



China MAC Meeting Summary and Best Practice Handbook

Multi-Stakeholder Advisory Committee China

MAC MEETING SUMMARY AND BEST PRACTICE HANDBOOK

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Executive Summary

This handbook is the first joint output of shared knowledge contributed from eight global CSR and sustainability organizations through Multi-Stakeholder Advisory Committee (MAC), a platform built by the eight MAC partner organizations to coordinate the understanding about diversification of development in China, as well as to promote joint efforts in developing responsible, competitive and sustainable businesses, by producing consensus-based strategies to ensure workplaces with conditions of freedom, equity, security and human dignity.

The handbook aims at sharing thoughts and best practices – and helping industry players to implement continuous improvement in social performance. The handbook has two parts. The first part reveals the background of MAC. Summary of discussion results generated from the past eight MAC meetings are outlined, so as to broaden the horizon of stakeholders in understanding labor, environmental and social issues in different economic sectors and geographic areas. The second part presents three best practices in pursuing compliance and sustainability, along with improving labor relations through strengthening the joint interest between employers and workers.

The handbook serves as a knowledge source for a wide readership including factory management, brands' internal auditors, CSR practitioners, third-party auditors, etc. MAC partners hope that the handbook can promulgate thoughts and practices that benefit the building of a decent workplace – a goal that is commonly recognized by multiple CSR organizations.

Should you have any comments or suggestions on this handbook, please kindly write to Multi-Stakeholder Advisory Committee (MAC) at maccsr@outlook.com.

PART ONE: WHAT IS MAC?

1.1 About MAC

A Multi-Stakeholder Advisory Committee (hereafter, MAC) was established aiming to promote the shared knowledge and to coordinate the understanding about diversification of development in China through a forum for dialogue about specific labor, environmental and social issues in a particular economic sector and geographic area. The mission of MAC is to contribute to the development of responsible, competitive and sustainable businesses, by producing consensus-based strategies to ensure workplaces with conditions of freedom, equity, security and human dignity.

MAC develops solutions to crosscutting labor, environmental and social issues, by:

- Driving collaboration among standards and code systems;
- Developing dialogue among global and local stakeholders, and
- Disseminating consensus-based strategies to improve industrial relations, labor conditions and business competitiveness.

At MAC meetings, participants -- who represent workers, trade unions, employers, business associations, governments, brand companies, supplier factories, standards organizations, social auditors and non-governmental organizations (hereafter, NGOs) -- develop improvement strategies through facilitated dialogue. MAC participants identify obstacles to compliance that are beyond the sphere of influence of any single stakeholder group, and develop guidance to address them:

- Optimize resources of supply chain parties and enhance coordination and engagement on corporate social responsibility (hereafter, CSR) between stakeholders;
- Strengthen the coherence and integrity of CSR standards and increase the transparency of standard operation along supply chain;
- Consolidate local ownership of CSR standards while raising their international presence – increase responsible supplier options for international buyers as well as their opportunity of participating in local CSR initiative;
- Reduce transaction costs on supply chain and build up institutional assurance on CSR – increase suppliers’ business opportunity and reduce their auditing costs and pressure, encourage the commitment of suppliers in CSR.

Until today, there are eight member organizations of MAC. They include:

- amfori Business Social Compliance Initiative (BSCI)
- China National Textile and Apparel Council (CNTAC)
- Ethical Trade Initiative (ETI)
- Global Organic Textile Standard (GOTS)
- Social Accountability International (SAI)
- Supplier Ethical Data Exchange (Sedex)
- Solidaridad
- Worldwide Responsible Accredited Production (WRAP)

1.2 Operation of MAC

MAC plans to meet at least twice a year to achieve the following four objectives:

- I. to harmonize implementation gaps when various supply chain partners – especially the factories implementing various social standards;
- II. to better define the role of brands in supporting standards implementation;
- III. to develop innovative projects targeting Chinese manufacturers;
- IV. to provide recommendable best practices to buyers and manufacturers, including how to collaborate in international markets.

Representatives from different sectors are invited in each MAC meeting:

- Convening partners of MAC;
- Chinese government departments;
- Chinese trade union;
- Foreign companies operating in China;
- Chinese suppliers and manufacturers exporting to the global market;
- Industry associations;
- Professional organizations, e.g. auditing firms;
- Academics;
- NGOs.

MAC does not do individual media coverage unless there is a general consent drawn with all convening partners – when considered relevant. MAC provides a platform for different stakeholders to undertake practical exchange. It only releases consolidated summary report of food for thoughts valuable for sharing with potentially interested stakeholders via the network of all convening partners.

PART TWO: SUMMARY OF MULTI-STAKEHOLDER ADVISORY COMMITTEE (MAC) MEETINGS BETWEEN 2012 – 2016 IN CHINA

1. First Meeting – Date: February 20, 2012

Topic: MAC Kick-off and Understanding Chinese Social Insurance

1.1 Group Discussion: Chinese Social Insurance

Participants to the first MAC meeting pointed out that the Chinese legal enforcement mechanism was quite localized. National laws usually depend on local governments to interpret and implement, so that the same practice may encounter different legal responses in different local jurisdictions. Local government enforcement often reflects the current local economic environment – and competition for investment and employment with neighboring provinces or cities. Some local governments allow factories to pay less to workers' social insurance, and this leads to confusion among workers and standards.

In the meantime, Chinese workers, especially rural migrant workers, do not want to join the social insurance system by paying social insurance contribution from their own pockets – as required by law. Moreover, the *hukou* system (household registration system), which distinguishes people by their places of origin, cannot cope with the legal requirements to protect benefits of migrant workers – Since July 1, 2011 until as of current when this handbook is prepared in the Summer of 2017, there is a positive change of policy to reform the *hukou* system and open up more space for the free move of people. In the next few years, the *hukou* system is expected to pose no barrier to achieving the rights of workers in China. As a result, workers need to know that the social insurance system is reliable, useful and mobile. Subject to where the enterprises are based and where do migrant workers come from, there are different levels of challenges as well as advantages in enforcing the laws. Brands, buyers and producers should be cautious and keep themselves up to date to the newest requirements as guided by the local authorities.

2. Second Meeting – Date: January 23, 2013

Topic: Build a Decent Workplace – Enhance Professional Health and Safety Administration

2.1 Occupational Health and Safety (OHS) and Its Potential Risks

MAC members insist, “Labor is prior to, and independent of, capital. Capital is only the result of labor, and could never have existed if labor had not first existed. Labor is above capital, and deserves higher consideration”. Workers are the biggest asset for keeping the global supply chain sustainable and their OHS should come as the top priority above all in managing a decent workplace. China’s fast development in the past three decades has nurtured a large supply of talented workers, who are increasingly becoming the core for corporate development. Full protection of workers in the workplace is the fundamental but yet challenging responsibility to company management. If workers’ lives cannot be well protected, there is no way to pursue corporate responsibility.

However, the current global value chain is created through market transactions. Unbalanced bargaining power in the global value chain squeezes profit out of lower level suppliers. A double exploitation of production and consumption takes place, as clothes are so cheap in factory production but sold at such expensive prices in the retail stores. This leaves supplier factories with few resources to upgrade their production and can worsen OHS. Although it seems to be an unfair system that definitely requires changes, it is unlikely for one worker, one company or one development organization to solve these problems alone, especially in the realm of social responsibility.

Thus, it is essential for MAC members and other stakeholders to form a community through MAC, so that different standards and stakeholders with diversified research directions and methodologies of all sides can positively complement each other. It is believed that if the supply chain cost can be reduced, suppliers and producers will have a more cost-effective way to fulfill the highest OHS and social responsibility standards of all.

2.2 Group Discussion: Enhance OHS at Workplace through Worker Participation and Stakeholder Inclusiveness

Worker participation is essential in guaranteeing OHS. As displayed by a number of OHS disasters, management's negligence, lack of rationality of management systems and regulations, shortage of resources and insufficient government supervision always result in poor establishment of OHS system at workplace, so as to increase risks.

An effective incentive mechanism can be established to fully engage employees. The active participation of employees should be linked with their overall job performance appraisals. Additionally, third party like local community, trade unions and NGOs should be encouraged to come up with practical improvements of OHS, while we should avoid the situation that different customers/buyers ask for different OHS institutions to do multiple assessments, which can only bring unnecessary troubles and confusion to the factories.

In order to achieve OHS, management should strengthen their communications with their employees. Building a relationship with mutual respect and transparency between employees and management is critical. Further, it would be very fruitful to solicit support from senior management and external resources to sustain the continuous improvement works.

Overall, the key message of pursuing the success in OHS is to set the right direction, adopt professional methodologies and fully execute the laws and regulations with emphasis on precaution. The success of OHS is not an isolated issue but requires the long-term collaborations of multiple stakeholders.

3. Third Meeting – Date: July 31, 2013

Topic: Cleaner and Sustainable Production – Instruments for Change

3.1 Environmental Performance and Challenges

Specifically, from the aspect of the value chain in the entire textile and garment industry, the issue of social responsibility exists in every part. For example, investors think about how to make green investment. One of the standards on responsible

investment is the level of environmental protection. China's textile industry thus is faced with serious environmental challenge.

Looking at indicators, Chinese production costs are much higher than the European and American peers, e.g., 2-3 times in water consumption than that of developed countries and 2-3 times in wastes of the dyeing industry. The reasons are mainly as follows: Firstly, there are many small and mid-sized businesses in the dyeing industry. The threshold of the industry is low and both the technology and funding levels are limited. Secondly, the dyeing industry is geographically concentrated too much, so as to intensify environmental protection pressure in the host regions.

The government limits heavy-polluting businesses. In this case, impetus is not an issue. As to the cleaner production requirement set up by brands, the government only sets cleaner production requirement on high-energy-consumption and heavy-polluting companies in the heavy-polluting industry. The government does not set such requirements on ordinary companies, which carry out cleaner production of their free will – while there are some subsidies on carrying out cleaner production. Take Zhejiang for instance. The government has some incentive policies. In addition, if there is any technological improvement, e.g., equipment improvement or industrial improvement, during the period, the government will give 6% or 8% subsidy for the investment in the improvement.

The government does have some incentive policies. As to businesses themselves, they will see true benefit by carrying out such plans. For example, the benefit brought by energy saving, the increase of profit, the decrease of cost and the relief of environmental protection pressure. Besides, businesses are entitled to favorable tax policy for comprehensive utilization of resources.

3.2 Group Discussion: How to Improve Environmental Performance of Factories?

The environmental challenges in achieving cleaner and sustainable production for the factories come from two sides – internality and externality. The internal challenges include lacked awareness of senior management and employees, lack of capacity (including knowledge of technology and technical teams) and financial resources. The

external challenges include the ineffectiveness of government supervision and policy implementation, lack of capacity of law enforcement teams, inefficacy of policy formulation (whether factories' opinions have been solicited), and limited information source.

To overcome the challenges, authority needs to improve legal enforcement, and provide financial support, including green credit. Industrial association serves as a bridge, connecting industry and authority. It collects suggestions from the industry and feedback to authority, and communicates relevant policy and information from authority to industry. Brands can facilitate sustainable development through partnership with supplier factories. Besides, brands can also share information with supplier factories. As to industry, senior management's support is critical. Moreover, industry must have capable implementation teams to ensure the continuous implementation of improvement measures within industry. NGOs also play a significant role in sustainable development. But NGOs need to integrate some useful resources and provide them to industry and brands. Over recent years, the general public has been playing a very important role, particularly in many environmental incidents. Public engagement, including feedbacks to the public, is also very important.

In order to improve the current environmental auditing system (e.g. Cleaner Production audit, etc.), participants at the meeting make some useful recommendations for MAC, which included:

- Focus more on SMEs, understand their needs and establish capacity-building programs based on their needs.
- Establish some standing expert teams or integrate expert teams by region. In face of problems, industry may have access to the experts' information resources that can genuinely support industry to improve.
- Involve government more. It's a very effective approach to directly access information from government representatives or have direct dialogues with them via MAC.

4. Fourth Meeting – Date: June 13, 2014

Topic: Constructive Labor Relations for Better Business Performance

4.1 Labor Relations in Today's China

Today, China's manufacturing industry faces many issues. The first challenge is the changing labor market from redundant supply to a relative shortage of workers. The second challenge is labor policies and legislation, which resulted in great changes in workers' awareness and behaviors. The third challenge is technological progress and its impact on labor.

Over the past decade, it was noticed that the influence of the government has declined among workers. For those young migrant workers who have experienced labor disputes and are working in large factories, the percentage of those believing that the government can give a lot to workers is very low. Group awareness and collective action consciousness are increasing. If solidarity is gradually formed among workers, then, for management, the challenge is rising.

However, the formation of solidarity shows a very interesting situation – on the one hand, workers require companies to do more, asking companies to raise wages, to provide more opportunities of career development; but, on the other hand, workers despise the enterprises, and believe that enterprises are exploitive. Under such circumstances, the management faces to more uncertainties.

In terms of trade union, China maintains a unitary unionism. The trade union serves as a transmission belt connecting workers with the Chinese state. The trade union set four tasks to respond to the changing situation of workers. The first task is to carry out activities to build up harmonious labor relations. The second task is to promote extensive collective bargaining at the sectoral level, through creating and promoting good experience in collective bargaining, developing labor quota standards for some professions in sectors, and formulating guidance for wages and benefits of sectors. The third task is to strengthen the participation from workers to facilitate the solution of relevant problems, by making proposals and suggestions to the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC). The fourth task is to enhance workers' qualifications by various means.

4.2 Group Discussion: How to Construct Good Labor Relations?

The participants believed that the improvements in technology and equipment, including the increase in organizational capacity and employees' income, are a main factor influencing the labor relations mechanism. It is essential to create trust between management and employees. Employees should be promoted to have a sense of ownership of factories. Middle management's capacity building and improvement are critical, as middle management is a link between senior management and frontline employees. Of course, many tools are also required, such as a transparent communication mechanism, election of worker representatives, training and roundtable meetings.

The participants also believed that government needed to provide more legal guidance and be more considerate in formulating legislation. Companies should also support in some aspects. NGOs are also important in China, as they bridge the social needs at the grassroots level with those of the state and market. On the other hand, creating good corporate culture is important. Employees and employers are not just two opposing parties. Employers' requirements for employees are similar to employees' requirements for factories. Both employers and employees aim at making money. They should not be considered as two opposing parties, but to be harmonious. Furthermore, many brands come to realize merely audits cannot create value for factories. Audits should be taken as a motivation, so that factories can have more opportunities for improvement.

The participants proposed that the implementation of the tripartite system in China helped to establish good labor relations – while the grievance mechanism at the factory level also benefited the building of good relations between employers and employees. Standards should be developed with reference to the national law. Besides, the grievance mechanism should be improved. It is because the sound grievance mechanism can often prevent excessive actions. Additionally, collective bargaining is important, and can help achieve a win-win result if it is truly implemented. In the meantime, international brands are advised to look into their procurement policies and hear workers' voice, so as to assist in creating a favorable environment for improving labor rights and interests.

5. Fifth Meeting – Date: December 5, 2014

Topic: Enhancing Social Auditor Competence

5.1 Social Auditing and Its Challenges

There is no doubt that although the concept of sustainability is very new and, so is the audit industry, there are many companies as other industries – some companies are good, some are bad, and some are not so honest. MAC put together stakeholders, in order to make the corporate social responsibility audit industry better.

Another issue is that less and less people choose CSR auditor as their job in the industry. Additionally, the multi-industry standards and operation standards include large amount of certifications, which are from the market. However, the method is not the healthiest with most sustainable development. The participants hoped that different standards of different parties could be unified instead of that each party has its own standards and speaks for itself. MAC wants all stakeholders to sit and to discuss together.

Recruiting is essential. The first step for organizations is recruiting with respect to that how auditors have a correct working standard and whom we can assign to execute the correct auditing standard. During the selection test for recruitment, standards and auditing organizations need to consider the comprehensive quality and professional quality of auditors and know that the professional quality can be developed.

Bribery is an issue. It is complicated and tough. In some degree that auditors indicate the request of bribery or the factory offers the request to bribe. Certification organizations need to get to know whether the employee is added to the blacklist when recruiting in the Asian market. . IT platform and IT monitoring can be helpful. In addition, organizations also have on-site trainings and training plans for continuous improvement of professional level, in each country. Private documents for each auditor should be established, in order to trace their occupational development. Certification organizations also need to conduct the same things to brands, factory regions, factories, etc. Certification organizations shall conduct the evaluation for auditors, to ensure that auditors reach qualification requirements through those methods, tools, and mechanisms.

5.2 Group Discussion: How to Improve Social Auditing?

The participants discussed about how to become a qualified auditor and what the eligibility and qualification might be, and what quality and capability of auditors might be. According to participants' discussion, the educational requirement is needed, and the bachelor degree shall be required. Besides, an auditor is required to speak English and have both oral and writing skills. An auditor also needs to have relevant experience.

As of the quality and capability of the auditor, there are several key points:

1. Morality
2. Learning capability
3. Responsibility
4. Communication capability
5. Insight
6. Written expression
7. Time relation
8. Resilience
9. Adaptability
10. Support from the profession and the industry

In terms of identifying bribery, the participants took the following as a bribe:

- Provision of free meals;
- Free accommodation;
- Gifts, and money.

The code of conduct for the auditor specifies that the auditor shall not accept anything of any value from the factory, nor shall make irrelevant communications with the factory, at any time. That is to say anything that has nothing to do with the audit is not to be discussed at any time. To prevent this from happening, certificate organizations will communicate in advance with the factory about integrity requirements or policies, what auditors should not do, and what code of conduct is. There are two representatives from the audit company who prove that they are doing this. During the pre-audit, when the auditor is in site and prior to the commencement of audit, certificate organizations will read out or explained the rules to the factory once more

and make the factory personnel to confirm and sign to ensure they understand. Some brands authorize a third party to do the audit for that is specified in their system. If the factory finds the auditor to extort bribes, it may report the issue through the channel certificate organizations provided. Once the audit company receives the report from the factory, the corruption behavior is found. Investigation, including a series of confirmation work, should start, and then certificate organizations reply the investigation result and contents to the client or the brand retailer as necessary upon investigation.

Once the auditor finds the factory to commit bribery, she/he must refuse the bribe and reiterate what rules we have. If the factory insists by, for example, leaving gifts, money, or anything on purpose, the auditor is encouraged to take pictures as evidence as the situation permits. Such evidence shall be submitted to the client during the report. As to the factory bribery, certificate organizations should report to the client within the specified period in accordance with the agreement, usually in 24 hours.

To prevent black casework, it is better to perform an audit by different auditors. Some audit companies will send two auditors; if so, the auditors can mutually monitor. In the meantime, the brands should not give advance notices of sampling audit.

6. Sixth Meeting – Date: August 31, 2015

Topic: Rising Wage in China – Opportunities and Challenges

6.1 Rising Wage in China

Over the past few years, annual wage increase rate in China was more than 10%. Only in 2014, the rate dropped to 9.6%. The slow growth of wage was due to the aggregate slowdown in several industries. Yet, the wage increase rate in the manufacturing industry in 2014 was still 11.6%. The growth rate of minimum wage also slowed. In 2011, the average minimum wage increase in 24 provinces was 22%, while in 2014, the rate dropped to 14%. In 2014, only 19 provinces adjusted their local minimum wages to a higher level.

The slowdown of wage increase revealed the trend of Chinese economic development. Firstly, the labor market has changed, with redundant labor supply giving way to a shortage of workers. Secondly, technology development and capital expansion

affected the workforce. Thirdly, competition becomes fierce, so that there are fewer profits left for the companies to raise wage. Fourthly, wage system in enterprises becomes more complicated. Fifthly, collective bargaining influences the wage practice. Sixthly, policy and taxation affect the wage situation. Unlike many other countries, policy and taxation have a very big influence on wage in China.

In the meantime, unlike in many other countries, collective bargaining is hard to measure in China. There has not been any credible survey about the influence of collective bargaining on wage.

In the next few years, it is expected that the wage increase will slowdown. The government will continue to restrict the growth of high-income households, while leaving the wage level of the middle-income households to the market. But, the increase of minimum wage will continue, because the government maintains its policy to improve wages for low-income people.

6.2 Group Discussion: Rising Wage and Business Competitiveness

The most important thing for enterprises is to provide competitive prices in the labor market, and to be able to retain talented employees. However, the tradeoff is that once the benchmark for the industry is set, the wage in the whole industry can keep rising, until the cost becomes too high for the enterprises to retain their competitiveness. In this process of labor market competition among companies, the bad business will be eliminated. In this case, it is better for wage to be determined through the market, instead of manipulated by government policy that may twist market signals.

Once wage reaches a high level, companies have two choices. The first is to transfer the business to other low-cost locations, such as Southeast Asia. The second is to invest in technology upgrades, so as to use automation and robotization to replace costly labor.

Wage collective consultation mechanism deals with wage issues. In this case, the role of collective bargaining and trade union cannot be overlooked. For enterprises, how to establish a collective wage negotiation mechanism is an important issue that enterprises must face. The participants proposed to strengthen the building of trade

unions, while improving the ability of trade union members, which is likely to strengthen the mutual understanding between the companies and their employees.

Post meeting note: as of August 2017, the wages across China continued to increase, and the wage guidelines issued by different local governments in different provinces still expected to raise wages by nearly 10%. Rising wages will still be a major challenge for many enterprises but there are also ways of tackling it such as adopting automation to maintain and improve productivity with less labor-dependent challenges.

7. Seventh Meeting – December 16, 2015

Topic: Harmonious Labor Relations through Social Dialogue

7.1 Assessing Workplace Labor Relations – Grievance Procedures

As can be seen in a number of labor conflicts, poor management always leads to the occurrence of mass incidents and disruption of production. In the past decade, workers were more aware of their labor rights, and were more willing to take action to express their discontents. The negative effect of poor management is thus increasing.

Labor conflicts burst out, mainly due to ineffective communication between the management and workers. If there is a good complaint mechanism, potential conflicts can be solved before they escalate. Complaint mechanism is a very good practice for enterprises. It assists the management to effectively understand the demands of employees, while can also lower the cost of resolving disputes, improve employee satisfaction and reduce workers' turnover. Therefore, complaint mechanism is an essential component of the enterprise management system.

Complaint mechanism can be established within a certain company, where the management usually sets a direct channel to enable workers to directly raise their discontents to senior management. In the meantime, a complaint mechanism can also be external. Sometimes, workers feel reluctant to go through the internal complaint channels, so the external engagement seems to be more trustful. Companies often invite NGOs and lawyers to join their complaint mechanism. Workers can dial hotlines to bring their issues to a NGO practitioner or lawyer, who will represent the workers to talk with the management and seek for the solution of workers' complaints.

7.2 Group Discussion: How to Build Worker Participation in Management

The participants believed that there are several major problems in the existing complaint mechanisms. The first one is that the high-level management does not attach much importance to the complaint mechanism. In many cases, the complaint mechanism is merely designed to meet the audit requirements, and the management does not expect the complaint mechanism to really resolve some demands brought by the workers.

The second problem is that when dealing with employee complaints, a lot of personnel are not competent or experienced enough to conduct productive dialogues. The personnel may be rude, and look down upon workers. When workers receive the result of their complaints, they feel neglected and cannot be satisfied. As a result, employees often think that this complaint mechanism is invalid, and even give up the right to appeal.

Finally, there lacks an efficient feedback. After solving some complaints, the complaint mechanism should give a good feedback to workers. If workers do not receive information about the progress and result of their complaints, they may feel the mechanism is a failure and lose trust to the management.

The participants also put forward some suggestions to tackle these three problems. The participants believed it was vital to persuade the management that the complaint mechanism is very necessary. The mechanism is good not only for the workers but also for the company. A mechanism does not just stand with the workers to hurt the company. A good complaint mechanism can reduce the turnover rate and improve employee satisfaction. Besides, it is important to put additional resources to effectively train the personnel responsible for running the complaint mechanism, in order to enhance their ability to deal with problems. Finally, there must be a complaint handling process, which includes an assessment procedure to evaluate the effect of handling the complaint. These can be done with the help of some experts can give the factory some effective advice.

8. Eighth Meeting – Date: July 1, 2016

Topic: Creating an Environment of Transparency

8.1 Corporate Governance and Transparency

Good corporate governance must be transparent. Transparency is listed as an essential factor on standards. Transparency enables stakeholders to see through it. It enables workers to understand corporate behaviors and helps to increase integrity among workers.

The basic requirement of transparency is to build effective channels. Information disclosed through transparency system needs to have high quality, so that transparency can gain trust and value. Buyers, suppliers and factories should disclose and share information. Transparency does not solve all problems. It helps stakeholders to analyze issues and catch risks on time, so that a joint solution can be reached. Thus, the value of supply chain can be raised. This is the reason that many public listed companies voluntarily disclose information related to their operations.

Standards require member companies and factories to share information. Standards provide a number of platforms for members to share corporate responsibility reports. Members can learn the good practice from each other. The main challenge for standards is lack of access to sufficient information. So far, it is difficult to assess the impact of transparency system, due to lack of sufficient information. To some extent, this limits the level of stakeholder participation. To tackle the problem, standards allow suppliers and factories to get access to full auditing information. This enables efficient and effective improvement of supply chain.

8.2 Group Discussion: How to Ensure Transparency

The participants believed that in order to ensure transparency, suppliers and buyers should be bound as one entity. Suppliers act as a bridge connecting brands with workers. Buyers can come up with reasonable and practical standards to institutionalize transparency. The standards need to be in line with the practice in the industry.

Several obstacles are reported. The first is the short-term interest of stakeholders. There should be a driving force to push suppliers and factories to sustain their improvement incentives. The second is business competition. One big concern of suppliers and factories is that information can be misused. The third is mutual trust. Standards should be a bridge to enhance the connection between suppliers and buyers, in order to build mutual trust between each other.

The participants proposed that MAC could contribute to the improvement of transparency in the supply chain. First, the supply chain needs a consolidated platform to share information. Currently, there are many information-sharing systems, but the standards of the systems are quite different. MAC can integrate the systems into one platform, so as to increase the quality of transparency. Second, MAC can promote openness and efficiency of information sharing. There can be two systems. One is open to the public, and the other is partially open to the public. Third, MAC can locate and share some good practices, and even consider offering rewards to suppliers with best practices. Overall, MAC can bring together stakeholders and promote participation among MAC members. MAC can increase the data sharing.

PART THREE: BEST PRACTICES

In order to help readers of this handbook visualize the benefits of the best practices shared in multiple MAC meetings, eight MAC Partners (in order of alphabetical order: amfori BSCI, CNTAC, ETI, GOTS, SAI,SEDEX, SOLIDARIDAD, WRAP) have worked together to identify three practical cases to demonstrate the constructive approaches with positive results. The three cases shared here have been recommended and contributed by a number of organizations and factories working in the fields of compliance and sustainability – and improved labor relations through strengthening the joint interest between employers and workers. While there are many other examples achieving the same goal, the handbook regrettably cannot list them all due the space limit. Names of the factories have been hidden as per the factory management’s preference. All data are provided by the factories through the assistance of multiple organizations.

Case 1. Casting Workers’ Career Development Plans and Lowering Turnover in a Textile Factory

1.1 What Drove the Change?

Factory Alpha locates in East China and is a leading textile factory in the world. Until June 2017, it had around 1,300 employees, 85% of whom were migrant workers. Majority of the migrant workers only finished middle school education.

After 2008, competition in the global textile and apparel industry has been intensified. Furthermore, Chinese economic growth has slowed down since 2012, and negatively affected the Chinese domestic product market. The profit margin of Factory Alpha declined continuously. Thus, Factory Alpha decided to make a structural reform through upgrading the manufacturing technology. With the support from the new industrial policy in the 13th Five Year Plan of the Chinese government, Factory Alpha used massive automation in its manufacturing frontlines, and hoped the adoption of new automation technology could restore its profit level by increasing productivity.

However, the attempt encountered bottleneck of worker situation. On the one hand, workers in Factory Alpha had a high turnover rate. The average annual turnover between 2011 and 2014 was 31.7%. On the other hand, most workers did not have

clear career development plans. Educational level of workers was low, so most workers could not adapt to the new job requirements under automation.

As a result, Factory Alpha introduced a new employment relations policy, in order to:

- Assist the adoption of cutting edge manufacturing technology;
- Lower turnover of core workers;
- Accumulate human capital to adapt the new technology.

1.2 How Does It Work?

Factory Alpha introduced an employee career development program in 2014, which combined skill training with individualized career design. Actively engaging with the textile industry association and international sustainability organizations, Factory Alpha established an open platform for the employee career development program. The program allowed frontline workers and logistic staffs to receive relevant training and education, including automation science, workplace safety management, marketing, human resource management, etc. 30% of the employees were enrolled in the program.

First, the program paid close attention to the human capital increase of the frontline workers. A coordinating mechanism was established, with the general manager directly supervising the program operation and the human resource management department responsible for implementing the program. The factory invited experts from the industry association, compliance organizations and academia to do annual needs assessment for its workers. Then, a customized training curriculum was designed to integrate workers' needs into the corporate production system, so as to strengthen the tie between workers and the factory.

Second, Factory Alpha created a future-manager development channel under a management apprenticeship initiative, which allowed talent workers to be management apprentice by matching shortlisted frontline workers with senior managers. The program found qualified frontline manufacturing workers and put them in the management reserve team. Previous surveys done in Factory Alpha showed that managers – who were promoted among the frontline workers – had the highest loyalty and satisfaction rates. The program then offered a chance to qualified frontline

workers to be management apprentice, who was on the track to become the next generation of senior management.

Third, Factory Alpha reviewed the operation of the program every year. The review process involved not only relevant workers and managers in the factory, but also experts from the industry association, compliance organizations and academia. Based on the review result, a new annual program plan would be made, so as to cope with the changing reality in the workplace.

After the introduction of the employee career development program, a number of improvements in employment relations are noticed. Productivity increased by more than 50%. The average annual turnover between 2014 and 2016 dropped to 20% – 11% lower than that between 2011 and 2014. In addition, the program found 55 talent workers and put them in the management track. Among them, 52 were migrant workers, while 39 were women. The program opened up a channel for migrant and women workers to develop a career in the textile industry. Furthermore, the program cost less than 2.5% of the administrative budget of Factory Alpha. The cost efficiency was high.

1.3 Comment

Based on the results from the past MAC meetings, MAC partners identified that in addition to wage and social insurance, migrant workers paid significant attention to their career development. Attendance of MAC meetings reported that low turnover and high work commitment of workers helped to increase the competitiveness of factories.

Factory Alpha's management practice is in line with MAC partners' recommendations. By collecting the intellectual resources of the industry association, international compliance and sustainability organizations and academics, Factory Alpha endeavored to solve two challenges of technological upgrading, i.e. workers' lack of career development plan and high turnover, both of which make it difficult to accumulate human capital and to fully integrate new technology in the workplace. The case shows a good practice of tightening the long-term interest between the workers and factory.

Case 2. Recognizing the Needs of Women Workers in An Electronic Manufacturing Factory

2.1 What Drove the Change?

A large proportion of workers in the Chinese electronic manufacturing industry are women. In Factory Bravo, which locates in South China, more than 80% of its workers are women. Traditionally, electronic manufacturing factories preferred to recruit young girls to work in the frontline, because they were perceived to be easier to manage and have higher productivity rate. Yet, due to the decrease of labor supply in the Chinese labor market, it is impossible for Factory Bravo to continue its old recruitment practice. From 2008, the workforce in Factory Bravo has increasingly diversified, with 30% of its employees being “mommy” workers – meaning women, who used to work in manufacturing and later left for fertility reason, but then came back to work in the manufacturing sector again when their kids grew up. Compared to other workers, “mommy” workers are more sensitive to labor conditions, and more likely to openly challenge the management decisions at all levels.

Additionally, workers are becoming more active in organizing collective action like wildcat strike to express their discontents against the management. In the past ten years, there were averagely two strikes every year in Factory Bravo. Women, especially “mommy” workers, were the backbone strikers.

Thus, Factory Bravo decided to kick off a program to:

- Minimize prospective strikes through effective communication;
- Find effective methods to manage “mommy” workers;
- Increase satisfaction among women workers.

2.2 How Does It Work?

Factory Bravo has received factory compliance auditing for quite a lot of years, as it supplies to many international brands. From this experience, Factory Bravo understood the importance to incorporate the needs of women workers into its production and management decision-making process. Based on the indices of measuring gender issues in the global compliance standards like SA8000, Factory Bravo reformed its women worker focus group system in 2014.

First, using the indices in the global compliance standards as a framework, Factory Bravo invited experts from the local trade union, international sustainability organizations and academics to do the needs assessment among different groups of women workers. In the meantime, Factory Bravo placed the women worker focus group into the enterprise trade union, which was able to receive the intellectual, fiscal and organizational assistance from the local trade union system. The trade union and Factory Bravo reached cohesion that harmonious labor relations served the interest of the company, trade union and workers.

Second, working with the local trade union and other experts, Factory Bravo provided training on representation to women workers in the focus group. The goal was to encourage the women workers to run for positions in the enterprise trade union. In this context, representation of women workers could increase, and it was easier for the management to communicate with representatives of women workers. Training was arranged in every two months.

Third, members of the women worker focus group could sit in the monthly meeting between the enterprise trade union and company management, so that rank-and-file women workers would have a systematic opportunity to participate in the decision-making process and increase their understanding of corporate development.

Fourth, a self-review meeting was held in every two months. Women workers in the focus group would discuss their ideas with the attendance from the trade union, management, international compliance and sustainability organizations and academia. Based on the review result, the focus group and enterprise trade union would improve their ways of work to better cope with the changing demands of workers and production.

One year after Factory Bravo reformed its women worker focus group and placed it into the enterprise trade union system, no strike ever burst out. “Mommy” workers – who were always viewed by the management as lazy and hard to discipline – won nearly half the seats in the enterprise trade union committee. Instead of making hollow complaints about everything, the “mommy” workers have become a cohesive force at the workplace. In 2015 and 2016, the satisfaction rates among women workers were

more than 90%. Furthermore, the women worker focus group did not increase the expenditure of the company. The operation cost of the focus group came from the budget of the enterprise trade union. The focus group increased the budget efficiency of the union.

2.3 Comment

MAC partners have realized the demographic change in the labor market affects workplace. Gender relations at the workplace reflect such change. MAC regards gender equality as essential in establishing harmonious labor relations, as well as promoting sustainable development for the society. MAC partners believe that women workers' participation in factory development brings long-term benefits for both labor and management.

The above essential element has been well respected by Factory Bravo when the management integrated the trade union and international compliance standards into its women worker program, which increased satisfaction and productivity of women workers and also lowered the risk of strike. Combining the joint strength of the trade union and international compliance standards provides an opportunity to tighten the relationship between workers and the management more efficiently.

Case 3. Building An Effective Participation System in A Food Processing Factory

3.1 What Drove the Change?

Adoption of new technology and guarantee of food production safety are essential in the food processing industry. Good management-employee communication can then not only improve employment relations but also assist the company to innovate production process and avoid risks. Locating in North China, Factory Charlie is a food-processing unit and had 772 workers in June 2017. Among the workforce, around 60% were migrant workers and 40% were locals. The relationship between migrant and local workers was not good, with the two groups consistently looking down on each other.

In the past year, Factory Charlie encountered a number of challenges, including worker strike, workers' difficulty in grasping automation skill and lack of

understanding between the workers and management. In 2009, Factory Charlie introduced a worker participation program, in order to:

- Increase the efficiency of management-employee communication;
- Understand the voice and demands of rank-and-file workers;
- Improve work process and efficiency.

3.2 How Does It Work?

Factory Charlie regarded workers as the key asset. In 2009, it began to work with an international sustainability organization and relevant academics to develop a worker participation program. The program assured workplace democratic participation and the bottom-up engagement of corporate decision-making process.

First, the program reformed the workplace employee supervision system. Previously, line managers and workplace supervisors were appointed by the upper level managers. The program reversed the process and allowed workers to nominate themselves and each other to run for the positions of line managers and workplace supervisors. A voting was held under the monitoring of the board of supervisors in Factory Charlie. Election results were announced on site. The election was held in every two years.

Second, elected line managers and workplace supervisors conducted the same responsibility and had the same power as their appointed counterparts. By 2017, all line managers and workplace supervisors were democratically elected. If the line managers and workplace supervisors could not perform their duties, the upper-level management would discharge them from the posts. In the meantime, the workers could also recall the line managers and workplace supervisors. The recall process was under the monitoring of the board of supervisors.

Third, anyone could run for the positions of line managers and workplace supervisors. But, only workers – having been working in the factory for two years and more – could vote. This arrangement guaranteed the joint commitment between workers and the company to long-term company development.

Currently, all senior management positions in Factory Charlie were filled through democratic elections among workers. Half of managers were from migrant worker

background. The tension between migrant and local workers was eased. The communication at all levels in the factory became easy. Management corruption was solved. No food safety accident happened. In addition, the demand and voice of workers were raised through an institutional channel, and could actually construct the workplace management hierarchy. Consequently, there has been no labor-capital conflict since 2010. The annually average profit growth of Factory Charlie was over 30% between 2010 and 2016.

3.3 Comment

MAC partners noticed that democratic employee participation was an institutional way of guaranteeing worker voice at the workplace. From case studies presented on MAC meetings, MAC partners believed that sustainable business development needed effective bottom-up participation of workers in factory management.

In this regard, Factory Charlie is a good real-life example to demonstrate the employee participation by establishing an election system to find its managers through bottom-up participation. The initiative systematically assures the right of participation of workers. It bound the interest of workers, managers and the company together, and provides a platform of cooperation between labor and capital.

Appendix 1: Overview of Eight MAC Partners

The eight MAC partner organizations are listed below in alphabetic order.



Established in 1977, amfori (formerly known as Foreign Trade Association) is the leading global business association for open and sustainable trade with 40 years of experience, we bring together over 2,200 retailers, importers, brands and associations from more than 40 countries.

Our membership contains organizations of all sizes and all sectors with a combined turnover of more than one trillion euros. Our mission is to enable each of our members to enhance human prosperity, use natural resources responsibly and drive open trade globally. We believe in “Trade with Purpose”.

Since our inception, amfori has put emphasis on Advocacy—We advocate at a local and global level to shape an environment where companies can trade openly and sustainably. We are actively involved with key stakeholders such as governments, international bodies, NGOs all over the world for partnership and collaboration to achieve our vision of a world of open and sustainable trade.

In 2003, amfori BSCI was launched - Our strong code of conduct has 11 principles that support our members. These range from fair remuneration to occupational health and safety, along with a step-by-step approach that enables companies to monitor, engage, get empowered and receive support to put sustainable trade at the heart of their business.

In 2014, we launched amfori BEPI - We cover a comprehensive scope of 11 environmental performance areas ranging from water use, emissions to air to chemical management, and our clear four-step approach enables companies to drive continuous improvement through supply chain mapping and analysis, improvement work and progress monitoring. Global website: www.amfori.org; Chinese website: <http://cn.amfori.org>.



CNTAC China National Textile and Apparel Council (CNTAC), is the national federation of all textile-related industries, with the following-listed textile industrial associations and the other economic entities as the registered membership and is a non-profit organization formed on volunteer basis. The aim of CNTAC is to provide services in the modernization of China's textile industry.

Scope of services include: work out the guideline and rules to supervise the performance of the industry, set up and improve the self-restraint working system and protect the interests of the industry; study and research the development trend of the domestic and international textile industries and participate in or provide consulting services for the various work in aspects of development strategy, industrial policy, technological progress, market promotion, reform and opening-up of the industry and bridge the enterprises with the government, make recommendations and reports to the government, and provide information and consulting services for the enterprises; coordinate the economic and technical relations between the various sectors of the textile industry to promote the industrial rationalization and re-consolidation and strengthen the industrial value-chain integration and cooperation; carry out the international technical and economic cooperation and interchanges, conduct international visit, in-service educational and training; and organize trade meetings, international conferences, seminars, and domestic and international exhibitions to facilitate import and export business; participate in working out and amending the industrial standard and organize the relevant resources to implement these standards; edit and print out various textile publications, hold various courses for professional training and organize public-interests activities and develop this great cause and undertake the various tasks entrusted by the government, etc.

The Office for Social Responsibility of CNTAC established in May 2005, it is China's first permanent social responsibility institution at the national level, as well as the executive body of the Responsible Supply Chain Association (RSCA) under the direct administration of CNTAC.

The visions and goals of the Office are to realize sustainable development of the industry by guiding businesses within the industry to follow the scientific approach of development, enhance core competitiveness and get integrated into the global economy, as well as by engaging with domestic and international stakeholders to promote a responsible global supply chain.

The competencies and services include: operates and improves CSC9000T China Social Compliance for Textile and Apparel Industry, in line with Chinese law, international conventions and specific industrial conditions; conducts performance evaluation of the CSC9000T management system and issues performance reports, provides training and consulting services, technical and professional assistance to businesses in the establishment and operation of CSC9000T management system; establishes and manages databanks on social responsibility information and social responsibility performance of Chinese textile enterprises, and constructs platforms for supply chain dialogues and business supporting systems; provides professional assistance in sustainability information disclosure based on China Sustainability Reporting-Guidelines for Apparel and Textile Enterprises (CSR-GATEs) and ensures the reporting quality through assurance systems; exchanges social responsibility information and promotes best practices by organizing forums, symposiums, seminars and field studies; provides consultation on social responsibility and supply chain issues to government bodies, civil organizations, trade unions, other industry associations and stakeholders on international textile supply chain; undertakes social responsibility-related research and education programs.



The Ethical Trading Initiative (ETI) is a leading tripartite membership organisation that promotes respect for social standards around the globe. ETI has more than 90 corporate members with a combined annual turnover of more than £180 billion. Many well-known brands are ETI members including high street retailers, luxury fashion labels, supermarkets and a wide variety of suppliers. ETI's trade union members represent nearly 160 million workers around the world. These members include global trade union federations, which represent a broad range of industrial sectors. ETI has also NGO members operate in more than 40 different countries and

reach millions of the world's most vulnerable people. They include large international development charities and specialised labour rights organisations.

ETI believes that working in partnership with some of the world's biggest brands and retailers will bring about positive long-term change for workers. Its member companies' activities reach more than 10 million workers worldwide. Companies with a commitment to ethical trade adopt a code of labour practice that they expect all their suppliers to work towards.

ETI brings corporate, trade union and voluntary sector members together in a unique alliance that enables us to collectively tackle many thorny issues that cannot be addressed by individual companies working alone.



GOTS is the stringent voluntary global standard for the entire post-harvest processing (including spinning, knitting, weaving, dyeing and manufacturing) of apparel and home textiles made with organic fibre (such as organic cotton and organic wool), and includes both environmental and social criteria. Key provisions include a ban on the use of genetically modified organisms (GMOs), highly hazardous chemicals (such as azo dyes and formaldehyde), and child labour, while requiring strong social compliance management systems and strict waste water treatment practices.

GOTS was developed by leading international standard setters - Organic Trade Association (U.S.), Japan Organic Cotton Association, International Association Natural Textile Industry (Germany), and Soil Association (UK), which formed an International Working Group to define globally recognized requirements that ensure the organic status of textiles. GOTS' operating unit, the Global-Standard gemeinnützige GmbH, is a non-profit organization. For more information about GOTS see www.global-standard.org.



Founded in 1997, Social Accountability International (SAI) is a global non-governmental organization advancing human rights at work. SAI's vision is a world where workers, communities and businesses thrive together. With a presence in

over 65 countries and 55 industries, SAI is a leader in policy and implementation – developing social standards and guidance, delivering training and capacity building, and convening partnerships to drive dialog and consensus-based solutions. SAI performs this work through a multi-stakeholder approach. At every step of the supply chain, SAI seeks to bridge the gap of understanding between supply chain actors. This means building capacity and facilitating dialog between workers and managers, suppliers and buyers, and civil society organizations and private enterprises. We believe that long term economic and social success required the collaboration of business, government and civil society and meaningful participation of an empowered and respected workforce.

SAI has worked extensively in China in the last 20 years. There are over 600 SA8000:2014 certified organizations in China across many industries. We also conduct code-agnostic training and capacity building programs that help organizations to measure and improve social performance across a wide range of codes and standards. Our corporate members and partners include thousands of brands, retailers, licensees and producers that operate and/or source in diverse industries in China. We work with these companies to improve their management systems and sourcing practices to drive social performance at all levels of the value chain. We have implemented programs such as TenSquared in factories, which brings workers and managers together in a structured manner to solve health and safety issues in the organization. Hundreds of organizations have gone through our Social Fingerprint® program, which benchmarks their social management systems and provides a framework for improvement. We have worked as a member of the Global Living Wage Coalition to provide meaningful living wage benchmarks.

As part of its commitment to workers in China, SAI has embarked on a number of special projects and partnerships, such as the We Program in conjunction with Tchibo. With years of experience through our early worker manager program and the use of the SA8000 system in China we have expanded our ability to engage with many stakeholders including the labor ministry, brands, academia ,NGO, and other leading initiatives. It is this commitment to a multi-stakeholder approach that led us to be a founding member of the MAC.



We are a global membership organisation making it simpler to do business that's good for everyone.

We're home to the world's largest collaborative platform for sharing responsible sourcing data on supply chains, used by more than 55,000 members in over 155 countries.

Tens of thousands of companies use Sedex to manage their performance around labour rights, health & safety, the environment and business ethics.

Our services enable members to bring together many kinds of different data, standards and certifications, to make informed business decisions, and to drive continuous improvement across their value chains.

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Solidaridad

With almost 50 years of experience in facilitating the development of socially responsible, ecologically sound and profitable supply chains, Solidaridad is a frontrunner in the area of sustainable economic development. Having developed the first Fair Trade label, we are an international market and solution-oriented civil society organization working through nine regional expertise centers in around 50 countries. We aspire to transform production practices in such a way that it provides fair and profitable livelihoods and business opportunities, guarantees decent working conditions and a fair living wage, and does not deplete the landscapes where people thrive, now and for generations to come.

Since 2006, Solidaridad China has been working with key industry stakeholders to promote sustainability in the following industries: tea, soy, cotton, textiles and palm oil. We provide on-site/off-site support to producers in best practices to receive cost-saving, eco-friendly, and socially responsible impact.

Besides hands-on support to producers, Solidaridad is exploring China's as a major market to promote sustainability worldwide. We realize the significant value of

market development to not only support farmers and manufacturers in sustainable production, but to promote responsible procurement. Hence, Solidaridad China is launching programs to engage multinational stakeholders to mobilize key stakeholders in China's soy and palm oil industries in support of sustainable initiatives in other parts of the world, including South America and Southeast Asia.



Worldwide Responsible Accredited Production (WRAP) is an independent, objective, non-profit team of global social compliance experts dedicated to promoting safe, lawful, humane and ethical manufacturing around the world through certification and education. WRAP is headquartered in Arlington, Virginia, USA, and has branch offices in Hong Kong and Bangladesh and representatives in India and SE Asia (Thailand & Vietnam) and for Latin America.

WRAP's Certification Program seeks to independently monitor and certify compliance with the 12 WRAP Principles, which are based on the rule of law within each country and include the spirit or language of relevant International Labor Organization conventions. Facilities that demonstrate proper adoption, deployment and monitoring of all 12 Principles receive certification for six months to up to two years.

Compliance with these Principles is checked via audits carried out by professional third-party monitoring firms that have been accredited by WRAP. The individual auditors who conduct WRAP audits have to meet rigorous accreditation requirements and undergo a five-day training course conducted by WRAP and also attend refresher training courses once every two years.

WRAP's commitment to objective review is reflected in the make-up of its independent Board of Directors. Although the apparel industry is represented on the Board to provide insight and perspective, by charter the majority of the Board is comprised of individuals not affiliated with the industry. Further, structurally, WRAP is not set up as a membership organization. Despite receiving no income from dues, memberships or government grants, WRAP is financially sound, with its revenue

being generated entirely through facility registrations, training and monitor accreditation fees.

WRAP also is an IRCA (International Register of Certificated Auditors) accredited training organization and runs social systems and auditor training courses and related seminars (including a very popular fire safety training course) in countries around the world to educate workers, facility managers, government inspectors, and others about issues related to socially responsible manufacturing.

WRAP's comprehensive facility-based model has made it the world's largest independent social compliance certification program for the apparel/textile industry (according to a UNIDO Study, Making Private Standards Work For You, WRAP is the "standard most often cited" for social compliance certification in the textile sector). In 2017 alone, over 2781 facilities from more than 40 countries participated. There are currently more than 2400 WRAP- certified facilities worldwide, employing over 2.2 million workers.

Appendix 2: List of key references

BSCI Code 2.0

CSC9000T

GB36000

ILO Declaration on Fundamental Principles and Rights at Work

ISO26000

Rio Declaration on Environment and Development

SA8000

UN Guiding Principles on Business and Human Rights