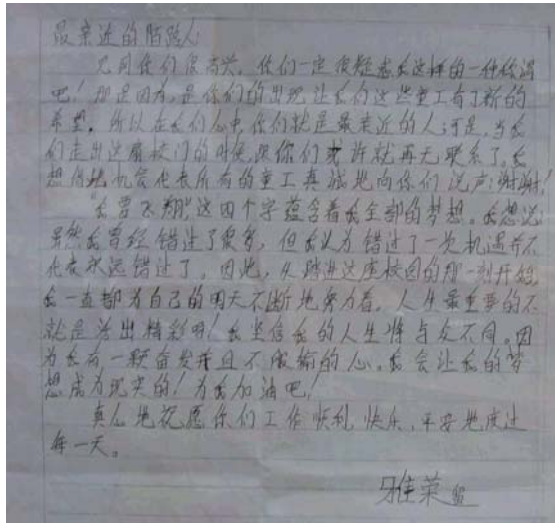
TURKEY CHILD LABOUR CASE STUDY

Whilst conducting an ethical assessment on a clothing factory in Turkey in 2006, Impacttt found 12 children working the same hours as the adults, sometimes up to 13 hours a day, for slightly less pay. As with all cases of child labour, Impacttt responded immediately and sensitively to the needs of these workers. Impacttt interviewed the children and their parents at home to understand what had led to the children working at the factory and then devised a plan to respond to their needs.

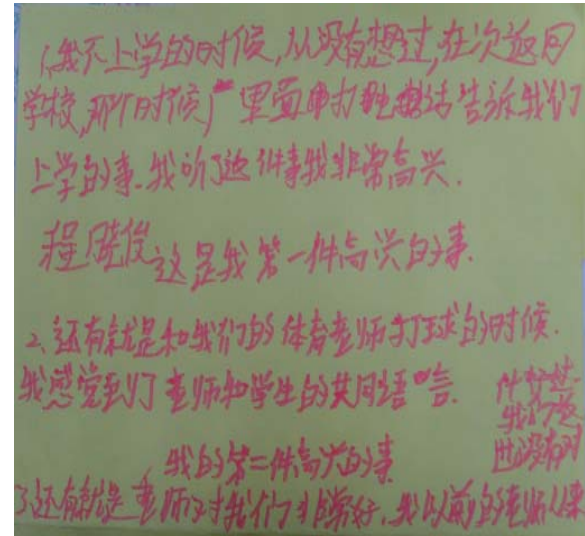
THE CHALLENGE

- The children were aged between 8 and 13, most were Turkish, but several were from Azerbaijan. All had a parent, or a brother or sister working at the factory.
- Many of the parents said they felt they had to take their children into work with them, not wanting to leave them unsupervised at home. Several of the families were immigrants from Azerbaijan and had no extended family or other options for childcare.
- The children could not be sent to the Turkish state schools because they were either too far behind in their work or because they were from Azerbaijan and could not speak Turkish.
- All the children were working out of necessity in order to support their families. Several of the parents were unable to work themselves and so relied on income from the other members of the family.
- Both the parents and the children themselves wanted to continue their education, but needed to balance financial concerns with the benefits of education.
- In order to ensure that children remained in school and did not go back to work elsewhere, it was vital that a living subsidy was paid to the families, a figure equivalent to the wage that the children were earning at the factory.

FIGURE 8: LETTERS WRITTEN BY CHILDREN PARTICIPATING IN THE CHINA LABOUR REMEDIATION PROJECT



Dear closest strangers,
 I really want to thank you sincerely on behalf of all child workers, let me say to you: thank you!
 “I want to fly” – these four words embodied all my dreams. Therefore, ever since I walked into this school, I have always been working hard for a better tomorrow. I believe my life will be a different one, because I have a strong heart – I won't give in. I will realise my dream!
 Cheer for me!
 Sincerely, I wish you all the best for your work,
 From Yarong



A 15-year-old boy wrote about the things he feels happy about:

- I was happy when I knew I could go back to school.
- I feel great when playing ball with my physical education teacher.
- Teachers have been very good to us. I never met such good teachers before.

WHAT IMPACTT DID:

The children's education level and needs were assessed to understand the type of education they required. Impactt consulted with the client on the best approach and engaged with factory management. The factories were asked to sign an ethical commitment pledging that they would not hire any underage workers in future and would pay a stipend equivalent to the wages they had been earning to all the children who had been working at the factory until they reached working age. Impactt assisted the factory to establish its own age verification system for all new hires and existing workers, and also helped the client's local sourcing office with their factory monitoring systems and remediation systems. The retailer and supplier agreed to share the costs of the children's education and their local sourcing office took over the supervision of the remediation.

OUTCOME

- By April 2007, with Impactt's assistance, the client had set up a classroom in Istanbul with 3 teachers focussing on a variety of subjects to keep the children engaged.
- The school now provides full-time education, 5 days a week, for the children. They continue to be paid the same monthly wage from the factory so that they can contribute to their families' income while investing in their future earnings by receiving a proper education.

CHALLENGES AND LIMITATIONS

Impactt's experience with child remediation has not always been successful, there have been failures and difficulties too, not all children want to return to school. Keying into child workers' 'triggers of change' can be difficult.

- They may face pressure or threats from family members to continue working.
- Returning to school can be intimidating.

3.3.3 WHAT'S TO BE DONE?

What Production Sites Should Do To Tackle Child Labour:

- Earnestly try to recruit workers above the legal minimum age.
- Develop better documentation checks to ensure workers are old enough to work in factories.
- Develop Human Resources policies covering minimum ages and provide support for HR policies.
- Ensure supervisors are aware of the factory's policies and understand the rules governing minimum age.
- If child labour is found do not dismiss the children but take expert advice on a solution which is in the best interests of the children.

What Purchasing Companies Should Do:

- When child labour is found in a factory, don't panic!
- Don't drop the factory as a knee-jerk reaction.
- Put the welfare of the child first.
- Work with local experts to develop a sustainable plan for the education and support of each child, consulting with parents and children.
- Keep on managing the situation to ensure that children stay at school.
- Work with suppliers and factories to make sure that systems are tightened to ensure that children are not hired again.
- Set up a fund for supporting children's education in the communities in which factories are based.



3.4 OVERTIME: 'Tackling Root Causes'

3.4.1 OVERTIME: The Issue

Working excessive hours is one of the most common labour standards problems across the world. Impactt's data found that workers were working more than the legal limit at 78% of the sites we assessed globally. In China, at 86% of sites workers worked more than 60 hours per week, and at 24% of sites more than 350 hours per month on average. This is the equivalent of 12 hours per day or 80 hours per week with no days off in a whole month.

This situation is driven by a combination of factors both external and internal to the factory including:

- **External factors:**
 - o Seasonality.
 - o Purchasing practice.²⁵
 - Shortening lead times.
 - Delays in sample approval and sign off.
 - Last minute changes in volume or specification.
 - Purchasers' failure to understand production capacity of suppliers.
 - o Late delivery of raw materials.
- **Internal factors:**
 - o Poor critical path management.
 - o Poor production management.
 - o Low productivity.
 - o Low efficiency.
 - o Poor human resources management.
 - o High worker turnover.
 - o Taking on too many orders.
 - o Low pay – workers are often complicit in encouraging long hours since they cannot earn enough to meet their needs in normal time.

Impactt's experience has found that these factors are created by a vicious circle that perpetuates excessive overtime (figures 9 and 10).

“Impactt's data found that workers were working more than the legal limits at 78% of the sites we assessed globally”

The vicious circle displays how a large numbers of new styles, tight lead-times, quality input problems and ordering delays as well as downwards pressure on price, leads to a system of long hours with low pay, high worker turnover and low-skill workers. This is a difficult circle to break but productivity training and improvements in human resources at a factory level, supported by buyers at a retail level, can mitigate the effects of this vicious cycle and factory performance can be improved.

3.4.2 IMPACTT'S WORK ON OVERTIME

Impactt's approach for tackling excessive overtime has focused at the factory level. We have worked to identify the root causes and develop a series of incentives to improve factory performance in these areas. The emphasis is placed on supporting change rather than demanding instant improvements, and developing business inputs including: productivity training, human resource management training and improving communication. Change has to be practical, accessible and have a business focus.

“Change has to be practical, accessible and have a business focus”

IMPACTT OVERTIME PROJECT²⁶

The Impactt Overtime Project conducted from 2001 to 2004 – developed in association with 11 purchasing companies, 9 factories in China and a range of local project partners in Hong Kong and mainland China – has demonstrated that in certain circumstances it is possible to reduce excessive overtime working without reducing workers wages or factory profitability.

At the beginning of the project, an in-depth evaluation of labour practices was carried out based on a detailed inspection of the site, interviews with management, review of records and worker interviews carried out by independent researchers from local organisations. These visits not only aimed to understand the issues faced by the factories but also to grasp some of the root causes and factors that were perpetuating the situation.

Once the issues had been clearly identified, Impactt developed a series of business-related inputs designed to address these root causes. Local organisations participated in the project to provide inputs to support improvements in each factory. The first of these was training in productivity from locally based industrial engineers. This involved a visit to assess the factories' current production methods and recommendations for improvement followed by a group training session with other factory managers. In some of the factories they experimented with:

- Developing an industrial engineering department which oversaw production analysis, line-balancing and target setting.
- Increased numbers of production meetings aimed at strengthening communication.
- Working with merchandisers to develop better understanding of customer needs.

²⁵ See Oxfam (2004) *Trading Away Our Rights: Women in Global Supply Chains*, Oxfam, UK; Acona (2004) *Buying Your Way into Trouble: the Challenge of Responsible Supply Chain Management*, Insight Investment, London; and Traidcraft (2006) *Buying Matters consultation: Sourcing fairly from developing countries*, Traidcraft, London. // ²⁶ Hurst R, Murdoch H and Gould D. (2004) *Changing Over Time. Tackling supply chain labour issues through business practice. The Impactt Overtime Project*. Co-operative Insurance, The Association for Sustainable & Responsible Investment in Asia. Manchester

總查部 總查部每小時質量報告
 日期: 8月23日 HOURLY REPORT FROM IN-LINE INP

時間	款號	存在問題	款號	存在問題	款號	存在問題	款號	存在問題
四 8.00	NX8256	后領單針OK	17	筒胸雙針線有大小	噴頭正中	袖口大小	一樣	腳圓順
五 8.30	G8240	拉色丁領圓順		噴頭不正	中膊長短	要一致	中國包	倒針
8.50	NX11902	后領OK		噴頭有歪	長短	膊一樣	上袖圓順	腳圓順
9.00	NX8202	胸門力		線有起皺	噴頭正中	上袖平服	同膊長短	一致
9.30	NX11886	胸后領		線大小一樣	噴頭正中	上袖平服	OK	前中



FIGURE 9: THE VICIOUS CYCLE – PERPETUATING LONG HOURS

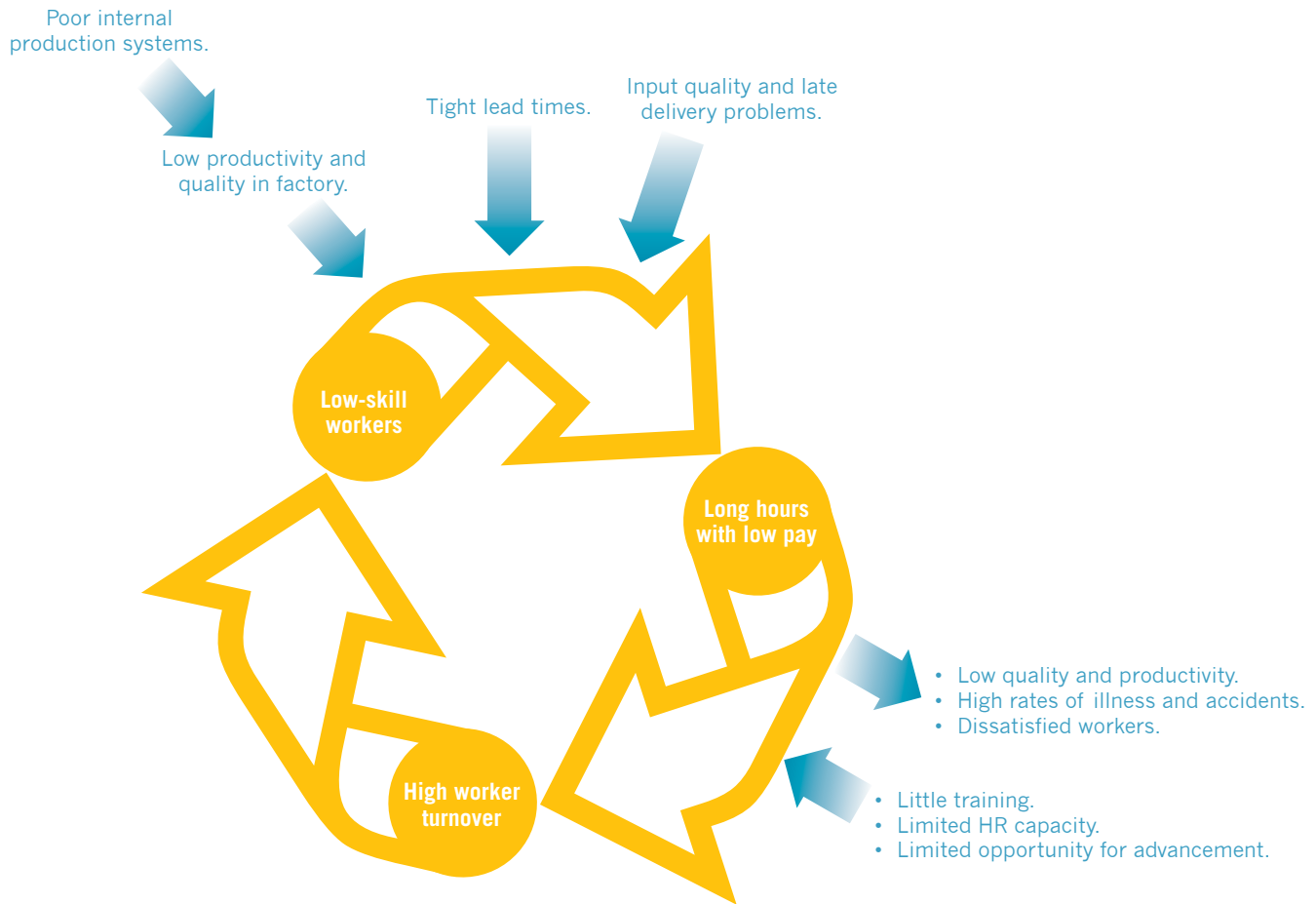
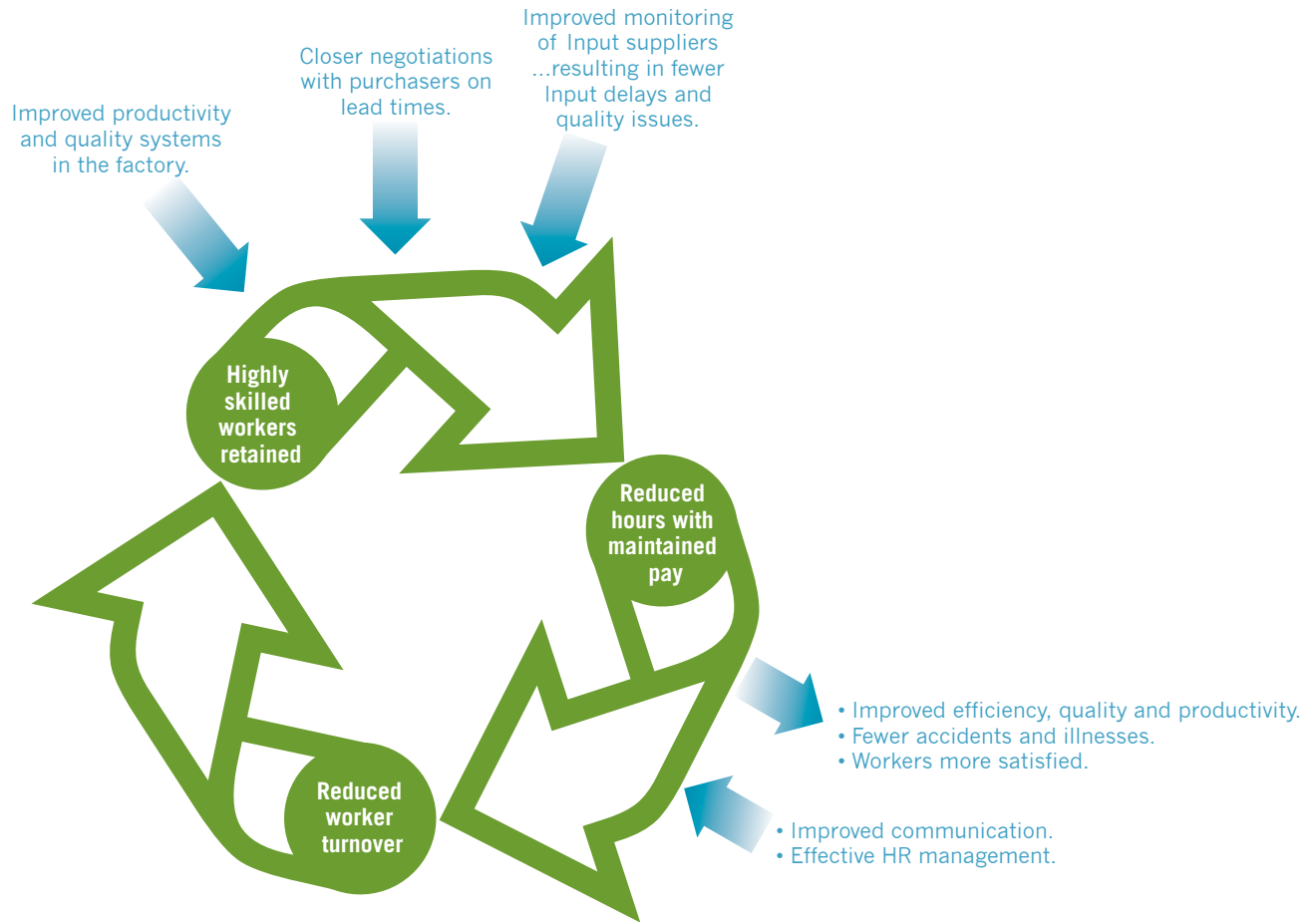


FIGURE 10: THE VIRTUOUS CYCLE – REDUCING WORKING HOURS



- Managers in one factory decided to pilot straight line production finding an 86% improvement in efficiency.

The second input was a consultancy visit and training session in human resources management. This explored opportunities to introduce positive HR management techniques into factories, and to use incentives to support improvements

in productivity. These workshops brought in managers, workers and supervisors - who would normally very rarely discuss issues face to face - to work to understand each group's perspective on its own factory's issues and to negotiate shared solutions.

During the project's lifetime, most factories saw increased productivity, reduced

reworking, steady or increasing pay and reduced worker turnover. Although most factories achieved reductions in working hours, none were able to be consistently compliant with Chinese labour law. The text below shows the headline findings for two of the most successful factories in the overtime project.

HEADLINE FINDINGS

Factories C and I have undertaken the most activity and have tackled human resources management as well as productivity and quality. This is reflected in the success of these two factories.

Key achievements in Factory C (2001 – 2003)

- 190% increase in productivity.
- Significant reduction in average working hours (from 320 to 230 hours per month).
- Upward trend in wages (60% increase in wages for ordinary time and 103% increase in overall pay).

Key achievements in Factory I (2002 – 2004)

- 30% increase in productivity.
- Downward trend in average working hours.
- Upward trend in wages (% of workers earning the minimum wage for normal time increased from 40-50% to 95%).
- Greater sense of teamwork & higher levels of motivation (cited by workers, managers and supervisors).

There was a big difference between the capacities of the two factories to implement changes in practice, productivity, human resource management, and quality management. Determining factors appeared to include:

- The capacity and confidence of factory management.
- The size of factory and type of building, the support and input of purchasing companies.
- Finally the type of process used and type of product produced.

The overtime project produced significant learning outcomes for all partners in the project.

"This is the most positive work I have ever seen on reducing hours and increasing wages because it speaks to the business case. There are gold nuggets here that we need to tease out and be careful not to bury too deep." Muriel Johnson, Social Compliance Manager (retired) M&S.

"The project confirmed general assumptions made about contributing factors to overtime. It has generated creative ideas, importantly from the factories themselves, about how to overcome these." Muriel Hoban, Code of Practice Manager, Next.

"The results were inspiring, not only because the approach proved to be effective in addressing the key issues of overtime and pay, but because it brought fundamental business benefits to supplier factories, which in turn benefited purchasing companies." Ian Jones, Head of Responsible Shareholding at Cooperative Insurance.

LIMITATIONS AND CHALLENGES

Impactt experienced a number of problems during the overtime project. These included:

- Building trust with suppliers, many suppliers were initially suspicious of the project.
- Communicating the project objec-

tives to workers. Workers' poor understanding of the project led to confusion and even a sense of unfair treatment, especially when pay systems were adjusted without explanation. Despite these concerns being raised during the project industrial relations within the factories remain undeveloped.

- Ensuring data integrity.
- Ensuring that benefits of productivity gains were passed onto the workers and not absorbed by the factory management. Impactt found that in some factories factory managers reduced piece rates, accepted more orders or passed the benefits onto customers through increased flexibility.
- Making sure that once implemented, changes were followed through and sustainable. A key challenge that the work highlighted is the need for suppliers to work with purchasers over an extended period of time.

"It is possible to reduce excessive overtime working without reducing workers wages or factory profitability"

“Change has to be practical, accessible and have a business focus”

3.4.3 WHAT'S TO BE DONE?

What Production Sites Should Do:

- Check that hours recorded are accurate and that workers are being paid fairly for all hours worked.
- Make a genuine commitment to reduce working hours without reducing take-home wages.
- Involve workers in discussions about how this will be done.
- Improve human resources management to ensure that workers are incentivised to work productively.
- Use industrial engineering expertise to increase efficiency.
- Identify overtime hotspots and develop ways to reduce excessive working in those areas.

- Make sure that there is a complaints procedure in place that workers know about, so that they can let you know if they are unhappy about working hours or other workplace issues.

What Purchasing Companies Should Do:

- Examine purchasing practices to understand where these are tending to cause excessive overtime working. These may include:
 - Inaccurate forecasting resulting in demanding enormous flexibility from suppliers to cope with cancellations, increases or decreases in volume and changes in delivery times.

- Failure to understand the capacity of individual suppliers and factories.
- Shortening lead times.
- Slippages in critical path reducing time available for production.
- Develop incentives to encourage suppliers to be open about actual working hours.
- Adopt a continuous improvement on working hours, including interim targets working towards legal limits, where these are hard to achieve.

3.5 WAGES: Progress Not Perfection

3.4.1 WAGES: The Issue

Along with long working hours, poor wages are one of the most significant issues facing many workers in a wide range of manufacturing and agricultural industries. The ILO estimates: “Half the world’s 2.8bn workers are trapped in jobs that leave them and their families struggling to survive on less than \$2 a day, with a limited chance of escaping impoverished conditions.”²⁷ Campaign groups are strongly pushing the issue of “living wages”. For example, the campaign group War on Want attracted widespread publicity with their report

“Fashion Victims” which alleged that workers sewing clothes for UK supermarkets and high-street clothing retailers in Bangladesh were paid 5p per hour²⁸. There is widespread discussion amongst development NGOs and labour standards experts on different ways of calculating a living wage, one model is to estimate the cost of a basket of goods, which constitute the basic needs and live a dignified life. There is, however, little agreement between groups on how a living wage should be defined or calculated.

3.4.2 IMPACTT'S WORK ON WAGES

Whilst Impactt supports discussions on ‘living wages’, our approach has been to work with factories on gradual and sustainable wage increases. This is underpinned by a philosophy of progress

not perfection, better to make some real improvements rather than to spend too much time focusing on analysing exactly what constitutes a ‘living wage’. Impactt’s model of change involves:

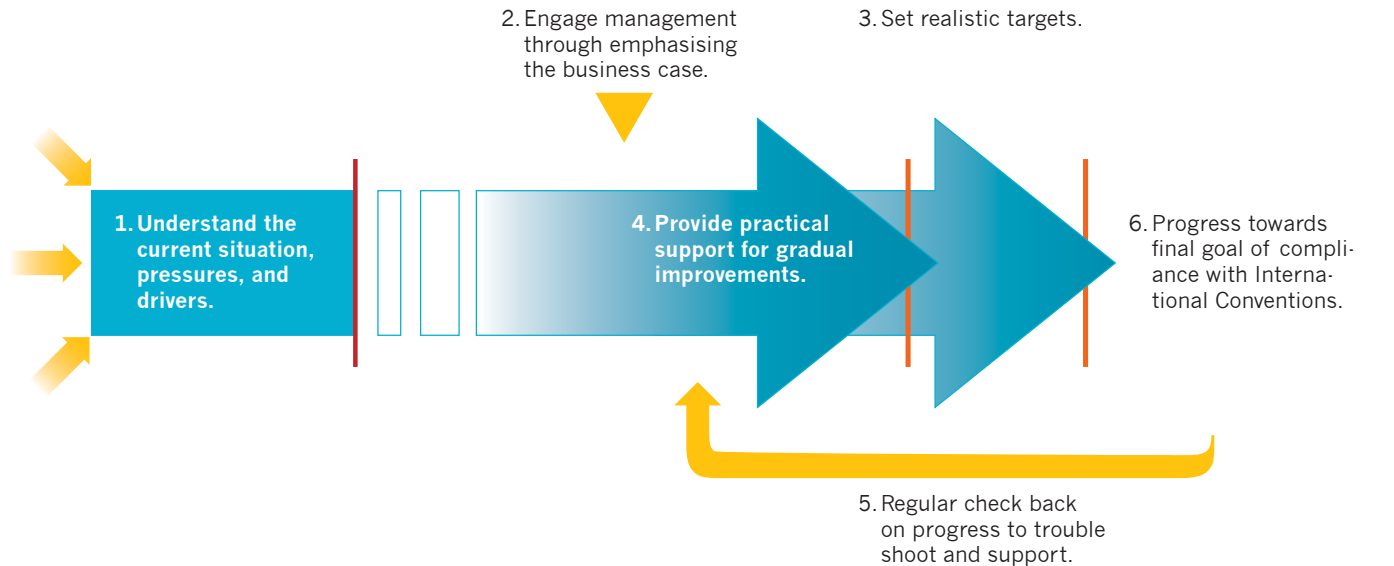
- Understanding the current situation, pressures and drivers.
- Engaging management, through emphasising the business case.
- Setting realistic targets.
- Providing practical support for gradual improvements.
- Conducting regular check back on progress to trouble shoot and support.

“Our approach has been to work with factories on gradual and sustainable wage increases”

²⁷ ILO (2005) *World Employment Report 2004-05: Employment, productivity and poverty reduction*. Geneva, ILO ISBN 92-2-114813-0. // ²⁸ War on Want (2006) *Fashion Victim's: The true cost of cheap clothes at Primark, Asda and Tesco*. War on Want, London

“A philosophy of progress not perfection”

FIGURE 11: IMPACTT’S WORK ON WAGES



CASE STUDY

Oxfam GB, a development and campaigning organisation, needed suppliers for silicone wrist bands as part of the Make Poverty History campaign in 2005. Oxfam wanted to make sure that its wrist bands were sourced ethically. They required audits before orders were placed and accepted a business relationship only with factories that were open about their problems and were willing to work with Oxfam to address their issues.

When Oxfam and other NGOs were put under the media spotlight, following the leak of their audit reports to the UK press, Oxfam wanted to speed up the improvement process and partnered with their suppliers and Impactt to provide a week-long factory-specific consultancy, including tailored training for factory managers regarding how to practically tackle the issues and make step-by-step improvements. Impactt later carried out

follow-up visits with the 2 suppliers making wrist bands, through 2005, 2006 and 2007. Oxfam’s 1st and 2nd-tier suppliers (Sandbag and ID&C) fully supported this approach, and played a vital role in getting the factories’ management on board, working closely with Impactt and supporting the improvement process with continued orders and encouragement. The engagement and commitment of Oxfam’s suppliers was extremely important in seeing improvements achieved.

In one factory, Impactt conducted a follow-up visit in 2006 and found that monthly overtime had significantly reduced without a reduction in output. The factory achieved this by improving production planning, reducing idle working hours, and improving house-keeping and material labelling in the workshops so that less time was needed to find materials and components. In addition,

a system requiring line supervisors to apply in advance to the production manager for all overtime, and the factory had started giving priority to clients with stable orders and lead times.

Along with increased work efficiency, the factory had made some adjustments to the wage system. As a result, wage levels increased by about 63% over the period of the project (from an average of RMB 700-900 monthly take home wage in 2005 to RMB 1200-1400 in 2007). Workers were happy with the reduced working hours, particularly because their wages had also increased. They were also pleased with other progress at the factory, including more rest days for most workers and improved working conditions.

In April 2007, a further visit to the factory found that workers were paid above minimum wage for regular hours worked

“Wage levels increased by about 63% over the period of the project”

“Progress is valuable, even when perfection is not always achievable in the shorter term”

and that the factory was planning to implement a system to pay improved premiums for overtime. The visit also found that worker turnover had reduced significantly.

The most recent visit in July 2007 once again demonstrated improvement in some areas, but outstanding problems in others. The main outstanding issue concerns overtime hours which have varied significantly, partly due to fluctuating orders. Furthermore, fines have been reduced but not yet eliminated.

This factory, like many others in China, is still not in full compliance with the local labour laws, which, on issues such as hours, are stricter than those in the UK and US. But this project clearly illustrates Impactt’s view that progress is valuable, even when perfection is not always achievable in the shorter term. In some instances, the commercial context and deeply entrenched cultural norms make it hard for managers to resolve all the issues at once. Yet meaningful

progress can be achieved – this benefits workers and serves the business interests of factories, as well as the buyers. In this case, the increase in wages has been particularly encouraging. This project also helped managers face and address the underlying causes of the problems and provided guidance on how to move towards legal compliance.

Oxfam and their suppliers continue to encourage and support change in these factories. Oxfam is now considering sponsoring awareness training to help workers exercise their rights more fully in future.

At one of the participating factories, the General Manager said:
“This consultancy has helped managers to identify problems in the factory and methods to resolve them. We found it useful and would welcome more. We much prefer this type of help to audits, which we hate and dread.”

“When auditors came, earlier in the year, for a different client, they were very rude and we were not able to talk openly about any of our problems with them. They accused us of violating their customer’s Code of Conduct and demanded that we correct the non-conformances within a few months. But, we were given no help on how to do this and they do not allow gradual improvements. So

“Meaningful progress can be achieved – this benefits workers and serves the business interests of factories, as well as the buyers”

it is impossible to meet their request in the time that they have set.”

CHALLENGES AND LIMITATIONS

Establishing a business case for raising workers wages and ensuring that wage rises are sustainable is perhaps one of the most difficult issues in ethical trade.

- Not all managers are receptive to these changes.
- Wages will not be raised in general unless there is systemic change. Campaigners’ calls for living wages, and companies exploring their purchasing practices, are two elements that will contribute to this change.

3.5.3 WHAT’S TO BE DONE?

What Production Sites Should Do:

- Be aware of legal obligations to workers.
- Be aware of the local minimum wage.
- Be aware of local estimates of living wages.
- Consult with workers to understand their financial needs.
- Understand whether workers are able to meet their needs with the wages they earn in standard time.
- Where this is not the case, work with workers and their representatives,

the human resources department and industrial engineering expertise to find ways to increase wages.

What Purchasing Companies Should Do:

- Investigate living wage estimate in key source countries.
- Understand where current wages fall short of a living wage.
- Consider how their purchasing practices impact on the wages of workers, particularly looking at the following areas:
 - o Terms of business: late delivery penalties, sale or return, 40+ days

- o payment terms – these can result in late payment of wages.
- o Downward pressures on price.
- o Buyers’ incentives – buyers tend to be incentivised solely on the basis of performance against indicators such as sales, margin and availability rather than labour standards/ethical/responsible purchasing criteria.
- o Buying decisions on the basis of price, delivery and technical ability to make the product – ethical performance is often not taken into consideration.

3.6 MANAGING ETHICAL TRADING DATA - Supplier Ethical Data Exchange (Sedex) – The Basic Foundations Of An Ethical Trading Programme

3.6.1 AUDIT FATIGUE: The Issue

During the 1990s, as more and more companies came under pressure to take responsibility for conditions in their supply chains, purchasing companies turned to social auditing as the best way to monitor their supply chains. Each company set up its own internal monitoring programmes, or commissioned third party audit firms to monitor their supply base. Suppliers of course tend to have several customers, and soon each factory was undergoing audits covering much of the same ground from each of their customers. In some cases, factories were having more than 100 social audits per year. Many of these audits were of poor quality. Good-quality social auditing can be useful in identifying issues, but there is clearly no benefit in duplication of effort.

3.6.2 IMPACTT'S WORK

In 2002, Impactt convened a group of retailers and suppliers to create a data sharing system which will allow participants to access information about labour standards in shared suppliers in order to:

- Build efficiency.
- Build cost-effectiveness.
- Concentrate effort on improving labour standards in the supply chain.

Impactt developed a draft data-sharing model based on the following principles:

- Subsidiarity: data to be held at the lowest practicable point in the supply chain using a password protected web-based system. Each supplier/site would be required to maintain a common-format password-protected webpage.
- Data owned and paid for by supplier/sites.
- Supplier/site controls access to data which may be made available to purchasers in a trading relationship.
- Development of shared, lowest common denominator, initial assessment, audit/assessment and compliance/improvement reporting frameworks.
- Checks and balances to audit the quality of data and the robustness of the system.

Over the next couple of years, Impactt worked with founder members to design and build the database and to develop the governance structure for Sedex as an independent not-for-profit limited company, owned and managed by its members. The Sedex Board is made up of 3 representatives elected by each of the member types, production sites, agents/brands and retailers. The Board is advised by an Advisory Group made up of individuals from industry, non-governmental organisations, trade unions and the ethical investment sector. The purpose of the Advisory Board is to enable Sedex to have a formal mechanism to engage with informed stakeholders and to seek independent and constructive advice, as well as helping Sedex develop its strategy to meet the needs of members and the wider stakeholder community.

Sedex was launched in 2004 and has grown to become the world's leading labour standards database. By October 2007, 16 retailers, 169 brands and importers, and in excess of 16,000 factories and farms in 132 countries had joined Sedex. Approximately 60% of sites on Sedex are from the non-food sector (clothing/homewares/accesso-

ries) and 40% from the food sector.²⁹ Sedex holds self assessment information, 2nd and 3rd party audit findings and corrective action plans. This means that purchasers can all work together on the same action plan with each supplier – which should mean that suppliers are receiving more consistent messages on corrective actions from their customers.

Sedex manages an Associate Auditor Group (AAG), which aims to encourage and enable convergence in ethical trade auditing, improve the quality of ethical data and promote the improvement of labour standards. The AAG is made up of independent commercial auditing companies and NGOs that are significantly involved in ethical trade auditing, with active participation from Sedex member companies. In response to challenges from Sedex members to provide a report format that can more easily be shared and gives more information about auditor qualifications and the audit process, the AAG has recently developed SMETA (Sedex Members Ethical Trade Audit). SMETA includes:

- A common best practice guidance on conducting ethical trade audits.
- A common audit report format.
- A common corrective action plan format.

CHALLENGES AND LIMITATIONS

Whilst Sedex has succeeded in providing a widely accepted database for managing ethical trade, there are still widespread concerns that the many of the audits on the system are not of a sufficiently high standard to accurately diagnose key labour standards issues and to see through double books and coached workers. Sedex is also often criticised for lack of transparency about its activities to external stakeholders. The development of the Advisory Board and publication of more 'blind' data from the database will help to allay these concerns. It is clear that Sedex provides a useful management tool, but members must act on the data in the system in order to tackle problems and improve labour practices.

²⁹ Pers comm. Tara Norton & Hazel Culley, SEDEX, August 2007.

3.6.3 WHAT'S TO BE DONE?

What Production Sites Should Do:

- Consider joining Sedex.
- If already a member of Sedex, consider standing for the Board or one of the sub-committees to ensure that the production site perspective is well-represented.

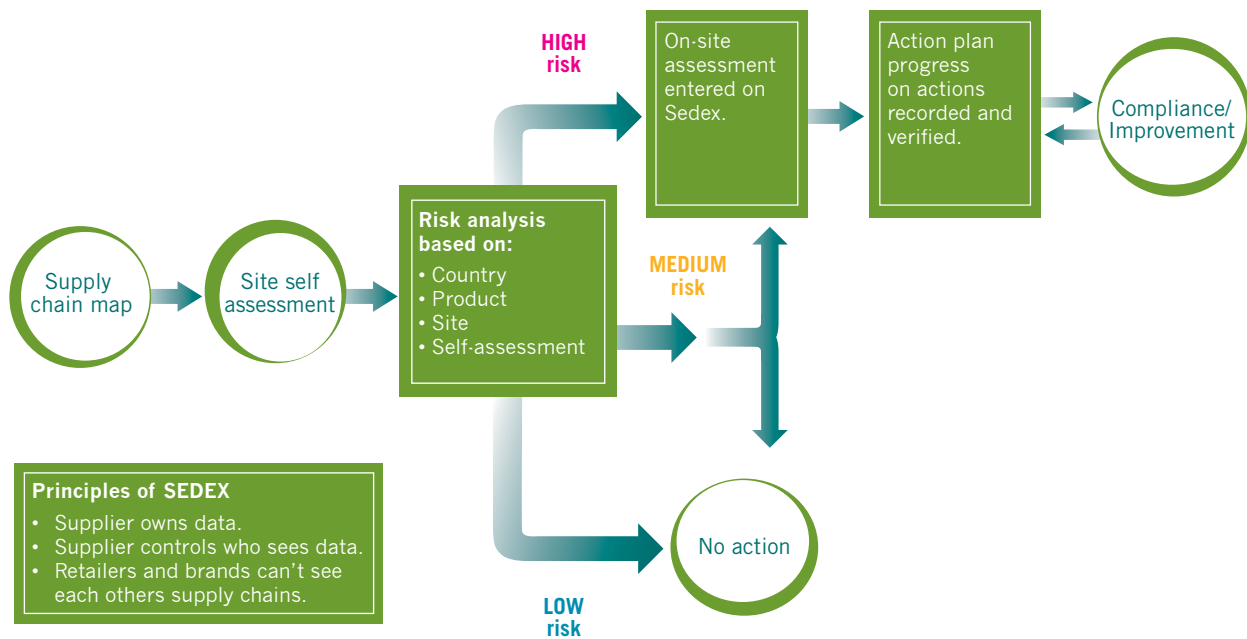
What Purchasing Companies Should Do:

- Join Sedex as part of a wider strategy of shifting from an audit-based approach to ethical trade to a capacity-building one.
- Use Sedex to conduct more sophisticated analyses of their supply bases and target their resources more

effectively at problem areas within their supply chains.

- Encourage Sedex to use its data in blind form to inform wider debate and encourage more collaboration in key sourcing countries to improve working conditions.

FIGURE 12: HOW SEDEX WORKS³⁰



³⁰ Figure adapted from: SEDEX (2006) SEDEX Annual Review, SEDEX, London p.15



4. FACING NEW CHALLENGES

CHALLENGES

There are a number of key challenges facing ethical trade practitioners from all sectors. These include:

- Persistence of violations of all key labour standards across many countries and sectors.
- The activities of trade unions are limited in many countries so workers have no reliable representative structures.
- Flexibility in the movement of labour has fuelled changes in the labour market with vast numbers of migrant workers who are extremely vulnerable to abuse.
- Many governments fail adequately to implement and police their labour laws or set realistic minimum wage levels.
- Difficulty in diagnosing issues in production sites due to low quality auditing and persistent use of double books.
- Fast-moving nature of supply chains means that relationships tend to not be permanent so developing long term mutual understanding and commitment to remediation between purchaser and supplier is challenging.
- Prevailing business models tend not to provide an incentive for the provision of permanent, decent employment.
- Need for suppliers to remain competitive restricts their ability to invest in improved labour practices.
- Lack of unanimity amongst purchasers on remediation policies causes confusion and sometimes even harm to workers.
- The sheer scale of supply chains (with individual purchasing companies having supply chains including up to a million or more workers) makes the problems seem daunting.

CONCLUSIONS

Despite these challenges, the past 10 years have seen some positive changes in the field of ethical trade.

- Leading purchasing companies are beginning to move ethical trade towards the centre of their business model. Working on ethical trading is becoming increasingly mainstream.
- Public awareness of ethical trade issues have evolved. Not only has general awareness grown, but the sophistication of consumers expectations' has also developed.
- The corporate practices of the handful of companies leading on ethical trade has moved from a 'policing' to emphasising learning and developing new approaches which prioritise remedial solutions, capacity building and addressing purchasing practices.
- There are now a small but growing number of case studies showing how conditions for workers can be improved through the concerted efforts of workers, trade unions, managers, suppliers, purchasers, governments and local civil society organisations.

In order to make the changes needed to improve the lives of workers around the world, all parties must recognise that there are persistent and systemic labour standards issues across all sectors and countries.

The causes of these are complex, and include uneven global social and economic development, labour migration, purchasing practices and government failures.

Solutions must focus on delivering meaningful and sustainable improvements which are important to workers, rather than on protecting reputations or defending ideologies.

THE EMPHASIS MUST BE ON ACHIEVING PROGRESS, RATHER THAN WAITING FOR PERFECTION.

Glossary

AIP – Apparel Industry Partnership

CSR – Corporate Social Responsibility

ETI – Ethical Trading Initiative

FLA – Fair Labor Association

ILO – International Labour Organisation

Sedex – Supplier Ethical Data Exchange

TLWG – Temporary Labour Working Group

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