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# GETTING SMARTER: ETHICAL TRADING IN THE DOWNTURN

Annual Report 2008

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## Impactt Annual Report 2008

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**Following the publication of Impactt’s 10th Anniversary Report, “Progress Not Perfection” in 2007, we are delighted to publish our first annual report “Getting Smarter, Ethical Trade in the Downturn”**

**The report:**

- **Comments on the state of ethical trade**
- **Sets out the findings from our assessments of labour standards carried out between August 2007 and July 2008**
- **Presents some of Impactt’s work on devising and delivering sustainable and affordable solutions to labour standards issues**

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## 1

# Introduction

**High energy prices, food inflation, financial turmoil, recession and consumers tightening their belts – 2008 proved to be a challenging year**

The situation poses obvious but important questions for companies: how should they tackle the challenges of ethical trade and labour standards in a downturn? Is work on upholding labour standards an optional extra to be discarded when times are hard? Or have ethical issues moved to a point where they are considered core to operations?

Alan Roberts, Chair of the ETI, speaking at the ETI Conference in October 2008, disagreed with the idea that ethical trade will drop down the business agenda in hard times: “It has been demonstrably proved that those businesses that have divorced themselves from business ethics have proved...unsustainable as well as unjust. The principles of ethical trade – which demand business transparency and accountability – will be higher than ever on the corporate agenda,” he says<sup>i</sup>.

Mike Barry, Head of CSR at Marks and Spencer comments, “Our customers have been very, very clear. Around 75 per cent have been saying that they expect us to take a lead on

**“If I cannot trust them during the good times, how can I trust them as we go into a recession?”**

these kinds of issues. Consumers are just as interested during a credit crunch and will expect us to take even more of a leap on their behalf.”<sup>ii</sup> In September 2008, The Grocer reported, “despite feeling the pinch, 92% of consumers still claimed to be willing to pay extra for a product perceived to be ethical and 76% said they would choose products benefiting people rather than the planet.”<sup>iii</sup> In the same month, the Food Standards Agency surveyed 2,068 shoppers and found that whilst 66% thought economic issues such as price and quality were most important, 23% said their priority was social issues.<sup>iv</sup> By January 2009, labour standards were still worthy of newspapers’ front pages and top billing on the BBC’s flagship News at Ten, as demonstrated by the coverage of low pay and illegal workers in a UK factory producing for Primark.<sup>v</sup>

Following the Panorama exposé of homeworking in Primark’s Indian supply chains in June 2008, David Lourie, an analyst at Good Business commented, “The worry for Primark now is that consumers on the high street think: ‘If I cannot trust them during the good times, how can I trust them as we go into a recession?’”<sup>vi</sup> The publicity certainly damaged Primark’s reputation, causing the company’s ‘Buzz’ rating (a measure of reputation) to plummet from +2 points to -30 in the immediate aftermath of the story.<sup>vii</sup> However, the rating was back at pre-scandal levels within 64 days, and Primark reported a 4% increase in like-for-like sales and a 17% increase in operating profits in the year to 13th September 2008.<sup>viii</sup>

Does this mean that retailers and brands should turn their backs on ethics and concentrate solely on sales and the bottom line? We think not. The research shows that consumers are holding on to their values during the recession, at the same time as tightening their purse strings. The challenge for companies is how to deliver product

**“The challenge for companies is how to deliver product embodying customers’ values, whilst providing ever better value for money”**

embodying customers’ values, whilst providing ever better value for money. Retailers and brands which are able to pull off this double act will succeed through the downturn and beyond.

Companies need to take care in how they go about providing better value. Cutting costs in the supply chain without taking values into account can result in product recalls, delayed product launches and tough questions on ethics, quality and the environment. In its recent study ‘From vulnerable to valuable: how integrity can transform a supply chain’, PricewaterhouseCoopers (PWC) argues that achieving supply chain integrity, defined as balancing operational objectives with ethical, environmental and quality risks, is a business imperative. The report points to anecdotal evidence that “companies which maintain the integrity of their supply chains are rewarded by stakeholders. It can, however, be proven that those that fail to do so are severely punished.” PWC found that “The average stock return of those suffering from [supply chain] disruptions was almost 19 percentage points lower... over a two-year period.”<sup>xi</sup>

Long term investors, such as pension funds, are also arguing this case. F&C Investments reported in January 2009 that it “views the effective management of working conditions in factories as key to overall commercial success” and cited security of supply, impact on consumers and the need for transparent communication on risk management as the key drivers of their interest. F&C states that “investors may be inclined to discount stocks of companies with poor disclosure or evidence of weak practices”.<sup>x</sup> However, shorter term investors are less likely to take this position. The current turmoil in the financial markets makes it hard to see which view will predominate. However, at the height of the credit crisis in October 2008, capital outflow from European-managed socially responsible investment funds stood at just 0.01%, as against 0.11% of all European-managed funds.<sup>xi</sup> This could be an early indication that the smart money is sticking with ethical funds.

All of this may help to explain the latest findings from the CIES Top of Mind survey 2009<sup>xii</sup>, in which 596 Chief Executives and Senior Executives rated corporate social responsibility as the third most important issue that they will face over the coming year.

<sup>i</sup>// Hardie C (2008) Ethical Trade: The years of living ethically, Retail Week <sup>ii</sup>// Shoppers vote Primark the least ethical clothing retailer - [http://business.timesonline.co.uk/tol/business/industry\\_sectors/retailing/article5034065.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/retailing/article5034065.ece) <sup>iii</sup>// Crips, P (2008) Shoppers splash out on Fairtrade but not green, The Grocer, 20/09/2008 <sup>iv</sup>// <http://www.foodstandards.gov.uk/news/newsarchive/2008/sep/buyerconsiderations> <sup>v</sup>// <http://www.guardian.co.uk/business/2009/jan/11/primark-ethical-business-living>, BBC News at 10 12th January 2009 <sup>vi</sup>// Shoppers vote Primark the least ethical clothing retailer - [http://business.timesonline.co.uk/tol/business/industry\\_sectors/retailing/article5034065.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/retailing/article5034065.ece)

<sup>vii</sup>// <http://www.mad.co.uk/Main/News/Sectors/Retail/High-Street/Articles/5447c64f2a4d474a862c31fb18aa55a7/Primark%E2%80%99s-Buzz-illustrates-a-backlash.html> <sup>viii</sup>// <http://news.bbc.co.uk/1/hi/business/7707902.stm> <sup>ix</sup>// <http://www.pwc.com/images/us/eng/about/tl/supplychain/pwc-sci-112008.pdf> p.8 <sup>x</sup>// Factory Labour Standards in Emerging Markets: An Investor Perspective, <sup>xi</sup>// <http://www.smartcompany.com.au/Premium-Articles/Rich-Secrets/20090116-Ethical-investors-hold-their-own.html> <sup>xii</sup>// CIES – The Food Business Forum, Top of Mind 2009



“It is more important than ever to ensure that work on labour standards earns its place at the table”

The results of Impactt’s assessments of 98 production sites during the year to August 2008 show that the risk posed by labour standards issues remains very real. The findings cover a period characterised by food price hikes and the gathering storm clouds of the downturn. Almost half of the sites we visited around the world were failing to pay the locally applicable minimum wage and even more were not paying the correct overtime premiums. Legal minimum wages were unable to keep up with the cost of living in many countries, leaving workers with little option but to work more hours to make ends meet. We found extreme working hours (over 350 hours per month) at 30% of the sites assessed. We also report an increase in the incidence of child labour, which we found at 24% of sites we visited, and a decrease in the prevalence of effective trade union representation; this year found in only 2 sites.

This year, we have concentrated our work on the key areas identified through our assessments. We have focused on finding and testing sustainable and affordable solutions to enable companies to inch closer to the goal of delivering products and services which embody their customers’ values whilst delivering better value for money. We have focused on collaboration and localisation to deliver lower cost, business-positive solutions which give direct benefits to workers. Section 3 of this report presents some case studies covering:

“The challenge for everyone working in ethical trade is to develop ingenious and cost effective solutions which achieve the win-win of better business and better jobs all along the supply chain”

- **Bangladesh Ethical Factory:** A model for sustainably increasing wages and reducing working hours
- **Practical Child Labour Solutions:** Building consensus on effective child labour remediation – getting working children back to school
- **Building Local Capacity:** Expanding the capacity of local organisations to work with employers and employees to improve labour practices
- **Better Buying:** Integrating ethical trade into the core operations of business.

Economic hard times present difficulties to all of us, from the CEOs of corporations to buyers, suppliers and the workers along the supply chain. It is more important than ever to ensure that work on labour standards earns its place at the table, by demonstrating that products and services delivered by workers who have decent jobs provide better quality and value to businesses and consumers than those made by workers whose rights are infringed. The challenge for everyone working in ethical trade is to develop ingenious and cost effective solutions which achieve the win-win of better business and better jobs all along the supply chain.

The task is getting harder, we need to get smarter.





# Site Data

**Impactt conducted 98 full assessments between August 2007 and July 2008 on behalf of corporate clients, including purchasers, supply chain agents and factories, as well as NGOs**

Overall, Impactt assessed sites employing over 63,000 workers in 11 countries worldwide. Through the course of these assessments, Impactt spoke to over 1,500 workers.

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 and where possible we talk with local trade unions. 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.



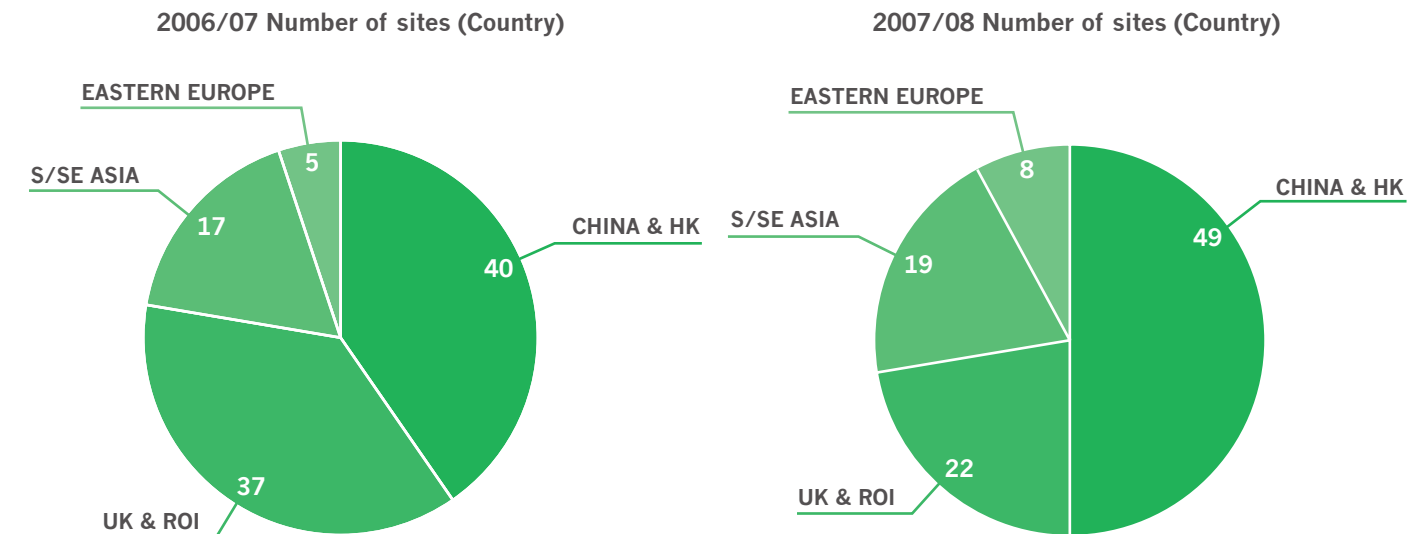
## Data Limitations

- We have made some comparisons between findings from 2006/07 and 2007/08. These comparisons should therefore 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 our experience, when we work with factories on a longer term basis, further issues and further complexities tend to emerge over time. This means that this data may under-represent the prevalence of issues.
- The prevalence of audit fraud (see below) distorts the findings as we may have failed to identify all instances of document tampering and worker coaching. When audit fraud is successful, it prevents us from understanding the full scope of working practices.
- Impactt was unable to collect data on every issue at every visit we conducted. Therefore, figures are calculated based on the number of site visits for which we have data on that point/issue.
- We have not included health and safety concerns in the analysis. Health and safety issues were found at 100% of the sites visited, and range from severe, life-threatening risks to relatively minor issues. We have not analysed them here since the focus of this report is on labour rights-based issues.

## Impactt Assessments

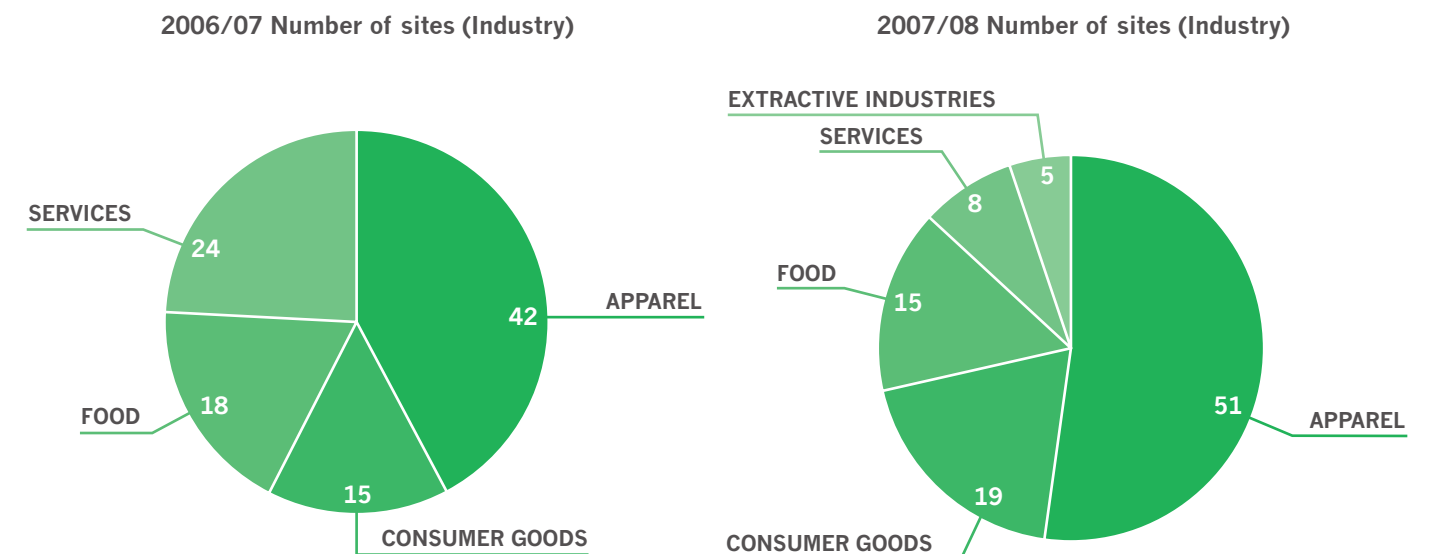
2007/08 assessments took place in China, the UK & ROI, South/South East Asia and Eastern Europe (see figure 1).

Figure 1: Breakdown of production site visits by region



The visits included a broad range of industries as illustrated in Figure 2. Apparel is the leading sector and this year accounts for more than half of the sample (52% vs 42% last year). 5% of this year's assessments were conducted in a new sector, extractive industries.

Figure 2: Breakdown of production site visits by sector

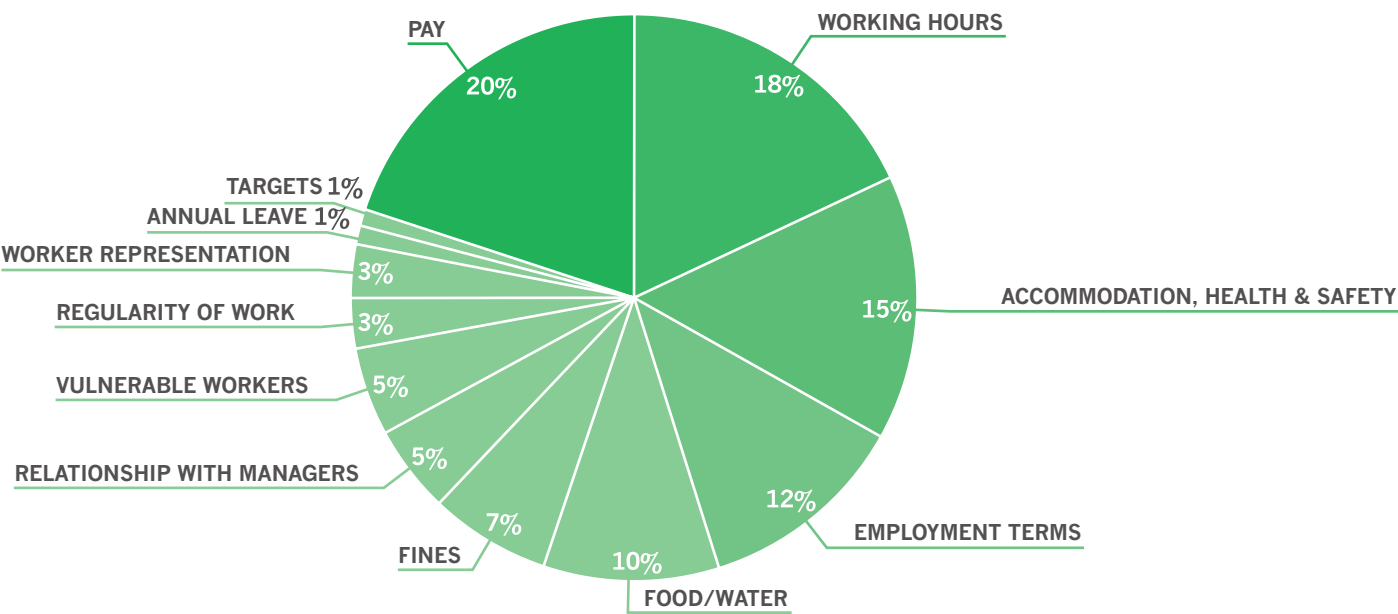


What is important to workers?

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

Figure 3: Relative importance of issues to workers

Overall Proportion



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

Workers' key concerns	% of sites where issue found
Pay	49% of sites failed to pay the minimum wage
Working hours	71% worked more than ETI Base Code limits
Accommodation, health and safety	100% of sites
Employment terms	29% held deposits

“Audit fraud continues to be a significant issue. The team found double books and coached workers in all regions”

Key issues

Audit Fraud

Audit fraud continues to be a significant issue. The team found double books and coached workers in all regions in the sample, as shown below.

Region	Prevalence of double books 2007/8	Prevalence of coached workers 2007/8
South East Asia	83%	40%
China & Hong Kong	64%	67%
Eastern Europe	50%	13%
South Asia	27%	33%
UK & ROI	10%	5%
Overall	45%	43%

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

Where double books were found, the incidence of key labour abuses was higher than the Impactt average.

Issue	Prevalence in factories with double books 2007/8	Impactt average prevalence 2007/8
Working more than 60 hours per week	82%	71%
Working more than 350 hours per month	42%	30%
Not paying minimum wage	69%	49%

“Where double books were found, the incidence of key labour abuses was higher than the Impactt average. ”

It is clear that workplace managers are finding it difficult to meet local legal standards and are resorting to cooking the books to give the appearance of compliance.

Presence of unions on site

19 of the sites assessed had some form of trade union. Of these, 12 were in China and 2 in Vietnam, countries where the union would not be recognised as independent, democratic or free. At a further 3 sites (in Bulgaria, Romania and the UK) workers reported that the union was not active in representing them or negotiating on their behalf. At the remaining 2 sites where a trade union was present, both in the UK, workers said that the union represented them effectively and was able to bargain on their behalf. No significant labour standards issues were found at either of these sites.

In China, 49% of sites assessed had health and safety committees, and at these sites the prevalence of issues to do with overtime premiums and excessive working hours were lower than at sites without health and safety committees. This may indicate that committees are helpful in managing dangerous levels of overtime.

“Committees are helpful in managing dangerous levels of overtime. ”

Indicator	With H&S committees	Without H&S committees	Overall China sites assessed for H&S committees
Not paying weekday overtime premiums	41%	74%	58%
Not paying weekend overtime premiums	47%	79%	64%
Working more than 60hrs/week (ETI limit)	89%	100%	95%
Working more than 350hrs per month	41%	68%	56%

Child Labour

Impactt’s 2007/8 assessment data shows child labour (workers below minimum working age as set out in local legislation) at 24% of sites visited. We also found that sites were poor at enforcing minimum working age regulations – 60% did not have a robust system of age verification.

The actual number of instances of child labour found rose by 82% on the previous year. We found children in China (at 35% of all sites assessed), Bangladesh (at 30% of all sites assessed), Vietnam (at 50% of sites assessed) and Turkey (1 instance). All instances of child labour found during the period were in the apparel and consumer goods industries. The increase in the instances of child labour found may be

“60% did not have a robust system of age verification”

“A higher percentage of sites assessed were paying minimum wage this year compared to last year”

<sup>xiii</sup>// The Living Wage is the real minimum rate of pay that enables a worker to provide a decent standard of living for themselves and their family, see: [http://www.livingwageemployer.org.uk/the\\_living\\_wage.htm](http://www.livingwageemployer.org.uk/the_living_wage.htm). The ETI Base Code calls for “wages [which] should always be enough to meet basic needs and to provide some discretionary income.” [http://www.ethicaltrade.org/Z/lib/base/code\\_en.shtml](http://www.ethicaltrade.org/Z/lib/base/code_en.shtml)

accounted for by the increased coverage of the apparel and consumer goods industries in our sample this year, rather than indicating any broader trend.

This year we have prioritised building consensus on tackling child labour, working with brands, suppliers, NGOs, trade unions and multilateral organisations to develop a set of procedures for remediation of child labour (see Section 3.2).

Wages

Workers were not paid the local minimum wage for work undertaken in standard time at 49% of sites. Issues were found across the world, as shown in the table below.

Country/Region	% Sites failing to pay the minimum wage 2007/8
China	73%
Eastern Europe	57%
South Asia	36%
UK and ROI	25%
South East Asia	14%
Overall	49%

Workers face further financial pressure at the 54% of sites where fines are levied for minor disciplinary breaches; a particular problem in China where 79% of sites levied fines.

Whilst a higher percentage of sites assessed were paying minimum wage this year compared to last year (51% vs 43%), this should be seen in the context of the significant food and fuel price increases, which put pressure on household budgets around the world. Unsurprisingly, workers named pay as their key concern during the year (see Figure 3), up from 3rd place last year. The table below sets out the minimum wage in four countries, together with an estimate of a living wage.<sup>xiii</sup> This shows that for many workers around the world, the minimum wage is less than half of the amount they need to provide a decent standard of living for themselves and their family.

Country	Minimum Wage	Food Inflation Rate during the year	Living Wage Estimate	Minimum wage as % of living wage estimate
China	Varies by region and company ownership. Generally c.RMB850 (£65.56) per month <sup>xiv</sup>	c.21% <sup>xv</sup>	Estimated to be 855.64 RMB (£66) per month <sup>xvi</sup>	99%
UK	£5.73 per hour for ages 22 years + £4.77 per hour for workers 18-21 (inclusive)£3.53 per hour for workers under 18 <sup>xvii</sup>	c.7% <sup>xviii</sup>	At least £7.00 per hour across the UK <sup>xix</sup> , £7.45 in London <sup>xx</sup>	47-82%
Bangladesh	1,662.50 TK per month (£12.50) <sup>xxii</sup>	c.12.3% <sup>xxiii</sup>	Living Wage estimated to be 4,800 <sup>xxiv</sup> - 5,333 <sup>xxv</sup> TK (£35-£39) per month	31-35%
Vietnam	540K VND (£15) per month for state-owned enterprises 800K-1,000K VND (£25-£30) per month for foreign-owned or funded enterprises <sup>xxvi</sup>	c.24% <sup>xxvii</sup>	Living wage is estimated to be 1,401K VND (£45) per month <sup>xxviii</sup>	39-71%

Working Hours

At nearly 75% of the sites we visited, workers were working more than 60 hours per week. This year we found extreme hours - where workers work over 350 hours per month – at 30% of sites, up from 14% in 2006/07. A 350-hour month equates to an average working day of 11-and-a-half hours, with no rest days in the month. This increase in incidence could be because of changes within the sample, however it could also indicate that workers are having to work harder to make the money they need to support their families. Excessive working hours were a particular problem in China where 95% of sites visited worked over 60 hours per week and 58% of sites worked over 350 hours per month on average. However, excessive working hours were also found in the UK, Bangladesh, Vietnam, Romania, Ireland and India. This appears to be linked to inadequate pay, as shown by the table on the next page. The prevalence of failure to pay the minimum wage was 53% higher in sites working more than 350 hours per month than the average prevalence across the sample. The prevalence of failure to pay weekend overtime premiums was 33% higher in sites working over 350 hours than the sample average.



“The prevalence of failure to pay the minimum wage was 53% higher in sites working more than 350 hours per month than the average prevalence across the sample”

<sup>xiv</sup>//<http://www.impacttlimited.com/resources/material-concernshow-responsible-sourcing-can-deliver-the-goods/> <sup>xv</sup>//<http://news.bbc.co.uk/1/hi/business/7349896.stm> <sup>xvi</sup>//<http://www.impacttlimited.com/resources/material-concernshow-responsible-sourcing-can-deliver-the-goods/> <sup>xvii</sup>//<http://www.hmrc.gov.uk/nmw/#b> <sup>xviii</sup>//<http://www.independent.co.uk/news/business/news/annual-food-price-inflation-hits-7-as-retailers-pass-on-rising-costs-864000.html> <sup>xix</sup>//<http://www.newstatesman.com/blogs/caroline-lucas/2008/10/living-wage-london-poverty> <sup>xx</sup>//<http://www.church-poverty.org.uk/campaigns/livingwage> <sup>xxi</sup>//<http://www.london.gov.uk/gla/publications/economy.jsp> <sup>xxii</sup>//<http://www.impacttlimited.com/resources/material-concernshow-responsible-sourcing-can-deliver-the-goods/> <sup>xxiii</sup>//<http://www.adb.org/Documents/News/BRM/brm-200802.asp> <sup>xxiv</sup>//<http://www.impacttlimited.com/resources/material-concernshow-responsible-sourcing-can-deliver-the-goods/> <sup>xxv</sup>//<http://waronwant.org/attachments/Fashion%20Victims%20II.pdf> <sup>xxvi</sup>//<http://www.impacttlimited.com/resources/material-concernshow-responsible-sourcing-can-deliver-the-goods/> <sup>xxvii</sup>//<http://www.vnbusinessnews.com/2008/11/prices-fall-in-south-rise-in-north.html> <sup>xxviii</sup>//<http://www.impacttlimited.com/resources/material-concernshow-responsible-sourcing-can-deliver-the-goods/>



Indicator	Overall in 2007/08	Sites working more than 60 hours per week	Sites working more than 350 hours per month
Not Paying Minimum Wage	49%	57%	75%
Not paying weekday overtime premiums	58%	59%	62%
Not paying weekend overtime premiums	51%	54%	68%
Paid annual leave (not public holidays) not given in accordance with law	57%	74%	83%

A key focus for Impactt’s project work this year has been on finding ways to increase pay whilst reducing working hours. For more details see Section 3.1 – Bangladesh Ethical Factory: A model for sustainably increasing wages and reducing working hours.

Forced Labour

Using financial deposits or withholding passports and ID papers is a practice which unscrupulous employers use to bind workers to them, and is termed ‘forced labour’. We found deposits at 29% of the sites we assessed during the year and at 45% of sites in China.

The use of deposits seems to be a good indicator for the prevalence of other labour standards issues. As set out in the table on the top right, financial fines, child labour, failure to pay the minimum wage and proper overtime premiums and excessive working hours are all more prevalent at sites where deposits were taken. This makes sense, since those factories with the worst conditions may struggle to keep workers and may use deposits to make sure that it is harder for workers to leave.

Underlying factors

Casual/Temporary & Agency Labour

Issues tend to be more prevalent where temporary, casual or agency labour is used. The table on the right shows that sites using these types of labour are less likely to be unionised and more likely to have issues with wages, overtime premiums and excessive working hours than sites using permanent staff only.

Indicator	Overall in 2007/08	Sites where deposits were found
Financial Fines	54%	68%
Child Labour	24%	35%
Not Paying Minimum Wage	49%	67%
Not paying weekend overtime premiums	51%	71%
Working more than 60 hours per week (ETI limit)	71%	83%
Working more than 350 hours per month	30%	35%

Indicator	With Casual, Temp or Agency labour	Without Casual, Temp or Agency labour
No Union Presence	85%	67%
Not paying Minimum Wage	57%	49%
Not paying weekday overtime premiums	66%	48%
Not paying weekend overtime premiums	69%	38%
Working more than 60 hours per week (ETI limit)	88%	64%
Working more than 350 hours per month	41%	29%

Gender

An analysis comparing issues at sites where the majority of workers are female vs. sites where the majority of workers are male found intriguing differences. In the Impactt data set, the split between majority male and majority female sites was exactly 50:50.

Indicator	Sites where Majority of Workers are Male 2007/8	Sites where Majority of Workers are Female 2007/8
Coaching workers	23%	50%
No Union Presence	94%	62%
No H&S Committee	86%	39%
Child Labour	0%	24%
Double Books	33%	52%
Not paying Minimum Wage	45%	43%
Workers not paid weekday overtime premiums	56%	54%
Workers not paid weekend overtime premiums	50%	39%
Working more than 60 hours per week (ETI limit)	55%	70%
Working more than 350 hours per month	9%	14%

Sites where the majority of workers are female tend to have more issues with coaching, double books, child labour, and extreme working hours. Analysis based on the majority gender on site reveals no meaningful differences

in payment of the minimum wage and weekday overtime premiums. Majority male sites have more limited freedom of association, and are less likely to pay proper weekend overtime premiums. These differences may be due to issues within the sample in terms of sectors or countries. Next year we plan to conduct a more rigorous analysis of gender factors across our assessment results to probe these initial findings further.

Conclusions

Our findings this year continue to show a high prevalence of labour standards issues in the sites we have visited. This year we have recorded a high prevalence of child labour and extreme working hours, and a low penetration of free trade unions deemed to be effective by workers. Whilst the percentage of sites paying the minimum wage has increased since last year, nearly 50% of the sites we visited around the world are failing to pay the locally applicable minimum wage and even more are not paying the correct overtime premiums.

Improving labour practices and reducing the prevalence of labour standards issues is more daunting than ever in the current economic climate, where all actors are under pressure to deliver more for less. In the next section, we outline four of Impactt’s collaborative initiatives from 2008 which aim to meet this challenge:

- Bangladesh Ethical Factory: A model for sustainably increasing wages and reducing working hours
- Practical Child Labour Solutions: Building consensus on effective child labour remediation – getting working children back to school
- Building Local Capacity: Expanding the capacity of local organisations to work with employers and employees to improve labour practices
- Better Buying: Integrating ethical trade into the core operations of business.



# 3 Tackling The Challenges In Ethical Trade

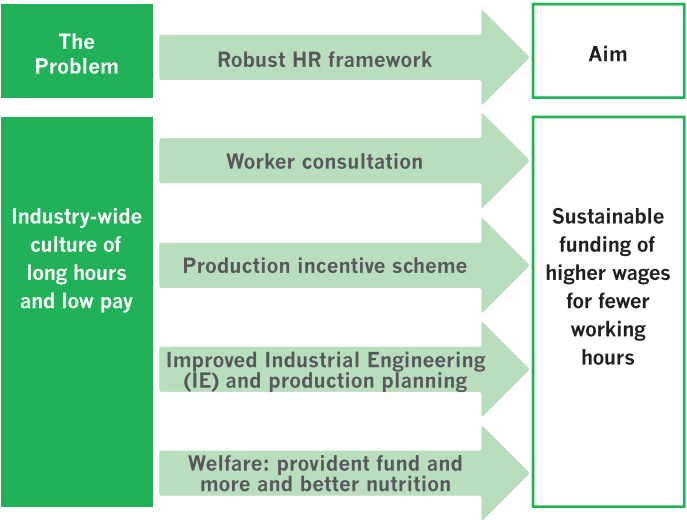
In the case studies below, we identify the key challenges in ethical trade and present some of the solutions which we have been working on during 2008

## 3.1 Bangladesh Ethical Factory: A model for sustainably increasing wages and reducing working hours

Following the food price hikes of the first half of 2008, which stretched the budgets of millions of workers globally, the current global economic crisis is now threatening jobs around the world. Whilst it is easy to argue that any job is better than no job at all, there is a pressing need to identify how employers can provide better jobs, with decent pay and safe and legal working hours, whilst remaining competitive. Over the last 18 months, Impactt has been working with New Look, its supplier, Echo Sourcing, and a garment factory in Bangladesh, to identify a sustainable way of increasing pay, reducing working hours and improving working conditions whilst maintaining and growing the business. Interestingly, Echo Sourcing was the trigger for the project which was very keen to develop an ethical factory run for the benefit of the workers.

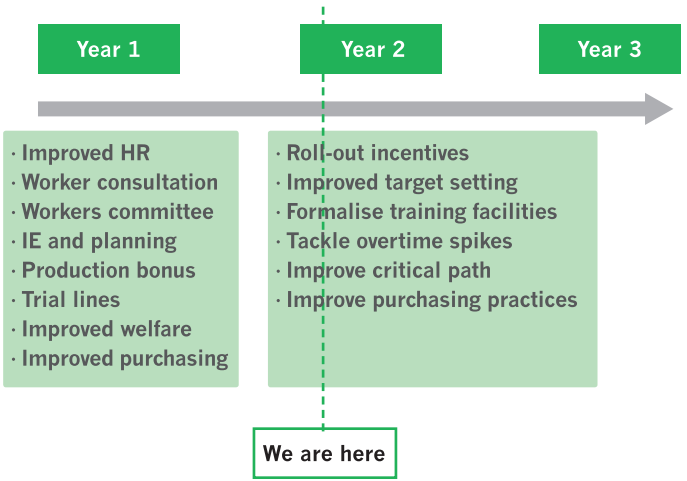
“The challenges are to improve target setting, formalise training facilities, tackle overtime blips, improve the management of the critical path and further improve the purchasing process”

Figure 4: Ethical factory project schematic



The project team identified an industry-wide culture of long hours and low pay and developed a range of interventions to reach its objective of sustainable funding of higher wages for fewer working hours. The project identified five key workstreams as set out in Figure 4 above.

Figure 5: Where are we on the journey?



During the first year of the project, the focus was on improving HR, consulting with workers, developing a fully-functioning workers’ committee, improving worker welfare and developing industrial engineering (IE) and planning capacity. The team worked to establish trial lines to test new systems and a production bonus designed to incentivise workers to produce more in less time. The trial lines were successful and were rolled out to the entire stitching department. At the same time, New Look worked with Echo to develop supportive buying practices, improving forward visibility of order flow and volume and holding regular meetings between supplier representatives and buying teams. New Look also provided financial support for the project.

Over the coming year, the model is being rolled out across another, much larger, factory owned by Echo. The challenges are to improve target setting, formalise training facilities, tackle overtime spikes, improve the management of the critical path and further improve the purchasing process.

“288 Grade 7 workers (the lowest paid unskilled helpers) had a 24% increase in take home pay compared to the previous six months, whilst working 46% fewer overtime hours”

### Results

Over the first year, the project has seen remarkable results. The factory operates an open-book policy with the project team, and results are drawn from analysis of the factory’s own records and verified through worker interviews. By July 2008, 288 Grade 7 workers (the lowest paid unskilled helpers) had a 24% increase in take home pay compared to the previous six months, whilst working 46% fewer overtime hours.

Grade 7 (lowest paid) workers	No. of workers	% change y-o-y OT hours	% change y-o-y Take-home pay
February 08	179	-57%	-6%
May 08	269	-36%	+15%
July 08	288	-46%	+24%

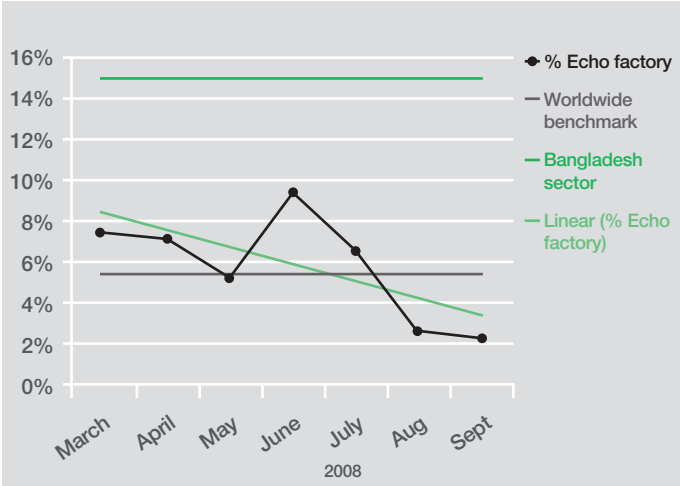
Taking into account the cost of improved lunches provided by the factory, the average value of the lowest paid workers’ monthly package in July was 3,615 Taka, 2.17 times the minimum wage. The table below shows how the average total package under the new scheme is made up.

Wage Element	Production Bonus and Allowances	Value of meal	TOTAL PACKAGE
2,241 TK	699 TK	675 TK	3,615 TK

“The results show that sustainable and meaningful wage increases can be made over a relatively short space of time”

Clearly this wage still falls short of living wage estimates of 4,800 Taka. Nevertheless, the results show that sustainable and meaningful wage increases can be made over a relatively short space of time. At the same time, the equivalent average total package for Grade 3 workers (typically machine operators whom the Grade 7 helpers assist) was 5,287 taka. With the focus now on upskilling unskilled helpers to become skilled machine operators through programmed in-house training, the possibility for this band of workers to achieve a living wage in a short space of time is greatly improved. A key measure of success is the rapid and sustained reduction in worker turnover (see Figure 6) since February 2007, well below the Bangladesh and global garment sector averages.”

Figure 6: Worker turnover



Benchmarks taken from IFC Dec 2006 report Bangladesh RMG sector<sup>xxix</sup>

Workers themselves have commented on the improvements. In 2007, Faruq spoke of his lack of information about the Provident Fund the factory offered and hesitation in using the workers’ committee. He now speaks of the Provident Fund as making him feel “benefited” and feels that the workers’ committee “looks after matters...if any problem arises among the workers,” such as how to approach “an increase in salary”. Since she started working at the factory, Rehena’s income has increased and she is able to financially support her family. She reports, “Previously I had low income. My family used to send rice to me, but now my salary has increased and I can send some money to my family. They do not need to send rice to me.”

Key success factors:

- Listening to workers and responding to their priorities
- Collaboration, transparency and trust: true partnership between the factory and the purchaser
- Technical inputs: on productivity, human resource management
- Focus on purchasing practices
- The WILL to make it happen

“Previously I had low income. My family used to send rice to me, but now my salary has increased and I can send some money to my family. They do not need to send rice to me”

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3.2 Practical Child Labour Solutions: Building consensus on effective child labour remediation – getting working children back to school

This year we found children under the local legal working age in 24% of the factories we visited. Over the past three years we have found 615 children working in factories around the world, ranging in age from 9 to just short of 16. Working with our clients, with factories, children and their families, we have been successful in getting 14% of these children back to school and ensuring that the family’s financial position is not jeopardised as a result. Some of the graphic designs of former child labourers found by Impactt are shown in figure 7, while below are 3 case studies on former child labourers and their progress through remediation programmes.



A Fei

Fei was 15 when he was found in a plastic factory in 2008. Impactt arranged for Fei to attend a computer training school close to his sister’s workplace. He began his computer training course in May 2008. Fei’s teacher reports that he is a good student, and has been one of the best in the class. Impactt will follow Fei’s progress until he turns 16 and will support him in finding a job or finding further education opportunities.

Bedir

Bedir was 10 when he started working in a garment factory in Istanbul, and was found by Impactt when he was 11. Bedir was working to help support his family. The factory and supplier agreed to pay him a monthly stipend to enable him to return to school. With the agreement of his parents, he was able to return to mainstream education and can now read and write. Bedir enjoys school and is the captain of the basketball team. He says that returning to school has changed his life and that when he goes to the shops, he is now able to read the signs on the street, and count the change he is given in the shop.

Xiao Bin

Xiao was 15 when he was found working in a Toy factory in 2007. Supported by Impactt and one of our clients, Xiao enrolled in an IT course at a local university, specialising in design. In July 2008, Xiao took and passed all of his examinations on Adobe Photoshop, Illustrator, Indesign and Coreldraw. In August 2008 he turned 16 and began looking for work using his new skills. Xiao found a job in November 2008 and is now working as a graphic designer for an advertising company.

“He is now able to read the signs on the street, and count the change he is given in the shop”





### “Practical solutions to get working children back to school”

Whilst getting even one child back to school is worth the effort, we urgently need to increase the success rate of remediation programmes. When we analysed the reasons for failure, we realised that there is little shared learning in this area and, whilst codes of conduct recognise the need for remediation, there is little practical operational guidance. So the same mistakes get made again and again. This year we have been building on our experience and working with stakeholders to develop the Child Labour Operational Procedures (CLOP), an attempt to agree practical solutions to get working children back to school. Forty-seven individuals from companies, trade unions, NGOs and international organisations have reviewed and contributed to the CLOP, through a series of online consultations and meetings in London, Hong Kong and New York. The revised CLOP sets out Basic Principles and Remediation Procedures, gives advice on Designing the Programme and Ongoing Monitoring. In addition, it shares best practice in tackling the ‘make or break’ moments which make the difference between a successful and unsuccessful remediation.

At the time of publication, the following companies and organisations are working to adopt the CLOP and are integrating the procedures into their own ethical programmes:

- Kingfisher
- BBC Worldwide
- CWF
- New Look
- B&Q
- C&A Europe
- Hallmark Cards UK
- Handshake (NGO)



Figure 7: Graphic design by former child labourers

We hope very much that others adopt the procedures and we plan to continue to refine them over the next year. Working together we can increase the success rate of child labour remediation and start to tackle some of the root causes of child labour.

The CLOP is available at [http://www.impacttlimited.com/wp-content/uploads/2008/11/impactt\\_operational-procedures-for-remediation-of-child-labour-in-industrial-contexts\\_revision\\_26112008.pdf](http://www.impacttlimited.com/wp-content/uploads/2008/11/impactt_operational-procedures-for-remediation-of-child-labour-in-industrial-contexts_revision_26112008.pdf)

### 3.3 Building Local Capacity: Expanding the capacity of local organisations to work with employers and employees to improve labour practices - the Local Resources Network

A key blockage hampering efforts to improve working conditions is the difficulty in identifying high quality resources in-country to support labour standards assessments and remediation. At the moment, many companies are reliant on international auditors or experts who can be costly and lack local expertise, or else they are dependent on untried and isolated local organisations, which may be inexperienced in meeting commercial needs.

Working with a group of companies and NGOs, Impactt has identified the need to build a mechanism for linking local resources with each other and with potential clients to develop a global network capable of developing localised and high quality solutions. During the year, Impactt has worked with Africa Now, Cadbury, The Co-operative, ETI-Norway, The Ethical Tea Partnership, Kingfisher, Marks and Spencer, Oxfam, Tesco and Traidcraft to develop and launch the Local Resources Network (LRN).

The LRN ([www.localresourcesnetwork.net](http://www.localresourcesnetwork.net)) is an online community for individuals and organisations working to improve working conditions in factories, farms and work sites worldwide. The network links Corporate and NGO members which source from developing countries with Local Resources who have expertise in interviewing workers, conducting assessments, carrying out remediation or providing advice on improving working conditions. Local Resources can be NGOs, Trade Unions, auditors, social scientists, charities or specialists in factory-based remediation and capacity building.

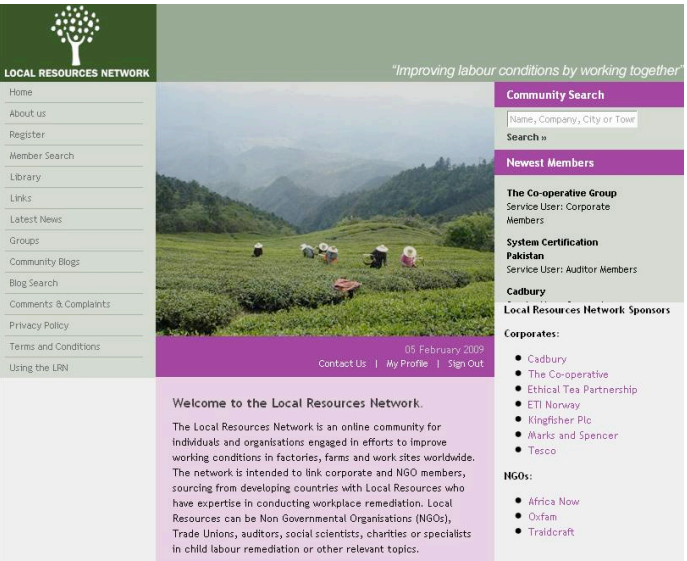


Figure 8: LRN Website

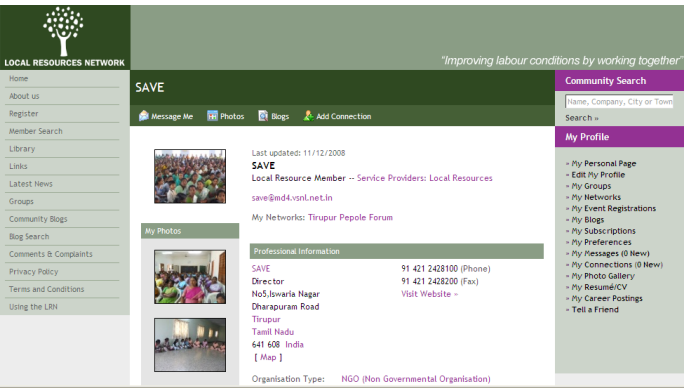


Figure 9: Local Resource profile

### “An online community for individuals and organisations working to improve working conditions in factories, farms and work sites worldwide”

The network currently has 32 Members and Local Resources from 21 countries in Europe, Africa, the Middle East and Asia Pacific. The LRN enables members and local resources to:

- Upload a profile summarising business activities and interests
- Identify implementation partners
- Manage workplace remediation projects
- Host and participate in online discussions
- Share information and practical experience on what works and what doesn't work in improving labour conditions
- Build the capacity of Local Resources and members on country and industry topics.
- In 2009 the group aims to grow the LRN and to transform it into a truly global network.
- The network is free to join for Local Resources. The joining fee for corporates and NGOs is £500.

“The opportunity to create a virtuous circle - ‘better, cheaper, faster, more ethical’”

“A new approach to sourcing which both protects and enhances commercial goals and improves labour practices in the supply base”

### 3.4 Better Buying: Integrating ethical trade into the core operations of business

Over the past four years the debate on ethical trade has shifted to focus on how retailers and brands buy, and the way this contributes to compromised labour standards in supply chains. Publications such as Insight Investment and Acona’s ‘Buying your way into trouble?’<sup>xxx</sup>, Oxfam’s ‘Trading away our rights’<sup>xxxi</sup> in 2004, and Traidcraft’s 2006 report, ‘Buying Matters’<sup>xxxi</sup> have all helped shape this debate. However, these very purchasing practices have evolved in response to market pressures and industry norms, and abandoning the current methods could result in companies becoming un-competitive, losing market share and ultimately going out of business. A key challenge facing ethical trade therefore is integrating ethical trade into the core operations of business.

To address the issue of purchasing practices, in 2008 Impactt and the fair trade organisation Traidcraft published “Material Concerns: How responsible sourcing can deliver the goods for business and workers in the garment industry”. The report draws on interviews with retailers, sourcing offices, agents, manufacturers and workers. The research was conducted in the UK, Hong Kong, China, Bangladesh and Cambodia. Material Concerns sets out a new approach to sourcing which both protects and enhances commercial goals and improves labour practices in the supply base. The report provides a clear set of operational principles setting out the ground rules for efficient and ethical purchasing as well as Scorecards for buyers and suppliers to incentivise efficiency and better ethical behaviour. Principles and Scorecards are reproduced below.

These give players in the garment industry the opportunity to create a virtuous circle - ‘better, cheaper, faster, more ethical’, delivering commercial targets, efficiencies, labour standards targets and reputational risk reduction.

Material Concerns is available at <http://www.impacttlimited.com/wp-content/uploads/2008/10/garment-report.pdf>

xxx// Available at: [http://www.insightinvestment.com/Documents/responsibility/Reports/responsible\\_supply\\_chain\\_management.pdf](http://www.insightinvestment.com/Documents/responsibility/Reports/responsible_supply_chain_management.pdf) xxxi// Available at: [http://www.oxfam.org.uk/resources/policy/trade/downloads/trading\\_rights.pdf](http://www.oxfam.org.uk/resources/policy/trade/downloads/trading_rights.pdf) xxxii// Available at: [http://www.responsible-purchasing.org/downloads/Buying%20Matters\\_small.pdf](http://www.responsible-purchasing.org/downloads/Buying%20Matters_small.pdf)

## Operational Principles for Better Purchasing Practices

### Solutions for the Buying Team

#### Product Development: Awareness of cause and effect

- Buying team to meet to ensure all members are fully briefed on commercial targets, design and technical specifications before product development requests are communicated to suppliers. The more complex the product design (e.g. embellishments), the more complex the supply chain is likely to be (i.e. the use of many agents and sub-contractors) and therefore the more likely it is that labour standards may be compromised
- All buying team members should understand the implications of product and commercial specifications on product critical path

#### Sampling: Reduce wastage of time and resources

- Buying team to set specific targets, per order, with suppliers on a fixed number of sampling phases, and volume of samples required, particularly where the supplier is required to pay for the samples
- Clear communication of the sampling requirements to suppliers to enable suppliers to predict the cost of sampling production, and to factor this into any cost quotations made
- Buying teams to monitor the ‘hit/conversion rate’ of key suppliers to understand the cost implications of the sampling process
- Buying teams should coordinate and prioritise any sampling requests made from different divisions to one supplier

#### Supplier Selection: Supply chain transparency

- Supplier and buying team must have clear communication on each site’s capacity and planned orders in advance of any order, to allow for adequate production planning
- Buyers should understand that letting down suppliers over order placement ‘promises’ has an impact on the perceived reliability of that supplier with its supply base, and therefore has implications on the supplier’s ability to book production space with good sub-contractors
- Buyers should show knowledge of the issue of overtime in their negotiations, and ask suppliers whether the selected manufacturing site will have capacity without using excessive and regular overtime



Placement of Orders and Production: Clearly defined volume and time commitments

- Buyers to solicit from sites accurate information about when space has been booked for a particular order, and to give clear indication to the buyer of the dates needed for production sign-off to reach the target in-store date without the use of overtime
- Buyers should be aware that by sourcing from sites which offer CMT alone, negotiations to reduce costs are highly likely to have an impact on the amount paid to workers
- Clear written commitment must be given by the buyer to the supplier, immediately following placement of a particular order

Delivery: Fairer and more transparent allocation of the costs of late changes

- Any changes in production design made post production sample sign-off should result in either a delay to the instore date, or a commitment from the buyer to pay for any air freight required
- Agree between buying team and supplier that the party which caused the change to the critical path will pay for the unplanned air freight
- If mistakes are made by suppliers, buyers should consider allowing a part-air, part-sea freighted delivery to reduce overall cost of air-freight to supplier
- Where last-minute changes by the buying team have resulted in wastage or excessive stock holding by supplier, retailer or brand should commit to either using the stock in future, or compensating the supplier for the wastage

Ongoing Product Management: Repeat orders and changing sustainable cost price

- Define specifications and separate critical path for repeat orders
- Identify where style and specification changes result in increased unit cost prices, and renegotiate cost price where applicable
- Evaluate/determine the minimum sustainable cost prices at different volumes which enable the payment of a living wage



Buyer Ethical Scorecard

Desired behaviour	Indicators
Choice of and loyalty to suppliers who demonstrate commitment and actions to improve working conditions	<ul style="list-style-type: none"><li>• % of business through suppliers scoring well on this indicator (through number of sites with active trade union, steps towards paying a living wage, provision of social benefits (healthcare, schooling, nutrition, etc.), lower staff turnover)</li></ul>
Sticking with suppliers who are willing to work through labour standards problems	<ul style="list-style-type: none"><li>• % of suppliers who have acknowledged issues and made improvements</li></ul>
Exiting from suppliers who have demonstrated, after a period of time, no commitment to improving working conditions	<ul style="list-style-type: none"><li>• % of suppliers making no progress who have been delisted</li></ul>
Loyalty to suppliers with long relationships with production sites	<ul style="list-style-type: none"><li>• Average length of relationship with individual production sites</li></ul>
Commitment to a critical path which allows sufficient planning and production time	<ul style="list-style-type: none"><li>• Number of deviations from critical path</li><li>• Sampling hit/conversion rate</li><li>• Number of late changes in orders</li></ul>
Contributing to an enabling environment for improved labour standards within the retailer's supply chain	<ul style="list-style-type: none"><li>• Level of willingness to work collaboratively to bring about sustainable labour standards improvements within the retailer's supply chain. This may include working with NGOs, trade unions, government, trade associations and suppliers</li></ul>

Supplier Ethical Scorecard

Desired behaviour	Indicators
Championing better jobs for workers, good labour standards and having a positive impact in the community	<ul style="list-style-type: none"><li>• Staff turnover at production sites</li><li>• Good human resources management systems</li><li>• Good labour standards audit results</li><li>• Sharing good practice with other suppliers</li></ul>
Taking pride in steps taken to demonstrate improved working conditions at all times including when issues are discovered	<ul style="list-style-type: none"><li>• Sites with particular initiatives such as active trade union representation (worker representation where Trade Union not allowed), steps towards paying a living wage, provision of social benefits (healthcare, schooling, nutrition, etc.)</li><li>• Existing recognition agreement and Collective Bargaining Agreement</li><li>• Analysis of working hours</li></ul>
Stable relationships with own suppliers/sub-contractors	<ul style="list-style-type: none"><li>• Average length of relationship with individual production sites</li><li>• Open dialogue on labour standards in subcontracting sites</li></ul>
Transparent about supply chain and production	<ul style="list-style-type: none"><li>• Shared list of all sources of supply, including subcontractor and home-workers</li></ul>
Open dialogue on labour conditions	<ul style="list-style-type: none"><li>• Level of willingness to discuss issues such as pressures on working hours and pay</li><li>• Retrospective comparison of planned vs. actual timings and volume outputs, measured against overtime worked at site</li></ul>
Constructive feedback on how purchasing and manufacturing process can be adapted to meet business as well as minimum social objectives	<ul style="list-style-type: none"><li>• Quality of business relationship between brand/retailer and supplier, gauged by 360 degree feedback</li></ul>
Contributing to an enabling environment for improved labour standards on site	<ul style="list-style-type: none"><li>• Level of willingness to work collaboratively to bring about sustainable labour standards improvements on site. This may include working with NGOs, trade unions, government, trade associations and suppliers</li></ul>

4

Conclusions

It continues to be a business necessity for responsible companies and organisations to work to improve conditions in supply chains

“Find new ways of working which are business positive, good value and effective in improving the quality of jobs in supply chains”



Improved conditions bring greater efficiencies and guard against ever increasing external criticism, protecting reputation through the downturn. Yet the downturn itself makes it more difficult to maintain standards as employers around the world are under pressure to provide better value. The temptation is to cut back on labour standards, from the boardroom to the shop floor.

The challenge is to find new ways of working which are business positive, good value and effective in improving the quality of jobs in supply chains. Impactt is meeting this challenge by:

- Working to identify and understand the key issues facing workers around the world
- Developing factory-level solutions, shared policy initiatives, collaborative web-based solutions and support on purchasing practices to help deliver the win-win of better jobs and better business right along the supply chain.

The task is getting harder, we need to get smarter.







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