

Ethical Trading Initiative Case Studies to Address Impacts of Purchasing Practices on Working Conditions

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| 1. Level | UG, PG |
| 2. Pre-requisite knowledge required by educators | D. Specific knowledge required: An understanding of company buying practices and basic terminology associated with social auditing |
| 3. Pre-requisite knowledge required by students | D. Specific knowledge required: An understanding of company buying practices and basic terminology associated with social auditing |
| 4. Number of students | Any number |
| 5. Length of time required | One to two hours |
| 6. Type of activity | Group work, Discussion and debate |
| 7. Discipline | Business, Cross-curricular |
| 8. Topics covered | Companies, Corporate social responsibility, Purchasing practices, Supply chains, Trade, Wages, Workers' rights, Working conditions |

FOLLOW UP / RELATED ACTIVITIES

Buying power role play: *How decision making in the fashion industry impacts on working conditions*, by Fashioning an Ethical Industry, available in this Handbook.

OBJECTIVES / LEARNING OUTCOMES

- To understand the Ethical Trading Initiative (ETI) Base Code.
- To understand the impact of purchasing practices on worker's rights and conditions.
- To analyse what could be done to prevent the negative impact of purchasing practices on workers.



SUMMARY

Two case studies are presented with questions for students to consider concerning the impact of purchasing practices on workers, based on original case studies from 'Purchasing Practices: Case studies to address impacts of purchasing practices on working conditions', Report from ETI members' meeting, 29 November 2007 by the Ethical Trading Initiative.

BACKGROUND

It is increasingly recognised that retailers' purchasing practices can have a significant negative impact on working conditions in the supply chain. Many key purchasing processes and decisions within a sourcing company – such as critical path management, terms and conditions in the buyer-supplier relationship, sourcing and merchandising – affect how suppliers manage their workforce and production, and can indirectly impact on working conditions. This is supported by findings of the ETI Impact Assessment (2006), which found that '... suppliers in all countries and sectors reported that [downward pressure on prices and lead times] limited their ability to make improvements in labour practices!'

Since 2005, the ETI Purchasing Practices Project has been working to tackle these issues and identify purchasing practices which support a company's commitment to labour standards. The Project Group includes several member companies, trade unions and NGOs working together to assess the impacts of buying practices throughout the supply chain. As a result of taking part in the project, some participants have been able to make recommendations for changes to buying practices, have communicated these to company Boards, and begun a training programme for buying staff. The aim is to disseminate the learning from the Purchasing Practices Project Group in order to help companies integrate ethical trading into core business practices. It is against this background that ETI held a members' meeting to explore potential solutions to some of the common purchasing practices which undermine working conditions, and to encourage companies to consider what practical improvements they can make in their own buying processes. The case studies and questions are taken from the report of this meeting: 'Purchasing Practices: Case studies to address impacts of purchasing practices on

working conditions, Report from ETI members' meeting, 29 November 2007.

CASE STUDY QUESTIONS

Two garment related case studies are presented below for students to consider the following key issues:

- What breaches of the ETI Base Code (<http://www.ethicaltrade.org/Z/lib/base/index.shtml>) occurred in the case study scenario, and what were the possible impacts on workers?
- How, if at all, the buying practices described go against the ETI Principles of Implementation?
- What factors led to the breach occurring?
- What could be done to prevent that kind of breach happening again?

It is highly recommended that educators view the responses by ETI members to the case studies to assist them in guiding students' discussion and analysis of the case studies: *Ethical Trading Initiative (2007) 'Purchasing Practices: Case studies to address impacts of purchasing practices on working conditions*, Report from ETI members' meeting, 29 November 2007 <http://www.ethicaltrade.org/Z/lib/2007/11/pp-forum/index.shtml>

FURTHER INFORMATION

The following documents are available on the ETI website at www.ethicaltrade.org:

- ETI Base Code and Principles of Implementation
- *Bridging the Gap Between Commercial and Ethical Trade Agendas: Pioneering Approaches to Purchasing Practices*, Briefing Paper No 5, ETI, 2005.
- *Purchasing practices: what impact on labour conditions?* Chapter 9 of *Key Challenges in Ethical Trade: Report on the ETI Biennial Conference 2003*, ETI, 2003.
- *Purchasing practices: Marrying the Commercial with the Ethical*, ETI Members' Roundtable, 7th July 2004.
- *Key Challenges in Ethical Trade: Report on the ETI Biennial Conference 2003*, ETI Report, 2003.
- Further details on training buyers can be found at www.ethicaltrade.org/d/purchasingpractices.
- Information on ETI's Purchasing Practices project can be found on the ETI website, or contact ETI at eti@eti.org.uk



The Fashioning an Ethical Industry Factsheet on *Purchasing Practices*, available at <http://fashioninganethicalindustry.org/resources/factsheets/completelist/factsheet17/>, outlines key issues and further reading materials.

CASE STUDY 1: EXERTING DOWNWARD PRESSURE ON PRICES

This is a case study of a situation whereby a retailer plans to cut costs by reducing prices paid to suppliers.

Context: Part of the 2007 merchandising strategy in a major high street clothing retailer is to cut costs in the supply chain by reducing prices paid to suppliers by 5% on the previous year's factory gate prices. All merchandisers in the business are informed of this target, and are instructed to negotiate with suppliers to reduce factory gate prices for comparable products to 5% lower than in 2006. Individual merchandisers are told that they will be rewarded for meeting cost-cutting targets with a performance-related bonus at the end of the year.

Buying practice: Merchandisers based in India negotiate with long-standing suppliers to achieve the lower price, and assure suppliers that they will get repeat orders over the next year if they can meet this lower price. The suppliers agree.

The supplier and worker scenario: One factory manager calculates that, if they produce the goods in their own factory, the lower price means that they will only just break even. This is because the unpredictable flow of orders with short lead times will require them to do overtime shifts, and the costs of paying overtime premiums will be too expensive. Therefore, to keep costs down, the factory manager decides to sub-contract part of the order to another factory in the city which has lower operating costs, without telling the retailer. The sub-contractor has never been audited and does not know about the ETI Base Code standards. Workers at the sub-contractor's factory are paid below the legal minimum wage, working hours often exceed 60 hours a week, and none of the workers have contracts. There are no fire exits in the factory.

CASE STUDY 2: LACK OF INTEGRATION BETWEEN COMMERCIAL AND ETHICAL ACTIVITIES

This is a case study in which there is a lack of integration between the activities of a retailer's audit team and its buyers.

Context: A high street retailer buys basic t-shirts all year round and often sources from the same factory in Bangladesh. The retailer has commissioned audits of this factory and the factory manager has made efforts to follow the corrective action plans. Working conditions have improved over time, particularly regarding health and safety, and a newly established worker committee has met with management and successfully bargained for wages above the national minimum wage. The buyer's performance is largely measured against sales and margin targets.

Buying practice: A large order for t-shirts is about to be placed. The buyer asks for quotes from several factories, all of which operate to good quality and service levels. The factory that usually supplies the t-shirts tenders at \$1.50 per item, which is the same price as the previous year; a neighbouring factory tenders at \$1.40. The buyer uses the lower quote to try and bargain the price down at the usual factory, but the factory manager refuses to reduce the unit price. As a result, the order is placed with the cheaper factory.

The supplier and worker scenario: An audit of the new (cheaper) factory is carried out after the order is placed there. The audit finds no mention of a trade union or collective bargaining in the factory, and pay records show that most workers are paid the national minimum wage.



This is an excerpt from:

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Edited by Liz Parker on behalf of Fashioning an Ethical Industry, UK, and Marsha A. Dickson on behalf of Educators for Socially Responsible Apparel Business, USA.

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<http://fashioninganethicalindustry.org/resources/teachingmaterials/handbook/>

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