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Purchasing practices and low wages in global supply chains: Empirical cases from the garment industry

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Contents

1. Introduction

Global supply chains connect garment workers in Asia – who are found not to earn enough for a decent living[1] – with brands, retailers and consumers in western countries. These chains put global injustice into figures: for instance, the workers in Asia who produce a t-shirt together will only earn around 1% of the price at which the t-shirt retails[2]. Civil society organisations and consumers are therefore demanding that fashion brands and retailers use their purchasing power to ensure that suppliers increase wages in their supply chain.

According to the theoretical 'global value chain'[3] perspective, it should be easy for a brand or retailer to demand its suppliers to implement higher wages. In this respect, brands and retailers are the 'lead firms' in the value chain, wielding power over their suppliers and determining the following five conditions (Humphrey 2005:22; also Humphrey & Schmitz 2001:21f): What is produced? How is it produced? When is it produced? How much is produced? How much does it cost?

Indeed, for the last 20 years, fashion brands and retailers[4] have been responding to the criticism regarding poor working conditions and implementing corporate social responsibility (CSR) practices. H&M and Marks & Spencer for instance have promised to implement 'fair living wages' in their supply chains[5], and social standard organisations like Fair Wear Foundation (FWF), Fair Labor Association (FLA) or Ethical Trading Initiative (ETI) are demanding their member companies to implement 'living wages' or 'fair wages' at their first-tier suppliers. In a number of recent projects, a few brands have demonstrated that a premium of only 10-20 cents per t-shirt would allow a supplier in India to double its workers' wages (compare for instance: Miller & Hohenegger 2016; Egels-Zanden 2015; Kline 2014; Oxfam 2015; Starmanns 2016). However, despite these facts and efforts, wages in the Asian garment industry remain very low, and poor working conditions persist[6].

This paper attempts to explain why brands and retailers do not implement better wages on a larger scale. It analyses the hurdles buyers face when trying to implement higher wages in their supply chains, and assesses how they try to raise wages. It particularly examines how lead firms' purchasing practices affect wages, and how they improve working conditions in their supply chains.

The three main research questions are:

1. What root causes do low wages in the supply chain have?
2. How do buyers try to raise wages in their supply chain?
3. How do purchasing practices enable suppliers to implement, or prevent them from implementing higher wages and decent working conditions?

The paper has an empirical focus. It examines 14 brands and retailers, most of which are small and medium enterprises (SME), and most of which have a policy to implement a 'living wage' at their supply factories.

Following this introduction, this paper is structured as follows: Section 2 provides an overview of power structures in global value chains. Section 3 analyses the different reasons behind low wages in supply chains that can be found in existing literature, with a focus on causes emanating from the supply chain. Section 4 presents the research methodology; sections 5 and 6 present the research results, and section 7 draws some conclusions.

2. Buying power in global supply chains

Suppliers typically have fewer options and less decision-making flexibility than their buyers. Workers remain largely absent from decision-making. (JETI 2015: 23)

This quotation reflects that garment chains in the 'global commodity chains' (GCC) framework are 'buyer-driven' and that so called 'lead firms' (in the garment industry brands and retailers) have a great deal of power in the supply chain. They play a central role in setting up and coordinating decentralised production networks (Gibbon & Ponte 2005; Dicken 2007b; Gibbon, Bair et al. 2008:321; Sturgeon 2009:123). According to this framework, brands and retailers have the power to control the activities of companies in the supply chain that they do not own (Gereffi, Humphrey et al. 2001:4; Coe, Dicken et al. 2008:277).

Power results from the significance of design and marketing activities in terms of value addition, the dependence of suppliers, and the asymmetries in value addition within the chain (see also Bair 2005; Gereffi, Humphrey et al. 2005:82). Scholars and practitioners use the GCC framework to stress that some lead agents – particularly transnational retailers based in Europe and North America such as Walmart, Tesco or Metro – use 'aggressive models' of retailer-led supply chain management (Crewe 2000; Hale 2000; Dolan & Humphrey 2004; Gibbon & Ponte 2005; Wrigley, Coe et al. 2005; Hughes 2006a:638; Hughes, Buttle et al. 2007:493). Hughes et al. argue that retailers can dictate pricing and payment terms to their suppliers and make strict demands on producers in terms of product specifications and delivery times (Hughes et al. 2007:494). Fitter and Kapinsky (2001:78f) define 'value chain governance' as:

The power to define who does and who does not participate in the value chain, the setting of rules of inclusion, assisting chain participants to achieve these standards and monitoring their performance.

Thus, buyers or 'lead firms' have the power to prescribe social standards because they can exclude producers or even switch suppliers (compare Humphrey & Schmitz 2001:22):

Although it is not always exercised, purchasing power allows a lead firm to explicitly coordinate the activities of its supply chain and pressure suppliers to lower costs, increase quality, adopt specific equipment, employ specific business processes, purchase inputs from specific vendors, and invest in specific locations ... (Sturgeon 2009:129).

Similarly, Barrientos (2013:45) sums up competitive pressures as the possibility to lower prices, to demand suppliers to pay for implementation of standards, to shorten lead times, and to give more small repeat orders.

Raworth & Kidder (2009:174) argue that buyers exert three kinds of pressure on suppliers:

- Time and speed, for example, pressures to deliver faster, reduce production lead times, and shorten design cycles. This is particularly the case in the fast fashion industry, where companies have twelve or more seasons a year, which leads to shorter lead times in their supply chains.
- Flexibility and seasonality, for instance, demands for quick changes in order size and the ability to switch rapidly between product designs.
- Costs and risks, for instance, demands for lower prices and higher quality. Suppliers say that prices went down by 35% within 1.5 years, while quality demands went up.

A recent empirical study (Bachstädter & Förster 2014) of 26 manufacturers in Bangladesh indicates that while their costs (material, transport, energy and wages) have increased locally, "most buyers did not accept an increase in FOB[7] prices". In this study, almost none of the buyers from the analysed factories offered a price increase although minimum wages in Bangladesh almost doubled from 3.000 Taka to 5.300 Taka from one to the next year[8]. As a result, when there are shipping delays, profit margins turn negative because the producer has to pay for airfreight. Statistics by the Export Promotion Bureau of Bangladesh support this view, showing that total unit prices have decreased between 1993 and 2009 (Bachstädter & Förster 2014)[9].

In summary, the literature on commodity and value chains suggests that buyers exercise disproportionate power in global garment supply chains and the suppliers transfer this pressure to the workers:

Brands and retailers are demanding faster, more flexible, and cheaper production from internationally outsourced suppliers ... these are not geared up to deliver because they lack the managerial and technical tools needed to cope with the demands of lean production, and they have little power to negotiate with the buyer. As a result, suppliers transfer the pressures onto workers, who bear it in the form of precarious employment. (Raworth & Kidder 2009:165)

However, contrary to this, the FWF argues that a main hurdle to raising wages is the limited power buyers have vis-à-vis their suppliers[10]. This suggests that in some cases suppliers might wield power over their buyers.

Various authors point out that power is a more complex construct, and that different people within a single brand/retailer actually exert different pressures on the supplier (see box 1), and these pressures often work against each other. For instance, the buying department in a company often wields its power to exert pressure on the supplier for faster delivery and for lowering costs. At the same time, the CSR department asks the supplier to pay higher wages. These demands are in conflict with each other, and various studies point out that this contradiction undermines the implementation of social standards (Hughes 1999; Hughes 2000; Hughes & Reimer 2004; Mamic 2004; Reimer & Leslie 2004; Hughes 2005; Raworth & Kidder 2009:166). To conclude, buyers in global supply chains exert various, and at times conflicting forms of power in their supply chains (see Box 1), which mainly derive from the buyers' ability to switch to new suppliers if they wish to do so.

Box 1: Different kinds of buyers' power from the literature

Brands and retailers have power to ...

- define who participates or not in the supply chain;
- exclude and/or switch suppliers;
- exert pressure for faster deliveries and design cycles;
- demand flexibility regarding orders (small repeated orders, changes in size and style);
- dictate costs and payment terms;
- force suppliers to carry the risk;
- force suppliers to pay for standard implementation;
- provide insecure contracts to suppliers;
- prescribe social standards (including living wages).

3. Root causes of low wages in supply chains

A recent analysis by the Joint Ethical Trading Initiatives (JETI 2015) views the root causes of low wages in global supply chains from three different perspectives: (1) the national labour market perspective; (2) the enterprise perspective; and (3) the value chain perspective. As each of the three perspectives helps to understand companies' purchasing practices, they are briefly presented below.

Firstly, root causes of low wages from the 'national labour market perspective' can be divided into institutional factors and non-institutional factors (JETI 2015: 31ff):

Institutional factors	Non-institutional factors
• Statutory minimum wages are not revised regularly and do not reflect the full participation of social partners. • Labour market policy-makers fear a wage-employment trade off and that significant wage rises spur other cost increases like food, rents etc. • Workers and social partners are absent in wage-setting processes, with no framework for representation and negotiation. • Wage floors do not cover all vulnerable workers (e.g. homeworkers).	• Occupation segregation means that women and vulnerable groups are overrepresented among the lowest paid but there are often no better-paid alternatives. • The potential for wage-led macroeconomic growth is under-recognised.

From the institutional perspective, buyers who want to implement higher wages can use their lobbying power in producing countries and engage for revision of minimum wages or for a better inclusion of workers or homeworkers in wage-setting processes on the national level. This is best done through a collaborative approach. One example for a collaborative approach is the ACT initiative that was launched by the global trade union federation IndustriALL in 2015. ACT brings together brands, retailers, manufacturers and trade unions, who together try to address the issue of living wages through improving industrial relations and purchasing pratices (short summary in Box 2 – but this approach is not the focus of this paper).

Box 2: ACT Initiative

Through the ACT (Action, Collaboration, Transformation) initiative, brands, retailers, manufacturers and trade unions are trying to address the issue of living wages in global supply chains by influencing the institutional factors in national labour markets.

ACT is a global framework on living wages with the aim "to create a system that can increase wages in a sustainable and enforceable way"[11]. In order to address the structural barriers to living wages, IndustriALL has signed a Memorandum of Understanding with 17 brands involved in the ACT process:

The MoU is explicit in identifying the development of industry bargaining in garment producing countries as essential to achieving living wages and the need for effective recognition of workers' rights to freedom of association and collective bargaining in order for this to be realised.[12]

Secondly, the 'enterprise perspective' explains that challenges of implementing higher wages can result from the suppliers' poor management practices. The JETI-paper highlights five root causes of low wages from this perspective:

- Lack of transparency in pay systems often leads to detrimental development of the lowest paid workers (e.g. records of payment and working hours are wrong or missing).
- Wrong or missing incentive systems (that incentivise performance and do not provide development opportunities) and focus on work intensity rather than work efficiency may prevent workers from developing their skills.
- If productivity gains are not shared with the workers, it is impossible for a factory to pay higher wages (the added money for the increase of wages needs to come from somewhere).
- In-kind benefits (e.g. free transportation or free food) may lead to unfavourable power structures between the company and its workers.

JETI recommends that these reasons for poor wages can be mitigated by assessing and changing the capacity of factory management, for instance, by proactively advocating for freedom of association and by focussing on efficiency instead of intensity. When companies examine competitiveness, they should also take non-price factors like product quality, infrastructure etc. into consideration instead of focussing on labour costs. JETI also recommends that buyers better understand how wages are set and paid at the level of the supplier. It particularly refers to the 'Fair Wage' approach to be "instructive in understanding enterprise-level wage systems" – i.e. how the factory pays workers, the relationship between pay and working hours and how pay can incentivise performance (JETI 2015:38ff; see also Vaughan-Whitehead 2010).

Thirdly, the JETI study points out the root causes of low wages from a 'value chain perspective', most of which refer to the 'buying power' described in section 2:

- Power imbalances leave suppliers with fewer options and less flexibility.
- Low wages are built into many business models.
- Wages are more likely than other costs to suffer from downward competitive pressures.
- Global value chains mean global price competition, and historical prices may not reflect the true cost of sustainable production.
- The business benefits of raising wage floors are poorly understood.

JETI suggests that if brands want their factories to pay higher wages ('living wages' or 'fair wages') in their supply chains, the FOB prices need to recognise whether the factory is actually able to pay higher wages. This can be done by calculating the labour minute costs per piece of garment (Miller 2009, Miller & Williams 2009; see also: Miller & Hohenegger 2016). However, if we look at FOB prices[13], most costs apart from the wages are fixed. JETI argues that wages are therefore most likely to suffer from competitive pressures:

Compared to 'fixed costs' such as materials, transport or energy, labour wages are more likely to be a 'residual variable' in the global value chains under consideration here – the component within the cost structure most likely to absorb downward competitive pressures through the value chain or, indeed, to sharpen a competitive edge on the FOB price. (JETI 2015:23)

Research by IEH shows that 65% of suppliers surveyed accepted a price that is lower than total production costs per unit because they feared they would lose business (JETIs 2015:24). A recent empirical study confirms these results. It shows that suppliers' profit margins fall below 0% if they ship late, which then usually has to be done by air (Bachstädter & Förster 2014). Such practices prevent companies from increasing wages. A recent global survey conducted by the ILO in cooperation with ETIs and that collected data on more than 1,500 suppliers confirms that wages are directly influenced by purchasing practices between the brands and suppliers (Vaughan-Whitehead and Pinedo, 2017, ILO).

While the literature on power in supply chains and the IEH report provide a good overview of root causes of low wages, they do not analyse the details. A 2015 report by the Norwegian Ethical Trading Initiative (IEH) fills this gap by looking deeper into the causes of low wages from the value chain perspective by evaluating how suppliers evaluate reasons for low wages and by particularly looking at the purchasing practices. Like above, IEH argues that buyers can enable or prevent change at the supply factory:

Buyers are a crucial link between the company and their supply base, and this role can either be an enabler of change or a bottleneck in a company's drive towards responsible supply chain management. (IEH 2015)

For each step of the critical path management, the IEH report highlights typical critique from the suppliers' side[14]. The root causes for low wages – as results of the study – are included in Table 1 below.

Table 1: Root causes prevent the implementation of decent working conditions and higher wages

Steps taken in an order	Root causes of low wages from the IEH study (suppliers' perspective)
Forecasting, product development and sampling	• Buyers have poor forecasting • Buyers request too many samples and do not pay them
Price quotations, negotiations and terms of payment	• Buyers try to push prices down • Buyers do not pay on time
Order placement, changes, reorders, lead time, terms of trade	• Buyer does not know national holidays • Buyers approve orders late • Buyers want quick deliveries and fix delivery dates before confirming materials • Buyers insist on maintaining delivery times, forcing suppliers to fly goods • Terms of trade not written with all buyers cancel orders without compensation • Important aspects of the business transaction
General	• Buyers' business model / aims / values do not integrate standards • Buyers communicate poorly to suppliers • Buyers do not asses impacts of purchasing practices

4. Empirical research method

Having analysed power structures in global supply chains and root causes of low wages from existing literature, the paper checks the validity of the current knowledge empirically by analysing case studies. 14 interviews were conducted by phone or in person with buying or CR staff from buying companies. The interviews took between 30 minutes and 2 hours. Additionally, brand performance checks of the Fair Wear Foundation (FWF) and reports by these companies were analysed.

Most of the companies analysed for this paper are members of the Fair Wear Foundation (FWF), which is a social standard organisation that supports its approximately 100 member companies in implementing social standards in the sewing operations of their supply chain. FWF members are selected because they belong to the less researched SMEs, because they are obliged to implement living wages at the producer level and to adapt their purchasing practices accordingly. Most of the companies examined are well advanced in their CSR practices.

The study empirically focusses on SMEs[15] for three reasons: First, SMEs often have progressive approaches regarding corporate responsibility as they often have a rather small supply base[16]. Second, most of the research so far focusses on large companies although SMEs have a large share of the market (compare Egels-Zanden 2015). Third, most members of the FWF are SMEs.

Table 2 provides an overview of the brands that were analysed for this paper. Only limited information is provided because a confidential treatment of the data was promised to the brands.

Table 2: Overview of the case studies[17]

Company	Kind of company	Living wages objective	Amount of suppliers
C1	**Fashion company**	**Via FWF membership**	**50-100**
C2	**Mainly basics**	**Via FWF membership**	**<10**
C3	**Fashion company**	**Via FWF membership**	**50-100**
C4	**Mainly basics**	**Via FWF membership**	**10-25**
C5	**Fashion company**	**Via FWF membership**	**<10**
C6	**Mainly basics**	**Via FWF membership**	**<10**
C7	**Streetwear**	**Via FWF membership**	**<50**
C8	**Fashion & Basics**	**Via SA 8000**	**<10**
C9	**Mainly basics**	**No aims defined**	**50-100**
C10	**Fashion & basics**	**Via SA 8000**	**50-100**
C11	**Fashion company**	**Via FWF membership**	**<10**
C12	**Mainly basics**	**Via FLO certification**	**<10**
C13	**Outdoor**	**Via FWF membership**	**50-100**
C14	**Streetwear**	**Via FWF membership**	**10-50**

5. Root causes of low wages: the buyers' perspective

This section analyses the root causes of low wages from the empirical analysis of 14 brands and retailers (see section 4). The following main causes are identified:

1) Paying living wages in the supply chain is not an issue of high priority,
2) The FOB prices do not allow suppliers to pay higher wages,
3) Buyers lack the power against their suppliers to implement higher wages,
4) Higher wages are not systematically integrated in purchasing practices,
5) Suppliers' poor management practices prevents them from paying higher wages,
6) Suppliers do not want to pay higher wages.

5.1 Paying living wages in the supply chain has no high priority

Contrary to the pressure exerted by NGOs and the media on companies to raise wages, the research shows that brands and retailers do not regard implementing living wages as a high priority. Although ten of the analysed companies are members of the Fair Wear Foundation (FWF) and must thus implement living wages in their supply chain, none of these companies has yet fully implemented them. Only three[18] companies have started calculating what a living wage would actually mean at the factory level, which is the basis for implementing living wages. Instead, buying brands focus on issues they regard as more urgent and on generating "quicker gains", such as ensuring that the worst paid workers in the companies' first-tier factories receive at least the local minimum wage or reduce overtime. The companies provided three main arguments why paying living wages was a low priority for them.

First, increasing wages outside the national wage system is no comprehensive solution. Companies are more generally opposed to paying higher wages in their supply chain because they regard it as an "isolated solution" and not a good long-term solution. These companies argue that instead of raising wages through the value chain, an institutional solution at the national level is needed:

We need a more systemic approach in which everyone participates instead of one buyer changing wages in a local setting. … It does not make sense to do this as a single buyer in a factory. (C4)

Living wages are only one aspect of sustainable production. (reported by Company 9 - C9)

Second, implementing 'living wages' is too costly and the buyers' benefits are little known. Calculating the local living wage benchmark for every production facility takes a lot of resources without generating a positive impact. Since many buyers represent only a small part of the capacities of their supply factories, they need to collaborate with other buyers to increase wages. But many regard the efforts and costs of this collaboration as too high. One example for this is a factory where a FWF brand has been piloting a living wage project and has been trying for very long to convince other buyers to join in:

In this factory, four buyers pay their share of living wages, but they only share less than 5% of the factories' capacity. (C1)

Third, companies have no scientific benchmark of a decent living wage[19]. While some of the analysed companies use the living wage benchmark of the Asian Floor Wage (AFW) Campaign, most companies were not satisfied with the AFW benchmark, mainly criticising it as "unrealistically" high[20]. Since margins of the different actors are rather small and competition is high, companies regard such wages as impossible to implement. Companies question the method of calculating the AFW benchmark as not being based in local realities, and are looking for more "scientific" benchmarks:

We are looking for a scientific benchmark for our producing regions as to what constitutes a living wage. (C8, similar: C2, C3, C4, C5, C8)

5.2 FOB prices do not allow suppliers to pay higher wages

According to sections 2 and 3, one of the causes of low wages are the low FOB prices buyers pay, which do not allow the factories to increase wages. The empirical results support this and show that most of the companies analysed do not systematically check whether their purchasing prices allow their suppliers to implement living wages. On the one hand, this is connected to the problem that most companies do not know how much a living wage should be, and therefore there is no basis for determining whether the FOB prices allow the factories to implement higher wages. On the other hand, many SMEs show that the power relationship in the supply chain is turned upside-down, and argue that they are afraid that their small order volumes do not allow them to ask their factories to pay higher wages.

5.3 Buyers lack the power against their suppliers to implement higher wages

Even if FOB prices allow the factories to implement living wages, the suppliers might not follow the buyers' demand for other reasons. For instance, one buyer tried to apply an open costing methodology in order to pay higher FOBs that allow the factory to pay higher wages, but the company was lacking the power to receive the costing details from the supplier.

Small and medium fashion companies that order many small batches of different styles usually lack the power in the supply chain to push through their values and force their suppliers to implement better wages; but also larger retailers argue that they do not have much power against their suppliers because they often only book small capacities at their suppliers. Companies also confirm the claim that the more capacity a buyer has in a particular factory, the easier he can implement higher wages without coordinating it with other buyers. In contrast, working through agents makes it more difficult to increase wages through FOBs because "agents will always add their margins" (C4).

However, as means of risk management, most companies try *not* to book too much of a factory's capacity, and they usually set an absolute maximum value at around 20 to 30%. This per se limits their power to implement higher wages[21]. There are exceptions to the rule: for instance, H&M tests a model factory to which they committed to place orders in 100% of the capacity over the next five years. Similarly, Continental Clothing has more than 70% capacity in the factory where they implemented a living wage pilot, and another company argued that they make sure that they book a full line in the factory throughout the whole year. In the case of Continental Clothing, the reason why they could put through their demands is to maintain a good relationship with the supplier.

5.4 Higher wages are not systematically integrated in purchasing practices

Buyers generally confirm that the industry is facing challenges that are mentioned in section 3 (e.g. late orders, delays, reorders) – but most say that other companies face these challenges and argue that their own small company has a "partnership approach" with their suppliers (for details see section 6). Although many of the analysed companies are rather small and it is rather easy to keep track of what the different departments are doing, the purchasing practices do not systematically integrate the issue of wages. For instance, a representative of one company argues that the buyers' incentive system within their own company provides a bonus for buyers for cutting deals; this system, however, is not "in great harmony" with the corporate responsibility (CR) strategy because CR-criteria are not included in the bonus-systems.

A larger retailer provided the example that the purchasing decisions and corporate responsibility decisions are not much connected. In this company, the buyers often do not know where the products are being produced, and the CR staff does not know the purchasing conditions. In this case, the CR staff agrees that it has more difficulty in adapting to the purchasing conditions, and this might prevent the implementation of higher wages. Basically, the CR department checks whether the supply base is conforming with the required standards and supports the supplier to improve; but this is disconnected from purchasing decisions.

5.5 Suppliers' poor management prevents them from paying higher wages

Many interviewees confirm that suppliers' production planning is poor and that it is very difficult to improve this. They argue that the reasons for low wages are connected to poor factory management practices including low productivity, overbooking capacities or late arrival of inputs. Some argue that it is very difficult to verify whether the supplier actually manages the production without working overtime, whether he takes longer than promised or overbooks his capacities. One brand, for instance, has implemented a system to check whether the material inputs to the first tier come in time and whether the lead time is sufficient to produce the order as planned. But it still happens that the factory overbooks its capacities for simple reasons such as booking an interesting order accepted by the factory management. In such cases, buyers talk to the company that ordered later. However, collaboration to reduce overtime is difficult, as it can always be caused by the other buyers:

We set up a system that allows us to check whether the supplier has a good production planning and can produce our order without doing overtime. But if another buyer at the factory is producing overtime, you can do little about it but change the supplier. (C1)

5.6 Suppliers simply do not want to pay higher wages

Even if a buyer wanted to pay a higher FOB price that would allow the supplier to increase the wages, like in the project of Continental Clothing or Nudie Jeans, the suppliers might not be willing to implement higher wages. This is illustrated by one FWF member, who proposed to a supplier to pay a higher FOB price, which would allow the factory to pay living wages – but to the surprise of the brand: "the supplier simply said 'no' and it was not possible to find out why". (C7)

The reasons behind this might be personal ones of the owners or the management. They might also be connected to the local regulatory system. For instance, two buying companies point out that local government regulation prevented a supplier from implementing higher wages. In the first case, a supplier in Bosnia-Herzegovina would not want to increase the wages because it would then lose government subsidies. In a second example, a factory in India argued that workers demanded to be officially paid less money because they did not want to pay government taxes if their incomes rose above a certain level. Hence, buyers should know the local government systems well if they do not want to do more harm than good at the local level.

6. Good purchasing practices towards higher wages

Like most fashion companies in general, the analysed companies claim that they hold a "good relationship" or a "partnership approach" with their suppliers[22]. The buyers regard the good relationship with their suppliers as essential for implementing higher environmental and social standards in the supply chain. But the buyers define "good relationships" in different ways and stress the buyers' capacity in a factory, the direct relationship (i.e. not working through agents), the length of the relationship, or the level of trust or the shared mind-set:

A stable relationship with the suppliers is more relevant than a low price – mainly because changing suppliers will be more costly for them (C4).

We are not looking for the best price, but for a good partnership; all parties must be content with the prices, otherwise a partnership between equal partners who want to develop and grow is not really possible (C2,4,7,8).

We try to optimize profits, not maximize them (C7).

This chapter sums up what good purchasing practices brands and retailers apply to improve wages and working conditions in their supply chains.

6.1 Selecting suppliers with care

Brands and retailers use very different methods for selecting new suppliers, and the analysis shows that each brand has its own approach and uses its own combination of instruments for checking suppliers' performance regarding sustainability. The most often mentioned methods are:

- Asking suppliers to sign a Code of Conduct or to conduct a self-check;
- Analysing existing audit reports;
- Visiting the factory;
- Evaluating the supplier more comprehensively;
- Avoiding agents.

Signing a Code of Conduct, conducting a self-check, or presenting audit-reports belongs to the standard methods in the selection of new suppliers. While larger companies often use systematic methods for evaluating suppliers, only few of the analysed companies do this. Some buyers motivate their suppliers by placing consistent orders, and one buyer even celebrates the 'supplier of the year'.

The use of agents is controversial. Some buyers state that they "certainly work with agents as the whole industry does" and claim that this does not impede their close relationship with the suppliers or their control of the production processes because they still have their required transparency. Others, in contrast, argue that part of a careful process of selecting suppliers is not to work with agents, because agents have high margins and/or because agents make the implementation of standards more difficult.

Agents prevent the transparency we need for implementing sustainability issues.

When we work with agents, we always know where we produce and we actually have a good relationship with the factories.

6.2 Planning orders with suppliers as partners

Some of the companies are planning their orders, lead times and production peaks in advance with their suppliers. This helps the suppliers to plan production and the purchase of inputs. Avoiding peaks is essential. As the smaller buyers often do not have power over the supplier, it was common practice for the buyers to ask the supplier how much time he needs from the placement of the order to delivery – and to accept this time. The result in this case is a partnership approach that allows longer lead times of up to four months that many buying companies do not want to work with.

Companies make the planning of orders easier by working on a limited number of seasons and/or styles. Most of the interviewed companies work with a maximum of two different collections every year, which allows longer lead times and makes production planning easier, and some purposely reduced the number of core styles (e.g. never out of stock: NOS) to better manage the supply chain. Focussing on basics or NOS, companies can predict their sales and thus forecast better, and some say they actively reduced the number of core styles in order to better manage the supply chain[23]. Using NOS items helps to spread the production period to the low season and to avoid peak times. Working with fewer styles helps to reduce the number of samples and thus reduce problems connected to samples (like not being paid sufficiently for the work).

To reduce pressure on the suppliers, some buyers modify their orders and, if required, reschedule the lead time together with the supplier. Others split orders to different factories or spread styles, using carry-over collections (i.e. collections that can carry over to the next season). One company creates in-between collections with ‘best of’ products from the other collections which they order during the low season.

Companies analysed have long relations with most of their suppliers and clearly regard the length of a supply chain relationship as a success factor for implementing higher wages and better working conditions. Long relationships build trust and thus facilitate the interactions between the buyer and the supplier because the supplier understands more quickly what the buyer wants and because the supplier is more open and willing to move towards the buyer’s main requirements. A ‘shared mind-set’ with shared values between the buying company and the supplier can also lead to better working conditions or higher wages, and facilitates discussions about implementation of standards. One buyer argues:

We have been working with this factory from the beginning. We initiated that they set up a new factory, therefore we have a very good trust relationship with them. This makes it much easier for us to work on issues like living wages. (C2)

Some buyers purposefully try to have a good relationship with very high capacities at one key factory because this makes planning easier. At least three of the buyers fill more than 70% of the capacity in at least one factory, and they decided to do this for strategic reasons (compared to many companies who limit their capacity in a factory as risk management). Having a high capacity in a factory is said to facilitate production planning, make processes more efficient, and improve the prevention of overtime. However, even though buyers have high capacities in those factories, this does not automatically lead those suppliers to implement higher wages, which can be due to different reasons (see section 5).

One of the easiest strategies for good planning is to reserve a line in a factory and to plan the production in this line long in advance, something particularly possible with NOS styles. One company says it shares its production needs at the beginning of the year with their suppliers and books production lines accordingly. However, another company says that they cannot block production lines due to their lack of power over their factories.

6.3 Negotiating fair prices

Low and sinking FOB prices are often seen as one reason for low wages. However, most of the buyers analysed argue that they do not have strict price negotiations with their suppliers and that they rather agree on a price in a partnership with their suppliers. Either the supplier suggests an FOB, which the buyer accepts, or the buyer offers a price range on the basis of which the buyer and the supplier then try to find a common solution[24]. If the FOB suggested by the supplier is higher than what the buyer can pay, the buyer can also adapt the style.

One method to increase wages in a factory is to increase the FOB by the amount that is required to increase the wages by a desired amount (Box 3 provides two pilot projects where this was done; for a detailed study look at Miller & Hohenegger 2016). In such cases, an open cost-breakdown is seen as the basis for the price negotiation – or in other words: "it is the only way for price negotiations" (C6). However, if the buyers receive cost-breakdowns, these often do not show the wage elements per style (or the standard minute value) and therefore they often do not reflect the 'true costs' of production. This is surprising because most of the interviewed buyers are members of the FWF, which recommends to their members to demand from the suppliers a cost-breakdown for each style as a basis for raising the wages in the factories. Having said this, a few of the buyers are piloting ways to identify the labour cost elements of the FOB. One buyer is starting to collect wage costs per country and has started to estimate the standard minute value (SMV) for a few styles in order to understand whether their FOBs – in theory – allow the payment of living wages. So far, they have only roughly estimated the values for a few styles because "so far we did not have the time to do it for several 100 styles" (C1). Another brand has conducted a pilot project in which it calculated the SMV for two selected styles. Calculating the SMV took some effort but was doable.

In contrast, one buyer says that his main supplier in Bangladesh already pays above local living wage estimates but the wages are well below the Asian Floor Wage Campaign (AFW) benchmark. The buyer regards the supplier as one of the best suppliers in Bangladesh who works with large companies and says that the supplier voluntarily pays the wages without the buyer having supported him in calculating living wages. The lowest wages paid in 2014 were Taka 6.200 (indicated by FWF wage ladder as 'best practice' benchmark), and the average paid to all other workers was around the trade union demand (Taka 8.000). In 2014, the largest category of workers (sewing machine operators) earned more, between Taka 7.500 and Taka 10.000 (depending on the skills). This example should be analysed further to better understand how higher wages can be achieved.

Box 3: Two pilot studies on living wages

The British company **Continental Clothing** conducted a pilot project on living wages for a FAIR SHARE collection of 150.000 pieces in Tirupur, South India[25]. Local decent living wages were calculated as part of the project, and the calculations showed that a family of four required around INR 24.000 per month for a decent living. It was then calculated that for paying a living wage per T-Shirt would require adding 14 Cents to the current price. As part of the project, the buyer is now paying a bonus of 14 Cents per T-shirt to the factory, which allows the factory to pay a bonus of INR 25 to all workers of the factory for a whole year. In 2016, the pilot project covered less than 5% of the factory's capacity therefore the workers did not yet receive the full living wage. However, if the project could be scaled up, a bonus of 0.07 Euro per T-Shirt would allow the factory to pay decent living wages to all 320 workers of the factory. On the level of the lowest paid workers they would be 50% higher than the current wages.

The Swedish company **Nudie Jeans** is collaborating with one supplier in Tirupur (India) to pay living wages[26]. As part of the project, the supplier calculated decent living wages for the workers and explained that a worker required around INR 11.000 per month for a decent living of a family of four. With each order at this factory, Nudie Jeans is now paying a wage bonus (directly to the workers in an envelope each time they visit the factory), which is only paid for 2% of the factory's capacity. Nudie Jeans reached out to other buyers to upscale the project and managed to convince two buyers, who are now also paying the bonus. If the pilot project could be scaled up further, the workers would receive the calculated living wage. This is, however, still a long way to go.

How do buyers adapt their buying prices when input costs change? For example, what does the buyer do if cotton prices rise or when the local wage levels increase, like in the case of Bangladesh, where all factories had to pay around 55% higher minimum wages? Some of the buyers analysed claim that they increase FOB prices when the input costs of a factory like yarn, cotton, or wages increase in a particular country. However, due to many different price items that are not fixed, like materials, wages, currencies, this complex issue needs to be examined in more detail.

Finally, another part of fair prices is how buyers deal with payment for samples. While suppliers complain that many buyers do not pay a proper price for samples, the interviewed companies say that they pay a higher price, even if the brand then does not have the samples produced. Brands also reduce the number of samples by better coordinating in-house product development. One buyer explains that they usually put all styles for which they order samples into production without rejects because they coordinate their product development with the pre-order staff and therefore know early on what styles they actually need (instead of producing many styles they do not need).

6.4 Supporting suppliers in their operations

The analysis shows four main strategies how buyers try to support their suppliers:

- Increase and check suppliers' productivity;
- Ensure that inputs arrive in time;
- Pre-finance inputs;
- Secure steady outputs.

Only few of the brands focus on increasing productivity in their supply chain with the aim of paying higher wages. One brand participated in a project by the FWF in which the effect of increases in productivity on living wages were analysed. They found out that if the factory is more productive (i.e. more output in the same time with the same workforce) this means that they earn the same amount of money in a shorter time period; but they have not automatically generated more money to pay higher wages if they do not get new orders. Therefore, wages do not automatically rise with higher productivity.

One main method to assure high levels of productivity and high standards locally was checking and improving the production with local staff. One company says that continuous checking of production (i.e. having a person in the factory every day to check the quality of the products etc.) in the production country was their secret of success. This company has 12 people in their main production country (more than at the headquarters) who oversee the production every day, and they work on facilitating production planning. Other interviewees say that they do not have the capacities to oversee production in every factory all the time, but during the production times the buyers usually visit each factory once.

However, despite good planning some brands say suppliers still have delays or work overtime in their supply chains, due to external factors that they cannot control, like late arrival of inputs. Therefore, companies try to ensure that inputs arrive in time in different ways. Some require transparent supply chain and a trustful / long-term relationship with the suppliers, some check the availability of inputs before defining delivery, some provide inputs themselves, some forward purchase inputs (cotton or textiles), put material in stock at the factory or set up a direct contact with the mills, which allows them to better assess arrival of inputs. Keeping a stock of cotton in the factory also helps controlling the common price fluctuations of raw materials, one company argues.

Another common strategy to support suppliers is to pre-finance the materials that the suppliers need to buy as inputs to the factory. Pre-financing input material reduces the amount of money suppliers have to borrow, and it reduces the price fluctuation and the insecurity often connected with volatile commodity prices. Brands do this when suppliers face monetary problems, which would nicely illustrate the spirit of partnership thinking. They either do it to ensure that their required materials are used, or because their required materials are difficult to get in the market. They also do it to become more flexible and to prevent commodity prices (e.g. of cotton) from fluctuating too much.

Thinking from the other side of the supply chain, one buyer stressed that a high purchasing security from wholesale / retail through long term orders enabled them to work consistently with supply chain models that provide security to the factories and farmers:

If our supplier has longer lead times, our customer accepts it because he knows the context and approves the way we are working. (C8)

A long-term relationship is also being tested by H&M in a model factory in Bangladesh to which they committed to purchase 100% of output over a period of five years as part of their plan to implement fair living wages. This move to secure production helped to secure the supplier, who more easily invested in elaborating more sophisticated wage practices such as pay related to skills and to performance, and then also to pay higher wages and reduce overtime hours. Whether there is a good or not so good collaboration with the retail shops also depends on the way the buying brand organises its own selling of the fashion, whether it keeps a stock etc.

7. Conclusions

This paper analysed the root causes of low wages in global supply chains and the strategies of buyers to mitigate these causes particularly through their purchasing practices. Most of the 14 buying companies under scrutiny have so far implemented minimum wages and only some pay a little more than the minimum wages. The empirical results show that the buyers face great difficulties in implementing higher wages in their supply chains.

Table 2 sums up the main reasons, why implementing higher wages is so difficult – both from the literature and from the empirical analysis. The table below shows that the root causes of low wages originate at different ‘levels’, and therefore one single actor will have great difficulties to improve wages. Main causes of low wages originating from the global level are competitive pressures, where time, speed, flexibility and costs matter to brands, retailers and suppliers, while the insufficient and missing living wage benchmarks do not allow them to follow a singular approach. From the national or local level, the main factors are that minimum wages are set too low and not revised regularly together with a lack of participation of workers. They prevent companies from implementing higher wages, and single actors alone cannot influence them very much. However, companies cooperate to set proper minimum wages on the national level or to negotiate better wages, but changing this is a long way and strongly connected to the global level.

Table 2: Overview of the root causes from the literature and empirical results

Level	Root causes of low wages from the literature review (chapters 2, 3 & 4)	Root causes of low wages from the empirical analysis (chapters 5, 6)
Global level: garment industry	• Competition in a poorly regulated environment pressurising suppliers	• AFW living wage benchmarks are seen as too high • Common definition of living wages is missing: one "proper" / "scientific" benchmark is missing • Buyers refer to the need of a collective approach to higher wages and prefer paying minimum wages
Local or national	• Minimum wages are not regularly revised • Policy-makers fear a wage-employment trade off and that costs rise locally through wage increases • Workers and social partners are absent in wage setting processes • Wages do not cover vulnerable workers • Business benefits of raising wage floors are poorly understood	• Workers might only accept conditions that are not only positive for them (e.g. demanding to work overtime) • Business benefits of raising wage floors are poorly understood • Buyers refer to the need of a collective approach to higher wages and prefer paying minimum wages
Suppliers' approach & strategy	• Suppliers lack transparency in pay systems • Suppliers do not share production gains with workers • Factory incentive systems focus on work intensity rather than efficiency • In-kind benefits lead to unfavourable power structures • Business benefits of raising wage floors are poorly understood	• Suppliers manage their factory poorly (poor production planning, overbooking capacities, poor organisation of inputs) • Suppliers do not want to pay higher wages and prefer to pay minimum wages • Lacking knowledge of financial viability of paying higher wages
Buyers' approach & strategy	• Low wages are built into the business models • Buyers try to push prices down • Buyers have a poor forecasting, • Buyers approve orders late or cancel orders without compensation • Buyers want quick delivery dates before confirming materials and insist on maintaining delivery times (forcing suppliers to fly goods) • Buyers request too many samples & do not pay them • Buyers do not pay timely • Buyers do not know national holidays • Business benefits of raising wage floors are poorly understood	• Buyers do not regard paying higher wages as a priority (too much effort, too little benefits, missing benchmarks) • Buyers do not include 'true costs' (including cost-breakdown) into the FOB prices • Buyers' incentive systems prevent payment of higher wages • Buyers want orders in time and require from suppliers to fly late orders • Lacking knowledge of financial viability of paying higher wages • Buyers have no understanding of local (pay/tax) systems
Supply chain (relational)	• Power imbalances leave suppliers with fewer options • Wages suffer more than other costs from downward competitive pressures • Historic prices may not reflect the true costs of sustainable production • Terms of trade not written with all important aspects of business transaction	• Buyers lack power in SC for open costing (low capacity) • Buyers do not adapt FOB prices when local costs change (Cost-breakdown does not show wage elements) • CR department lacks SC transparency • Collaboration with other buyers on paying higher wages is difficult • Working through agents prevents open costing

Factors that originate at the level of the individual buying company mainly relate to the companies' business model and the practices it uses to organize its supply chain (pushing prices down, poor forecasting, late approvals & payments), which are often incompatible with the aim of implementing higher wages. Surprisingly, the research points out that even buyers that publicly oblige to pay 'living' or 'fair' wages actually do not integrate this as a strategic priority and accordingly do not take the steps that would be required to implement higher wages (e.g. understanding true costs of production and what wages are necessary, understanding the local pay/tax system, preventing that the incentive systems for buyers systematically prevent the implementation of higher wages).

At the level of the supplier, poor factory management is one of the major factors preventing suppliers from implementing better wages in addition to the limited room for manoeuvre the supplier has due to the buyers' practices. But there are also reasons that relate to the cultural and political context into which the supplier is embedded, for instance, that producers often do not want to pay higher wages because the governments set the minimum wages.

Finally, some issues originate at the relational level of the supply chain – mainly the power differences in the supply chain. In some cases these prevent the suppliers' ability to implement higher wages, but when suppliers are more powerful than buyers, they also prevent the buyers from pressing through their demands. These issues can only be solved in a cooperative way between buyers and suppliers.

Table 3: Strategies of brands and retailers to enable higher wages

General approach
• Buyer uses evaluation systems for suppliers • Buyer integrates sustainability into the incentive system for supplier • Buyer asks for open costing to calculate the wage element of FOB prices • Buyer consolidates SC & avoids agents • Buyer works with a stock • Buyer helps supplier to increase his productivity • Buyer does not produce certain styles or limits amount of collections / styles
Changing purchasing practices: forecasting, product development, sampling
• Buyer applies 'partnership approach' with suppliers (e.g. long term relationships, planning, not using tenders) • Buyer books lines / capacity in factory well in advance / ensures steady outputs • Buyer uses high capacity in factories and ensures steady outputs • Buyer collaborates in-house to reduce number of samples / buyer pays for samples • Buyer supports supplier to ensuring that inputs arrive in time
Changing purchasing practices: price quotations & negotiations & terms of payment
• Buyer changes FOB prices when local costs change / suppliers suggest FOB price • Buyer pre-finances material inputs
Changing purchasing practices: Order placement, changes, reorders, lead time, terms of trade
• Buyer checks production with local teams / support in production planning • Buyer is flexible in lead times • Buyer modifies order when necessary • Buyer allows longer lead time • Suppliers fly orders

This research only provides a very small snapshot from a few buyers who are leaders in improving working standards and paying higher wages. Standard organisations, governments and international organisations can support the quest for wage improvement. In general, it seems to make little sense that every company pays for its own research on living wages, this should rather be done in a coordinated way, based on a sound basis.[27] It will also be necessary that the benchmarks will finally be implemented into easy to operate systems that the companies can use for improving their supply chains – and that the data will be updated regularly. Overall, many companies questioned whether higher wages should be implemented in parallel systems through company case studies and improvements as compared to already existing pay systems (see also Vaughan-Whitehead 2010) – or whether the more effective approach will be on a more systemic and global level. However, more research is needed in order to answer this more general question. Some ideas that further research questions that came up from the study:

- What effect do tenders have on the prices and on the implementation of decent wages? Can tendering lead to good and trustful relationships with suppliers? What are the costs of permanently changing suppliers?
- What incentive systems for buyers are used by brands and retailers and how do these influence the implementation of decent working conditions? What are good incentive systems that support suppliers in implementing standards?
- How do companies actually deal with changes of costs in the production markets at the level of FOBs (e.g. raising wages in Bangladesh or changing cotton prices)?
- What kind of factories generally overbook capacities? Which factors help to avoid overbooking?
- If better planning in the factories reduces overtime, factories can save money. How much money could be saved and would this allow factories to increase wages?
- Can productivity gains be used to increase wages?
- How do buyers successfully reduce peak production times? Is it already common for buying companies to block production lines in factories so that the factories can better plan, or do only the more advanced ones do this?
- What models of securing steady outputs and building up long-term relationships in the whole chain work well in order to provide more security to suppliers?

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[1] Different concepts for 'decent life' exist: 'decent wages' (ILO); 'living wages'; 'fair wages' (e.g. Vaughan-Whitehead 2010). Wages in real terms were declining between 2001 and 2011. compare: ILO 2014, EPRS 2014, Workers' Rights Consortium 2013

[2] Producing a T-Shirt includes cutting, making, trimming, sending, which is done by at the very least 10 operators. Studies show that the wage element for producing a T-shirt is below 20 Euro Cents. Compare: Starmanns 2016; see also Young 2006

[3] The concept of 'value chains' and 'supply chain' is used as the same in this paper.

[4] In this text, brands and retailers are also referred to as ‚buyers' or ‚buying companies'.

[5] H&M Website: Fair Living Wage: http://about.hm.com/en/About/sustainability/commitments/responsible-partners/fair-living-wage.html (last visited: 1.5.2016) M&S Website: "Your M&S Plan A Report 2014" or „Plan A Report 2015" planareport.marksandspencer.com/M&S_PlanAReport2015.pdf (last visited 1.5.2016)

[6] More general research see for instance Locke 2013; Barrientos & Smith 2006. Claims regarding wages: For M&S: http://labourbehindthelabel.org/dowebuyit/ for H&M: www.cleanclothes.org/news/press-releases/2015/04/09/h-ms-sustainability-promises-will-not-deliver-a-living-wage (last visited: 1.5.2016) See, for instance, the current Living Wage Now! Campaign by the Clean Clothes Campaign or Oxfam: http://policy-practice.oxfam.org.uk/our-work/inequality/towards-a-living-wage (last visited: 1.5.2016)

[7] FOB – ‚free on board' means that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards. (ICC 2016)

[8] H&M was repeatedly positively mentioned in this context.

[9] The example of the German retailer KiK also illustrates this tendency: KiK recently announced to reduce the prices for jeans from Euros 10,99 to Euros 9,99, while the costs of production in Bangladesh are increasing permanently: www.ots.at/presseaussendung/OTS_20120417_OTS0028/kik-senkt-dauerhaft-die-preise-der-textile-grundversorger-moechte-sich-bei-seinen-treuen-kunden-bedanken-und-senkt-deshalb-dauerhaft-die-preise (last visited 1.5.2016)

[10] www.fairwear.org/livingwages

[11] ACT 2015, www.industriall-union.org/industry-bargaining-for-living-wages (last visited 1.5.2016)

[12] IndustriAll (2015): Industry bargaining for living wages. www.industriall-union.org/industry-bargaining-for-living-wages (last visited: 1.5.2016)

[13] This paper will touch issues regarding the break-down of FOBs, but these aspects are covered in more detail in a second ILO working paper by Miller & Hohenegger 2016

[14] The critique was empirically collected at workshops between 2007 and 2013

[15] By definition SMEs have less than 250 employees.

[16] Also some larger companies that were canvassed for an interview did not respond.

[17] The companies interviewed for the case studies were promised anonymity. Since there are not very many FWF members, no more data can be disclosed about individual companies in order to keep this anonymity promise.

[18] Three of the buyers analysed stand out, as they piloted the payment of 'living wages' – see section 6.

[19] Only two of the companies have started to compare the minimum wages with some living wage benchmarks in their supply countries.

[20] For instance, in Bangladesh the current minimum wage is Taka 5.300, while the AFW benchmark is around Taka 25.600.

[21] In average, the companies analysed have >10% capacity at around 70% of their suppliers

[22] None of the interviewed companies conducts tenders in which suppliers bid a price for a certain style – even though it is a relatively common process for buyers in general to receive price quotations through tenders – maybe such a tender counters the idea of a partnership as defined in more detail in this paper.

[23] C2, C4, C5, C6, C7. Limiting amount of styles reduces the number of production planning and helps brands operate with larger amounts.

[24] This certainly depends on the power relationship between buyer and supplier; in the case of larger buying companies with more power over the supplier, this would be the other way round. See also C5.

[25] More details on this project: Starmanns 2016

[26] This example is documented in detail: Egels-Zanden & Lindholm 2015

[27] The Global Living Wage Coalition initiated by ISEAL is going into this direction, but it clearly lacks the coverage that is needed. http://www.isealalliance.org/our-work/improving-effectiveness/global-living-wage-coalition (last visited 1.5.2016)