

THE JOINT ETHICAL TRADING INITIATIVES'

# Guide to buying responsibly





## About this guide

This is a guide for organisations seeking to develop and implement responsible purchasing practices. It draws on the findings of a major supplier survey conducted by the Ethical Trading Initiatives of Denmark, Norway and the UK (referenced throughout as the ETIs) and the International Labour Organization (ILO) in 2016, delivers robust insights and analysis, and provides comprehensive, practical recommendations for senior managers and buyers. The survey was partly funded by the German Federal Ministry for Economic Cooperation and Development (BMZ).

Through the survey, we sought the views of suppliers to UK, Denmark and Norway-based member companies across multiple sectors, and of members of SEDEX.<sup>i</sup> In evaluating almost 1,500 suppliers' responses, we uncovered distinct trends relating to how customers' purchasing practices affect suppliers' ability to plan production effectively, maintain efficiency and support workers' rights.

Focusing primarily on manufacturing supply chains<sup>ii</sup>, the guide also shares insights from the ETIs, their members, trade unions and specialist NGOs, such as Traidcraft and Oxfam. It builds on the existing purchasing practices guides of ETI Norway and ETI UK, provides a successor to the popular *Suppliers Speak Up*' guide, and incorporates the Danish ETI's work on purchasing practices.

**The ETIs would like to wish you the very best of luck in your journey to more responsible purchasing. We are here to support you at every stage of the journey. For more information, ideas, support and resources please contact:**

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<sup>i</sup> [sedexglobal.com](http://sedexglobal.com) is a collaborative platform for sharing responsible sourcing data on supply chains, used by more than 40,000 members in over 150 countries.

<sup>ii</sup> For more information on responsible purchasing in agricultural supply chains, we recommend Traidcraft's guides to better tea and vegetable growing at [traidcraft.co.uk/resourcesearch](http://traidcraft.co.uk/resourcesearch).

# Message from the Executive Directors of ETI Denmark, Norway and UK

Dear buyers and senior managers,

Welcome to the ETI's Guide to Buying Responsibly. We hope it will serve as a useful reference guide and tool for your organisation's responsible purchasing journey.

The link between conventional purchasing practices and the impact on working conditions in production countries is not new. What we have done here, together with our partners at the ILO, is to conduct in-depth research into this relationship. We have explored the connection between specific purchasing practices and the knock-on effects for suppliers, and consequently, workers. This is key as purchasing practices have the potential to undermine the efforts of responsible business and compliance activities.

So why now? As we write this guide, nearly two thirds of the world's poor make a living from agriculture<sup>1</sup>, while an estimated 60m workers<sup>2</sup> (largely women) are employed by the garment industry alone. While not all of these form part of global supply chains they form the context for conditions for many. Yet consumers are offered ever lower prices and expect high availability which drives buyers to adopt practices that have unintended consequences. A better understanding of how purchasing practices impact workers ensures that companies keep the commitments that they make to their consumers, ensure responsible business objectives are met and help people escape the cycle of poverty, poor working conditions and low pay. As acknowledged in the 2015 joint ETI report on *Living Wages in Global Supply Chains, A New Agenda for Business*, paying living wages is one of the most difficult standards for our members to reach. But we are confident that buying responsibly will help move you and your suppliers closer to this goal, beginning with the very first step of paying the relevant legal minimum wage.

There is growing evidence that taking a responsible stance on purchasing has long-term business benefits. Reports suggest that this approach will allow you to optimise costs, increase productivity and quality, and reduce operational and financial risk. Importantly, enabling suppliers to raise their ethical standards will help stabilise your suppliers' workforce and build resilience in your supply chain, thereby meeting your own ethical commitments. It builds on the existing purchasing practices guides of ETI Norway and ETI UK, including the influential report, Suppliers Speak Up.

We invite you to step forward and take action – across the whole procurement cycle, from developing sourcing strategies to assessing the impact of your purchasing practices. Through this guide, we share practical ideas and recommendations to support you at every stage. We provide advice on building the business case and give recommendations for senior managers. This is followed by detailed, step-by-step advice for you, the buyers, on sourcing strategy, product development, price negotiation, agreeing fair contracts, forecasting and order placement.

At the heart of this guidance sits the idea of developing fair, transparent, two-way relationships with suppliers. Through all your interactions with suppliers, we recommend that you work together to agree mutually beneficial commercial partnerships that include robust plans to improve conditions for workers and thereby underpin sustainable business as well. Furthermore by helping to improve the lives of workers in your supply chain, you will be contributing directly to the global, UN-led push for healthier, fairer futures for all.

Yours faithfully,



**Mette Boye**

Managing Director  
Danish Ethical Trading Initiative



**Peter McAllister**

Executive Director  
Ethical Trading Initiative



**Heidi Furustøl**

Managing Director  
Ethical Trading Initiative - Norway

<sup>1</sup> Source: World Bank [worldbank.org/en/news/press-release/2013/10/10/report-finds-400-million-children-living-extreme-poverty](http://worldbank.org/en/news/press-release/2013/10/10/report-finds-400-million-children-living-extreme-poverty)

<sup>2</sup> Source: ILO [ilo.org/global/industries-and-sectors/textiles-clothing-leather-footwear/lang-ja/index.htm](http://ilo.org/global/industries-and-sectors/textiles-clothing-leather-footwear/lang-ja/index.htm).

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## Who the guide is for and how to use it

This reference guide is for senior managers responsible for purchasing, individual buyers and their teams and all teams with a connection to procurement. It is intended as a toolkit of practical ideas and step-by-step actions for achieving best practice, supported by the survey findings, expert insights and case studies. While it focuses predominantly on manufacturing supply chains, it also shares many practices that are applicable for all sectors. Overall, we aim to help you strive for a 'win-win' partnership with suppliers that supports workers' rights.

**The first section** is designed to help senior management and purchasing managers develop the business case for change and lay the foundations for responsible purchasing practices and sourcing strategies by strengthening sourcing strategies and human rights policies.

In **the second section**, senior managers and buyers at all levels will find key information on catalysing the broader organisational and behavioural change required, defining roles and responsibilities, understanding the impact of current practices and incentivising good practice.

**The third section** is aimed primarily at buyers, and is intended as a practical, modular guide to specific purchasing practices.

Finally, we have included a comprehensive list of recommended resources and tools available to you.



## Reducing supply chain risk by buying responsibly

It is through their purchasing practices that businesses can have among the most profound impacts on human rights. Conventional purchasing practices, including aggressive price negotiation, inaccurate forecasting, late orders, short lead times and last minute changes put suppliers under intense pressure and lead directly to poor working conditions and low pay for workers.

The United Nations Guiding Principles on Business and Human Rights (UNGPs) highlight the importance of acting on the findings of human rights impact assessments *“across relevant internal functions and processes”*. If purchasers do not consider the potential impact of their decisions on suppliers’ ability to comply with labour rights standards, *“the enterprise risks contributing to adverse human rights impact.”*

Similarly, the Organisation for Economic Co-operation and Development (OECD<sup>3</sup>) guidance on due diligence for responsible supply chains in the garment and footwear sector recommends that businesses *“implement control measures to prevent contributing to harm through their purchasing practices”*.<sup>4</sup>

*“Responsible purchasing means purchasing in a way that enables positive change at the supplier level, so that every part of the supply chain benefits. It requires a trusting, direct and honest relationship where both parties are able to negotiate and share risks equally, and a purchaser who is committed to supporting human rights within the supply base.”*<sup>5,6</sup>

Figure 1 shows the risk relationships between current purchasing practices and their potential effect on suppliers, workers, the wider labour market and purchasing organisations.<sup>7</sup>

3 <https://business-humanrights.org/en/un-guiding-principles>

4 Source: OECD Due Diligence for Responsible Supply Chains

5 Other aspects of supply chain dynamics also have an influence on workers’ pay and labour conditions’.

6 ‘Buying Matters’ Consultation: Sourcing fairly from developing countries, Traidcraft.

7 Source: ‘Buying Matters’ Consultation: Sourcing fairly from developing countries, Traidcraft

Figure 1 Impacts of poor purchasing practices





As explained in greater depth in 'Business case for buying responsibly' (Section 1), responsible purchasing is integral to building supply chain resilience and improving lives. It can have a significant impact on workers: nearly two thirds of the world's poor make a living from agriculture<sup>8</sup> and an estimated 60m workers<sup>9</sup> are employed in the global garment industry, most of whom are women.

The opportunity to sell to international buyers helps to lift people out of poverty. However, conventional purchasing practices can undermine relationships with suppliers and produce negative consequences for workers. For example, intense competition for customers' business can push suppliers to engage in a 'race to the bottom' on price.

### 39% of suppliers responding to our survey said they accepted orders below the cost of production in 2015, 29% of whom then struggled to pay workers.

This poses a risk to workers' health, wellbeing and ability to support their families.

Similarly, when short lead times do not allow suppliers to plan production effectively, the consequences are often additional overtime (for 59% of suppliers responding to our survey). And with workers' pay, rights and livelihoods at risk, the result can be strikes and disruption. Thousands of Chinese shoe workers went on strike in 2014 to protest against insufficient social security payments, for example.<sup>10</sup>

As the world's middle classes continue to expand (some 1.4bn people in the BRIC countries are expected to enter the middle class between 2000 and 2020<sup>11</sup>) and consumer appetites grow, the pressures on suppliers are likely to rise, intensifying the consequences for workers. Suppliers are also under pressure due to growing raw material scarcity and price volatility. Meanwhile, decreasing retail prices combined with rising production costs put substantial pressure on their margins. Accepting low order prices from buyers exacerbates the situation, making suppliers less able to invest in improving labour conditions or increasing workers' pay.

In the apparel industry, the tendency towards increased consumption, driven by fast fashion (characterised by multiple seasons and short lead times), has placed a significant strain on garment factories and their workers. Similarly, with increased demand for more electronic gadgets produced ever more rapidly (2.6bn people worldwide now own a smartphone<sup>12</sup>) workers in the electronics industry are in an increasingly precarious situation.<sup>13</sup>

With the buyer-supplier dynamic playing a crucial role in your relationships with suppliers, we encourage all buyers to adopt responsible practices. This will support the companies on which your business depends and is vital in enabling suppliers to promote fair pay and decent work.

Progressive retailers and brands with a commitment to improving working conditions and respecting labour rights should encourage buyers to both enable progress and act proactively to address the impacts of conventional practices. We also recommend that buyers use their leverage to counter cultural and peer pressure barriers to progress at supplier level.



8 Source: World Bank [worldbank.org/en/news/press-release/2013/10/10/report-finds-400-million-children-living-extreme-poverty](http://worldbank.org/en/news/press-release/2013/10/10/report-finds-400-million-children-living-extreme-poverty)

9 Source: ILO [ilo.org/global/industries-and-sectors/textiles-clothing-leather-footwear/lang--ja/index.htm](http://ilo.org/global/industries-and-sectors/textiles-clothing-leather-footwear/lang--ja/index.htm).

10 [bbc.co.uk/news/world-asia-china-27033186](http://bbc.co.uk/news/world-asia-china-27033186)

11 Source: [goetzpartners.com/uploads/tx\\_gp/goetzpartners-Snapshot\\_CGR\\_June\\_2011\\_FINAL\\_01.pdf](http://goetzpartners.com/uploads/tx_gp/goetzpartners-Snapshot_CGR_June_2011_FINAL_01.pdf)

12 Source: Ericsson Mobility Report <https://techcrunch.com/2015/06/02/6-1b-smartphone-users-globally-by-2020-overtaking-basic-fixed-phone-subscriptions/>

13 [industrial-union.org/report-electronics-industry-organizing-and-fighting-against-precarious-work](http://industrial-union.org/report-electronics-industry-organizing-and-fighting-against-precarious-work)



# Survey findings – getting to the heart of the issue

So how exactly do purchasing practices affect suppliers and workers, and contribute to increased risk in your supply chain? Here are some of the key findings of the ETI and ILO supplier survey:

## Conflicting messages

While many companies require suppliers to respect their codes of conduct (CoC) and monitor suppliers' labour rights performance, their buying practices often sit at odds with these initiatives. As a buyer, you may have been trained to negotiate on margin, delivery times and product quality, rather than ethical criteria. Similarly, you are not typically incentivised to make ordering decisions based on respect for human rights.

### What suppliers say:<sup>14</sup>

- 93% of us are required to follow our customers' codes of conduct.

*“Customer codes are about 80% similar, but often contain requirements that are difficult to comply with and sometimes illegal in certain jurisdictions. Often customers seem to develop their codes without input of legal staff which results in poorly written codes that convey incorrect intent.”* - Supplier

- Buyers do not tend to use ethical criteria as a determining factor in negotiations; in 64% of the cases, they assess our performance primarily on product quality, price and lead times.
- For 15% of us price is always the main reason why a buyer terminates our relationship. For 26% price is often the reason and for 38% price is sometimes the reason. Lack of performance on social compliance is the least likely

reason, after product quality and delivery.

- Many customers do not provide sufficient support to help us meet the requirements of their code of conduct; 48% of us get no help at all.
- For nearly 80% of us, 10% (or fewer) of buyers reward us when we make improvements towards their code of conduct.
- In the cases where we are rewarded it is through long-term contracts and increased order volumes.

*“Some buyers provide staff training, but every time, we have to pay a hefty amount. There is no financial support from buyers. Instead, in every next order they demand to reduce the price (without any logic) while threatening that otherwise they will not place the order”* - Supplier

Given the 'misalignment' between labour rights standards' and buyers' requests, and the drive to compete in an increasingly globalised marketplace, suppliers are receiving starkly conflicting messages. Some are tempted to focus on offering competitive commercial terms, agreeing to lower prices and unrealistic lead times to win business. In this context, it is much harder to invest in fair pay and decent working conditions.

Greater collaboration between multiple functions (and job roles) – from procurement and ethical trade to sales and technical teams – could play an important role in addressing this imbalance.

## CASE STUDY: Collaborating to improve pay and working conditions

In 2015, a UK-based fashion brand (an ETI member) promoted responsible purchasing practices by encouraging greater collaboration between its ethical trading and production teams. By gaining a strong understanding of the precise contractual requirements presented to suppliers, the ethical trading team could better ensure that supplier agreements contained fair prices and realistic delivery schedules. It could also advise on the inclusion of clear provisions on ethical standards and train all teams, including purchasing, helping them to examine and re-think their practices.

The company is also supporting its East European suppliers in establishing a living wage for workers, including through a senior level commitment to increasing order prices. Supplier feedback suggests that the company pays the highest price for products among its competitors. Through frank, open meetings, the brand has sought to understand the impact of its practices on suppliers' ability to pay a living wage. It harnesses these findings to improve its purchasing practices, with the aim of raising wages and improving labour conditions.

<sup>14</sup> Statements extrapolated from statistical results of supplier survey



## Contracts

Although 65% of the suppliers we surveyed had written contracts with their customers, there is still room for improvement; contracts should be agreed through a fair, transparent dialogue between the buyer and supplier.

### What suppliers say:

- In 70-80% of cases, our contracts only cover order volume, delivery date and quality thresholds.
- Price is not part of the written contract, 30% of the time.
- Nearly 60% of contracts neglect to include ethical requirements, and 75% of contracts do not cover the respective share of risk and investment related to particular orders.

## Consequences of accepting orders below the cost of production

Aggressive price negotiation has an impact on suppliers' ability to pay wages to their workers. The survey also indicates that buyers are hesitant to pay a price that covers minimum wage increases.

### What suppliers say:

- In 2015, 39% of us accepted orders worth less than the cost of production.
- Of these 39%:
  - For 51% of us, less than 85% of the cost was covered by the price we agreed with the buyer.
  - For 29% of us, this means we are likely to find it harder to pay workers their wages.
  - For 77% of us, the most common reason we do this is to secure orders.
  - For 34% of us, pressure from our customers is one of the main reasons that we accepted a low price.
  - For some of us, it can hinder our long-term competitiveness, force us to close our business (and make our employees redundant), or even lead to sub-contracting.
- 55% of us accept low prices because it allows us to compete with other suppliers.

The trend for suppliers to accept low prices leads to an ongoing power imbalance: the buying organisation typically dominates, deriving the most value from the product, while the supplier is continuously under pressure to maintain high quality and productivity levels with less financial resources. Similarly, accepting lower prices directly affects workers' pay and working conditions, as suppliers are less able to invest in health and safety measures, or pay workers fairly. Indeed, workers tend to see the least value from the product, and in every category of worker, women are the most vulnerable, and often receive a smaller share of the value.<sup>15</sup>

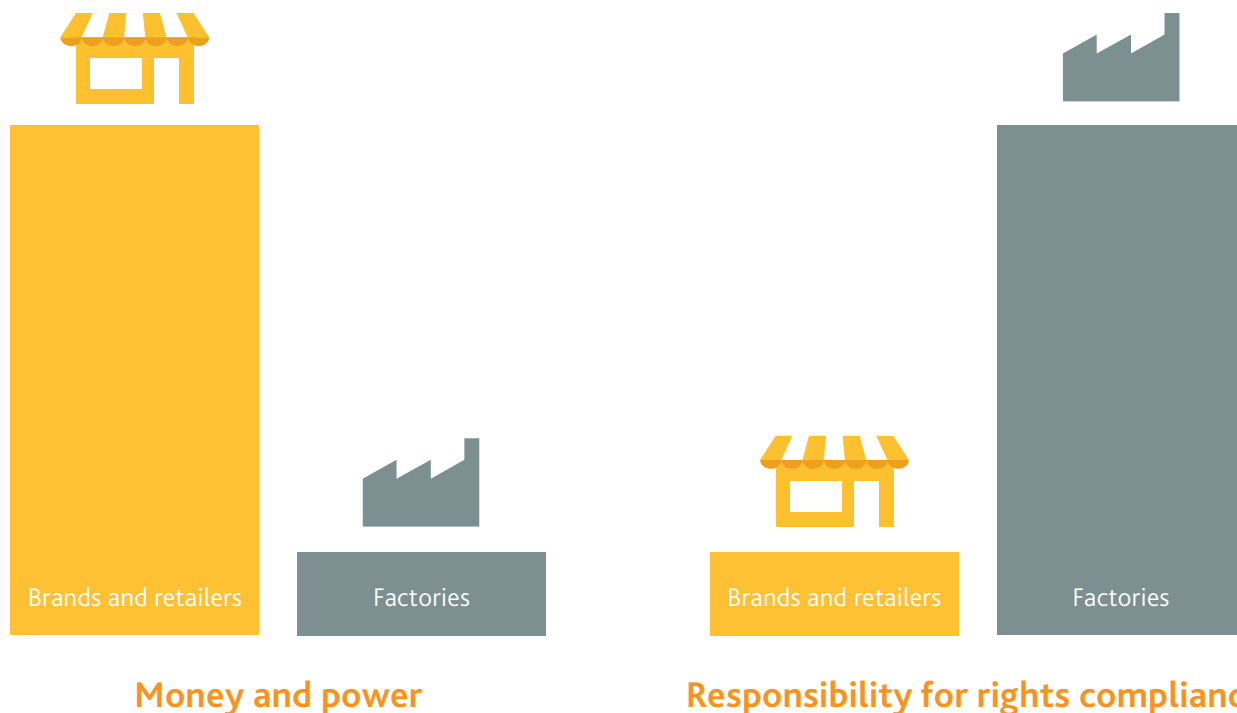
At the same time, suppliers are expected (by both policymakers and customers) to assume responsibility for social compliance (as shown by Figure 2). However, the low value they see from the product sits at odds with funding the cost of audits and improvements. As we have seen, the ETI and ILO supplier survey shows that suppliers are accepting orders that are below the cost of production. This in turn results in workers having to accept wages below the cost of living.<sup>16</sup>

<sup>15</sup> Trading Away Our Rights: Women working in global supply chains, Oxfam 2004

<sup>16</sup> Wages and working hours in the textiles, clothing, leather and footwear industries: Issues Paper for discussion at the Global Dialogue Forum on Wages and Working Hours in the Textiles, Clothing, Leather and Footwear Industries, Geneva, 23–25 September 2014, International Labour Office, Sectoral Activities Department, Geneva, ILO, 2014

Figure 2:

Understanding the power imbalance in today's supply chains. Source: Fair Wear Foundation, Research Agenda 2017-2020



Overall, although the suppliers we surveyed say they are taking living wage thresholds into consideration in wage decisions, many workers do not receive a living wage.<sup>17</sup> For example, the Global Living Wage Coalition's recent benchmarking of wages in Bangladesh found average prevailing wages to be 50-70% lower, on average, than a living wage.<sup>18</sup> In some cases, suppliers do not even provide workers with the required minimum wage. For example, the ILO estimates that non-compliance with the minimum wage in the Asian garment sector is often over 25% and sometimes over 50%.<sup>19</sup> Women typically earn lower wages than men and tend to be concentrated in lower skilled, lower paid jobs. With insufficient wages, many workers and their families may fall into poverty. Others may resort to working excessive overtime hours to supplement their income, often to the detriment of their health and wellbeing.

*"...A study on wages among 100 suppliers in ten Asian countries found that nearly one fifth reported having to postpone wage payments. More than half reported underpayment of wages, mostly for overtime, and almost half did not pay social security contributions... Workers have to work very long hours to earn even the legal minimum wage... In some production countries, the minimum wage remains below the national subsistence minimum."<sup>20</sup> - Wages and Working Hours in the Textiles, Clothing, Leather and Footwear Industries, ILO, 2014*

*"We are not asking brands to pay over the odds, we are asking them to buy from suppliers with better wages and conditions, even if that costs more. Retailers and brands may not be able to set their suppliers' workers wages, but they can promote collective bargaining. For this reason, the Fairtrade Hired Labour Standard requires employers to agree a route map for paying a living wage through collective bargaining."* - Peter Williams, ETI NGO Co-ordinator

<sup>17</sup> For further information on living wages: [ethicaltrade.org/issues/living-wage-workers/living-wage-resources](https://ethicaltrade.org/issues/living-wage-workers/living-wage-resources)

<sup>18</sup> [isealalliance.org/online-community/blogs/new-report-finds-prevailing-wages-in-bangladesh-nearly-50-to-70-percent-below-a-living-](https://isealalliance.org/online-community/blogs/new-report-finds-prevailing-wages-in-bangladesh-nearly-50-to-70-percent-below-a-living-)

<sup>19</sup> [ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms\\_509532.pdf](https://ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/documents/publication/wcms_509532.pdf)

<sup>20</sup> [ilo.org/wcmsp5/groups/public/@ed\\_dialogue/@sector/documents/publication/wcms\\_300463.pdf](https://ilo.org/wcmsp5/groups/public/@ed_dialogue/@sector/documents/publication/wcms_300463.pdf)



## Insufficient lead times

A lack of understanding of the production planning process, insufficient lead times, late ordering and last minute changes can lead to irregular working hours or excessive overtime, use of temporary workers, and to a lesser extent, sub-contracting. Under pressure to raise productivity quickly, suppliers' costs rise (eg through payment of overtime), adding to their overheads. 51% of suppliers responding to our survey highlighted that overtime had not decreased over the past two years, indicating there is still much room for improvement.

### What suppliers say:

- 41% of us find that our customers' lead times are reasonable 50-70% of the time.
- 51% of us find that our customers' lead times are reasonable 70-100% of the time.
- When lead times do not allow us to plan production effectively, the consequences are often additional overtime (for 59% of us), increased production costs (for 56%) and delayed deliveries (for 54%).
- 60% of us find that when we experience periods of peak demand or order changes, we usually or always ask permanent staff to help fulfil these orders.
- 84% of us outsourced less than 20% of production in 2015.
- 51% of us have used overtime hours in the same way over the last two years.



## Product development and specifications

Inaccurate technical specifications result in additional sampling costs for suppliers and higher production costs, as well as quality issues, delivery delays and overtime. The majority of suppliers shoulder the cost of research and development, which limits their ability to invest in supporting workers' rights and pay living wages.

### What suppliers say:

- 67%: Our customers' technical specifications are accurate or very accurate.
- The main consequences of inaccurate technical specifications are:
  - For 41% of us: additional overtime
  - For 71% of us: extra time and cost of sampling
  - For 66% of us: increased production costs
  - For 55% of us: delivery delays
  - For 50% of us: financial loss to our company

### TOP TIP

Progressive buyers stand to achieve a 'quick win' by improving the quality of specifications. Better forecasting and more accurate planning could lead to fewer instances of excessive working hours and less overtime

## The way forward

Buyers too are operating in a competitive and challenging environment. You are often under pressure to search for lower prices and competitive deals, get products to market more quickly to meet consumer demand and respond nimbly to seasonal peaks.

At the same time, you face increasing supply chain disruption, with unresolved industrial disputes, lack of grievance mechanisms and climate change impacting smallholder farmers. By supporting suppliers through fairer prices, contracts and lead times, you can enable them to improve working conditions, thereby increasing productivity and lowering the risk of disruption.

Importantly, with a growing appetite among consumers for ethically and sustainably made products (66% of consumers in a 2015 Nielsen survey said they were willing to pay more for sustainable brands, up from 55% in 2014<sup>21</sup>), companies must consider how best to share the cost of raising standards with their customers. This is vital to sustaining responsible purchasing practices in the long term.

*“There is a growing commitment among our buyers to consider the impact of their practices more carefully, in order to ensure they are aligned with our CSR policies. Of course, in a competitive market, buyers are still under considerable pressure to achieve the best prices and fastest possible delivery dates. They also need to manage external factors such as economics and pressure from licensors.”* - Matrix APA – Promotional product supplier

## Taking responsibility for workers in your supply chain

Retailers are under mounting pressure to take responsibility for the wellbeing of men and women workers in their supply chains, with their efforts increasingly scrutinised by stakeholders. For example, following in the footsteps of campaigns such as Oxfam’s Behind the Brands Company Scorecard,<sup>22</sup> the Business and Human Rights Resource Centre’s Corporate Human Rights Benchmark initiative<sup>23</sup> is perhaps the most important of new initiatives publicly ranking businesses on how well they uphold human rights in their supply chains. Another example is the Better Buying initiative, which invites suppliers to rate their buyers on a number of ethical trading criteria. The results are published on its website.<sup>24</sup>

## Striving for a ‘win-win’ partnership with suppliers

Wherever possible, dialogue to help improve purchasing practices, and thereby conditions for workers, should involve the whole value chain (buyers, intermediaries, suppliers, workers and their representatives). In particular, we recommend that companies strive for a ‘win-win’ partnership with suppliers. Buyers can catalyse widespread positive change in their supply chains by:

- Sharing responsibility and risk.
- Building a deeper understanding of production.
- Forging a constructive, ongoing dialogue with suppliers, through which suppliers are rewarded for better practices.
- Making labour standards and other ethical criteria a core part of buying negotiations.

<sup>21</sup> [nielsen.com/eu/en/press-room/2015/consumer-goods-brands-that-demonstrate-commitment-to-sustainability-outperform.html](https://www.nielsen.com/eu/en/press-room/2015/consumer-goods-brands-that-demonstrate-commitment-to-sustainability-outperform.html)

<sup>22</sup> [behindthebrands.org/en/company-scorecard](https://www.behindthebrands.org/en/company-scorecard)

<sup>23</sup> [business-humanrights.org/en/corporate-human-rights-benchmark](https://www.business-humanrights.org/en/corporate-human-rights-benchmark)

<sup>24</sup> [betterbuying.org](https://www.betterbuying.org)

# SECTION 1 : THE BUSINESS CASE FOR BUYING RESPONSIBLY

## The case for change

Consumer demand for low retail prices and high availability may drive buyers to push suppliers for rapid turnarounds and low order prices. However, it is widely recognised that conventional purchasing practices result in high worker turnover and lower productivity. This in turn can lead to poor quality products, delayed delivery, additional costs and even industrial action. All of these can cause disruption and undermine long-term security of supply, as demonstrated by the survey. Neglecting to address labour rights challenges also calls into question companies' licence to operate, particularly as stakeholder scrutiny intensifies and consumers become less tolerant of labour rights scandals (please refer to the findings presented throughout this guide).

By adopting more responsible purchasing practices, businesses stand to optimise costs, increase productivity and quality, build supply chain resilience and reduce operational and financial risk. Importantly, enabling suppliers to pay workers fairly and invest in improving labour conditions will help to both improve workers' lives and stabilise your suppliers' workforce. This reduces the risk of strikes and industrial unrest, contributing to more mature industrial relations, which helps to maintain availability at shop floor level.

Taking a progressive stance on purchasing also stands to protect and enhance corporate reputation, particularly as stakeholders become more vocal about transparency and the plight of workers. It can also help you to become more competitive in the marketplace, as customers increasingly tighten their sustainability requirements.

Among the international goals and frameworks pushing for business engagement in sustainable development issues, the UNGPs require companies to identify, prevent and mitigate adverse human rights impacts through an ongoing risk management process.<sup>25</sup> To achieve this, ETI's Human Rights Due Diligence Framework (overleaf) recommends a collaborative, step-by-step approach.<sup>26</sup>

<sup>25</sup> Source: UNGP Human Rights Due Diligence [ungpreporting.org/glossary/human-rights-due-diligence/](https://ungpreporting.org/glossary/human-rights-due-diligence/)

<sup>26</sup> Source: ETI Human Rights Due Diligence Framework [ethicaltrade.org/resources/human-rights-due-diligence-framework](https://ethicaltrade.org/resources/human-rights-due-diligence-framework)



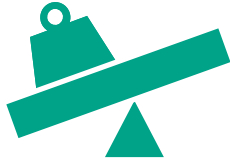




# ETI human rights due diligence framework

Key steps that companies should take to prevent, manage and mitigate human rights abuses in their own operations and supply chains.





2

## Identify leverage, responsibility and actions

- Assess scale and scope of corporate responsibility, including direct and indirect labour rights impacts
- Assess leverage with suppliers, agents and contractors
- Review sourcing strategies and purchasing practices
- Establish benchmarks and rules for monitoring improvements or termination with suppliers
- Review supplier capacity to manage labour risks
- Review policies and procedures to enable workers to access their right to organise and bargain collectively
- Identify opportunities for collaborative action
- Review corporate decision-making and accountability, policies and systems to manage risks

3

## Mitigate risk and provide remedy for workers

- Take immediate steps to mitigate human rights abuses
- Provide remediation for workers (avoiding further harm)
- Identify and act on changes to working practices
- Enable workers to access their right to freedom of association and collective bargaining
- Provide training and capacity building on worker-management communication and negotiation
- Engage / collaborate with others (eg other companies, trades unions, government agencies, NGOs, experts, multi-stakeholder initiatives)
- Establish / revise grievance and remediation systems





Similarly, the UN Sustainable Development Goal 8 (Decent work and economic growth) calls on buying organisations to operate in a way that supports improved labour conditions and workers' livelihoods.

As labour rights and modern slavery gain more prominence worldwide, businesses are under growing pressure not to create a demand for cheap, flexible labour (which is often filled by vulnerable people such as children, migrants, trafficked workers. NB In all categories of workers, women are doubly vulnerable). Responsible purchasing practices, as part of a broader CR programme, can help to prepare companies to respond proactively, rather than reactively, to changes in legislation.

In particular, the 'Transparency in Supply Chains' clause of the UK's Modern Slavery Act requires businesses operating in the UK with a turnover of more than £36 million to produce an annual 'slavery and human trafficking' statement.<sup>27</sup> If a business fails to produce a statement for a particular financial year the secretary of state may seek an injunction through the High Court requiring the organisation to comply. If the organisation fails to comply with the injunction, they will be in contempt of a court order, which is punishable by an unlimited fine.<sup>28</sup>

Elsewhere, the French government introduced a new 'corporate duty of vigilance' law (Loi sur le devoir de vigilance des entreprises donneuses d'ordre)<sup>29</sup> in 2017, requiring major companies to report annually on how their activities – and those of their suppliers and sub-contractors – impact on human rights and the environment. Likewise, the Dutch government is moving to adopt a new due diligence bill on child labour (Wet Zorgplicht Kinderarbeid)<sup>30</sup>, obliging companies to identify and address any instances of child labour in their supply chains.

Countries are also expected to play their part in promoting respect for human rights through their commercial dealings with businesses, according to UNGP 6. For example, Norway has recently updated its law on public procurement<sup>31</sup>, requiring public authorities to protect fundamental human rights when buying products and services from high-risk suppliers. Businesses supplying the public sector in Norway must therefore support human rights in order to remain competitive.



## Groceries Supply Code of Practice

The Groceries Code Adjudicator is the UK's first independent adjudicator to oversee the relationship between supermarkets and their suppliers. It seeks to ensure that large supermarkets treat their direct suppliers lawfully and fairly, investigates complaints and arbitrates in disputes.

Its Groceries Supply Code of Practice<sup>32</sup> states that:

*"Retailers must deal with their suppliers fairly and lawfully at all times. Fair and lawful dealing will be understood as requiring the retailer to conduct its trading relationships with suppliers in good faith, without distinction between formal or informal arrangements, without duress and in recognition of the suppliers' need for certainty as regards the risks and costs of trading, particularly in relation to production, delivery and payment issues."*

<sup>27</sup> The statement must disclose what the company is doing to address modern slavery issues in its supply chains and business operations. Source: <http://corporate-responsibility.org/issues/modern-slavery-bill/>

<sup>28</sup> [lawsociety.org.uk/support-services/advice/practice-notes/modern-slavery-act-and-section-54/](https://lawsociety.org.uk/support-services/advice/practice-notes/modern-slavery-act-and-section-54/)

<sup>29</sup> Source: [assemblee-nationale.fr/14/dossiers/devoir\\_vigilance\\_entreprises\\_donneuses\\_ordre.asp](https://assemblee-nationale.fr/14/dossiers/devoir_vigilance_entreprises_donneuses_ordre.asp)

<sup>30</sup> Source: [eerstekamer.nl/wetsvoorstel/34506\\_initiatiefvoorstel\\_van\\_laar](https://eerstekamer.nl/wetsvoorstel/34506_initiatiefvoorstel_van_laar)

<sup>31</sup> The legislation was revised in line with article 18.2 of the 2014/24/EU Directive on Public Procurement.

<sup>32</sup> Source: [gov.uk/government/publications/groceries-supply-code-of-practice/groceries-supply-code-of-practice](https://gov.uk/government/publications/groceries-supply-code-of-practice/groceries-supply-code-of-practice)

Responsible buying could ultimately be a source of competitive advantage, allowing companies to attract and retain the most progressive and innovative suppliers, enjoy the benefits of a productive and motivated workforce and build positive trade relationships with developing countries. This is particularly important for UK-based companies, in light of the uncertainties surrounding Britain's future trading relationship with the European Union. It is also central to achieving long-term profitability, allowing companies to build partnerships with reliable suppliers who contribute to the ongoing delivery of good quality products and services.

The detailed business case for addressing purchasing practices will differ for each business and supply chain. However, here are several key reasons for senior managers to support this important topic:

- Improved working conditions and workers' livelihoods.
- Enhanced productivity and improved product quality due to a stable, motivated workforce.
- Preventing strikes and industrial action that can disrupt production and delivery.
- Lowering operational costs.
- Protecting brand image and reputation.
- Meeting the ETIs' membership obligations.
- Strengthening supplier relationships.

## Developing or updating human rights policies

It is vital to make a public commitment to promoting human rights<sup>33</sup> in your supply chain, and develop clear policies to uphold it. We recommend formalising plans to address human rights issues, such as modern slavery by improving wages and promoting freedom of association. This will also help you to comply with relevant legislation such as the UK's Modern Slavery Act and the California Transparency in Supply Chains Act.

Partner with your suppliers to understand and work towards minimum human rights standards, and manage your own practices in a way that enables suppliers to observe these standards.

The in-depth review that you conduct of your company's purchasing practices (see Section 2), will also help to inform your human rights policies. We recommend drawing on your increased understanding of the potential impacts on working conditions and examples of good practice to guide any new sourcing or purchasing policies or policy updates, and related management tools.

## Reviewing sourcing strategy and policies

Firstly, assess your sourcing strategy<sup>34</sup> to ensure it respects legal obligations and relevant international labour and human rights conventions. Consider how fair it is and to what extent it balances commercial needs with supporting the most vulnerable actors in the supply chain, including smallholders, home workers, informal workers, migrant workers and within all categories of workers, women.

To create a more diversified sourcing strategy, you could introduce quotas for marginalised suppliers, such as women-led co-operatives or smallholders (you could also guarantee smallholders an income, if they plant the seed). Monitor any changes of supplier to help ensure that such groups are still evenly represented.

It is vital to capture the views and concerns of workers and their representatives (including independent trade unions and other stakeholders). We recommend seeking expert input in developing fairer strategies, and setting an ambition to partner with suppliers towards agreed ethical standards. Your sourcing strategy should be supported by clear goals, timeframes, activities and measurement. Importantly, it should also determine who within the organisation will be involved and at what stage.<sup>35</sup>

Take particular care to develop robust sourcing strategies for product categories that depend on complex or high risk supply chains (see ETI's Human Rights Due Diligence Framework<sup>36</sup>). For example, many food businesses have developed sustainable sourcing strategies and goals, including targets on labour rights.

Overall, it is important to build a portfolio of suppliers who are prepared to work towards improving working conditions. Integrate labour rights policies into terms of trade and communicate any new or updated requirements to suppliers clearly, along with how you will support them in meeting those requirements. We also recommend establishing a more robust system for identifying potential suppliers, setting out minimum ethical performance standards (as part of a mutually agreed code of conduct - see pages 30-31). Check that your sourcing strategy respects national laws and international agreements and use risk assessments to avoid unauthorised sub-contracting.

<sup>33</sup> Environmental issues are also an important consideration in purchasing practices. However, the focus of this guide is labour rights.

<sup>34</sup> We will focus on sourcing strategies in more depth in a future guide.

<sup>35</sup> Ethical & Sustainable Procurement, CIPS & Traidcraft

<sup>36</sup> [ethicaltrade.org/resources/human-rights-due-diligence-framework](https://ethicaltrade.org/resources/human-rights-due-diligence-framework)

## SECTION 2 : FOR SENIOR MANAGERS



### Organisational and behavioural change

A corporate culture that balances ethical and commercial priorities is a prerequisite to responsible purchasing. A strong, senior level commitment, clear lines of accountability and a robust approach to managing change are also critical to developing responsible, sustainable purchasing practices. This is particularly important when addressing entrenched attitudes towards purchasing – there may be resistance to change, with some buyers perceiving social compliance and labour standards as the responsibility of the ethical trade team.

It is therefore vital to develop a culture that embraces change and encourage buyers and other relevant teams to take ownership of the change process. We recommend promoting collaborative working and innovative approaches to problem-solving, and developing policies, procedures and practices that will lay the foundation for an effective transition to responsible purchasing.

You will need to define a clear governance structure, whereby senior and middle managers are accountable for driving change, and take an active role in reviewing and evolving the company's purchasing practices. Importantly, the rationale for change must be communicated from the top – including the direct link between purchasing practices and workers' pay and labour conditions. Clarifying your responsible purchasing strategy and incentivising behaviour change will give purchasing managers and the buying teams the mandate they need to factor ethical considerations into negotiations with suppliers.





## Roles, accountability and responsibility

Buyers alone will not be able to address every aspect of developing mutually beneficial, long-term relationships with suppliers. There must be a commitment to responsible sourcing strategies and purchasing practices at a senior level. In addition, it is important to differentiate between who holds overall accountability for the organisation's responsible purchasing practices strategy and who is responsible for executing it on a daily basis.

### When reviewing lines of accountability:

- Consider to what extent your company's structure and processes enable or hinder responsible buying. One of the main constraints can be different teams working in silos and sending conflicting messages to suppliers.
- Establish cross-functional teams and identify key individuals whom you need to influence. Who can facilitate better buying processes and who is likely to block them?

*How can you support buyers in meeting commercial goals without using buying practices that undermine the rights of workers in your supply chain?*

- With support from your cross-functional team, conduct a review of purchasing practices and how they impact on workers (through personal visits, interviews with trade union representatives and participatory survey approaches).
- Engage the head of purchasing in leading discussions on developing a business model that supports better labour conditions for workers.

# Performance management and reward

Incentivising buyers to adopt responsible purchasing practices is a powerful lever for change. Our survey confirms that many buyers still focus primarily on price, delivery and quality when deciding whether to award suppliers with new business, so it is important to make the business case for why they should consider ethical performance as well. Linking their professional development and performance to responsible purchasing will help encourage sustained behaviour change.

The targets and incentives of your whole buying team influences how you manage supplier relationships, and will help empower you all to make changes to the way you purchase from suppliers.

## To help buyers prioritise ethical criteria in supplier negotiations:

- Integrate responsible purchasing goals into senior executive job descriptions.
- Cascade responsible purchasing goals and key performance indicators (KPIs) into every buyer's job description and professional development plan; ensure that all new employees recruited to the buying team are prepared to support your responsible purchasing strategy.
- Identify learning and development needs and support your buyers in balancing commercial and ethical goals; provide appropriate training without expecting buyers to become ethical trade experts.
- Provide your buyers with training to ensure they develop a technical knowledge of the production or growing process<sup>37</sup> and encourage a partnership approach with suppliers to achieve your required standards.

Develop KPIs for specific supply chain conditions (eg if a traffic light-style system is used to rate suppliers for social compliance, specify the percentage of 'green' production sites among their supplier portfolio). Take care to map the unintended consequences that may arise from prioritising certain issues or pushing suppliers towards making improvements (eg putting pressure on suppliers to improve their working hours could result in suppliers hiding 'real' hours records).

It is important to maintain high levels of transparency. When setting incentives for buyers, consider:

## How you reward buyers' performance:

- How do you assess the performance of key buying personnel? How are bonuses calculated?
- How have any efforts to incentivise a focus on ethical criteria performed to date?

## Whether buyers currently interact with suppliers on ethical performance:

- Do your buying teams know how all their major suppliers are assessed on labour rights performance?
- Do your buyers develop targets for suppliers related to improving labour rights performance, (eg progress towards a living wage, discussion of employment terms at management-worker meetings, ability of independent unions to recruit members unimpeded)?



# Understand current purchasing practices

**Before you can improve your company's purchasing practices, you should first understand your current practices in depth.**

- Identify all the steps required in getting your products to market. Which teams/departments are involved at each stage, and how is internal communication organised? Record examples of good practice and opportunities for improvement.
  - List the job roles within each product category and hold in-depth interviews with people representing each role.
  - Build links between different teams involved in procurement, and agree how to collaborate towards the shared goals of improving purchasing practices and delivering consistent message to suppliers.
- Identify the stakeholders who are/could be affected by your company's purchasing practices (eg workers, their families, suppliers and customers).
- Conduct an anonymous survey among your suppliers to understand how your business is perceived. Seek to understand if your purchasing practices are seen to be consistent and whether they enable suppliers to deliver decent working conditions.
- Check existing surveys of supplier perspectives on retailers and brands by sector, such as the UK's Grocery Code Adjudicator's annual supply survey of the UK's ten largest food retailers.<sup>38</sup>
- You could also invite suppliers to participate in the betterbuying.org initiative through which they can rate your company on multiple purchasing practices criteria.

## Developing an open dialogue with suppliers

Member companies of the ETIs have found that reviewing their current practices and having an honest conversation with suppliers about the challenges they pose can help identify where to make changes. It is important to reassure suppliers that exposing challenges will not result in them being penalised or losing orders. It is also useful from a business perspective. It helps to uncover examples of existing good practice, and drivers, as well as barriers to improvements.

Hold joint meetings with your suppliers, trade unions and relevant NGOs with knowledge of how purchasing practices affect workers, who may be able to provide advice and support in assessing the impacts of particular practices.

## Mapping the procurement cycle

Understanding the buyer-supplier relationship in depth is vital. Starting with your highest risk suppliers, we suggest mapping the procurement cycle in order to determine how turnaround times are achieved between the retailer and supplier, and what implications this has for the supplier (see Module 5, Order placement, production and lead times). How well does your company adhere to the procurement cycle and how can you change practices that cause delays?

We recommend meeting with both internal and external stakeholders to analyse ethical issues per product category, taking into consideration purchasing volumes and identifying risks and opportunities presented by strategic suppliers.

### Investigate:

- Common reasons why deadlines are missed.
- How order changes are managed.
- Where the key pressure points are in production and how they are monitored.
- How does IT and other infrastructure support the procurement cycle?





## Analyse the impact of purchasing practices

It is important to develop a detailed understanding of how purchasing decisions affect your suppliers. To make for an open, transparent process, consider using an independent interviewer to either conduct or facilitate discussions. Through the supplier interviews, make sure to begin with the most senior person on site and seek examples of good practice and suggestions for improvements as well as challenges. Consider suppliers' feedback when evolving your responsible purchasing strategy.

### To understand the impact on workers from multiple angles:

- Consult stakeholders especially local trade unions and NGOs, but also talk to workers directly to identify issues for women and men workers – remember that women may experience different, and often more severe issues than men, both in the workplace and travelling to and from work.
- Carry out in-depth confidential worker interviews and offer men and women separate interviews to investigate the frequency and extent of any labour issues, including: low wages, working time, rest periods, use of temporary workers, timeliness of pay, health and safety, whether overtime premiums are paid, discrimination, harassment and violence and restrictions to freedom of association.
- Identify risks to workers by sector, nature of work, type of worker, employment relationships and labour market dynamics, and investigate any breaches of the ETI Base Code as well as your mutually agreed code of conduct (see pages 30-31).

In reviewing your findings, highlight any issues or internal processes that do and could impact negatively on working conditions for both men and women workers. What risks do these issues pose to supply chain continuity, and ultimately to product availability and profitability? Draw on these risks to build your business case for change.

### We recommend considering the impact of buying practices under these headings:

Figure 4: Identifying the hidden costs of purchasing practices

	
<p><b>Costs to your business:</b></p> <ul style="list-style-type: none"> <li>Sourcing new suppliers.</li> <li>Bringing new suppliers up to speed on quality, technical and design and code requirements.</li> <li>Time spent on re-sampling products.</li> <li>Time spent by local office staff on managing changes with suppliers and/or managing new suppliers.</li> <li>Lost sales.</li> </ul>	<p><b>Costs to the supplier:</b> (which may be passed to the buying organisation through higher prices)</p> <ul style="list-style-type: none"> <li>Re-planning production.</li> <li>Re-phasing of intake.</li> <li>Paying overtime premiums.</li> <li>Product wastage (eg fresh produce, unused fabric or accessories).</li> <li>Transport costs (sea, land or air freight).</li> <li>Fines and cancellations.</li> </ul>

Before you begin your responsible buying journey, it is vital that you define 'what good looks like' and how you will measure success (See Module 6: Measuring Impact).





## CASE STUDY: Understanding the impact of your purchasing practices on workers

Collaboration across the supply chain is central to improving conditions for workers. In order to develop better ways of working and boost the performance of their supply chains, multiple actors within the Kenyan horticulture sector met to discuss how their individual practices affected each other's businesses in 2014 and 2015. The organisations included a retailer, a vertically integrated importer-exporter and worker and smallholder farmer representatives. This also allowed people who were directly involved in improving labour standards to feed back on the challenges and opportunities they faced.

It soon became clear that the retailer's purchasing practices made it challenging for suppliers to comply with its code of conduct. For example, placing orders without sufficient notice meant workers were asked to work overtime at short notice. This had a knock-on effect on the predominantly women workers' ability to find childcare, support their families, return home safely at night and produce good quality work the next day. The retailer responded by running a trial in 2016 to establish whether ordering 24 hours earlier would be viable and would reduce overtime.

It also became clear that small-scale farmers were told to grow more product than the exporter and retailer ended up purchasing, so effectively farmers were sometimes growing "contingency" crop. Occasionally no crop or only 20% of the crop was purchased, subjecting farmers to significant losses. This is due to the retailer making no firm commitment as to the volume of product wanted at the time when farmers plant their seeds. There was no fair risk sharing arrangement if the retailer's forecast were different to the final volume ordered. As a result, the exporter has now made a commitment to purchase a minimum monthly volume and providing farmers with clarity about minimum volumes which will be purchased.

Overall, the group identified that win-wins were possible in relation to improving trust, loyalty, cutting waste, raising workers' wages, reducing short notice overtime, increasing speed to market and improving availability and product quality.



### TOP TIP

Full supply chain meetings (between brands, suppliers, intermediaries, workers and their representatives) could be an alternative, more sustainable approach to both identifying opportunities for improvement and for establishing whether changes in purchasing practices lead to improved outcomes for workers.

### CASE STUDY: Empowering buyers to take ownership of responsible buying

Norwegian apparel retailer, Voice, commissioned an independent survey of how its purchasing practices affected its suppliers' (who are largely based in China) ability to provide decent working conditions. 81% of the company's suppliers participated, sharing their views anonymously. Importantly, their responses highlighted opportunities for improvement.

To help identify solutions and drive progress, the company invited ETI Norway (IEH) to deliver workshops for senior management and for buyers. IEH helped the buying teams to understand the direct link between their practices and labour conditions in their supply chains. Empowered by what they had learnt, the group collaborated with all teams connected to production (buyers, designers, pattern makers and quality controllers) to create a manual on responsible production. With new policies and procedures and a dedicated section for buyers, the manual acts as a global reference guide.

Looking ahead, Voice plans to measure its progress and hold annual workshops for all new buying employees. It has also created a new corporate responsibility document for potential new suppliers, and is integrating responsible purchasing practices into its overall ethical trade strategy.

# The path to buying responsibly

1

## **Preparation:** Secure relevant senior managers' commitment & support

- Present the issues and business case for responsible purchasing practices to relevant senior managers.
- Secure buy-in and involvement by relevant senior managers in the change process (at least one person from senior management should actively participate in the process).
- Appoint a project leader/team (ethical trade manager, senior manager and a buyer).
- Develop a process plan clarifying timelines and resources.
- Secure the time and resources needed to implement your plan.



2

## **Preparation:** Review organisational structure and establish project team

- Map organisational set-up, level of accountability, responsibility of procurement and support functions.
- Map procurement work streams within and across departments, category and functions.
- Identify possible bottlenecks that can be potential contributors to poor purchasing practices (you can do this by interviewing colleagues across teams and levels of responsibility).
- Check if the organisation has policies/strategies for purchasing practices and sourcing. If these exist, review how/if they address responsible purchasing practices.
- Establish a project team/reference group (across departments/categories/functions). If possible, you could invite a key supplier to be a part of the group.



3

## **Preparation:** Review current purchasing practices

- Collect information about how current purchasing practices impact working conditions from the following stakeholders:
  - Internal staff.
  - Suppliers: carry out an anonymous online survey using Survey Monkey or Quest back). Consider using an independent third party.
- Workers (through trade unions). Information can also be collected through using mobile technology such as Labor Link.
- The project group processes the results and identifies key findings.



4

## **Preparation:** Share findings, understand impact and develop action plan

- Arrange workshop for senior management and buyers/procurement staff to present findings from the review. Develop an action plan change (Section 3 of this guide provides recommendations for improvements for specific purchasing practices).
- Make sure the implications of the change process are clearly communicated to employees (the actual change-makers).
- Project group develops final action plan (with responsible parties and time lines) and engages employees.



5

**Preparation: Measure performance**

- Integrate responsibilities related to responsible purchasing practices into job descriptions. Both for senior management and procurement employees.
- Arrange a workshop/consultation with procurement employees on what KPIs should be developed for responsible purchasing practices. This drives ownerships to the KPIs among staff.



6

**Action!**

- Start the work according to the action plan.
- Check progress regularly.



7

**Action: Roll-out phase**

- When you have developed new procedures, routines and policies, it is time for the roll out phase. If you work in seasons, a roll out phase can be one or two seasons.
- Provide support and encouragement.
- Define check points.
- Senior management should be available to discuss any critical challenges encountered in the roll out phase.



8

**Evaluation: Evaluate, improve and continue**

- After the initial roll-out phase, arrange a workshop to evaluate the impact the changes have had/are starting to have internally and for the supplier.
- Improve where necessary.
- Carry on!



9

**Evaluation: Measure impact**

- You should seek to measure impact by collecting information about how the changes in purchasing practices impact working conditions from the following stakeholders:
  - Internal employees.
  - Suppliers: carry out an anonymous online survey using Survey Monkey or Quest back). Consider using an independent third party.
  - Workers (ideally through trade unions). Information can also be collected through using mobile technology.



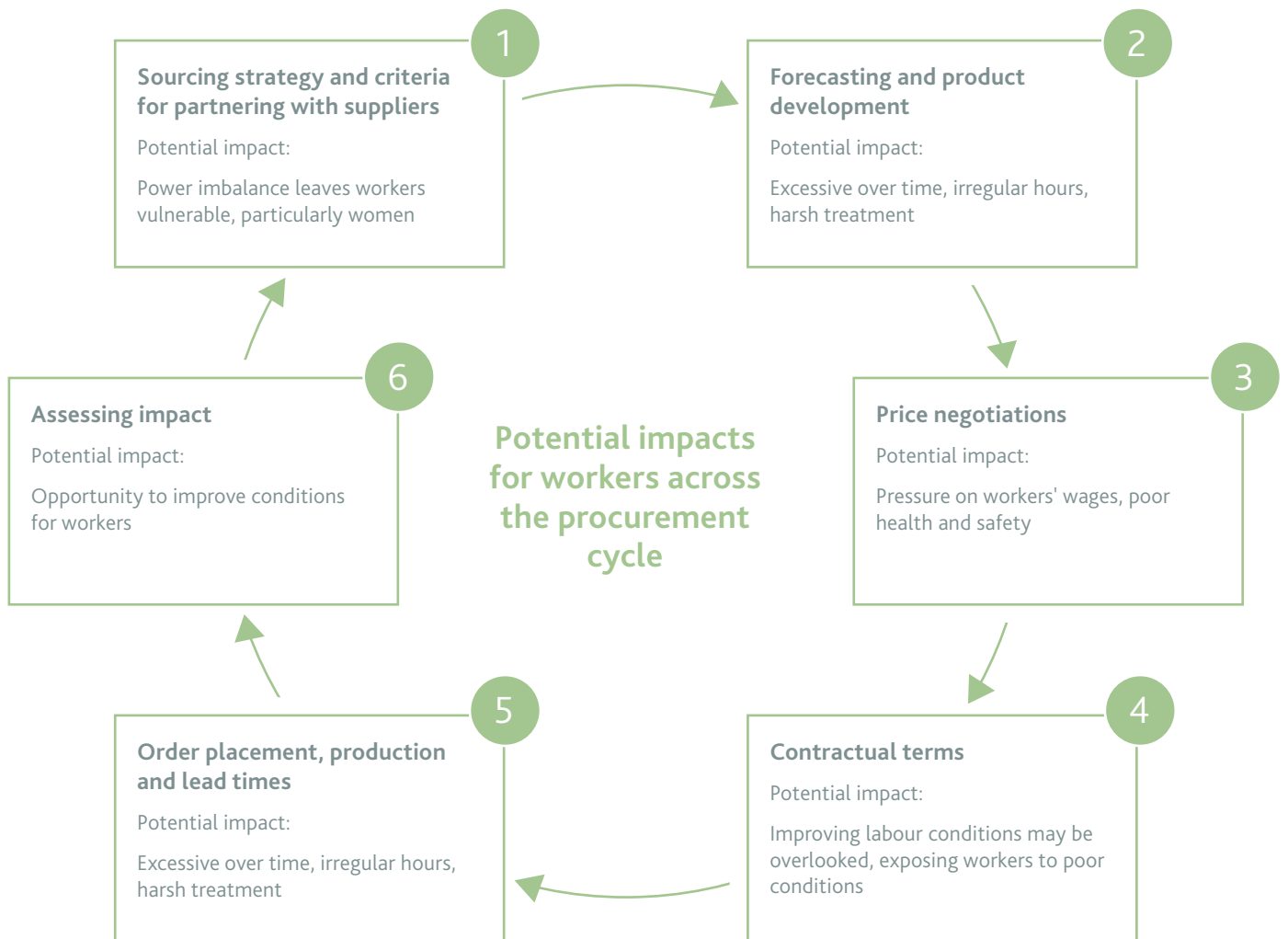


# SECTION 3 : FOR BUYERS

Ideally, you will have your senior managers' full support in adopting more responsible purchasing practices. If not, you will need to get their buy-in in order to make the transition effectively. You can find advice on gaining senior buy-in within the first two sections of this guide. The relevant ethical trading initiative may also be able to help facilitate this conversation.

In each of the six stages of the procurement cycle, conventional, cost-driven practices can affect working conditions, both positively and negatively, as shown in Figure 4. It is critical for you as a buyer to recognise the potential impacts of your purchasing practices on labour conditions and workers' pay, build your understanding of the business case for change and integrate ethical considerations into core purchasing policies and procedures. You can use the six modules of this guide as a reference tool to focus on specific purchasing practices, or as a guide to purchasing practices as a whole. In each module, you will see key findings from the ILO-joint ETI supplier survey, together with a checklist of actions and recommendations for improving your knowledge on key topics.

Figure 4: The six stages of the procurement cycle







## Module 1: Sourcing strategy and partnering with suppliers

Building long-term partnerships with suppliers means sharing risk and responsibility, and mutually agreeing standards for both parties. We recommend making the shift from negotiations based primarily on low order prices – which prevent suppliers from complying with your labour standards – to a broader conversation encompassing both commercial and ethical performance. Think of it as changing your relationship with suppliers from ‘policeman’ to partner. A shared commitment to improving labour conditions is integral to achieving a fairer balance of power and improving workers’ lives.



### What suppliers say:

#### What works

- 53% find that being rewarded for improvements is an effective/very effective way to seek customers’ help in meeting the code of conduct.
- Providing training for our employees is as an effective way for our customers to support us in meeting the code of conduct. However, only 38% of us currently receive this support from our customers.
- 56% of us find that collaborative efforts through joint projects to identify issues are effective/very effective. In contrast, only 25% of us are involved in projects of this kind with our customers.

#### What could be improved

- 49% of us find that customers provide no help in meeting code of conduct requirements on ensuring decent working conditions.
- 78%: Less than 10% of our customers reward good ethical performance, with rewards typically provided through long-term contracts and higher order volumes. Only 10% of rewards are directed towards capacity building.
- For 79% of us, high prices are the most common reason for our customers to end the business relationship.
- For 63% of us, non-compliance on social issues is rarely or never the reason why customers would end our business relationship.
- 43% of us find that our customers do not treat us politely or with respect, and use threatening language
- 77% of us find that our customers do not change their purchasing practices as a result of our feedback.

# Buyer's action list

## STEP 1:

### Build visibility in your supply chain

Together with your ethical trade team, determine who will take responsibility for undertaking the following steps. Mapping your supply chain to identify where it is most vulnerable to labour rights violations will help determine which suppliers to prioritise in developing responsible sourcing and purchasing strategies.

#### TOP TIP

Use ETI's Human Rights Due Diligence Framework  
see pages 14-15

- Assess supplier markets where there is a challenging labour rights context.
  - Read ILO country reports and determine if the country has ratified key ILO conventions as well as whether it has any recent or pending ILO complaints.
  - Are there internationally recognised unions?
  - Review topical industry or geographical issues, such as Syrian migrant workers in Turkey, for example.
- Map the labour intensive stages of production, as well as stages of the supply chain where there is an inherent risk (eg sand-blasting jeans or de-shelling raw cashew nuts).
  - Build a thorough understanding of your supply chain beyond tier 1.
  - Collect data on your suppliers' social and environmental practices.
- Define to what extent the supplier poses a risk to your reputation.
  - How much spend is directed to this supplier?
  - Does their behaviour directly contravene your sustainability goals?
  - Is the supplier in breach of regional, national or international laws? <sup>39</sup>
- Set ethical performance standards for your suppliers.
  - Set standards, in conversation with key suppliers and your ethical trading team, focusing on how you can create the greatest positive impact for workers.
- Agree responsible purchasing goals.
  - Define goals, KPIs and measurable activities, and engage all supplier-facing colleagues in achieving these targets.

## STEP 2:

### Develop two-way relationships

Building open, two-way communication is vital to overcoming conflicting messages and improving labour conditions (see Chapter 2: Why responsible purchasing matters) and helps to prevent suppliers taking a 'tick-box' approach to social compliance.

- Clarify the terms of trade: communicate your expectations clearly, provide support to enable suppliers to meet these expectations and create a mechanism for suppliers to voice their concerns and needs openly without fear of losing future orders.
- Establish who will be responsible for managing the communication both within your and your supplier's organisation. In large apparel companies, up to five employees from the same business send separate, conflicting messages to the supplier. <sup>40</sup>
- Consider suppliers' feedback carefully (given that 77% of the suppliers we spoke to said their customers did not change their purchasing practices as a result of their feedback) and factor this into your improvement plans. How can you support them in making changes? Step up your own efforts to support your company's ethical commitments.

<sup>39</sup> Source: Ethical & Sustainable Procurement, CIPs & Traidcraft

<sup>40</sup> Source: Material Concerns, Impactt and Traidcraft, p17 - [traidcraft.co.uk/media/e6645fed-648d-4e62-bc20-76bc30700dc7](https://traidcraft.co.uk/media/e6645fed-648d-4e62-bc20-76bc30700dc7)



**STEP 3:****Assess existing suppliers' business and ethical practices**

The ways of working you agree with your suppliers should reflect your own responsible purchasing objectives. We recommend developing a buyer-supplier code of conduct, in collaboration with key suppliers and your ethical trade team (see pages 30-31).

- Agree realistic terms with suppliers and avoid terms that result in sub-contracting or poor working conditions (paying particular attention to lead times, unit prices and product specifications).
- Follow best practice in measuring ethical performance: combine social audits (which have been shown to be inadequate in detecting many labour rights abuses) with discussions with trade unions and other workers' representatives, and capture workers' perceptions over a period of time.
- Ensure that you measure performance against any specific criteria set out in the contract or in any existing corrective action plans.
- Where suppliers fall short of the required standards, respond rapidly but sensitively, working in partnership to address the issues, including any that may have been caused by the buying company.

**STEP 4:****Select new suppliers**

We recommend giving business to suppliers who demonstrate a) best performance and measurable improvements on labour rights, b) a progressive attitude on ethical issues.

- Develop a full understanding of suppliers' capabilities and ethical performance, focusing on how they would respond to specific purchasing scenarios, such as last minute changes or peak-time orders.
- Enquire whether the supplier is participating in any labour rights improvement programmes, such as the ILO's *Better Work*.
- Share your ethical performance standards with potential new suppliers, describe the support you will provide and ask up front if they are willing to partner with you towards agreed standards. Establish a minimum standard of commitment to work towards the ETI Base Code standards for new production sites.<sup>41</sup>
- When engaging with potential new suppliers, build a relationship based on mutual trust and honesty. Avoid pressuring suppliers such that they over-claim on their ability to achieve labour rights standards.

**STEP 5:****Create a buyer-supplier code of conduct**

Building on your existing supplier code of conduct, we recommend co-creating a mutually agreed code with clear obligations for both parties: a code of conduct (see our suggested code on pages 30-31). Integrate the code into your contractual agreement, clearly defining which buyer behaviours would support quality and productivity, and how suppliers can promote good working conditions. By agreeing and implementing supplier-buyer codes of conduct, buying organisations stand to strengthen global supply chains and improve the wellbeing of millions of people whose livelihoods depend on them.

<sup>41</sup> A production site could be anything from a factory or packing house to a fishing vessel.

# Buyer-supplier code of conduct



## Part 1: The suppliers' commitment

*We, the supplier, commit to striving to meet the required labour rights standards by:*

- Operating within the laws relating to women and men workers and their working conditions and not engaging in corruption at any level.
- Treating women and men workers equally and with respect and consideration, upholding their dignity.
- Providing clear, understandable written information to workers on their wages, working hours, benefits, terms of employment and their rights as workers.
- Never using forced, bonded or involuntary prison labour or requiring workers to lodge deposits or identity papers. Allowing workers to leave freely after providing reasonable notice.
- Allowing women and men workers to join or form trade unions or other independent workers' organisations of their own choosing and to bargain collectively. Not discriminating against workers' representatives and enabling them to function in the workplace.
- Providing a safe and hygienic working environment; regular H&S training; access to potable water, clean, safe and separate accommodation and toilets for women and men.
- Not recruiting children or employing under 18-year olds at night or in hazardous conditions.
- Paying women and men equal wages for equal work for a standard working week; wages that are enough to meet basic needs and provide discretionary income. Not making unfair deductions from pay.
- Ensuring that working hours do not exceed 48 hours standard or 60 hours, including overtime (that will not occur on a long term basis).
- Not discriminating against women or men workers on the basis of gender, race, caste, national origin, religion, age, disability, marital status, sexual orientation, union membership, political affiliation, medical condition etc.
- Providing regular employment and not avoiding obligations to employees through sub-contracting, home-working, apprenticeships or use of revolving short term contracts.
- Not using or permitting harsh treatment to be used towards women or men workers including actual or threatened physical or verbal abuse, sexual harassment, or other forms of intimidation.
- Minimising the impact of the production process on the environment and on the natural resources of marginalised people.
- Informing customers if their purchasing practices are undermining the supplier's ability to uphold decent working conditions.



## Part 2: The buyers' commitment

*We, the buyer, commit to supporting our suppliers to meet the required labour rights standards by:*

- Continuously working to improve our policies and practice to enable our suppliers to be able to meet their commitments as outlined in this code of conduct.
- Treating suppliers with respect and consideration in all our dealings and communications.
- Communicating clearly, promptly and accurately on all issues concerning orders.
- Never negotiating a price that is below the cost of production, as this will impact on the wages and working conditions of workers.
- Staying with our current supplier if a higher price will ensure decent wages and working conditions for workers, rather than moving our business elsewhere purely on the basis of price.
- Placing orders with lead times that do not trigger excessive working hours or sub-contracting.
- Refraining from changing orders repeatedly and with short notice. If changes are unavoidable, amending target delivery times accordingly.
- Providing material and practical support to our suppliers in striving to meet their obligations under this code of conduct.
- Sharing the cost of implementing and monitoring improvements in working conditions.
- Taking pay and working conditions of workers into consideration when reviewing our business relationship, rather than ending a business relationship purely on the grounds of price or quality.



## STEP 6: Measure buyer and supplier performance

We recommend monitoring the effectiveness of your joint efforts to deliver decent working conditions, in line with your buyer-supplier code of conduct. (For more information, please see Module 6).

- We recommend developing a traffic light-style ranking system to measure performance where ethical and sustainable criteria are weighted in line with other key performance indicators. You can also use this system to set departmental targets.
- Evaluate how you interact with your suppliers by inviting suppliers to provide feedback on their trading relationship with you.

*"We are transparent about our values in every dialogue with our suppliers. We include ethical requirements in supplier contracts, and our purchasing managers are responsible for ensuring that suppliers respect ethical criteria. Through our efforts to map our suppliers, we are also tracking who within the supplier's organisation is responsible for corporate responsibility and ethical trade. Additionally, our 'traffic light'-style rating system allows us to highlight any issues and partner with suppliers to make positive changes."* - Christian Rask Jepson, [Category Manager], Reitan Distribution

## STEP 7: Reward suppliers for good performance

Consider how to incentivise suppliers in a meaningful way, aiming towards collaborative, continuous improvement. Avoid relying solely on social audits, as these cannot reliably detect labour rights abuses.

- Show loyalty to suppliers who demonstrate commitment and actions to improve working conditions, and address any issues collaboratively.
- Reward good productivity and improved labour standards, and empower suppliers to take greater ownership of raising their ethical performance.
  - Ensure that you reward behaviours that have a clear and equal positive effect for men and women workers.
  - Rewards could include 'supplier awards', 'preferred supplier' status or increased order volumes.
  - Help your supplier to share the benefit of any rewards with their workers (both men and women).

*"If you want good product quality and high ethical standards, it's vital to take an active role in helping suppliers to improve their practices. As part of our commitment to forge long-term relationships with suppliers, we have focused on consolidating our supply base. We are now working with a smaller number of suppliers whom we know well. This gives us a greater opportunity to understand their practices, monitor ethical performance and collaborate to identify solutions".* - Kathrine Lykke Kirk, [CSR Consultant, Social Compliance], The Co-operative, Denmark



## STEP 8: Build suppliers' capacity

Improving supply chain resilience and creating a fairer balance of power means investing in stable transparent supplier relationships, and building your suppliers' capacity to drive positive change. Integral to this is sharing risk and responsibility and treating key suppliers as partners.

- Provide relevant market information and give advanced notice of your upcoming plans, enabling suppliers to plan ahead and provide their employees with longer term contracts and job security (this will particularly benefit women workers).
- Collaborate to identify root causes and identify corrective actions and solutions and deliver dedicated training.
- Ask if suppliers need support with building their knowledge of good human resources management processes and progressive management systems, and equip them with the skills they need to raise labour conditions and train workers.
  - In particular, help suppliers to treat workers as people, rather than production units. This is fundamental to raising productivity and reducing staff turnover and absenteeism.
  - Conduct regular reviews of suppliers' ethical performance and share good practice. Additionally, encourage suppliers to embed the same level of professionalism in their own supplier dealings.

*“As a supplier, we get conditional orders, ie the buyer will work with us only if we will go as per their code of conduct. So you cannot say it is a reward. Moreover, despite all our efforts, there is no certainty of business.”*

## CASE STUDY: Helping suppliers gain the skills and knowledge to support a sustainable food industry

Marks & Spencer (M&S) has designed training programmes to help suppliers understand its Global Sourcing Principles, local laws and their rights at work.

The company has launched multiple initiatives in partnership with educational colleges to help suppliers develop the core skills needed to ensure the food industry's ongoing success. In 2012, it launched the M&S 'Farming for the Future Education Programme' in collaboration with its suppliers. Through this programme, the company and its suppliers aim to help address the shortage of talented young people entering the agricultural industry.

Additionally, M&S offers suppliers training to implement its Sustainability Scorecard. In 2015-16, M&S held four face-to-face meetings with suppliers for each of the three elements of the scorecard (lean, environment and ethical), allowing companies to network and share best practice.

## CASE STUDY: Empowering women garment workers with life and managerial skills

Globally, the apparel industry is one of the largest employers of low-skilled women workers. Despite this, relatively few women line workers become supervisors or managers, as they have few opportunities to develop managerial and life skills. To help redress the balance and bridge this skills gap, Gap has introduced the Gap Personal Advancement and Career Enhancement (P.A.C.E.) life learning programme. The teaching takes place in factories, and the overall aim is to improve the lives of women garment workers by helping them develop important foundational skills. Equipped with these skills, participants have a better opportunity of advancing in the workplace and in their personal lives.





## Module 2: Internal procedures, planning and product development

The more accurate your planning and forecasting, the more efficiently your suppliers will be able to fulfil your orders. Conversely, when suppliers receive inaccurate information, the knock-on effect for workers can be harsh treatment and excessive overtime hours, as suppliers scramble to adjust to your updated order schedule. It can also result in higher costs for the supplier and potential delivery delays.



### What suppliers say:

#### What works

- 67%: Our customers' technical specifications are accurate or very accurate.

#### What could be improved

- **The main consequences of inaccurate technical specifications are:**
  - For 40% of us: additional overtime.
  - For 72% of us: extra time and cost of sampling.
  - For 66% of us: increased production costs.
  - For 55% of us: delivery delays.
  - For 50% of us: financial loss to our company.
- **Shouldering the cost of research and development limits our ability to invest in supporting workers' rights and paying living wages.**
- **The reasons why we use temporary staff are:**
  - For 34% of us: changing order levels from customers throughout the year.
  - For 11% of us: to keep labour costs low.
  - For 25% of us: lack of adequate information provided by our customers.





## Buyer's action list

### STEP 1:

#### Define internal responsibilities

It is important to determine how all the relevant parties (including corporate responsibility, ethical trade, designers and buyers) can collaborate to improve purchasing practices.

- Understand who holds which responsibilities in relation to the supplier, and who communicates and monitors your ethical requirements.
  - Discuss how each function can take ownership of improving different aspects of ethical performance.
  - Divide specific tasks and responsibilities and agree how they will be measured.
- Determine how you can achieve fairer interactions with suppliers.
  - How could you create a sense of shared risk responsibility and ownership of responsible practices?
  - Improve the way you organise and communicate the planning of product development, forecasting and production planning to suppliers.
  - Review the way you negotiate prices, agree contractual terms and conditions and manage order changes.

### STEP 2:

#### Improve inter-departmental communications

Review how you currently communicate within and beyond the buying team on both ethical and commercial activities.

- Collaborate with everyone involved in buying (including design, technical, merchandising, ethical trade), and raise awareness of the need to partner with suppliers towards improved labour conditions.
- Create streamlined buying processes to share information rapidly with internal and external partners.

In large buying organisations, ensure that all teams channel their supplier communications through the buyer, or copy the buyer in key communications.<sup>42</sup>

### STEP 3: Developing products and selecting materials

Encourage product developers to refer to your company's responsible sourcing criteria (including the buyer-supplier code of conduct) to make appropriate decisions at the outset. This will help minimise social and environmental impacts throughout the supply chain and help suppliers to create more sustainable products.

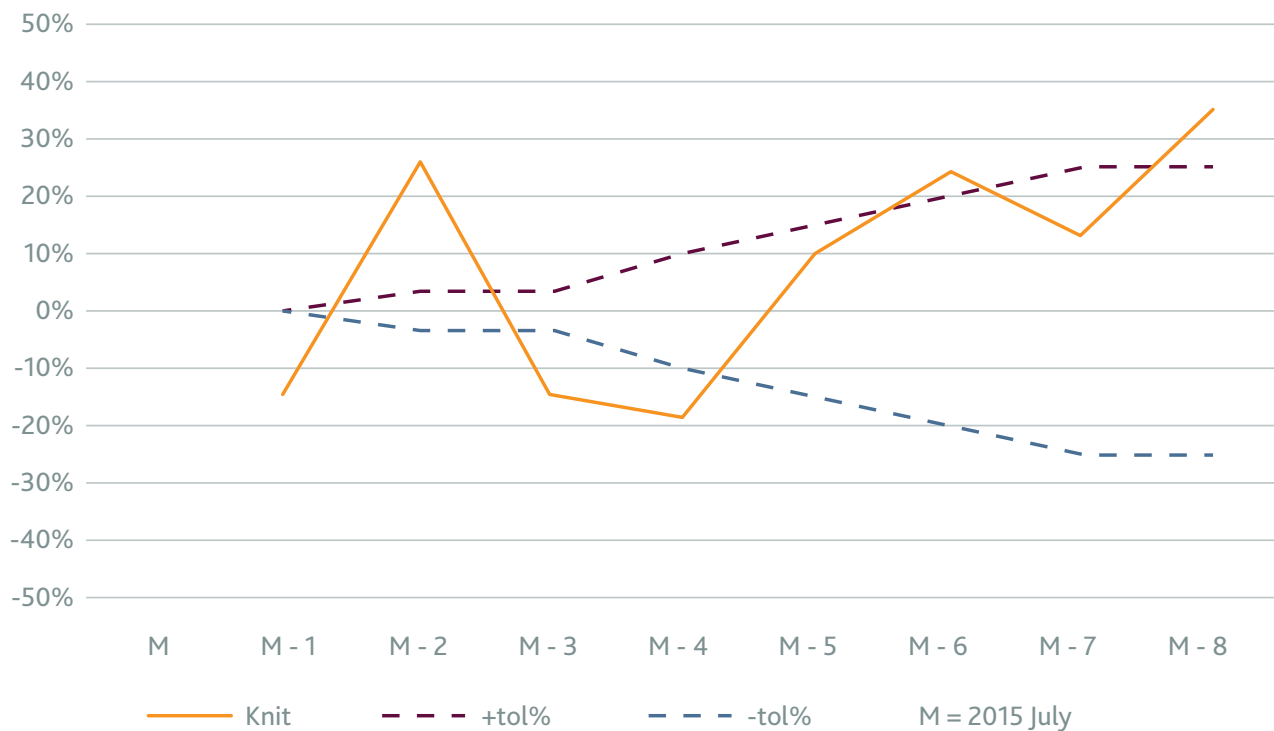
- Develop a sound technical knowledge of your direct suppliers' manufacturing processes and of their suppliers' production processes.
- Integrate both technical and sustainability considerations into tenders and draft contracts for new products, focusing on criteria that apply to the:
  - Product (eg recycled content, lead-free).
  - Manufacturing process (eg effective waste water treatment).
  - Production of raw materials; does your supplier participate in industry-wide improvement initiatives (eg the Better Cotton Initiative) or have they achieved sustainability certifications (eg Fairtrade, Forest Stewardship Council)?\*\* For guidance on selecting certified raw materials, refer to the Standards Map ([standardsmap.org](http://standardsmap.org)).
  - Supplier's own practices.
- Map the volumes of every raw material you buy and the associated social and environmental risks of each material.
- Understand whether you have policies in place to support buyers in each product category in selecting sustainable raw materials. Develop new policies as appropriate.
- If you nominate material suppliers for samples or products, take responsibility for quality and on-time delivery to your direct supplier.
- As early as possible, share your product development plans with suppliers, providing detailed specifications. Invite them to work in partnership with you to develop new products, including through long-term contracts.
- Encourage your supplier to feed back openly on the technical viability of the product or availability of raw materials.
- Ask your supplier how much notice they would need to avoid adverse impacts on workers. Communicate any updates in good time.
- Provide forecasts and market trends sufficiently early, making a firm commitment to the supplier. If you alter forecasts, be prepared to compensate the supplier financially if the change is likely to increase the supplier's overheads.



\*\*Note on sustainability certifications, seals, marks and labels  
Examine the criteria of diverse sustainability certification schemes to understand how rigorous they are, and check whether the certification is awarded via self-assessment or by a recognised third party. Consider using the criteria specified by your preferred certification as requirements for your suppliers (noting that making certification a requirement may limit the number of eligible suppliers). Note that Rainforest Alliance certification does not cover all the ETI Base Code clauses. The Fairtrade Textile Standard and the Fairtrade Hired Labour standard are more relevant to labour rights and working conditions.

As shown in Figure 11, provided by a Chinese garment factory, forecasting can be inaccurate from the beginning of the negotiation process (M-8), up until the point of production (M-1). The space between the dashed lines represents the level of variance in forecast accuracy. The supplier would expect this to reduce as the time of production gets closer. So for example, four months before production (M-4 on the graph) the limits are at +/- 10%, while eight months before (M-8) they had been at +/- 25%. As the graph shows, in this case the variations in accuracy are still widely fluctuating right up to the time of production itself. The supplier says this is not an uncommon experience.

Figure 11: Inaccurate forecasting can occur throughout the procurement cycle



### Groceries Supply Code of Practice Clause 10: Compensation for forecasting errors

(1) A retailer must fully compensate a supplier for any cost incurred by that supplier as a result of any forecasting error in relation to grocery products and attributable to that retailer unless: (a) the retailer has prepared those forecasts in good faith and with due care, and following consultation with the supplier; or (b) the supply agreement includes an express and unambiguous provision that full compensation is not appropriate.

(2) A retailer must ensure that the basis on which it prepares any forecast has been communicated to the supplier.

### STEP 4: Sharing responsibility for sampling

If the supplier typically includes the cost of a sample in the cost price, consider a more balanced approach whereby you share or pay the whole cost of the sample.

- Work with your designers to help ensure the cost of samples is realistic in terms of the retail price envisaged for the final product.
- Take more responsibility for the cost of the sample by, for example, including it in the Free on Board (FOB) price.
- Promote a time-motion study to help measure the average time it takes a standard worker (rather than an elite sample-maker) to make a piece.
- Be aware that tight timescales for sample deliveries could put pressure on workers, who may suffer harsh treatment or take on additional working hours.
- Reduce the number of samples you request by improving product development specification procedures.
- Provide in-depth feedback regarding any rejected samples in order to help the supplier make improvements.
- Cover or share the cost of shipping samples.





## Module 3: Inviting quotes and negotiating prices

*"Customers talk about rewarding "better suppliers", but in reality never do. They hammer us on their code requirements and price and when there are conflicts, they always tell us price is more important."*

When suppliers regularly accept orders that are less than the cost of production, they are forced to make compromises elsewhere. All too often, it is the workers who suffer the consequences, through low pay and poor labour conditions. To turn this situation around, it is vital to hold open discussions with your suppliers on the true cost of labour – from basic wages to providing adequate food and drinking water. By agreeing a price that allows suppliers to pay workers sufficiently, improve social compliance and buy the workplace equipment they need, you will take an important step towards improving the lives of the people in your supply chain.



### What suppliers say:

#### What works

*There were no examples of good practice on negotiating order prices identified through our survey. This is a challenging area that must be improved in order to achieve fairer buyer-supplier relationships and better working conditions.*

#### What could be improved

- 39% of us accepted orders below the cost of producing goods in 2015. Out of this 39%, 50% of us find that less than 85% of our costs are covered by the price we agreed with the buyer.
- For nearly 80% of us, the most frequent reason we accept orders worth less than the cost of production is to secure orders.
- For 34% of us pressure from customers is the main reason.
  - 55% of us accept orders worth less than the cost of production to compete with other suppliers (when suppliers engage in a 'race to the bottom' on price, this gives buyers the upper hand in negotiations).
- 29% of us find that if we frequently accept prices that are below the cost of production, it is likely that we will find it harder to pay workers' wages.
- 50% of us are likely to dismiss workers as a result of low order prices.
- 40% of us are likely to subcontract orders to other companies as a result of low order prices.
- For 68% of us, accepting low prices means we are less able to invest in new equipment.

# Buyer's action list

## STEP 1:

### Understand what constitutes a fair price

Before inviting quotes or negotiating prices with suppliers, it is important to understand what a fair price should look like. Ideally, prices should be sufficient to allow suppliers to pay a living wage. But this can be a huge leap for many suppliers. You may need to agree a plan with your suppliers to move towards a living wage in a sustainable way, through gradual increments, for example:

- Ensure that your existing cost price structure covers minimum wage, occasional overtime and production overheads. Wages should comply with minimum wage legislation, where existent, and should ideally be set by collective bargaining. Wages should cover basic living costs as well as a discretionary contribution towards savings and emergencies.<sup>43</sup> They should be paid regularly and on a timely basis.
- Research the economic pressures in the production country, understanding what constitutes a living wage for workers and whether there are prevailing pay differentials for men and women. Consult trade unions, where possible. Refer to ETI's 'Base Code Guidance: Living Wages' – [ethicaltrade.org/resources/base-code-guidance-living-wages](http://ethicaltrade.org/resources/base-code-guidance-living-wages).
- Seek living wage benchmarks from relevant organisations, eg the Global Living Wage Coalition - [globallivingwage.org](http://globallivingwage.org).
- Ask suppliers to explain how they calculate prices. Understand the full cost of flexibility, order changes and last minute cancellations.
  - What are the hidden costs involved in maintaining this flexibility?
  - If suppliers quote low prices, what compromises are they making?
- How do any costs charged to suppliers (such as the cost of social audits) affect the prices they charge?
- Offer price premiums or direct more orders towards suppliers who can demonstrate that the price increases they are paid goes towards improving labour conditions and paying living wages.
- Help to ensure that the supplier shares the benefit of any price increases equally with both men and women workers.
- Commit to higher volumes in low seasons and longer term contracts.

## STEP 2:

### Hold balanced partnership-based negotiation

A growing practice among some buyers is to insist that suppliers provide full cost transparency during price negotiations.<sup>44,45</sup> This one-sided practice is perceived by some observers as a power play to help drive prices down.<sup>46</sup> It contradicts the aim of establishing partnership-based relationships with suppliers as it places one partner in a compromised position.

In a partnership-based price negotiation, the aim should be to ensure that value is created for both parties. Both parties bear a responsibility for ensuring that provision is made in the price quotation to cover adequate wages.

- Ensure that all team members involved in price negotiations understand the importance of agreeing a price that a) allows suppliers to pay workers a living wage and b) helps your company make progress on its ethical commitments.
- Review current negotiation practices and identify how the partnership-based approach can be strengthened.
- The negotiations should result in an agreed mutually beneficial price that allows the supplier to cover production costs, improved labour conditions and living wages.
  - Avoid asking suppliers to accept a price that would be detrimental to labour conditions or prevent social compliance. Only request lower prices if the supplier can accommodate it in other ways (eg quality, timing, payment terms or volumes).<sup>47</sup>

As material inputs can be costed out and rendered as a dedicated and contractual cost item in the price negotiation of every product bought, it is also possible to ring-fence the cost of labour in price negotiations. To do this, it is vital to factor in the true cost of improving labour conditions and pay by calculating labour costs.

We advise that you and your suppliers undertake training on calculating labour costs per product or order. Avoid basing cost calculations on historical data and study the latest thinking and techniques on factoring in suppliers' costs. This is particularly important when workers are being paid by the piece. For further information, see Fair Wear Foundation's Living Wage Engineering<sup>48</sup> and Doug Miller and Klaus Hohengger's paper Redistributing value added towards labour in apparel supply chains: tackling low wages through purchasing practices.<sup>49</sup>

43 [isealliance.org/our-work/improving-effectiveness/global-living-wage-coalition](http://isealliance.org/our-work/improving-effectiveness/global-living-wage-coalition)

44 Towards Sustainable Labour Costing in the Global Apparel Industry: Some evidence from UK Fashion Retail, Doug Miller

45 Eyes on the price: International supermarket buying groups in Europe, SOMO, 2017

46 Lamming R., Caldwell N., Phillips W., Harrison D., (2005), Sharing Sensitive Information in Supply Relationships: The Flaws in One-way Open-book Negotiation and the Need for Transparency, European Management Journal, Volume 23, Issue 5, ( 554-563)

47 Material Concerns, Impactt & Traidcraft

48 Source: [fairwear.org/news/living-wage-engineering-new-fwf-report/](http://fairwear.org/news/living-wage-engineering-new-fwf-report/)

49 Source: [fairwear.org/ul/cms/fck-uploaded/documents/fwfpublications\\_reports/FWFLabourMinuteCosting.pdf](http://fairwear.org/ul/cms/fck-uploaded/documents/fwfpublications_reports/FWFLabourMinuteCosting.pdf)



### Buyer's checklist: Labour-related costs

Before negotiating a price, ask your supplier to provide the 'real' cost of addressing the following labour issues and factor them into your calculations:

- Basic salary.
- Overtime premiums.
- Insurance (injury, health, pension).
- Leave (maternity, illness, holiday).
- Safety equipment.
- Health and safety measures eg safety equipment, adequate ventilation, adequate workspace and training for workers as part of establishing a broader health and safety culture, in which workers are empowered to identify and prevent hazards, and can voice any concerns through official channels.
- Recruitment and training of new workers.
- Skills upgrading for existing workers.
- Training for committees with worker representation.
- Human rights training for workers and supervisors.
- Wage compensation for worker representatives' non-production work time.
- 2% employers' charges for trade unions (in China and Vietnam).
- Safe drinking water; good canteen.
- Safe transport.
- Workplace childcare.

### CASE STUDY: Making efforts to enable suppliers to pay fair wages

Adidas seeks suppliers who progressively raise employee living standards through improved wage systems, benefits and welfare programmes. While the company cannot determine the exact wage factories pay their workers, it obliges employers to pay legal minimums or compensation that has been freely negotiated through a collective bargaining process. It aims to influence its suppliers' ability to pay workers fairly in two ways: paying fair prices for products, and sourcing and buying products responsibly. Additionally, it monitors whether its suppliers pay wages and benefits on time and in full (including when new wage levels are set or agreed), and expects there to be equality in pay for men and women. The company adjusts its purchase price to reflect its suppliers' costs. In parallel, it expects suppliers to be competitive on productivity.



## Module 4:

# Agreeing contractual terms

Formalising your mutual commitment to agreed labour standards is an important opportunity to drive progress on ethical performance. Currently, many contracts tend to focus on commercial criteria, with just half of suppliers responding that their customers make improved labour conditions a contractual requirement. We also recommend including clauses to define how you will pay suppliers and how suppliers pay workers.



### What suppliers say:

#### What works

- 65% of us have written contracts with customers.

#### What could be improved

- In 70-80% of cases, order volume, delivery date and quality thresholds are covered by our contract with our customer.
- Price is not part of the written contract, 30% of the time.
- 59% of our contracts do not include requirements or expectations on working conditions and environmental conditions.
- 45% of our contracts do not include a procedure outlining who is responsible for the cost of changes to the order.
- 75% of our contracts do not include the respective share of risk and investment related to particular orders.



# Buyer's action list

## STEP 1:

### Review contractual requirements for suppliers

It is important to consider how to build in fairer practices, shared responsibility and risk into supplier contracts and terms of trading.

- Include ethical criteria (including rules on sub-contracting) in new suppliers' contracts. Discuss and agree any change of terms.
- Agree how you will interact and what each party should expect from the other, working in a two-way partnership (see Module 2: Partnering with suppliers).
- Reflect any contractual requirements on ethical conduct in the product specification you provide.<sup>50</sup>
- Insist on written contracts between your direct suppliers and their suppliers, and for workers (both permanent and temporary in a language they understand), with specific commitments on pay and labour standards.

### TOP TIP

**Extending contracts** - Some ETI members, largely in the fresh produce sector, are exploring moving from one-year rolling contracts with suppliers to three-year contracts. Such a move would enable suppliers to improve their forward planning and provide workers with greater stability.

**Disclosing sub-contracting** - When some of ETI's supermarket members adopted policies requiring suppliers to disclose their use of sub-contracting, suppliers told them about large numbers of previously undisclosed production sites in their chains.

## STEP 2:

### Develop fair payment terms

Develop clear, consistent, transparent supplier payment terms. When determining how to pay suppliers, adopt a system that does not rely too heavily on one party or the other carrying the majority of the risk.

- Consider to what extent the supplier is able to provide decent pay and working conditions (before factoring in your purchasing practices), and the market conditions in which they are operating.
- Develop internal processes that ensure smooth, timely payments to suppliers. If you are working with the manufacturer through an agent, factor in the impact of your payment terms to the agent when considering the length of time it will take for payment to reach the manufacturer.
- Check that suppliers and agents or other intermediaries have effective systems to pay the production facility and its workers on time.
- Identify the root causes of delays, and collaborate to develop a mutually acceptable, continuous improvement plan. Be prepared to make changes internally and support your supplier in making improvements.

### Groceries Supply Code of Practice Clause 5: No delay in payments

A Retailer must pay a supplier for groceries delivered to that retailer's specification in accordance with the relevant supply agreement, and, in any case, within a reasonable time after the date of the supplier's invoice.

## Module 5: Order placement, production and lead times

As you respond to market demands for more products delivered to store ever more rapidly, it is important to consider the potential impacts of insufficient lead times and order changes. It can affect product quality, increase suppliers' costs and reduce their ability to improve labour conditions. It can also result in late or incomplete deliveries. Wherever possible, we recommend that products should be delivered from the supplier directly to you, rather than through intermediaries.

Manufacturing suppliers consistently report that short lead times are the main reason behind excessive overtime. Be aware that in supply chains with predominantly female workers (such as garments and agriculture), excessive overtime carries additional risks such as personal safety when travelling home late at night, and knock-on effects in the home where women are in most cases responsible for caring for others.<sup>51</sup> There is also a risk that sub-contracting to sites with poorer working conditions can occur. Managing orders effectively and agreeing sufficient lead times is central to meeting the ethical requirements of your buyer-supplier code of conduct and local legislation.



### What suppliers say:

#### What works

- 41% of us find that our customers' lead times are reasonable 50-70% of the time.
- 51% of us find that our customers' lead times are reasonable 70-100% of the time.



#### What could be improved

- **Ensuring that minimum working conditions are met is only used as a criterion to assign orders in 36% of cases.**
- **When lead times do not allow us to plan production effectively, the consequences are largely overtime (for 59% of us), increased production costs (for 56%) and delayed deliveries (for 54%).**
  - Other consequences include a lower quality of goods and using temporary workers.
  - In almost 20% of cases, sub-contracting is a consequence.
- **60% of us find that when we experience periods of peak demand or order changes, we usually or always ask permanent staff to help fulfil these orders.**
  - 59% of us sometimes, often or always hire temporary staff to cope with peaks.
- **84% of us outsourced almost 20% of production in 2015.**

Joint ETIs note: Due to the risk associated with subcontracting and the clear policies of most customers on this topic, it is important to consider whether suppliers have underplayed this practice.

Despite the significant risks connected to unauthorized subcontracting, the practice can work in some markets if the supplier discloses which companies are involved and uses approved facilities.

- **51%: We have used overtime hours in the same way over the last two years.**
  - 31%: We have seen a decrease in overtime.
  - 18%: We have seen an increase in overtime.

*"We must accept that the fashion industry in the UK determines factory workers' lives and working conditions. The relentless drive for profits from sales on our high streets means brands are attracted to cheap labour, and employers keep wages low in order to fulfil their buyers' demands at low cost. In this world of fast fashion, the pinch has to be felt somewhere and it is by the people who don't have a voice – the workers." - Labour Behind the Label, November 2016*



# Buyer's action list

## STEP 1:

### Understand the production process

Before placing orders, we recommend establishing a better understanding of the supplier's production process, as well as external conditions that may influence their ability to deliver on time.

- Ask your supplier to explain how their production planning works and how much lead time they need to fulfil your orders efficiently.
- Understand the reasons for potential delays. For manufacturing suppliers these include late deliveries from raw materials suppliers, while for horticulture suppliers it may be linked to adverse weather conditions or pests.
  - Delays can also arise when the buyer nominates sub-suppliers, but does not help to ensure that they deliver the right quality and volume within an appropriate timescale.
- Take note of national holidays in production countries (which can mean peaks in production pre-holiday and labour shortages post-holiday).

### TOP TIP

You could consider a dual lead-time system, whereby you agree orders in terms of quantity, quality, product specification and raw materials separately to production time and packaging (allowing for normal working hours). This approach helps suppliers to deliver on time and uphold calculated working hours.

## STEP 2:

### Manage orders effectively

It is important to avoid placing late orders or frequently changing orders. This will help to prevent disruption and delays and reduce the risk of excessive working hours or deteriorating labour conditions. We also recommend making a formal commitment to cover any costs arising from putting the production system under pressure.

#### Placing orders

- Place and track orders using a specialist software solution, storing all orders in a centralised system.
- Minimise the possibility of unreasonably short lead-times for suppliers by approving samples and providing all the relevant order details (including raw materials specifications) in a timely manner.
- When you agree delivery dates, take into account the time needed for:
  - advising suppliers on product specifications, quality and raw materials.
  - delivery of these materials to the production site.
  - production (as well as packaging) time.
- Provide a full order timetable (including anticipated delivery dates) and invite your supplier's feedback, particularly when placing multiple orders in peak season.
- Improve the forecasting and decision-making process for repeat orders, agreeing all the relevant details in advance.
- Keep track of what stage your order has reached in the production process and the final product approval dates.

#### Order changes and cancellations

- Encourage suppliers to be open about the cost, productivity and labour implications of potential order changes.
- When changing orders, check the supplier's production capacity, push the delivery date back, and advise the supplier which changes to prioritise. Offer to share any additional costs and communicate any changes or updates in a timely manner.
- If it becomes clear that you will not make the anticipated in-store date, adjust the date as appropriate, particularly if the delay is caused by order changes.
- If you need to make a cancellation, ensure that you compensate the supplier, and share or take on the total cost of production.



### STEP 3: Help raise productivity and labour rights performance

In building a more transparent, mutually beneficial relationship with suppliers, it is important to support them in making more informed decisions.

- Hold open discussions to establish whether suppliers can benefit from training on production planning and boosting productivity. We recommend:
  - Training for managers, supervisors and workers (see resources on page 48 for training available from the ETIs).
  - Sharing the cost of making improvements.
  - Rewarding suppliers for making demonstrable improvements.
  - Sharing the cost of social audits.
  - Conducting joint projects to identify the root causes of pressing issues and identify solutions.
- Ensure that any required increases in productivity do not rely on sub-contracting or create additional pressure at the facility.
- Encourage suppliers to implement adequate worker representation mechanisms and listen to worker representatives' concerns about working conditions.

## Module 6:

# Assess the impact of purchasing practices

Evaluating progress should be a two-way process: measure the supplier's progress on your mutually agreed ethical performance goals and invite their feedback on your purchasing practices. Track and evaluate progress against your baseline – the status of productivity and labour as identified through your exercise to understand the impacts of your previous purchasing practices (See Section 2) – and ensure that the supplier knows how they will be evaluated.

Prioritise to make the time and find the resources for more participatory approaches to gathering workers' views, in addition to hearing from formal worker representatives. This will give you a more accurate picture of the real impact of your purchasing practices on workers and will be worth the investment in the long term. The ETIs can provide guidance on participatory approaches.

Any changes you introduce will take time to translate into measurable improvements for workers. Your initial exercise to understand the impacts of purchasing practices and your suppliers' systems will help you to plan how long to leave before implementing any evaluation initiatives.

### Tracking progress

- Establish what metrics will be used to measure improvement and how these will be monitored. For example, tracking use of overtime (it should not be a regular occurrence), worker turnover can be an indicator of poor working conditions, tracking number of grievances raised and settled to worker's satisfaction.
- Hold review meetings at regular intervals, through which both parties can share concerns and examples of good practice. For key suppliers, these meetings should be held in person.
- Complement social audits with efforts to capture managers' discussions with trade unions and other workers' representatives, and capture supervisors' and workers' views over time.

### Gathering suppliers' and workers' perspectives

- Define a schedule for conducting extended worker interviews at randomly selected sites (eg at six months, one year, two years). Involve unions (and NGOs) in sourcing countries to capture impact and gather workers' views and/or confirm improvements.
- Where appropriate, consider using mobile technology to gather worker perceptions on an ongoing basis. However, take care to ensure that such systems do not undermine trade unions and other worker representation mechanisms or the relationship between workers and their employers. Additionally, check whether women workers have the same access to mobile phones as men.
- Seek feedback from suppliers on your purchasing practices, reassuring them that negative feedback will be seen as constructive and will not result in them being penalised. Ask about aspects including:
  - Increased costs.
  - Their relationship with the buying team.
  - Stress at the production facility.
  - How your purchasing practices have affected their workers' working hours and pay.
- Assess the results, channelling all lessons learnt into improving your ethical purchasing plan.





## Collaborating with stakeholders

Finally, and importantly, we recommend collaborating across industries and with stakeholders to raise labour standards at a systemic level. In particular, co-create a 'standard' for responsible purchasing with relevant stakeholders, and seek to compare your progress both within and across industries.

Examples of companies that are working in collaboration to raise labour standards include:

- **ACT**<sup>52</sup> (Action, Collaboration, Transformation) – an initiative between international brands and retailers<sup>53</sup>, manufacturers, and IndustriAll to address the issue of living wages in the textile and garment supply chain.
- **World Banana Forum**<sup>54</sup> – a platform for producers, trade unions, cooperatives, exporter groups, retailers, traders, consumer associations, governments, research institutions, universities and civil society organizations to work towards an industry-wide consensus of best practices regarding workplace issues, gender equity, environmental impact, sustainable production and economic issues.
- **Shrimp Sustainable Taskforce**<sup>55</sup> – a multi-stakeholder alliance consisting of European and American retailers, their suppliers, NGOs and the major Thai shrimp processors and feed companies working together to tackle forced labour, human rights and marine conservation issues in the Thai fisheries sector.
- **Malawi Tea 2020**<sup>56</sup> – the Ethical Tea Partnership, the Tea Association of Malawi (TAML), Oxfam, IDH (the Sustainable Trade Initiative), and GIZ (German Development Agency), and a coalition of stakeholders from across the tea value chain are collaborating to create a competitive Malawian tea industry where workers earn a living wage and smallholders are thriving.

<sup>52</sup> [ethicaltrade.org/act-initiative-living-wages](https://ethicaltrade.org/act-initiative-living-wages)

<sup>53</sup> The majority of whom are ETI members

<sup>54</sup> [fao.org/economic/worldbananforum/wbf-aboutus/en/](https://fao.org/economic/worldbananforum/wbf-aboutus/en/)

<sup>55</sup> [shrimptaskforce.global/aims-objectives/](https://shrimptaskforce.global/aims-objectives/)

<sup>56</sup> [ethicalteapartnership.org/project/malawi-2020-tea-revitalisation-programme/](https://ethicalteapartnership.org/project/malawi-2020-tea-revitalisation-programme/)

# Resources, tools and frameworks

This guide forms the basis of an updated joint ETI training course for buyers, with bespoke options for senior managers.

## Online resources

- [betterbuying.org](http://betterbuying.org) - Better Buying is a dialogue and rating platform designed to highlight areas for improved purchasing practices; suppliers are invited to rate their buyers on a number of ethical trading criteria. The results are published online.
- [thebuyinggame.org/html.aspx](http://thebuyinggame.org/html.aspx) - Online game created by CIPS and Traidcraft to help buyers identify how responsible their purchasing practices are.
- [csrcompass.com](http://csrcompass.com) – An online tool to support responsible supply chain management (supported by the Danish government).
- [gov.uk/government/publications/groceries-supply-code-of-practice/groceries-supply-code-of-practice](http://gov.uk/government/publications/groceries-supply-code-of-practice/groceries-supply-code-of-practice) - A code developed by the UK government to define how UK-based grocery retailers should interact with their suppliers.
- [standardsmap.org](http://standardsmap.org) - Sustainability Standards is an online platform that enables its users to explore and compare 210+ sustainability standards, and build a tailored roadmap towards sustainable trade.
- [unglobalcompact.org/library/2](http://unglobalcompact.org/library/2) - The UN Global Compact's Guiding Principles on Business and Human Rights seek to provide a global standard for preventing and addressing the risk of adverse human rights impacts linked to business activity.
- [oecd.org/corporate/mne/responsible-supply-chains-textile-garment-sector.htm](http://oecd.org/corporate/mne/responsible-supply-chains-textile-garment-sector.htm) - The OECD Due Diligence Guidance for Responsible Supply Chains in the Footwear and Garment sector promotes a common understanding of due diligence and responsible supply chain management in the sector.
- [fairwear.org/ul/cms/fck-uploaded/documents/fwpublications\\_reports/FWF-LabourMinuteCosting.pdf](http://fairwear.org/ul/cms/fck-uploaded/documents/fwpublications_reports/FWF-LabourMinuteCosting.pdf) A tool developed by the Fair Wear Foundation to help companies establish living wage floors in garment factories.
- [fairwear.org/news/living-wage-engineering-new-fwf-report/](http://fairwear.org/news/living-wage-engineering-new-fwf-report/) - A study by Fair Wear Foundation exploring the links between outdoor industry brand practices, wages, pricing, and the cost to consumers.

## DIEH, ETI and IEH resources

You'll find a range of resources and training related to responsible procurement and ethical trade more broadly on the websites of each of the joint ETIs.

- ETI resources: [www.ethicaltrade.org/resources](http://www.ethicaltrade.org/resources) – featuring:
  - **Human rights due diligence framework**  
A guide for companies to help them prevent and manage labour rights risks, and understand why engagement, negotiation and collaboration is the only way to succeed.
  - **Integrating ethical trade principles into core business practices**  
A guide to support internal teams to begin the process of integrating ethical trade principles into their business practices.
  - **Ethical procurement for health workbook**  
Developed in partnership with the British Medical Association, this contains practical guidance for organisations in health and social care to embed labour standards considerations into procurement and supplier management activities.
- IEH resources: [http://etiskhandel.no/English/Tools\\_and\\_resources/index.html](http://etiskhandel.no/English/Tools_and_resources/index.html) – featuring:
- DIEH resources: [dieh.dk/ressourcer-redskaber-p2](http://dieh.dk/ressourcer-redskaber-p2)

## Training

Each of the Joint ETI's provides training courses for companies:

- DIEH courses: [dieh.dk/ressourcer-redskaber-p2/traeningskurser](http://dieh.dk/ressourcer-redskaber-p2/traeningskurser)
- IEH courses: [etiskhandel.no/Aktuelt/IEH\\_arrangement/index.html](http://etiskhandel.no/Aktuelt/IEH_arrangement/index.html)
- ETI courses: [ethicaltrade.org/training](http://ethicaltrade.org/training)

The training the ETI's offer to buyers has been updated and revised based on the findings of the supplier survey and on this Guide. Buyers work through real examples of purchasing practice dilemmas with skilled trainers who have buying experience.

## External reports

- Ethical & Sustainable Procurement – CIPS & Traidcraft
- Taking the lead - CIPS & Traidcraft
- Material Concerns – Impactt & Traidcraft
- Sourcing from developing countries – Traidcraft
- A fresh perspective – sourcing from developing countries – Traidcraft
- A fair cup – towards better tea buying – Traidcraft
- Win-win: Achieving sustainable procurement with the developing world - Traidcraft
- Buying your way into trouble? – Insight Investment
- Ethical Purchasing Practices – CIPS
- A cynic's guide to sustainable procurement – CIPS
- Sectorial guidance on human rights due diligence – OECD
- Redistributing value added towards labour in apparel supply chains: tackling low wages through purchasing practices – Doug Miller, Klaus Hohenegger, International Labour Office

## Legislation

- UK's Modern Slavery Act - [gov.uk/government/collections/modern-slavery-bill](https://www.gov.uk/government/collections/modern-slavery-bill)
- France's corporate duty of vigilance law - [assemblee-nationale.fr/14/dossiers/devoir\\_vigilance\\_entreprises\\_donneuses\\_ordre.asp](https://assemblee-nationale.fr/14/dossiers/devoir_vigilance_entreprises_donneuses_ordre.asp)
- The Netherlands' new due diligence bill on child labour - [eerstekamer.nl/wetsvoorstel/34506\\_initiatiefvoorstel\\_van\\_laar](https://eerstekamer.nl/wetsvoorstel/34506_initiatiefvoorstel_van_laar)
- Norway's law on public procurement - <https://www.regjeringen.no/no/tema/naringsliv/konkurransopolitikk/offentlige-anskaffelser-/forste-kolonne/nytt-anskaffelsesregelverk/id2518659/>





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