

Transforming supply chain industrial relations

Pressure on multinational corporations (MNCs) to account for violations of workers' rights in their global supply chains is increasing. Global campaigns by Global Union Federations, NGOs and online campaign networks make the connections between labour rights abuses at the far reaches of a company's supply chain and the global headquarters that controls the chain and collects the profits. Workers and their unions are becoming increasingly sophisticated in identifying the multinational corporations at the top of the supply chain when violations take place and pressuring them to act.

Workers at all stages of global supply chains can justifiably ask why their pay and conditions are so poor when they are making products or contributing services for companies that rake in massive profits and could well afford to guarantee all workers in their supply chains a decent standard of living. In the last quarter of 2014, Apple reported the biggest quarterly profit ever by a corporation: \$18 billion. It is sitting on cash reserves of \$142 billion. Meanwhile the workers who make the products responsible for generating these unprecedented profits receive only \$4 for making an iPhone 6 that retails in the US for \$649. MNC buyers at the top of global supply chains do not necessarily directly employ workers in the factories that produce their goods, but their purchasing decisions have a powerful influence over wages and working hours.

The UN Guiding Principles make clear that a company is responsible for conditions in its supply chain, regardless of where the work is performed and what the employment relationship is between it and the workers. This positive development has made it impossible for multinational companies to evade accountability for abusive conditions through their extensive use of outsourcing, sub-contracting, agency work and other means of avoiding direct employment relationships.

But what if the entire sourcing model is predicated on low wages, long hours and exploitative working conditions? How can a company fulfil its responsibilities within a system that entrenches worker rights abuses?

The global garment industry

In garment industry supply chains, exploitative working conditions are standard. Workers are forced to work long hours, often far beyond legal boundaries, for poverty wages and in conditions that breach even the lowest of OHS standards. Many live in an absolute poverty whilst others teeter above it. Continual downward price pressure by companies keeps wages low while their real value declines against inflationary increases on basic necessities such as food and energy.

The wage of most garment workers is no higher than the level of the minimum wage in their country, which in many cases is well below the level of subsistence.

In countries where the minimum wage is set at industry level, wages for textile and garment workers are lower than for other industries. Global average wages in the textile and clothing industries are 24% and 35% respectively lower than the manufacturing industry average wage.

Excessive working hours are a continuing and entrenched problem. Production peaks are managed by relying on excessive overtime. Workers are compelled to work extremely long hours in order to supplement their basic earnings towards a level where they can support themselves and their families. Even when they work excessive additional hours, many workers are unable to achieve this goal.

Precarious employment conditions are rife, with temporary contracts, agency work and sub-contracting the norm. Violations of the right to freedom of association are commonplace, unionization rates are extremely low and collective bargaining is rare.

Decades of public campaigning and recurrent fires and building collapses occasioning multiple deaths have given a high level of visibility to labour conditions in garment supply chains. But responses by those companies responsible at the top of the chain have not been able to bring about the fundamental change necessary to guarantee the rights of garment workers.

The failure of CSR

Garment companies have developed extensive corporate social responsibility (CSR) programs which rely on auditing and compliance to attempt to improve conditions in the factories which produce for them. These unilateral, voluntary and nonbinding efforts have overwhelmingly failed to improve wages and working hours or to ensure respect for workers' right to join a union.

Not only have they proved to be ineffective, but, in giving reassurance that something is being done, have become obstacles to finding genuine solutions to the root causes of low pay and excessive working hours.

Dissatisfaction with the results of their own auditing efforts led many companies to join multi-stakeholder initiatives (MSIs) to address compliance in their supply chains, the results of which are often no better than unilateral company efforts, relying as they do on similar auditing methods and failing to address the root causes – the supply chain production model itself.

For more than 15 years, the major MSI programs have grown in the number of companies that have joined them, yet the MSIs have not demonstrated results in their ability to improve workplace standards and respect for rights like freedom of association, nor to increase wages above poverty level.

While ILO standards are the reference point for most CSR efforts, these have done little to ensure actual respect for ILO standards, and virtually nothing for the fundamental rights that enable respect of the others: freedom of association and collective bargaining. Where freedom of association is respected and workers are allowed to organize unions and bargain collectively, workers are able to defend themselves from exploitation and obtain decent incomes and working conditions. Where these rights are denied, the CSR model is unable to fill the gap.

But there are clear reasons why efforts based solely on CSR and auditing will continue to fail. They do not make any fundamental change to the way that production is organized.

Why CSR cannot be the answer

Clothing supply chains are complex and subject to frequent change. Most factories produce clothes for a number of brands, reducing the influence that any one brand can have on a particular factory. As fashion changes, so do sourcing choices, as companies seek out the factories that have the capacity to meet their changing demands. Outsourcing and sub-contracting by the factories themselves, either to source items such as buttons and zips, or to take up production that the factory has overcommitted to and cannot carry out, further reduces the impact of corporate CSR.

Even if a company were able to secure better control of its supply chain by reducing the number of factories it gives work to and by placing orders to take up the full capacity of each factory so that they do not produce for other brands, its efforts will still be limited by the context in which the factory is operating. Currently wages in many garment producing countries are way below the level of a living wage, and working hours are typically way in excess of ILO standards and even national legislation. The gaps are so large that it would not be possible for an individual factory to change its own conditions so dramatically and still remain competitive. It would also quickly become subject to pressure from employers' associations and other factories to not to step outside existing norms.

Which is why no brand has been able to achieve this feat, even in factories where it sources 100% of production. And how much influence can one company have on conditions for employing labour which are systemic and entrenched?

Corporate self-regulation is clearly not the answer, yet CSR is not about to disappear anytime soon. It has spawned a multi-million dollar social auditing industry, which means that despite the lack of results, there is so much invested that many companies will hope to achieve incremental change through improvements to existing approaches. But since the compliance and auditing model focuses on individual factory performance without identifying and addressing root causes and systemic barriers, these efforts will continue to be ineffectual. There is a growing public awareness of the lack of results delivered by CSR programs – flashy websites and reports are no longer an adequate smokescreen behind which companies can continue business as usual. Faith in the auditing model was further shaken when it became known that social auditing and certification bodies SAI and BSCI gave clean bills of health, respectively, to Ali Enterprises before it burnt down killing 254 workers and Rana Plaza before it collapsed, killing 1129 workers.

Better solutions need to be urgently found. Only strategies that take into account the nature of the industry and the way that sourcing decisions are made have any chance of success.

Building new models of cooperation

Violations of the rights of garment workers, low pay and excessive working hours are not restricted to any one country or any one region: they are a global problem to which there needs to be a global response. Nothing less than a fundamental change to the way that production is organized in garment supply chains will provide relief to workers from poverty wages and crippling working hours.

Such a fundamental change may very well turn out to be the legacy of the Rana Plaza collapse. This turned out to be a defining moment for the way that companies approach supply chain compliance. It brought to a head the public debate on the ineffectiveness of auditing and made possible a groundbreaking new agreement between unions and companies to make garment factories in Bangladesh safe.

That agreement is the Bangladesh Accord on Fire and Building Safety. The Accord is a legally-binding agreement between global unions and more than 200 clothing companies. It marks the turning point from the failed CSR auditing model and towards global supply chain industrial relations that deliver genuine change. In the negotiations that led to signing the Accord, companies and unions were able to work together to identify the underlying reasons why the factories had not been made safe despite years of auditing and CSR programs. These have been addressed in the design of the Accord, which includes commitments by brands towards their supplier factories to maintain orders and to ensure that financing is available to factories to do the necessary renovations. If factories do not comply, signatory brands are required to end their business relationship.

Run by a joint steering committee of equal numbers of union and brand representatives, the Accord recognises and supports the vital role of workers in monitoring factory safety. The signatory companies commit to recognising workers' right to refuse unsafe work and to setting up joint health and safety committees in each factory. Unlike with voluntary codes of conduct, workers have the assurance that these commitments can be enforced through a legally-binding agreement.

The Accord also introduces a new level of transparency to the industry. All inspection reports and corrective action plans for each factory producing for Accord brands are publicly available on the Accord website.

The Bangladesh Accord establishes a new model of cooperation between global buyers and trade unions to enforce compliance with standards, and promises to change forever the way that companies deal with abuses in their supply chains. The challenge now is to build on this model by developing more agreements to address other systemic supply chain rights violations.

Through the Accord experience, unions and companies have identified the elements that must be present in order for strategies to improve supply chain labour standards to be effective.

Efforts must be collaborative, and involve buyers, factories, workers and their unions. They must address root causes, including purchasing practices. They must include longer-term commitments from buyers to suppliers in order to provide an incentive for them to comply, as well as sanctions if they do not.

These experiences have made it possible for garment companies and IndustriALL Global Union to join forces to apply such an approach to living wages in the garment industry. This process is known as ACT.

It started when a group of garment brands and retailers came together to discuss how they could collaborate at industry level to make genuine and significant progress towards a living wage. They identified freedom of association and collective bargaining as well as reform of purchasing practices as vital for any impact to be made. The brands agreed between themselves a set of enabling principles on living wages in supply chains. These principles promote a joint approach and recognise the primary role of collective bargaining at industry and national levels in reaching agreement on a living wage.

Having established the parameters of their cooperation, the brands entered into dialogue with IndustriALL Global Union on how to work together at industry level to develop the strategies that will drive the fundamental changes needed to make living wages a reality.

Identifying the root causes

Garment workers are currently under-represented by trade unions which face massive barriers to organizing from both employers and governments. In many garment producing countries, collective bargaining structures are weak or absent: over 90% of workers in the global garment industry have no possibility to negotiate on their wages and conditions and so are not able to claim their fair share of the value that they generate. A typical pair of jeans made in Bangladesh retails for anywhere between \$30 and \$50, or more for a prestige brand. But the worker who makes them only receives 10 cents. Garment sector wages in Bangladesh are currently \$68 a month, but unions say that these need to increase to at least \$120 for workers to be able to support themselves and their families adequately. In Cambodia, the minimum wage has risen to \$128, but this is still well below the \$150-\$177 demanded by unions.

The lack of industry wage bargaining in the garment industry has left workers reliant on ineffective minimum wage mechanisms for any wage increases. While minimum wage fixing at least establishes a common floor, the wages that result are well below the level of a living wage in most major garment producing countries like Cambodia and Bangladesh. Government control over the process and outcome means that many factors that are unrelated to the needs of garment workers end up influencing the eventual rate. Conversely, other industry-specific factors that have a bearing on wages such as working hours, non-wage benefits and productivity improvements, are not considered.

Where bargaining does take place in the garment industry, it is primarily conducted at the level of the individual factory. This puts an enormous burden on unions that lack strength and resources to conduct negotiations one factory at a time – in Bangladesh alone there are more than 4,500 factories producing for the export industry. Particularly in supply chain industries like clothing and electronics, bargaining at the level of individual factories will never be enough to drive up pay and conditions when demands by MNCs for ever lower labour costs suppress wages and conditions in a race to the bottom. There are limits to how far an individual factory or business can step ahead of its competitors and unscrupulous MNCs will simply move to suppliers with lower standards and lower labour costs. Likewise, efforts by individual MNCs to raise standards, particularly when these do not include reform of purchasing practices, will meet with opposition in their supplier factories which have to compete with other factories on labour costs. Even if buyers increase the prices they pay, without collective bargaining in place there is no guarantee that the increases will be passed on to workers. Furthermore, most suppliers have multiple buyers, all of whom negotiate prices with them individually.

Industry bargaining is key

Collective bargaining at industry level is the missing mechanism which will enable significant progress to be made towards living wages for garment workers. Its virtual absence from the garment industry today is the primary obstacle to achieving higher wage outcomes.

Industry bargaining enables the particular features of the textile and garment industry to be taken into account in wage structures in a way that minimum wage fixing processes are unable to do. It enables comprehensive agreements to be reached that take into account all relevant issues including wages, overtime, working hours, production peaks and productivity and efficiency. Once there is a functioning mechanism for collective negotiation between employers and garment workers, other systemic problems such as the chronic under-valuation of women's work can be addressed through more appropriate compensation for skills.

Industry-wide agreements make it very difficult for employers to escape their obligations. They effectively take labour costs out of competition by creating a level playing field that enables conditions to improve for all workers in an industry, regardless of whether the multinational company that their factory supplies to has a CSR program, or whether their factory is even part of a global supply chain at a given time. The incentive then is to compete on the basis of efficiency, process innovation, skills and upgrading rather than by undermining wages and working conditions. Factories have a collective interest in ensuring that they are not undercut by unscrupulous employers paying wages lower than the prevailing rate. This is particularly true in labour-intensive industries such as the garment industry. Industry bargaining takes conflict out of the workplace and is more efficient requiring fewer resources for employers as well as trade unions, and provides stability and predictability to buyers, factories and workers. By covering all workers in an industry, it also ensures the inclusion of the most vulnerable workers including the many migrant workers, contract workers and home workers found in the garment industry.

MoU on living wages in the garment industry

IndustriALL has signed a Memorandum of Understanding with each of the brands involved in the ACT process. The MoU is explicit in identifying the development of industry bargaining in garment producing countries as essential to achieving living wages and the need for effective recognition of workers' rights to freedom of association and collective bargaining in order for this to be realized.

The intentions expressed in the MoU aim at transforming the way that wages are set in garment producing countries. In the context of global supply chains, where the buyers at the top of the supply chain have the greatest power to influence where value is distributed along the chain and how much of it ends up in the hands of workers, commitments to reform purchasing practices in support of industry bargaining are essential.

The ACT process aims to develop the means to link the supply chain responsibilities of buying companies to the collective bargaining process between local unions and employers. This will involve developing contractual or other mechanisms that support suppliers to implement the negotiated wage. Commitments to continued sourcing and greater stability of orders will be key, as will commitments that prices paid will take account of negotiated increases.

By linking national industry-level collective bargaining between unions and employers to the purchasing practices of brands, the ACT process creates a framework for genuine supply chain industrial relations. Through industry bargaining, wages can be negotiated at a level that enables workers to properly support themselves and their families while addressing the specific nature of the industry, working hours, productivity and other issues that have bearing on wages. To ensure that the agreed rate is actually paid, the resulting agreements need to be registered and legally enforceable under national laws. Factories also have to have the means to pay the agreed rate and this is achieved through reforming purchasing practices. All three elements must be present to create a system that will actually deliver on living wages.

The aim of the ACT process is to establish systems of industry agreements supported by brand purchasing practices as the primary means of wage-fixing in the global garment industry. The next step will be to start efforts to implement it in key garment-producing countries. For this, engagement of employers, trade unions, governments and other actors is essential. ACT companies will work with their suppliers and IndustriALL with its affiliated unions in selected countries to bring them together to develop an agreed plan of action and set a framework for negotiations towards living wages. This is likely to require capacity building for both employers and trade unions as until now there has been no framework for them to come together at the level of the industry and negotiate in this way. Given the hostility to trade unions in many garment-producing countries, a strong focus on the right to freedom of association will be needed.

This is an ambitious aim and there is a recognition of the need to catalyse support for a fair and stable global garment industry by making the case for promoting a living wage system which is collectively bargained on an industry basis. It will require significant political will, particularly in those countries that supply cheap labour to global supply chains. It will involve the construction or improvement of industrial relations structures, including development of representative employers' associations where these are absent. It is anticipated that the ILO will play an important role and be a vital source of practical and technical expertise.

At the same time as working towards the development of industry bargaining, the MoU commits IndustriALL and ACT companies to continuing to make joint approaches to governments in support of higher minimum wage outcomes. In 2014, IndustriALL called jointly with brands sourcing from Cambodia for increases to the minimum wage, while providing commitments on maintaining orders and ensuring their purchasing practices take account of wage increases.

The way forward

For the first time, the ACT process has established the commitment of the global union and major clothing brands to working together to create a system that, by addressing the structural barriers to living wages that guaranteed that previous efforts would not succeed, has a genuine chance of increasing garment workers' wages in a way that is scalable, sustainable and enforceable.

Drawing on these experiences, and those of the Bangladesh Accord, there is no reason why similar models cannot be developed that institutionalise relationships between buyers, factories and workers to address other labour rights problems that are entrenched in the very way that supply chains are managed.

In the garment industry, the institutions designed to protect workers rights have not been adapted to keep pace with rapid evolution of global supply chains, resulting in low wages and exploitative working conditions throughout the industry. There is now an opportunity to remodel the industrial relations architecture to address the realities of employment relationships and working conditions in today's global supply chains, towards genuine supply chain industrial relations.