

Responsible Investing Perspectives

ESG Viewpoint Collective worker rights in the supply chain

Key summary

- Our 2015 project on living wage (full-time wages that meet the cost of living) identified collective bargaining as a powerful enabler for addressing issues of labour standards in supply chains.
- In 2016, we followed-up with global retail and apparel companies to assess approaches to ensuring effective collective worker representation in the supply chain.
- Almost all companies we engaged require collective bargaining as part of their supplier code of conduct; however, most cannot ensure the requirement is being met by suppliers.

Background

In 2015 we engaged 40 brands on opportunities for addressing wage concerns in the global supply chain.¹ That engagement made it clear that collective worker rights act as a key enabler for tackling many poor labour practices, such as inadequate wages or poor safety standards.

Brands have had to implement increasingly onerous audit and control procedures in many high-risk supplier markets due to lack of effective worker empowerment mechanisms. In our 2016 follow-up, we explored the roles brands can play in encouraging better collective worker rights mechanisms to help supplier markets become more effective self-regulators.

We contacted 51 brands with high-level guidance on effectively implementing collective worker rights, and inquired about the challenges they are facing when implementing such policies in their supply chains. We focused on collective bargaining as a proxy for assessing the extent to which organised labour bodies can hold employers in supplier markets to account and advocate for improved labour standards.

Collective bargaining refers to the negotiation of conditions of employment such as wages by an organised body of employees, commonly known as a trade union. Many professions such as teachers and doctors in the U.K. and other western countries are supported by trade unions. Unionisation in supply chain markets is virtually non-existent. However, it is those markets that particularly suffer poor working conditions such as long hours, low pay and inadequate workplace safety standards.

¹ For a full report on our Living Wage project please refer to ESG Viewpoint "Living wages in the garment supply chain", April 2016

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- **Goal:** Encourage collective worker rights mechanisms to address supply chain labour issues
- **Engagement since:** 2015
- **Sectors involved:** Food and Staple Retailing, Textiles, Apparel and Luxury Goods

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Labour is viewed as a cheap and easily replaced input, and as such, employers in these markets are not focused on human capital development to enhance productivity (such as, through training or career advancement programmes). With the absence of collective bargaining arrangements, these workers have no external protection, are often unaware of their rights and, even if they are aware, are understandably afraid of their employers due to lack of protections.

Disempowered workers in low-productivity supply chains, coupled with frequent accidents and labour standards controversies, have resulted in a situation where brands are struggling to show evidence that they can effectively mitigate sustainability risks.

Engagement action

We identified three key areas in which companies can influence the implementation of effective collective worker rights in the supply chain:

1. Actively support collective bargaining

- Demonstrate a top-down commitment to supporting collective bargaining.
- Explicitly require collective bargaining and freedom of association in supplier code of conduct.

2. Employ local teams in high-risk sourcing markets

- These teams should have deep knowledge of the specific market and communities.
- Ensure that training for worker empowerment and collective bargaining rights are embedded in supplier monitoring.
- Go beyond an outsourced supplier auditing model.

3. Collaborate with other stakeholders

- Work together with other retailers to encourage suppliers to allow workers to bargain collectively by signing up for initiatives such as IndustriAll's Action, Collaboration, Transformation (ACT) initiative.
- Increase leverage on suppliers by liaising with other buyers to make collective bargaining a requirement.

Findings

During 2016, BMO Global Asset Management reached out to 51 manufacturers and retailers including apparel, sportswear, luxury, department stores, food stores and supermarkets. We had further engagement with 26 of these brands and learned that although almost all require collective bargaining as a right for all workers in the supply chain, most are not actively ensuring this is implemented. In effect, the requirement is easily dismissed by suppliers.

- Two out of the 26 companies, or 8%, do not require collective bargaining in their supplier code of conduct.
- Sixteen out of the 26 companies, or 62%, have a policy requiring collective bargaining but are not actively implementing it.
- Eight out of the 26 companies, or 31%, have a policy requiring collective bargaining and are actively working with suppliers on implementing it.

We believe that a primary driver of this finding is varied regional exposure of companies' supply chains. Organisations with a large exposure to Bangladesh in their supply chain are likely to be doing less on collective bargaining than those with a larger exposure to Cambodia. The reason for this is that trade unions already exist in Cambodia. Companies with Cambodia based supply chains are therefore better able to leverage off existing mechanisms and culture regarding collective worker representation and, as a consequence, they can better direct their focus on supporting the implementation of collective bargaining programmes.

In markets where this does not already exist, such as Bangladesh, brands often face significant barriers in getting any kind of worker representation mechanisms established. Companies are therefore required to work much harder to support education and capacity building on the concept of trade unions before being able to address any implementation challenges.

The establishment of the industry initiative 'The Bangladesh Accord on Fire and Building Safety' in the follow-up to the Rana Plaza building collapse in 2013 provides a case in point. The Accord's

main focus is on health and safety and does not include any wider provision for freedom of association. However, it did set up worker safety committees in factories and established grievance and dispute procedures for employees. The achievements of the work conducted so far on the Accord highlights the important effect of brands working collaboratively, and we see the Accord as a potential stepping stone for brands that source from Bangladesh to work collaboratively on worker empowerment.

Collaborative action on collective bargaining

ACT is an initiative run by the global union IndustriAll, between international brands and retailers, manufacturers, and trade unions to address the issue of living wages and collective bargaining agreements in the textile and garment supply chain. What sets the initiative apart is its efforts to bring together all relevant stakeholders, including employer associations and government actors. We have asked companies to consider involvement in initiatives such as ACT because the development of effective collective bargaining arrangements in supply chain markets are best achieved through multi-stakeholder initiatives that cut across the employer-employee-government spectrum.

- The initiative was initially focused on improving conditions in Bangladesh, and is now expanding to other key markets like, Cambodia, Myanmar, Vietnam and Turkey.
- Until recently it involved only a small group of brands such as **H&M, Primark (Associated British Foods), Next and Esprit.**
- It is now seeking to increase its membership by focusing beyond Europe and in particular on North American and Asian brands.

In 2017, ACT expects to work with an increased number of brands and a variety of supplier regions to help brands act upon their supply chain commitments. In particular, brands participating in ACT will focus on bringing in suppliers to participate in collective bargaining, as well as employer association.

The initiative also aims to develop mechanisms that link purchasing practices to the outcome of industry bargaining. This represents a crucial area where companies should have significant control to change the dynamic of the relationship between buyer, supplier and factory workers. Although some leading companies claimed to have reviewed their purchasing in line with sustainability objectives, there is scant evidence as to the impact of any changes undertaken.

Conclusion and next steps

Despite many brands agreeing that freedom of association and collective bargaining are necessary and important tools for sustainable supply chains, many struggle to enforce their supplier requirements in this area.

It appears unlikely that high-risk sourcing markets are moving to become more self-regulated. In the absence of progress on this front, the onus will continue to lie with international brands and retailers to maintain an often outsourced control and audit regime in those markets—a model which, so far, has not been able to tackle the endemic underlying labour standards issues.

There is a lot of work still to be done in this space, not only with regards to collective bargaining in the supply chain, but also within worker empowerment and rights awareness. Without this foundation, collective bargaining cannot even be effective.

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