



Progress and Potential

A focus on firm performance

THEMATIC
BRIEF

KEY FINDINGS

Better working conditions lead to higher worker productivity

Participation in Better Work leads to an increase in profitability

Training female supervisors increases line productivity

Order sizes increase as firms join and commit to Better Work



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BetterWork.

Launched in 2007, the Better Work Programme – a joint initiative of the International Labour Organization (ILO) and the International Finance Corporation (IFC), a member of the World Bank Group – has made progress in improving working conditions and promoting competitiveness in global garment supply chains. Participating in the programme has enabled factories to steadily raise compliance with ILO core labour standards and national legislation. A recent impact assessment of Better Work shows that factories’ increased compliance has significantly upgraded working conditions while advancing productivity and profitability.

Tufts University has carried out an independent impact assessment of the programme since its inception. The university’s interdisciplinary research team has gathered and analysed nearly 15,000 survey responses from garment workers and 2,000 responses from factory managers in Haiti, Indonesia, Jordan, Nicaragua and Vietnam. Tufts’ in-depth analysis of the surveys provides concrete evidence of Better Work’s effectiveness in enhancing workers’ lives and boosting factory competitiveness.

Evidence presented in this brief demonstrates that improvements in working conditions lead to higher productivity and firm profitability. The data also show that participating in Better Work is instrumental in firms’ abilities to achieve those objectives, which in turn are fundamental to firm competitiveness.

1. Introduction – A “low road” and a “high road” in the global garment industry

Across the world, factories that participate in Better Work have a varying range of working conditions, despite facing similar pressures on cost, flexibility and speed to market. This suggests that a sweatshop environment is not inevitable for firms to thrive. Findings from the Better Work impact assessment indicate that factories are often placed in front of a cross road and may either take a “low road” resulting in poor working conditions or a “high road” leading towards greater compliance.

Poor conditions may persist because garment factory managers lack knowledge of best practice in human resources management, such as positive motivational techniques or multi-dimensional pay packages. They may instead resort to such strategies as verbal and physical abuse to attempt to elicit more effort from workers – a “low road” business tactic. If factories are able to profit by exploiting workers through harsh treatment, low pay or excessive overtime, they may

see no commercial advantage in moving away from a sweatshop model.

Furthermore, factory managers may believe that the only way to keep their firms profitable while meeting the lead time, quality and cost demands of international buyers is by coercing effort from workers. When managers and supervisors are inundated with external demands for their attention and under pressure from time constraints they can experience a mental state social psychologists refer to as cognitive load, and they are unable to process information in a rational way. So, even when presented with the evidence that better working conditions lead to greater competitiveness, they can lack the capacity to absorb the new information. In this way, they may choose to invest little or nothing in basic improvements to the factory environment.

To counter such false assumptions and inadequate investment in a healthy work atmosphere, Tufts researchers explored the impact of Better Work on

firm performance from multiple angles: productivity, profitability, position in the supply chain, order sizes and frequency of buyer audits. The researchers demonstrate that improving work environments and eliminating abusive behaviour helps to maximize profit – offering a “high road” for participation in global supply chains.

To mainstream this high-road production system in the global apparel industry, the research also indicates a more holistic approach to supply chain management, one that reaches beyond the factory floor, is needed. Brands and retailers play an important role and must review current supply chain models and sourcing practices in order to address the root causes of poor working conditions. Meanwhile, in most cases, factory managers must increase their understanding of the HR strategies that optimize performance. They must also make a wholesale shift in their perception of workers, recognizing them as valuable assets and individuals to be invested in.

2. Better working conditions increase productivity

Early evidence from Better Work Vietnam indicates that improved conditions in factories are linked to higher levels of worker productivity¹. Where conditions are better – particularly those relating to the factory environment – workers reach daily production targets nearly 40 minutes faster than workers in factories with worse conditions².

But is it the case that upgraded conditions make employees more productive, or is it that more productive workers find themselves in factories with better

working conditions? The impact assessment proves that participating in Better Work Vietnam (thereby achieving higher compliance rates and better conditions), leads to improved productivity. Figure 1 shows that after five years of participation in Better Work, employees reach their production targets 1 hour and 18 minutes faster than when the programme started. The research concludes this effect is directly attributable to Better Work, taking all other external factors into account.

¹ Rather than measure the efficiency rate to determine productivity, researchers use data from workers to determine how much time is necessary to reach a production target. Workers are also asked about the total length of their work day. In the case of a daily target, the length of the work day is controlled under the assumption that firms with a longer planned workday create incentives for work by setting a production target that takes correspondingly longer to reach. Changing external conditions, such as peak-production periods, garment complexity and rush orders, are effectively controlled for with this method, as managers adjust targets to meet business needs.

² Brown, D. et al (2015). ‘Are sweatshops profit-maximizing? Answer: No. Evidence from Better Work Vietnam’, Better Work Discussion Paper no. 17.

FIGURE 1 **BETTER WORK IMPACT ON WORKERS' TIME TO REACH THEIR PRODUCTION TARGETS**



Individual worker productivity also increases as verbal abuse is eradicated in the work setting. Evidence from Vietnam shows that if workers are concerned by verbal abuse, they take almost one extra hour per day to reach their production target. This is taking into account their education, training and experience.

Training supervisors through Better Work's Supervisory Skills Training (SST) also has a measurable effect on productivity. The SST increased the productivity of lines run by trained supervisors, especially women, as it reduced the time needed to reach production targets. Researchers attribute a 22 percent increase in

productivity to the SST. Training supervisors also helps to lower employee turnover, reduces the occurrence of unbalanced production lines (where work piles up for some workers while others sit idle), lowers injury rates among workers and encourages supervisors to listen to workers' concerns regularly.

Furthermore, impact assessment data shows that basic skills training reduces the time workers need to reach a target. Workers in Vietnam who report taking part in basic skills training were found to reach production targets on average nearly 15 minutes faster than those who had not had the opportunity to participate.

3. Better working conditions have a positive impact on the bottom line

Improved working conditions and high profit levels go hand in hand, according to early analysis of Better Work Vietnam. More profitable firms exhibited better conditions, greater compliance with labour standards, and more innovative HR practices. Factories in which workers perceive better conditions are up to 8 percent more profitable than their competitors. Compliance with core labour standards, in particular, is associated with higher profitability.

Similarly, in factories where verbal abuse is more prevalent, revenue relative to cost declines as the number of verbal abuse reports rise. This indicates that removing verbal abuse does not in itself guarantee an increase in profits, but it is a necessary condition. High-performing firms do not exhibit more incidence of verbal abuse. Similar conclusions can be drawn on the relationship between sexual harassment and productivity and profitability.

FIGURE 2 **VERBAL ABUSE AND PROFITABILITY**

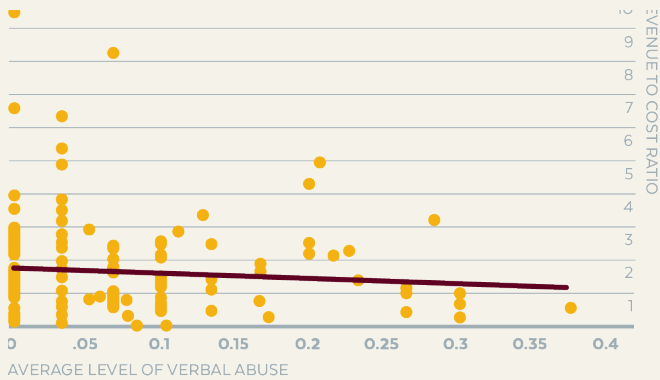
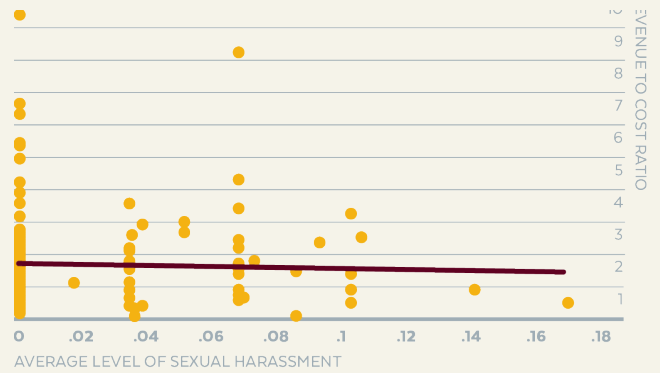


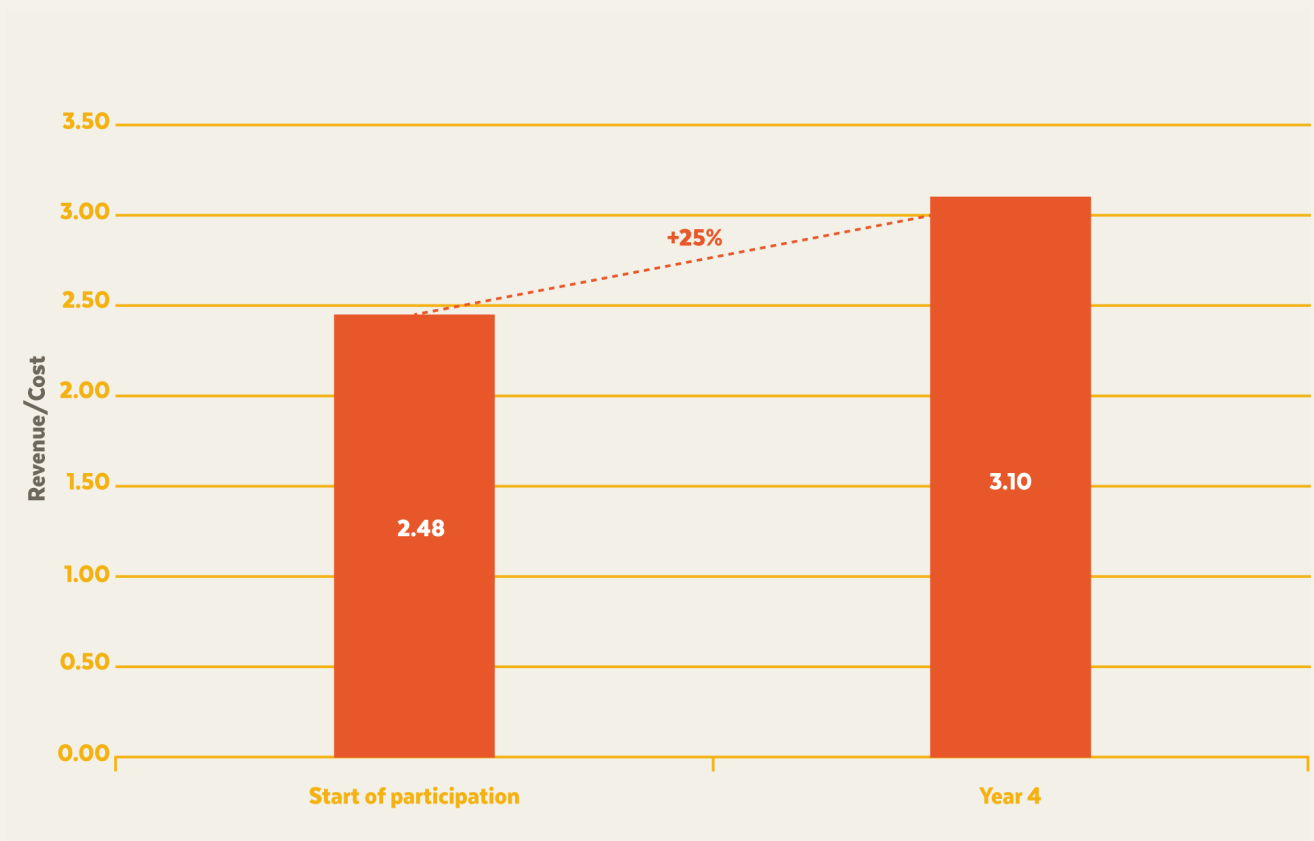
FIGURE 3 **SEXUAL HARASSMENT AND PROFITABILITY**



The Better Work impact assessment shows that the programme drives improvements in working conditions that in turn have a positive impact on factories' bottom lines. All things equal, participating in

the programme leads to a rise in profitability. After four years in Better Work Vietnam, the average factory's revenue-to-cost ratio increases by 25 percent (Figure 4).

FIGURE 4 **BETTER WORK IMPACT ON PROFITABILITY**



Note: The cumulative Better Work effect on the revenue-cost relationship is 0.62 on a mean of 2.48 at the fourth year, indicating a 25 percent increase in the ratio of revenue to cost.

4. Better Work's impact on supply chain relations

Better Work is having an impact on business terms along the global supply chain. Across all firms surveyed, factory managers reported achieving better business terms with buyers. Managers at free-on-board firms³, those at subcontracting firms and firms with initially low compliance rates reported the most significant improvements. Firms that started with low compliance are most likely to see more favourable business terms, having made the largest strides in improving their reputations.

Firms that make progress on key compliance issues, such as pay and working hours, typically see an increase in order sizes from buyers. This highlights the importance of firms making continuous improvements, rather than enrolling in Better Work solely for reputational purposes. With consistently good performance, participating factories tend to experience a sharp increase in order size.

Furthermore, managers in Vietnam increasingly report fewer social compliance audits from their main customer. One of Better Work's goals is to reduce the inefficiency of excessive auditing in the garment industry. When multiple buyers each arrange their own inspections of conditions in the same factory, production disruptions increase and "audit fatigue" soon sets in. The buyer partners in Better Work commit to ending duplicative audits in their factories enrolled in the programme, which benefits both the factory and the buying organization. The net result is that buyers are conducting fewer audits in participating factories.

Evidence from Vietnam indicates that with each passing Better Work compliance assessment, factories are more likely to report that their main customer has stopped conducting its own social audits. Factory managers report that the number of compliance

³ Free-on-board firms are responsible for all the steps needed to supply products to their buyers until the products reach the port of shipment and are loaded on board.



assessment visits from their top two buyers declines after at least one year in the programme. In addition, factories are increasingly likely to report that their main buyers are contacting them about their Better Work assessments. This suggests that

information from the assessments is used as a basis for continuous improvement and as an objective standard for discussing how to meet expectations with commercial partners.

5. How Better Work is reducing duplicative audits

Improving factory conditions is an investment, not a cost. Healthy, safe conditions are critical components of success. Factories where workers report improved conditions, where compliance is higher, and where supervisors are well-equipped for their jobs, are more productive and more profitable. Abusive treatment, such as verbal abuse or sexual harassment, is not only morally deplorable but is also associated with poor business performance.

The Tufts research indicates key elements of the high road to better working conditions, increased worker well-being, and in turn, more productive and profitable factories. Further research and increased dialogue between buyers and factories must continue in order to identify the optimal supply chain and business model. Elements include:

- ◆ Comprehensive human resource management systems targeting all employees in the factory, including soft skills in addition to technical training
- ◆ Policies and training to prevent verbal and sexual harassment

- ◆ An alignment of production incentives for workers and managers
- ◆ Streamlined assessments to free factory resources to make investments in human capital
- ◆ Buyer internal reviews of their business models and sourcing practices to enable conditions for such changes

International buyers and brands respect Better Work assessments and in fact use them as a reference for well-run, productive factories that do not pose reputational risks. It is clear that the programme is becoming the key partnership to support continuous improvement in HR practices, and to attract buyers who are looking to source ethical fashion. Enrolling in Better Work and taking the steps the programme advises is an investment in a factory's current and future success – in job satisfaction, employee loyalty, productivity and profitability – yielding bankable returns for those that participate.



Progress and Potential thematic briefs present a focused look at particular topics from the impact assessment of Better Work.

CORE DONORS TO BETTER WORK

The Better Work Global programme is supported by the following key donor partners (in alphabetical order):

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