

Supply Chain Briefing Part 2: Standards and cooperation - Big brands, bigger issues

Posted by [Rajesh Chhabara](#) [1] on Jul 5, 2010

Multinational clothing retailers and their supplier factories are starting to see they need to work together to create more ethical supply chains

Multinational clothing retailers and their supplier factories are starting to see they need to work together to create more ethical supply chains. Years of supply chain policing by retailers has addressed the worst forms of labour abuses. These efforts have countered child labour, forced labour, physical abuse and wages below the legal minimum in the factories directly contracted by leading brands.

But the industry's supplier monitoring and auditing programmes have failed on many counts. "Hours of work have been the most persistent issue," says Aret van Heerden, president of the Fair Labour Association, the US-based multistakeholder monitoring organisation.

International Labour Organisation standards as well as many brands' codes of conduct limit the number of working hours to 60 a week including overtime. In practice, it's common for factory workers to put in more than 72 hours, and to work seven days a week.

Van Heerden says overtime is a complex issue. "Workers and supervisors in developing countries are very ambitious. They want to move ahead and get out of poverty. So they are motivated towards working longer hours."

He says the industry has to understand what leads to long working hours and try to come up with responses and strategies which take into account these factors.

"Long working hours are totally linked to purchasing practices," says Alice Tepper Marlin, president of Social Accountability International, which created the SA8000 certification standard.

She says brands need to look at their own business practices to find the causes of long working hours in factories. These include last-minute changes in orders and designs, flooding factories with orders that exceed the supplier's capacity and demanding shorter lead times.

Low wages are another major issue that requires more attention from brands.

"Local minimum wage used as a benchmark in code of conduct standards is not an appropriate benchmark in many countries," van Heerden says. "Buyers have not yet found ways to use their leverage to get factories to pay fair wages."

Van Heerden says the FLA is trying to promote a fair-wage system to define what constitutes a fair wage without trying to set a dollar amount. "We need to go back to the drawing board and find ways to start driving improvement in wages."

SAI's Tepper Marlin says: "The same retailers that are asking [their suppliers] to pay workers better wages are lowering the price they pay to suppliers every year and they don't recognise and reward the improvement made by suppliers." SAI pioneered the fair wage concept by introducing a "basic need analysis" component in the SA8000 standard.

Some brands - Adidas, for example - have taken a lead to establish supplier performance measurement systems that help develop a reward good practice.

The plight of foreign migrant workers is one of the issues where the industry has a dismal record. Van Heerden says migrant workers have been greatly exploited by the middlemen involved in getting them from their home country to the country of work.

These workers endure poor living conditions in dormitories. They often have to forgo their first eight or nine months of wages to cover recruitment fees and then get dumped when a downturn comes along.

Migrant discrimination

“We need to look more closely at discrimination against migrant workers, how they are recruited, what their employment terms and conditions are and whether they are safely repatriated if they are fired,” van Heerden says.

Unauthorised subcontracting by suppliers also remains a problem. Unscrupulous suppliers use a compliant factory as a front to get orders and then use non-compliant factories or other sub-contractors to produce the goods.

Suppliers are also increasingly using labour contractors to outsource production rather than hiring the workers directly on their own payroll. These workers do not receive the same benefits as the workers directly employed by the factory and are often overlooked by auditors. And the factory finds it easy to fire these workers when orders are down.

Van Heerden says part of the problem lies in companies’ need for flexibility to cope up with seasonal variations in demand. He says that if buyers established long-term relationships with suppliers by providing consistent orders, suppliers would be more motivated to keep a regular workforce rather than relying on outsourcing or subcontracting.

Engaging suppliers to build trusted and long-term partnerships is a relatively new area for companies that started out by unilaterally imposing codes of conduct and policing their own suppliers.

“The key issue is whether a brand considers its supply chain a strategic asset and invests in it or whether the supply chain is merely a means of low-cost purchase,” says Jeremy Prepiscus, Business for Social Responsibility’s Hong Kong-based managing director for Asia. He argues it is important for brands to build a shared vision with their suppliers.

Prepiscus says enhanced investment and understanding are needed on the part of suppliers as well.

“Many suppliers are not able to adjust to a shift in brands’ approach to their supply chains that focuses on partnerships on sustainability issues because they don’t have the right leadership,” Prepiscus says. He says such suppliers run a significant business risk.

Prepiscus believes that, over the long term, only smart manufacturing will win. “Smart manufacturing is very specifically manifested in investment in lean manufacturing, energy efficiency and [improved] working conditions.”

Smart manufacturing

He points out that leading suppliers are investing in social and environmental issues because they know that more brands are asking for it. “They know that not only working conditions, but carbon and climate change leadership are going to be the key future issues.”

Suppliers that are ahead of the curve include MAS Lanka and Brandix. These are Sri Lanka-based companies that have worked closely with brands such as Nike and Marks & Spencer to establish model factories and adopt a number of best practices.

“The big issue is how you help suppliers use management systems to improve and how you reward suppliers that do embrace continual improvement,” says Rochelle Zaid, executive director at SA8000

accreditation body Social Accountability Accreditation Services.

She says a key to supplier development is to focus on processes and not code violations.

“Everyone talks about shifting from auditing to capacity building, but right now it is still too much talk and not enough action,” she says. “Let’s get away from the cat-and-mouse game.”

Van Heerden says that although more companies are saying that supplier training and capacity building are the way forward, they don’t have the necessary diagnostic tools to establish the capacity required. He says the FLA has developed tools for gap analysis and self-assessment that help companies and suppliers to better understand capacity-building needs.

Using certification models can also help suppliers to develop social responsibility management systems and capabilities. Examples include the multi-stakeholder-developed SA8000 and the industry-developed Worldwide Responsible Accredited Production (Wrap).

Zaid says suppliers can use SA8000 certification to demonstrate good practice and attract customers. She explains that SA8000 has inbuilt mechanisms for corrective action and continuous improvement, complaint-handling, stakeholder engagement and independent third party oversight – all important issues in supply chain responsibility.

The Business Social Compliance Initiative, a further supply chain code of conduct by European retailers, uses SA8000 auditors to monitor suppliers and encourages them to become SA8000 certified.

Wrapped up

“The key advantage of Wrap is that it covers all generally accepted CSR areas including freedom of association, collective bargaining, health and safety, hours of work, wages and benefits, customs compliance, security and more,” says Steven Jesseph, Wrap president.

He argues that as Wrap is accepted by a growing number of global brands and retailers including Sara Lee, Jockey International, VF, Russell and OshKosh B’Gosh, it reduces audit fatigue and costs for all concerned.

While leading retailers are working with stakeholders to develop some of the tools and methods for building capacity in the supply chain, new issues are emerging that the industry has never tackled before. Demand for cotton traceability is one example.

Reported incidents of child labour and human rights violations in cotton harvesting in Uzbekistan and growing environmental concerns related to cotton growing are increasing pressure on brands to monitor their cotton supply and establish cotton traceability mechanisms.

“You can have a very compliant factory but if it is cutting and sewing cotton that was harvested using child labour, then all of your good work has been undermined,” van Heerden says. He says retailers are going to have to look up the supply chain to ensure that labour and human rights problems are not embedded in the materials they use to make their products.

While there are a number of issues the industry has to address, brands that are taking these issues seriously want consumers to recognise their efforts.

Michael Kobori, vice-president for social and environmental sustainability at Levi Strauss, says one of the biggest challenges is to get customers around the world to reward companies that try to improve labour standards in their factories and try to improve environmental performance.

One of the ongoing challenges is to educate consumers – who are increasingly aware of labour abuses and environmental damage negatives – to reward the brands that have the most effective positive supply chain programmes.

Supply chain scorecards - the good and the bad

Successes

- Brought the **rule of law** to tens of thousands of factories.
- Established a **framework of standards** in factories.
- Ensured payment of legal **minimum wages**.
- Provided an alternative **complaint mechanism** to workers.
- Helped workers recover millions of dollars in **unpaid overtime wages**, back wages and severance pay.
- Significantly reduced the worst for of **labour violations** in tier-1 supplier factories.
- Increased **multi-stakeholder collaborations**.

Failures

- Workers' **awareness** of code standards remains **low**.
- Excessively **long working hours**.
- **Wages inadequate** for a decent life, not paying living wages.
- Increased **sub-contracting** by tier-1 suppliers.
- **Inability to extend monitoring** to raw material supply chain.
- Rise in the use of **temporary and contract workers**.
- Lack of mechanisms to protect **migrant workers**.
- **Freedom of association** and right to **collective bargaining** still a problem.
- Lack of mechanisms to measure and reward suppliers' **ethical performance**.

Source: Interviews with FLA president Aurret van Heerden and Social Accountability International president Alice Tepper Marlin

Adidas

Measuring suppliers' performance

Obsessed with policing or checklist audits, brands have been slow to adopt mechanisms that clearly recognise and reward suppliers for better performance on social and environmental standards.

German sportswear giant **Adidas**, which has over **1100 factories** in 68 countries, was one of the earliest brands to transition from the traditional auditing to a more strategic management system-driven process.

Adidas is also a leader in establishing a set of key performance indicators (Kips) to measure social and environmental performance of suppliers and linking that to sourcing decisions.

William Anderson, Asia Pacific head of social and environmental affairs at Adidas says the company started mainstreaming of the Kips in 2005 and rolled out in 2006 along with a rating scheme.

Suppliers' performance is measured on six Kips: management commitment and responsiveness; management systems; worker management communication and industrial relations; compliance training for workers and management; transparency in communication and reporting; and compliance performance.

Measurement results in a rating for each supplier with 0-C being the lowest rating and 5-C the highest. Last year 79% of Adidas suppliers were in 2-C and 3-C categories while only 1.15% made it to the top 5-C rating.

Anderson explains that factories with 1-C or below are the ones that have significant issues they need to address. 2-C rating indicates the factory has started to move in the right direction. Factories with 3-C rating are generally in control of issues and have a basic management system in place.

Ratings 4-C and above means the factory has started to move to higher levels with sophisticated systems for transparency and best practices.

Rating results are incorporated in the overall rating of the supplier which then is used to make sourcing decisions.

Adidas social and environmental affairs team also works with the key suppliers to develop a three year road map – the strategic compliance plan – aligned with the Kips. Successful completion of the strategic compliance plan activities results in an improvement in the supplier’s rating.

“It’s a continuous improvement process,” Anderson says – Adidas is trying to move the factories up the rating scale so that most are rated 3-C or above.

Links:

[1] <http://www.ethicalcorp.com/users/rajesh-chhabara>