

LONG-TERM PARTNERSHIP: WHAT DO SUPPLIERS WANT?

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Report of the 10th Round of Labour Inspection in China for

The logo for Stormberg, featuring the word "STORMBERG" in a bold, blue, sans-serif font. The letter "O" is replaced by a stylized blue mountain range graphic.

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1. THE INSPECTION

The 10th round of labour inspection was carried out between 13th and 15th of October 2014.

Table 1-1: The 10th round of labour inspection – participating factories

Factory	City/Province/Classification ³	Inspected before ?
Ningbo Wandelong Garment	Ningbo/Zhejiang/I	Yes
Ninghai Lixing Knitting Factory	Ningbo/Zhejiang/II	Yes
TaiCang Beautiful Garments	TaiCang/Jiangsu/I	No

The general results from this round of inspection are presented in Chapter 2.

Stormberg has been trading with suppliers in China since 1998, and they seek to form long-term business partnerships with companies and factories who share its commitment to quality and values. This also includes requirement that suppliers are compliant with labour and environmental laws.

The selection of the suppliers for this inspection is meant to serve the purpose of the selected topics in focus, namely how to develop a long term partnership between Stormberg and its suppliers. We are looking into what means most for the suppliers as of Stormberg’s purchasing practices. Being the oldest supplier for Stormberg, Ningbo Wandelong Garment has been with Stormberg since the very beginning. TaiCang Beautiful Garments is one of the latest suppliers which Stormberg engaged with in China. From their responses and experiences, we are able to draw a picture of their view of a long term partnership with Stormberg.

Chapter 3 is dedicated to the topic in focus: what matters most for Stormberg’s suppliers in terms of a long term partnership

Chapter 4 is dedicated to another topic in focus: can Stormberg influence the local wage formation among its suppliers?

³ Classification in terms of provincial minimum wage and social security basic rate. For example, the current minimum wage of class I in Zhejiang province is 1650 RMB/month, while the minimum wage of class II in the same province is 1470 RMB/month.

2. The general results from this round of inspection

2.1 General information

All the inspected factories are located in Zhejiang and Jiangsu Provinces, which are economically most developed in China and have a long tradition in textile industry. Both provinces have a solid and mature supply chain for textile production, complete infrastructure as well as convenient logistic access (close to big ports). These suppliers are located at textile industry clusters where many textile and garment producers concentrate in a same area.

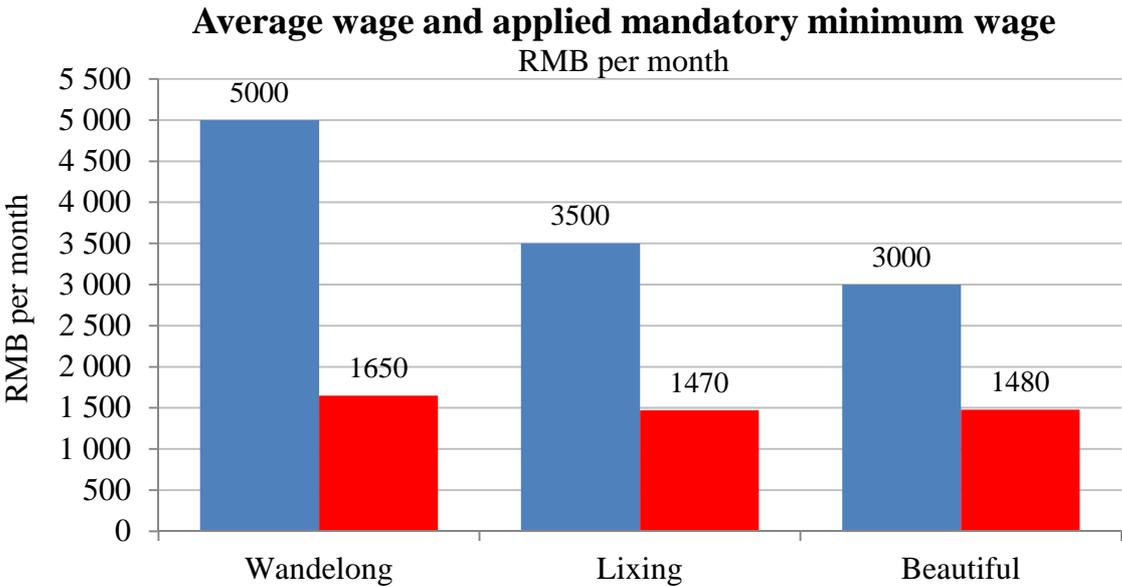
2.2 Labour conditions

Employment

Two of these inspected factories have its main labour supply from local residents. Thus, there is less dependence on migrant workers, unlike many other coastal areas where many manufacturing factories are facing a severe problem of recruiting adequate working force. The working staff is relatively stable. One of the inspected factories is still using a large proportion of migrant workers (up to 70%). The factory has to put in more efforts and resources in order to keep the workers in the factory and attract new workers to the factory. So far the factory has managed to maintain a certain degree of stability among its working staff.

Wage

All the inspected factories have reported that the rise of labour cost is a major challenge for them.



The mandatory minimum wages have been raised by around 10 pct. from 2013 to 2014 in these areas. The average wages in these inspected factories amount for 2 – 3 times of the mandatory minimum wages.

Working time

All the inspected factories report less use of overtime. However, it is still common that workers get only 1-2 days free in a month. The daily working time is 10 - 11 hours excluding lunch break.

Social security contribution

All employers are obligated to pay social security contribution for their employees after the Chinese Labour Contract Law took into effect in 2008. As for many small private enterprises, it brought to higher labour cost since they did not really have this obligation before.

One factory reported at this inspection round that the local government has somehow eased the enforcement of this obligation. The factory does not have to pay social security contribution for all employees.

Another two factories reported that it was not the case for them. They are still obligated to pay social security contribution for their employees which amounts for around 1000 RMB per month each.

As the topic in focus in last year's inspection report, the social security scheme and practices in China were detailed elaborated, and the conclusion was: *“We are seeing that more and more enterprises are complying with their legal obligation on social security contribution for the employees. The whole social security system is still under construction and improvement, and the system is quite complicated. The social security practices among the inspected factories differ. There are many reasons explaining why there is no full compliance among the small-sized, private-owned manufacturing enterprises.”*

2.3 Working environment, health and safety

The working environment in all the inspected factories is fairly good. The workshops are equipped with ventilation, air-condition or cooling/warming facilities. Lighting at the workshops is adequate. Fire fighting devices are properly placed, the emergency exits are clearly marked and kept unblocked, and the emergency lights are properly installed.

2.4 Basic labour rights

Neither child labour nor forced labour was discovered under the inspection. There has been no severe labour conflict reported at these factories. All factories have implemented major requirements from the Chinese Labour Contract Law. Standard written labour contracts are signed between the employers and the employees.

2.5 Labour relations

Two of the inspected factories are unionized. However, the functioning of the unions is questionable. There is no union activity to trace.

One of the inspected factories is not unionized. Ironically, the labour relation in this factory seems to be most harmonious among these inspected factories. The reason may be that all employees are local residents and almost like neighbours. The factory is more like a family business.

2.6 Suppliers outlook

Two of the inspected factories are holding pessimistic view of the future for the entire textile and garment industry in China. The reasons for their pessimistic view are as following:

- * The production costs have risen sharply over the past several years. The labour costs have been more than doubled in a five-year's period. The raw material prices have much increased as well.
- * The supply of skilled workers is drying out. The scale of occupational training for textile workers has been diminishing. Shortage of skilled workers is prevailing.
- * The government ceases to give policy priority for this industry. Many local governments impose new rules and limitations on dyeing factories in order to limit emissions and water pollution. It has led to higher prices and longer waiting time for cloth materials. The government wants to trigger a total innovation and updating of the textile and garment industry. However, there are few right-on-target supporting measures coming from the authorities.

One of the inspected factories is holding a status-quo view of the outlook.

3. Topic in focus: what matters most for suppliers

To develop a long term partnership with suppliers has always been a strategic goal and value basis for the CSR efforts from Stormberg's side.

In this inspection, we asked the suppliers following questions:

1. What is your view of a long term partnership as Stormberg seeks to form;
2. What is your view of Stormberg's purchasing practices;
3. Which factors in Stormberg's purchasing practices matter most for you as a supplier, and which factors you think need to be improved by Stormberg.

The overall response from the inspected factories indicates an already extremely good relationship between Stormberg and its suppliers based on trust and appreciation. From the oldest supplier for Stormberg (Wandelong) to the youngest supplier (Beautiful), a genuine trust towards Stormberg can be clearly sensed.

About question no.1:

All the inspected factories appreciate Stormberg's intention to develop a long term partnership. It is a sincere hope from these suppliers that Stormberg will grow further and become bigger and stronger, thus it will in turn benefit suppliers. The idea of growing together is much appreciated by the suppliers.

The suppliers are clearly holding a positive attitude on long term partnership. They are willing to cooperate with Stormberg in a best possible way. They wish Stormberg can lead them to innovate and update, and are willing to cooperate with Stormberg on a more environment-friendly production.

The suppliers are willing to comply with Stormberg's requirements with regard to labour standards and HSE (health, safety and environment).

About question no.2:

IEH has in its report - "Suppliers speak up" identified the following components in a purchasing process towards suppliers for a company like Stormberg:

- Forecasting
- Product development
- Sampling
- Price quotation

- Price negotiation
- Terms of payment
- Order placement, changes & reorders
- Production & lead time
- Delivery

These selected suppliers for inspection are **satisfied** with all those components in Stormberg's purchasing practice.

These suppliers report that they enjoy a good communication with Stormberg with regard to all kinds of issues. Stormberg's representative in Shanghai plays an important role in coordination, communication and care of customer relations.

The suppliers are often met with understanding and good will when getting into contact and dialogue with Stormberg, which is especially appraised by the suppliers.

About question no.3:

As above-mentioned, the suppliers today have no problem with regard to technical collaboration, terms of payment, lead time and delivery.

Price quotation and order quantity are the two elements which matter most for suppliers as they claim.

Suppliers want a good price on their products. Suppliers want good and stable order quantity. However, it is not necessary for them to get both at the same time.

The suppliers claim that when the order quantity is good, it gives more room for price, since even a not so good price will lead to profit when the quantity is sufficient. When the order quantity is not so big, the price will become more decisive.

When asking which one – price or order quantity – the suppliers want most, the answer is order quantity.

To provide the suppliers with a stable and somehow predictable order quantity may also serve the purpose for Stormberg to form a long term partnership with the suppliers. It is in the interests of the suppliers as they claim, and it will be a good signal from Stormberg towards the suppliers that Stormberg intends to be their partner who they can count on.

4. Topic in focus: wage formation among the suppliers and Stormberg's possible influence on wage formation

4.1 Current wage formation scheme

The common wage formation scheme among the textile- and garment factories, also among Stormberg's suppliers, is a piece-wage scheme.

A piece wage is often determined/calculated by a so-called technical department. Typically in a piece wage scheme, a worker will get more paid when she/he is higher skilled (works faster) or works longer.

A piece wage scheme "encourages" workers to work long. Converted to an ordinary hourly wage scheme, the current piece wage scheme does not give much higher hourly wage according to the minimum wage standard. When a worker earns 2 – 3 times of the minimum wage per month, it is simply because he/she works longer than the ordinary working time.

For those administration personnel, the fixed monthly salary scheme applies.

One of the inspected factories (Beautiful) has adopted a combination of piece wage and fixed wage. Each one gets a fixed salary, and the rest of the monthly income depends on a piece wage scheme. This wage practice provides workers with an income security buffer which will mean most for those who are not working so fast or so long.

In light of the hard competition on skilled workers and in order to keep the skilled workers in factories and maintain stability in working force, the factories have adopted some special wage policies:

* Service wage: workers get a certain amount of extra pay according to the number of service years she/he has worked for the factory. In this way, the factory is able to keep the workers inside the factory.

* Competitive wage: wage level in a factory is often affected by the general wage level among the similar factories in the same area. The employer often finds out how much other "neighbor" factories pay their workers. The wage level at the factory can't be lower than that, being afraid of losing workers. The wage level can't be higher than that either. One shouldn't trigger "harmful competition" among the factories.

* Bonus: monthly or yearly bonus is a common tool to stimulate and keep the workers.

4.2 Workers' participation in wage formation

At the current stage, the workers have little to say on wage formation. The workers, or their representatives, or the trade union, are not involved in wage determination/calculation. This is the case among all the inspected factories.

The employers claim that they listen to the workers. When the piece wages are “apparently” too low, the workers will respond and tell the administration. In most of the cases, the piece wages will be recalculated and corrected. Reaction and response from the workers may be the only influence they have on wage determination.

The most effective and systematic way to assure workers' participation and involvement in wage formation should be collective wage bargaining.

According to the latest figures from All-China Federation of Trade Unions (the only trade union organisation in China), there were 2.4 million collective agreements over the whole country by the end of 2013 which covered 6.3 million enterprises and 287 million employees. The amount of collective wage agreements was 1.3 million which covered 3,6 million enterprises and 164 million employees. ACFTU claimed that the target – collective wage bargaining in 80% of all unionised enterprises – has already been reached.

In contrast to the picture presented by ACFTU, we haven't found out collective wage bargaining is taking place in any of Stormberg's suppliers in China. The suppliers report that they are not expecting the collective wage bargaining in the near future either.

So far they just settle for the limited involvement of workers in wage determination inside the factories.

4.3 What can Stormberg do

It has been Stormberg's intention to assure decent working conditions and decent pay to the workers at Stormberg's suppliers in China.

The idea of dedicated part of the price quotation (“øremeking”) going to the workers has crossed over.

However, the suppliers don't think it is a feasible solution, because it is operational difficult.

So far there is quite limited influence from Stormberg on the wage formation among its suppliers.

What Stormberg can do is to materialise its intention to form a long term partnership with its suppliers as the suppliers wish as well. To grow together is in the interest of all partners. As answered by the suppliers, Stormberg should emphasize and expect suppliers' compliance in terms of labour standards. In turn it will benefit the workers.