



2017



CARRYING THE BALL

THE WORLD FEDERATION OF THE SPORTING
GOODS INDUSTRY AND WORKING HOURS



INTRODUCTION

The World Federation of the Sporting Goods Industry (WFSGI) is the global authoritative body for the sporting goods industry. Our members include sporting goods brands, manufacturers, suppliers, retailers, national/regional federations, industry and trade associations and other sporting goods industry related businesses.

The WFSGI plays an important role as a resource for its members and as a platform for sharing best practice. We work to understand emerging and ongoing issues of relevance, assist our members to stay current with those developments, and advocate for appropriate laws and practices.

EXECUTIVE SUMMARY

Reasonable working hours are a fundamental component of safe and humane working conditions. In our industry, however, excessive hours is a longstanding and widespread issue arising from a combination of globalisation and increasing competition, advances in technology and communications, changing consumer demands for products and services, and the purchasing practices of brands in response to these challenges.

While companies increasingly recognise the need to address the issue of excessive working hours, doing so requires a collaborative approach across the supply chain and is fraught with challenges. These include a complex web of brand/maker relationships, supply chain volatility and the fact that improved working conditions may give rise to increased production costs.

Nonetheless, the WFSGI believes that the industry has moral and reputational imperatives to address this issue, and that all members – manufacturers, brands and retailers – share responsibility.

The purpose of this paper is to provide WFSGI members and others with an overview of the context within which the issue of excessive working hours has arisen and the factors that contribute to the problem, to outline our view of the challenges and benefits of addressing the challenge, and to explain how we can support our members.

CONTEXT

Excessive working hours occur across supply chains. It is a concern that many industries want to address, with companies increasingly recognising that it presents a risk to both worker and product safety.

Typically, the trigger for excessive working hours is the need for manufacturers to produce goods in an insufficient amount of time. This in turn may be caused by a range of factors, including:

- Accommodating unplanned orders or last-minute changes;
- Overbooking, or misjudging capacity;
- Poor material purchase planning or material stock management;
- Recovering lost production time or correcting mistakes;
- Using untrained workers;
- Increased demand in peak season.

Brands' purchasing practices are an important factor. Aspects include unstable brand/manufacturer relationships and pressure on price, lead times and delivery schedules – arising in large part from the fast pace of the retail industry. Seeking flexibility and the latest possible market feedback, brands and entities that order from brands may make last-minute changes to specifications and volumes. Meanwhile, some retailers demand the option of returning merchandise that doesn't sell, increasing pressure on brands to get the order 'just right'.

Manufacturers, for their part, may overbook their facilities to protect themselves in the event that orders are reduced or cancelled. When this doesn't occur, manufacturers rely on overtime to meet their contractual agreements, and are forced to choose between reducing profit margins and requiring workers to work for little or no extra pay.

Broadly speaking, pressure to curb excessive working hours does not come from workers themselves, with many – particularly migrant workers – eager for overtime. There is a strong link between excessive working hours and low wages, whereby low-paid workers seek additional hours to earn enough money for their families. Moreover, migrant workers are less likely to have family or social commitments, and therefore have fewer options for their leisure hours.

REGULATION OF WORKING HOURS

Most countries have legislation on working hours, which establishes maximum hours of daily and weekly work and overtime hours, as well as requirements for weekly rest days and annual leave.

Working hours differ between countries and, while there are often differences between the national law and the brands' code of conduct, companies must, at a minimum, comply with national laws and collective agreements in the countries in which they operate.

The International Labour Organization has conventions on working hours, weekly rest and annual leave. The **Hours of Work (Industry) Convention, 1919 (No. 1)** was the first international labour standard. It established the basic principle of an eight-hour day and was reinforced by the **Hours of Work (Commerce and Offices) Convention, 1930 (No. 30)**. These conventions form the basis of many nations' laws on working hours.

VOLUNTARY INITIATIVES

There is also a range of voluntary initiatives that support companies to operate responsibly in relation to working hours.

The **Fair Labor Association's** Workplace Code of Conduct defines labour standards that seek to achieve decent and humane working conditions. In 2015, it started looking at how companies should pay workers for longer hours.

The **Ethical Trading Initiative** is an alliance of companies, trade unions and NGOs that promotes respect for workers' rights. It aims to improve working conditions in global supply chains by developing effective approaches to implementing their Base Code of Labour.

The **Better Buying Initiative** is a dialogue and rating platform designed to highlight areas for improved purchasing practices by enabling manufacturers to anonymously rate brands they work with.

The **Business Social Compliance Initiative (BSCI)** is an initiative of the Brussels-based Foreign Trade Association. It supports European retailers, importers and brands to improve working conditions in their supply chain by offering a common code of conduct and single implementation system.

DRIVERS AND CHALLENGES

Alongside the moral imperative for companies to uphold the rights of their workers, the need to address the issue of excessive working hours within the sporting goods industry is driven by a range of legal, reputational and safety-related factors.

Most significantly, long hours increase the risk of accidents. Serious injuries and fatalities are considerably more likely to occur when workers are tired. Furthermore, excessive hours have been shown to be bad for workers' health, contributing to illness, stress, fatigue, chronic infection, musculo-skeletal disorders, cardiovascular problems and mental health issues.¹



Long hours also reduce quality. Tired workers are more likely to make mistakes or become distracted, especially when performing repetitive tasks, which compromises the quality – and potentially the safety – of the goods they produce.

In addition, maximum working hours are established by law. Companies must comply with the laws on working hours of the countries in which they operate, as well as the codes of conduct they have signed up to. Those who fail to do so risk fines as well as reputational damage due to negative publicity about worker exploitation.

Finally, overtime is expensive, particularly if it is unplanned. When manufacturers rely on overtime without factoring it into their costs, they must either reduce their profit or fail to pay their workers what they are legally owed.

CHALLENGES FOR OUR MEMBERS

While there is widespread agreement that the issue of excessive working hours needs to be addressed, progress has been limited by the difficulty of modifying established purchasing practices, perhaps through concern about losing competitive advantage. In particular, placing orders as late as possible allows brands to respond to customer preferences at the last minute, and brands are generally reluctant to sacrifice potential market share in order to facilitate resource planning.

This issue is made more complex by the purchasing decisions of the entities that purchase from brands. In addition to the brands themselves, those who order from them – such as wholesale retailers and even the brand's own direct-to-consumer divisions – have an incentive to delay orders, which directly impacts the timeliness of placing an order with suppliers. So brands have a complex range of relationships to manage up and down the supply chain.

An additional challenge is the fact that factories are often located in countries where the minimum wage tends to increase sharply and unpredictably. This has a financial impact on brands and creates supply chain volatility by forcing them to choose whether to accept a lower margin or move production elsewhere.

It is clear that many of the provisions of a typical code of conduct tend to increase production costs unless mitigated by process efficiency measures or better planning. What is less clear is how these costs are distributed across the companies in the supply chain in view of the margin pressure each player along the supply chain faces.

For manufacturers – subject to many pressures and variables – labour costs are one of the few areas they can directly control. When faced with pressures from their customers around volumes, quality and timelines, manufacturers may be tempted to respond by recouping money from their wage bill. There may also be a tendency to see maximum working hours as a 'soft law', especially when the workers themselves may want to work extra hours.

¹ Overtime and Extended Work Shifts: Recent Findings on Illnesses, Injuries and Health Behaviour, NIOSH, 2004, <http://www.cdc.gov/niosh/docs/2004-143/pdfs/2004-143.pdf>

WHAT WE THINK

The WFSGI believes that all our members are responsible for creating an environment that promotes good employment practices and reduces excessive working hours. Moreover, we believe it is an industry-wide challenge that would benefit from a collaborative, consistent approach.

The WFSGI Code of Conduct sets out the standards and practices expected in the workplaces our members operate or contract from. In line with international law, it includes a provision that workers should not be required – except in extraordinary business circumstances – to work in excess of 60 hours per week, including overtime, or the local legal requirement (whichever is less). It also provides for weekly rest days and annual leave.

BRANDS

The WFSGI encourages brands to understand – and seek to minimise – the negative impacts of their purchasing practices, including their potential to contribute to excessive working hours. The more dominant a brand is in its buying relationship, the more leverage it should hold and therefore the more influence it should exert on its manufacturing partner.

Brands must implement processes that ensure sourcing and production decisions do not intentionally or consistently result in excessive overtime. Exceptions may occur but must be isolated and exceptional in circumstance.

Brands should seek to align all employees who have a role in purchasing goods around a commitment to improving purchasing practices. Sourcing and compliance teams should work together to investigate and address situations where there are high levels of overtime.

Where their suppliers' labour standards need improvement, brands should avoid a pass/fail mentality towards compliance and instead focus on developing a continuous action plan to improve conditions.

Negotiating fair prices is an important element of tackling excessive hours. By paying a price that reflects the true production costs, brands can help manufacturers to meet ethical labour standards.

MANUFACTURERS

Manufacturers need to factor labour costs (including overtime)

into their pricing, and negotiate achievable production schedules that take into consideration all the orders they are contracted to deliver. As with brands, manufacturers should also ensure that all teams within their organisation are aligned.

We encourage manufacturers to develop management practices that minimise peaks and troughs in production. Investing in a proper time management and production planning systems can improve resource allocation and productivity. Unless root causes are addressed, measures to reduce excessive hours are likely to be temporary.

BENEFITS OF TACKLING THE ISSUE

Despite the challenges to tackling excessive working hours, we believe our members will benefit both from taking a responsible approach to their own activities and from working together across the industry.

This will help to restore trust and transparency in brand/manufacturer relationships. It will also promote greater stability in the supply chain as manufacturers will be more confident in their capacity to invest, for example in recruitment, leading to opportunities for the industry to grow.

Regulating working hours is also likely to result in a more motivated, fulfilled and healthy workforce. It can also deliver business benefits such as increased productivity, which safeguards product quality and, therefore, consumer safety.

SUPPORTING OUR MEMBERS

As the representative body for the sporting goods industry, we are keen to support and assist our members to navigate this challenging topic.

The WFSGI also provides a range of valuable information and advisory services to assist its members with their reporting and other CR challenges. These include:

- Ad-hoc support to members through the CR Helpdesk;
- Alerting members on important legal developments and regulatory changes;
- Guidance and direction on CR developments and best practices.

A further benefit of WFSGI membership is the support available from other members. The network offers the scope for smaller forums of member companies to support each other on reporting and other common challenges, and for larger organisations to mentor comparable smaller companies.

CASE STUDY: ADDRESSING THE WORKING HOURS CHALLENGE – KTC

Manufacturing in mainland China since 1981, KTC has seen firsthand how the emergence of the global marketplace has transformed the industry - and created challenges for manufacturers to meet their customers' demands without compromising workplace standards.

THE CHALLENGE

One of the first foreign garment manufacturers to set up operations in China, KTC has a long history of supplying international brands and thus observing how working relationships between brands and manufacturers have evolved.

KTC notes that it is difficult for manufacturers to resource plan when it is standard practice for orders to fluctuate by 50-70% at the last minute. According to KTC, "Every day is a challenge to find workarounds and solutions to the problems that arise. These are systemic, structural issues that no one can solve on their own."

Furthermore, KTC is clear that workers are not calling for fewer hours. In fact, in their experience, unless the factory is fully booked, workers leave because they aren't getting enough hours. KTC says, "It's the fast and efficient ones who are the first to go. Replacing skilled workers isn't easy - there aren't enough of them, and the reputation of the job is poor."



KTC'S APPROACH

While KTC still struggles with this challenge, it has established some clear steps that help address it.

- 1. Establishing a varied, robust business model.** KTC actively seeks innovative, less price-sensitive brands to do business with. Brands that are not selling by retail are less driven by consumer preference, and provide more stability and flexibility.
- 2. Spreading work across more clients,** with smaller order volumes per customer, reducing the impact if an order is reduced or cancelled.
- 3. Investing in resource planning.** The more manufacturers are able to plan, the more accurately they can schedule their workload and resources.
- 4. Building strong relationships with customers.** The two big challenges of working hours and payment can only be addressed by buyers and manufacturers working closely together.
- 5. Accepting more risk** by planning closer to the actual orders received instead of overbooking. Indeed, KTC admits to carrying more risk than is usual in the industry.

MEASURING SUCCESS

For now, KTC's only way of assessing the effectiveness of their approach is how closely they are complying with national labour laws. At present, they are operating within the 60 hours per week maximum allowed in peak seasons.

While the cost of manufacturing goods in China is rising steadily, putting upward pressure on production costs, KTC has no plans to relocate its operation. The company feels that China is where its expertise lies, and it has long-term workers there whose experience it values.

In fact, KTC's ambition is to deepen its investment in the region by employing a primarily local workforce. "We are trying to bring stability, resilience and predictability into an industry that is systemically the opposite of these things. We believe that long-term this will deliver business success, a happier, healthier workforce and greater customer satisfaction."

ONGOING DEVELOPMENTS & NEXT STEPS

As awareness of the practice and impact of excessive working hours within the sporting goods sector continues to grow, we expect to see our members – and the industry as a whole – come under increasing pressure from stakeholders to enforce limits on working hours throughout the supply chain.

We also anticipate that this will provide a compelling basis for the industry to work more closely together and effect changes that enable manufacturers to employ workers on fairer terms. This includes both brands and manufacturers investing in the establishment of longer-term, more stable relationships built on a foundation of trust.

Moreover, governments are progressively tightening legislation on working hours. Manufacturers who have moved further on this issue are fighting to keep costs competitive against those where regulation is less strict.

Excessive working hours are likely to continue to be a challenge as long as there are workers who want to work long hours. Nevertheless, the industry has a responsibility to protect its workers by adhering to existing laws and regulations.

SUMMARY AND CONCLUSION

The WFSGI provides a platform for sharing best practices and actively engages members in realising a CR vision grounded in shared values and principles. As an association, WFSGI is both a voice for the industry and a trusted advisor on CR and strategy issues for its members. We believe that members that take up and act on the advice and resources WFSGI offers will be the best positioned to respond and thrive in the face of emerging trends and evolving regulation over the coming years.

We appreciate the challenges of complexity, diversity and evolving context in which our members operate. However, we believe that companies must take seriously their responsibility to ensure that workers throughout the sporting goods industry supply chain are protected from the expectation of working excessive hours. We also believe that industry-wide collaboration will be the most effective way to achieve this, and that doing so will promote supply chain stability and long-term value for all parties.

As the voice of the industry, we will continue to monitor trends, build our understanding of emerging best practice, and support our members to make progress in this important area.

FURTHER INFORMATION

International Labor Organization Hours of Work (Industry) Convention, 1919 (No. 1):
www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::p12100_instrument_id:312146

International Labor Organization Hours of Work (Commerce and Offices) Convention, 1930 (No. 30)
www.ilo.org/dyn/normlex/en/f?p=normlexpub:12100:0::no::p12100_instrument_id:312175

Fair Labor Association
www.fairlabor.org

Ethical Trade Initiative
www.ethicaltrade.org/eti-base-code/working-hours-are-not-excessive

Better Buying Initiative
www.betterbuying.org

Business Social Compliance Initiative
www.bs-ci-intl.org/content/what-we-do-0



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