

FAIR TRADE CENTER



# LIVING WAGE

## – FROM DREAM TO REALITY

A guidance for businesses with suppliers in low-income countries

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*This material has been fully or partially financed by Sida, the Swedish International Development Cooperation Agency. Sida does not necessarily share the opinions presented here. Responsibility for the content of this publication is solely that of the author.*

*The layout of the report is funded as mentioned below:*



*This study has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of Fair Trade Center and can under no circumstances be regarded as reflecting the position of the European Union.*

Translation: Alan Frisk

Design and Lay out: Lina Garemark

Cover: © Kadmy | Dreamstime.com - Female Chinese Worker In Factory Photo

# Table of contents

Executive summary	4
Introduction	5
Methodology	6
Chapter 1 – Obstacles for living wage	7
How does the context affect the wage level?	8
Chapter 2 – FTC's Toolkit for living wage	10
Tools for workers' participation	11
Tools for purchasing	14
Chapter 3 – Case Studies	17
Marks & Spencer	17
Switcher	21
Tchibo	24
Chapter 4 – Analysis of case studies	28
Marks & Spencer	28
Switcher	29
Tchibo	31
Recommendations	32
Bibliography	34

# Executive summary

Many workers in low-income countries dream of wages that are sufficient to support themselves and their families. The situation for workers in countries such as Cambodia, India and Bangladesh are desperate and legal minimum wages, which purchasing companies often refer to, usually lie far below a living wage.

According to the UN's Guiding Principles on Business and Human Rights, companies are responsible for respecting human rights in their supply chains. Despite this, there are few purchasing companies working progressively with the issue of living wage in their supply chain.

The aim of this report is to demonstrate that the dream of a living wage can be reality. The report presents how companies can contribute to a positive impact in the wage-setting among their suppliers, in part through their own purchasing methods, but also through creating conditions for increased workers' participation. In the report, Fair Trade Center (FTC) presents a toolkit with various tools for living wage. FTC also analyzes the work of companies Marks & Spencer (M&S), Switcher and Tchibo for living wages. The selection of companies are based on the Clean Clothes Campaign (CCC)-report Tailored Wages where these companies were among the highest ranked. The companies work with the issue of living wages with their suppliers, using both tools for purchasing and tools for increased workers' participation. As methods for living wage are under development, FTC sees the work of the selected companies as interesting efforts to approach the issue, not as holistic strategies for living wages.

Purchasing from suppliers in low-income countries is impacted by different factors to achieve living wages. In order for efforts for living wages to have as great an impact as possible, companies need to combine different tools with these factors in mind.

## **FTC recommends companies to:**

- Adopt a policy that includes living wage,
- Conduct a risk analysis of wage levels,
- Develop a living wage strategy,
- Be transparent in efforts towards living wages.

# Introduction

Many companies today choose to purchase their products and services from countries where the legal minimum wage is significantly lower than a wage which could support themselves and their families. Fair Trade Center (FTC) calls these countries low-income countries. In this report, FTC presents important tools for living wages, including through the presentation of three case studies.

FTC is focusing on the issue of living wage as organizations and trade unions representing workers in low-income countries state that this is a fundamental problem in the daily life of workers. A wage based on a 48 hour working week that does not cover basic costs results in a number of serious problems. If a worker cannot support him/herself and his/her family working ordinary hours, this results in often illegal amounts of overtime. Low wages also lead to malnutrition which, in turn, leads to illnesses of which children are the most vulnerable. Long working days and heavy workloads often compromise safety at factories resulting in accidents.

A wage possible to live upon is a human right<sup>1</sup>. According to the UN's Guiding Principles on Business and Human Rights<sup>2</sup>, it is the purchasing company that is responsible to ensure that the production of their goods does not contribute to violations of human rights. The company must also see to it that the workers that are affected by violations have access to legal means to address these violations.

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1. According to the UN Universal Declaration on Human Rights, Article 23.3, each and every one who works is entitled to sufficient compensation, which allows him or her and his or her family a humane existence and, if needed, can be complemented by other means of social protection. According to the International Convention on Economic, Social and Cultural Rights, Article 7a, everyone has a right to compensation which is just and offers an acceptable existence for themselves and their families.
  2. The Principles are guiding and it is up to each state and company to apply and implement them. The Principles are based on three Core Principles: 1) the obligation of the state to protect, respect and realize individual human rights, 2) the business' responsibility to respect human rights, and 3) the possibility for remedy and compensation for victims.

# Methodology

*The basis for this report is comprised of studies and materials from a variety of actors working in this area. The toolkit for living wage presented here has been compiled by FTC and has been inspired by the ongoing discussion.*

In this report, FTC describes three European companies conducting trade with low-income countries and which, in different ways, have chosen to address the issue of living wage. The aim is to describe different approaches to work with living wage, both short-term and long-term. The sample of companies for the report has been based on CCC's report Tailored Wages (2014). In the report, CCC has developed a method for the evaluation of the efforts of companies working with living wage. The companies that have been selected are among those with the highest scores in CCC's report. It is important to emphasize that this report does not describe the sustainability efforts of the companies regarding working conditions in their entirety. The focus of the report is to present methods for living wage. FTC also wishes to point out that this is an area that companies have just recently begun to work with in an innovative manner. This means that even those companies named here have a long road ahead in their work with living wage. This study does not encompass any field studies that can confirm how successful the various strategies and methods are. FTC sees the selected tools in the toolkit as decisive for the success of purchasing companies regarding the issues of wages even though there are additional tools that can be of importance in working with living wages.

# Chapter 1

## Obstacles for living wage

*An overwhelming majority of the workers (79%) in the ITUC Global Poll 2014 answer that wages in their countries are not sufficient in order to cover basic needs (ITUC 2014:5). More than every other worker replying in the survey says that their family's income during the last two years has lapsed behind in comparison with the cost of living.*

Issues of working conditions today affect societies far beyond the country in which the company originates. Common for the majority of low-income countries, where production today is mainly located, is that the legal minimum wage does not constitute a living wage.<sup>3</sup>

Globalized trade could potentially be a way out of poverty but instead it has shown to be keeping people in poverty (CCC 2013:6). Malnutrition, fainting, protests and demonstrations are signs that major problems remain. It is now high time for purchasing companies to come up with concrete measures and strategies in order to make an impact on the problems of wages in their supply chains.

There are many reasons for today's low salaries. Structural obstacles complicate wage regulation as well as the possibility of worker representatives to influence wage levels. The wage situation is also largely dependent on the wage regulations on national level in specific production countries. Many countries have set a legal minimum wage, but the criterias used for setting the levels varies. One argument for setting a legal minimum wage is the spill-over effect on the informal sector.<sup>4</sup> (NBER 2009:2). It is clear today, however, that minimum wages in many countries are not enough to live upon. The lack of inclusive and quick tools used to set and update minimum wages makes it difficult to adjust wages to inflation, for example. In March 2014, ITUC, together with global trade unions and 30 purchasing companies, demanded in an open letter to the Cambodian government that exactly these types of mechanisms to regulate minimum wages should be developed (ITUC 2014).

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3. The concept of living wage involves providing a wage within a working week of 48 hours that makes it possible to provide for a person and hers or his family. For further clarification, see footnote 1.

4. I.e., work that is either unpaid or outside the control of the state.

## **HOW DOES THE CONTEXT AFFECT THE WAGE LEVEL?**

One specific purchasing order is affected by several different contexts, external as well as internal. Despite the purchasing company's responsibility being clearly stated, it can be difficult to define how this responsibility should be executed.

**Internal factors at the purchasing company** – Which ambitions the company has regarding living wages are affected by the internal context of the company: the company's goals, aims, core values and transparency. This impacts everything from purchasing strategies, to quality and sustainability efforts.

**The supplier's context** – It is central in which country the supplier is located, as legislation and limitations of freedom of association have a direct effect on the issue of wages. The legal context in which the supplier is operating also has a large impact on which methods the purchasing company can use in efforts on the wage issue. Issues as to what types of discrimination structures that disadvantage certain groups and negatively affect initiatives for higher wages are also parts of the supplier's context. The maturity of industrial relations in the country, as well as the level of corruption, also has a great influence over how wage levels are determined. If there is a widespread culture of threats and bribery in order to circumvent laws and ordinances, this can also have a decisive effect on the efforts concerning living wages and increased workers' participation.

**Internal factors at the supplier** – The supplier's goals, aims, core values and policies also have a large impact on wage levels. The internal organizational culture and how mature industrial relations are at the specific supplier factory also have a large impact. Are there workers representatives? What authorities do these have? Are there complaint mechanisms in place? Are there risks involved for workers submitting complaints? The purchasing company must relate to this context when it initiates its efforts to reach living wages.

**The relationship between buyer and supplier** – Purchasing companies have different types of relationships with suppliers. Often, a company has a number of key suppliers where production takes place in such close cooperation that it can resemble a partnership. These relationships are usually long-term in nature and the suppliers are difficult to replace. The opposite types of relationships are traditional supplier relationships where the focus lies on the quality of the product, lead times and the forcing of prices. These types of relationships are often short-term in nature and the purchasing company aims to get suppliers to compete with one another



on the lowest offer (Szejczewski et al., 2005). The products are often more basic and there are several manufacturers that can supply more or less comparable products.

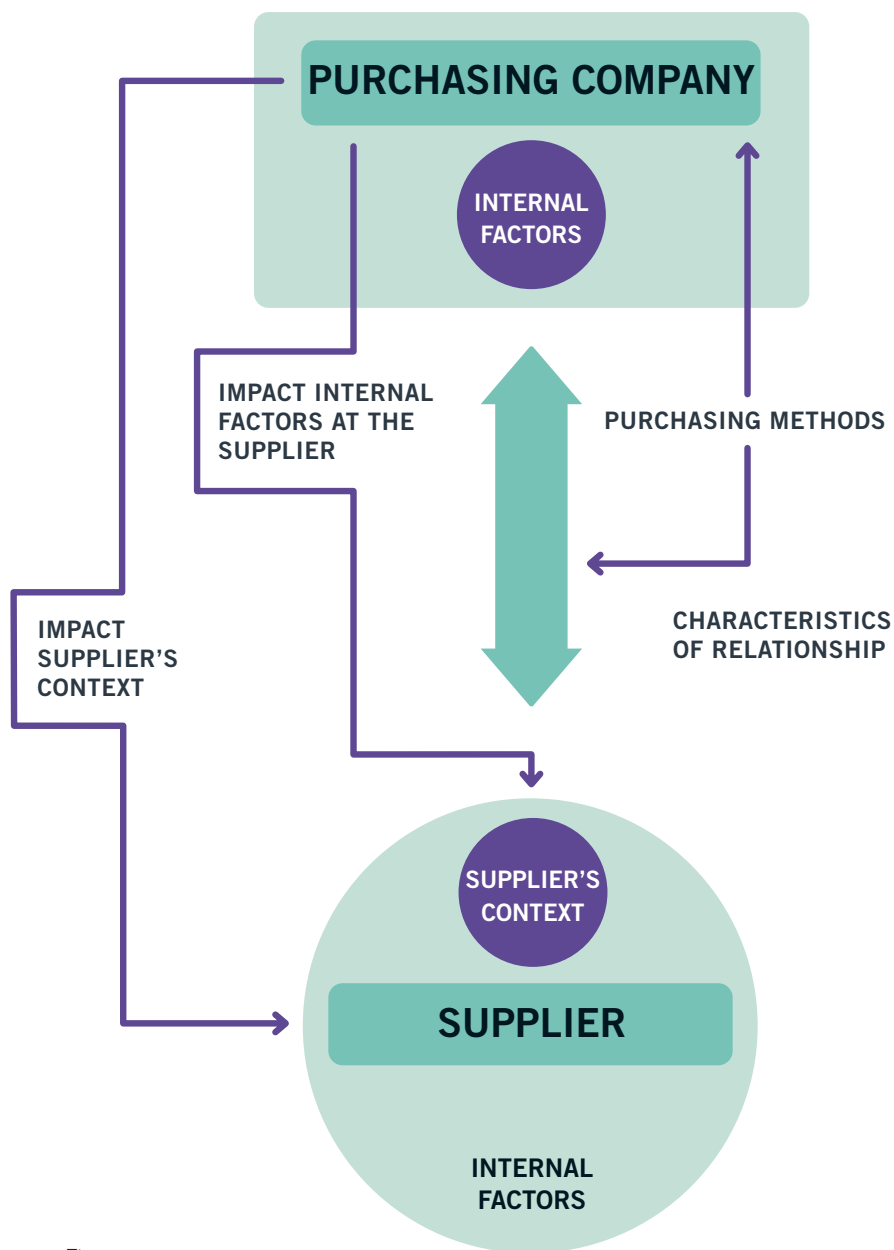


Figure 1

# Chapter 2

## FTC's Toolkit for living wage

*The journey towards living wages is not an easy one. It places a series of requirements for companies to implement changes in their operations and in their relationship with suppliers. The purchasing company can impact the issue of living wage in different ways. It can involve the company's own role as a purchaser, where the company can influence its suppliers through its purchasing methods. The company can also place requirements in different ways on increased workers' participation.*



Figure 2

It is important to point out that the tools that are presented exist in interaction with one another. There are a number of aspects that influence the preconditions for working with living wages, which have been described in the previous chapter. Companies must work both in the long and short-term with the issue of living wage in order to achieve success. The various tools have different sets of preconditions and thus impact differently. Some of them have a long-term impact, which means that they can largely be connected with structural obstacles. These tools are most appropriate for long-term and structural changes. Other tools have a more short-term impact, meaning that they can have a large effect here and now. Tools with short-term effects can be effective when various other factors make it difficult to work more long-term. It is decisive that efforts at achieving living wages always offer transparency in order for the results to be available for evaluation by independent actors. Transparency allows other companies to derive lessons learned from the efforts which benefits the industry at large.

FTC's toolkit is divided into two categories, the first consisting of tools for workers' participation. It is decisive that workers have their freedom of association realized in order for them, in the longer term, to build their own democratic structures, and in such a way influence the wage setting. It is therefore important that suppliers work actively to increase the degree of workers' participation. Here, the long-term goal is that the workers will be allowed to choose their own representatives, which in turn can practice the right to collective bargaining and participate in wage settings.

The second category in the toolkit is *tools for purchasing*. The main aim of these tools is for the company to create conditions for suppliers to pay living wages through its purchasing methods. Purchasing methods that are driven by short lead times, flexibility and pressure on prices are one of the basic causes of problems such as illegal levels of overtime, low wages, lack of social security and faulty safety measures. If purchasing companies take advantage of the possibility to improve conditions within their supply chains through their own purchasing methods, working conditions can however be improved (IEH 2014).

## **TOOLS FOR WORKERS' PARTICIPATION**

### **Guarantees of freedom of association and trade union access –**

A guarantee for freedom of association implies that procurement is conditional upon a guarantee that workers will not be prevented from practicing their right to freedom of association. The guarantee should be communicated to the workers in a way that they understand. The supplier guarantees that no workers will be discriminated against due to their involvement with trade unions. An agreement for access for trade unions

implies that suppliers ensure that free trade unions are given free access to the workplace. The aim of these two tools is to emphasize the importance of freedom of association. Both of these tools are direct methods, but in order for them to be successful they must be reinforced with tools to create sustainable industrial relations where both workers and management understand their rights and responsibilities.

**Workers' participation training** – In order to increase workers' participation, both workers and factory management need to be aware of their rights and responsibilities. Training activities are therefore often used by purchasing companies in order to increase awareness of freedom of association and the right to collective bargaining. This method has a direct impact through spreading awareness and giving workers tools to practice their own rights. How effective the tool becomes is effected by the turnover of workers that often is high. There should thus always be a long-term strategy behind this type of activity in order to build structures for dialogue between parties. It is also important that training activities in no way undermines initiatives to organize workers.

**Involve workers' representatives in factory audits and improvement schemes** – Today, many companies conduct factory audits<sup>5</sup> and develop plans for corrective measures based on the results of these inspections. There are many actors that state that factory inspections themselves only constitute a snapshot and do not lead to real solutions of problems. Workers are interviewed but seldom receive any feedback. Factory inspections could be used however in negotiations between parties if worker representatives receive feedback and if they were allowed to participate in the development of plans for the corrective measures that follows.

**Complaint mechanisms** – Hotlines, i.e. an e-mail address or a telephone number that workers can use to leave anonymous complaints can be a channel when no other possibilities for dialogue exist. Using a hotline can be a method for workers to influence their working conditions, for example, low wages. It is important to see to it, however that the channel is independent and that there is no connection to the employer that calls into question its reliability. Those responsible for the hotline must have enough competence to treat the information as the individual employee is in a very vulnerable situation. By itself, a hotline is not a solution but can be a thermometer of the working climate at the supplier's factory. If complaint management is integrated with factory audits, follow ups and plans for corrective measures, and is managed in dialogue with worker representatives, hotlines can however fill a function and open up for increased workers' participation.

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5. A formal audit of the social compliance at the supplier's factory.

**Requirements reducing the use of short-term contracts** – Short-term contracts often prove to be an obstacle to improve working conditions. It is simple for an employer not to renew a contract with a 'difficult' worker. Short-term contracts also ensue in workers losing out on the benefits that are enjoyed by the permanent work force, such as wage increases, parental leave and other social security systems. By using their influence to reduce the use of short-term contracts purchasing companies can create better preconditions for dialogue between parties. These tools must of course harmonize with the purchaser's own purchasing methods. If the purchaser itself requires short lead times and makes late changes in the order, this increases the likelihood that this will contribute to the usage of short-term contracts when the regular workforce is not enough to fulfill the order.

**Incentive program for suppliers where workers' representatives are freely chosen** – If there are financial incentives for a supplier to work progressively with allowing workers' representation, the likelihood is greater that they will see this work as an investment. By rewarding suppliers with more and larger orders if they 1) respect the freedom of association and 2) use workers' representatives as a negotiating party, the purchasing company creates such incentives. The use of these tools also favors suppliers with collective bargaining agreements.

**Global framework agreements** – A global framework agreement is a form of collective bargaining agreement on a global level where the company obliges itself to respect trade union rights in all countries in which it operates. As this is an agreement between two parties it places stricter requirements on purchasing companies than, for example, a code of conduct. It also involves possibilities for increased transparency and external follow-up. It also provides a focus on negotiation and social dialogue as a method for managing, for example, a living wage, working environment and working hours. The tool allows for the development of overarching strategies in support of freedom of association, in cooperation with workers' representatives. In most cases, a global framework agreement involves those directly employed by a purchasing company, but it is also possible for a global framework agreement to cover the supply chain.

**Cooperation with multi-stake holder initiatives** – A multi-stake holder initiative is comprised of representatives from companies, trade unions and non-profit organizations. The aim with this type of initiative is cooperation on making sustainability efforts more effective, increase the exchange of experiences and increase the individual company's ability to create impact. One alternative to multi-stake holder initiatives is business

initiatives. These initiatives can never replace, multi-stake holder initiatives, whereas FTC's experience shows that, in addition to less credibility, these initiatives often demonstrate a lack of transparency. Cooperation within a multi-stake holder initiative often entails that several purchasers can share the results of audits, reducing the pressure on suppliers. It is also commonplace that, within the framework of a multi-stake holder initiative, measures to increase capacity, such as training, are implemented. If the tool is not used in parallel with direct tools, however, there is a risk that it will simply be a means of paying lip-service. Within the framework of both multi-stake holder- and business initiatives, it is possible to apply pressure on states through lobbying.

### **TOOLS FOR PURCHASING**

**Risk analysis of wage levels** – In accordance with the UN Guiding Principles on Business and Human Rights, companies must conduct a risk analysis for their business ventures including the risk for violations of human rights. The risk analysis should, of course, also cover wage issues. In a risk analysis, existing wages in one factory is compared with other existing wage levels and benchmarks. Among the information that is collected, existing wage levels, negotiated wages, gender variations should all be considered. The information can then be inserted in a so-called wage ladder. A wage ladder is a diagram where it is visible how existing wage levels at a certain factory compares with various benchmarks.

**A benchmark for living wage** - A benchmark for a living wage is an calculated figure (the calculation should be publicly available) that covers a wage considered to be sufficient for a family's basic needs. FTC believes that a benchmark for living wages should be:

- Transparent concerning methodology and result,
- Revised regularly,
- Developed through negotiations with local trade unions,
- Cover the basic needs of a family, such as food, water, healthcare, education and even a certain level of savings in order to cover unexpected costs.

In order for this tool to be fully effective, it requires the company to publically support a specific benchmark. The advantage of publically supporting a benchmark is, in part, that interested parties can follow up on the company's efforts and, in part that, purchasing companies can use the results in dialogue with the government in the production country.

**Fund for a living wage** - If the purchasing company chooses, through its purchasing methods, to pay a higher price in order to make a living wage possible, how can we be sure that the money reaches the workers? One method is the establishment of living wage funds in which a portion of the purchasing price is earmarked for living wages by the purchasing company. Through using this tool, a certain portion of the “freight-on-board” (FOB)<sup>7</sup> -price is dedicated to a specific fund for living wages. The funds are then paid out to the workers at the supplier’s factory and payments are supervised by an independent party.

**Living wage in code of conduct** – It is of central importance that a company which wants to conduct credible work on sustainability supports a living wage and that this is evident in policy documents such as the code of conduct. The policies should be grounded at the highest level of decision-making and should be communicated both internally and externally. As a code of conduct is traditionally a document unilaterally developed, it is necessary that it is included as a part of the supplier agreement for it to work as a real tool for achieving impact.

**Living wage included in cost estimates** - During price negotiations, a desire to press prices often surfaces which can have a negative effect on wages at the supplier. It is therefore important to dedicate time and resources to determine how much of the price consists of wages in the production process. This can be done by including labor costs equivalent to a living wage in the FOB price. The purchasing company can, in this way, separate costs of labor from other costs, and ensure that wages are not negatively affected by price negotiations.

**Sustainable supplier strategies** – In order for living wage strategies to be credible, relationships with suppliers need to be stable and sustainable. Jointly planning production with the supplier and integrating sustainability efforts in purchasing are methods to resist traditionally aggressive purchasing strategies. Many companies purchase a small part of the entire production of a supplier. This allows the companies only a certain amount of influence. In order to be able to influence production to a greater extent, a company should work together with other companies purchasing from the same supplier in order to create better preconditions for living wages.

**Assessment of the impact of purchasing practices** – Before establishing a new relationship and during ongoing business dealings, the purchasing company needs to conduct an assessment of how its own purchasing methods impact wages. This is done in order to not undermine

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7. The FOB price is the price that the purchasing company pays for goods that includes freight to a specific port of departure.

the company's own sustainability efforts and have a negative impact on working conditions at the supplier's factory. This can be done through anonymous surveys to the supplier on how they experience working together with the purchaser and which areas for improvement they see. Another method is to integrate the effects of the purchaser's purchasing methods through an interactive discussion within the framework of capacity-building measures in cooperation with the supplier.

**Incentive programs for suppliers using strategies for increasing wages** – If there are financial incentives for a supplier to progressively work with the issue of living wage, the likelihood that they will view these efforts as an investment will increase. Purchasing companies can create incentives by offering more and larger orders for the suppliers that achieve wage increases.



Jointly planning production with the supplier and integrating sustainability efforts in purchasing are methods to resist traditionally aggressive purchasing strategies.



# Chapter 3

# Case Studies

## MARKS & SPENCER

### COMPANY FACTS

**Type of company:** International department store

**Country of origin:** England

**Turnover (2013):** SEK 110 billion

**Number of employees:** 85,831

**Number of suppliers:** 3,000

### INTERNAL FACTORS

M&S has local purchasing offices with Regional Compliance Managers in Turkey, India, Bangladesh, Vietnam, Sri Lanka and China (CCC 2013a). The company requires all its suppliers to ensure that there are updated social audits available in Sedex's database.<sup>8</sup> In 2007, M&S launched its "Plan A", a sustainability plan comprised of 100 measures to be taken. The goals for these measures are to be achieved within five years. Regarding living wage, the goal is to implement processes to ensure that textile suppliers are able to pay living wages by 2015, beginning in Bangladesh, Sri Lanka and India. In order to achieve this goal, M&S wants to ensure that the purchasing prices paid by the company are sufficient in order for suppliers to be able to pay living wages. In 2014, the company presented "Plan A 2020" in which the goals of the next five years were presented. One goal in Plan A 2020 is to publicly publish an annual list of suppliers for its textile suppliers beginning in 2016. Regarding goals for workers' participation, M&S is involved in several training projects that aim to provide training in, among other areas, human rights. The goal in Plan A was that training efforts in 2015 should reach 500,000 workers and the goal was achieved already in 2014 following the participation of 506,000 in the training program (M&S 2014a).

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8. Supplier Ethical Data Exchange (Sedex) is an international database tool where companies can store, share and report information on sustainability within areas such as working conditions, health, security, environment and business ethics. The aim of Sedex is to reduce the number of social audits at suppliers.

## SUPPLIER RELATIONSHIPS

70% of M&S' supplier relationships have a lifetime of more than five years. The company states that they place 100% of their orders directly with the suppliers without the use of middlemen (CCC 2013a).

## TOOLS FOR WORKERS' PARTICIPATION

**Workers' participation training** – M&S conducts a number of training programs aiming to provide information about the freedom of association and to further develop the dialogue in the production process. In India, M&S has developed a program, the "Effective Worker Management Program" (EWM). EWM targets managers at supplier factories and includes a module on freedom of association and focuses on creating an environment that makes it possible for workers to practice their rights. The program is implemented by the Center for Responsible Business<sup>9</sup> and GIZ<sup>10</sup> in India. Another initiative is the project Benefits for Business and Workers (BBW) where M&S cooperates with the consulting company Impactt, the British government aid organization, Department for International Development (DFID) and eight other purchasing companies (CCC 2013a). The project is aimed at both factory workers and factory management and is implemented in India and Bangladesh. It also includes a training module that focuses on the importance of dialogue between the local trade union and the company management. In Bangladesh and Ethiopia, the company also runs the "Ethical Model Factory" (EMF). The EMF program is run and financed by M&S, but is implemented in cooperation with other purchasing companies, local organizations, GIZ and the Bangladesh Institute of Management. The project is aimed at human resource and other middle-level managers at the suppliers. The training includes worker's rights, human resource systems and management of industrial relations. According to the company, the method has resulted in a wage increase of 12-42% among the factories that have participated. In Turkey and Egypt, the company runs a program with Partner Africa aiming to improve internal communication at the factories. Here, among other things, the importance of worker representatives is dealt with. Good examples are described in order to illustrate mechanisms for success (CCC 2014).

**Complaint mechanisms** – M&S states that they have several complaint mechanisms for workers at supplier factories. In China, the company says that it has implemented a number of hotlines in cooperation with local NGOs. According to the company, these have generated a considerable amount of complaints. According to M&S, complaints are followed up on and corrected by factory management. Exactly how many cases and measures have not been made public, though. Together with the consulting firm Good

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9. Center for Responsible Business is a center for development of methods within fair and ethical trade run by the University of California, Berkley and Haas School of Business. The center aims to develop new methods for fair trade through connecting students, business leaders and researchers.

10. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) is a company owned by the German state that supports the German government in its work in achieving goals in the area of international cooperation for sustainable development.

World Solution<sup>11</sup>, M&S works with methods to facilitate direct communication with workers at its textile suppliers in India and Sri Lanka. Using mobile telephone technology, quantitative surveys are conducted reaching the workers directly. The workers receive the questions via cell phones in the local language and enter their answers, generating anonymous results. According to M&S, the method has already been tested at 13 suppliers. M&S says that the independent inspectors that conduct social audits at the supplier factories also distribute a hot line telephone number for factory workers. The number can be used to report problems that the worker did not want or could not call attention to during the audit (CCC 2013a). M&S also writes in its Global Sourcing Principles that suppliers must offer a complaint mechanism for their workers and worker's representatives, if such exist. The mechanism should immediately deal with complaints and offer a transparent process that provides quick follow ups without the risk of punitive sanctions. It should also be possible to submit reports anonymously and the presence and extent of the mechanism should be communicated clearly to all workers and their representatives. Finally, all workers must have the same access to the tool (M&S 2014b).

**Cooperation with multi-stake holder initiatives** – M&S works on the issue of living wage through its membership in the multi-stake holder initiative, Ethical Trading Initiative<sup>12</sup> (ETI).

## PURCHASING TOOLS

**A benchmark for living wage** – M&S calculates a living wage using the following formula:

$$\begin{aligned}
 &\textbf{Living Wage =} \\
 &\text{Basic Food Basket per Person} \\
 &\quad \times \\
 &(\text{1/Fraction of Average Household Income Spent on Food}) \\
 &\quad \times \\
 &\text{Household Size/Number of Wage Earners} \\
 &\quad \times \\
 &1.10 \text{ (savings).}
 \end{aligned}$$

In order to collect information, the company has conducted a survey based on 20 individuals that live and work in the vicinity of the factory. Participants represent a cross-section of society according to M&S. The survey focuses on the size of the household, the number of wage-earners in the household, the contents and cost of a basic food basket. M&S utilizes wage ladders that are updated yearly by Impactt<sup>13</sup> in order to monitor

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11. Good World Solution is a company that offers technical solutions aiming to monitor working conditions, create social impact, advocate for living wages and communicate directly with workers.
  12. Ethical Trading Initiative (ETI) is a multi-stake holder initiative comprised of companies, union representatives, private and voluntary organizations based in England. The aim is to bring together different actors in order to jointly manage problems connected with global trade.
  13. Impactt Ltd is a British consulting bureau working with ethical trade, human rights, labor standards and international development.

development. The company does not, however, wish to make public the result of the calculation, that is, the actual benchmark.

**Living wage in the code of conduct** – M&S uses ETI's code of conduct, which is based on the ILO's Core Conventions.<sup>14</sup> The code clearly states that a living wage should be paid and that a wage should always be sufficient to meet basic needs and that this should also include a small amount of savings. The wage should be paid on the basis of a standard working week of 48 hours, the ceiling for overtime is 12 hours. M&S makes clear in its Global Sourcing Principles that they will work with their suppliers in order to live up to the standard that M&S aspires to, but that they also will act if the supplier is not prepared to take necessary measures. The principles are based on ETI's code of conduct and the UN's Guiding Principles on Business and Human Rights. The sourcing principles also makes clear that M&S expects that their suppliers should adopt similar principles in cooperation with their own suppliers (M&S 2014b).

**Living wage included in cost estimates** – During the last five years, M&S has used a cost model connected to its purchasing methods with the aim of implementing living wage at their suppliers. The cost model breaks down the total cost for a garment and specifies direct and indirect labor costs. The company has implemented its cost model in 14 production countries. The model identifies the actual labor cost. It is based on standard minute values, actual work-study minutes taken, efficiency as well as, cost of living and a theoretical wage calculation (CCC 2013a). M&S states that the purchasing tool allows them to calculate a fair living wage when they determine the purchasing price for a product manufactured in Bangladesh, India or Sri Lanka. This does not automatically result in the factories paying a fair living wage, however (CCC 2013a).

**Assessment of the impact of purchasing practices** – In its global sourcing principles M&S commits itself to offering a complaint mechanism in order for complaints from suppliers to be treated fairly and transparently. The company also commits itself to assess its own work to ensure that M&S provides suppliers support in maintaining or reaching M&S' standards (M&S 2014b).

**Incentive programs for suppliers using strategies for increasing wages** – M&S states that they have developed a process that rewards prominent factories that then receive the status "Ethical Excellence". Through the process the company identifies factories that have especially good working conditions. The purchasing team's annual bonus is measured by (among other parameters) how many "Ethical Excellence" factories they have used, aiming to create an internal incentive.

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14. The ILO's eight Core Conventions are a minimum standard for labor conditions across the world, constituting basic human rights at the workplace. The Core Conventions include, among other things, the freedom of association, the right to collective bargaining, prohibition against child labor, prohibition against forced labor and prohibition against discrimination in the workplace.

# SWITCHER

## COMPANY FACTS

**Type of company:** Profile clothing

**Country of origin:** Switzerland

**Turnover (2013):** SEK 250 million

**Number of employees:** 74

**Number of suppliers:** 24

## INTERNAL FACTORS

As a member of the multi-stake holder initiative Fair Wear Foundation (FWF), Switcher uses several of the initiative's tools connected to living wages. In addition to this, the company has focused on increased traceability as a means of getting control over its supply chain. The employees and contracted agents are informed through, among other activities, training about membership in FWF and what it constitutes. The Head of CSR is part of the production team and personally conducts trainings for all those employed in the team. Since 2006, Switcher has published a complete suppliers list on its website. All factory audits that are conducted at the supplier factories are saved in the Sedex database (CCC 2013b and FWF 2014b).

## RELATIONSHIPS WITH SUPPLIERS

Switcher's largest production countries are Portugal (46%), followed by Romania (21%), China (18%) and Bangladesh (7%). According to FWF's annual review of the company, nearly 70% of Switcher's production comes from long-term relationships with suppliers<sup>15</sup> (FWF 2014). The company places 100% of its orders directly at the supplier's factories, but the company also states that they use local agents in order to ensure quality and that deadlines are kept. All agents used by Switcher are trained and has access to all FWF's social audits. Since 2010, Switcher has had a strategy to move production of its goods to Europe, referring to proximity and the size of manufacturing units. The issue of wages is also relevant in Europe, however. Wages at their supplier factories in Romania, for example, lie below that of a living wage – this at a supplier that is responsible for over 20% of the company's production.

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15. FWF defines long-term supplier relationships as a relationship that has existed for at least five years.

## TOOLS FOR WORKERS' PARTICIPATION

**Workers' participation training** – Each supplier has the possibility to participate in FWF's "Workplace Education Program" (WEP). The program is aimed at both workers and management. The training covers information on standards at the workplace and internal complaint mechanisms. FWF's external complaint mechanism is also presented. Following completed training, FWF's local partners are available to support the suppliers in the development of internal complaint mechanisms. The focus of the training is on developing anti-discrimination committees at factory level. Training of the company's suppliers in India will take place in 2014 (FWF 2014).

**Complaint mechanisms** – Switcher uses FWF's hotline as a complaint mechanism. In FWF's Brand Performance Check for 2013, Switcher states that there are no supplier factories where more than half of the workers are aware of the complaint mechanism. In 2013, no complaints were received using this tool (FWF 2014).

**Cooperation with multi-stake holder initiatives** – Switcher works with living wage through its cooperation with FWF.

## TOOLS FOR PURCHASING

**A benchmark for living wage** – Switcher uses FWF's wage ladder to define levels of living wage. Here, Switcher uses Asian Floor Wage's (AFW) benchmarks for living wage (CCC 2013b).

**Risk analyses of wage levels** – Switcher conducts risk analyses regarding human rights at all of its suppliers. According to the company, wage levels are decisive in choosing new suppliers. This is also the case for low risk countries<sup>16</sup>. Each new supplier must account for its wage policy in a questionnaire and they also receive an introduction to FWF's local wage ladders. All suppliers must be members of Sedex and complete the self-assessment which is a part of membership obligations and includes questions related to wages. The self-assessment is verified by an independent party. The supplier must also allow for an independent annual audit. In August 2013, Switcher conducted a review of the actual wages paid by their 24 suppliers. In their sustainability report for 2013 the company presented wage levels collected through self-assessments at the suppliers and during 2014 this information will be verified through factory audits and set in relation to other wage-related bonuses. The result of the review shows that all wages are above the legal minimum wage. However, wages at suppliers in Bangladesh, India and China, for example, are below that which is defined by AFW as a living wage. The results will be integrated into an action plan (FWF 2014b).

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<sup>16</sup>. According to FWF, a low-risk country is a country with functioning institutions that can guarantee that basic international standards for labor rights can be upheld.

**Fund for a living wage** – In January 2010, a pilot study was conducted by Professor Emeritus Doug Miller at Newcastle University on the initiative of Switcher and FWF. Miller's report resulted in a solidarity fund. The solidarity fund "1% FOB" was implemented in March 2013 in the Bangladeshi factory Karooni, Ltd., with 3,613 workers. Switcher has procured goods from Karooni since 2013. Karooni is Switcher's only Bangladeshi supplier and represents 7% of the company's production. Switcher informs Karooni on a monthly basis on what amount is paid into the fund and transfers it to a bank account that is administered by Switcher's Head of CSR. After one year, FWF will verify that the entire amount has been transferred to the workers. The first annual payment was expected to take place during the fourth quarter of 2014. A part of scaling up the "1% FOB"- project includes contacting other purchasers from Karooni and inviting them to contribute. This second step will be initiated following the first payment, according to Gilles Dana, Head of CSR at Switcher. If all purchasers were to contribute one percent of the FOB price, it would double the wages for the workers according to Switcher. The company has made clear that the fund will not lead to higher prices for the consumer (CCC 2013b).

**Living wage in the code of conduct** – Switcher uses FWF's code of conduct which is based on ILO's Core Conventions and the UN Universal Declaration on Human Rights. The code makes clear that wages should always be sufficient to cover basic needs for the worker and her/his family. Workers' representatives should also have free access to the workplace. Maximum working hours are 60 hours per week, including overtime (CCC 2013b).

# TCHIBO

## COMPANY FACTS

**Type of company:** Shop chain with cafés

**Country of origin:** Germany

**Turnover (2013):** SEK 32 billion

**Number of employees:** 12,450

**Number of suppliers:** 808

## INTERNAL FACTORS

According to Tchibo, collective bargaining is decisive in order to ensure mature industrial relations. This, in turn, is decisive for the continued implementation of worker's rights, including living wage. Tchibo works at three levels in order to implement higher wages in its supply chain. The method is comprised of level 1) factory level, where the goal is to establish a fair wage system, 2) internal level where the company works to include living wage in cost calculations and 3) where Tchibo works in multi-stake holder and business initiatives in order to impact the levels of national minimum wages. Tchibo does not publish its list of suppliers, referring to the large investment that the company make in their suppliers. Tchibo does provide, however, its list of suppliers within the framework of the initiatives in which it is a part of, such as ETI (CCC 2013b). The goal of the company regarding living wages is to conduct a pilot on wages in the supply chain and expand its training program on dialogue between workers and management (Tchibo 2013).

## RELATIONSHIPS WITH SUPPLIERS

In 2013 Tchibo purchased 65% of its goods from China, 7% from Germany, 5% from Turkey, 4% from Bangladesh and 3% from Vietnam. In the same year Tchibo placed more than 50% of its orders via agents. 28% of relationships have a duration of over five years and 28% less than two years. Since 2010, Tchibo has been working to limit the amounts of orders to fewer suppliers, allowing for a larger portion of orders to be placed at key suppliers (CCC 2013c).

## TOOLS FOR WORKERS' PARTICIPATION

**Workers' participation training** – Tchibo believes that traditional methods such as social audits and training of factory management have been developed to reach short-term results. The industry needs new



methods to make systematic, long-term changes possible. One of the systematic problems raised by Tchibo is the absence of living wages. The company states that the experience they have is that formal requirements for freedom of association do not help workers to pass the actual barriers. These barriers, according to Tchibo, include a lack of trust between factory management and trade unions and a lack of understanding for the constructive role that trade unions can play. The company wishes to deal with the lack of trust and here Tchibo is working with the program "Worldwide Enhancement of Social Equality" (WE). The program began as a development project between Tchibo and GIZ. Through the WE program, local labor rights organizations conduct trainings of workers and managers on how they can conduct dialogue and build participatory structures and methods. The areas included in the program are freedom of association and the right to collective bargaining. The training is adapted to the local context, regarding, for example, legal requirements. The trainers receive continual coaching through Tchibo and international consultants. In countries where free trade unions are limited or prohibited, the aim of the training is to establish freely-elected worker committees. One primary focus of the program is to make workers an active part of the process, not just recipients or sources of information. The program is divided into six steps beginning with problem identification through cause and objective analysis in order to find solutions and reach agreements. Finally, an action plan is adopted. The WE program is, according to the company, an integral part of the supply chain development initiative and includes Tchibo's strategic supplier factories which constitute 80% of the purchasing volume. In total, 284 factories have gone through or began the training in 2013. Tchibo emphasizes that the WE program also includes vulnerable groups such as migrant and domestic laborers. In 2014, Tchibo will expand the WE program. 320 strategic suppliers will then have participated or currently participate in the program (Tchibo 2013).

**Complaint mechanisms** – Tchibo has a hotline via e-mail. The company is aware that courage, access to computers and internet, as well as literacy is needed in order for employees to be able to use this channel. Tchibo received two complaints via its hotline in 2012. The company says that they realize that more violations take place in the supply chain. In addition to its hotline, Tchibo works to capture non-compliances within the framework of the WE program. Trainers also visit the factories on behalf of the program and arrange separate meetings with the workers. As the workers identities are not provided, this allows, according to Tchibo, a safe channel for complaints. Based on the character of the complaint, Tchibo initiates the trainers dialogue sessions for comprehensive corrective measures. The WE program takes place at a factory for a period of two years. This builds up a climate of confidence and openness, according to Tchibo (CCC 2013c).

**Requirements reducing the use of short-term contracts** – Tchibo monitors the use of short-term contracts as a part of the follow-up of its code of conduct. If undue use of short-term contracts is discovered within the WE program the issue is taken up in dialogue with factory management and workers (CCC 2013c).

**Cooperation with multi-stake holder initiatives** – Tchibo believes that a cross-business increase in wages is only possible through an increase in national minimum wage levels. Tchibo is thus supporting efforts to reach an international harmonization of wages together with states, trade unions, NGOs, employer organizations and other companies. Tchibo has engaged itself in the issue of living wage through the Round Table Code on Conduct (RCoC)<sup>17</sup>. In this initiative, representatives from the private sector, trade unions, public sector and non-profit organizations participate (CCC 2013c).

## **TOOLS FOR PURCHASING**

**Risk analysis of wage levels** – In audits, Tchibo assesses wage payments. In the WE program, managers and workers guided by trainers analyze the wage system, workers calculate their living wages and an action plan on the topic of wages is decided upon.<sup>18</sup> The company has also received input from Oxfam<sup>19</sup> and Fairtrade International<sup>20</sup> (CCC 2013c).

**A benchmark for living wage** – Tchibo has chosen to use AFW as a benchmark. Local trade union calculations are weighed in as well as calculations for living wages that workers have developed through the framework of the WE program (CCC 2013c). Although the company has officially supported a benchmark they want to underline the importance of a collective bargaining process to secure continuous empowerment.<sup>21</sup>

**Living wage in code of conduct** – Tchibo's code of conduct includes both environmental and social aspects and refers to the Core Conventions of the ILO. In the introduction of the code, Tchibo points out that the document should be seen as requirements at the absolute minimum level. Without mentioning living wage in the code of conduct, it states that wages should be sufficient to cover the basic needs of the employee and her/his family as well as offer a possibility for savings. Wages should be paid for a standard working week of a maximum of 48 hours. Maximum overtime is 12 hours per week. The freedom of association and the right to collective bargaining should be respected and workers' representatives

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17. Round Table Code of Conduct (RTCoC) is a forum that implements common projects and tests solutions for social and environmental standards in global supply chains.

18. Bergstein, Nanda, Head of Vendor Relations and Sustainability, Tchibo, E-mail (150217)

19. Oxfam is an international private, voluntary organization working with global development.

20. Fairtrade International (FLO) is the main organization behind three producer networks and 19 national labelling initiatives. FLO is responsible for criterias and follow-up of the Fairtrade label, which is a social label of primarily food, but also goods such as cotton.

21. Bergstein, Nanda

should have free access to the workplace. The code of conduct regulates all form of contracts, including homeworkers. Tchibo also states that parameters to control wage levels are integrated in their process for follow-up factory audits of the code of conduct (CCC 2013c).



A benchmark for a living wage should cover all basic needs such as the cost of a basic food basket with enough nutrition for the whole family.

# Chapter 4 - Analysis of case studies

*The cases that are described in this report are not comprehensive strategies for the management of insufficient wages in the supply chain. They should be seen as examples of initiatives used to approach this complex issue. In this chapter, an analysis is conducted of the case studies from the factors and tools described in chapters 1 and 2.*

## Marks & Spencer (M&S)

In its sustainability efforts, Marks & Spencer has committed itself to work with living wage. The company has also set up measurable goals for its work. Even if the goals are limited, they make the work easier to evaluate. M&S places requirements for living wages in its code of conduct and FTC believes that it is positive that the company has taken a position on a specific benchmark. FTC is critical, however, to the limited transparency that the company has shown. The actual benchmark that the method generates is not public and is not verified by an independent party. Neither does the company have any long-term objectives to make its whole list of suppliers public. Even if they are planning to present a list of their textile suppliers in 2016, many suppliers remain. M&S works long-term with its suppliers and does not use any middlemen. This, according to FTC, facilitates efforts in the area of wages and provides a possibility to impact the suppliers in both the long- and short-term.

M&S offers workers at supplier factories external complaint mechanisms in a number of production countries. They also require that all of their suppliers implement internal complaint mechanisms. It is positive that the company requires internal work with complaint management and complements this with an external mechanism. It is a good example of how long-term and short-term tools can be used together. In order to be able to determine if internal complaint mechanisms are actually up and

functioning M&S needs to present measurable goals and concrete results. M&S works with training initiatives that are primarily directed towards factory management. It is positive that M&S trains its suppliers, however involvement of workers is missing.

Concrete measures are also missing to increase the possibility for trade unions to organize through, for example, union access to the workplace and guarantees for freedom of association. Long-term measures are also lacking for increased workers' participation. Here, M&S could have a large influence, especially considering the long-term relationships that the company has with a large part of their suppliers. A global framework agreement, requirements for reduced use of short-term contracts and the involvement of workers' representatives during audits and action plans are measures that FTC finds missing at M&S. The company should view workers as a resource when it comes to resolving problems rather than mainly using them as a source of information.

M&S also uses an incentive program for suppliers that work actively with the issue of living wage. This also gives M&S's own purchasing team incentives to use "the Ethical Excellence"-suppliers. This is positive given that it is a method that gives financial incentives to suppliers. M&S works primarily with tools for purchasing that have a short-term impact, more specifically through the introduction of a method to calculate a living wage that should be included in the purchasing price. FTC sees this initiative as a positive first step. The fact that M&S assesses the influence of their own purchasing methods on the working conditions at suppliers is very important in order for purchasing methods to be sustainable. FTC would also like to see that this is translated into a public strategy for sustainable purchasing methods. Such a strategy would be a good complement to other purchasing methods for living wages that M&S uses.

## Switcher

Switcher has a living wage strategy with several interesting methods. The strategy is transparent regarding suppliers' lists and calculation of living wages. Unfortunately, measurable goals are missing and that makes it difficult to evaluate the efforts. It is important that Switcher conducts risk analyses that are considered in the selection of new suppliers. By seeing low wages as a risk, the company sends a message that this issue is decisive for the purchasing strategies of the company. Switcher has a plan to move its production to Europe. FTC wants to highlight that companies, according to the UN's Guidelines for Business and Human Rights, have a responsibility for how workers are affected when production is moved and supplier relations are terminated. Just as the case study shows, compa-

nies will need to address the issue of living wage even if production is moved to Europe. Switcher uses agents to ensure quality and deadlines. Even if the agents are trained in human rights, the use of middlemen results in less control and that the supply chain is extended. FTC believes that agents can contribute negatively through pressing prices and lead times, which in turn, can lead to more overtime and wage dumping. If a company uses middlemen, there should also be controls, follow ups and action plans toward these, as well as requirements also concerning their own sustainability efforts.

The living wage-fund that Switcher has developed is considered by FTC to be a tool for purchasing and can be considered as a complement to more long-term solutions. In a situation where it is difficult to impact wage levels, these methods can function as a kick-start. One aspect that FTC considers problematic with the living wage fund is that it partially takes the responsibility for wage issues away from the supplier. By using a living wage fund, it is important that this is applied to a supplier where the purchasing company is buying a large portion of the production, in order for the fund to have as much impact as possible.

Through its membership in FWF, Switcher conducts training for factory management and workers. It is positive that there is a long-term approach to the training and that one goal is to develop internal complaint mechanisms. FTC would like, however, to see independent reviews on how many suppliers have actually implemented the mechanism and how this impacts the freedom of association and the right to collective bargaining. In FWF's Brand Performance Check of Switcher for 2013, it is clear that the company does not work progressively with existing complaint mechanisms. Less than half of the workers were aware that the channel existed. It is surprising that the company does not use and develop the channels that exist in order to increase workers' participation. FTC also thinks that the company should take the opportunity to work more actively with the WE program with their suppliers. By training more workers more of them also become aware of the complaint mechanism.

Switcher takes the issue of living wage seriously and addresses it in different ways. The lack of methods to influence increased workers' participation does not allow the efforts to reach their full potential. Switcher's efforts also demonstrate that workers are not seen as an active part in sustainability efforts, but more as an information source and recipients of measures. Switcher works with both tools for purchasing and tools for workers' participation. The company has set goals for working with the issue of living wage, although they are vague. The lack of measurable goals makes it difficult to assess the efforts of the company. That the company has not publicized its list of suppliers makes external verification difficult, it also reduces the credibility of the company.

## Tchibo

Tchibo raises the complexity in issues that concern living wages such as the freedom of association, although, despite this, they do not have a clear strategy to develop sustainable relationships with suppliers more than they are working actively to concentrate their base of suppliers. More than 50% of supplier relationships are shorter than two years and more than 50% of their supplier relationships are conducted via agents. There is no information on as to if the agents are trained on living wage issues or sustainable purchasing methods. This is a large risk as there are many steps in the purchasing process that can have a devastating effect on sustainability efforts. The short lifespan of supplier relationships also makes it difficult to work with long-term and structural methods. Even if 80% of the volume of purchases comes from suppliers that have gone through the WE program, these concern only strategic supplier factories. The traditional supplier relationships are and will continue to be unaffected by the company's living wage strategies, something that FTC sees as a big problem. Given the background of the character of most of the company's supplier relationships, FTC believes that Tchibo should not choose to discard efforts to work with a guarantee for freedom of association. Trade union access should also be discussed.

Tchibo publicly stands behind AFW as a benchmark for defining living wages and also considers local union calculations and the calculations that come in through the WE program. FTC believes that this is good. Tchibo sees collective bargaining as decisive for success in working for living wages; the WE program is an expression of this. The program presents a view of workers where they are seen as something other than simply a recipient or source of information. Making workers an active part in the process is a very effective way to increase workers' participation. Here, the company have the possibility to combine this with tools for workers' participation of a short-term character. Complaints that arrive through the hotline tool could, for example, be followed up upon through the WE program. Involving worker representatives in social audits and in the development of action plans had also been a means of making the efforts more concrete and tying together the various tools, Tchibo have chosen not to use this possibility. Tchibo's efforts to raise the minimum wage together with other actors gives them increased influence, placing pressure on states is a method that more companies should use.

Tchibo use interesting methods, but their way of working with their suppliers, short-term and through agents, raise questions as to how much they are prepared to change their own purchasing methods in order to reach sustainable and long-term supplier relationships and living wages in their supply chain.

# Recommendations

Companies that wish to close the gap between current salaries and a living wage should work with both purchasing practices and methods for workers' participation. In addition, there is a need for both short-term and long-term tools. With long-term tools, the aim should be to achieve structural changes while short-term methods are necessary when underlying factors make it difficult to work at a structural level.

## **1. ADOPT A LIVING WAGE POLICY**

Adopt a policy that is based upon the company's responsibility to work for living wages as a part of the commitment to respect human rights. In line with Principle 16 of the UN Guiding Principles on Business and Human Rights, the policy should be approved at the most senior level of the company and be communicated internally and externally.

## **2. CONDUCT A RISK ANALYSIS OF WAGE LEVELS AND PURCHASING METHODS**

The UN Guiding Principles establish that companies must assess their impact on human rights. Regarding wages, this means that they must assess if current wages are enough to fulfill the basic needs of workers and their families. It also means that they must analyze if their own purchasing practices contribute to low wages in the supply chain. Risk assessments should cover both the actual impact at existing suppliers as well as the potential impact at new suppliers.

## **3. DEVELOP A STRATEGY FOR LIVING WAGE**

Based on the risk assessments of existing wage levels and purchasing practices, companies should adopt an action plan to achieve higher wages that includes measurable goals and timeframes. The strategy should contain both tools for workers' participation and improvements of purchasing practices. It is crucial that a strategy for living wage takes into account the existing relationships with suppliers, is an integrated part of the company's overall sustainability strategy and includes all workers in the supply chain.

**Tools for workers' participation** – To achieve results it is important that workers are included in finding solutions to improve the working conditions and that they are not treated simply as sources of information or recipients of corrective measures.



**Purchasing practices** – In order to achieve higher wages both the buying company and the supplier will have to invest resources. Long-term partnerships are more likely to make such investments possible than short-term relationships. Companies can also choose to reward the suppliers that pay the highest salaries and have freedom of association and collective bargaining with more or bigger orders.

#### 4. TRANSPARENCY

According to the UN Guiding Principles, companies must be able to demonstrate that they respect human rights. When companies are transparent in their work with wages, affected parties and other stakeholders are able to hold companies accountable and demand improvements. Information should be sufficient in order to be able to assess if a company has taken its responsibility concerning violations of human rights in the supply chain. Transparency is also a way of sharing good practice with industry peers.



A decisive factor for achieving results in workers' representation is that workers are included in the solutions that impact their own working conditions.

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