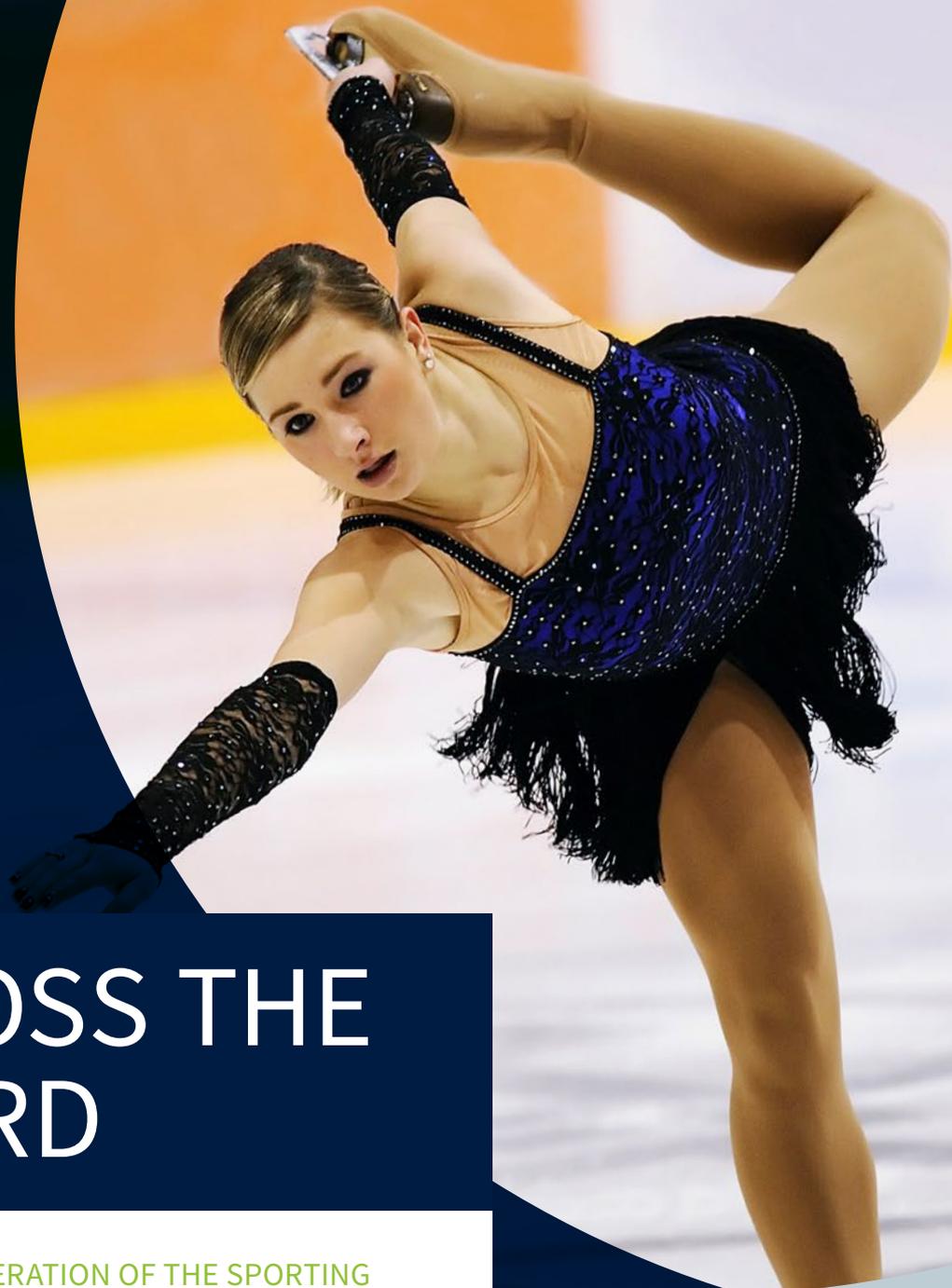




2017



# ACROSS THE BOARD

THE WORLD FEDERATION OF THE SPORTING GOODS INDUSTRY AND PROMOTING FAIR WAGES



# 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 on-going issues of relevance, assist our members to stay current with those developments, and advocate for appropriate laws and practices.

## EXECUTIVE SUMMARY

The issue of wage developments within the low-skill labour sector in less developed countries – including those that are frequently used as important sourcing countries for the sporting goods industry – has become the subject of increasing concern and attention in recent years.

Within the industry there is widespread consensus that in some countries the increase in the cost of living has not been sufficiently factored in in the adjustment of legal minimum wages. There is also concern about the lack of mechanisms that allow workers and employees to negotiate on wages.

Furthermore, there is growing interest from a range of external stakeholders in the subject of wages, including calls from the socially responsible investment community for brands to explain and review their pricing practices. This heightened focus means it is an important issue for members to address, but the task of calculating and paying fair wages within global supply chains – not to mention defining what a ‘fair wage’ is and what it should include – is complex.

Nonetheless, the WFSGI believes that the industry has moral and reputational imperatives to address the issue of fair wages, and that all members – manufacturers, brands and retailers – have a role to play in working towards achieving this goal.

The purpose of this paper is to provide WFSGI members and others with an overview of the context within which the issue of fair wages has arisen, to outline our view of the challenges and benefits, and to explain how we can support our members.

## CONTEXT AND VOLUNTARY INITIATIVES

The issue of wages and wage developments within the low-skill labour sector in less developed countries has become a central topic of stakeholder concern and attention in recent years. It is particularly relevant for our industry because many of these countries are important sourcing countries.

There is a growing consensus that the increased cost of living has not always been factored in in the adjustment of legal minimum wages often resulting in financial hardship for factory workers. Coupled with this is a lack of mechanisms for workers to freely negotiate on wages.

The fast pace of the retail industry makes the issue of wages in the supporting supply chain a particularly pertinent concern for our members. Changing consumer demands and fluctuating order volumes can lead to last-minute changes in specifications from brands. These then require workers to put in overtime to meet contract deadlines, but sometimes manufacturers struggle to pay the legal minimum premium for that overtime.

While there is widespread agreement that all workers should be guaranteed a fair wage, progress has been limited by the complexity of calculating and paying fair wages within global supply chains, as well as by a lack of common agreement around what actually constitutes a 'fair wage'.

Wages are determined by a number of factors that vary substantially between different sourcing countries. These include the economic conditions and cost of living in a country, national laws, the size and availability of its workforce, a worker's skill level, the nature of the industry or sector and the competitiveness of the employer. In addition, what constitutes a reasonable standard of living is subjective, culturally determined and dependent on individual circumstances.

### VOLUNTARY INITIATIVES

Against this backdrop, a number of voluntary initiatives have emerged aimed at supporting companies to take action and promoting collaboration. These include:

**ACT** (Action, Collaboration, Transformation) is a garment sector initiative – recently incorporated as a foundation, entitled

'Stichting ACT' – which includes brands, retailers and the global union IndustriALL. ACT brings together all relevant stakeholders and aims to establish industry collective bargaining in key sourcing countries, supported by world class manufacturing standards and responsible purchasing practices.

The **Ethical Trading Initiative** (ETI) is an alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the world.

The **Fair Labor Association** (FLA) is a collaborative initiative of companies, colleges and universities, and civil society organisations that aims to create solutions to abusive labour practices. During 2015, the FLA implemented its Fair Compensation Work Plan – a strategy for working together to make progress on low pay, excessive working hours and other labour-related issues.

The **Fair Wage Network** seeks to unite all actors involved in global supply chains who are committed to promoting better wage practices. It has established The 12 Fair Wage Dimensions, aimed at providing companies with a framework designed to identify the strengths and weaknesses of company wage-fixing systems.

### A NOTE ON TERMINOLOGY

A **minimum wage** is the lowest wage permitted by law within a country or sector<sup>1</sup>. This is determined by governments, which may consult with trade unions and manufacturers associations.

An **industry wage** is a local or national wage paid to the majority of workers in a particular industry or sector in a specific area.

A **living wage** is a wage that is considered high enough to meet basic needs and to provide some discretionary income<sup>2</sup>.

A **fair wage** – as defined by the Fair Wage Network – seeks to ensure sustainable wage developments over time by considering a range of wage-fixing mechanisms beyond the wage itself such as regular payment and communication between the company and workers<sup>3</sup>.

<sup>1</sup> ACT definition - <http://www.hiil.org/data/sitemanagement/media/ACT%20Factsheet.pdf>

<sup>2</sup> Ethical Trading Initiative definition - <http://www.ethicaltrade.org/blog/what-does-national-living-wage-really-mean>

<sup>3</sup> <http://www.fair-wage.com/en/fair-wage-approach-menu/definition-of-fair-wages.html>

## DRIVERS AND CHALLENGES

The importance of addressing the challenge of wages is driven by a number of factors, not least the fact that our industry has a duty to ensure that workers throughout the supply chain earn enough to cover their basic needs, as well as some discretionary spending and savings.

Moreover, there is growing recognition that discounted prices of products – including some sporting goods – may come at the expense of workers who make the products, leading to labour rights NGOs stepping up the pressure on companies to take responsibility for their impacts throughout the supply chain and to ensure that workers are not exploited.

This has led to calls for improved purchasing practices by brands to address level loading and even out the peaks and troughs in production schedules that can impact working hours.

This growth in activism also means that the topic has become a high profile media issue, with mainstream media increasingly running stories that shine a spotlight on low wages, often characterising these as “poverty wages”. As a result, our larger brand members in particular are subject to more intense scrutiny and consequent risk to their reputations.

Fuelled in part by this increased profile, consumers are becoming more interested in the ethics surrounding the apparel supply chain, and are beginning to challenge the business model that is perceived as powerful brands profiting from cheap labour around the world.

As a result of the heightened focus – as well as greater awareness of payment practices further down the supply chain – a growing number of leading brands recognise the need to adjust their business model so it creates longer-term value by ensuring that fair compensation is paid across their supply chain.

### CHALLENGES FOR OUR MEMBERS

It is clear, then, that companies in our industry are experiencing pressure from many angles to ensure that workers are paid a ‘fair wage’ – but even those that are most committed to this are finding that actually doing so is laden with challenges.

As already outlined, the lack of a clear, universally agreed definition on what a fair wage is and what it should include is the most significant barrier to progress. Different players within the overall system have different views as to what a fair wage should constitute, and even individual workers may have different expectations. Where there is a national, legal minimum wage the law is not always fully or properly implemented. This means it is even more difficult for companies to go beyond minimum requirements and ensure workers in those countries are paid fairly based on an agreed calculation of the cost of living.

This challenge is exacerbated by the fact that factories are often located in countries where the minimum wage tends to increase sharply and unpredictably<sup>4</sup>. This has a substantial financial impact on suppliers and brands. It creates supply chain volatility which may force companies to choose to accept a lower margin, or move production elsewhere.

Moreover, with manufacturers subject to many pressures and variables, labour costs are an important contributor to manufacturing costs and one of the few areas that they can directly control. Balancing costs with other pressures from customers around volumes, quality and timelines can mean manufacturers may struggle even to pay the legal minimum overtime premiums – the first priority that needs to be tackled.

The fact that many companies do not have direct relationships beyond their direct suppliers – and that suppliers may subcontract work out from the main factory without their clients’ knowledge – also makes it difficult for brands to police payment practices further down the chain.



<sup>4</sup> ILO Global Wage Report 2014/15: Asia and the Pacific Supplement

## WHAT WE THINK

The WFSGI believes the industry has a moral imperative to address the issue of fair wages. The values of fair play and equality lie at the heart of sport, and it is essential that the goods produced to enable participation in sport are not the products of exploitation. In addition, the industry's ability to protect its reputation relies on taking a responsible approach to the issue.

The WFSGI Code of Conduct includes a provision to ensure that employees are fully and legally compensated for the hours they work. Specifically, it states that wages must equal or exceed the minimum or industry wage – whichever is higher – and that employees must be compensated for overtime at the rate required in the country of operation. In countries where such laws do not exist, they must be paid at a rate exceeding their regular hourly rate. We believe that all members are responsible for ensuring these conditions are met.

Beyond meeting this requirement in our Code, our position regarding the payment of fair wages is based on commonly accepted concepts of human rights, most notably those set out by the International Labour Organization (ILO) and in the UN's Universal Declaration of Human Rights.

The principal way in which brands can contribute to promoting fair wages is through implementing responsible purchasing practices. Brands also have a role in monitoring their suppliers, as well as supporting them to develop more efficient processes for managing energy, chemicals and waste, so that over time their cost base can shift more towards wages.

For their part, factory owners must protect the welfare of their workers by paying the legally required wages and benefits, on time and in full. Manufacturers should also establish transparent wage-setting mechanisms that allow for worker input, as well as enabling channels for negotiation or collective bargaining with trade unions.

Retailers should ensure that the pricing of their products allows for workers throughout the supply chain to earn a fair wage. Retailers could also consider requiring their wholesale brand partners and licensees to address the challenge of fair wages within their own supply chains.

## BENEFITS OF TACKLING THE ISSUE

Despite the complexity of the challenges, we believe our members will derive advantages both from taking a responsible approach to their own activities and from working together across the industry.

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

## 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. This could include collating members' current approaches to wages within their supply chain, convening a process for brands to collaborate on establishing a common set of definitions or to collectively adopt an existing set.

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: WORKING TOGETHER FOR A LIVING WAGE – PENTLAND BRANDS

WFSGI member Pentland Brands is committed to enabling workers throughout its supply chain to be guaranteed a fair wage, and believes that partnering with others is the best way to achieve this.

### THE CHALLENGE

Securing fair wages isn't an easy task, and Pentland Brands – in common with many of its peers – finds itself running up against some of the challenges already outlined in this paper. These include the fact that – in many of its sourcing countries – even where a legal minimum wage exists, it is not sufficient to meet basic needs nor is it always properly enforced by authorities.

Furthermore, since Pentland does not directly employ the workers in the factories and rarely contracts more than 50% of any single factory's annual production, there is a limit to the progress it can influence.

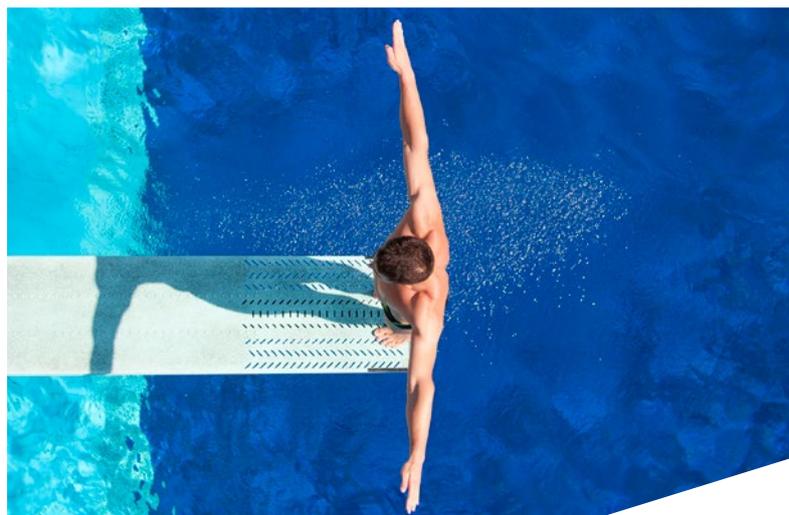
### MAKING PROGRESS THROUGH COLLABORATION

Pentland has established a robust Code of Employment Standards for Suppliers, based on ILO conventions and ETI (Ethical Trading Initiative) base codes. One of these codes is a commitment to paying living wages.

But Pentland believes that improving wages across the industry has to be a team effort. That's why the company has partnered with other sector brands and retailers and IndustriALL (a union that represents millions of workers across the world) to create Action, Collaboration, Transformation (ACT) – a multi-stakeholder initiative aimed at tackling the challenge of living wages specifically in the textile and garment sector.

The initiative grew out of the recognition that creating the conditions to bring about positive change and industry development can only be achieved through an industry-wide approach. ACT brings together relevant stakeholders – including brands, retailers, manufacturers and trade unions – around a common vision of the conditions needed to raise wages in the sector, and focuses specifically on establishing industry collective bargaining in key sourcing countries.

This initiative has recently been incorporated as a foundation, entitled 'Stichting ACT', which is registered in The Hague.



### THE BENEFITS

Pentland Brands is positive about the benefits it has derived from participating in a collaborative approach. Internally, the actions of the board in signing and endorsing ACT's set of enabling principles, along with a Memorandum of Understanding with IndustriALL, has demonstrated commitment to the rest of the business, while the collective influence represented by the initiative has also prompted deeper interest and engagement across the company.

Externally, Pentland's participation in ACT has provided a forum for sharing expertise, and the opportunity to work with major brands in the industry as well as NGOs, governments and resource providers. In some cases, the development of relationships with other brands has led to further collaboration. For example, many members are now also working together on modern slavery training and supply chain risk assessment.

Moreover, the advantages of collective influence have helped to facilitate supplier engagement at an industry level, contributing to improvement and adding collective weight, while also complementing the work of individual brands within their own supply chains.

While ACT is in its early days, Pentland's experience is that industry-wide collaboration through this kind of initiative offers the best opportunity to accelerate the evolution of the industry in this vital area.

## ONGOING DEVELOPMENTS & NEXT STEPS

As awareness of the issue of workers' wages continues to grow, we expect to see our members – and the industry as a whole – come under increasing pressure from their stakeholders to further promote fair and transparent wage setting systems throughout the supply chain. We also anticipate that this will provide a compelling basis for the industry to work more closely together to establish a common understanding of what a fair wage is and how to apply it.

### SUMMARY AND CONCLUSION

The WFSGI provides a platform for sharing best practices and actively engages members in realising a CSR vision grounded in shared values and principles. As an association, WFSGI is both a voice for the industry and a trusted advisor on CSR 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 the workers who make their products earn enough to live dignified and healthy lives. 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.

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### FURTHER INFORMATION

#### ACT

<http://www.hiil.org/data/sitemanagement/media/ACT%20Factsheet.pdf>

#### Fair Labor Association

<http://www.fairlabor.org>

#### Ethical Trading Initiative

<http://www.ethicaltrade.org/>

#### Fair Wage Network (including the 12 Dimensions)

<http://www.fair-wage.com>

#### International Labour Organization

<http://www.ilo.org/global/lang--en/index.htm>

#### UN Universal Declaration of Human Rights

<http://www.un.org/en/universal-declaration-human-rights/>



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