



The main social challenges in the footwear supply chain are working hours and wages.

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Varying audit standards and codes of conduct can lead to confusion at factory level, according to umbrella groups, who say collating best practice will lead to harmonisation across the industry.

Common cause

It has become a familiar tale. Brands are not keen to be thrust into the limelight when it becomes public that suppliers' standards are below expectations and put pressure on factories to conform. At the same time, they expect the cheapest price and the shortest lead times which pressurises factories to set up longer shifts, pay lower wages or scrimp on training or safety aspects. The Rana Plaza disaster in Bangladesh in April 2013, where more than 1,100 workers were killed when the complex collapsed, highlighted both the poor physical working conditions and the fact that some suppliers had been sub-contracting work to meet tough targets, unbeknownst to their customers. Setting forth conditions that need to be met by suppliers can offer some kind of reassurance that standards are being met – although the sheer complexity of some large brands' supply chains means that vetting and regulating these is difficult and costly.

When Timberland reported the results of factory audits earlier this year, it found 80% of inspected factories (48) did not meet the standards it had set out and were "accepted to be upgraded" (on minor issues). Nine were "accepted" immediately (15%) and three were rejected (5%).

Instigated by owner VF Corp, which bought Timberland in 2012, the new audits in 2013 found 43% of suppliers had unsatisfactory working hours (exceeding 60 hours per week, 12 hours per day or more than six consecutive days) while 8% were paying below minimum wage and 1.3% were using prison or debt-bonded labour.

In 2013, adidas issued 66 warning letters to suppliers across 14 countries, and terminated nine agreements because of concerns about social and environmental non-compliance. It interviewed 1,800 workers in the Philippines, Vietnam, Mexico, China and Thailand. "Many were encouraging. Suppliers paid

wages on time, complied with legal minimum wage rates, and the wage structure consisted of many non-monetary benefits," it said. "Other findings were less positive. There were instances of under-payment of overtime, workers not being well informed of the current legal minimum wage, the piece-rate system being the overly dominant method of calculating wages, and the lack of a direct link between the wages paid and the factory's economic performance."

The groups said mitigating the root causes of this would be a "main focus" for 2014, adding that it would look at suppliers' wage-setting mechanisms and integrate Fair Wage components into its monitoring tools.

While these findings sound worrying, they are echoed by other companies. It is also worth noting that a large number of companies either do not undertake these kinds of inspections or keep their findings private.

FDRA's new standard

However useful a code of conduct is, if manufacturers have to sign up or adhere to more than one it can be confusing, says Matt Priest, president of the Footwear Distributors and Retailers of America (FDRA), which counts Nike, Puma and Wolverine among its 300 members. He cites the example of one customer insisting a fire extinguisher is placed in a certain position on the wall versus a competitor who expects the opposite, meaning the factory is forced to keep moving it. There are bigger issues at stake, and a standard adopted across the industry would promote "synchronicity and drive uniformity", he says – particularly for the footwear industry which has a "unique dynamic".

In July the year, the association launched its own code of conduct. FDRA's factory compliance and enhancement committee, chaired by Mike Jefferson, president of global operations at Wolverine Worldwide, analysed dozens of existing codes and collated what it deemed as best practice into one document, which has been offered to brands and factories on a take-it-or-leave-it basis: "You can adopt the whole thing as your own or take pieces out of it, or you can ignore it for the time being; people can use as they see fit," says Mr Priest.

"We've had companies that didn't have one and are now using ours; some that are supplementing what they currently have and a couple are considering replacing their own so they can help us drive this forward as an industry standard."

The code covers management systems, conditions, structural safety and transparency. The challenges, he says, are "what they've always been": the working hours and wages. "There are obviously zero-tolerance issues – child labour and enforced labour and those kind of things, but there are other issues that are driven by the seasonality and the demands of the industry."

"We hope there will be continuous improvement. Factories that adhere to the code understand it's a work in progress, and transparency is key for it to be successful. Beyond that it's about moving in the right direction and enhancing the way in which factories pay their people and how many hours are worked."

Monitoring whether there is in fact 'continuous improvement' is another challenge. The FDRA hopes that if the code can be adopted on a large scale, it will be able to draw up an audit process to vet against. To aid this, it is launching a factory recognition programme where brands and retailers can nominate factories that they feel adhere to the model. "We have a sub-committee that will review submissions and

nominations as well as recent third-party audits to see whether or not the factories meet, or are trying to meet, the code," Mr Priest continues. Launching new audits will be a difficult task, he admits. "One thing we all know is that there's audit fatigue."

The code has been translated into Chinese and was introduced to partner factories during the summer of 2014, with more workshops planned for the coming months. FDRA will carry out its own testing and is scheduled to reveal the results as a blind case study before the end of the year. The document will also be translated into Vietnamese and rolled out there towards the end of the year.

ZDHC's work in progress

The Zero Discharge of Hazardous Chemicals (ZDHC) group – whose members include adidas, New Balance and the European Outdoor Group – also has its sights on a new audit standard, with an emphasis on chemicals management. Factories have been taking part in pilot audits to evaluate how well the draft protocol works.

The feedback has flagged up what ZDHC refers to as "many opportunities for improving". The audit, which included 300 questions, was thought too comprehensive by some. Factories said they would have to allocate more time than they had envisaged and said it seemed designed for large facilities rather than small- to medium-sized operations, and some questions needed clarifying. Auditors admitted they would need additional training to use the tool effectively.

Version 2.0, to be published towards the end of this year and whose details will be made public, will include a standalone, chemicals-specific audit that facilities can use as a self-assessment if desired.

"Long term, the intention is to have multiple stakeholders adopt this tool as industry standard for use as their generic environmental audit or self-assessment tool," said the group. "It is our hope that this tool will be included in the suite of tools used by the Sustainable Apparel Coalition, Outdoor Industry Association, Global Social Compliance Programme, Leather Working Group, Better Work, Fair Labor Association and more, towards scaled adoption and a new approach in the apparel and footwear industry for chemical and environmental management."

These groups join organisations such as Worldwide Responsible Accredited Production and AsiaInspection that already have well-established processes in place. Some brands will continue to carry out their own audits until they are convinced, or due to the complexity of their chains; others might gravitate towards more generic tools. Great progress is being reported in some regards: Timberland has met its greenhouse gas targets two years ahead of schedule and wage rises and extra benefits are being secured [Nike supplier Yue Yuen in August agreed to extra benefits to the tune of \$53 million]. "There's notable traction taking hold in supply chains worldwide: corporations putting their money where their mouths are and governments moving forward on legislation," said Sebastien Breteau, CEO of AsiaInspection.

A growing number of new standards will need agreement across sectors, however, so as to simplify and not increase the burden on factories, ultimately aiming to make them safer and more comfortable places to work in and reduce their impact on the land. "There's onus on all of us in this process, whether you're on the customer side, the trade association side or the factory side to help drive this along together," says Mr Priest. 