

POLICY BRIEF:

The Business Case for Quality Jobs Evidence from Better Work



BETTER WORK

Better Work policy briefs present the relevance of Better Work's research and impact findings for policy formulation

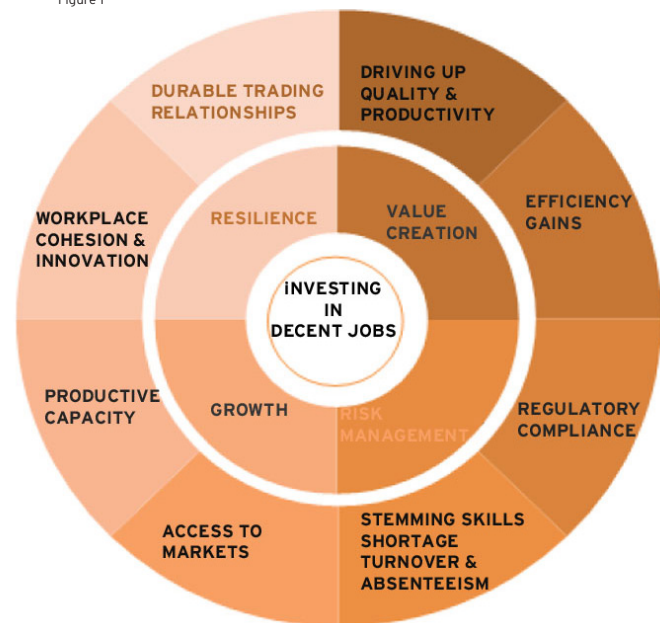
The business benefits of investing in better working conditions are not always apparent to employers who may often perceive these investments solely as a cost. While many factors can affect business performance, Better Work has found that improvements in working conditions and superior competitiveness are not mutually exclusive but can be simultaneously achieved and mutually-reinforcing.

A FRAMEWORK FOR UNDERSTANDING THE BUSINESS CASE FOR QUALITY JOBS

A simplistic approach to evaluating the business case for better jobs for garment workers would weigh immediate costs against measured short-term gains in productivity or profitability. Cost-benefit analyses conducted this way can lead to short-sighted management decisions. The costs of inaction in the face of poor workplace conditions and their associated risk can be greatly discounted and distort management decisions as well.

Encouragingly, many apparel brands and their suppliers sense that investments to promote decent jobs in their supply chains can benefit their business. Such benefits can include an improved and longer-term business relationship that supports product quality and reliability, as well as better risk management that mitigates skill shortages and turnover for suppliers and enables greater control of brand reputation and sustainability agendas for buyers. Results from Better Work research on the effect of better jobs on business outcomes are presented below through the dimensions of value creation, risk management, growth, and resilience, as exemplified in Figure 1.

Figure 1



WHAT MAKES FOR A "QUALITY" JOB?

Improving working conditions and promoting decent jobs can be measured multiple ways. Some of these include measuring a factory's degree of compliance with regulatory and international standards, the extent to which workplace occupational health and safety hazards are mitigated, or progress made in adopting best-practices in human resource management.

Quality jobs should also raise the income of a worker and improve her livelihood - including her ability to invest in the future of herself and her family, and to protect against adverse life events. A workplace with better jobs promotes communication and representation, and equips workers with improved skills and education. Better Work focuses on each of these issues through its factory-level activities, and evidence in this brief draws on evaluative research of these activities and those of similar programmes.

1. QUALITY JOBS CREATE VALUE THROUGHOUT GARMENT SUPPLY CHAINS

Increased profitability for factories

Profitability is significantly higher in Better Work factories in Vietnam that have better working conditions and more innovative human resource management practices.

- Factories witness a 5.9% boost in profitability where workers perceive improvements in their sense of physical security and assurance in wage payments.¹
- Similarly, firms do better when they go beyond merely avoiding conditions associated with sweatshops and instead create an environmentally comfortable and trusting workplace: profitability increases 7.6% in factories where workers are comfortable raising workplace concerns, where workers express greater satisfaction with water and air quality, and where there is greater satisfaction with restrooms, canteens and health services provided in the factory.
- Factories need not sacrifice profitability to pay decent wages. For each 1% increase in wage levels, factories show a 0.6% increase in revenues over their costs. Higher wages appear to boost the bottom line of factories by fostering greater productivity among workers that more than compensates for their added cost.²
- Verbal abuse decreases individual worker productivity: in Vietnam, workers concerned with verbal abuse require almost one additional hour per day to reach their production target, relative to workers who are not concerned with verbal abuse. Instead of increasing productivity, verbal abuse hurts overall business performance.³
- Basic training increases worker productivity: Better Work Vietnam factory workers that report receiving basic skills training need a shorter time to reach their production target.
- Evidence from Better Work Vietnam shows that factory profits decrease as worker concern with verbal abuse increases (Figure 2).⁴

Driving up quality and productivity

Worker-management engagement- the cornerstone of the Better Work approach- can increase operational efficiency of factories.

Managers from Better Work Vietnam factories reported that improved relationships between workers and managers have increased production efficiency. Investments in working conditions can pay for themselves directly, through productivity improvements or reduced error rates, and indirectly, through reducing staff turnover.

Case studies of three Better Work facilities in Vietnam show that managers noted faster production as a result of lower temperatures after they made investments in factory ventilation systems. Equipping supervisors with the tools to better manage their workers - including reducing the tendency of using verbal or physical abuse- can contribute to a more reliable production chain.

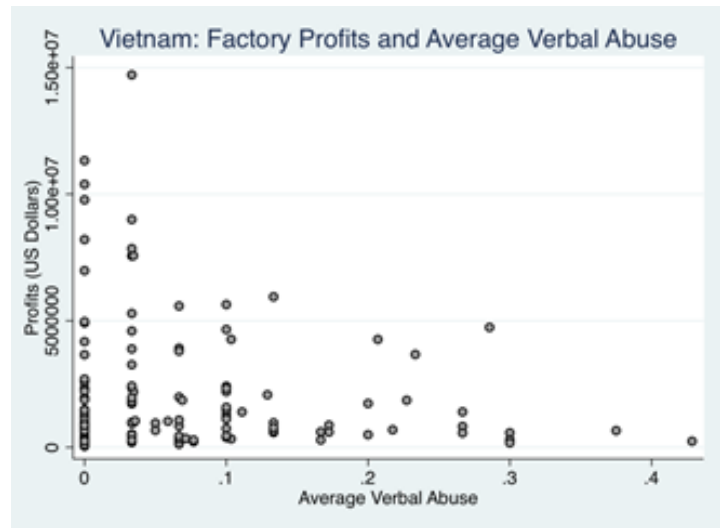
1 Brown, Drusilla, Dehejia, Rajeev, Robertson, Raymond, Veeraragoo, Selven (2014) Are Sweatshops Profit-Maximizing? Evidence from Better Work Vietnam. Mimeo, Tufts University.

2 Ibid.

3 Rourke, Emily L. (2014) Is There a Business Case for Verbal Abuse? Mimeo, Tufts University.

4 Ibid.

Figure 2



In Cambodia, Better Work found that production quality improved in the course of supervisor training interventions, with 39 percent fewer in-line rejections and 44 percent fewer shipment rejections.⁵

2. BUYERS AND SUPPLIERS CAN BETTER MANAGE RISK WHEN GARMENT WORKERS HAVE QUALITY JOBS

Reduced regulatory burden and better reputation management

Prioritizing legal and regulatory compliance in garment factories reduces the risk of exposure to fines, the legal costs of addressing claims and the risk of interruption to buyer relationships. From a factory manager's perspective, the loss of reputation associated with serious non-compliance with legal or international standards also has the potential to affect market access, buyer relationships and long-term viability.

Improved compliance with the support of Better Work also has the additional benefit of reducing multiple buyer audits. This saves management time in preparing for and responding to audits, and also saves costs associated with paying for multiple audits. After three years of participation in Better Work, the number of yearly visits to suppliers by their top customers decreases 43 percent in Jordan, 24 percent in Vietnam, and 19 percent in Indonesia.

Further, experience in Cambodia implies that improvements in working conditions and rights tend to be self-sustaining once made. Once they become compliant, Better Work factories rarely fall back into non-compliance. Second, compliance appears to continue without external incentives - such as public reporting or a reputation-sensitive buyer.⁶ In other words, factories participating in Better Work that are forced to change some of their management practices learn the benefits of compliance from this experimentation period and voluntarily continue these practices.

5 See IFC (2006) Supervisory Skills Training: A crucial investment for the Cambodian garment industry: <http://betterwork.com/cambodia/wp-content/uploads/2013/01/Supervisory-Skill-Training-Brochure.pdf>

6 Brown, Drusilla; Dehejia, Rajeev; Robertson, Raymond (2013) "Is there an efficiency case for international labour standards?" ILO - Better Work discussion paper No.12

Reducing staff turnover and absenteeism

Better working conditions can have positive impacts on employee turnover and absenteeism - a major cost to suppliers that is typically underestimated.

Costs associated with high churn in a factory's workforce include the time taken to recruit and train new workers, higher error rates among new workers and the loss of institutional knowledge and internal relationships.

Nalt Enterprise, a Vietnamese Better Work participating supplier, estimates that it takes up to three months for a new textile worker to reach full productivity. Translated into savings from reduced training costs and from maintaining full productivity, a 10 percent reduction in staff turnover would save the factory 8.5 percent of the total annual wage bill.⁷

Three case studies in Vietnam factories highlight a sharp reduction in staff turnover after participation with Better Work: a 30 percent overall reduction in staff turnover is reported one factory, and a 70 percent reduction in another factory's finishing section.

Particular interventions such as the introduction of childcare facilities can help increase workers' productivity by making it easier for them to focus at work. Women at Nalt Enterprise say that knowing that their children are well cared for and nearby gives them peace of mind during working hours.⁸ Additionally, the establishment of a health clinic on the factory premises at Nalt Enterprise contributed to a steady downward trend in worker absence. Regular medical check-ups and services for employees and their children mean that workers are healthier, more productive and less likely to take time off for illness to visit a doctor off-site.

3. BETTER JOBS MEAN BETTER GROWTH PROSPECTS FOR FIRMS

Access to markets

The advent of buyers' supply chain codes of conduct has elevated compliance with international labour standards to a condition of doing business in the higher value segments of the garment trade. Better Work research demonstrates that improving labour standards compliance can increase market access for firms.

- **Compliance matters in retaining buyers:** In Cambodia, Better Work factories in compliance with fundamental rights are 56% more likely to retain buyers than those in non-compliance.

Additionally, compliance with occupational safety and health standards gives suppliers a 4.8% advantage in retaining buyers.⁹

- **Compliance attracts new (and better) buyers:** Factories with higher compliance on working hours and leave regulations attract more reputation-sensitive buyers, including higher-value buyers. Analysis from

Cambodia show that more attractive buyers - such as specialty retailers who value longer-term relationships with suppliers - tend to buy from factories in greater compliance with labour standards more than mass merchandisers.

- **Compliance strengthens and extends relationships with buyers into the longer-term:** As suppliers participate in Better Work and improve working conditions, they accrue business benefits in their buyer relations.

For example, among Better Work Vietnam factories, since the programme's establishment there is a 47% increase in the proportion that report they are a preferred supplier to their most important customer, rather than a contractor or subcontractor.

Greater productive capacity

Investment in human resource management process that aim to retain and develop skills delivers the potential for enhancing productive capacity. In Vietnam, the capacity utilisation rate of Better Work factories has increased by 15% following a range of support and interventions. For Better Work Vietnam suppliers, improving working conditions and management processes has supported business growth more broadly: 62% have increased production capacity and 60% have expanded employment, by an average of 800 jobs each.

4. FIRMS THAT PROVIDE QUALITY JOBS ARE MORE RESILIENT

More resilient firms mean more durable trading relationships in supply chains

Recent evidence from Better Factories Cambodia shows that factories that improved labour compliance prior to the 2008 financial crisis were more likely to survive the economic downturn.¹⁰ Factories that were initially forced to improve their labour management practices by tying market access in the United States to participation in Better Factories became more efficient and better prepared to face constrained economic demand.

Better practices enabled factories to continue to pay worker compensation (paying wages as promised, social security, leave payments and contracts), and maintain communication and workplace systems, discipline and termination regulations, all of which were strongly correlated with a higher probability of survival during the 2008 financial crisis.¹¹ A greater ability to survive economic fluctuations contributes to longer-standing business relationships in garment supply chains, benefiting both suppliers and buyers.

⁷ IFC, Investing In Women's Employment, October 2013

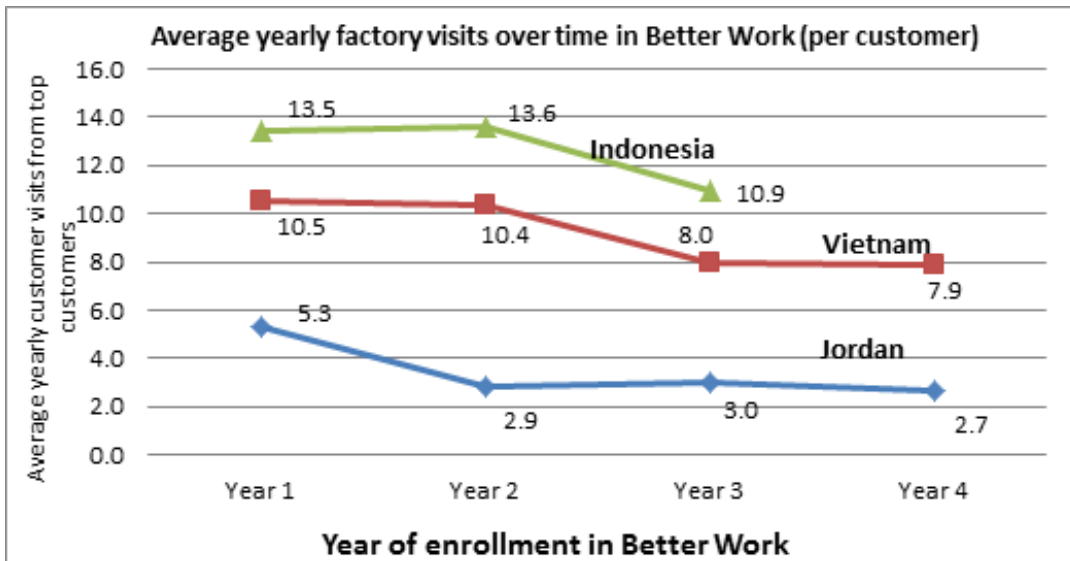
⁸ Interviews with workers at Nalt Enterprise, Binh Duong Province, Vietnam, July 2012.

⁹ Oka, Chikako (2012) "Does Better Labour Standard Compliance Pay? Linking Labour Standard Compliance and Supplier Competitiveness" ILO - Better Work discussion paper No. 5

¹⁰ Brown, Drusilla, Rajeev Dehejia, and Raymond Robertson (2011) "Working Conditions and Factory Survival: Evidence from Better Factories Cambodia" Better Work Discussion Paper No. 4, December, International Labour Organisation.

¹¹ Brown, Drusilla; Dehejia, Rajeev; Robertson, Raymond (2013) "Is there an efficiency case for international labour standards?" ILO - Better Work discussion paper No.12

Figure 3



Workplace cohesion and innovation

Open communication among workers and managers can strengthen the effect of improvements in working conditions and make them more durable. Communication can also increase employee loyalty by underlining management interest in the workplace and can ensure input into production improvements and support for future interventions on quality employment. At Nalt Enterprises in Vietnam, workers report they appreciate enhanced consultation mechanisms, which contrasts strongly with the singularly production-focused approach adopted by many other factories.¹²

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¹² Information provided by Nalt Enterprise, 2012 - see IFC (2013) Investing In Women's Employment