



▶ Purchasing practices and working conditions in global supply chains

Results from field work in Bangladesh, China, India, South Africa, and Turkey

September 2021

▶ Introduction

A series of case studies, based on interviews, were carried out by the International Labour Office (ILO)¹ in five major markets (Bangladesh, China, India, South Africa, and Turkey) in 2017–2018. They helped us to compile an extensive database on purchasing practices from suppliers' management and a rich data set on employment and working conditions from the workers of the same suppliers.

This allowed us to further investigate² the possible relationship between purchasing practices and working conditions, particularly in relation to wages, working hours, and the likelihood of accidents at work, as well as suppliers' propensity to hire temporary workers or to outsource production. We have also explored how suppliers' diversity of customers and dependency on GSC may be related to working conditions in their individual factories.

▶ Methodology: building an employer/employee database

The empirical work that we conducted was aimed at answering a series of questions. What are the key characteristics of contractual relations between buyers and suppliers? And what could be the possible influence of purchasing practices on specific working and employment conditions, such as wages, working hours, occupational safety and health and the propensity for using temporary contracts, and production outsourcing at first-tier supplier level? What might be the role of other factors, such as market power or social dialogue, in influencing working conditions and decisions to hire temporary workers or to outsource production?

The methodology used to try to answer these questions is based on the construction of variables from the information and data collected through two surveys: one conducted with the management of suppliers, aimed at collecting data on their specific context and features, including the terms of their contractual relationship with their buyer; and another survey of a random sample of workers aimed at capturing not only their personal socio-economic features, such

as age, education and experience, but also their wages, working hours, contractual arrangements, and other working conditions.

The first survey covered 31 factories in five countries (five suppliers in Bangladesh, six in China, ten in India, five in South Africa and five in Turkey), whose features are described in Table 1. We have identified five major business practices in the buyer–supplier relationship that may be related to wages and working conditions. These include: planning, forecasting and sourcing; technical specifications, sampling and product development; order placement and lead times; market power, prices and cost quotation; and social audits and accountability. The second survey covered 632 workers across the above-mentioned five countries, who were mainly production workers at different skill levels, including supervisors, and some clerks and administrative employees. Once both sets of survey responses had been collected, compiled and validated, the two sets of data were merged using country and company identification codes to create an employer/employee matched database, in which

1 This document was prepared by Daniel Vaughan-Whitehead, former official of the International Labour Office, Geneva, together with Adam Elsheikhi and within the framework of the programme Labour Standards in Global Supply Chains financed by the Government of the Federal Republic of Germany.

2 A first global study aimed at identifying prevailing purchasing practices was conducted in 2016–17. See ILO Brief “Purchasing practices and working conditions in global supply chains: Global Survey results” which summarizes main findings at https://www.ilo.org/travail/info/fs/WCMS_556336/lang-en/index.htm

management responses were attached to those of every interviewed worker from the corresponding factory.

The fact that we have a database containing information from management and employees creates an opportunity to analyse working conditions at the worker level – notably on wages and working hours – and purchasing

practices at the supplier level. It also allows us to make a valuable contribution to the global supply chain literature, particularly with regard to how different actors in supply chains operate and relate and what consequences purchasing practices might have for working conditions.

► **Table 1. Descriptive features of suppliers, 31 case studies in five countries**

Variable description	Bangladesh	China	India	South Africa	Turkey	All countries
Number of firms	5	6	10	5	5	31
Number of interviewed workers	50	115	248	145	74	632
Average firm size	2034	329.13	2328.51	1029.54	81.56	1414.02
Sector						
Crop and animal production, hunting and related service activities	-	-	-	19%	-	-
Food products	-	-	-	32%	-	-
Textiles	-	-	-	-	38%	-
Wearing apparel	80%	18%	84%	13%	26%	-
leather and related products	20%	23%	-	-	-	-
Paper and paper products	-	-	-	10%	26%	-
Other non-metallic mineral products	-	27%	-	-	-	-
Fabricated metal products, except machinery	-	-	-	-	10%	-
Furniture	-	12%	-	25%	-	-
Other manufacturing	-	19%	16%	-	-	-
Working conditions						
Average wage in 2016 (local currency unit)	6680	3541.3	8493.54	5702.6	1862.93	-
Average weekly hours	59.8	65.67	61.65	62.41	56.27	61.9
Probability of an accident in last two years	20%	36%	12%	75%	90%	39%

Table 1 presents the main features of the 31 companies surveyed, with an average size each of 1,414 workers, and 632 interviewed workers.

By pooling the data and information of both management and worker surveys from our case

studies, we were able to identify a number of correlation between purchasing practices (as revealed by suppliers' management) and wages (as revealed by the workers themselves).

► Purchasing practices and wages

Wages represent the main source of income and living for workers and their families, while for employers wage costs represent, depending of the sector, one, if not the major, element in their overall production costs. It is thus not surprising that such different interests lead to tensions around wage fixing.

How do wages paid by suppliers compare with wages paid by other local companies?

Our first task in this area involved collecting wage data from the surveys, which are summarized in Table 2.

► **Table 2. Summary statistics of wages among surveyed suppliers, 2016 (in local currency)**

Average wages (LCU)	
Bangladesh	6680 BTD
China	3541.3 CNH
India	8493.54 INR
South Africa	5702.6 ZAR
Turkey	1862.93 TRY

Source: Management survey, Case studies.

In order to arrive at a more concrete understanding of working conditions and wages in our sample of suppliers, we analysed how such wage levels compare with the average wage levels prevailing in the respective sectors of these countries. We did this comparison for as many sectors as possible, taking into account, on one hand, the similarity of sectors from our case study survey and, on the other hand, data available from labour force surveys. With this in mind, we were able to arrive at a total of more than 20 suppliers, mostly in the manufacturing sector, that we retained for comparative purposes. The types of employees covered were also comparable.

Table 3 shows, for each of our case study countries, the following elements: the sector of interest, average monthly sectoral wages, as reported by the respondents of our survey, prevailing average monthly sectoral wages (which were mostly obtained from labour force surveys³), and a final column highlighting the difference between the two wage levels (negative differences indicating lower wages being paid by suppliers compared with the domestic sectoral average).

► **Table 3. Comparing wages from the case studies survey with prevailing sectoral wages (2016)**

Country	Sector	a) Survey	b) Sectoral average	Difference (a - b)
India	Garments	8396.15	11378	-2,982
Bangladesh	Manufacture of wearing apparel	8696.53	11519.3	-2,822.77
Bangladesh	Manufacture of leather and related products	9468	10426.95	-958.95
China	Garments	4000	3621	379
Turkey	Manufacture of textiles	1846	1233.04	613
Turkey	Manufacture of wearing apparel	1615.25	1182.54	433
Turkey	Manufacture of paper and paper products	1846	1619.08	227
Turkey	Manufacture of fabricated metal products, except machinery	1199.9	1388.37	-188
South Africa	Crop and animal production, hunting and related service activities	3770	4160.33	-390
South Africa	Manufacture of food products	5000	5803	-803
South Africa	Manufacture of wearing apparel	2750	5587	-2,837
South Africa	Manufacture of wood and of products of wood and cork	4200	3919	281
South Africa	Manufacture of paper and paper products	5412.59	6075	-662
South Africa	Manufacture of furniture	4996.51	5371	-374

Source: Estimates based on India National Sample Survey, China National Bureau of Statistics and China Ministry of Human Resources and Social Security: 2016 China Labour Statistical Yearbook (Beijing, China Statistics Press, 2016), Bangladesh Labour Force Survey, South Africa Labour Force Survey, Turkey in Statistics 2015 (Turkish Statistical Institute, 2015).

3 Please note that, with the exception of South Africa and Bangladesh, wage estimates were retrieved from Huynh (2015).

According to Table 3, workers at surveyed suppliers (who work for global supply chains) tend to receive lower wages than the sectoral average in their respective country. More concretely, from the 14 sectors available, surveyed suppliers in nine sectors (64 per cent) were paying their workforce at a wage level below the sectoral average, while the opposite is true for the remaining five sectors. There is, however, notable heterogeneity by country. In particular, surveyed suppliers in China and Turkey appear likely to pay higher wages than the expected sectoral wage rate, while our interviewed suppliers in South Africa, India and Bangladesh seem to pay less than the sectoral average. For some sectors, these wage differentials are substantial – interviewed suppliers in garments were found to pay 50 per cent below the sectoral average in South Africa, and 26 per cent below the sectoral average in India. Similarly in Bangladesh, average wages among suppliers operating in the wearing apparel sectors were found to be lower than the sectoral average by 2,822 takas (25 per cent).

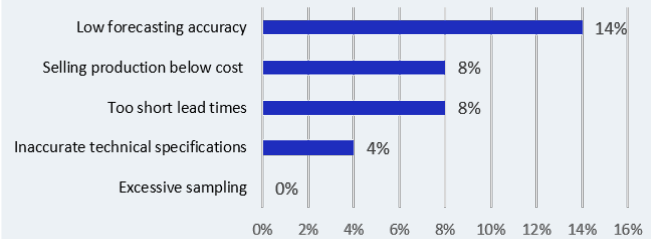
Possible relationship between purchasing practices and wages

In a second stage, we carried out further research to identify the possible relationship between purchasing practices and wages. First, we asked managers of suppliers whether some characteristics of the business practices made it difficult for the firm to pay their workers' wages on time and also whether they may have led to lower wages (see Figures 1 and 2).

The results are summarized below. First, purchasing practices are perceived by more than one-third of surveyed suppliers as influencing the capacity to pay wages on time. Among them, inaccurate specifications seem to have the most influential effect on suppliers due to excessive sampling and extra costs as reported by 14 per cent of total suppliers. Suppliers (8 per cent of the whole sample) also reported the effects of 'selling below costs' and of 'too short lead times', which may reflect the increased use of overtime hours or of temporary workers that represent extra costs for the supplier.

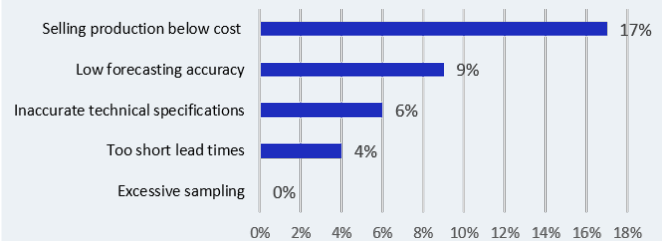
Second, more than one-third of suppliers also indicated that current purchasing practices have a downward effect on wages. Not surprisingly, 'selling below costs' has the largest negative effect on wage levels, as reported by nearly 20 per cent of all surveyed suppliers, due to the financial loss this practice represents. 'Low forecasting accuracy' and 'low technical specifications' also pushed down wage levels according to, respectively, 9 per cent and 6 per cent of all surveyed suppliers.

► **Figure 1. Do the following purchasing practices make it difficult to pay wages on time?**



Source: Survey of management, case studies.

► **Figure 2. Do the following purchasing practices lead to lower wages?**



Source: Survey of management, case studies.

There are several determinants of wages – such as local market forces, enterprise productivity, education and workers' experience. An important question is whether there is a relationship between the buyers' purchasing practices described above and workers' wages. Accordingly, we performed a simple linear regression to assess whether there was any statistically significant association between some of the purchasing practices mentioned in Section 3 and workers' wages. We standardised the wage variables by country, meaning that all workers' reported wages are scaled to their country's average (as determined within the dataset). This allows us to take into account each country's wage distribution. Table 4 summarizes the results.

► ILO factsheet

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► **Table 4. Determinants of wages (including purchasing practices)**

Variables	(1) change in monthly wages
Female	-0.36*** (0.09)
At least secondary education	0.17** (0.085)
Tenure	0.001 (0.007)
Supervisor	0.57*** (0.1)
Firm size	0.00** (0.00)
Payment<price	-0.25** (4.93e-06)
Constant	0.13 (0.08)
Observations	509
R-squared	0.092

Notes: * p<0.10, ** p<0.05, *** p<0.01
Robust standard errors in parentheses.

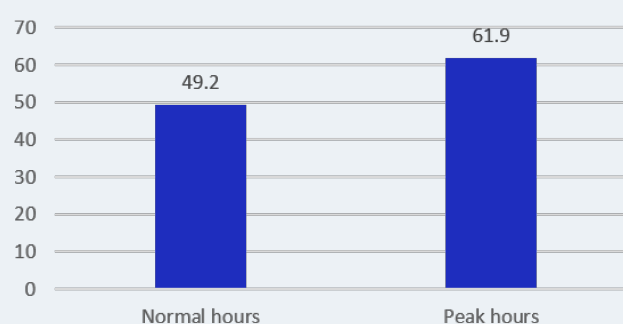
From the results, we can note first that, on average, female workers earn less than male workers, holding all else equal; similarly, and as expected from human capital theory, workers with at least secondary education earn more than workers with less than secondary education, holding all else equal; more experienced workers also earn more than less experienced workers. On average, occupation matters, and supervisors earn more than line workers. Wages also seem to vary by size of factory because larger firms pay workers higher wages. Finally, the results are also instructive in terms of the impact of purchasing practices on wages: on average, workers employed by suppliers that have received payments from buyers below the price originally agreed earn less than workers employed by suppliers whose payments correspond to the originally agreed price. In other words, suppliers that are underpaid by their buyers seem to take the shortfall out of workers' wages.

► Purchasing practices and working time

The regulation of working time is one of the oldest concerns of labour legislation. Indeed, as far back as the early nineteenth century, it was recognized that, although overtime work might help increase output growth and workers' incomes, regularly working excessive hours presented risks to workers' health, and to work-life balance and family life.⁴

As summarized in Figure 3, the number of working hours was found to be relatively high, especially in the peak season (62 weekly hours) compared with normal periods (49 weekly hours). At the same time, the average number of hours worked was found to vary considerably across industries: for example, workers operating in the manufacture of food products or the agricultural sector worked the longest hours, while the manufacture of paper products sector had the lowest number of hours.

► **Figure 3. Working time, hours/week, survey results**



Source: Survey of workers, case studies.

⁴ https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_145391.pdf

How do working hours among suppliers compare with those of other companies?

As we compared average wages among the suppliers that participated in our case studies with sectoral average wages, we thought it useful to do the same for working hours. According to workers' responses, it appears that a significant proportion of those interviewed were working more than the regular 48 hours per week threshold as defined by the Hours of Work (Industry) Convention, 1919 (No. 1), and the Hours of Work (Commerce and Offices) Convention, 1930 (No. 30). At the same time, a high number of overtime hours were found to be worked, especially at peak times (62 weekly working hours in peak times – see Figure 3).

We compared the average number of working hours among our suppliers with the sectoral working hours averages collected by Labour Force Surveys, which have a comparable population. The number of working hours was found to be higher among our surveyed suppliers in 13 sectors out of the 17 for which we had data. This difference was found to be fairly significant in sectors such as wearing apparel and also for paper products (for instance in India and South Africa), but also in textiles (for instance in Bangladesh) and in wood products. The number of hours worked was also found to be rather high in South Africa (differences of 25 per cent). Of course these results have to be viewed with caution, as there is considerable under-reporting of the number of working hours in both companies working for international buyers and for domestic markets. At the same time, this result is consistent with the very high number of overtime hours reported among suppliers in both our global suppliers' survey and our suppliers' case studies.

► **Table 5. Comparing working hours from the case study survey against sectoral average working hours**

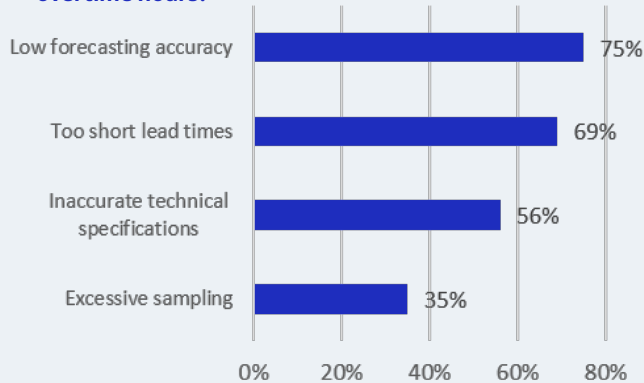
Country	Sector	a) Survey	b) Sectoral average	Difference (%)
India	Manufacture of textiles	57.7	55.2	5%
India	Manufacture of wearing apparel	63.5	55.3	15%
India	Manufacture of food products	57.0	57.0	0%
India	Manufacture of paper and paper products	64.3	56.4	15%
Bangladesh	Manufacture of textiles	60.0	54.1	11%
Bangladesh	Manufacture of wearing apparel	61.6	58.4	5%
Bangladesh	Manufacture of leather and related products	60.0	55.6	8%
China	Garments	61.3	-	-
Turkey	Manufacture of textiles	52.34	48.69	7%
Turkey	Manufacture of wearing apparel	47.26	50.81	-7%
Turkey	Manufacture of paper and paper products	48.69	49.25	-1%
Turkey	Manufacture of fabricated metal products, except machinery	48	49.65	-3%
South Africa	Crop and animal production, hunting and related service activities	47.83	47	2%
South Africa	Manufacture of food products	52.57	45	17%
South Africa	Manufacture of wearing apparel	54.89	44	25%
South Africa	Manufacture of wood and of products of wood and cork	54	43	26%
South Africa	Manufacture of paper and paper products	52.38	42	25%
South Africa	Manufacture of furniture	48.14	44	9%

Source: Total working hours collected from our workers survey in the case studies compared with average number of total working hours in their respective sector as collected by Labour Force Surveys.

Possible relationship between purchasing practices and working time

Our case study surveys also allowed us to investigate the relationship between purchasing practices and working time. First, we asked the management of suppliers to what extent the purchasing practices of their buyers explain the number of working hours in their company. The managers replied that the impact was direct and strong (Figure 4): 75 per cent of suppliers confirmed that ‘low forecasting accuracy’ has led them to increase overtime hours, while 69 per cent emphasized the effects of ‘too short lead times’ and 56 per cent those of ‘inaccurate technical specifications’ to explain their excessive working hours. Finally, 35 per cent of suppliers reported that the production of an excessive number of samples, which was found to be a direct consequence of inaccurate technical specifications, was also a driver of the quantity of overtime hours.

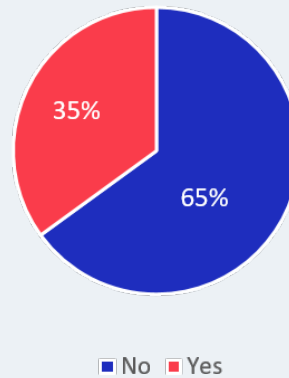
► **Figure 4. Do the following purchasing practices lead to overtime hours?**



Source: Survey of management, case studies.

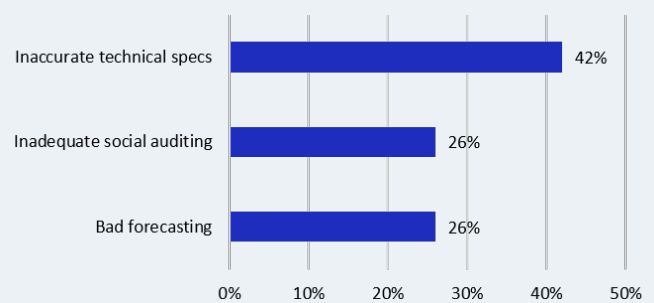
In addition, it is telling that, while half of the respondents confirmed that their overtime usage has remained constant over the past two years, this tendency has decreased in almost two-fifths of suppliers. Accordingly, it is worth testing the hypothesis of whether or not the practice of offering additional hours to permanent employees has been substituted by hiring temporary workers or outsourcing production, something that we test further on in this factsheet. We also asked managers whether buyers’ business practices made it difficult for them to pay overtime hours at premium rates.

► **Figure 5. Was the difficulty of paying overtime premiums a consequence of purchasing practices?**



Source: Survey of management, case studies.

► **Figure 6. What purchasing practice in particular?**



Source: Survey of management, case studies.

Significantly, more than one-third of suppliers answered that purchasing practices did indeed lead to difficulties paying all overtime hours at the special premium rate (Figure 5). When asked to provide more details about the specific conditions that were leading to such difficulties, 42 per cent cited ‘inaccurate technical specifications’ as the main reason. Indeed, we have seen that they lead to a higher number of working hours, with also a higher probability of at least some of those overtime hours not being properly remunerated. On top of that, 26 per cent reported ‘bad forecasting’ and ‘inadequate social audits’ as other reasons (Figure 6).

► Purchasing practices and occupational health and safety

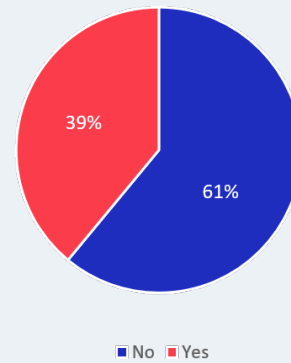
As shown in the literature, the number of working hours is likely to have a number of implications for workers' health and safety. First, higher intensity at work and regular long working hours are expected to lead to chronic fatigue and reduce workers' attention to machinery and to the need to use protective equipment – which itself may also become dysfunctional – and thus lead to a higher number of occupational accidents and injuries. Second, long working hours – especially a high and poorly planned number of overtime hours – also have direct implications for work-life balance and stress, and also for the development of a number of psychosocial disorders. This can lead to a higher risk of accidents and may also influence the production process, including by lowering the quality of goods and services. With the expansion of global supply chains, it is thus important to look also at the effects of this process on occupational safety and health (OSH), defined as the protection of workers from hazards and the elimination of work-related injuries, ill health, diseases, incidents and deaths (ILO, 2009).⁵ Too little empirical data has been collected in this area so far. A recent ILO-WHO study, however, shows the impact of long working hours on heart disease (2021).⁶

Occupational safety and health in global supply chains

We thus included in our survey questions about health and safety and, in particular, on the number of accidents at the workplace over the past two years, so that we could also test the possible impact of purchasing practices on the probability of workplace accidents.

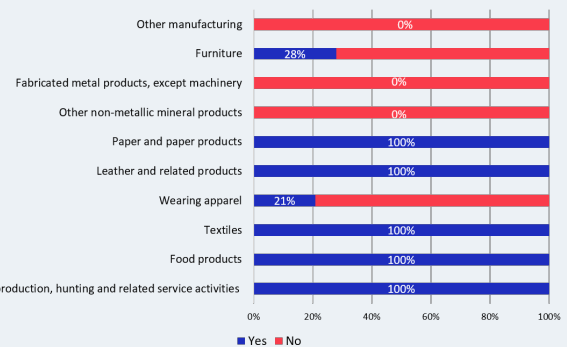
As shown in Figure 7, almost 40 per cent of factory managers reported having experienced at least one occupational accident or incident at their workplace over the past two years. The prevalence of accidents, however, was found in the sample to vary considerably by economic sector. The garment sector and crop and animal production, hunting and related service activities appeared to be particularly vulnerable to them (with 100 per cent of respondents reporting accidents over the past two years), while, in our sample, workplace accidents were much less prevalent in other manufacturing industries, such as non-metallic mineral products and fabricated metal products (Figure 7).

► **Figure 7. Were there any accidents in the company over the past two years?**



Source: Survey of management, case studies.

► **Figure 8. Accidents in the past two years by sector**



Source: Survey of management, case studies.

Possible relationship between purchasing practices and occupational safety and health

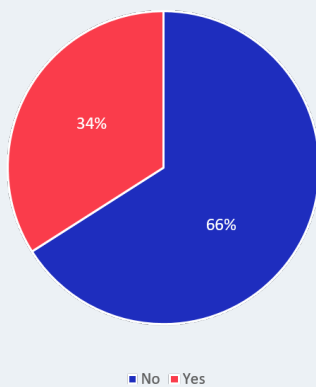
Suppliers responding to our Global Suppliers Survey also shared information about how their business relationship with their buyers influences occupational safety and health in their factories. We first asked suppliers whether any of the identified purchasing practices had led them to lower their attention to OSH matters. Overall, 34 per cent reported that their buyers' purchasing practices had indeed pushed them to make shortcuts and to neglect issues related to occupational safety and health (Figure 9). More precisely, 84 per cent reported that "inappropriate social auditing" by the major

5 https://www.ilo.org/wcmsp5/groups/public/--ed_norm/--relconf/documents/meetingdocument/wcms_103485.pdf

6 <https://www.who.int/news/item/17-05-2021-long-working-hours-increasing-deaths-from-heart-disease-and-stroke-who-ilo>

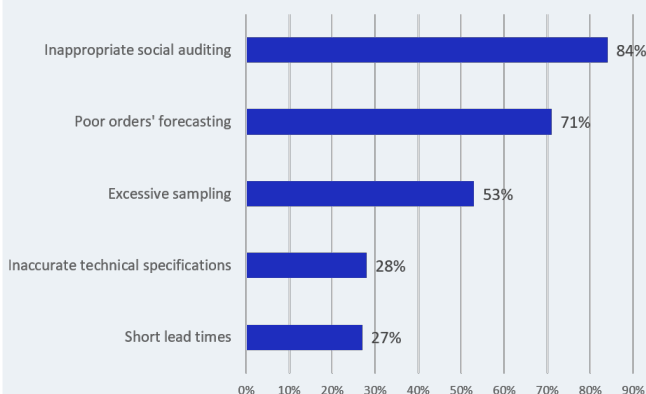
buyers led to their enterprise cutting corners in terms of occupational safety and health. The term “inappropriate social auditing” was used by the interviewed managers to refer to repeated OSH controls without much help from buyers to improve matters at factory level. There were expectations that suppliers would apply important occupational safety and health measures without investing in or fully implementing the relevant standards. Similarly, nearly two-thirds of them also identified “poor order forecasting” on the part of buyers (71 per cent) and the “production of excessive samples” (53 per cent) as direct determinants of cutting corners in occupational safety and health, due to time pressure and also the need to ask workers to work an excessive number of hours. “Inaccurate technical specifications” (28 per cent) and “short lead times” (27 per cent) were also significant (Figure 10).

► **Figure 9. Are purchasing practices leading to your company cutting corners in OSH?**



Source: Survey of management, case studies.

► **Figure 10. What purchasing practice in particular?**

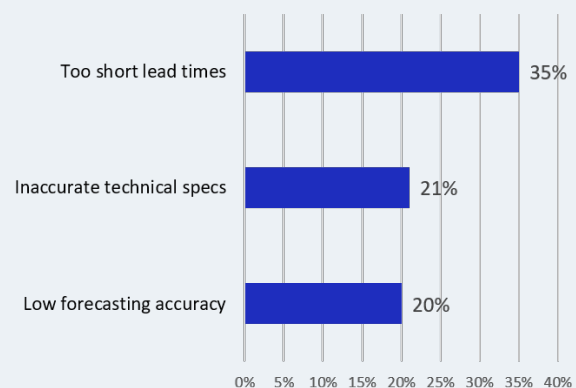


Source: Survey of management, case studies.

As a next step, we asked managers, first, whether or not any of the business practices identified in the survey had led to an increase in the number of accidents and/or incidents in their factory, and second, whether they had also generated more stress at the workplace for their employees.

Insufficient lead times and the associated pressure imposed on employees to produce at a faster rate can create an unhealthy working environment, as confirmed by our survey results: 35 per cent of surveyed suppliers reported, in particular, that “too short lead times” led to an increase in workplace accidents (Figure 11), while 81 per cent of them contended that it increased the amount of stress at the workplace (Figure 12). “Inaccuracy of technical specifications” and “poor order forecasting” also were found to have an impact: inaccurate technical specifications increased the number of factory accidents, according to 21 per cent of suppliers (Figure 11), while 53 per cent of them reported that they led to higher levels of stress at work (Figure 12). Inaccurate order forecasts had an even stronger effect on the amount of stress imposed on factory workers (according to 60 per cent of suppliers) (Figure 12), and had a similar impact (reported by 20 per cent of suppliers) on the number of workplace accidents (Figure 11). Finally, “excessive sampling” appears to increase stress at work (according to 38 per cent of suppliers) (Figure 12), but to have a lower impact on generating accidents at the workplace.

► **Figure 11. Do the following purchasing practices lead to more accidents/incidents?**

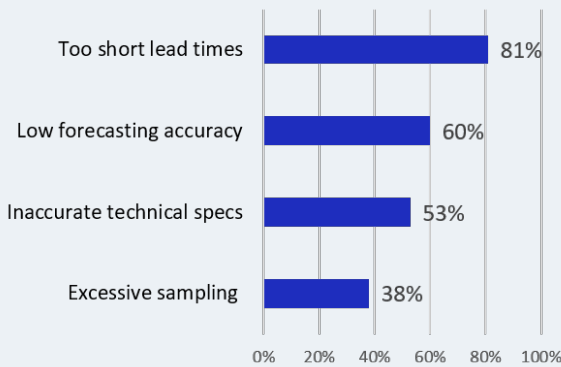


Source: Survey of management, case studies.

► ILO factsheet

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► **Figure 12. Do the following purchasing practices lead to more stress at work?**



Source: Survey of management, case studies.

► **Purchasing practices and temporary workers**

Temporary employment, a response to time pressure

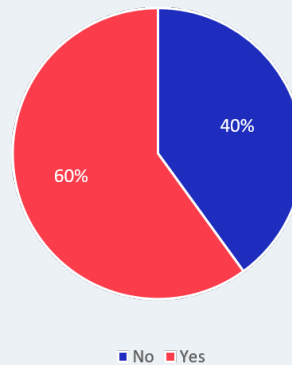
The results of our Global Survey (ILO, 2017) highlighted that suppliers respond to unexpected delays or too tight lead times not only by offering additional overtime hours to regular workers, but also by complementing their workforce with temporary workers. Temporary employment, whereby workers are engaged only for a specific period of time, includes fixed-term, project or task-based contracts, as well as seasonal or casual work. As highlighted by a report of the ILO (2016)⁷, while such forms of employment might provide useful flexibility for enterprises when responding to changes in demand, when used to a large extent, they can lead to growing employment and income insecurity among workers, higher informality, increased occupational safety and health risks, and sometime problems of workers' representation.

Temporary employment, a frequent practice among suppliers

Through our case studies on 31 companies we tried to further measure the extent of temporary work. We first asked managers whether their enterprise hired temporary workers. As seen in Figures 13 and 14, not only do the majority of suppliers (60 per cent) hire temporary workers, but these workers account for an average of 56 per cent of the workforce. The Survey also revealed a considerable inter-industry heterogeneity among the sample, the highest share of temporary workers being in food manufacturing (90 per cent) and the lowest in furniture manufacturing (10 per cent). The

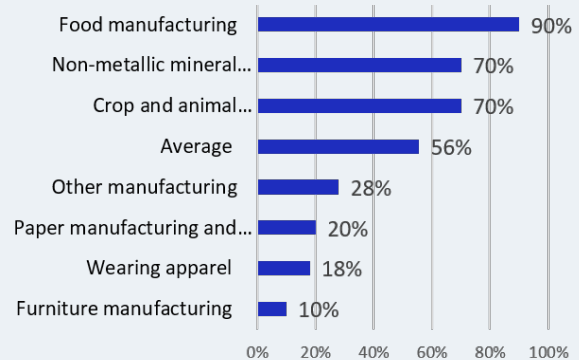
suppliers' management had a positive appreciation of the extensive use of temporary workers, with 80 per cent of them reporting being satisfied with the number of temporary workers in their workforce.

► **Figure 13. Does your company hire temporary workers?**



Source: Survey of management, case studies.

► **Figure 14. Percentage of temporary workers**



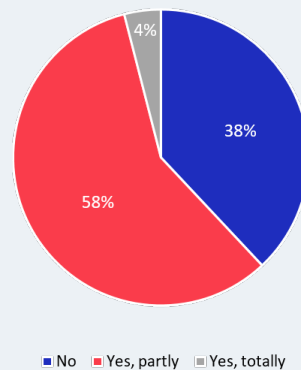
Source: Survey of management, case studies.

7 https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_534326.pdf

Temporary employment: a possible way of adapting to certain purchasing practices

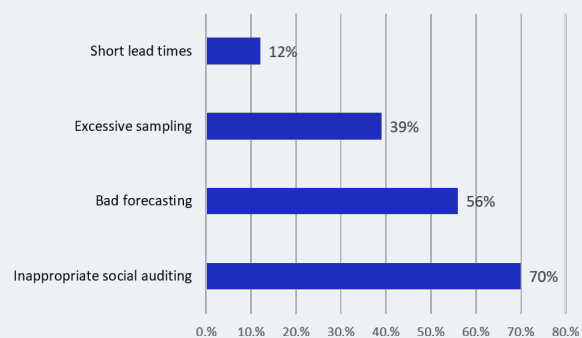
In order to investigate the relationship between purchasing practices and temporary employment more deeply, we asked suppliers whether their tendency to hire temporary workers was a direct response to the purchasing practices of their customers, identified earlier (Figure 15). Significantly, 62 per cent of respondents confirmed that purchasing practices contributed to their decision to hire temporary workers, with 4 per cent reporting that all of their decisions to hire temporary workers were due to such business practices, and the other 58 per cent citing purchasing practices as one contributing factor. We also asked managers whether they could identify which purchasing practices put them in a situation in which they felt they had to hire temporary workers. Figure 16 shows that “inappropriate social auditing” was quoted by 70 per cent of suppliers as one major determinant of hiring temporary workers, probably because such audits increase their costs, followed by “poor forecasting” (mentioned by 56 per cent of suppliers), “excessive sampling” (39 per cent) and “too short lead times” (12 per cent).

► Figure 15. Do you use temporary workers due to purchasing practices?



Source: Survey of management, case studies.

► Figure 16. What purchasing practice in particular?



Source: Survey of management, case studies.

► Purchasing practices and outsourcing

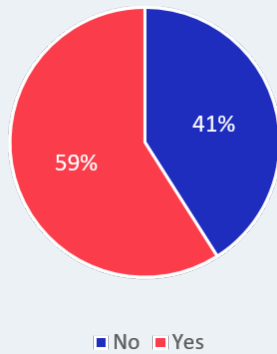
The last element that we decided to test was the recourse to outsourcing. First, because outsourcing is another option available to suppliers to meet their buyers’ orders in a timely manner. Second, because outsourcing, in both the literature and the available empirical evidence, has often been associated with lower tier suppliers, among whom the poorest working conditions seem to prevail, in particular in the form of lower wages and longer weekly hours (see ILO, 2011, 2017; Strange and Magnani, 2017). Subcontracting production might represent an appealing avenue for suppliers, particularly when subcontractors can produce goods or parts of goods that they do not have the capacity or time to produce themselves. The advantages are even more evident if they can obtain those goods from subcontractors at particularly cheap prices, allowing them as first tier suppliers to recover or increase their profit margin. In this last case, downward pressure on prices from the buyers induces suppliers to try to reduce costs by relying on a range of subcontractors. These, in turn, will try to maintain their own margins by offering low wages and poor working conditions (for example, increasing working hours and

not always paying for them properly, lower protection, fewer benefits and so on). This is a classic race to the bottom, lowering wages and working conditions along the supply chain, as well as for the first tier supplier.

A majority of suppliers rely on outsourcing

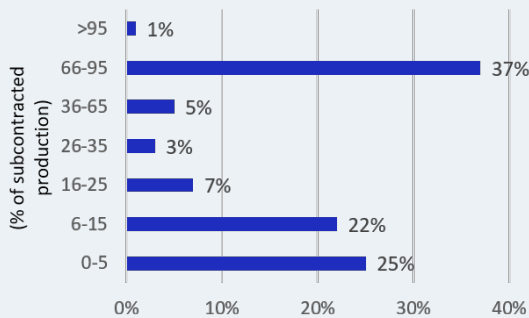
According to our Survey, hiring subcontractors is common practice in global supply chains: close to 60 per cent of suppliers’ managers confirmed that they had subcontracted part of their production last year (Figure 17). We also asked suppliers whether they could estimate what proportion of their production was subcontracted. As shown in Figure 18, 52 per cent of firms that engaged in outsourcing did so for at least 25 per cent of their total production, with 37 per cent of them subcontracting as much as between 66 and 95 per cent of their production.

► **Figure 17. Did you subcontract part of your production last year?**



Source: Survey of management, case studies.

► **Figure 18. What was the approximate percentage of subcontracted production?**

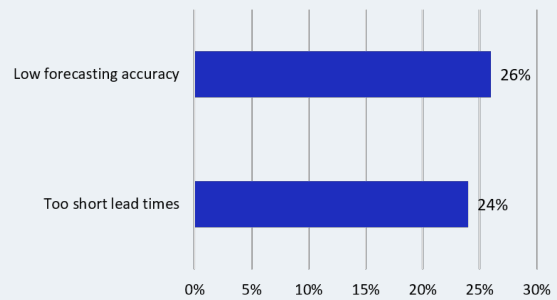


Source: Survey of management, case studies.

Outsourcing: a possible way to cope with purchasing practices

Besides obtaining information about suppliers' propensity to outsource production, we also made an effort to find out the extent to which these tendencies could be explained by particular purchasing practices identified in this Factsheet. Figure 19 shows that "low forecasting accuracy" is the purchasing practice that suppliers identified as the main cause of outsourcing part of their production (26 per cent). This might be because it is a quick solution to cope with time pressure and to adjust to very short lead times. Nearly one-quarter of suppliers (24 per cent) also identified "too short lead times" as a business practice that may directly influence a decision to outsource part of their production.

► **Figure 19. Do the following purchasing practices lead to outsourcing production?**



Source: Survey of management, case studies.

► **ILO factsheet**

Purchasing practices and working conditions in global supply chains
Results from field work in Bangladesh, China, India, South Africa, and Turkey

► **Conclusions**

A previous Global Supplier Survey helped us to identify purchasing practices in a survey of nearly 1,500 suppliers (ILO, 2018). This factsheet presents further statistical analysis based on the data collected through a series of case studies carried out among 31 suppliers in five major markets: Bangladesh, China, India, South Africa, and Turkey. In particular, the combination of results from the management and the worker surveys conducted among 632 workers across the five countries allowed us to test even further the possible relationship between certain purchasing practices and working conditions, such as wages, working hours and health and safety.

The statistical analysis generated interesting results. For instance, wage levels were found to be lower where suppliers had to accept prices below production costs. Also the high number of working hours seem to be influenced by insufficient lead times. Insufficient lead times may also increase the probability of using temporary workers or outsource the production in order to meet the demand. This research also documents how occupational safety and health risks may be associated with particular purchasing practices. Finally, the latter do not seem to be neutral with regard to temporary work and outsourcing because insufficient lead times may increase the probability of using temporary workers.

Obviously, more surveys and more evidence are needed to further confirm the close relationship between

purchasing practices and working conditions and we hope that this study will stimulate further research.

While these surveys were carried out before the ongoing Covid-19 pandemic, some emerging empirical evidence seems to suggest that this link holds also in times of crisis. Recent field work has shown how the current health and economic crisis has led some buyers to cancel orders initially and, in the following months, to dramatically push down prices, delay payment and weaken contracts (Anner, 2020). No doubt more evidence on the relationship between purchasing practices and working conditions, including in crisis periods, needs to be collected.

We hope that this factsheet will encourage further research in this area, and will also stimulate actors and stakeholders involved in supply chains to improve purchasing practices as one possible lever in raising working conditions towards more decent and sustainable standards.

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