

The impact of purchasing practices on wages and working conditions in Global Supply Chains

A summary of Survey Results

Daniel Vaughan-Whitehead

Author of forthcoming book (Edward Elgar, UK):

At the core of Global Supply Chains -

*The impact of purchasing practices on
wages and working conditions*

Summary

Scope of the project

- Unique scale
- Unique for its content: three main tools: Suppliers' and buyers' feedback on purchasing practices and working conditions + case studies in 5 countries

Key results in five areas of purchasing practices from suppliers' and buyers' surveys

- Contract clauses
- Technical specifications and product development
- Order placement and lead times
- Market power and prices
- Demands for social standards

Case studies: Specific results on wages

- Management-Workers combine database, determinants of wages, Impact

What implications for the business model in GSCs?

Three main tools:

Global survey among suppliers, global survey among buyers and qualitative case studies

Suppliers:

1454 Suppliers, 87 countries, 23 sectors

Buyers:

102 Buyers, 13 countries, 13 sectors

Case studies :

30 suppliers, 5 countries, 10 sectors, 632 workers



Global surveys: Method and data collection

Research based on a two step approach

1. large scale surveys to get the most comprehensive picture on purchasing practices;
2. case studies with both management and workers' surveys to enable more in-depth analyses

Global surveys were sent out between 2015 and 2019

- 1454 suppliers and 102 buyers, respectively

Surveys asked qualitative and quantitative questions:

- *e.g. How would you rate your factory's bargaining position with buyers (1= very bad, 5= very good)?*
- *e.g. How many buyers does your factory sell their production to? What proportion of your factory's total sales are sold to your main buyer?*

Survey designed to gain a better understanding of how supply chains operate in practice

We analysed survey responses and through statistical methods generated simple tables/ graphs and econometric analyses

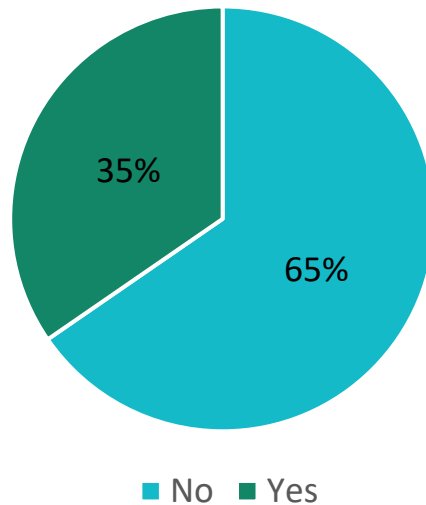
Five areas of purchasing practices: Reflecting a disbalanced relationship

- **Type of contract** between the buyer and the suppliers (35% of suppliers have some non-written contracts with the buyers; 44% of the contracts specify who would be responsible for the costs incurred when changes in orders)
- **Accuracy of technical specifications** about products and its features (33% of suppliers suggest technical specifications are not accurate enough)
- **Buyers' placement of orders**, and in particular the timing with which the buyer is placing its orders (only 16% of suppliers in the Global Survey considered orders to have enough lead times, while the majority of them reported that more than 30 to 50% of their orders had insufficient lead times)
- **Prices** agreed between the buyer and suppliers (39% of the suppliers reported to have accepted orders whose price did not allow them to cover their production costs; 52% in Textile and Clothing)
- Although buyers (90% of them) expect suppliers to follow a **code of conduct especially on social standards**, nearly half of suppliers (49%) receive no help to achieve such social standards (and among the 51%, only 17% enjoy from shared audits or financial assistance for doing so)

1.1 Contracts

Suppliers:

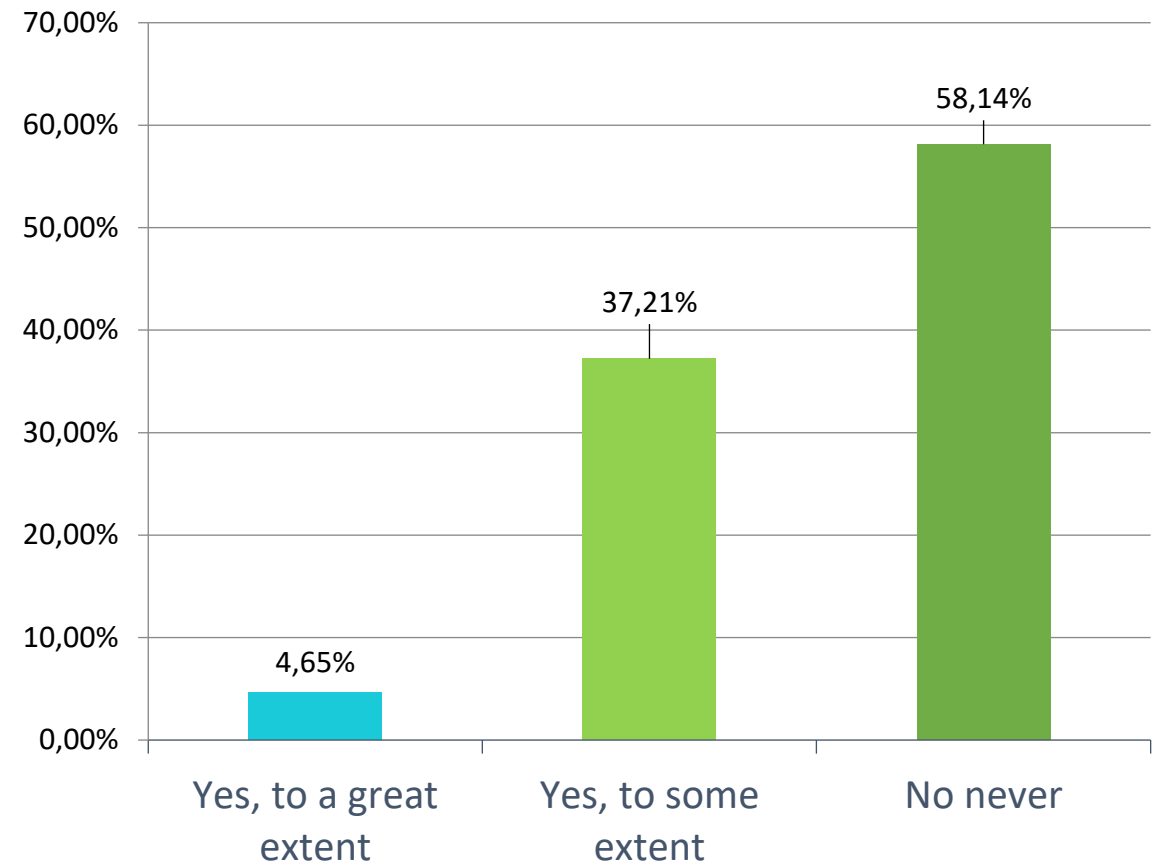
Do you have unwritten contracts with your customers ?



More than a third of the suppliers have unwritten contracts with some of their customers.

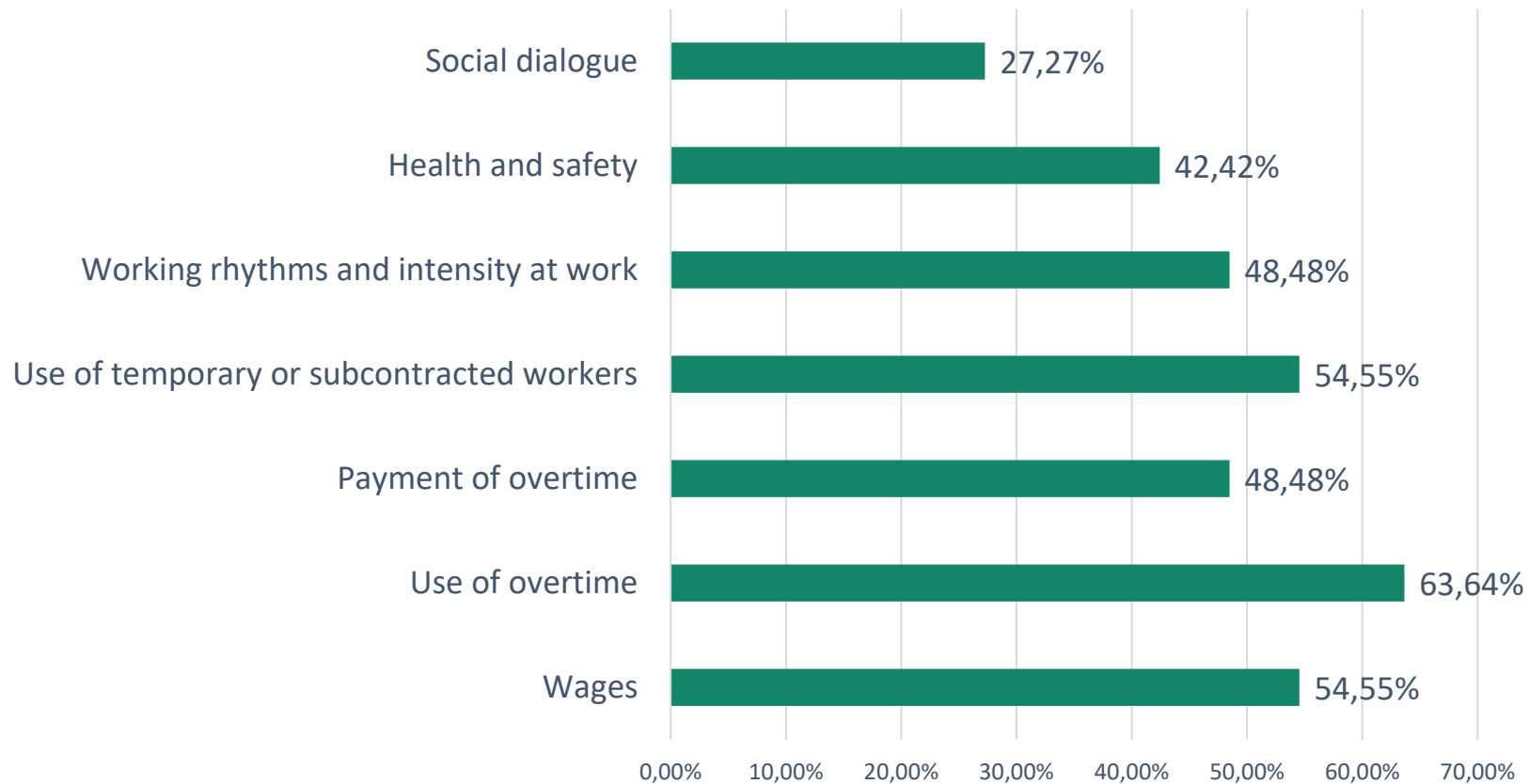
Buyers:

Does it happen that your company has unwritten contracts with your suppliers?



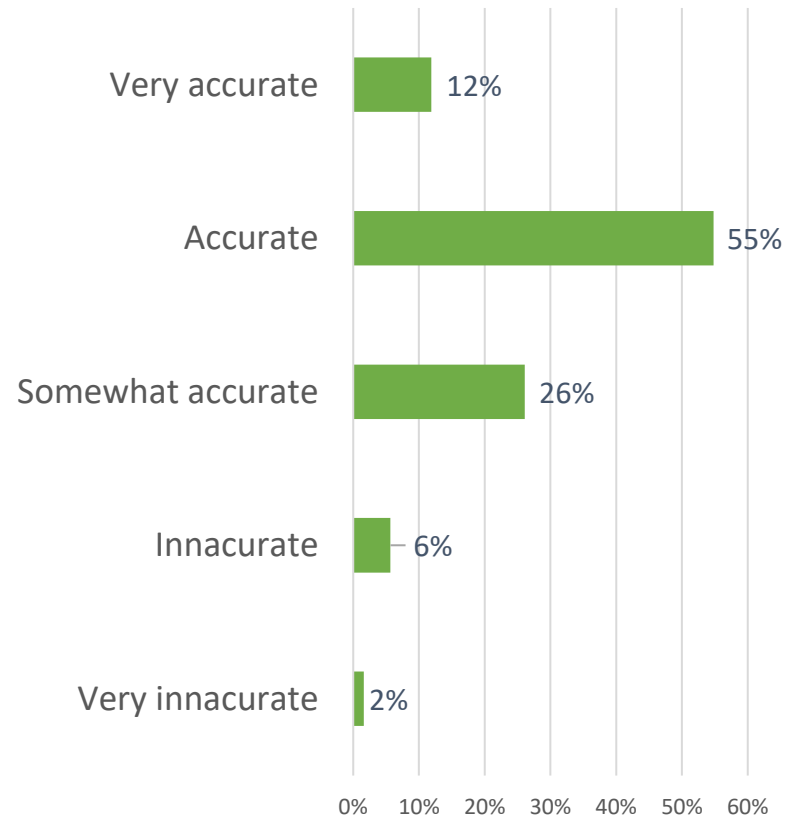
1.2 Uncomplete contracts: Effects on working conditions

Buyers: Effects of uncomplete contractual arrangements on working conditions



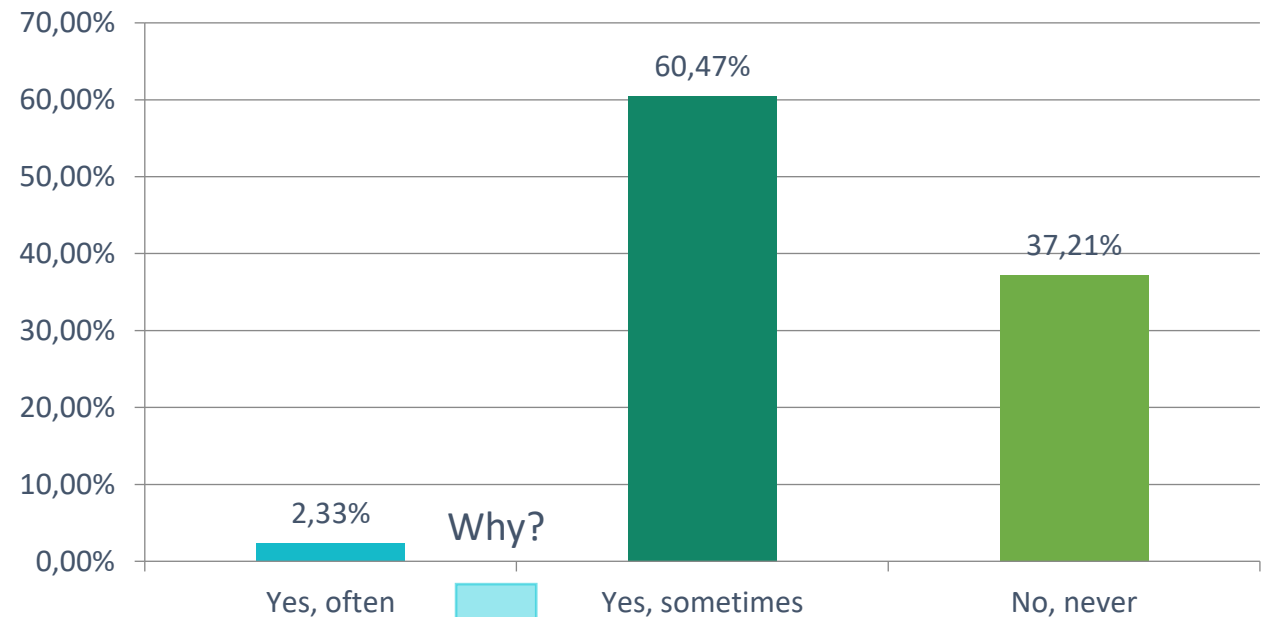
2.1 Accuracy of technical specifications

Suppliers:



Buyers:

Does it happen that your company provide suppliers with technical specifications on the product that **may not be fully accurate**?

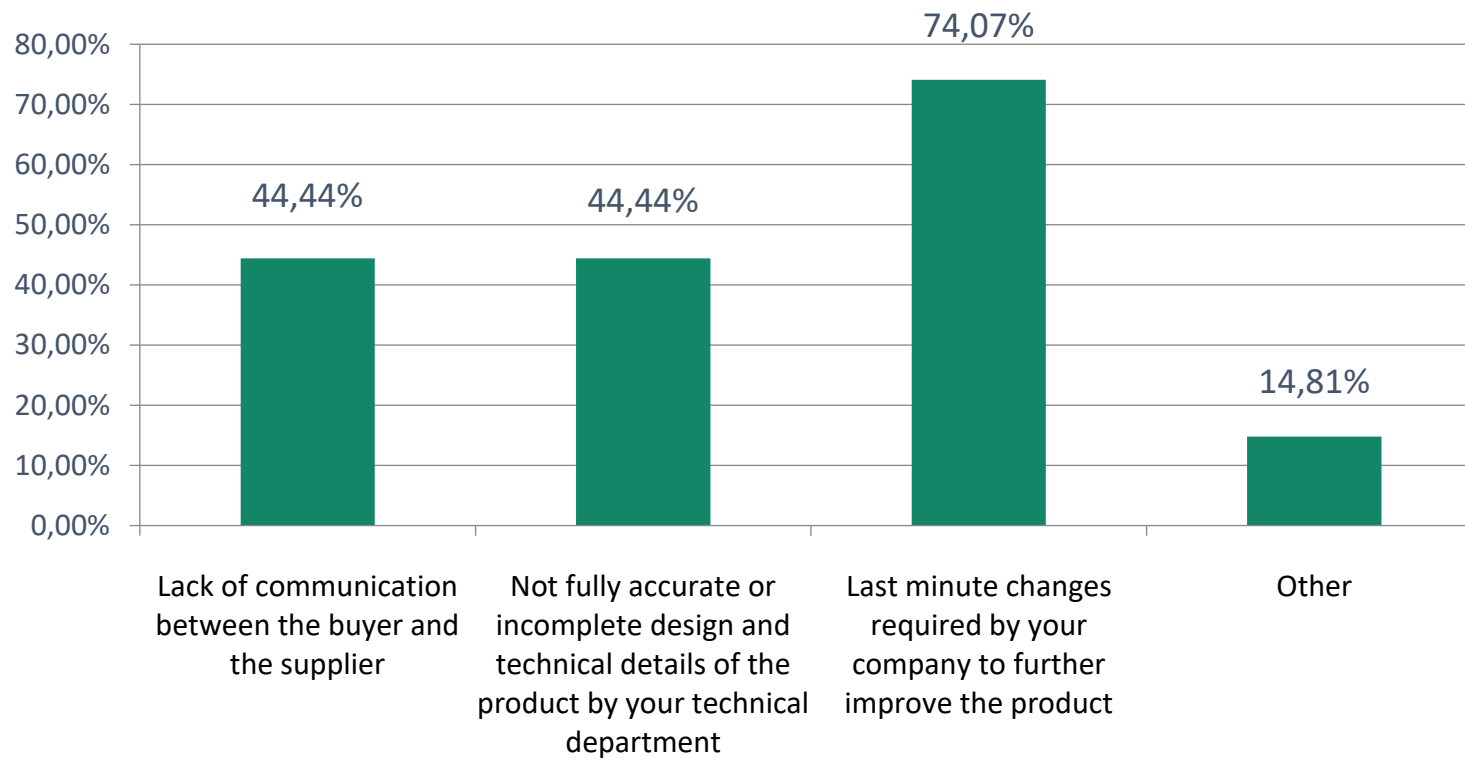


Why?

2.2 Buyers' reasons behind innacurate technical specifications

Buyers:

What are generally the reasons behind not fully-accurate technical specifications?

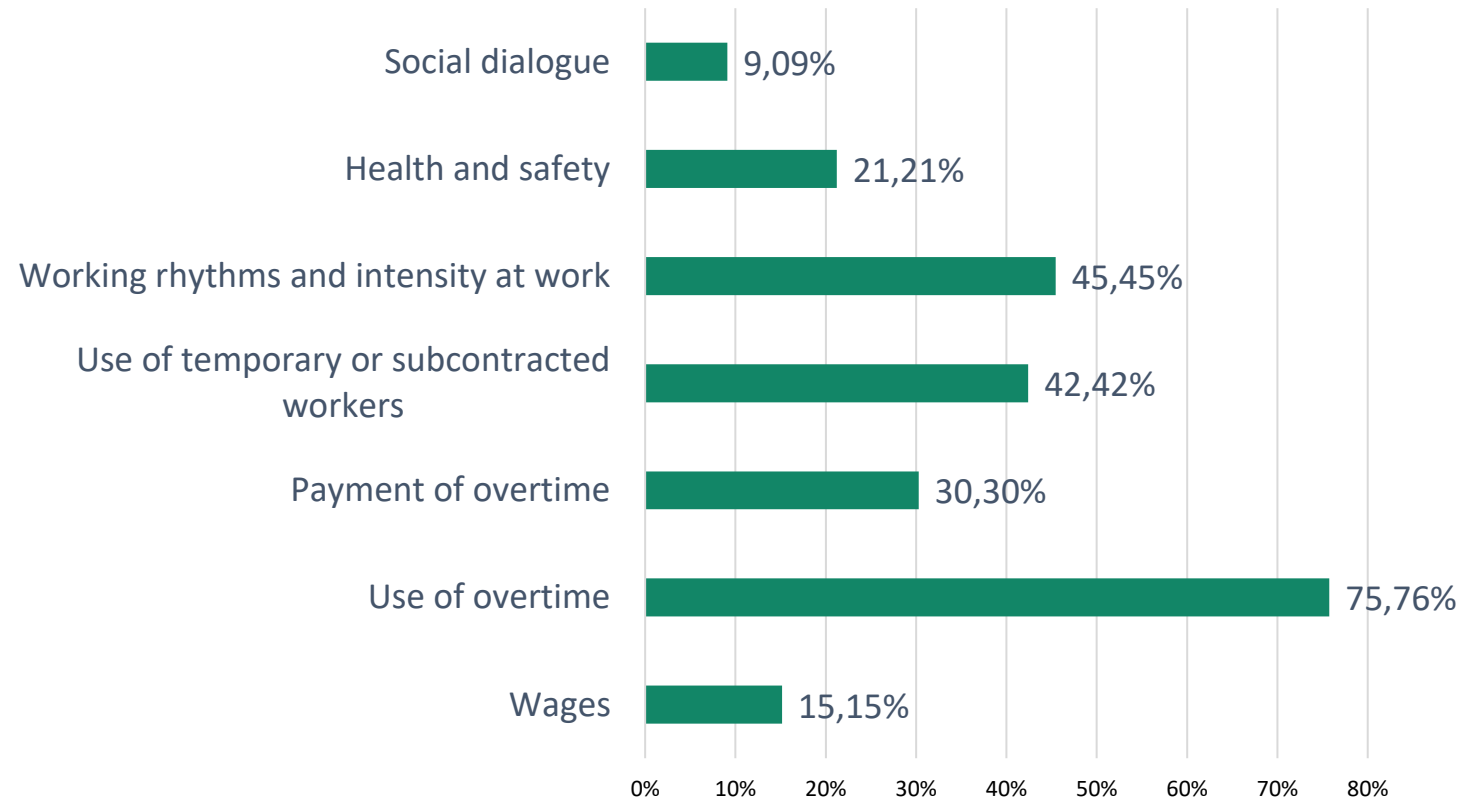


2.3 Consequences on working conditions

Suppliers:

Inaccurate technical specifications lead to a decrease of WAGES by 26.9%

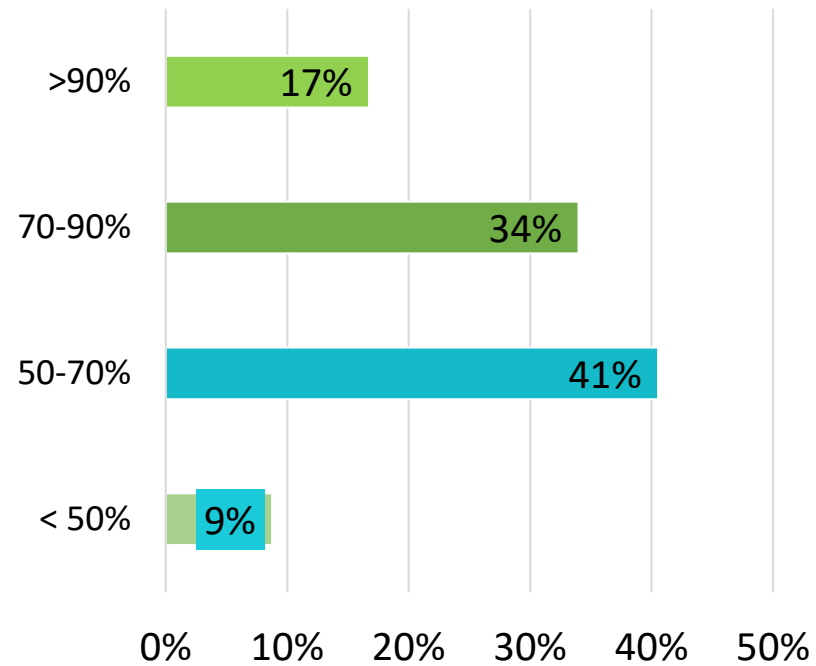
Buyers: Inaccurate technical specifications have the following effects on working conditions



3.1 Placement of orders and lead times

Suppliers:

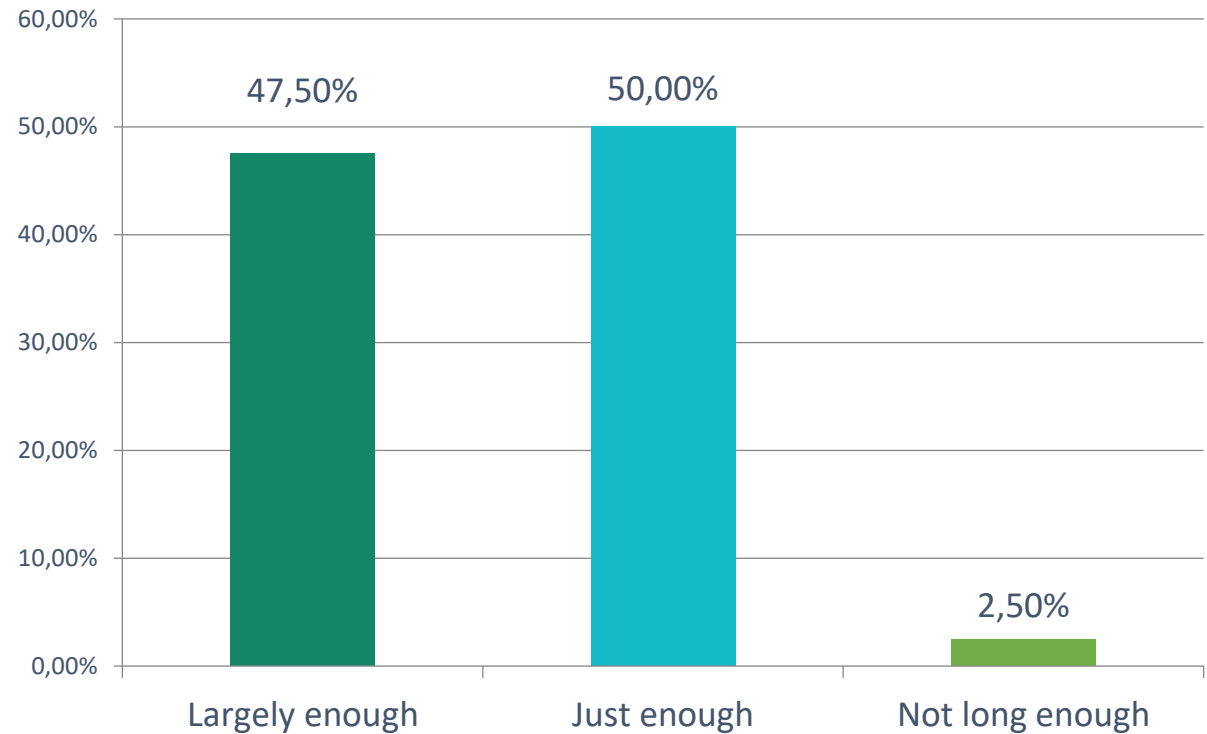
What percentage of your orders' have sufficient lead times?



Why?

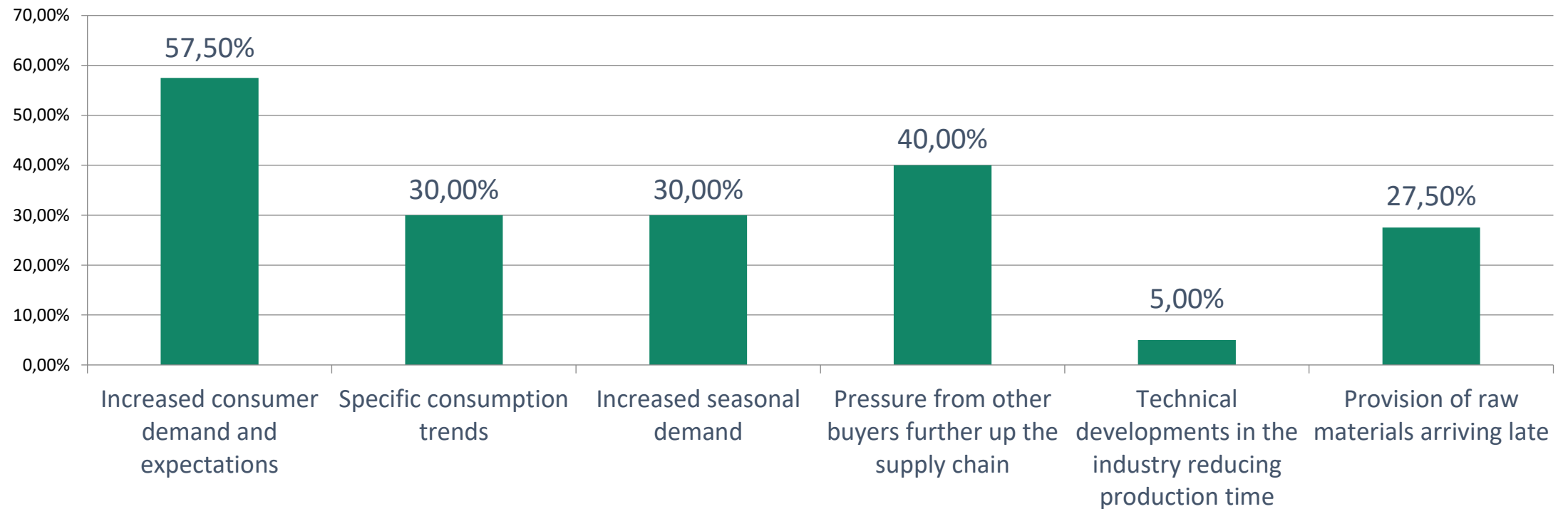


Buyers: How would you rate the average lead times offered by your company to your suppliers?



3.2 Buyers' reasons behind short lead times

Buyers: Where does the pressure to reduce lead times come from?



3.3 Consequences of lead times on working conditions

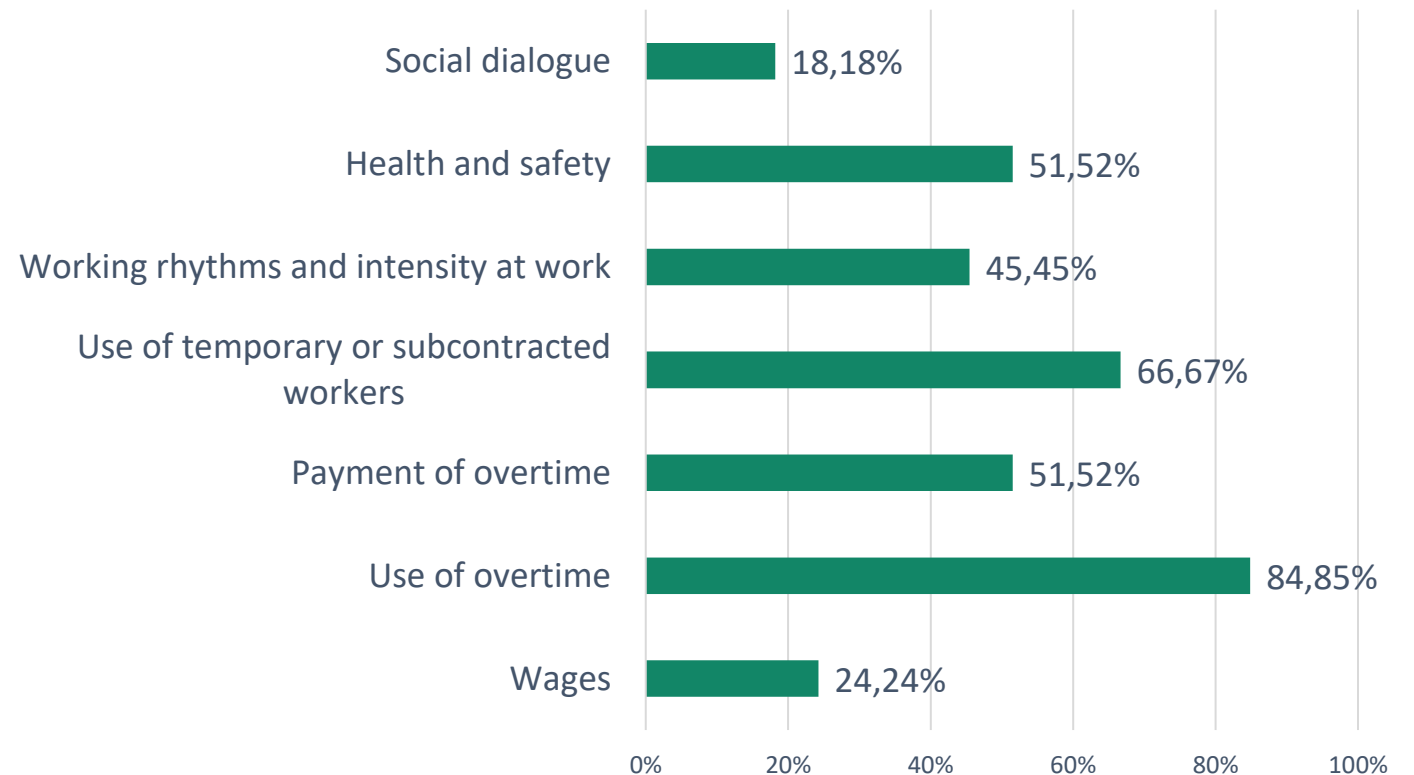
Suppliers:

Lead times: when less than 50% of lead times are sufficient



Working time increases (+2.8%)
Wages increase (+16.3%)
Subcontracting increases (+20.8%)

Buyers: Short lead times have the following consequences on working conditions

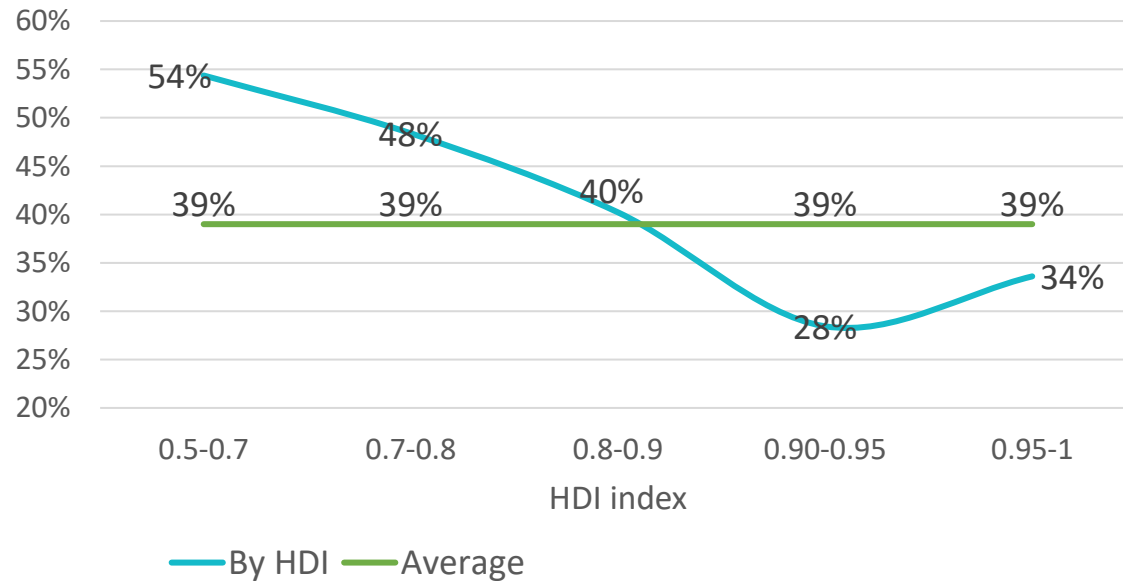


4.1 Market power and prices

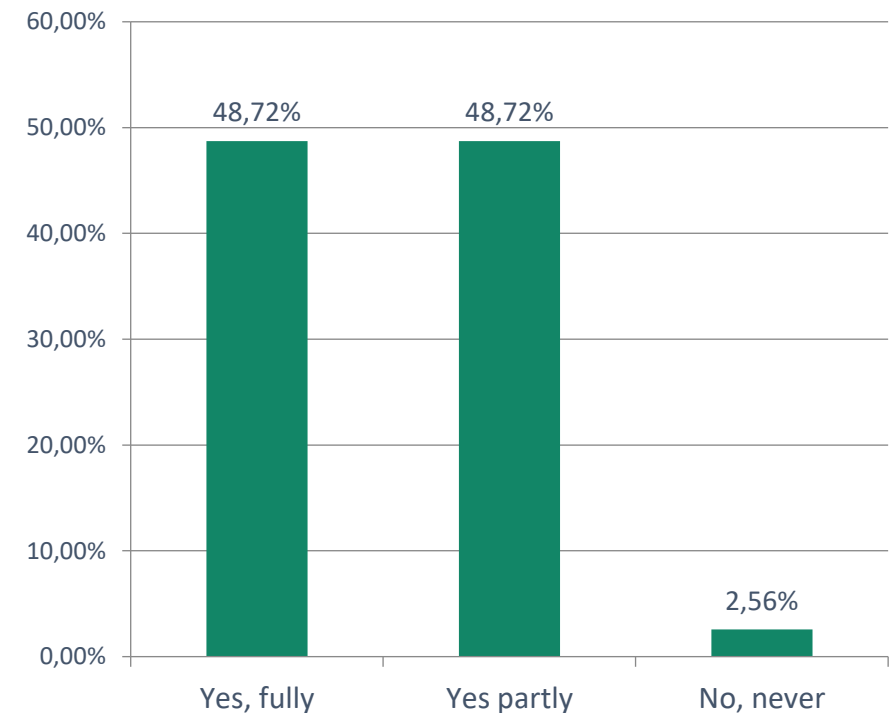
Suppliers:

On average: 39% of suppliers accept orders below the cost of production

- 54% in low HDI countries
- 34% of suppliers in high HDI countries



Buyers: Would you say that your company has a responsibility to ensure that the price agreed covers at least production costs?

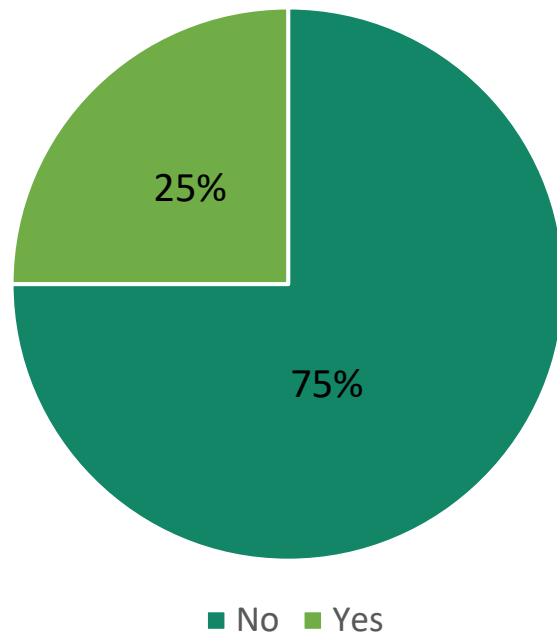


4.2 Minimum wages and prices

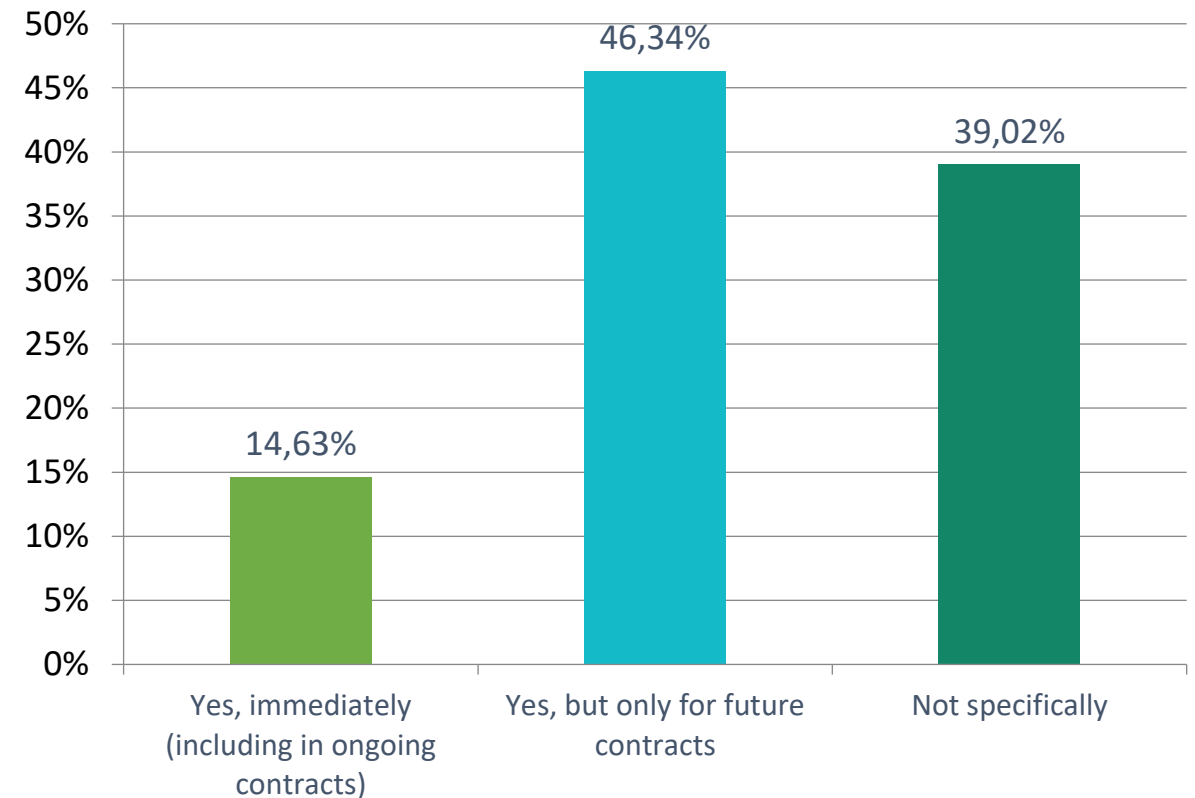
Suppliers:

What percentage of your customers were willing to reflect the minimum wage increases in the price paid?

-> Only a quarter of them



Buyers: When there is a minimum wage increase in the country where your supplier operates, does your company reflect such increase into its prices to the supplier?

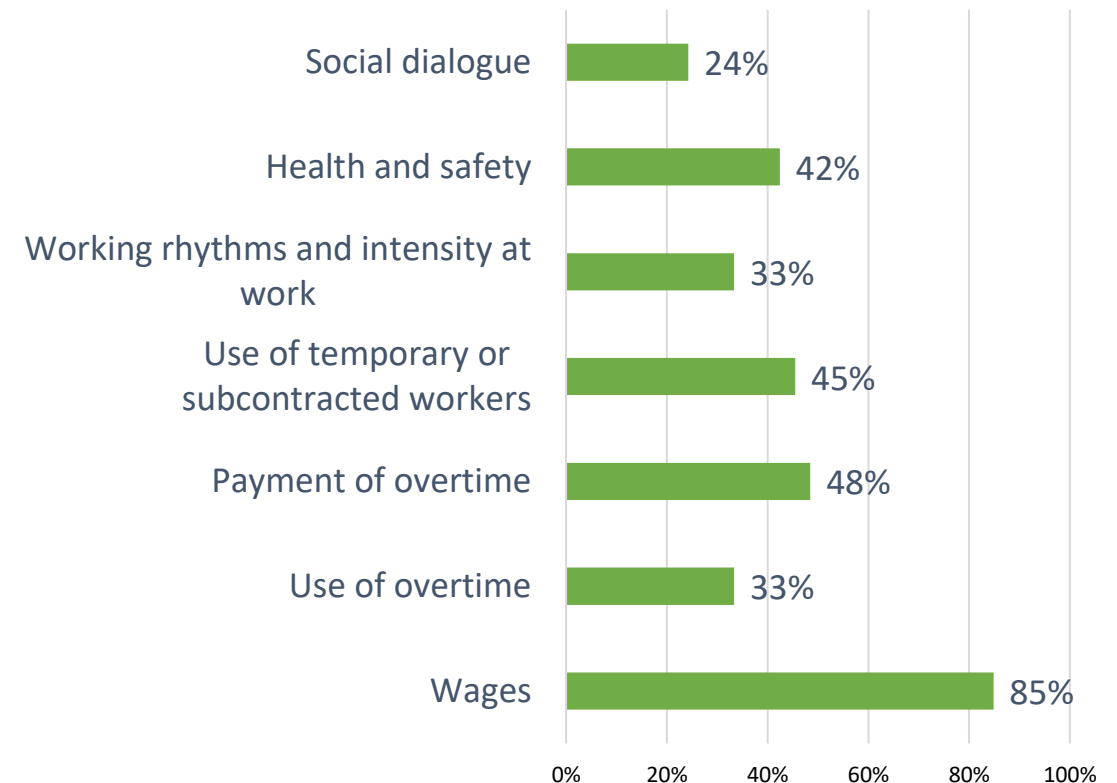


4.3 Acceptance of prices below costs: Consequences on working conditions

Suppliers:

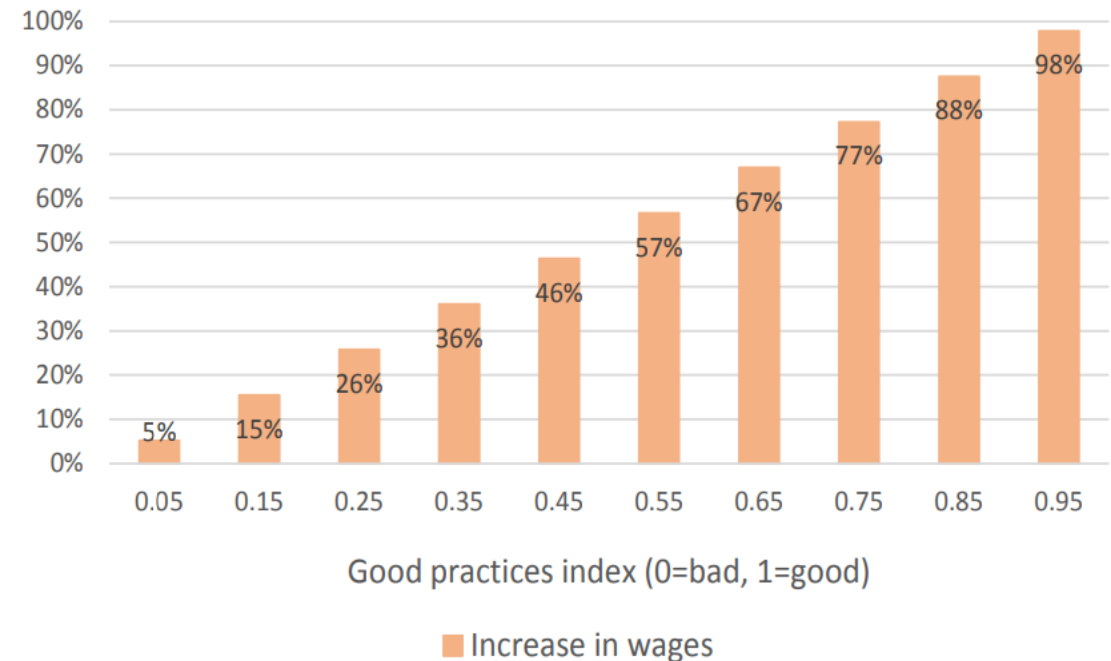


Buyers: Please tick all the boxes where you believe there may be some correlation



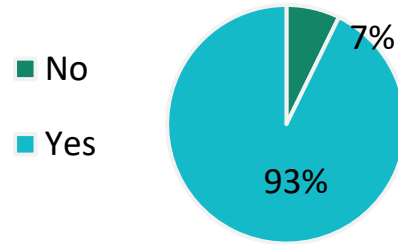
4. Overall impact of good purchasing practices on hourly wage

- Transforms items from wage regression into an index with values bounded between 0 and 1
- Interpretation: maximum average hourly wages retrievable if purchasing practices switch from worst to best
- Therefore, purchasing practices can make a real difference with regard to wages at the end of global supply chains

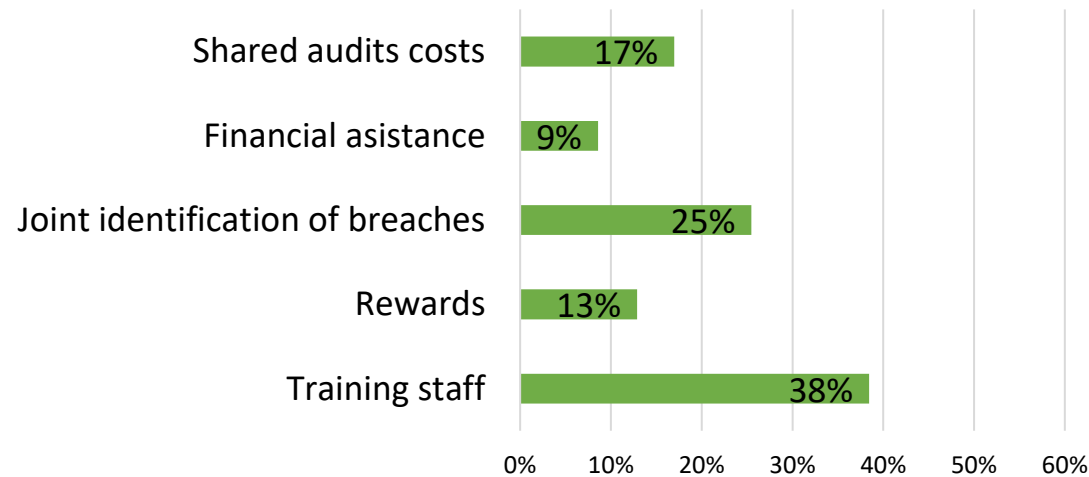


5. Demands for social standards

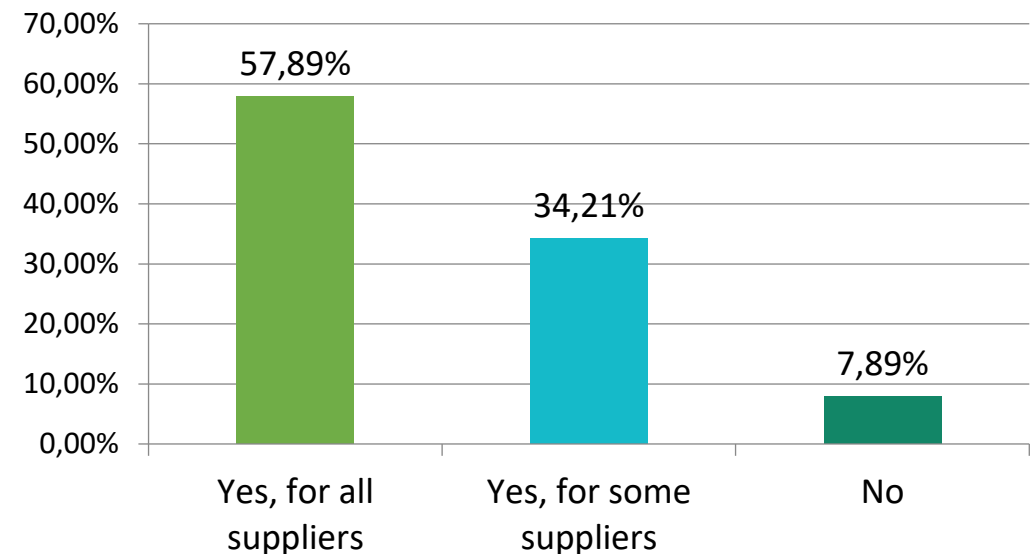
Suppliers: Do any of your customers expect you to follow a code of conduct?



Suppliers: If your customers help you meet their code of conduct requirements, in what ways do they do so?

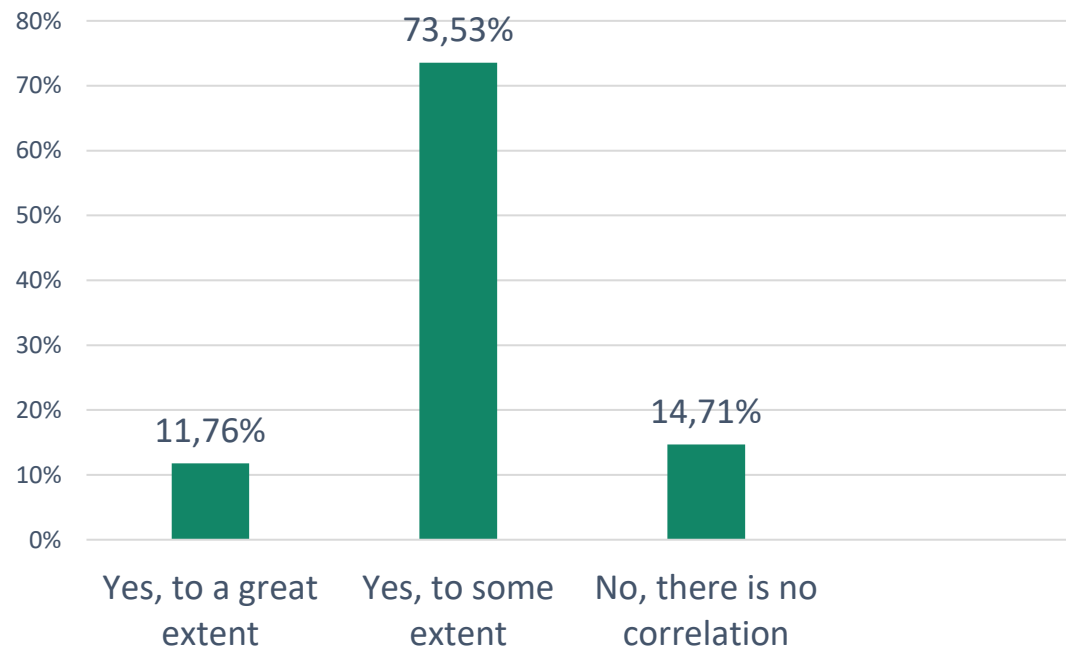


Buyers: Does your company provide support to ensure suppliers meet the code of conduct?



Buyers: Impact of purchasing practices on working conditions

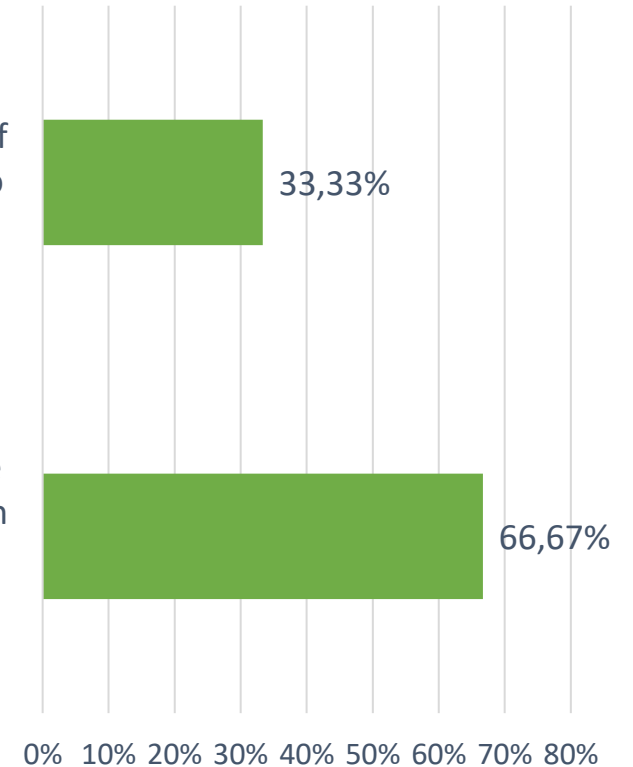
Buyers: Do you believe that your company's purchasing practices influence wages and other working conditions ?



Buyers: Do you believe that your company's purchasing practices are also influencing the payment of a living wage/fair wage?

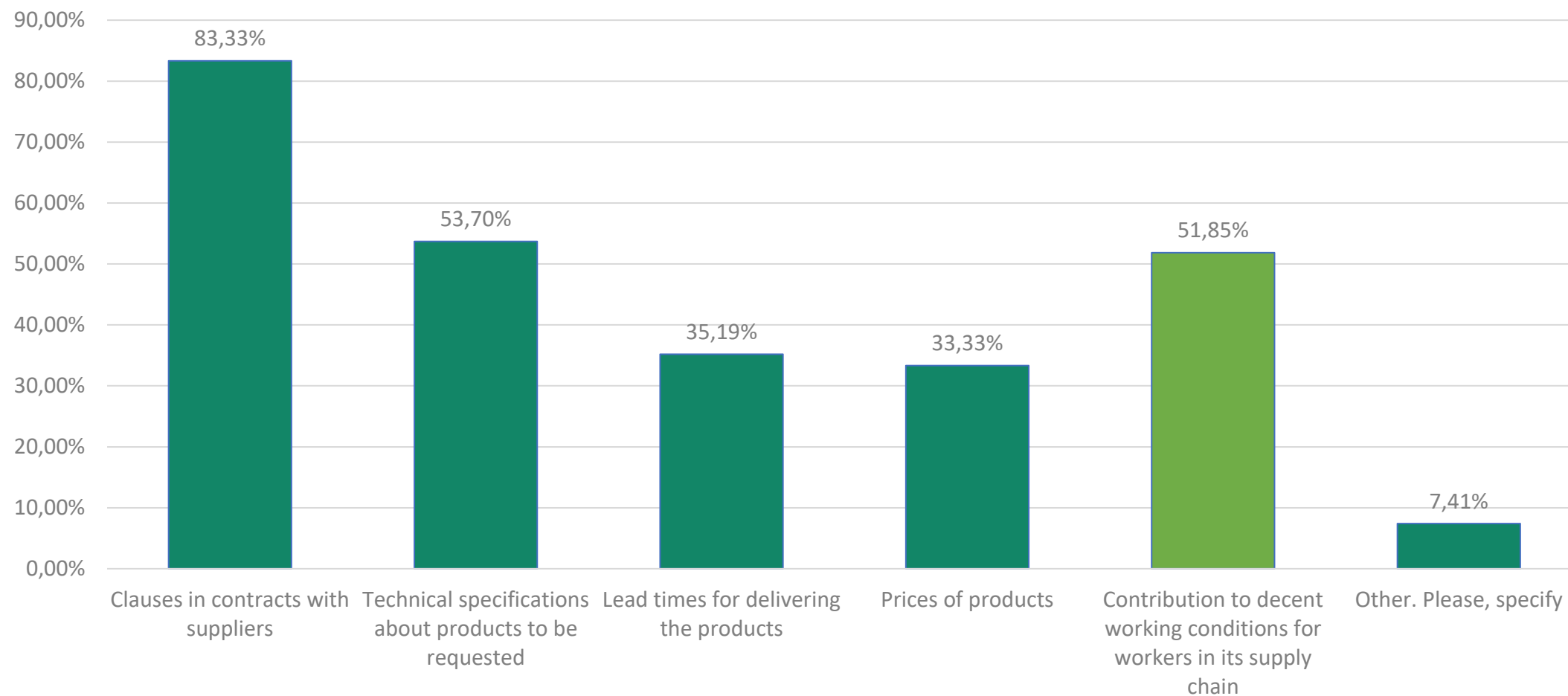
No, I believe that the payment of a living/fair wage is not linked to our purchasing practices

Yes, because buyers determine prices that set suppliers' margin and suppliers' ability to pay higher wages



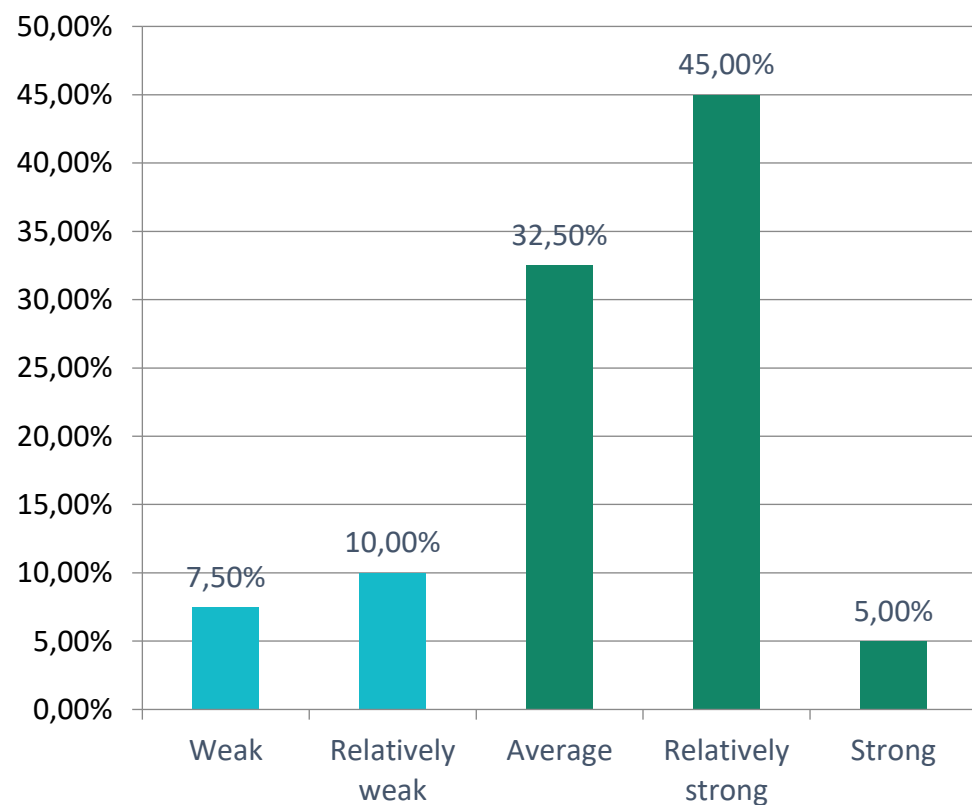
Progress reported by the buyers

Buyers: In what of the following specific areas of purchasing practices do you believe your company has done most progress?

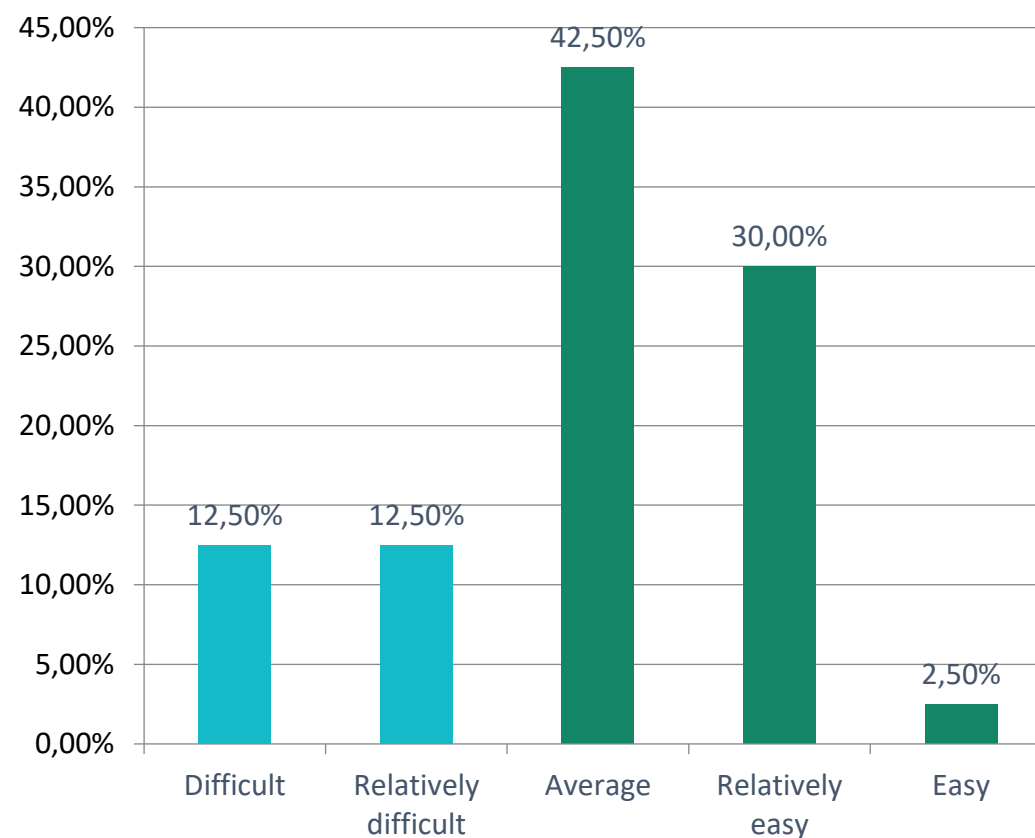


Buyers: Market power, prices & unbalanced relationship

Buyers: How would you rate the bargaining position of your company on average?



Buyers: How easy would it be to substitute one of your company's suppliers if its prices became too high?



Case studies: Results from 31 suppliers in Bangladesh, China, India, Turkey and South Africa

Management Survey

- Purchasing practices and factory-level characteristics (e.g. sector, size, bargaining position)

Employee Survey

- Working conditions (e.g. wages, working time, OSH) and individual-level characteristics (e.g. sex, education level, experience)

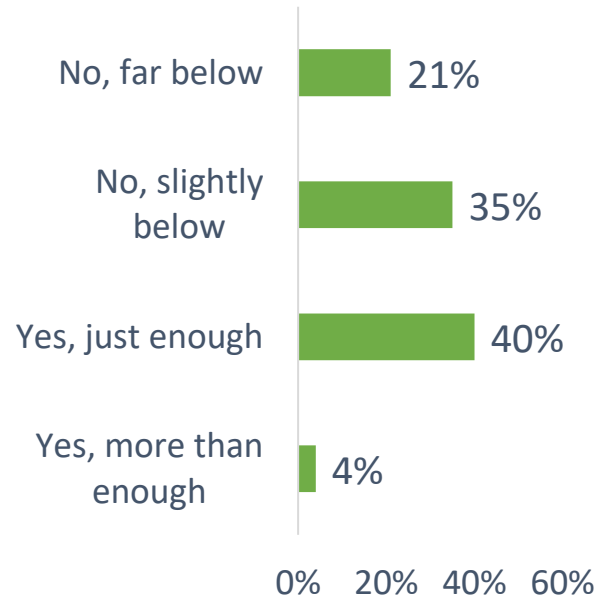
Employer-employee matched database creates unique opportunity to analyse:

1. Working conditions at the worker level;
2. Purchasing practices between the supplier and its buyers; and
3. The relationship between 1. and 2.

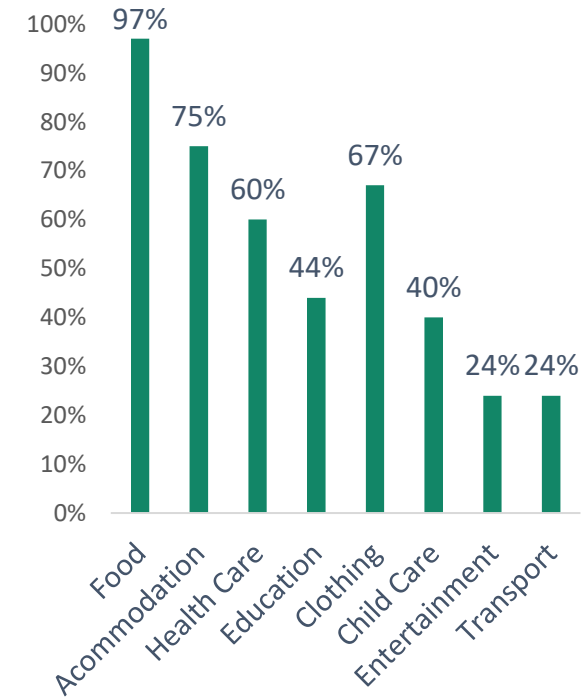
Employee Survey results: Basic needs and wages

- *Over half (56%) of workers reported their wages are insufficient to meet basic needs of themselves and their families*

“Are wages enough to cover family expenses?”

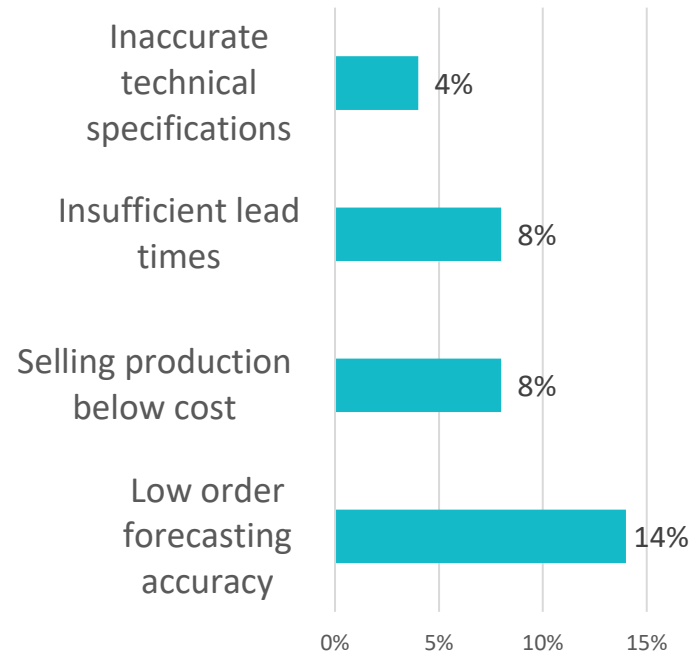


Basic needs covered by workers' wages

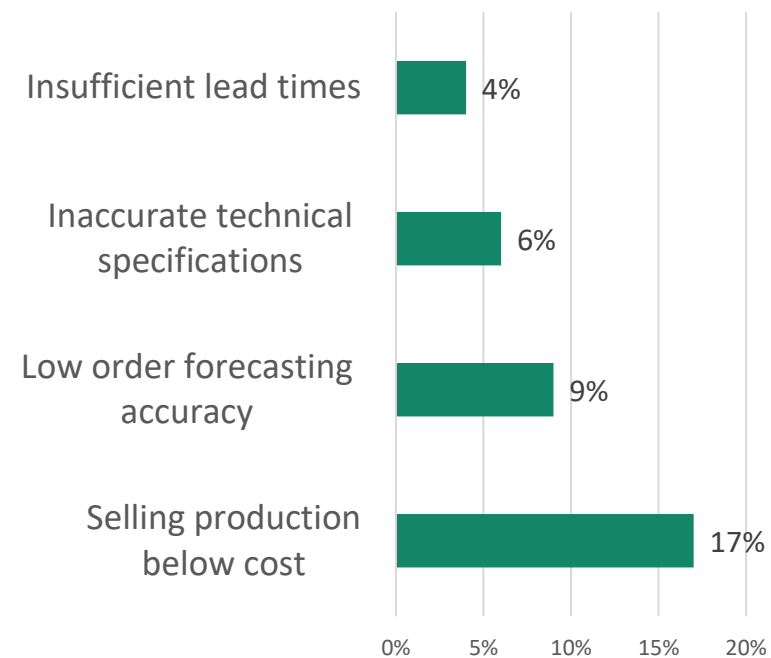


Management Survey results: Wages and purchasing practices

“Do the following purchasing practices make it difficult to pay wages on time?”



“Do the following purchasing practices lead to lower wages?”



Determinants of wages (wage equation)

Variables	(1) % change in monthly wages
Education= primary	0.06 (0.078)
Education= secondary	0.03 (0.079)
Education= tertiary	0.06 (0.083)
Female	-0.05** (0.021)
Tenure	0.004** (0.004)
Firm size	-8.31e-06* (4.93e-06)
Collective bargaining	0.094** (0.044)
Position= line leader/ supervisor	0.116*** (0.029)
Years with client= more than three years	0.251*** (0.063)
Number of buyers	0.03*** (0.01)
Prices offered by buyers below production cost	-0.106*** (0.034)
Inaccurate technical specifications	-0.124*** (0.039)
Orders with insufficient lead times	0.055* (0.032)
Poor planning and forecasting	-0.104*** (0.016)
Observations	525
R-squared	0.92

Summary of the impact of purchasing practices on wages

% Change in monthly wage

- Price offered below cost: -10.1%
- Inaccurate technical specs: -12%
- Inaccurate order forecasts: -11%
- Orders with insufficient lead times: +6.3%

Note:

- We include control variables at the individual, firm, sectoral and country levels

What implications for the business model?

- Our Global Survey results have shown that the problem of low wages, excessive overtime hours and poor working conditions is not only domestic but that **root causes are to be found at the core of global supply chains,**
- In the relationship and **terms of contracts between buyers and suppliers,** with an **unbalanced relationship**
- Something that is also **confirmed by the buyers**
- The buyers **also acknowledge their impact on working conditions**
- Progress achieved seems to focus so far on codes of conducts, action at supplier level, and some changes in contracts **without however reforming two core purchasing areas** that are illustrative of the current business model (especially of fast-fashion): **Lead times and pricing**
- Also **poorly inclined to decentralize R&D**
- While both suppliers and buyers have a responsibility, **the whole functioning of the global supply chain** is leading to poor wages and working conditions notably through outsourcing
- Need clearly to **reform all these purchasing practices and** to modify the different steps and **internal mechanisms within the global supply chains.**