

Scaling Responsible Purchasing Practices through Effective Supply Chain Partnerships

OECD Forum Session

Written Responses to Questions

Answers from:

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Q: Hello, would it be possible to get the link to the ILO and ETI study discussed by Evelyn?

EA: You may find the study here: https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_556336.pdf

Q: When speaking about contract re-negotiations, we need to acknowledge that prices, delivery dates and payment terms are not negotiated between equal partners. Instead, they are largely unilaterally determined at the buyers' end of the deal, and compliance-related costs are pushed down the value chain. Ultimately, workers have been paying the price of this crisis, being owed more than USD 3 billion in unpaid wages, and the money to cover this is at the top of the chain.

MD: Thank you for raising that concern. Better Buying measures the extent that various high pressure negotiation strategies are used by buyers and the outcome of those which is percent of orders priced for compliant production (in other words, prices covering everything that buyer is asking for). You can read more about costing in a Deep Dive report Better Buying will be releasing within a few weeks, as well as through a special report released earlier this year.

<https://betterbuying.org/press-announcement-better-buying-releases-new-report-linking-high-pressure-costing-practices-to-suppliers-sustainability/>

Q: Do you think that initiatives such as ETI or FWF asking its members to adopt and follow a "purchasing practices" standard outlining the behaviour we want to see could help brands be clearer on how to behave and feel more pressured to improve their practices? it seems we are all very clear on what suppliers should do to meet international standards but it is not so clear for brands..

EA: I personally believe that both ETI and Fairwear could potentially have a great influence in promoting responsible purchasing practices among its members if they were to undertake some

work in this area. I would nevertheless stress that 1) the involvement of unions in any such initiative would be important - as they are the direct representatives of workers, who ultimately bear many of the consequences of irresponsible purchasing practices, and 2) while such initiatives would be helpful, we should not lose sight of the importance of binding measures at the international level to steer responsible business conduct and create a level playing field between the do-gooders and the companies that are not interested in RBC. This is why the ITUC is very much involved in ongoing negotiations for a UN Treaty on Business and Human Rights, and is also involved in discussions, together with the Trade Union Advisory Committee to the OECD, around the revision of the OECD guidelines.

KR: ETI, FWF, ACT, Better Buying and the German Partnership for Sustainable Textiles are currently working on an aligned framework on responsible purchasing practices. Member brands and retailers should also integrate the aligned principles and monitoring/accountability standards of the framework into their work.

MD: ETI and Fair Wear already share guidance on responsible purchasing with their members, namely ETI's "Guide to buying responsibly" and Fair Wear's Brand Performance Check methodology which includes annual public reporting on progress. While improvements at an individual level have been observed, systemic change at industry level remains challenging.. To tackle this, ETI UK, Fair Wear Foundation, Better Buying and the German Partnership have been working with organisations such as the Dutch Agreement on Sustainable Textiles, ETI Norway, ACT and ILO Better Work to define a shared framework for responsible business practices. Following an extensive mapping of existing resources in 2020, the group is currently discussing further plans for 2021, including seeking alignment with the STAR network and their work around creating a buyer code.

As Hayley Warren (attendee) noted, Fair Labor Association's Principles for Responsible Sourcing (Principle 2) lays out expectations for brands. These expectations draw on a management systems point of view (i.e., having a policy, having training to integrate the policy). In reports Better Buying provides to subscribers we guide companies toward the actual practice threshold suppliers have indicated they need to have changed/improved (e.g., how accurate does forecasting need to be). We anticipate making these expectations publicly available in the near future.

Q: Could you elaborate on how business models shape purchasing practices and how those need to be recalibrated to enable the responsible and effective partnership that we should aim for?

KR: A business model that is based on a strong power imbalance between buyers and suppliers may lead to poor purchasing processes (e.g. poor communication, inadequate planning and forecasting processes or intransparent price negotiations). Those purchasing processes trickle down the supply chain, leading to excessive overtime, low wages, discrimination and harassment or unauthorised subcontracting at production level.

From our experience, the first way the resilience of a business model can be boosted is by supervising the way in which buyers interact with business partners and by creating a strong alignment between buying and CR. By creating this alignment, practices can be developed that have a positive impact on the working conditions in PFs. Positive impacts can be gained by closely working with business partners, also committing to long-term business relationships.

Long-term business relationships then build on more collaborative approaches (e.g. mutually agreed timelines for planning and forecasting, open and transparent price negotiations) that increase

efficiencies and values in business relationships and therefore also lead to improved sustainable purchasing practices.

Q: The power imbalance between buyers and suppliers can not be abolished by trust, confidence and communication only. The business model has to change, also less production is necessary with better payment for workers

EA: I fully agree with you and this reinforces again the point that greater regulation - both at the national level with regard to wages and working conditions - and at international level with regard to the behaviour of multinationals - is needed.

KR: From our experience, we see that an open communication and more trust is the first step to work on the power imbalance between buyers and suppliers as those two elements are crucial to build up a long-term business relationship that follows a partnership approach. By closely working with business partners, critical issues in the purchasing process can be openly addressed (e.g. cost pressure, tight production schedules etc.).

In order to achieve better payment for workers, not only the purchasing practices of a single brand have to change. The causes of low wages are structural problems, deeply rooted in the history of the sourcing countries and therefore cannot be addressed by brands alone (e.g. governments set minimum wages at a relatively low wage, the right to bargain collectively is not always guaranteed). As brands mainly produce in shared factories, the purchasing practices of the whole industry need to change as well to guarantee better payment of workers.

MD: Suppliers responding to Better Buying surveys continually request a closer "true" partnership with their buyers so that they can work together to meet market demand under various business models. Suppliers have many innovative solutions for problems and need to be listened to and valued for that insight.

Q: Need to know more details about Responsible exit strategy. Thanks

EA: Within the ACT commitments on responsible purchasing practices, brands commit to practice responsible exit strategies including by:

- Considering reasons for and consequences of exiting.
- Conducting an impact/due diligence assessment (level of business).
- Allowing appropriate phase-out time.
- Seeking to avoid negative impact on workers.
- Taking reasonable measures to assure that all wages and legally entitled severance payments are made. <https://actonlivingwages.com/news-on-global-purchasing-practices-commitments/#:~:text=Brands%20commit%20to%20practice%20responsible%20exit%20strategies.&text=Conduct%20an%20impact%2Fdue%20diligence,entitled%20severance%20payments%20are%20made.>

KR: In case there are reasons to end the relationship with a supplier (e.g. due to structural unwillingness to resolve labour rights violations, constant quality or delivery problems, consolidation

of suppliers, change in demand etc.), the business relationship has to be terminated in a responsible manner. This means that appropriate measures are taken at an early stage to either minimize or mitigate adverse impacts on business partners, production facilities and workers.

FWF and ACT, for example, have already published great material on the responsible exit strategy:

- ACT: https://actonlivingwages.com/wp-content/uploads/2020/12/ACT_Fact-Sheets_ACT-Responsible-Exit-Policy_FA.pdf

- FWF: <https://api.fairwear.org/wp-content/uploads/2018/02/Responsible-exit-strategy-fina14-02-FINAL.pdf>

Q: The ILO and ETI study Evelyn referred to also showed that 39% of suppliers in that study accepted payment below the costs of production leading to insufficient labour standards. How can the role of prices be included in the future vision of responsible purchasing practices?

MD: Prices must cover all the costs of product. See an earlier response about Better Buying's publications on Cost and Cost Negotiation.

Q: Gisela, I agree so much! We do online training with workers for OHS, but if they are paid only piece rate, what is the incentive to even do such trainings?

EA: It is, first and foremost, the employer's responsibility to ensure occupational health and safety at the workplace and workers should not be financially penalised for undertaking such training. ILO guidelines on occupational safety and health management systems accordingly set out that training should be provided at no cost and during working hours wherever possible. Logically, it would follow that if a worker undergoing OSH training is foregoing their piece-rate wages to attend the training, compensation equivalent to the amount of wages that would have been paid should be provided. But I think there is a much larger discussion on whether or not this is a fair sort of compensation in general, as it creates a lot of financial precarity on the worker. Many unions are opposed to such a compensation system in general, while others stress that if piece rate wages are provided, they need to be set at a level that, at minimum, guarantees a living wage for full time work.

Q: A lot is being said about transparency. I agree with Evelyn that even before the pandemic there was a very unbalanced relationship between buyers and suppliers. The Accord on fire and building safety was very transparent: all reports were publicly available. Wouldn't it be an idea to also make the reports of Better Buying publicly available?

MD: Companies that subscribe with Better Buying are allowed to share their full reports publicly.

DL: Transparency in general is a great medicine to cure a lot of the issues in a complex supply chain. Brands openly report the performance of their supply chain is an ask that requires little debate nowadays. However, suppliers openly report the performance of their customers is not an accepted practice. This is the consequence of the asymmetry of power in a commercial relationship. Suppliers reply on anonymous aggregate platforms like Better Buying or others to get their message out. Brands/retailers leading this space should self-declare their performance publicly and benchmark themselves to aggregate benchmarks such as Better Buying.

Q: If a brand wants to assess its purchasing practices to develop an improvement plan, what other tools are there apart from better buying tool (for a more customised assessment)?

MD: Better Buying's survey is based on supplier input about the most impactful purchasing practices. Companies that subscribe receive reports that compare their results with an industry benchmark and we have been learning from subscribers that that comparative data is a valuable motivator within the company to make improvements. Also, when suppliers fill out the survey, they give lots of comments and suggestions on what the customer needs to improve. Buyers and suppliers alike are concerned that if every company and organization chooses to launch their own surveys, then we end up with a situation much like we face in the factory audit world now where there is too much burden placed on suppliers to fill out lots of different assessments. Convergence now around purchasing practices assessment can prevent this. Do feel free to talk with us at BBI about how we can help a company get the information needed to identify areas of needed improvement, compare their practices with similar buyers, receive customized input on potential approaches to changing practices.

DL: It is great to see different efforts in highlighting Responsible Purchasing Practice. However, I would encourage different initiatives to converge on a set of core principles or practices. We would all like to avoid the problem of having too many standards to comply to.

Q: The financial ratio for real partnerships could be stressed more. Where buyers are getting more dependant on complex interaction with their suppliers to be more flexible and responsive in the market, real partnerships are becoming more valuable also for buyers. Could this create better bargaining positions for suppliers?

MD: Yes, there is a need to distinguish suppliers for the capabilities they offer a customer and, as a result, their contribution to the buyer's success. Too often, however, these suppliers prices are compared with other suppliers that don't have those capabilities. Buyers need to move away from only price-based supplier selection.

Q: If labour costs are ring fenced (wages, social protection, others), what will be the impact on competitiveness of certain countries that have higher standards? Are the higher costs to be off-settled by quality and productivity but there are limits to that or is that the only answer?

I am not sure I understand your exact question but the idea behind ringfencing labour costs within contracts is to ensure that workers' wages do not become an adjustment variable when there are changes to the orders, unforeseen additional expenses, etc. But more generally with regard to the impact of wages on productivity and competitiveness, there is a large body of research (including from the ILO) highlighting that the effects of wage increases on productivity and overall competitiveness is mixed; in some cases, increases to the minimum wage have even been shown to positively impact productivity. The L20 has done a short synthesis on the existing literature around wages and their economic impacts here: https://www.ituc-csi.org/IMG/pdf/l20_-_2018_argentina.pdf

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KR: At the ALDI SOUTH Group, we assessed our purchasing practices internally with the help of the Purchasing Practices Self-Assessment (PPSA). This is a tool provided by ACT and within the German Partnership for Sustainable Textiles we had the chance to use this tool as well.

Within the Partnership, this year we will also use ACT's Purchasing Practices Assessment, in which our business partners and the production facilities used for ALDI give us honest and anonymous feedback on our purchasing practices to identify further potential areas for improvement.

Q: As a former garment factory manager, I echo Neva's comments about the asymmetry between brands and suppliers. However, I'm skeptical that ringfencing labor costs will be effective because as a factory manager what affected my bottom line, and my actual labor cost per piece sold, the most, was unanticipated deviations from forecast and the fact that we, the factory, disproportionality bore the risk of those fluctuations (because we were fronting the costs of materials and worker salaries). So my question is: how do we make sure that the risks of inaccurate forecasts are distributed more equitably?

MD: Not really an answer to your question as much as a further elaboration. I once had a Country Manager of a major retailer explain that he didn't touch the labor costs the supplier quoted, but "pushed on everything else". I don't see how that fence can hold if we do not prioritize covering all the costs a supplier incurs when producing an order. If speedy delivery is required, that needs to be paid for. If changes in demand stray too far from the agreed amount, then prices and delivery dates need to be renegotiated and agreed by both parties.

DL: There are indeed so many factors that can affect the cost of a product and can influence the pay to workers. Regarding inaccurate forecast and equitable distribution of risks, I don't have an answer but would like to share some thinking. One solution is of course put a price to each action: last minute change will cost x, forecast more than x % from reservation x months from production means increase of y. This pricing approach is probably not very effective, because of the asymmetric commercial relationship. An alternative is to ask buyers to share past sales history, forecast and marketing calendar, ... etc. with suppliers, and then collaboratively work on how best to replenish & run the program e.g. using CPFR framework. When two parties work together for the good of an effective supply chain, there can be a lot to be gained. There are a lot of 'wastes' when parties work in and protect their own silo.