

FINDING THE SWEET SPOT: SMARTER ETHICAL TRADE THAT DELIVERS MORE FOR ALL

Impactt's 15th Anniversary Report



**FINDING THE SWEET SPOT:
SMARTER ETHICAL TRADE
THAT DELIVERS MORE FOR ALL**

IMPACTT'S 15TH ANNIVERSARY REPORT,
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EXECUTIVE SUMMARY

Ethical trading is at a critical juncture. Over the last 15 years brands and purchasers tried valiantly to cajole, persuade, regulate and instruct their suppliers and sub-contractors to comply with local law and international standards on decent work. However none of these have made a noticeable dent in the systemic abuse of workers' rights in global supply chains.

Impactt's work indicates that the key is to find the sweet spot, where the interests of the purchaser, supplier and worker intersect. Understanding worker perspectives and developing motivating packages of benefits are the vital first steps. Entrepreneurs and employers around the world are increasingly eager to identify this sweet spot – how to compete in an increasingly uncertain world by harnessing the power of the workforces to produce better products more efficiently.

COMPETING IN THE GLOBAL ECONOMY IS GETTING HARDER:

- The days of cheap labour are over; minimum wages in key source countries have increased by 42%–45%¹ over the last three years.
- Input costs are soaring, as global commodity costs have tripled since 2006.²
- 43% of workers spoken to in five Asian countries reported their current wages are not sufficient to meet their family's basic needs.³
- Workers are walking away from low-wage industries – in garment factories in India, for example, we find average of 12% of the workforce leaving their employment every month.⁴
- Unrest is commonplace, but the reasons for the unrest are not well understood by factory management and they don't have effective access to trade unions or empowered worker committees which can articulate workers' collective voices.

In this report we explore Impactt's work in finding the sweet spot which tackles these challenges and delivers wins for purchasers, supplier businesses and workers through three case studies:



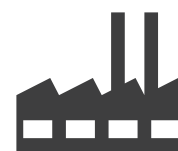
CASE STUDY 1: LIVES & LIVELIHOODS

Now, more than ever, it is crucial for employers to have a genuine understanding of their workers' needs rather than making assumptions about what workers want. This case study takes an inspiring and multi-dimensional view on what workers want and what 'decent work' really means for them.



CASE STUDY 2: BRIDGING THE GAP

Putting workers at the centre of the agenda: Failure to listen to workers results in a transient workforce, with low morale, low engagement and low productivity – all real barriers to competitiveness. The prize for getting this right, by providing high levels of job satisfaction and a package which meet workers needs, is a stable, loyal and productive workforce which enjoys delivering great products on time.



CASE STUDY 3: FACTORY IMPROVEMENT PROJECTS

Supporting great businesses and good jobs: The results of Impactt's work tackling low job satisfaction, high worker turnover rates, high absenteeism, low motivation, low productivity and 'wrong first time' quality. Impactt works to improve technical skills, increasing the value of the workforce and thus providing better jobs, funding higher pay and supporting more competitive and efficient businesses providing higher quality products.

This report also sets out Impactt's experience of what works when things go wrong, looking specifically at child labour and protecting workers when businesses fail.



CASE STUDY 4: REMEDIATION & EDUCATION FOR LIFE

Tackling child labour to bring long-term benefits to children and their families: Setting out what works and what doesn't in getting working children back to school.



CASE STUDY 5: MANAGED CLOSURE

Protecting workers when businesses fail: Impactt's step-by-step guidelines for supporting workers during factory closures.

ABOUT IMPACTT'S FACTORY DATA

Impactt records and analyses information from our factory visits. The dataset covers:

- Five years, from 2006/7. The data year runs from 1st August.
- 567 factories worldwide, employing 367,996 workers.
- Views of 10,103 workers.
- Various sectors: apparel, electronics, toys, homewares and food.

Impactt analyses this data and feeds it into the Impactt Exploitation Index – a measure of overall exploitation of workers by country each year. The exploitation index is based on Impactt's formula for assessing a wide range of complex labour issues, and our Impactt Prevalence Indicators – a way of measuring the incidences of critical non-compliances in the countries and sectors in which Impactt works.

Visit www.impacttlimited.com/ExploitationIndex to find out more.

Total number of visits per region						
	2007	2008	2009	2010	2011	Total
Asia	67	75	74	72	105	393
Europe	39	23	23	10	36	131
Eastern Europe	3	6	0	2	7	18
Middle East	0	1	2	20	0	23
Africa	0	0	0	0	2	2

Figure 1: Total number of visits by region

IMPACTT'S APPROACH TO ASSESSMENTS

Impactt's assessment methodology is focussed on accurate diagnosis of issues. All of the assessments were conducted by a specialist auditor(s) working with specialist local worker interviewer(s), some of whom are former workers themselves. In some countries, we work with local NGOs to conduct worker interviews; in other countries we collaborate with social scientists. The assessments prioritise the testimony of workers, and focus on understanding what is really going on in the workplace and why.

The data has been gathered from a mixture of announced and unannounced visits, using a range of on-site and off-site worker interviews. Workers were also encouraged to telephone the Impactt team to discuss issues in more depth after the assessments were completed.

Workplaces were assessed against the ETI Base Code, ILO Conventions and local laws and regulations where applicable.

DATA LIMITATIONS

- Comparisons between findings from different years should be treated with caution because the samples for each year vary in terms of country and industry.
- 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 Impactt's experience, when working 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 distorts the findings as Impactt may have failed to identify all instances of document tampering and worker coaching. When audit fraud is successful it prevents us from understanding the reality of working practices.
- Impactt was unable to collect data on every issue at every visit Impactt conducted. Therefore, figures are calculated based on the number of site visits for which Impactt has data on that point/issue.
- Impactt has not included health and safety concerns in the analysis. Health and safety issues were found at almost 100% of the sites visited, and range from severe, life-threatening risks to relatively minor issues. Impactt has not analysed them here since the focus of this report is on labour rights-based issues.
- China visits continuously represent 64-68% of visits in Asia with the exception of 76% in 2009.



INTRODUCTION

FINDING THE SWEET SPOT: SMARTER ETHICAL TRADE THAT DELIVERS MORE FOR ALL

Over the last 15 years brands and purchasers have tried valiantly to cajole, persuade, regulate or instruct their suppliers and sub-contractors to comply with local law and international standards on decent work. Efforts by purchasers, suppliers, trade unions, governments and NGOs have included contractual agreements, codes of conduct, auditing, monitoring, individual work, collective work, multi-stakeholder activities, projects, programmes and certification or labelling. However none of these have made a noticeable dent in the systemic abuse of workers' rights in global supply chains.

See the following pages for evidence from Impactt's Labour Exploitation Index and Prevalence Indicators.

DATA SHOWS MINIMAL IMPACT

Impactt has noticed very little shift in job quality over the years. In fact, the Impactt labour exploitation index, an overall measure of key factors weighted according to their importance to workers shows an upward trend since Impactt began gathering data in 2006/7 (see Figure 2). The Impactt labour exploitation index is calculated by measuring

six items in the sites Impactt visits: freedom of association, gap between take-home wage and living wage, working hours above 60 per week, forced labour and child labour and lack of transparency on true records.

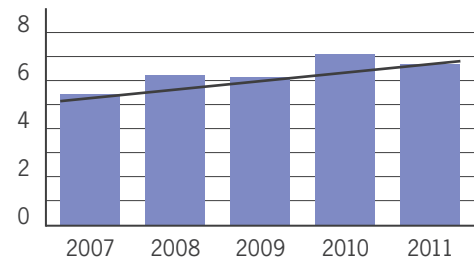


Figure 2: Impactt labour exploitation index – global

Focusing on Asia, this year Impactt has continued to find very high prevalence of all the key labour issues through its Prevalence Indicators (Figure 3).

Impactt has seen some improvement in payment of the minimum wage and the availability of some sort of worker representation. However, long working hours and elements of compulsion (for example holding financial deposits and making it difficult for workers to leave) remain the norm. The incidence of child labour also remains worryingly high (see child labour case study for further details).

ASIA	Lack of transparency	Forced labour	Hours > 60/wk	Non-pmt min. wage	Child labour	Lack of age verification	No worker representation
2007	72%	72%	79%	69%	27%	60%	94%
2008	66%	75%	84%	60%	37%	74%	86%
2009	46%	69%	84%	33%	6%	60%	72%
2010	76%	81%	95%	53%	24%	73%	74%
2011	59%	59%	89%	36%	18%	60%	53%

Figure 3: Prevalence of key issues at sites visited by Impactt in Asia



FINDING THE SWEET SPOT

Impactt's work indicates that the key success factor in ethical trade is to find the sweet spot, where the interests of the purchaser, supplier and worker intersect. Understanding worker perspectives and developing motivating packages of benefits are the vital first steps. Entrepreneurs and employers in this increasingly uncertain world are eager to identify this sweet spot – how to compete globally by harnessing the power of the workforce in order to produce better products more efficiently.

Recent, significant economic changes across the world, especially in Asia, demonstrate clearly why factory managers have to work smarter, strengthening their workforces so that they can weather the storm of:

- Labour/skills shortage
- Wage inflation
- The yawning gap between take-home wages and what workers need to meet their needs
- Increases in raw material costs
- Labour unrest
- Changing aspirations of a new generation of workers

See the following pages for how these factors are challenging supplier businesses

KEY CHALLENGES FACING SUPPLIER BUSINESSES

As purchasers continue to squeeze suppliers on prices, and as labour, input and overhead costs soar; entrepreneurs are facing the challenge of how to work smarter.

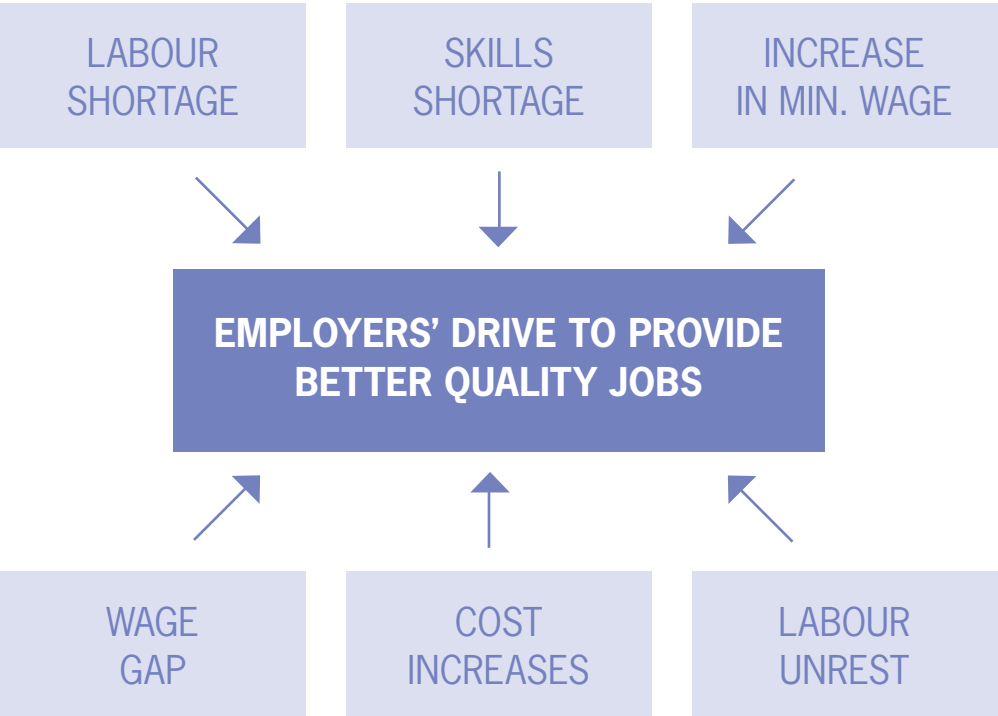


Figure 4: Drivers for better jobs

CHALLENGE 1: LABOUR/SKILLS SHORTAGE

“Gone are the days of a plentiful supply of cheap labour.”

Be it garments in China, footwear in Cambodia or cinnamon in Sri Lanka, employers are struggling to attract and retain skilled labour, even in countries with huge populations.

In Guangzhou (China), the job seeker-job ratio is 1:1.36.⁵ Guangdong’s labour department says the province still needs one or two million more workers, with a shortfall of about 200,000 in Shenzhen

alone. Suppliers across China are feeling the pinch. “Initially we needed 8,000 people, but at this moment we’ve only got few more than 1,000.” says the HR manager of a footwear company in Nanning.⁶

The situation is no different in India. In recent years, employers have not only been struggling to recruit skilled workers, but in many cases struggling to find workers of any skill calibre. According to the Associated Chambers of Commerce and Industry of India (ASSOCHAM), many workers are moving away from the low-wage textile industry to real estate, services and rural employment schemes causing crisis in the sector.⁷ But it’s not just garments. Agriculture, construction, information technology, tourism, retail and several other industries have been affected.⁸

CHALLENGE 2: WAGE INFLATION

Minimum wages, and to some extent take home wages, have been increasing. Taking the example of India and China, we see a significant and consistent rise in minimum wages.

CHINA – monthly minimum wages							
	Dongguan, Guangdong		Yiwu, Zhejiang		Jinjiang, Fujian		Year-on-Year Increase
	Chinese ¥	US\$	Chinese ¥	US\$	Chinese ¥	US\$	
2006	574	84	610	89	470	69	–
2007	690	101	670	98	600	88	19%
2008	770	113	750	110	650	95	11%
2009	770	113	850	125	650	95	5%
2010	920	135	980	144	800	117	19%
2011	1100	167	1160	176	950	144	19%
% Increase	92%		90%		102%		94%

Figure 5: Monthly minimum wages in key Chinese source regions

Impactt's data on China shows a 94% increase in legal minimum wages from 2006 to 2011, and 41% increase over the last two years (2009-2011).

In India there has been a parallel increase of 41% and in Bangladesh an increase of 45% in late 2010, the first increase since 2006.

INDIA – monthly minimum wages							
	Karnataka		Delhi		Haryana		Year-on-Year Increase
	Indian	US\$	Indian	US\$	Indian	US\$	
2009	2600	54	3952	82	3926	81.38	
2010	3718	80	5278	114	4342	93.6	32%
2011	3822	85	6422	142	4643	100.08	14%
Increase	47%		63%		15%		41%

Figure 6: Monthly minimum wages for unskilled garment workers in key Indian source states

BANGLADESH – monthly minimum wages			
Monthly Minimum Wage	Dhaka		Year-on-Year Increase
	Bangladeshi Tk	US\$	
2009	1662	24	0%
2010	1662	24	0%
2011	3000	43	45%
Increase	45%		

Figure 7: Monthly minimum wage for garment workers in Bangladesh

More employers are now paying the applicable minimum wage, with 64% of enterprises in our Asian sample paying minimum wages correctly in 2011, as against only 31% back in 2007. However, they are struggling to cope with rapid increases.

Many employers are responding to increased labour costs by moving their operations to lower

cost regions where the applicable minimum wage is lower. This movement from coastal cities to areas further West and North in China is borne out by the relatively lower increase of the applicable minimum wage in Impactt's Chinese data set, which shows an uplift 7% and 11% year-on-year over the past 2 years, as against year-on-year increases of 19% in key industrial regions. In Bangladesh, where

the minimum wage was increased by 45% in 2010, Impactt has seen employers downgrading workers on to lower wage bands as a way of reducing the impact of the statutory increase.

There is a rapid increase in the amount of money workers are actually taking home. Figures 8 and 9 show increases in take-home wages in China (up 87% since 2007) and India (up 73% since 2008). This is clearly great news for workers, however, when we look at how these increases compare to estimates of a living wage,⁹ there is no real improvement.

The purchasing power of wages remain pitifully low...

...overall because the price of many household essentials (notably food) has been rising substantially in recent years.

In China, whereas in 2007 workers were able to take home 32% more than a living wage, in 2011 workers were only able to take home the same amount a living wage, even with excessive working hours. In India, the gap has remained relatively constant, with workers only able to take home between



35% and 52% of what constitutes a living wage (figures 8 and 9), and again, this is usually earned on the basis of working excessive hours. 77% of workplaces in our sample last year worked more than 60 hours per week.

CHINA	Applicable minimum wage in Impactt data set		Average take home wage		Living wage estimate		Wage gap
	Chinese ¥	US\$	Chinese ¥	US\$	Chinese ¥	US\$	
2007	662	85	1130	145	855	110	32%
2008	716	99	1275	177	1100	153	16%
2009	761	111	1315	193	1300	190	1%
2010	890	131	1595	234	1639	241	-3%
2011	989	150	2110	320	2100	354	0%
% Increase	49%		87%		146%		

Figure 8: Wage gap in China

INDIA	Applicable minimum wage in Impactt data set		Average take home wage		Living wage estimate		Wage gap
	Indian	US\$	Indian	US\$	Indian	US\$	
2008	2459	61	2479	61	4213	104	-41
2009	2898	60	3631	75	5590	116	-35%
2010	2566	55	3367	72	6968	150	-52%
2011	3653	81	4282	95	7967	176	-46%
% Increase	49%		73%		89%		

Figure 9: Wage gap in India



Workers interviewed by Impactt across the world report that current wages are not sufficient to meet their basic needs and support their aspirations for the future.

As one worker puts it "My job makes me happy, but my wages are not enough to meet our family's needs. My husband and I cannot afford to have children." This means that the benefits of migration (opportunity to earn sufficient money to make a step change in the family's fortunes) - which have historically outweighed the pain (poor working conditions, social fall-out on families and children) - are starting to look increasingly flaky.

See the *Lives and Livelihoods* case study to learn how this gap in wages is affecting workers.

CHALLENGE 3: INCREASE IN RAW MATERIALS COST

Rising raw material costs continue to trouble factories: global commodity prices have doubled or trebled since 2006, and accelerated at an outstanding rate in the last year.

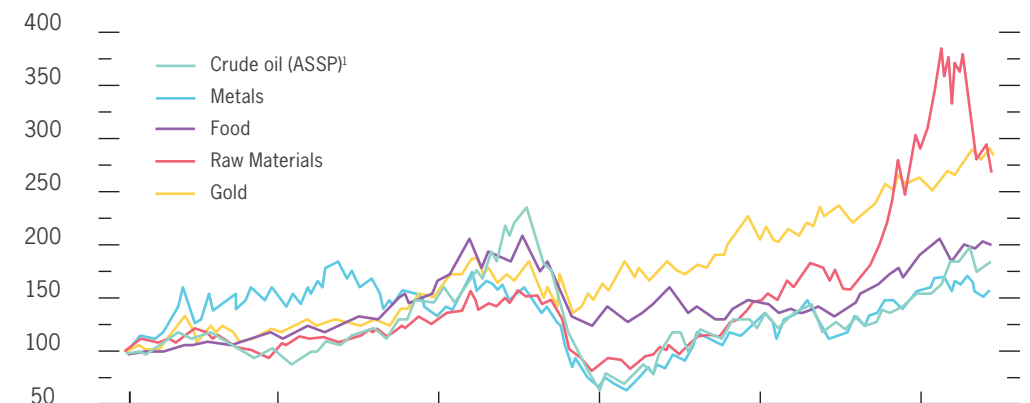
The price of cotton has risen rapidly over the last few years, largely a result of supply issues such as the temporary export bans from India to Bangladesh in 2010 and 2011, the introduction of an

export duty on goods from Pakistan and floods in Pakistan and Australia.

Food prices provide another case in point: global prices of cereals are expected to continue to increase, to as much as 20% higher on average over the next 10 years compared with the previous decade, while meat prices are predicted be up to 30% higher (adjusted for inflation).¹¹

See the *Livelihoods* case study to learn about how rising food costs are impacting the quality of life of workers. When workers are struggling to feed their families, the likelihood of social unrest soars as shown in figure 11.

COMMODITY PRICES INDICES

Figure 10: Rise in commodity price indices¹⁰

LABOUR UNREST MAPPED AGAINST FOOD PRICE INDEX

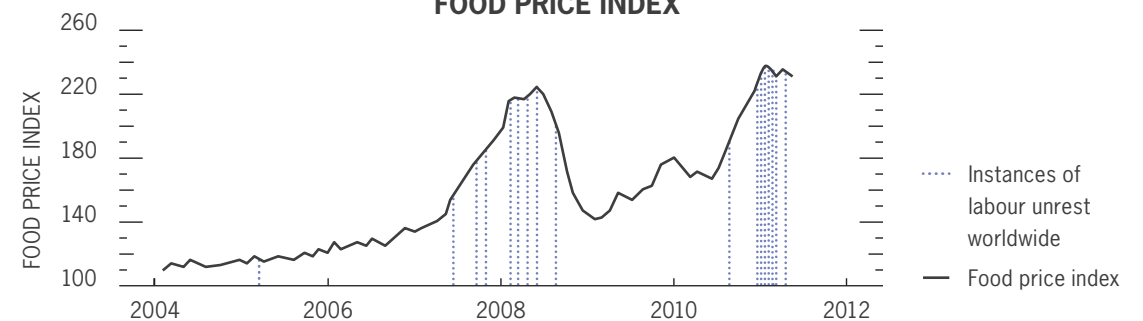


Figure 11: Key incidences of labour unrest, correlated with rises in the Food Price Index.
[Source: Technology Review, August 2011]

CHALLENGE 4: LABOUR UNREST

Workers are responding to the wage gap, and to the continuing poor quality of their jobs through increasing unrest around the world. Figure 12 shows key milestones in India, China, UK and Bangladesh.

Protests, riots and strikes have doubled in the last five years in China to 180,000. 2010 and 2011 saw 202 strikes, 171 lockouts and 14,608,360 man days lost in India.¹² Although one incident may have sparked a protest, the underlying sources of

tension typically include lack of right to organise, differential treatment of temporary and permanent workers in terms of pay and conditions, and societal discrimination against migrant workers.

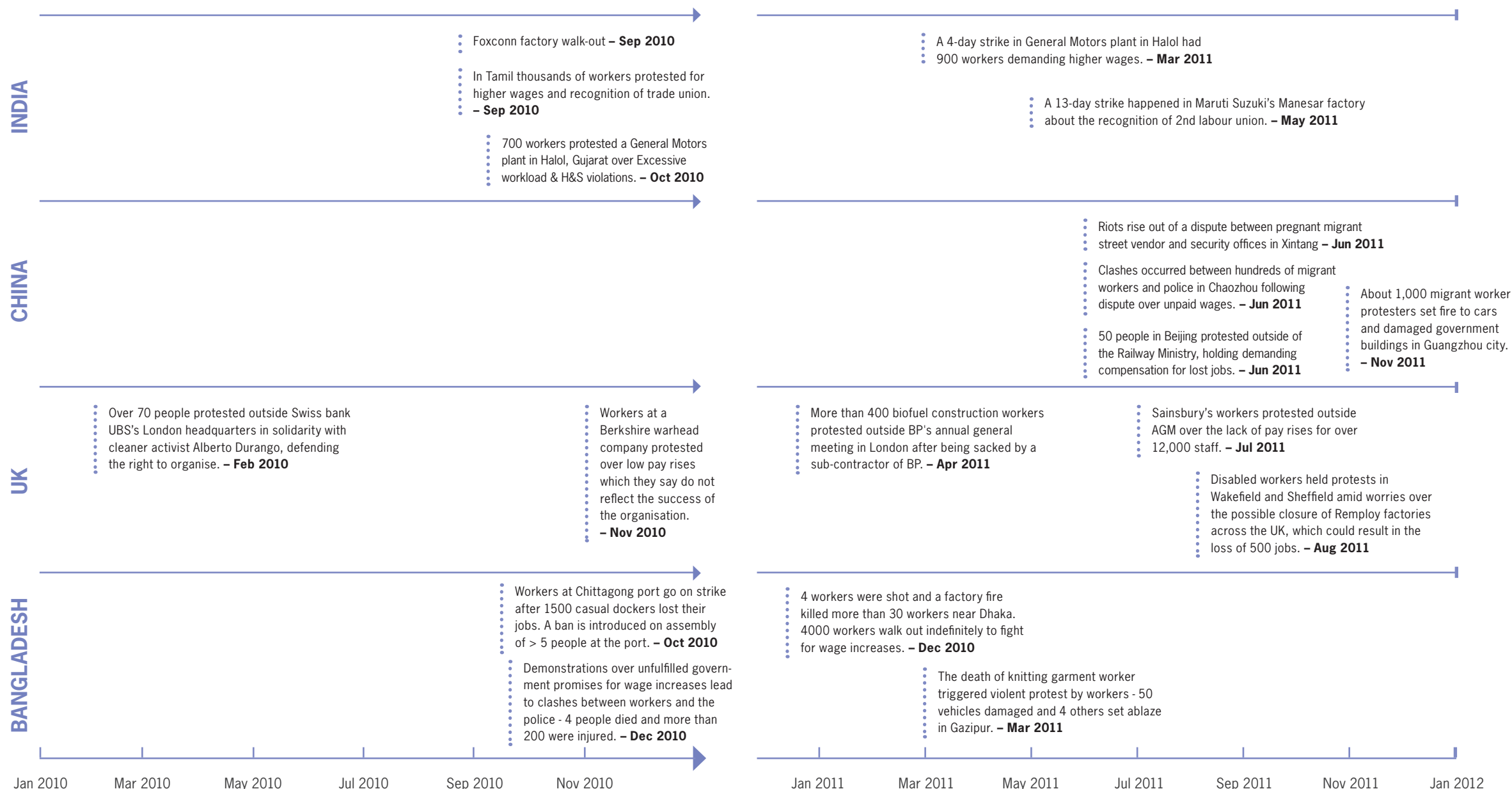


Figure 12: Unrest in China, India, UK and Bangladesh

CHALLENGE 5: THE DIVERSE ASPIRATIONS OF A NEW GENERATION OF WORKERS

With strikes, unrest and labour shortages common-place across many countries, employers are finally beginning to ask *"What do workers really want?"* Many industries are now staffed by a new generation of workers - young, better educated, with big dreams and an eager appetite to participate in the benefits of industrialisation.

Traditionally, employers have felt that the only thing that matters to workers is money.

.....
Whilst money is clearly important, our discussions with thousands of workers across Asia, Africa and Europe show that workers weigh their full benefits package in order to determine their job satisfaction.



Wages often play a major part in this equation. However, workers also value other benefits such as healthcare, savings schemes, subsidised food and education, skills development opportunities, job security and work-life balance.

"I don't like working at this factory because we have to work 12 hours every day and it leaves me no time with my daughter" says Xiao Mei, a young mother in China.

"I want to save money so that we can buy furniture for our new home and two mobile phones. In the near future, I want to set up a cosmetics business." says newly-wed Aatifa from Bangladesh.

As workers witness the benefits of industrialisation, expectations can run ahead of what is on offer, fueling discontent.



A BETTER RESPONSE?

.....
Faced with this new world, unsurprisingly perhaps, most managers and entrepreneurs have tended to respond with more of the same. Using the same desperate methods, which worked sufficiently well before, to hang onto orders and margins and keep workers 'in their place'.

Impactt's data shows that no real change in use of exploitative techniques. Factory managers defend themselves, feeling that their hands are tied when in desperate situations. When first visiting a factory, Impactt often hears managers use excuses such as:

.....
"Workers do not understand... they are uneducated"

.....
"Workers shouldn't really be paid for taking time off"

.....
"Our GM will not approve. We cannot afford a productivity bonus"

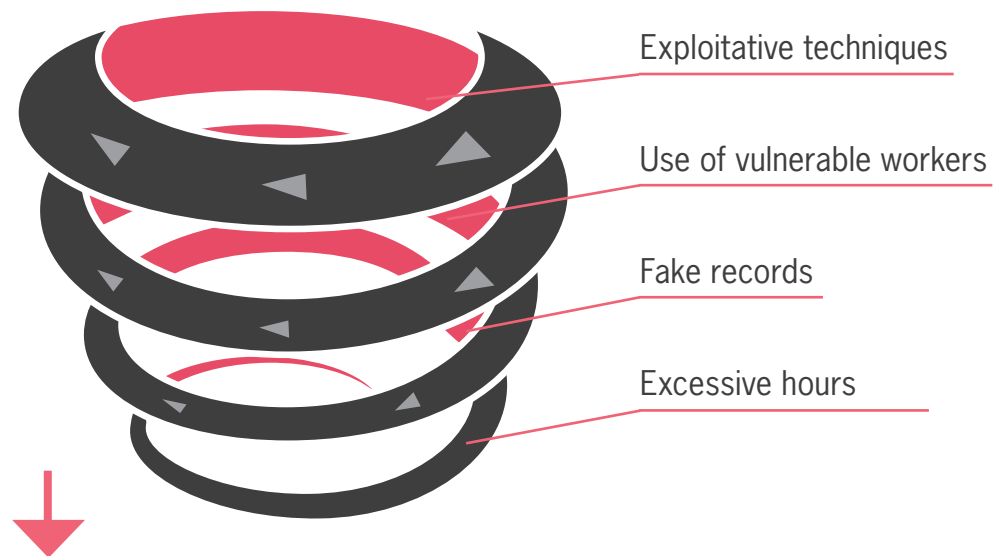
When faced with labour shortages and increasingly demanding workers, factories continue to respond with a greater reliance on marginalised people, such as migrants, agency, temporary and child workers. As one warehouse manager phrased it *"planning would need to be very clever if all warehouse workers were to become directly employed."*

Impactt's data shows that in recent years, factories have been relying more on these types of vulnerable labour in order to boost labour supply in tight markets. These workers are often treated as disposable and more easily exploitable.

Many factories also fall back on child labour, particularly in China, where children were found in 18% of the factories Impactt visited during 2011. Children are hired, either intentionally as labour supply is low, or unintentionally because of lack of age verification systems. Upon beginning a child remediation programme with Impactt, one supplier describes a shift in mindset; *"we should see this as being a great opportunity for us to take a proactive role in improving the situation both for the employees at our factory and for the management, through the introduction of industry best practices, which I am sure will bring commercial as well as ethical benefits"*. Read our tackling child labour case study for more details.

In some situations, management systems and capacity are so weak that they can't cope with the pressures described above. Read our managed closure case to learn how to support workers when factory closure is the only remaining option.

CURRENT MANAGEMENT RESPONSE



OPPORTUNITY

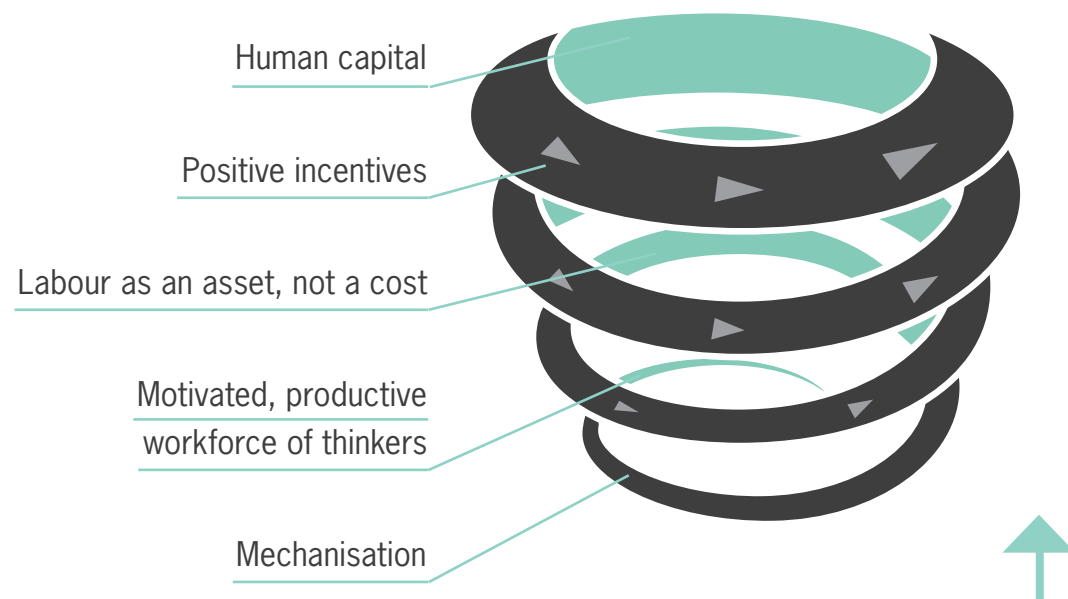


Figure 13: A sea-change in management response

Whilst this picture seems very bleak, Impactt believes that we have reached a crossroads. The opportunity is there for employers around the world to find the sweet spot. This enables them to tackle increasing costs, and increasing dissatisfaction of workers, by creating better quality jobs and encouraging the growth of a more loyal, more empowered and more capable workforce. Continue reading for more detail on this new approach.

The opportunity is there for employers around the world to find the sweet spot

Case study 1: Lives & livelihoods: Now more than ever, it is crucial for employers to have a genuine understanding of their workers' needs rather than making assumptions about what workers want. This case study takes an inspiring and multi-dimensional view on what workers want and what 'decent work' really means for them.

Case study 2: Bridging the gap: putting workers at the centre of the agenda: Failure to listen to workers results in a transient workforce, with low morale, low engagement and low productivity – all real barriers to competitiveness. The prize for getting this right - for providing high levels of job satisfaction and a package which meet workers' needs - is a stable, loyal and productive workforce which enjoys delivering great products on time.

Case study 3: Factory improvement projects: supporting great businesses and good jobs: The results of Impactt's work tackling low job satisfaction, high worker turnover rates, high absenteeism, low motivation, low productivity and 'wrong first time' quality by improving technical skills, increasing the value of the workforce thus providing better jobs, funding higher pay and supporting more competitive and efficient businesses providing higher quality product.



We also set out Impactt's experience of what works when things go wrong:

Case study 4: Remediation and education for life: tackling child labour to bring long-term benefits to children and their families: Setting out what works and what doesn't in getting working children back to school.

Case study 5: Managed closure: protecting workers when businesses fail: Impactt's step-by-step guidelines for supporting workers during factory closures.

CASE STUDY 1: LIVES & LIVELIHOODS

This case study is based largely on research Impactt has carried out for Marks & Spencer. The case study also draws on research and assessments we have carried out for Hewlett Packard and Tesco. We would like to sincerely thank all our contributors.

“Yes, wages have gone up slightly but the cost of basic food items has increased much more. My family is struggling. But I’m happy to have a job in this factory. Five years ago when we migrated from Orissa we had almost nothing. Now both my husband and I have jobs and our children go to school.”

We were speaking to Shanti, a 26-year-old mother working in a garment factory in Tirupur (South India). Shanti’s inspiring words symbolise the reality of millions of workers from factories and farms supplying the global market. These jobs in international supply chains are better than any alternative available and are worth travelling hundreds of miles for, but do not provide adequate income and permanence.

Traditionally, brands and employers in producing countries viewed the jobs they provide purely as a way for workers to earn an income and pay the bills each month. Money is of course important; however, Impactt’s research with hundreds of workers shows that they also value other benefits such as health-care, savings schemes, subsidised food and education, skills development opportunities, job security and work life balance.

Now more than ever, it is crucial for employers to have a genuine understanding of their workers’ needs rather than make assumptions about what workers want. This understanding is vital to developing a skilled and loyal workforce that is sufficiently productive and engaged. Without it, employers may not be able to cover rising costs and remain competitive. Most of the factories Impactt has visited are characterised by highly transient workforces and high labour turnover. For employers, this is a tremendous cost and a barrier to growth.

This case study looks at what workers want and what ‘decent work’ really means for them.

This includes:

- Wages
- Economic wellbeing
- Social and emotional wellbeing
- Aspirations for the future

WAGES

Providing legal minimum wages remains a challenge for many employers worldwide. Moreover, minimum wages in many countries are not sufficient to meet workers’ basic needs and workers continue to struggle under the pressures of ever-increasing cost of living. This makes higher wages an important issue for most workers we have spoken to.



STRUGGLING FATHER (INDIA)

Raj Kumar is 29 years old. He came to Delhi 10 years ago while his wife and 2 children live in the village. His main priority is to save money and send his children to school. But his current salary is not enough.

He cuts back on food and as a result his health is suffering. He earns around Rs 4300 (US\$86.22) every month and sends Rs 2300 (US\$45.98) back to the village. He often needs to take time off to go to the bank and see the doctor.

INVESTOR IN EDUCATION (BANGLADESH)

Ratna and her family moved to Dhaka five years ago to set up a new life. After moving to the city, Ratna realised the importance of education. “When the supervisor shows us some work, it is very tough for me to understand. But the educated workers understand very quickly. It is easier for them to move up from helper to operator.” So Ratna has vowed to send her four children to school. If they want, she will also support their college education. “The only dream in my life is my children’s education.”

TOWARDS A LIVING WAGE?

Over the last couple of years, some brands and retailers have started exploring ways to make the concept of a ‘living wage’ a reality in their supply chains. One of the most well-known and highly debated living wage campaigns is the Asia Floor Wage (AFW). It has been defined and calculated by a coalition of labour organisations across Asia,

supported by unions, NGOs and academics from Europe and Asia. AFW aims to provide a fair, decent and unified wage figure, which could be standardised and compared across Asian countries. On average, the AFW is almost double the prevailing minimum wage across 6 key sourcing regions (see table below).

Country	Min Wage 2011 (\$)¹³	AFW 2011 (\$)	AFW compared to minimum wage (%)
China (Dongguan)	\$172.93	\$289.59	+67
India (Delhi)	\$123.41	\$161.60	+31
Bangladesh	\$39.34	\$160.63	+308
Indonesia (Jakarta)	\$145.43	\$240.38	+65
Sri Lanka	\$62.59	\$173.06	+176
Cambodia	\$62.79	\$169.83	+170
Average	\$101.08	\$199.18	+97%

Figure 14: Minimum wage versus Asia Floor Wage in 6 key countries

Impactt has been working with a number of clients to trial a number of living wage research methodologies, primarily in Asia. Our approach includes establishing a living wage figure based on local food basket research and speaking to workers to understand their aspirations.

Since 2010, Impactt findings show that:

- On average, Impactt's living wage figures are 83% higher than local minimum wages across five countries in Asia, i.e. China (Dongguan), India (Okhla), Bangladesh, Sri Lanka and Indonesia.
- Of 277 workers interviewed across five countries in Asia, 43% reported their current wages are not sufficient to meet their family's basic needs.
- Impactt asked workers to indicate their aspirational wage, which is a wage level that they believe will enable them to achieve the standard of living they aspire to. Aspirational wage figures were, on average, 116% higher than local minimum wages and 15% higher than the Asia Floor Wage. This shows workers' views of an 'acceptable' lifestyle are changing rapidly and expectations run ahead of reality.

HARD WORKING WIFE (INDIA)

Priya works hard to support her family. This is her main priority. She has chosen to work at a particular garment factory for many years because of the benefits offered - pension scheme, medical insurance and regular work throughout the year. This is very important because Priya's husband had an accident last year and lost his job. Thanks to the medical insurance, they can still get by. Otherwise, she would not be able to cope. She plans to stay at this factory for at least another 5 years to earn her gratuity pay.

ECONOMIC WELLBEING

Impactt's research shows that workers seek various forms of economic wellbeing, in addition to higher wages, including:

- Access to social benefits
- Healthcare
- Access to financial services
- Subsidised food
- Child care facilities
- Subsidised education
- Skills development opportunities

Brands and employers have an opportunity to identify which benefits are most important to their workforce and provide these as part of a better 'package' to attract and retain workers.

HOPEFUL DREAMER (UK)

Carolyn has had the same job for the past 15 years, but the last 3 years have been particularly difficult: *"I go into my overdraft every month; it is the only way to keep afloat. I need it to cover the basics, i.e. food bills and rent."* She dreams of running her own café or restaurant and having a mortgage, but she says *"I can't get a loan from the bank."* Her priority is paying off her loans and helping her 19-year-old son through education so he can get a better job – *"When you're 19 you don't really think about education and the future all that much. I don't want him leaving [his studies] and then being stuck in a low paid job"*.



SOCIAL & EMOTIONAL WELLBEING

Many of the workers we have interviewed talk about the importance of security. In addition to wages and economic benefits, the following priorities are gaining increasing importance in workers' lives:

- Security (often through continuity of employment)
- Work-life balance / time to spend their family
- Workplace atmosphere
- Entrepreneurial drive

BUDDING ENTREPRENEUR (INDONESIA)

Agung enjoys his job. He has many friends at the factory and they like working together as a team. His dream, however, is to save up Rs 3 million (US\$60,156) and set up his own poultry business before he gets married.

For now, he is happy to be on his own. Sometimes, in the evenings or on holidays, he goes door to door playing his guitar. He earns some money that way and also has a good time. Agung saves as much as possible and sends back remittances of around to his family back in the village.

Agung says his sole purpose in life is to make his grandmother happy. His granny brought him up while his mother was not around and he owes a lot to her. So, when she says he should get married, he will.



WORK LIFE BALANCER (CHINA)

Jing is 37 years old, married with one child. They live in a two-story house with a big yard. Her husband is a lorry driver and is often out but usually returns every two days. In her family home they have a TV, refrigerator and washing machine. *"I like my job because the factory is very near to my house which means I can spend time with my family and we can enjoy together everyday... it helps me balance my work and life."*

Her son is seven years old and attends Grade 1 at the local primary school. Like most mothers, Jing hopes her son will go to university. *"I want to give him strong financial support if he wants to continue his education... maybe he will become a doctor!"*

ASPIRATIONS

Workers are thinking keenly about where they are right now and where they would like to be in 5, 10, 15 years. Aspirations keep growing as they are met. Impactt interviews workers across Asia, Africa and Europe to understand their aspirations and how these shape their livelihood decisions. We have learned that aspirations vary considerably at a macro level (e.g. from country to country) and at a micro level (e.g. among different workers at the same factory).

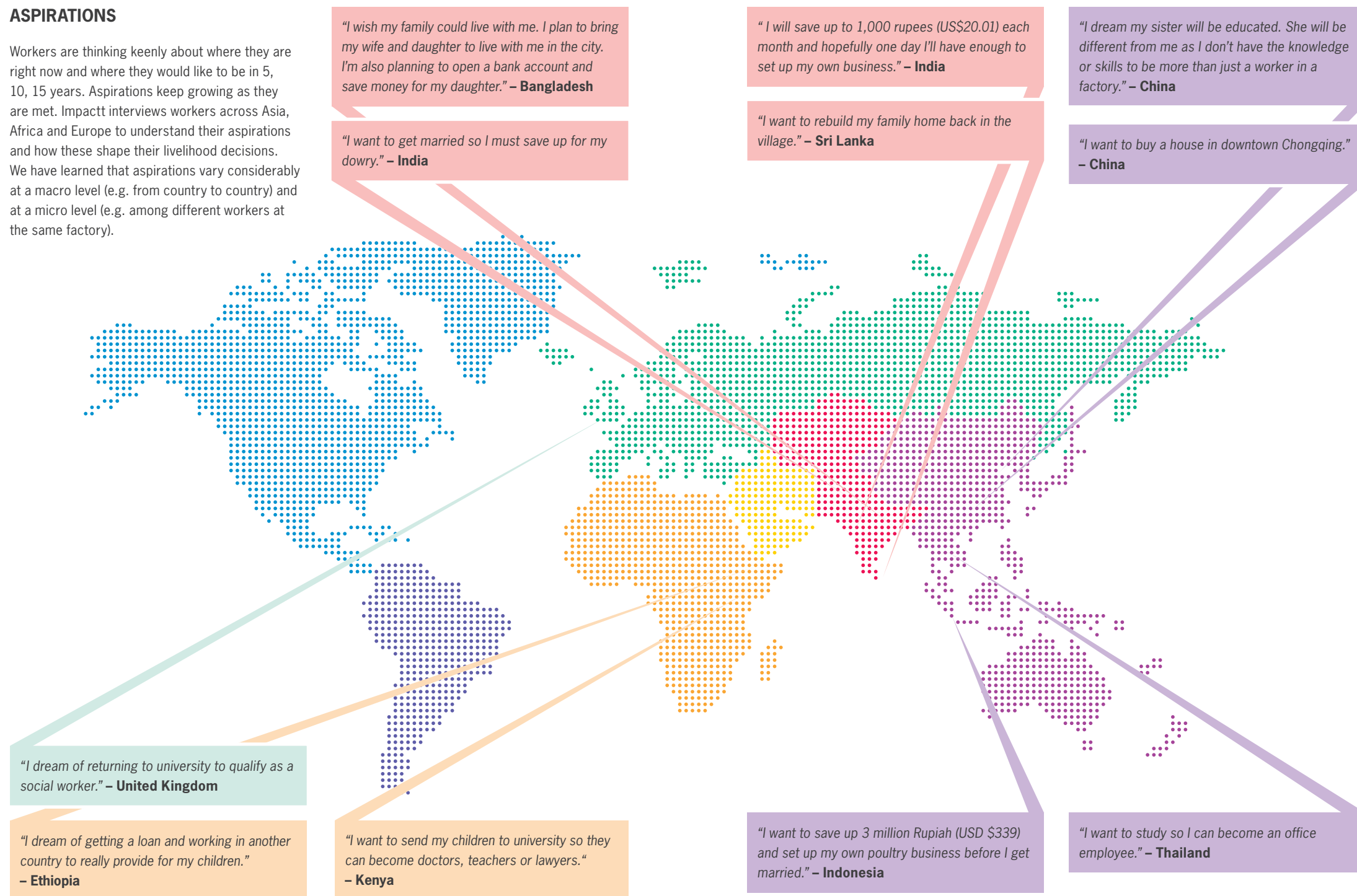


Figure 15: Worker aspirations worldwide

Impactt carried out research at a factory to understand worker profiles and their different priorities/aspirations. This was very important in helping the supplier understand how best to motivate and retain workers.

BUDDING ENTREPRENEUR

Female worker (25, single, no children)

The budding entrepreneur is motivated by the opportunity to save enough to set up a small business, maybe a shop selling clothes. She would like to return to her home town to do this, since she would like to be close to her family and to take advantage of cheaper living costs. She is not interested in having a big social life. Her priorities are studying, getting a promotion, working hard and saving.

What would motivate the budding entrepreneur to stay at the factory for longer?

- Opportunity to learn business skills, free of cost after a year at the factory.
- Steady career progression.
- Financial and banking literacy.
- Savings scheme, perhaps including matched savings for years of service.

BREAD WINNER, A LONG WAY FROM HOME AND FAMILY

Female worker (28, married, 2 children)

Her husband works as a taxi driver in her home town. She makes more money; he helps out on their parents' land. It is easier for women to get factory jobs. She lives outside the dormitory because it is too noisy. She is saving money for her children's education. With only 1 child she was confident about supporting them through school, even university. With 2 children it is a bit tighter. She hopes to be able to earn enough to save to go back home and spend time with the children whilst they are still young. She is worried that she isn't there for her children and the news about school stabbings makes her nervous. She wishes she could be there to protect them.

What would motivate the breadwinner a long way from home to stay at the factory for longer?

- Savings scheme perhaps including matched savings for years of service.
- Cheap safe ways of making regular remittances.
- Quieter accommodation in the factory.
- Skype videoconference facilities.
- Ways to have more planned leave so as to spend more time at home, with the commitment to return to the factory.

FOOTLOOSE AND FANCY FREE

Male worker (24, single, no children)

He doesn't send regular payments home to his family, but buys generous presents when he visits them. He is not currently saving and spends his money on cigarettes, clothes and going out. He has enough money for himself, but not enough to support his family. He does not feel like he earns enough money to have a girlfriend and take her out. He is not sure exactly what his aspirations are. He would like to earn more but believes it is really difficult to get to Grade 3 and very few people

make it. He is not confident about finding time to study alongside long work hours and a social life. If he does not reach Grade 3 in 6 months he will probably leave if he can find a better paid job.

What would motivate the footloose and fancy free to stay at the factory for longer?

- More subsidised social activities.
- More opportunities and support to reach Grade 3.

Around 12 months after this research project was carried out, the supplier involved reported that:

- Understanding differences in workers' aspirations had been very useful and it inspired them to carry out an annual, in-depth worker survey.

- They used the research findings to develop new salary and bonus structures, which meet different workers' needs.
- Worker turnover levels in this factory have decreased and are now among the lowest in the industry.

WORKER PANEL

Sensing the tremendous interest in understanding worker views and priorities, Impactt is now launching a new initiative called 'Worker Panel'- this is an independent mechanism to gather monthly insights and intelligence on worker sentiments and identify key micro and macro trends. Panels are initially being launched in China, India and Bangladesh. They will provide insights into:

- Worker profiles and whether profiles are changing.
- How workers make decisions about where to work and why.
- How far workers' money really goes.
- Job satisfaction.

Brands and other organisations are welcome to join. Find out more at www.impacttlimited.com/workerpanel

Understanding workers' needs and making plans to meet them is a vital first step in building stronger and more competitive businesses.

CASE STUDY 2: BRIDGING THE GAP:

PUTTING WORKERS AT THE CENTRE OF THE AGENDA

Workers are moving into the spotlight, and with good reason. A deeper understanding of workers' views is essential for any business that aims to have successful supply chains in the 21st Century.

Failure to listen to workers results in a transient workforce, with low morale, low engagement and low productivity – are all real barriers to competitiveness.

*"The prize for getting it right...
is a stable, loyal and productive
workforce which enjoys delivering
great products on time."*



However, a lot needs to change before this prize can be attained. Learning to listen and understand workers' needs is not an easy task. What makes this a challenge?

Deeply held set of assumptions about workers and their capability:

"They are uneducated/what do they know?"

"They cannot learn to do things differently"

"What workers want is unrealistic"

"All they care about is getting more money"

"How can we get workers to be open on difficult topics?"

"How can we get past coaching or restricted access?"

"How can we support workers to imagine change?"

Difficulties in accessing workers' views:

Risks if we dig this deep:

"What might we find? - it will open a can of worms"

"How can we manage the expectations of so many workers?"

"What if we find something that is beyond our control?"

Over the last five years Impactt has consulted face-to-face with over 10,000 workers across 22 countries, in a wide range of manufacturing and service industries.

IN ENGAGING WITH WORKERS, IMPACTT HAS ESTABLISHED 7 GOLDEN RULES:

- 1. Speak to workers as equals.**
- 2. Be curious: what workers have to say is very interesting and important.**
- 3. The act of asking the question influences the outcome in some way. Be careful to keep the questions very open.**
- 4. Start with the positive before jumping to the problems. Ask questions to explore the 'best' of what already exists.**
- 5. Ask powerful questions which:**
 - Generate curiosity in the listener
 - Are thought provoking
 - Invite creativity and new possibilities
 - Bring underlying assumptions to the surface
 - Evoke more questions
- 6. Use a mixture of individual conversations and group discussions so that people can spark off each others' ideas.**
- 7. Carry out interviews in a relaxed, informal atmosphere.**

"Tell me something that you do, in your work or at home, that you are very passionate about. When you are doing this thing, are you engrossed and strive to give your best?"

"Tell me about an experience in your work that was very challenging – maybe it was new or it was something you tried to do differently. But you took up that challenge, worked hard at it and were able to succeed. What was that challenge? Who supported you in taking and meeting this challenge? What did you learn about yourself through this experience?"

"Tell me what are the big differences you have made in your life since you started working here? Share some experiences that made you aware of these differences. How did these experiences make you feel?"

"Tell me about an experience at work that made you feel valued – when you felt like your contribution mattered."

"Tell me two things that you value most about working here."

"Tell me one thing that, if changed, could really help you perform to your best capacity."

Gathering workers' views isn't just about collecting interesting information for annual reports or using worker testimony to verify audit findings. Worker insights play a much deeper role. They can and should be used to directly inform business decisions and ethical project outcomes.

Impactt imagines a paradigm of ethical trade where the design and measurement of ethical trade projects is based largely on what workers say. A paradigm where workers' voice gets louder and there are more listeners.

BUILDING BETTER BUSINESSES FROM THE BOTTOM UP

Industry	Country	Workers consulted
Woven Baskets	China	30

Most supply chains across the world today are highly complex and dynamic. Global brands buy from first-tier suppliers or factories which may sometimes sub-contract production to other factories, informal units and/or homeworkers - as shown below in an example woven basket supply chain:

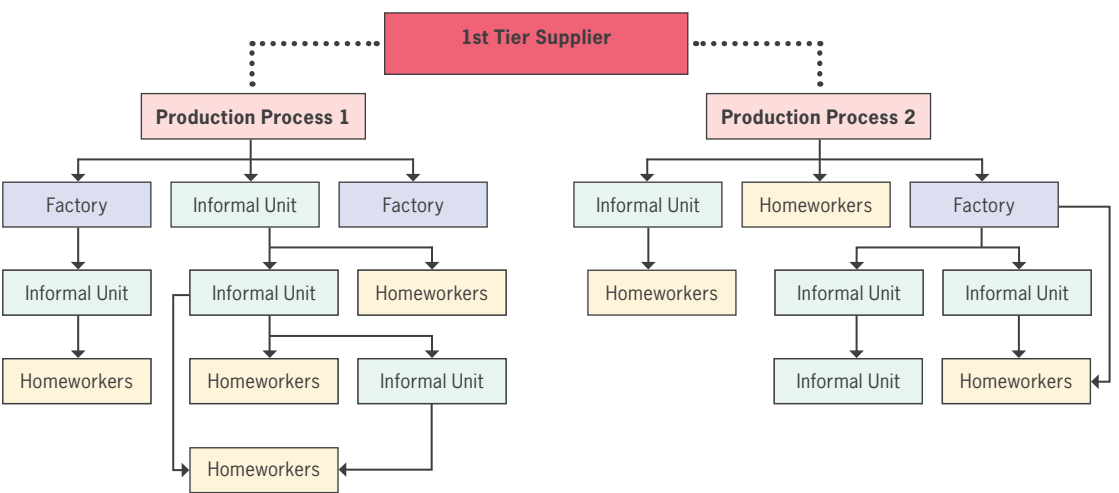


Figure 16: Sample 1st tier supplier

These informal supply chains provide significant business benefits by providing flexibility in production and add unique design value to the product. Workers in these informal supply chains are often not very visible up the supply chain and the client identified the opportunity to better understand the different people involved in their

supply chain (from homeworkers to the first tier factory), their working conditions and the impact of these jobs on their lives. The brand recognised that in order to develop a sound understanding and viable solutions to any problems found, they would need to access workers' views on their realities and aspirations as well as the business needs and challenges of the supply chain.

All the workers Impactt spoke to were women and the majority were above 50 years of age. They spoke passionately about the benefits of this work in their lives:

INDEPENDENCE

"I am proud to have this job. It is good for a woman to work and reduce the burden on the men. Many women in my village are only responsible only for cooking and looking after their children. By earning money a woman can be more independent." – Informal unit worker

CULTURE AND HERITAGE

"You cannot simply call basket-weaving 'work'. It is a craft. Women were doing this before the Cultural Revolution- these skills have been passed down for generations." – Homeworker



INCOME

"Yes we can save money every month. It is important to save money...even though I am old my family will need it for the future: for my children... my grandchildren. At Chinese New Year or other special occasions I need to give red envelopes. Especially for my grandson at Chinese New Year – and what about when eventually he gets married? Yes, it's very important to have money for the future." – Homeworker

SUPPORT FOR THE FAMILY

"My son has been suffering from epilepsy since he had an accident 3 years ago. He cannot look after himself, cannot even feed himself. Basket-weaving is very good so I can stay at home all the time and look after him. Also, the money is guaranteed. I get paid on time." – Homeworker



However, there were some serious challenges too. See the table opposite to see what workers said:

TOPIC	WORKER INSIGHT	POSSIBLE SOLUTIONS
Long working hours	<p><i>"We don't record the number of hours we work, but on average it is around 81 hours per week. We work a 15 hour day at least once a week."</i></p> <p>– Informal unit worker</p> <p><i>"Even on the days where I do not leave the house I am working very long hours to make my baskets!"</i></p> <p>– Homeworker</p>	<ul style="list-style-type: none">• Work with informal unit management and homeworkers to implement basic systems for accurately recording hours worked.• Analyse current work practices and identify opportunities for quality and efficiency improvements (so workers can do the same work in less time).• Recruit more workers if required.
Low wages	<p><i>"We get a fixed salary of 750RMB per month regardless of the hours we work."</i></p> <p>– Informal unit worker</p> <p><i>"Men will not do this job because the pay is too low. Young people will not do this job because the pay is too low. So it is left to the women who cannot find another job easily and we are still healthy enough to complete the work."</i></p> <p>– Informal unit worker</p> <p><i>"The piece rates we received are very low. But we know the middleman cannot give us a better rate unless he gets a better rate from the factory."</i></p> <p>– Homeworker</p> <p><i>"I don't know how much longer I will continue to do this work – it will depend on the money – whether it continues to be worth it."</i></p> <p>– Homeworker</p>	<ul style="list-style-type: none">• Explore ways to increase the brand's cost prices in order to part-fund wage increases along the supply chain.• Analyse current work practices and identify opportunities for quality & efficiency improvements (so workers can work fewer hours but earn the same money or more).• Introduce a scientific way of calculating homeworkers' piece rates based on time trials.

THE OUTCOME

The brand is very engaged and keen to create meaningful change in its supply chain. They are exploring means to increase cost prices and work with their supplier to implement the solutions described above.

Impactt's learnings from this experience:

- Making change requires a holistic approach towards understanding supply chains - you can't create change at one end of the chain without changing practices at the other end.

- Homeworking brings tremendous benefits to workers and business - it should be encouraged along with offering adequate protection and support for homeworkers.
- Although at the very bottom of the chain, homeworkers sometimes enjoy better working conditions than other workers in the chain.

DEVELOPING SUPPLIER STANDARDS BASED ON A FAIR AND FEASIBLE EMPLOYMENT MODEL

Industry	Country	Workers consulted
Food	UK	86

The UK food supply chain is a demanding environment with challenges including fluctuating demand, seasonality and tight cost prices. One way suppliers manage this is by using a casual workforce, often made up of foreign, migrant workers, recruited and managed through labour agencies. The Agency Worker Regulations, which came into force in October 2011, have been a catalyst for the industry to scrutinise its labour practices in relation to the use of agency workers.

A supermarket identified the opportunity to work with its suppliers to support decent treatment of all workers, including agency labour. The supermarket decided to work with suppliers to develop practical guidance on how to deliver this. The supermarket recognised that this guidance needed to be based on workers' view on what is fair and decent.

Impactt adopted a discussion-led focus-group approach and consulted with 86 agency and non-agency workers of 9 different nationalities. The discussion centred on building consensus on what constitutes fair employment in order to identify possible solutions. The table on the right shows some of the strongest identified by the workers.

THE OUTCOME

Based on these findings, and further consultation with suppliers and agencies, the supermarket developed a charter of commitments for ensuring decent treatment of staff. These commitments include practical guidance notes in line with the solutions above and were launched in May 2011

with all suppliers from one food category in their supply chain. The retailer is looking into how these commitments can be scaled up within their supply chain and across other retailers' supply chains through cross-retailer collaboration.

Impactt's lessons from this experience:

- Developing practical guidance on ensuring decent treatment of workers requires consensus building from the bottom-up – demonstrating where workers felt most strongly and had unified views leveraged suppliers, agencies and the retailer to think seriously about what solutions are possible.

Recommendations

Currently, worker consultation is often not the foundation for developing ethical projects and strategies. This is a substantial oversight. Impactt urges brands and retailers to:

- Use worker consultation as a key part of all projects aiming to improve workers' livelihoods - not just to find out about their problems but to support them in coming up with appropriate solutions which would work for workers. This will increase the feasibility, credibility and sustainability of project outcomes.
- Take a step-by-step approach – engaging first with a small number of workers can be a good start to build mechanisms that engage with an increasing numbers of workers over a period of time.
- Find and support mechanisms which help access genuine worker views and work towards establishing sustainable systems. This may include worker representation through unions or committees, worker communication channels, worker support networks run by local NGOs and bespoke research projects.
- Collaborate with other brands to find out worker views on specific topics and use these insights to design multi-stakeholder projects.

- Use worker insights strategically:
 - To design policies and projects
 - To defend the credibility of ethical trade programmes
 - To partner with NGOs and relevant local organisations

TOPIC	WORKER INSIGHT	POSSIBLE SOLUTIONS
Regular employment	<p>"Job roadmaps would be good – so that we have some idea of where we are going and how to get there – this would give agency workers a goal/motivation and increase commitment to the company,"</p> <p>"Agency or permanent worker status has an impact on quality of life."</p>	Take a planned approach to casual labour: track the numbers of workers engaged in different forms of employment, length of service and regularity of work with a view to providing permanent employment where feasible.
Pay	<p>"It is detrimental to the factory to not offer pay parity as workers will leave as soon as they find a better paid job – and all that training will be wasted."</p> <p>"If payment is in line with permanent workers – this will give agency workers a goal/motivation and increase commitment to the company."</p>	Ensure agency workers have pay parity.
Hours	<p>"What if I only work one day next week or what if they don't need me after tomorrow how will I pay for a long-term lease on a house or buy a car?"</p> <p>"I have worked for other agencies where if you did not agree to overtime your next week's hours were cut short."</p> <p>"Overtime should be paid at a good premium, this means that those who want to earn more money will volunteer and those who cannot because of their personal circumstances will be able to say no without being afraid of losing their job because there are already enough volunteers."</p>	<ul style="list-style-type: none"> • Manage worker expectations on length of and payment for each assignment. • Clearly communicate voluntary overtime policy with no retaliation. • Pay overtime at a premium rate.
People management & communications	<p>"Managers or supervisors should not shout they should explain what is to be done; that is their job!"</p> <p>"If I see an agency worker being treated badly I will stand up for her – but what if no-one is there to do that? Who can she go to? I don't know!"</p>	<p>Include clear procedures for integration of agency workers in service level agreement between supplier and agencies including:</p> <ul style="list-style-type: none"> • Senior management responsibility to work directly with agency • A range of mechanisms for agency workers to raise complaints or grievances with agencies including: <ul style="list-style-type: none"> ◦ Systems that prevent retaliation ◦ Procedures for communicating complaints and resolutions between agency and supplier

CASE STUDY 3: FACTORY IMPROVEMENT PROJECTS

SUPPORTING GREAT BUSINESSES & GOOD JOBS

In 2010 and 2011 Impactt worked with 21 factories employing 18,900 workers in the garment, toy, printing and household sectors in China, India and Bangladesh on factory improvement projects. Some of these projects are supported by DfID's RAGS Challenge Fund. These projects focus on tackling low job satisfaction, high worker turnover rates, high absenteeism, low motivation, low productivity and 'wrong first time' quality by...

...improving technical skills, increasing the value of the workforce and thus providing better jobs...

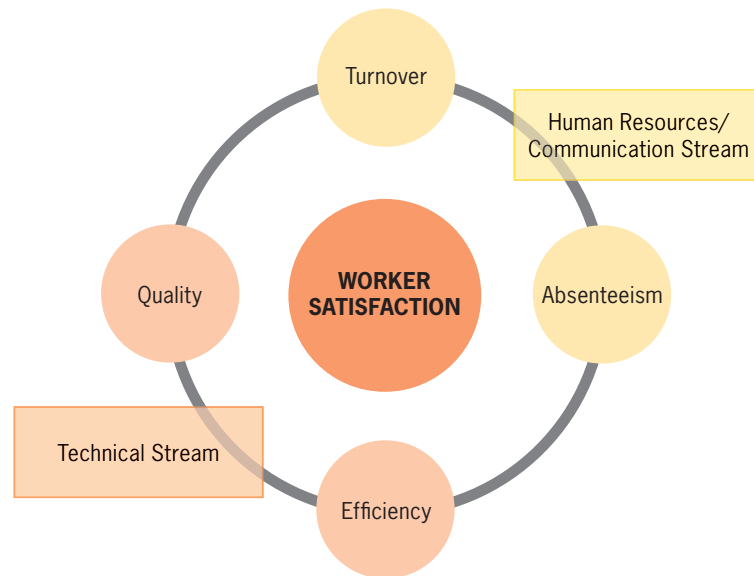


Figure 17: The Factory Improvement Project model

...funding higher pay and supporting more competitive and efficient businesses providing higher quality products.

BUILDING A STABLE WORKFORCE

Worker turnover is one of the biggest challenges facing manufacturing businesses in Asia.

The average monthly turnover in the 21 factories we worked with was 9%, stacking up to a massive 108% per year.

Managers and supervisors are faced with a daily battle simply to ensure that there are enough people sitting on the lines. Building skills and teamwork become secondary. The length of service in some Indian and Bangladeshi factories was extremely short with up to 23% of new recruits leaving in their first month and on average 53% leaving before they complete their 6th month. In China, the vast majority of workers leave within 1 year.

It is not uncommon to find HR officers spending most of their time recruiting workers, as businesses are desperate to staff the production lines. The recruitment, done in a hurry, skips the basics of induction, meaning that workers are put on the work floor with limited knowledge of their entitlements, workplace policies and job content. Workers, disoriented and not trained to the levels required by the business, feel extreme pressure, do not earn as much as they can or wish and eventually leave.

Managers tend to believe that workers are entirely financially motivated:

"Workers, they change factories for one paisa"¹⁴

– Factory manager, Bangladeshi garment factory

But the real picture is more complex. Impactt's teams worked with workers and factories to understand the reasons for the dissatisfaction which was pushing workers to leave. Key drivers include:

- Poor recruitment practices – factories tend to hire anyone, without looking at skills, ability or motivation.
- Poor or non-existing induction and promotion process – workers are dumped on the line, without any guidance. Those who stay are not given any idea of how they can progress.

• No way to raise issues – there are no routes through which workers can raise questions or complaints and no structures in place for managers to understand workers' points of view, resulting in outdated or inaccurate views of workers' needs.

• Low level of pay and/or high level of working hours – pay is indeed a key factor, together with the number of hours workers need to work to earn that pay.

The project team worked with managers to support them to understand workers' priorities and to identify what would encourage them to stay. Impactt established better recruitment, induction and promotion processes, and opened up channels of communication between workers and management. Figure 18 shows the results – a reduction of 33% across the board, with particular success in Bangladesh and India. In China, turnover rates were lower than in India and Bangladesh and reducing them has proved challenging. This is largely due to structural issues in the labour market. Nevertheless, we were able to make small but important progress.

Reduction in worker turnover of 33% across the board

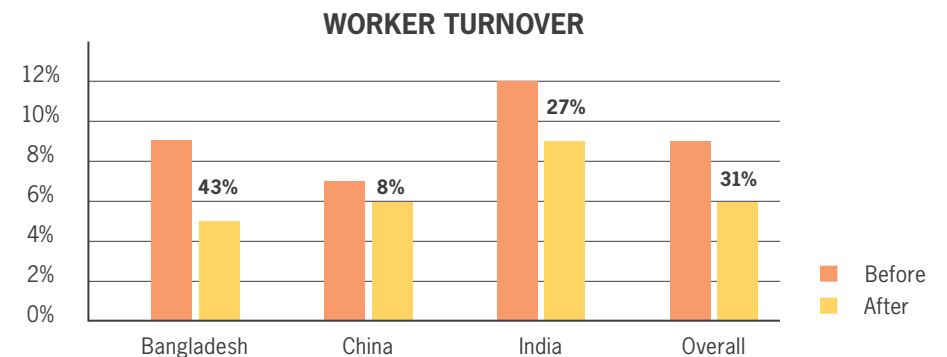


Figure 18: Monthly turnover rate per country – before and after

WHAT DO THEY SAY?

"We realised that the one of the reasons for high absenteeism and turnover was that the relationship between supervisors and workers is missing."

– **Bangladeshi factory manager**

"As a labour-intensive enterprise, the workers' stability is essential for maintaining good quality and technical innovation."

– **Chinese HR manager**

"I spend most of time recruiting workers, they leave almost instantly, 23% leave in the first month; my work is pointless". The HR manager at this factory in India was desperate to retain his workers.

We worked with him for a period of 6 months on improving the induction process, analysing skills at recruitment stage and communicating with workers on what was expected of them.

Other new HR initiatives at the factory include the launch of a new induction programme and family/home visits by HR officials. Resolution of transport issues by reducing the number of bus routes to and from the factory has been welcomed by workers: *"Optimisation of transport routes has brought about better discipline".*

41 out of 55 workers hired in July 2011 have been retained. Turnover has reduced from 11% to 4% and interaction between the HR team and the workforce has increased.

Management was very positive and said *"Our attitude and approach towards workers has since changed for the better after".*



ABSENTEEISM

Absenteeism is another key challenge facing factories.

Absenteeism puts additional stress on workers and managers

With an average of 10% of the workforce absent without permission/notice on leave on any given day it is easy to see the challenges facing supervisors in trying to organise production. Absenteeism puts additional stress on workers and managers, and is a key cause of frustration and short fuses on the line, as supervisors try to fill gaps and push workers to make up for lost production.

Managers and supervisors tend to have simplistic and negative views on the reasons why workers take absence. *"Workers, you know, they are lazy, it is hard to motivate them to come to work"* (Factory

manager, Chennai) is a typical response. When we asked workers why they were absent, the response was quite different. Workers take time off to go to the doctor, to meet family obligations, because they feel tired or to go to the bank or a parents' meeting at their child's school.

One problem is that, because the process for taking leave or booking holiday tends to be very complicated or not implemented, the only way that workers can take time off is through unauthorised absence, leaving supervisors in the lurch.

Health Issue
Feeling tired
Family Obligations
Caring for family members
Bank
Religious Festivals

Figure 20: Word cloud – Reasons for taking leave

Managers tend to be nervous of implementing a proper leave system, because they worry that workers will take lots of time off...

...but this tends to be a false assumption as workers take absence instead. Another root cause is that workers are not hugely motivated by their work, and the incentives for full attendance tend to be too low.

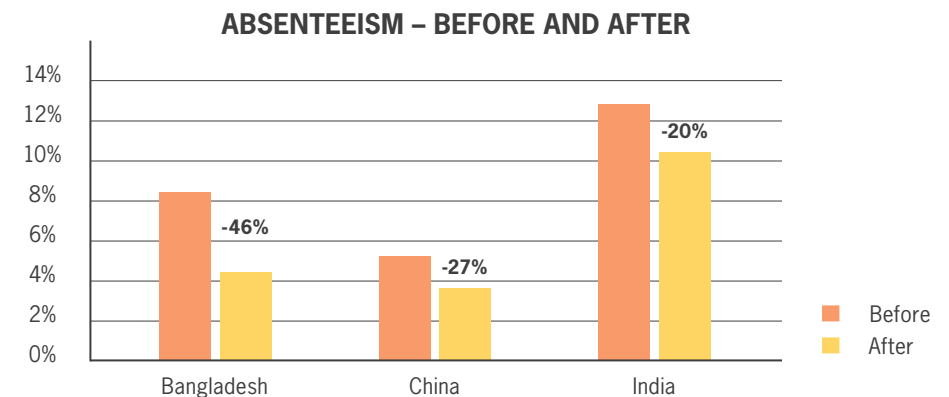


Figure 19: Monthly absenteeism rate per country – before and after

Impactt has worked hard with factories to develop the distinction between planned paid and unplanned unpaid leave. By developing proper leave systems and ensuring that supervisors and managers implement them, together with motivating attendance bonuses, we have been able to reduce absenteeism by 28% across the board, with particular success in Bangladesh, where factories have achieved a reduction of 33%. Impactt's work shows that, to be motivating, an attendance bonus must equal at least three times the daily wage.

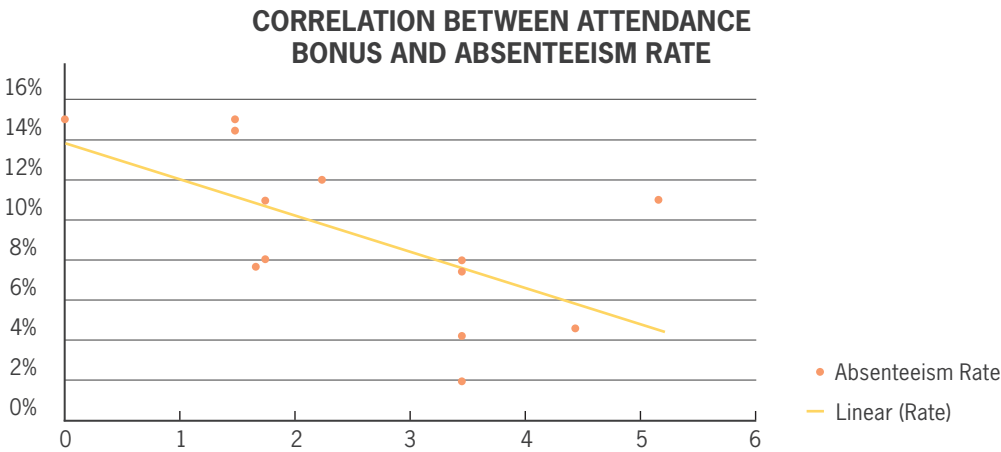


Figure 21: Inverse correlation between absenteeism and value of attendance bonus

WHAT DO THEY SAY?

"Before the leave procedure was very time consuming – I had to go to the supervisor, then the floor in-charge, then the production manager and the HR office. It was better to be absent. But now things have changed. We have a one-step leave policy and it is much easier to take leave."

Bangladeshi factory manager

"We had a huge issue motivating our workers to come to work, most of them are not on the roll, they are contract labour, you know... So we decided to increase the attendance bonus to 700 rupees per

months". After a couple of months, this Indian factory saw a drastic reduction in absenteeism. It used to be at 14%; it is now at only 11%. This represents a decrease of 21%.

Workers reported that they are very positive about the introduction of the bonus and that they have more contact with and trust in management: "We look forward to more contact and communication with management, and their support on the issues that affect us".

EFFICIENCY

Efficiency is often hampered by poor human resources practices, as well as technical production and industrial engineering capability. Bangladesh and India which suffer from the worst absenteeism and turnover rates have the lowest efficiency levels. On the contrary Chinese factories, with relatively

controlled turnover and absenteeism, manage a higher level of efficiency. Chinese factories also tend to pay their workers on a piece-rate basis. This in itself **motivates workers to achieve higher efficiency and produce more** (see figure 22).

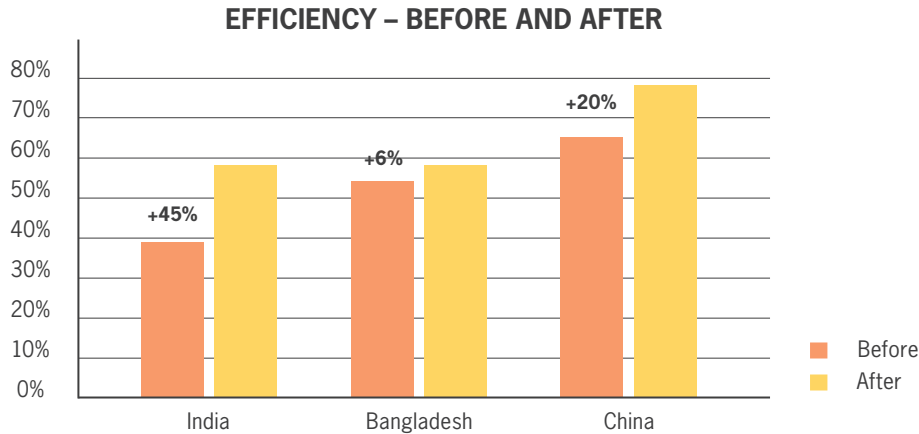


Figure 22: Efficiency level per country – before and after

Impactt's teams in China and partner organisation Rajesh Bheda Consulting (RBC) in India and Bangladesh have worked tirelessly with factories to improve planning, build standard time databases, understand how to better organise and balance lines, reduce non-productive time, allocate operations based on analysis of workers' skills and provide skills training for workers and supervisors alike. Impactt has also worked to devise productivity bonuses to provide real financial incentives for workers to boost their output and quality standards.

"This has resulted in a 20% increase in efficiency across the board, representing considerable savings for the factories."



Figure 23: Poster promoting worker ownership and performance



QUALITY

Factories have been able to make sizeable improvements in their cut-to-ship performance. This is a very important measure, since it looks at how much wastage there is in the process. If a factory cuts 100 pieces but is only able to ship 95, then the 5 wasted pieces are a direct loss to the company. Impactt and RBC focused on this metric in its work in the garment sector in India and Bangladesh. Figure 24 below shows a sizeable shift – a 2% increase

in Bangladesh and 3% increase in India. This is a remarkable improvement in limited time.

.....
Each factory stands to save an average of US\$443,000 per year...

...from this improvement, releasing more money to invest in workers' pay and benefits in further efficiency and quality improvement.

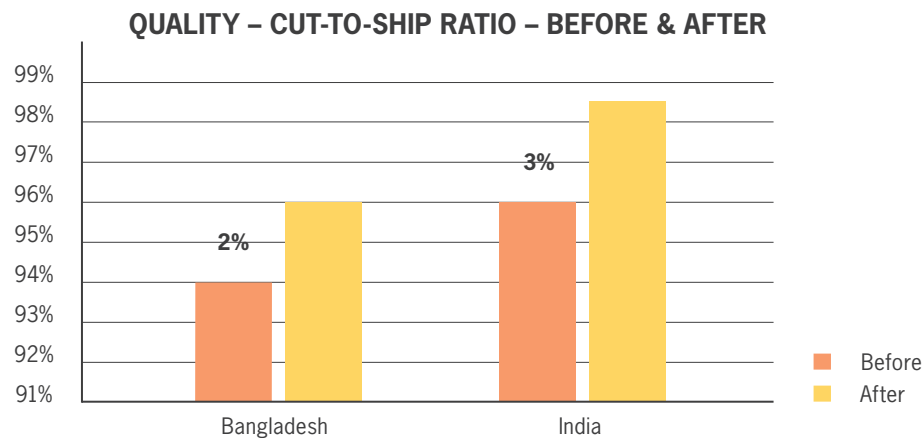


Figure 24: Quality (cut-to-ship ratio) per country – before and after

WHAT DO THEY SAY?

A factory based in Tirupur set its main objectives as reducing absenteeism and increasing efficiency. After 6 months, the factory team was very pleased with the results. *“The Impactt programme is really boosting my mind”* (HR manager).

The HR team is now interacting a lot more with workers, explaining the policies and procedures, offering more support and help. The HR team is supported by a team of *“buddies”* / *“dhost”* who engage directly with workers and relay the information to workers. The HR manager also offers to help workers with their remittances. Workers reported:

“We never had a meeting like this in any other factories...it gives us confidence and trust for our work”.

Supervisors reported that 50% of their burden reduced thanks to the new induction. The HR, industrial engineering (IE) and production team work together to assess the skills of workers. This, together with inputs on productivity improvement and industrial engineering training, in turn helped the production and IE team to balance the line better. As a result, efficiency on the pilot line has gone up by 30 percentage points and average efficiency on all lines has gone up by 13 percentage points.

After 8 months in the programme, the team at a Bangladeshi factory was very pleased with the results – the reject rate has decreased from 19% to 2%: *“We have seen a lot of improvement - production has increased because of the changes we have made on quality”.*

Impactt and RBC worked with the factory to train operators on quality assurance through zero defect. Before the operators would wait up to an hour to have their garments checked, but now they are

able to check the garments themselves and ensure zero defect. With the time that they save, each operator produces another 1-2 pieces per hour, which means both an increase in production and in workers' salaries.

“We started with a pilot line and now we have introduced the quality assurance system across the whole factory. We also want to use it in other factories.”



OPERATOR

.....
“I received a hot pot as a prize because I am a zero defect operator, I feel proud for my work.”

CHANGES IN WORKING HOURS AND TAKE-HOME PAY

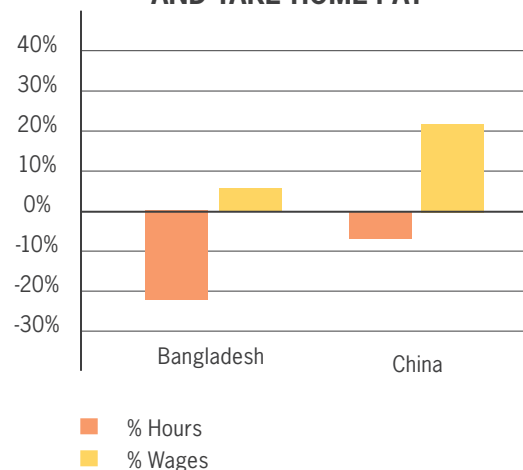


Figure 25: Percentage change in monthly working hours and take-home pay

IMPACT ON WORKERS' LIVES OF BETTER MANAGEMENT / PRACTICES

The gains are then redistributed to workers in terms of better pay, increased benefits and shorter working weeks. Figure 25 shows the percentage change for monthly take-home wages and working hours. In Bangladesh, workers have been able to take home an average of 6% more pay, whilst working 22% fewer hours. In China, workers have been able to take home 23% more, whilst their working hours have dropped by 7%. How has this been achieved? Pay has been boosted through a combination of attendance bonuses and productivity bonuses, together with skills-related increments. The introduction of skills matrices and appraisals means that workers' rewards increase as their skills are developed. In many factories, workers now have access to other benefits, including social insurance and provident fund, enabling them to access government benefits for themselves and their families.

Workers reported an increased satisfaction when they work shorter hours and/or have access to other benefits such as internal training, promotion, government social schemes and access to financial services.

OPERATOR

"We have production bonus system in the line and we achieve this bonus because we learn how to do the good quality work in an efficient way. Not only quality we work as a team in the line."



WHAT DO THEY SAY?

"We didn't think it was possible to maintain production and reduce working hours. But after seeing Impactt's modules, we felt brave and took a bold step. Now we do not go over legal working hours. Workers are more attentive."
– Bangladeshi factory manager

"We are proud to know that we also a part in an organisation which gives importance to the workers' rights."
– Indian Worker

BENEFITS TO BUSINESS

"We have benefited a lot from the cooperation in the past 2 year project, especially the improvement in worker's wage and working hours. We are now more compliant with the Labour Law. Overall it is a very beneficial program for us."

– Chinese factory



"Impactt helped us to tackle the challenges which have been causing us a headache for several years. We are happy to see that costs can be minimised and motivation maximised!"

– Chinese factory

BUSINESS BENEFITS

INDUSTRIAL ENGINEERING (IE) MANAGER

"In the past when we Industrial Engineering people went to the production floor the atmosphere people thought we would put them under pressure. But now, in the pilot line we work closely with workers – group work, counselling, motivation all these make workers realise what we are in their interests and will make their jobs easier. Through the project we have 22 self-inspection operators in the pilot line and workers are responding very positively."



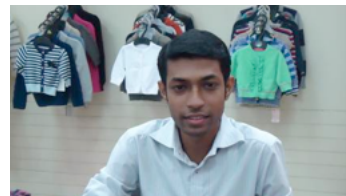
GM PRODUCTION

"We know low voltage gives us less light and full voltage give us full power. Human beings are not machines, they need some rest to be able to use their energy at full power. Time management with achievable targets is very important. Through the project I have gained the courage and support to implement lower working hours."



HR EXECUTIVE

"We used to recruit 70 to 80 workers every month, but now things have changed. This month we have recruited only 10 workers. Now I can do different work not boring recruitment all the time."



WELFARE EXECUTIVE

"Through induction training we are able to retain newly recruited workers. The result is lower turnover and less absenteeism."



SENIOR QUALITY ASSURANCE MANAGER

"Earlier we kept records but the project has given us systems to analyse the records and use this information in a way which makes a fruitful improvement in quality. Graphs make people realise the areas we need to focus on. This graphic presentation makes a radical change in quality."



IN CHARGE, KNITTING SECTION

"I was the supervisor of the pilot line and through the project I was able to improve my line a lot, so I was promoted to an in charge. This makes me more responsible. It feels great! And my wife feels great and she talks about my achievement to all my relatives which makes me feel proud."



SUPERVISOR, PILOT LINE

"I was the best knitting operator in my line and now I have been promoted as a supervisor of the pilot line. I feel different after this promotion. This is happening only because of the project."



LINKING OPERATOR

"Now I have enough time for rest also able to spend more time on my religious observances. Though I leave factory much earlier, my income remains the same. This Eid festival time I hand over 40 thousand taka to my family in my village."



KNITTING OPERATOR

"I am a self-inspection operator for that I get this tabard and badge. Now everybody asks me how I achieve this. They want tips from me on how they can be like me."

CALL TO ACTION

The scope for realising change in factories starts in factories. Rather than cajole, regulate and rate factories, brands should work with factory management to share best practice, show why better jobs means better business and empower them to make improvements. Of course there remains a role for the brands to play in ethical trade, fostering fair

purchasing practices, educating consumers and working with actors in the supply chain to support improvements. To learn more about equitable buying practices please read about Impactt's work on 'Purchasing for People', funded by the UK Department for International Development.

CASE STUDY 4: REMEDIATION AND EDUCATION FOR LIFE

TACKLING CHILD LABOUR TO BRING LONG-TERM BENEFITS TO CHILDREN AND THEIR FAMILIES

A GROWING PROBLEM

"If I cannot work anymore – what will I do? My family depends on it. My dreams depend on it."

This is the voice of a child worker in India working on the city streets, but the problem isn't confined to one or two locations or countries – it's everywhere.

While the International Labour Organisation (ILO) reports a continuing decline in child labour (down 3% in the period 2004 – 2008), 215 million children worldwide are still employed as child labourers, of whom 115 million are working in hazardous occupations.¹⁵ Impactt's work shows that prevalence in international supply chains is still high. Whilst the incidence of child labour in the sites Impactt visits has not climbed to pre-recession levels, we have seen a steady rise since the recession from 5% in 2009 to 12% in 2011. Impactt found children working in a wide range of sectors, from electronics to toys, footwear, garments and accessories.

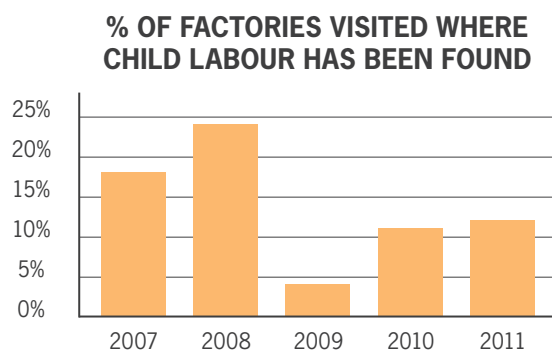


Figure 26: Global prevalence of child labour in sites visited by Impactt, Impactt Factory Database, 2007-2011

Impactt's work is mainly in first tier factories, which makes this statistics all the more surprising. China has the highest incidence of child labour in the enterprises we have visited, with teams identifying workers below the local minimum age of 16 at 18% of the factories visited in 2011, 50% of the children found were girls.

Impactt's findings in India differ, where Impactt found children in 13% of factories (100% of them male) and 18% of factories in Asia as a whole. Clearly the ongoing and severe labour shortage is a key factor driving the use of child labour in China. In India and Bangladesh, the shortage is of skilled labour in the export sector, a gap which children cannot easily fill.

Impactt's priority is to get these working children back to school.

In 2008, based on Impactt's experience of working extensively on child labour remediation and prevention programmes around the world, and in consultation with over 90 leading practitioners globally, we developed the Operational Procedures on the Remediation of Child Labour in Industrial Contexts (CLOP).¹⁶

Impactt consistently uses this easy, step-by-step guidance to support and encourage companies to remediate instances of child labour and bring something positive out of a negative situation. So far, 11 organisations have adopted the CLOP and are integrating the procedures into their own ethical programmes.¹⁷

Looking at Impactt's own remediation work, has the CLOP worked to improve outcomes for children?



GETTING CHILDREN BACK WHERE THEY BELONG

Between January 2006 and June 2011, Impactt found 330 children working in factories in China, India, Turkey, Vietnam and Bangladesh, and were successful in getting 60 of these children back into education.

"The remediation programme is of great help to my family and me – this remediation programme reduces the financial burden on my family. I do not need to pay tuition fees or worry about my living expenses."

– Child remediated

As more companies adopt the CLOP, it is easier to act swiftly and decisively to ensure a positive outcome. Overall Impactt is getting better at getting children back to their schools and families and the nurturing environments where they should be (see Figure 27).

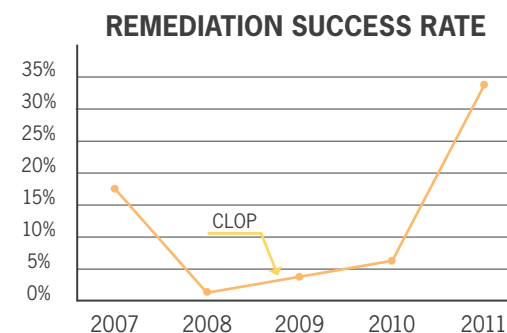


Figure 27: Remediation success rate, Impactt Child Labour Data, 2007 - 2011

GOLDEN RULES FOR GETTING CHILDREN BACK TO SCHOOL

- **Put the wellbeing of the child first** – remove the child from hazardous work immediately
 - Build trust with the child and understand why and how they have been working.
 - Establish the child's age – if unable to verify this, begin the remediation process until evidence is found of their age.
 - Obtain contact details of the child and parents.
- **Build a rapport with other key stakeholders and get their buy-in.**
 - Secure funding as early as possible - how costs should be split can be worked out retrospectively.
 - Ensure that all parties involved support the need for remediation.
- **Act swiftly.**
- **Work with the child, parents and factory to develop an appropriate remediation programme.**
 - If a child does not want to go back to school, take steps to understand why, and if there is a solution that addresses their concerns.
 - Where no appropriate formal schooling is available, seek alternative options that can get the child back into education/support their development.

This last year, Impactt has been successful in getting 34% of the children found back to school.

In China for example, over the past three years, Impactt has managed to get one third of the children found out of the factory and into the classroom. On average the remediation programme lasts 8 months. The vast majority (75%) of children have continued in education after the programme, whilst the rest have found themselves skilled work or unskilled work often outside of factories. These tend to be better jobs than they would previously have been qualified for or even thought possible.

But what about the other two-thirds who are still working? Why did the remediation fail?

To understand this, first, we need to look at the bigger picture. The rising cost of living in China (as discussed in the introduction to this report) means that families need to find new ways to support themselves. Soaring food prices mean that 1 in every 6 poor families with children cannot meet their basic food needs.¹⁸ Over 1 in 5 children found by Impactt were working in order to provide financial support for his or her family.

Impactt has also found child labour in informal sectors or sectors which are less regulated. In India, we found that poverty is the driving force. Impactt investigated children selling items on the streets of Delhi and Mumbai. They told us that if they didn't sell these items, they would work in construction or restaurants.

Often children are working to support other family members who have fallen ill and to pay for their medical treatment. In other cases, migrant children and families are not able to access state benefits, or free education, and so are more likely to come under economic pressure to work.

These underlying issues make it more difficult to extract children from work, but this is not the whole story.

SLIPPING THROUGH THE CRACKS

It's easy for children to find a job

In many countries, children interested in working do not have a big challenge finding work - only one third of the factories we visited between 2006 and 2010 had robust age verification systems in place. This means that it is easy for a child to find another job, if they don't like the idea of going back to school.

Children, parents and other stakeholders sometimes refuse to cooperate

In China, children are increasingly being recruited under the premise of a "school internship". In the majority of cases, the schools refused to agree to the remediation. In other instances, either the child or the parent refused on the grounds that they had already paid school fees and would not get a qualification if they quit.

Delay and confusion over policy reduces the chance of remediation

Where the companies involved do not have a clear remediation policy and/or leadership in this area, and where there is resistance from the employer, there is a high risk that remediation will fail. Children 'disappear' whilst decisions are made, and it becomes impossible to make progress.

REALISING THE BENEFITS OF REMEDIATION

By understanding root causes, Impactt has been successful in getting children back into education and supporting others to find innovative solutions to tackle the problem to do the same. Wider benefits include stronger family bonds, career ambitions, building social skills and confidence of children whilst ensuring they can support their families and themselves financially.

They key is to understand not only the child's situation but also that of his/her family, both to address immediate needs and to support long-term development.

"I manage the living stipend [from the remediation programme] and chose to improve my nutrition by eating more meat - I think that I have grown taller recently. I have also saved some of the living stipend, which I will use to pay for 2 months of my expenses when the new term starts. I feel good about this because it means that I won't put pressure on my parents' finances".

"The greatest benefit of the remediation programme is the change in my mother's opinion about the importance of female education. She used to believe that it is enough for a girl to get a job for life after graduation from junior school. She previously said that she would not support me to go to college. She has changed her mind through conversations with Impactt and has promised that she will support me in every way to gain a place at university."

"I will continue my study even when the financial support stops. My dream is to become a doctor. I have already learned some basic medical knowledge in my current course. After this course, I really would like to do a medical study."

"The best thing about the remediation programme is that my parents understand me better. My father is really understanding in the way he talks to me - this happened after Impactt told him about my interests and dreams and this never used to happen before. My parents have lowered their expectations of me and first find out what I think and what my interests are instead of putting their expectations on me. This has been very valuable to me."

"We are very grateful for this programme. Besides the financial support, it helps me to understand my daughter better. I am so happy that my daughter treats me as her friend and we don't feel the generation gap as much as before."



CHINA – “EDUCATION IS KEY”

Having everyone (the factory, school, company, child and parents) on board right from the start really makes a difference to the ease and success of remediation:

Li was 14 years old when he started working in a garment factory in Guangdong and was recruited via a labour agency.

At a “Thanksgiving” event at school the boy expressed his gratitude to his parents, the client, and the factory for the support and his teachers and classmates for helping him feel comfortable in his new environment. His teacher had not seen Li’s eloquent side before. Li says that even after the programme he will study hard so that he can start a career which can help those in need.



INDIA – “GOOD FOR BOTH CHILD AND FAMILY”

However, there is no one-size-fits-all solution. For some children, work is still the best or only option, but this does not mean that their education should be ignored:

In 2010, Impactt conducted an investigation into the selling of branded and unbranded magazines by children under 18. The sellers were not aware of the ban on selling branded magazines on the streets or of the brand’s minimum age policy for selling unbranded magazines on the streets.

The children, aged between 10 and 14, told us this was an essential source of income which helps support themselves and their families. They earn around Rs 50 (US\$1.00) to Rs 100 (US\$2.01) a day. Some had never been to school, and selling magazines was generally found to be more profitable than selling other items such as fresh flowers or cleaning cloths.

Impactt recommended that the brand find a remediation partner that could help to develop solutions that would be meaningful for the children involved. Butterflies, an NGO focused on providing alternative education and basic services to street children was brought in to provide mobile education buses, sports activities, and health camps.

Children have now started to show a real interest in education. The ongoing remediation is helping children to bridge both the confidence and knowledge gap, and to get to a standard where they can access state education. Where the child is the sole wage earner, the project is also providing financial support to families.

TURKEY – “FINDING WIN-WIN SOLUTIONS”

Sticking with conventional methods may not always work. Samira, a Turkish ex-child worker was, at first, unable to manage the programme that had been set up for her by the factory. We recommended a solution that would help her to complete her studies.

Samira was 13 years old when she was found in a food factory in eastern Turkey. Because Samira missed one term of the school year, she was not allowed to attend the second term.

The factory found it challenging to develop an appropriate remediation programme. A school put forward by the factory was too far away - it meant Samira travelling back home late in the evenings. The factory did not provide any alternatives and Samira started a part-time job.

Impactt recommended a nearby school where she could take private courses during the day time and catch up on her missed schooling. The course provided a vital link to her educational process and helped her stay in touch with key subjects. Although she has lost 1 year of her educational life, Samira is confident that she will be able to succeed and make lots of new friends when she rejoins public school. She now realises the importance of education for her future and her parents are proud of her motivation. Samira no longer misses work at the factory.

CALL TO ACTION

Children, no matter where they are in the world, should spend their childhoods in a safe, happy and nurturing environment, so they can realise their full potential in life. By working long hours in factories and farms, they are being denied their basic right to education and this is simply unsustainable.

Impactt urges retailers, brands, suppliers and production sites to:

- Develop a clear policy that any children found working must be supported back to school.
- Adopt or adapt the CLOP and ensure it is communicated throughout the supply base, and that

suppliers understand that this is procedure that will be followed if child labour is found.

- Ensure strong age verification systems are in place at production sites.
- Commit to act quickly and remediate if and when a child is found.
- Take an active interest in the remediation process and support/encourage suppliers at each stage.
- Lobby for improvements in state education for all.

CASE STUDY 5: MANAGED CLOSURES

PROTECTING WORKERS WHEN BUSINESSES FAIL

A key part of ethical trade is doing the right thing when supplier businesses go wrong. When a production site is facing financial trouble, whether through lack of orders, changes in global sourcing patterns, issues with servicing debt, changes in tariff and duty structures, poor management or simply bad luck, how can the supply chain work together to protect workers? Over the past few years, Impactt has come across a number of cases where factories under pressure have underpaid workers or indeed not paid workers at all, as the business struggles to survive.

.....

Key warning signs include lack of responsiveness from management, steep decline in quality, and, of course, whistle-blowing from workers themselves.

Once it has become clear that a supplier business is in trouble, the first step is to investigate the factory's financial situation, and the impacts on workers. In many cases, it is possible to work with factories to boost the order situation and improve business and production processes. However, where factory support options have been exhausted, closure may be the only option for factories in a particularly difficult financial position and with little capacity to make improvements or 'work their way out of trouble'. In such cases, it is vital to ensure that workers receive the money and other benefits they are entitled to, and are supported to find new employment.

The MFA Forum's useful document, *Guidelines for Managing Responsible Transitions* provides an overall framework for dealing with managed exits, looking at the national and regional level. Impactt's own *Guidelines for Supporting Workers During Factory Closure* provides a step-by-step enterprise-level guide to minimising negative impacts on workers, ensuring their human rights are respected and their expectations met. These guidelines are based on our work with government, retailers, agents, factories and workers to get the best possible outcome for all stakeholders, in particular workers. In all the cases Impactt worked on, there has been no trade union present in the factory, and so workers have had no viable representation to bargain on their behalf. Clearly, where effective, enterprise-level trade unions are present, stakeholders should work with the union to gain workers their rights. These guidelines are principally for use with non-unionised workplaces.

The following pages present Impactt's step-by-step guidelines for responsibly managing factory closure and illustrate the challenges and solutions to closing 3 financially- and managerially-troubled garment factories.



CASE 1: RELIANT ON MIGRANT WORKERS (UAE)	CASE 2: LOCAL WORKERS MISLED FOR MONTHS (TURKEY)	CASE 3: REBUILDING TRUST IN THE SYSTEM (UK)
SUPPLY CHAIN: <ul style="list-style-type: none"> Sourced through a UK-based agent. 66 workers from Bangladesh and Sri Lanka owed 3 months wages. 	SUPPLY CHAIN: <ul style="list-style-type: none"> Sourced directly. 116 workers owed up to 8 months in underpaid wages (November 2008 to July 2009). 	SUPPLY CHAIN: <ul style="list-style-type: none"> Sourced directly. 29 workers owed up to 6 months in underpaid wages (average of £1885, US\$3,011, per worker).
OUTCOMES <p>Impactt support helped:</p> <ul style="list-style-type: none"> 14 workers to return home. 52 workers to find new jobs in the UAE. 100% of workers to receive 100% of back-wages. <p><i>"We would like to give many thanks to [the retailer] and to [the supplier] for giving all of the money to the staff, we are so happy and so thankful too"</i></p> <p>– Worker</p>	OUTCOMES <p>Impactt support helped:</p> <ul style="list-style-type: none"> Workers without bank accounts open an account. 78 workers to re-train, or to find a new job. 16 workers to fight for a collective claim to Turkey's Employment Tribunal (ongoing). Workers receive 67% of back-wages (funded by the retailer). The remaining wages are being claimed back through the tribunal case. 	OUTCOMES <p>Impactt support helped workers to access money owed to them through:</p> <ul style="list-style-type: none"> The liquidator appointed to handle the closure of the company or the Insolvency Service, a UK government department. <p>£54,624 (US\$86,692.17) was paid over to workers in total.</p>



WORKER PROTECTION IS A TOP PRIORITY

A factory in financial trouble is an unstable environment where workers are faced with an uncertain future.

Without trade union representation, workers are unprotected and often unaware of their rights. Pending closures put workers at risk of immediate loss of their homes, livelihoods and financial security. Workers are usually stressed due to uncertainty about payment of wages, timing of payments and where to go for additional support. Managers also feel the strain.

SUPERVISOR

"I was so hopeless and even worse, feeling so guilty towards the workers. A few months before the factory closed, [the manager] made me believe that things will work out and he will soon pay his debts to the workers. As nobody believed in his promises anymore, he asked me to talk to the workers and to convince them to continue working. I did so... I feel like I cheated on every one; they all trusted me and did not leave the factory. I cannot look at their faces anymore."

"Thank you madam we appreciate that nobody else would have looked after us."

Migrant workers are particularly vulnerable, their situation is more uncertain than most when a factory closes. As shown in our cases, migrant workers often:

- Do not speak the local language and will find it difficult to deal with local authorities and find future employment.
- May not have full rights under the law and may not be aware of their rights.
- May not be properly registered with the authorities.
- May owe money having taken out a loan to migrate or to secure a job.
- Are at risk of losing their right to work.
- Have little immediately available savings to act as a cushion since they have sent most of their money home.
- Are at risk of losing the roof over their heads, as many live in factory accommodation.



COMMON SYMPTOMS AND IMMEDIATE RESPONSES

The MFA Forum's work notes that closures can occur abruptly without any notice. It is vital that retailers and suppliers engaging directly with factories are aware of the early warning signs.

In all 3 cases managed by Impactt, whistleblowers played a key role in exposing factory troubles, having reported irregular payments, including 3-5 months of unpaid wages and abuse by factory management.

These symptoms are a clear signal that a factory is in financial trouble and may be using money earmarked for wages to support cash flow or service debts. Failing to pay wages starts a vicious circle. Workers who are not properly paid are unsurprisingly anxious, looking around for ways to leave the factory, and are not focused on producing good quality product efficiently. Fair working conditions are essential to managing a successful business. Over and over again, labour studies in global supply chains around the world demonstrate that strong management systems support worker productivity and satisfaction, while happy workers reinforce operational efficiency.

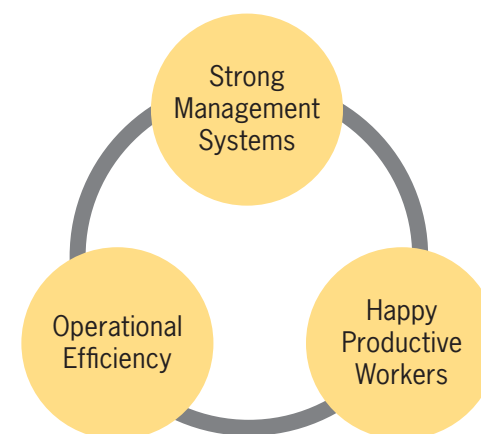


Figure 28: Happy workers reinforce operational efficiency

The MFA Forum's guidelines outline additional signs of pending collapse / financial turmoil:

- An economic downturn in the local region or industry.
- A general production shift in the industry or region.
- Buyers exiting a factory and/or difficulty obtaining new orders.
- Inability to invest in new technology or skills training and/or adapt to industry shifts.
- Poor factory management.
- Unresolved and/or repeated compliance issues.¹⁹

In all cases Impactt has worked on, factory management had disappeared when the going got tough, either through fear of legal persecution or general unwillingness to pay workers and other debtors the money they are owed.

Impactt helped open up new livelihood options for workers to consider, and to take decisions for themselves on what they would like to do next. Impactt has supported them in returning to their home counties if requested, or in most cases, in searching and gaining the skills necessary to find another job.

Impactt has also succeeded in two of the cases in arranging and / or facilitating the payment of wages due to workers. The one outstanding case, in Turkey, continues as Impactt supports 23 former workers through a tribunal to claim outstanding wages and compensation equal to 4 months wages.



IMPACTT'S STEP-BY-STEP GUIDELINES FOR SUPPORTING WORKERS DURING FACTORY CLOSURES

ASSESS THE SITUATION

1. Select the remediation team/primary contacts

Understand whether workers are already represented by an active Trade Union or worker committee.

- If there is an active trade union or worker committee operating in the factory, involve them in all steps thereafter. All communication to workers should be mediated through, or with the knowledge and approval of the trade union or worker committee.
- Otherwise, identify “natural leaders” within the factory to go to as an initial point of contact in speaking to workers. Ideal candidates may include worker committee representatives or the whistle-blower(s).

2. Understand the factory's financial position

Late or non-payment of wages is often due to financial crisis. Impactt recommends getting full transparency of a factory's financial affairs as early in the process as possible. This should include:

- Profit and loss account and balance sheet in order to understand amounts owing.
- Cashflow position.
- Worker testimony on regularity of wage payments, benefits and overtime.
- Typical monthly expenditure, including all worker-related obligations.
- Forward order book – it is important to work with supply chain partners to understand the potential for ongoing orders and payment arrangements.

3. Understand the factory's capacity to improve productivity and efficiency

The remediation team also needs to come to a rapid understanding of:

- Factory management and owners' capabilities.
- The factory's capacity to improve its productivity.

4. Decide whether the factory is an ongoing concern and able to provide decent and legal jobs for workers

On the basis of its understanding of the factory's financial position and its capability to make improvements, the team should decide whether the factory can ‘work its way out of trouble’ or whether a supported closure is the best option.

- If the factory has the capacity to work its way out of trouble, Impactt recommends developing a factory improvement project balancing forward orders and improvements in production process and human resources management, whilst also ensuring that workers receive what they are owed on a monthly basis and are paid back any arrears.
- If the factory is not an ongoing concern, Impactt recommends moving swiftly towards a supported closure.

SUPPORT CLOSURE

5. Understand the individual position of each worker

- Find out the amount owing, personal circumstances, preferences for employment/repatriation and immediate needs (including food and accommodation).
- Understand the particular worries and issues of each worker.
- Verify how much the factory owes each worker.
- Gather basic information from each worker.
- Ensure that the team gathers contact information for each worker, both locally and in home country/region.



- Ensure that the team gathers workers' bank details, this is particularly important in situations where funds cannot be paid immediately and/or funds are sent to another country.

6. Find out about local resources and legalities:

- Understand potential sources of funds – this may include the factory, the supply chain, NGOs and government. For example, the government may have schemes to fund the repatriation of foreign migrants.
- Use contact networks to find new jobs for workers who wish to remain in employment in the area.
- Understand and factor in local legal and regulatory requirements.

7. Agree upon a remediation plan

- Set a plan with all stakeholders.
- Confirm the plan with workers (through trade union or worker committee if possible), in their mother tongue.
- Confirm roles and responsibilities.
- Assign one body to oversee remediation and continue to communicate with all stakeholders.

8. Witness and follow up on the rights of workers:

- Ensure that workers' needs are taken into account at any bankruptcy proceedings.
- Witness payments to workers to ensure these are made in full and are properly receipted.
- Ensure that workers who wish to return home are supported to do so.
- Ensure that workers who wish to find an alternative job in the local area are supported to do so.

MONITOR WELL-BEING

9. Monitor the situation:

- Monitoring should begin from day one of the project.
- Remain in touch with all workers for a minimum of three months to ensure their well-being.
- Where possible, conduct a follow-up social impact assessment, speaking with the redundant workers, trade union and local community member.

WHAT COMES NEXT

Forward-thinking parties would go one step further, and follow-up with workers' status and well-being. This could be done through a social impact assessment, consulting with workers and the community.

A successful closure relies on listening to workers, local support, continuous engagement, rapid responses and stakeholder commitment.

Managed factory closures are the responsibility of all stakeholders, and will be of growing importance as many retailers demonstrate their commitment to support their suppliers through both good times and the bad.



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