



Progress and Potential

A focus on sourcing practices from a factory perspective

THEMATIC
BRIEF

KEY FINDINGS

Some sourcing practices are perceived as obstacles to garment factories' business success

Adverse sourcing practices are correlated with supervisor stress, verbal abuse, excessive work hours, lower pay and overall poor compliance outcomes

The largest orders from global brands are directed to factories with excessive hours

Workers' life satisfaction deteriorates when working hours exceed legal limits



International
Labour
Organization



International
Finance
Corporation
WORLD BANK GROUP

BetterWork.

Launched in 2007, the Better Work Programme - a joint initiative of the International Labour Organization (ILO) and the International Finance Corporation (IFC), a member of the World Bank Group - has made significant progress in improving working conditions and promoting competitiveness in global garment supply chains. Participating in Better Work has enabled factories to steadily raise compliance with ILO core labour standards and national legislation.

In 2016 Tufts University published an independent impact assessment of the programme since its inception. The university's interdisciplinary research team has gathered and analysed nearly 15,000 survey responses from garment workers and 2,000 responses from factory managers in Haiti, Indonesia, Jordan, Nicaragua and Vietnam. Tufts' in-depth analysis of the surveys provides concrete evidence of Better Work's effectiveness in changing workers' lives and boosting factory competitiveness.

In this brief, we present the evidence from the Better Work impact assessment that characterizes how supply chain dynamics in the global garment industry impact working conditions. The data provide new perspectives on these dynamics - those of garment factory managers and workers. The analysis establishes an empirical link between the sourcing practices of firms and the conditions that managers and workers experience at the factories.

1. Introduction

While Tufts University's research aimed primarily to measure the impact of Better Work, the data collected for this purpose provides an unprecedented opportunity to understand how characteristics of global supply chains can affect working conditions. Sourcing practices of brands and retailers is one

such characteristic. The research completed to date, although not principally designed to investigate the impact of sourcing practices on working conditions, provides welcome insight in this area from the perspective of managers at supplier factories.

2. Factory and buyer relationships

The global garment industry is characterized by a diverse range of business models. Some global brands

and retailers continue to own and operate factories, while most have contract relationships with factories.

Many have no direct relationship with factories, sourcing through agents and intermediaries who manage the supply chain relationship. Factories themselves vary in size, infrastructure and ownership types, which also impact their ability to respond to supply chain pressures. Most factories have multiple buyers (in this case, brands and retailers) sourcing product and must manage multiple product specifications, lead times, quality standards and delivery deadlines. In this environment, the business models and sourcing practices of buyers can positively or negatively impact a factory's effort to improve working conditions and worker well-being while staying competitive and profitable.

3. Factory managers' perspectives on sourcing practices

In Tufts' confidential impact assessment surveys, managers respond to questions about their business relationships with their most important customers and about the obstacles they face in operations. They are asked to rate each commercial practice on a scale between a practice that is "not a problem" and one that they consider a "serious problem". Asking managers directly about these challenges gives insight into how practices of their customers play out at the factory. Managers are asked to rate the following sourcing practices in terms of whether they present an obstacle to their success:

- ◆ Uncertain orders from customers
- ◆ Customer penalties for late delivery
- ◆ Changes in technical requirements by the customer after production has begun
- ◆ Customer penalties for production defects
- ◆ Replenishment orders
- ◆ Variations in customer code of conduct requirements

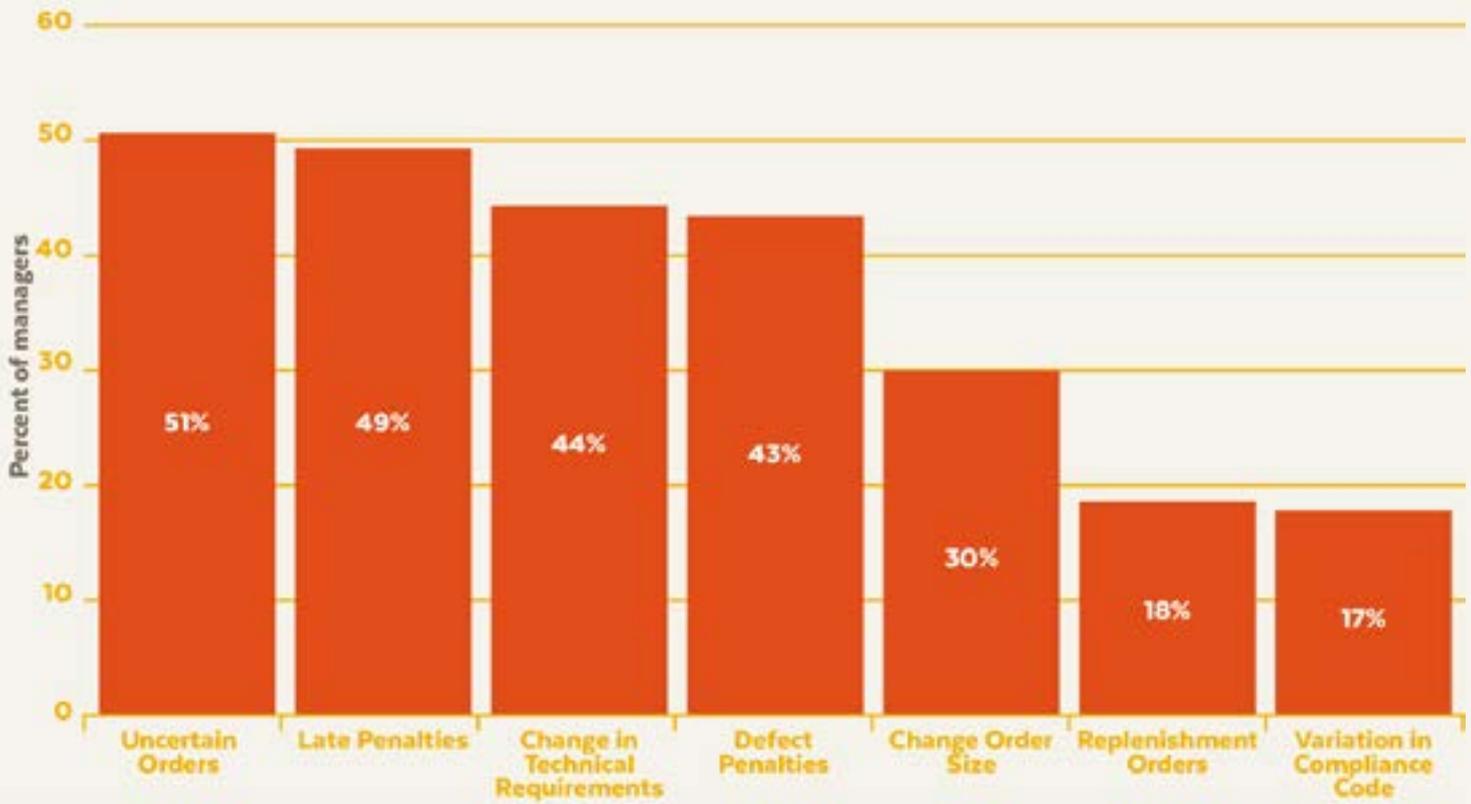


- ◆ Customers lack knowledge of local labour law
- ◆ Each customer has its own technical requirements
- ◆ Too many rush orders
- ◆ Customer requirements for production machinery
- ◆ Customer requirements for safety equipment
- ◆ Customer requirements for other equipment (such as punch clocks, computers, etc.)

- ◆ Change in the size of the order

The practices that managers most often cite as serious obstacles to business success include uncertain orders, late penalties, changes in technical requirements after production has started, and defect penalties (Figure 1). Only about one in 10 factory managers surveyed did not consider such issues a business challenge.

FIGURE 1 PERCENT OF MANAGERS REPORTING EACH SOURCING PRACTICE AS A “SERIOUS” OBSTACLE TO BUSINESS SUCCESS - VIETNAM



4. The link between sourcing practices and non-compliance

Better Work factories have improved their compliance records over time. However, compliance with working hours and overtime regulations remains a challenge – and the root cause may lie beyond the factory floor. Compliance issues are deeply bound up with global supply chain dynamics. Global buyers' sourcing practices, particularly in an industry increasingly dominated by "fast fashion", put factories under pressure to deliver within short lead times, to respond to frequent order changes, and to operate with high levels of flexibility. These demands directly affect a factory's ability to foster the key conditions for decent work. In turn, the pressures influence workers' perceptions of factory conditions.

Sourcing practices in garment supply chains can affect a firm's compliance status. Researchers tested whether a factory's business relationship with its main

customers affected its compliance record by looking into the case of Vietnam, where violations in compliance with working hours remain common. Researchers found that managers' concerns about rush orders and late penalties from customers are associated with higher rates of non-compliance with working hours.

If managers cite serious concerns with sourcing practices, such as changes in technical requirements or order size, or fines for defects, their factories are significantly less likely to comply with workplace safety and health requirements. It is possible that when managers are concerned about such sourcing practices, their HR management practices deteriorate. This could be because when suppliers are under intense pressure to deliver and to produce as quickly as possible, they may disregard requirements for personal protective equipment believed to slow down production.

5. Conflicting signals on excessive working hours

Researchers explored how sourcing practices influence overtime violations by analysing the factors determining order size in relation to the reports of working time in the worker surveys. In this context, the size of an order gives an indication of where international buyers direct their business, and serves as a way to measure the success of supplier factories as they seek to attract orders. If factories receiving large orders are consistently flouting regulations on work hours (either regular hours or overtime), this suggests that sourcing decisions are reinforcing the existing, predominant production system in the garment industry. The system is typified by a single shift with unpredictable and excessive overtime hours.

Initially, a positive picture emerges. Customers sourcing from Better Work factories appear to be directing larger orders to firms with better compliance reports, including those with better track records on work hours. This finding could be interpreted as buyers supporting positive HR management by directing business to factories that perform well on working hours.

However, a deeper investigation encompassing the perspective of workers reveals evidence of a less encouraging picture. As order size increases, workers report that the total number of hours worked per day rises beyond legal limits.

The conflicting findings suggest that factories have strong incentives to falsify records on work hours for the sake of clean compliance reports. It indicates that

buyers are reinforcing a business model that leads to a non-compliant supply chain.

6. Effects of sourcing practices from the workers' perspective

Understanding how workers perceive factory conditions, in addition to evaluating factory-level compliance records, is integral to uncovering the effects of buyers' sourcing practices.

Researchers investigated the effect of sourcing practices on workers' perceptions of pay, hours and job satisfaction. They discovered that as the length of time between the delivery of an order and payment by a buyer increases, the weekly pay that workers report decreases at a significant rate. This suggests that cash flow constraints may constrict a firm's ability not only to upgrade or replace machinery, but also to pay workers. Workers also report longer hours if they work in

factories where replenishment orders and late penalties are concerns for managers.

The researchers also attempted to identify the distinction between the number of hours workers seek to work, and unwanted or excessive hours. To do this, researchers estimated the effect of increased hours on the life satisfaction index they developed from worker surveys. It was clear that keeping pay and factory characteristics constant, workers became less satisfied as they served hours beyond the legal limits. In the same way, worker satisfaction falls as managers get more worried about late penalties, and when there is a long gap between order fulfilment and the factory's receipt of payment.

7. Sourcing practices, supervisor stress and verbal abuse

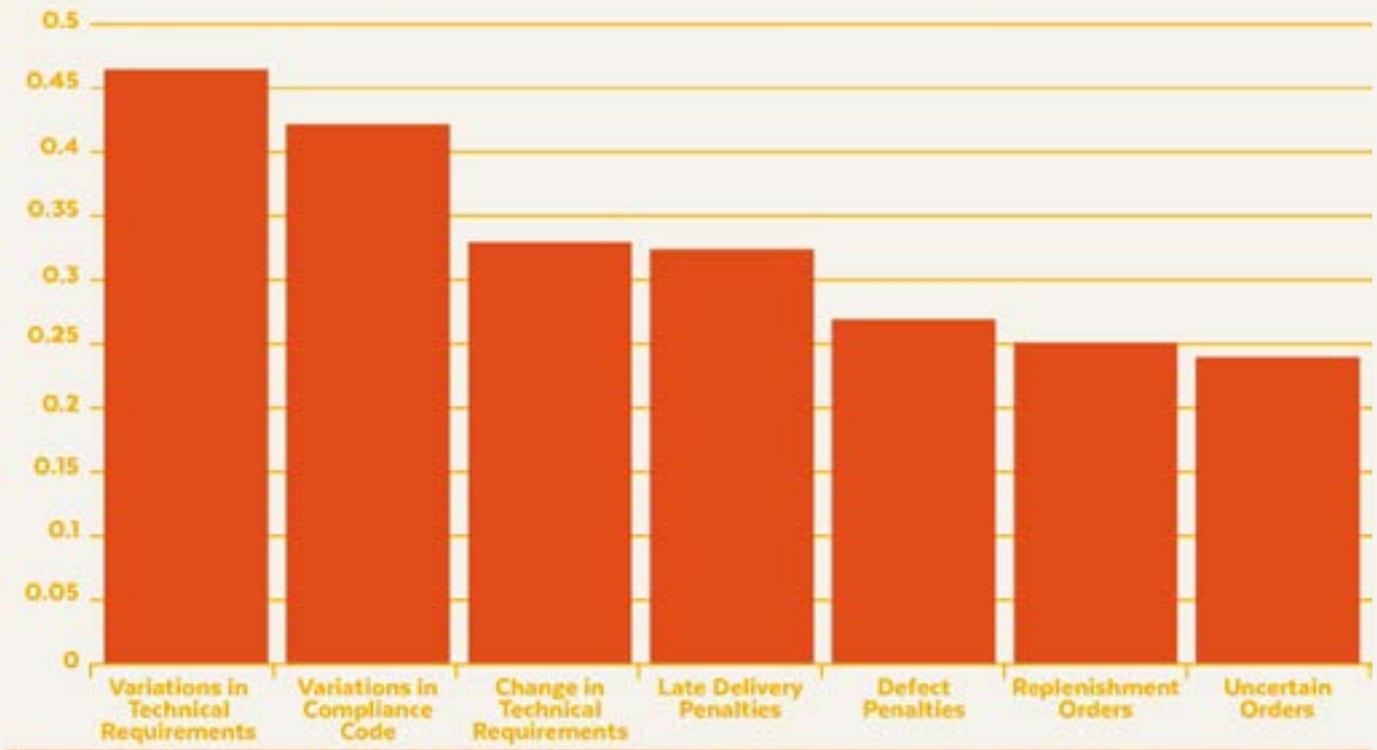
In factories, the adverse effects of pressure resulting from sourcing practices do not stop at the management level. In surveys, researchers also asked managers whether stress levels among their supervisors is a significant problem in their business. Researchers were then able to explore whether levels of supervisor stress are correlated with sourcing practices that increase pressure on suppliers.

Their findings demonstrate that supervisor stress increases along with the sourcing practices that managers see as detrimental to business success. Supervisor stress is more likely to be a problem when managers in

the same factories identify the following conditions as obstacles to business success (Figure 2):

- ◆ Variations in technical requirements
- ◆ Variations in compliance code requirements
- ◆ Changes in technical requirements after production has begun
- ◆ Late delivery penalties
- ◆ Defect penalties
- ◆ Replenishment orders and uncertain orders

FIGURE 2 LINKS BETWEEN SOURCING PRACTICES AND SUPERVISOR STRESS



Note: The above chart depicts correlation coefficients of the existence of supervisor stress identified as a problem and sourcing practices identified as business challenges in Vietnam. It shows the relationship between problematic sourcing practices and supervisor stress occurring in Vietnamese factories.

Analysis using Better Work data established that the higher the levels of supervisor stress in a factory, the more likely it is that workers will experience verbal

abuse¹. As a result, adverse sourcing practices are linked to a higher probability that workers experience this kind of treatment at the workplace.

8. Conclusions and implications

In an industry characterized by multiple buyers sourcing from a single factory with increasingly shorter lead times, frequent style changes and unreliable order commitments, factories must be increasingly agile and flexible. Compliance issues and the state of working conditions are inextricably linked to these global supply chain dynamics. The research from Tufts demonstrates that sourcing pressures create inherent challenges in achieving decent work in supplier factories, and sourcing practices can affect workers' well-being directly by causing long work hours and lower pay. Sourcing pressures also influence supervisor stress and behaviour by creating unpredictability in production schedules. When managers and supervisors are under pressure, they are unable to act upon the information and evidence they receive – including

the observations that exploitative working conditions are bad for business.

The findings support the need for a holistic approach to address and alleviate global supply chain pressures. Better Work can contribute to building an evidence base to investigate global supply chain issues, and help to convene all stakeholders – brands, retailers, factories, policymakers, NGOs, and workers and their representatives – to develop an integrated approach for finding solutions across the global supply chain. While this brief reveals suppliers' perspectives, further and more targeted research on supplier and buyer experiences and sustainable business models is required to influence dynamics that create win-win outcomes for all.

¹Rourke, Emily (2014) "Is there a Business Case against Verbal Abuse?" Better Work Discussion Paper Series No. 15. Available on better-work.org.

Progress and Potential thematic briefs present a focused look at particular topics from the impact assessment of Better Work.

CORE DONORS TO BETTER WORK

The Better Work Global programme is supported by the following key donor partners (in alphabetical order):

- Australia (Department of Foreign Affairs and Trade, DFAT)
- Denmark (Ministry of Foreign Affairs, Danida)
- Netherlands (Ministry of Foreign Affairs)
- Switzerland (State Secretariat for Economic Affairs, SECO)
- United States (US Department of Labor, USDOL)



International
Labour
Organization



**International
Finance
Corporation**
WORLD BANK GROUP