

Purchasing practices: what impact on labour conditions?

Nearly all social and/or environmental codes of practice adopted by sourcing companies place responsibility on the company's suppliers to improve labour and other conditions. However, few codes require the sourcing company to take responsibility for improving the way they do business with their suppliers, that is, their purchasing practices. Yet experience of implementing codes shows that some of the purchasing practices employed by many sourcing companies can hinder the improvement of certain labour conditions, and can actually cause or contribute to worsening labour practices. These practices are currently running alongside encouragement from ethical trade personnel for suppliers to improve labour practices. Many suppliers are therefore receiving conflicting messages from buyers and ethical trade personnel within the same sourcing company.

This workshop aimed to identify specific ways in which purchasing practices affect the ability of suppliers to implement codes, and to identify what can be done to improve purchasing practices so that they help rather than hinder code implementation. It includes the experiences of Premier Foods¹⁰, UK, the Los Robles Chilean Wine Co-operative, Chile, and the Clean Clothes Campaign¹¹ (Eastern Europe).

9.1 How do purchasing practices affect code implementation?

Purchasing practices vary considerably between different sourcing companies, and there are some examples of practices that are supportive of suppliers and conducive to good working practices. Nevertheless, it is also evident that many suppliers deal with customers whose purchasing practices make it difficult for them to manage their businesses effectively, and to ensure that minimum labour standards are met. Suppliers typically mention the following trends and practices:

10. Premier Foods, a member of ETI, is a UK-based supplier of hot beverages, canned products, preserves and pickles.

11. The Clean Clothes Campaign (CCC) is a network of national campaigns based in 10 different European countries, and aims to improve working conditions in the worldwide garment and sportswear industry. The CCCs in each country are coalitions of consumer organisations, trade unions, human rights and women rights organisations, researchers, solidarity groups and activists.

Lack of business stability. The current mindset and priorities of the investment community and the competition for market share are creating a business climate based on maximising short-term profits and driving down costs. With a focus on short-term gains, many sourcing companies do not see the benefit of developing long-term trading relationships, but rather switch suppliers from one season to the next, buying from whichever supplier can offer the best quality at the lowest price.

For suppliers, this means unpredictable orders and little commitment from their customers for continued sourcing. Many try to offset the associated risks for their business by paring down the number of permanent and full-time employees. With a more flexible workforce comprising contract workers, seasonal workers or homeworkers, suppliers can hire in extra labour only as and when orders increase. But for workers, this means less job security, little protection under labour law, and losing out on social benefits such as maternity leave and housing.

Moreover, without a commitment of consistent business, suppliers are often reluctant to put the time and financial resources into code compliance. Instead, many suppliers aim to just ‘pass’ the audits and do not internalise the principles of compliance and continuous improvement.

“What’s the hurry? Will people in Europe and America have to go without clothes if we take a month to complete the order?” WORKER FROM TAMIL NADU, INDIA

‘Just in time’ orders and late order changes. In efforts to drive down costs, many sourcing companies are finding ways to pass risk down the supply chain, for example by developing systems that allow them to keep minimum stock. In businesses where deliveries are flown daily to sourcing companies, factories are often informed about quantity adjustments only on the day of delivery. As a result, workers are often told in the morning that they must work overtime that same day. For many women workers this means making or changing childcare arrangements at short notice, often with difficulty and at considerable cost.

E-purchasing is becoming more widespread, and is for example now practised by 30 per cent of all garment retailers and manufacturers in Germany. All suppliers are assessed before participating in a one–two hour bidding competition. This form of sourcing places a strong downward pressure on prices as suppliers compete globally for contracts. Chilean apple producers, for example, would be in direct competition with South African producers, even though they face different national and exporting contexts.

Rigid control over prices and squeezing of supplier margins resulting from e-purchasing and other policies and practices, mean that prices increasingly fail to reflect real labour costs, which include maternity benefits, social insurance and rest time. In the fresh produce sector, for example, prices are agreed when the produce reaches the supermarket. This can be up to four weeks after it has been shipped, and the final prices will be determined with little regard to the real production costs. Low and insecure prices put further pressure on suppliers to employ workers on flexible rather than permanent contracts.

Late payments for consignments can create cash-flow problems for manufacturers and producers. Where this occurs, this can make it very difficult for suppliers in turn to ensure that their workers and subcontracted suppliers are paid on time.

Discounts are often negotiated after the product has been delivered, even though a discount schedule or conditions may not have been arranged prior to production. Inadequate quality or slow delivery time are common justifications given by buyers for discounted prices. As a result, suppliers often respond by demanding more overtime from workers within what is already a short lead time, to reduce the chances of receiving a discounted price. Moreover, inconsistent and subjective standards of quality and measurement within the sourcing company often result in the producer bearing the cost of the discount.

9.2 Challenges

While participants agreed that ethical sourcing practices and principles must be integrated throughout the sourcing company and supply chain, many felt that, in practice, the ethical trade and buying departments face conflicting priorities and pressures. Participants agreed that, on the whole, the pricing message is currently much stronger than the 'ethical sourcing' message.

Participants also noted that sourcing companies often lack knowledge about supply chain issues, and often conflate positive purchasing practices with supporting code implementation. The need was therefore recognised for continued research and awareness-raising about the impact of purchasing practices on suppliers and workers.

Overall, changing these purchasing practices will require addressing systemic values and practices, and will also require tackling unequal power relations along the supply chain. This is a huge challenge, and will require collaboration between multi-stakeholder code initiatives, sourcing companies and the investment community. But it is difficult to see how ethical trade can move forward without at least exploring these issues. The next section provides examples of steps that can be taken to move things in the right direction.

9.3 Moving ahead

Participants noted the following opportunities for developing more supportive purchasing relationships and practices:

- **Learning from fair trade experiences.** Fair trade principles are a useful reference point for sourcing companies wanting to develop supplier relationships that are more conducive to good labour practices. Key principles include consistent pricing, longer lead times, use of participatory audit techniques, and a commitment to buy stock during down times. While the commercial context for most sourcing companies is quite different, participants felt there was still scope for them to learn from the practical experiences of fair trade companies in putting these principles into practice.
- **Preparation of practical guidelines and training for buyers.** Guidelines could include information about participatory audits, direct sourcing relationships and the benefits of long-term relationships (for example, improved quality and reliability of consignments). It may be helpful to introduce processes which ensure that payment and

credit agreements, schedule controls (order confirmations or adjustments), and other standards/tools used by buyers, are written in consultation with suppliers.

- **Reviewing incentive structures for buyers.** Buyers are often under considerable pressure to source products at the cheapest price and best quality, and to ensure timely delivery. Incentive structures tend to be based around these principles. If buyers are to prioritise ethical sourcing, it will be important to introduce incentives for buyers which are based on ethical sourcing principles and criteria.
- **Participation of buyers in on-site labour audits** is worth considering. Their participation would have considerable potential to increase their understanding of production/supply chain and labour issues, thus enabling a more constructive relationship with suppliers.
- **Both NGOs and sourcing companies can play a role in raising consumer awareness** about the relationship between price and ethical trade. This will help provide sourcing companies with a strong incentive to review their purchasing practices.
- **Public sector purchasing practices should also be reviewed.** Government departments, as well as private companies, should adopt and implement ethical sourcing policies.

Further information

Presentation slides for the Clean Clothes Campaign, Los Robles Chilean Wine Co-operative and Premier Foods are available from the ETI Secretariat.

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