CASE STUDY: SWITCHER'S LIVING WAGE PILOT

In 2013, FWF member Switcher embarked on an experimental project to implement living wages in a portion of its supply chain. Switcher is a mid-size Swiss clothing brand that, like most brands, contracts with different suppliers to produce clothing. Depending on the season, Switcher sources from 20 - 30 total suppliers worldwide in 6 or 7 different countries. Despite its small size relative to many major global garment brands and retailers, Switcher has been widely recognised as a leader in this arena – for taking a new and very practical approach to implementing its living wage commitments.

FWF interviewed Switcher's Gilles Dana, CSR manager, about his recent experiences, through which Switcher encountered a number of unexpected challenges, and was even forced to shift the location of the project from Bangladesh to China. Switcher's experience is illustrative of the difficulties of trying to change standard supply chain practices, but also shows what can be learned when brands are willing to invest time and ingenuity in order to improve their supply chains.

FWF's Code of Labour Practices includes eight labour standards. Of all the eight, why did you choose to focus on Payment of a Living Wage?

We see a lot of audit reports, and they all say the same thing: look at wages, look at overtime. So the message is very clear. And it also seemed like something that is (relatively) easier to work on from a brand level. It is harder for us to have a direct impact on some other issues; but wages seemed like something we could make progress on directly.

What were Switcher's goals when you first envisioned this project?

This kind of focus on a brand's supply chain is very different from traditional corporate philanthropy. At one point we were discussing whether our next effort should be to open a medical centre or some similar project. But the feedback we got from stakeholders was 'no, work on wages'.

We are a mid-size Swiss brand, and like many brands our size, we will never buy the full production of a factory. So part of the question is: how can a mid-size brand improve the wages in a factory 10,000 km away? Our idea, to try this out, was to set aside 2.5 euro cent per garment for a small part of our collection, and to find a way to get that money directly to the workers.

It's important to be clear: we are not claiming that this is enough to reach any of the living wage estimates, and it was for a small number of garments and workers. Fair Wear Foundation's Wage Ladder methodology emphasises making small but real improvements now, rather than doing nothing while the world keeps waiting for some international agreement to be negotiated. So that's what we tried to do.

This was an important learning opportunity for us, to try this out on a small scale. And we are not experts on these issues, so we also knew we would need some help.

What kind of help did you get in setting up your project?

We commissioned Professor Doug Miller to conduct research and consult with stakeholder groups – like workers, unions, and factory managers. This consultation was held in Bangladesh, where we originally planned to try out the project. We targeted two factories that were relatively new in our supply chain.

We received important feedback from workers and their advocates that helped to shape the project. It was clear that any additional payment would have to be shared among all workers in the factory. Trying to identify and pay only the individuals who happened to be assigned to our production was impractical and unfair. It was also important that the amount be included as part of the payment for product (FOB) and not be sent or perceived as some kind of charity. As this was a pilot project, we followed the recommendation from workers

switcher
made with respect

to pay out the extra amount as a one-time 'wage enhancement.'

What kinds of challenges did you actually encounter?

Interestingly, factory managers were resistant to the idea of extra payments for workers. They are worried that if a payment is made one year, workers will expect the same payment to be made in the future. And there is a lot of resistance to having customers involved in wage issues. The fact that we were a small customer at both factories made negotiations harder. We had a lot of difficult discussions with management about these issues.

In a situation like this where it is a pilot, you do need to be responsible about how you explain to workers and the entire factory what's happening. It is important to explain that a one-time payment, supported by a customer, is a one-time payment. Managers were fearful that such a payment would cause unrest; but we thought it would make workers more likely to stay at the factory. Especially as high worker turnover is such a problem in Bangladesh.

Because of some quality issues, problems that came to light during audits, and also because a diminution of our purchase volume, our relationship with these two factories really deteriorated. Ultimately, we had to end our business relationship before we could distribute the funds we had set aside. This was really a low point in the process.

What did you do then?

We were really struggling to figure out what to do. We had publically committed to this project, and we had set the funds aside. We felt we had to distribute the funds, it was not right to just keep them, but we no longer had a mechanism to distribute the funds in Bangladesh.

In discussions with our team, we decided to try again at a factory where we had a much longer business relationship – over nine years – in China.

How did that process go?

As in Bangladesh, we had extensive discussions with the factory's management about the benefits of a wage supplement, and worked to relieve their concerns about creating expectations in the future that could not be met.

We also explained the business case for what we were doing, to reinforce the idea that this is not charity. My thinking is one of my customers pays extra for a product, then I am going to pay extra attention to that customer. Perhaps it will be the same with workers; if they know Switcher was willing to pay more, maybe they will take extra care with making our products. It's an interesting question.

As in our original plan for Bangladesh, we decided that all workers in the factory would get payment, and to distribute the money as an extra wage supplement. We asked FWF's staff in China to help oversee distribution of the funds. That's an important question – if you are going to supply extra money for wages, you need to make sure that employees receive it.

We also arranged for the distribution to happen in conjunction with a session of FWF's Workplace Education Programme, which covers the eight core labour standards, including payment of a living wage. We wanted to provide some context for why this was all happening, and take the opportunity to make sure workers also understood, for example, how social security should work for them. I also arranged my annual trip to visit our Chinese suppliers to coincide with the training, so I could see first-hand how the process worked.

In the end, 66 workers received a bonus payment of 1130 RMB – about half a month's wages.

What are some of the lessons you take away from this process?

The concern factory managers have about paying extra wages surprised me. I think of extra pay as something that would make workers happy, and decrease the chances of them going to another factory. But managers saw this differently.

Also, attention to detail and logistics is important. We needed to make sure that the factory had the money before the event, of course – you can't ask them to distribute funds while causing them a cash-flow problem. And it is also important to ensure that for trainings, workers' wages are paid, either by you or by your supplier. You can't ask workers to come to a work training outside of work hours, or for free.

When you start to work on something like this, you have to watch out for unintended consequences – for example, making sure that factories don't use a wage bonus paid through a project like this as an excuse to not pay the annual wage increase that are due to workers. Ensuring that the bonus is included on the wage slip is also pretty essential, if we want the bonus to be perceived as wages, rather than charity.

Some people have also asked about how you set the amount of wages, and where you found the money.

Some people have suggested that we should be negotiating with workers to determine how much extra to pay, but at this point we are still trying to learn how the mechanics of this process work. So for now we are just setting aside around 1% of the price we pay per product to a given factory and we work with that. It's a simple calculation method that for now lets us focus on the question of how to implement an increase.

This money we took out of Switcher's profit margin – we did not ask the factory to lower costs somehow to support higher wages.

What are your plans for the future?

Well, it was not an easy process, but we have learned a lot and we plan to continue in 2015 with the factory in China. We are considering how we might expand to other factories, once we better understand the process. We need to find ways to distribute increases through regular pay channels. We would also like to find a way to have other brands who buy from the same factories support increases. If the working hours for Switcher are only a few percent of all a factory's working hours, then no matter what we do alone, workers' take-home pay will not increase that much.

There are still lots of questions to answer, but we are happy that we have started, that there is support within Switcher to continue, and that there is such interest in our work. We hope more brands attempt similar projects, and that we can learn from each other how the industry can make real progress towards better wages.

Learn more at www.fairwear.org.