

ILO Value Chain Development Briefing paper 3:

Improving Working Conditions through Value Chain Development



International
Labour
Organization

VALUE CHAIN DEVELOPMENT



ILOs work on Value Chain Development (VCD) focuses on promoting pro-poor growth and job creation.

The VCD briefing papers series explores technical areas in which the ILO has specific knowledge and capacity to offer, contributing new pathways towards Decent Work.

Do you know what the working conditions are of the people who make, transport and sell your clothes, furniture or your favourite chocolate bar? You might buy the goods in a nice store, where a shop assistant enjoys good working conditions, competitive pay and collectively agreed weekly working hours. However, before the goods arrived at the store, they probably travelled across the world and involved many individuals along the way. In other words, on the other end of the value chain from your smiling shop assistant, you may find people working in less fortunate working conditions, with long working hours and low wages.

Working conditions vary considerably within a value chain. Although they can be poor at any level of the chain, the poorest working conditions are often found in the lower echelons of the chain. The people who suffer most from bad working conditions

and other types of exploitation are often workers in developing countries. This briefing paper explores how value chain development can help identify intervention points for the improvement of working conditions along the chain with a focus on smaller enterprises.

Value Chain Development (VCD): A value chain “describes the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (...), delivery to final consumers, and final disposal after use.”¹ This includes activities such as design, production, marketing, distribution, and support services up to the final consumer (and often beyond, when recycling processes are taken into account). The activities constituting a value chain can be contained within a single firm or divided among different firms, as well as within a single geographical location or spread over wider areas.

Source: Value Chain Development for Decent Work (2009), page 3



There are several reasons why working conditions in enterprises may be problematic. Increasing global competition as a first is a key factor that puts pressure to produce more efficiently and at a lower cost. Lead firms are found sometimes to transfer part of this pressure on to their suppliers who in turn choose to reduce wage costs or others related to working conditions. Finally, they might also decide to pass the pressure on to their suppliers and so the domino effect continues.

Poor working conditions are also a defining feature of most micro-enterprises that operate in the informal economy, improving these conditions comes with a cost to the enterprise that might not be easy to shoulder. However, there are ways in

¹ Kaplinsky (2004). *Spreading the gains from globalisation: what can be learnt from value-chain analysis*, *Problems of economic transition*, vol. 47, no. 2, pp. 74-115

which productivity and working conditions can be improved with a positive business impact. In some instances, there is a clear business case for the improvement of working conditions. For example, when buyers require compliance with key labour standards but at the same time help increase productivity, enhance competitiveness and improve access to export markets of their suppliers². In others, a pure business case is more difficult to find and a rights-based approach or a public-good

approach helps to explain the need for better working conditions.

In the process of identifying causes and ways out of poor working conditions, it is important to consider the chain as a whole. Changes at one end of the chain can have an impact at the other. For example, customer demands on the upper end of a chain can have a powerful effect on activities towards the lower end of the chain.

WHY IS JOB QUALITY IMPROVEMENT IMPORTANT?

Providing good working conditions is both a must and an opportunity. It is an obligation, because working in safe and good conditions is a fundamental human right. But it can also be an economic opportunity as improving working conditions may 1) enhance worker well-being and have an impact on productivity, but also 2) create international market access opportunities.

A HUMAN RIGHT

A key reason for improving working conditions is that everyone has a right to work in safe and good conditions. The right to work is enshrined in the Universal Declaration of Human Rights (article 23.1) as follows: “Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.” Furthermore, the International Labour Organization (ILO) has established more specific and universally applicable international labour standards, in the form of Conventions or Re-

commendations, to promote the rights of workers. Although Conventions are legally binding only for the countries ratifying them, there are four core labour standards binding for all ILO member states,



irrespective of ratification. These standards are: freedom of association and the right to collective bargaining; the elimination of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

² Better Work, a joint ILO IFC programme has recently conducted studies that provide evidence for this: www.betterwork.org

THE BUSINESS CASE FOR IMPROVED WORKING CONDITIONS

Better working conditions can improve enterprise productivity

Good working conditions can help enterprises of all sizes increase productivity and thus, improve the firm's overall competitiveness. Several studies

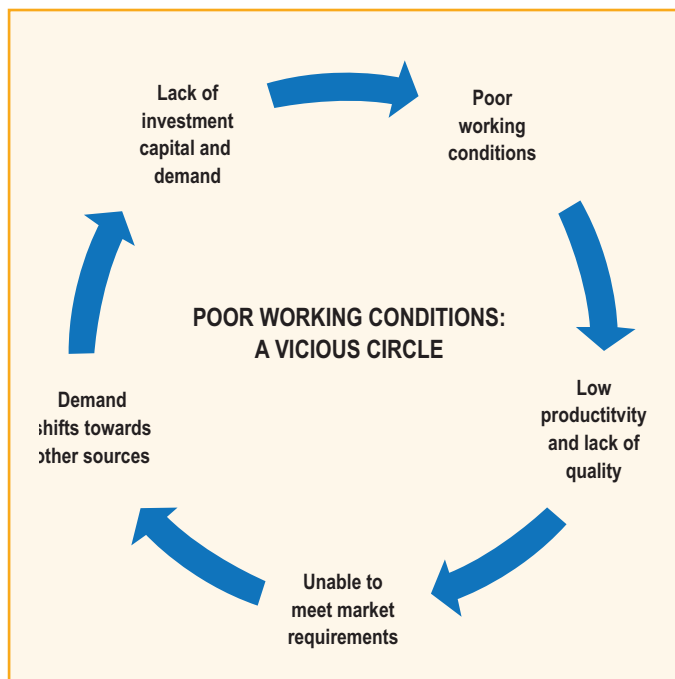


Figure 1: Poor working conditions – a vicious circle.
Source: Value Chain Development for Decent Work, page 99

have shown that the work environment has effect on the performance of employees. According to a study on workers' productivity in Nigeria, 86% of productivity problems reside in the work environment of organizations.³ Poor working conditions, such as unhealthy or unsafe working environments, decrease labour productivity and product quality through, for example, time lost due to injuries and illness. Weak quality and productivity can lead to situations where these firms fail to meet market requirements.⁴ (see Figure 1)

If enterprises fail to meet the requirements, demand shifts and small firms lose income, which in turn can result in insufficient investment in productive technologies and better working conditions. From a lead firm's perspective poor working conditions at suppliers' factories can affect output and performance and thus, weaken the supply. Therefore, lead companies can be motivated to either encourage or push suppliers for more worker-friendly production facilities as it can contribute to enhance their own competitiveness.

Improving working conditions for small Indonesian enterprises, second and third tier suppliers of automotive parts for the multinational car manufacturer Astra

Sustaining Competitive and Responsible Enterprises (SCORE) is a practical training and workplace improvement programme developed by the ILO to increase the productivity of small to medium-sized enterprises (SMEs) while promoting respect for workers' rights.

SCORE is currently operating in industrial clusters and specific sectors in seven countries under a global ILO programme. In Indonesia, SCORE is operating in the automotive sector – an important and growing sector of the Indonesian economy. ILO is working with the Yayasan Dharma Bhakti Astra Foundation, a private business development service provider to SMEs in the sector, and the public Regional Productivity Centres aligned to the Ministry of Manpower and Transmigration. Of the more than fifty SMEs that have participated in SCORE training in its initial phase, twelve are direct or second tier suppliers for the multinational car manufacturer Astra.

³ Taiwo, AS. 2010. "The influence of work environment on workers' productivity: A case of selected oil and gas industry in Lagos", Nigeria. *African Journal of Business Management* Vol. 4 (3), pp. 299-307, March 2010

⁴ Herr, M.L.; Muzira, T. J. 2009. *Value chain development for decent work: A guide for development practitioners, government and private sector initiatives.* (Geneva, International Labour Organization (ILO)).

The training provided raised the awareness and understanding among managers and workers in the automotive supply chain about the link between competitiveness and good working conditions. It resulted in concrete improvements, like in the case of the PT Laksana Teknik Makmur, an automobile parts manufacturer in Cibubur, Indonesia. The enterprise has grown from five to two hundred employees since 1998 and now produces over six hundred different automotive accessories. Growing so quickly has posed many challenges to the company. Outdated work organization hindered efficient work flow and caused high defect rates. The company employed many new workers but did not put systems in place for workers and managers to communicate effectively. Unhealthy work practices caused high rates of absenteeism.

After participating in SCORE, PT Laksana has reported significant improvements in productivity and has been promoted to a first tier supplier, bringing more equity and prestige to its brand, and ultimately, better working conditions for its employees. By organizing work stations and production flow, the enterprise is using fewer raw materials and defect rates have been significantly reduced: by 25% on the Mitsubishi Pajero Muffler product line, and by 15% on Toyota Avanza “ornament”. This was a result of a tool introduced by SCORE training, which helped identify important causes

of defects, such as lack of a standard setting procedures for dies; lack of quality standard making it difficult to determine if a product is defective or not, and lack of standard for the sanding procedure. Health and safety standards have also improved and management and workers are communicating on a regular basis. Full-time employment increased from 100 people in 2009 to 170 in 2012. Some of the improvements for workers are the creation of an employee praying room, a break room, as well as the improvement of the factory roof allowing for better ventilation. Both workers and managers perceive that their workplace has become more effective and inclusive. The same significant improvement was observed at PT Anugrah Jaya, who has passed the buyer’s monthly audit from one of the ASTRAs group company, with significant improvement in terms of quality and delivery.

Moving forward, both the Astra foundation and the Regional Productivity Centres in thirty three provinces have committed themselves to integrating SCORE training into their training portfolios. Social marketing campaigns will carry the message to more enterprises and the general public that improving working conditions is essential to meeting quality and productivity standards in supply chains.

For more information, visit www.ilo.org/score

Good working conditions can lead to better access to markets

Good labour practices are increasingly becoming a precondition for exporting to markets in many countries. If SMEs can comply with labour practices that meet minimum labour standards or codes of conduct of multinational companies, they can claim, and rightly so to have a competitive advantage. For example, Cambodian suppliers in the garment sector⁵ that improved working conditions gained real value: Exports to the US grew by 151% in value between 2001 and 2008.⁶ However, there is also a risk of suppliers becoming excluded from global

supply chains if they cannot meet the requirements of buyers in the chain. Lead companies often give conflicting messages to suppliers. While demanding compliance of codes of conduct and better working conditions at the same time they often demand delivery at lower prices and in shorter lead times.

Firms in some markets are pushed to implement better workplace practices by final customer demands. Customers are becoming increasingly better informed and aware of the environmental and social implications of their consumption patterns and demand products that are produced under

⁵ *Better Factories Cambodia* was a programme of the International Labour Organization aiming to improve working conditions in Cambodia’s export garment factories

⁶ *Better Work. Improving working conditions and promoting competitiveness in global supply chains. Booklet.* <http://www.betterwork.org/EN/resources/Documents/Better%20Work%20-%20Booklet.pdf>

conditions of non-exploitation and in environmentally sustainable ways. These demands in turn drive companies to demand better workplace practices in their suppliers' factories for fear of losing customers. Here lead companies can play an important and positive role in improving working conditions.

Voluntary initiatives of multinational companies can positively influence labour practices and contribute to economic growth with social responsibility, but they cannot be a substitute for national and international legislation.

The Better Work Programme

Engaging multinational corporations in promoting better workplace practices in their supply chains is key. This ideally leads to a situation where both working conditions and competitiveness are improved and benefits are spread along the chain. A good example of this kind of engagement is the BetterWork programme, a partnership between the ILO and the International Finance Corporation (IFC). The programme works at both global and national levels and

aims to improve compliance of enterprises with labour standards and competitiveness in global supply chains by providing practical advice. Buyers subscribe to the programme and commit to workplace improvements that go beyond simple monitoring of labour standards in factories.⁷ Better Work has worked with more than 550 companies with approximately 750.000 workers in the apparel industry.

For more information visit: www.betterwork.org

IF IMPROVED WORKING CONDITIONS ARE SO IMPORTANT, THEN WHY ARE CONDITIONS SO POOR?

There are several reasons why working conditions remain poor. Governments might have the legal obligation to enforce compliance but not have the capacity to enforce compliance with labour laws and regulations. In many developing countries the ability of governments to effectively enforce the law is relatively weak and enforcing local enterprises complying with the law and standards is costly. In many cases laws and norms are simply not adequate for the conditions many SMEs operate under and would impose unbearable costs. If enterprises find no positive incentives to improve working conditions, and are not penalized for poor ones, they will see no reason to improve them.

SMEs in developing countries frequently do not have the information to understand the link between good working conditions and productivity. Improvements in working conditions might be seen as a waste of time and money. Due to this lack of information, SMEs may not even implement improvements that are actually not all that costly. Minor changes such as organizing work stations and improving communication at the workplace can improve productivity, reduce the number of accidents and create more trustful and positive work environment. For example, weaving home workers in the rattan/bamboo value chain in Vietnam suffered of back and shoulder pains due to long working hours

⁷ See www.betterwork.org

in strenuous postures. Providing a comfortable work stand and chair with backrest improved the work posture and increased the overall job speed.⁸

Small and microenterprises that operate in the informal economy often sell to markets in which the price is the defining feature of a product as consumers tend to be poor. This leads to a situation in which competition for the lowest price is key to secure a competitive position. In these situations, working conditions are often neglected and possible improvements cannot be funded by the enterprise alone. Finally, improving productivity takes time, it may be more beneficial in the long run but in the short-term, cutting costs is a quicker strategy for many companies.

In conclusion, the business argument for improving working conditions holds true in some cases but in many others improving conditions is effectively a cost. Competitive pressure, missing information

or capacities and in some cases bad will, keep enterprises locked into situations of low productivity and bad working conditions. Improving working conditions may require steep initial investments by enterprises in developing countries and many may not be willing to do so unless they are certain of buyers' commitment to a longer-term and more solid relationship. Many buyers on the other hand are not willing to do so, as it limits their freedom to quickly shift orders to less expensive suppliers elsewhere.

How can Value Chain Analysis help?

Value chain analysis can help to understand the underlying causes for poor working conditions and identify intervention points for improvement. The key challenge is to find incentives for actors throughout the value chain to overcome poor working conditions⁹. These incentives are often linked to market access and to business relationships in the chain as outlined above.

Improving working conditions in the Coconut Fibre (coir) Industry

The ILO Enter-Growth project in Sri Lanka together with the Industrial Development Board (IDB) and the Industrial Service Bureau (ISB) in Kurunegala conducted a value chain analysis in the coir sector in 2007. One of the interventions that was prioritized was the development of a training course on Good Working Practices (GWP) for coir mills.

The Sri Lankan coir (a coconut fibre) industry is an important source of income and employment and it has opportunities for further growth and development. However, in order to ensure long term sustainability it must overcome some serious challenges such as the unreliability of coir supply from millers and the lack of quality, new competi-

tors from countries such as Philippines, Indonesia and Thailand. The industry has not been able to attract young people to work in the coir industry due to its poor image and reputation of hazardous and dangerous work environment.

The ILO project sought the root cause of for the low productivity and poor quality of mills. The project conducted research and revealed several weaknesses in the working environment: serious health risks for workers working on rotating drums and retting ponds (amputations and fungal infections being common occurrences), low wages and lack of job security (workers had no health insurance and were not eligible for pension), incidences of child labour, alcohol abuse at work, unplanned factory layouts leading to waste of resources through inefficient handling, etc.

⁸ Khai, T.T. 2011. *Capacity building on improving occupational safety and health among workers and producers in the sea grass, lacquer, sericulture, handmade paper and rattan/bamboo value chains. Mission report. International Labour Organization. See also a video on www.ilo.org/valuechains*

⁹ Herr, M.L.; Muzira, T. J. 2009. *Value chain development for decent work: A guide for development practitioners, government and private sector initiatives. Geneva, International Labour Organization (ILO)*

The development and introduction of a good working practices training helped address some of these issues, improve working conditions and eventually attract new workers. Furthermore, together with the Employers' Federation of Sri Lanka, the ILO managed to get large companies to en-

dorse the GWP initiative and have them be used throughout the industry.

Source: Value Chain Development for Decent Work, page 101

Analyze value chains with a focus on workplace practices

Value chain analysis provides a useful lens through which to identify underlying problems related to poor working conditions by not only looking at the single enterprise but by contextualizing it within a market system. The analysis of the chain can provide better information about choices both to the small entrepreneurs in developing countries as well as to national or global lead firms on where in the chain bad working conditions might be hindering overall performance. It can further provide entry points for interventions by identifying new pathways to higher productivity.



This can be done by working with enterprises embedded in global value chains where the final consumers or lead companies can exert influence on suppliers to comply with international labour standards.¹⁰

Another way to do this is by ensuring enterprises capitalise from introducing good practices by demonstrating how these changes can lead to a better business performance. This could include avoiding expenses caused by high labour turnover, avoiding costs related to accidents, ensuring effective social dialogue, introducing simple and inexpensive organisational changes that ensure a better production flow and other measures that can lead to higher productivity. In the medium term this could contribute to improving the image of an industry, attracting in return more and better qualified workers.

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¹⁰ As in the case of the ILO IFC "Better Work" programme



Links

ILO: Value Chain Development: www.ilo.org/valuechains

ILO: Sustaining Competitive and Responsible Enterprise (SCORE): www.ilo.org/score

ILO/IFC: BetterWork: www.betterwork.org

ILO: Better Factories Cambodia: www.betterfactories.org

Tools

ILO: Value Chain Development for Decent work: A guide for development practitioners, governments and private sector initiatives. 2009.

www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/documents/instructionalmaterial/wcms_115490.pdf

ILO: SCORE: Corporate Social Responsibility in the Chinese Textile Industry - Compendium of case studies with good practices. 2009. www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/documents/publication/wcms_122419.pdf

ILO: SCORE: Training modules. Contact Stephan Ulrich: ulrich@ilo.org

ILO: An operational guide to Local Value Chain Development, Enter-growth. 2007. Colombo:

http://www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/documents/instructionalmaterial/wcms_101319.pdf

ILO: Making the Strongest Links: A practical guide to mainstreaming gender analysis in value chain development. 2009.

http://www.ilo.org/wcmsp5/groups/public/-ed_emp/-emp_ent/documents/instructionalmaterial/wcms_106538.pdf

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