

## “Make it better” Brief on Working Hours: Version 1.0

### Context

Building on the “Voices of Challenge” (VOC) section in Timberland’s 2006 CSR report, we wanted to create a document that provides background information for each issue raised. The “Make it better” briefs are not included in the CSR report, but instead are links on our Web site for stakeholders who are interested in taking a deeper dive. Our goal is to make this paper a “living document”; one that is constantly evolving and growing as we learn more. Please see the “More Data” section to review subjects we hope to include in later versions of this paper.

The focus of this document is excessive working hours in our supply chain. Despite efforts in the past by Timberland and its suppliers, the majority of our suppliers struggle with excessive overtime. At Timberland, we believe strongly in doing well and doing good. Among other things, this belief includes work-life balance. Commerce should not prevent individuals from enjoying life, building skills, and developing relationships outside of the workplace. We are committed to this balance for all workers involved in the production of Timberland® product – particularly factory workers. Our hope is for this document to raise awareness, spark conversation, and generate ideas to Make it better.

### Introduction

Estimates suggest that 30 to 40 million workers are employed in the textile, clothing and footwear industries worldwide.<sup>i</sup> The textile and clothing industries alone represent an annual market of over \$400 billion, employing 24 million workers in some 200 countries.<sup>ii</sup> The US consumer market, representing 70% of this world market, fuels the labor of some 3 million workers in approximately 2,500 factories in China alone.<sup>iii</sup>

The International Labour Organization (ILO) has published dozens of conventions specifically addressing the issue of working hours, applicable to a variety of industrial undertakings and workplaces. The general rule for working hours, as stated by ILO Convention 1: Hours of Work (Industry) (1919), Art. 2, is that workers shall not work more than 8 hours a day or more than 48 hours a week (not applicable to persons holding positions of supervision). As noted in a recent World Bank study, there is an “emerging trend of a 48-hour regular work week, with a cap of 60 hours per week including overtime”, but the trend “is still far from the far more comprehensive rights espoused in the ILO recommendation.”<sup>iv</sup>

Social Accountability International (SAI) conducted a review of nine national labor laws and found that national laws commonly limit overtime hours.<sup>v</sup> Among the nine countries reviewed, there were explicit limits on hours worked within a particular period. For instance, in Vietnam’s Labor Act of 1994, there are daily and annual overtime limits of 2 hours and 200 hours respectively; China’s 1995 national labor law sets a maximum for overtime at 3 hours per day and 36 hours per month; Indonesia, Italy and Brazil all have daily overtime limits of 2 hours. However, enforcement of these laws varies and some are not enforced at all.

Timberland agrees with the ILO that the regular work schedule should not exceed 48 hours in a week. With respect to overtime, industry best practice is to limit total working hours (including overtime) to no more than 60 hours in a given week or 12 hours in a given day. Timberland also requires that all workers be afforded *at least* 1 day off of rest after working 6 consecutive days, and that all overtime must be voluntary. Contrary to many other brands, Timberland takes a no-exception approach to these requirements. We’re finding, however, that most of our suppliers are unable to control overtime within these limits all of the time – some more frequently than others. Why is that?

## The Problem

*“Propelled by a free trade agreement with the United States, apparel manufacturing is booming in Jordan, its exports to America soaring twenty fold in the last five years. But some foreign workers in Jordanian factories that produce garments for Target, Wal-Mart and other American retailers are complaining of dismal conditions – of 20-hour days, of not being paid for months and of being hit by supervisors and jailed when they complain.”*

New York Times, May 3, 2006<sup>vi</sup>

As highlighted by the quote above, an inherent tension exists between market pressures and improved workplace standards in factories in the supply chain. Despite stated intentions of companies and industries to recognize workers rights and improve conditions, the realities of trade agreements, lobbying efforts, free trade zones, and general market pressures to remain competitive in the global market present consistent challenges. These tensions are exacerbated by unrewarding tax systems, conflicting laws and regulations, and unrealistic targets for speed and quality, and short term planning.<sup>vii</sup>

In 2003 and 2004, Oxfam International conducted extensive research with partners in 15 countries spanning the supply chains of over 20 companies and found that sourcing strategies designed to meet ‘just-in-time’ delivery (premised on flexibility and fast turnaround), combined with the lowering of unit costs, was the primary cause of factories’ sub-standard workplace conditions such as short-term contracts, piece rate payments, low wages, excessive or forced overtime, and restrictions on freedom of association.<sup>viii</sup> The study concluded that a general failure to “address the disparities between code of conduct commitments on the one hand and sourcing priorities on the other has meant that working conditions remain, by and large, exploitative.”

The three groups that directly affect the issue of working hours are Brands, Factory Workers and Factory Management. We share their perspective in the following sections.

## Perspectives: Brands

Are those placing the orders – the Brands – to blame?

Many major brands – including Timberland – are stepping back and looking internally at their own practices to understand if, how, and when their practices lead to workforce exploitation.

Harvard University’s John F. Kennedy School of Government, Corporate Social Responsibility Initiative, issued a report in November 2006 in which Dusty Kidd, Nike Vice President for Compliance, confirmed that Nike has prioritized scrutiny and analysis of its own business practices to answer the question “what are we doing as a company and a buyer that leads to non-compliance.” Nike’s review of its internal process found that, indeed, many instances of non-compliance were generated by Nike’s own business practices, primarily including placing late orders. To avoid having to pay air freight bills for late deliveries (which would be paid for by Nike if delivered on time), factories will choose to work more hours to make the deadline when orders arrive late. Nike’s “overtime task force” has analyzed the many internal processes that incrementally feed into compliance issues, and is making changes to internal processes to further identify and reduce these causes.<sup>ix</sup>

Historically, Timberland has worked with factories to improve production capacity planning and implement management systems aimed at controlling working hours. Like Nike, Timberland began several initiatives in 2006 to take a closer look at internal and external causes of excessive working hours. First, a detailed case study was performed in one of our sourced factories.

### Case study of excessive working hours at one sourced factory

This detailed study was focused on determining the specific reasons that our sourced factories needed to work excessive hours. We found that certain Timberland actions did contribute to the issue. The first issue was total demand. Even though our orders were placed in coordination with the confirmed Timberland production capacity of the factory, total demand across all customers could exceed total production capacity during peak production months. Second, the breadth of our product line in

development (number of styles or SKUs) drove demand for samples to exceed capacity in the sample rooms.

To help address the first cause, our sourced factory started to use a sub-contracted factory for some of its operations. While this helped to address excessive working hours, the use of sub-contractors was less than desirable as it added a layer of complexity in the supply chain and resulted in less oversight of product quality and of Code of Conduct conditions. Efforts were initiated to make improvements to Timberland's processes/procedures so as to minimize excessive working hours and the need for sub-contractors. One of these projects focused on matching the demand to the capacity of source factories when starting new products in production. The other focused on managing the amount of development we have each season and limiting it based on the capacity of our development resources. To help address the second issue, a project focused on finding a better way to manage the amount of samples that are created during our development process was initiated.

Below are summaries of these three projects to date, including the changes Timberland has made. The impact and success of these changes based on the efforts of the sourced factories will be measured following the 2007 assessments.

*Project 1: Management of footwear samples and the business impact*

A project led by our corporate Continuous Improvement Team focused on better managing the need for and the supply of footwear samples. These samples are used in our development and sales process to show what the finished product will look like. The demand for these samples peaks significantly around certain milestones in our development process. The lead-time between orders and shipment of these samples is also much shorter than regular production. The goal of this project was to significantly reduce the quantity of samples needed at peak times. As a result of this project, Timberland processes and procedures were changed to reduce the number of times one model was ordered, and to reduce the number of changes that were made to the sample specification.

Initially, the result of these changes seemed to reduce the amount of excessive working hours in the sample rooms by reducing the peak demand with smaller quantities ordered. The results also gave better information to the sample rooms at an earlier time so they were able to have more manufacturing time to produce the quantities required. Unfortunately, these improvements were not sustained during peak production. The Continuous Improvement Team is revisiting the project to analyze this lack of sustainability.

*Project 2: Management of first ship dates based on new product introduction capacity*

One factor that has a major impact on the overall production capacity of our sourced factories is the amount of production lost when a new pattern is made for the first time (the learning curve). If there is a loss in production capacity during the learning curve, it often results in excessive working hours to make up the shortfall between our demand and the factory's capacity. Due to the way we launch products in stores, the first-available dates for new products tend to be grouped together. Because of this the dates that new products start in production tend to be grouped together. While we do graduate or ramp up orders of new products in coordination with factory production capacity, this imbalance or insurgence of multiple new products launched at the same time can cause factories to have excessive overtime to meet that new demand.

What this project focused on was determining how many new products can be introduced into a factory without a major impact on the overall production volumes. It then worked to pull forward the introduction, also known as commercialization, of some products. This reduced the amount of new products introduced in any one week and also allowed more production to be bought earlier, reducing the volume in our peak season. The intent of these changes is to decrease excessive overtime because it will reduce the difference between volume demand and factory capacity.

*Project 3: Management of new development based on the capacity of development resources*

Another factor that impacts working hours is the amount of new development we undertake each season. We have increased our development each season for the past several years. This causes excessive working hours in the sample rooms and for the sourced factories' development employees. More development will also impact production because there tends to be more orders for smaller quantities.

This means the production associates spend more time in the learning curve, and have lower production capacity to meet the same demand.

This project focused on determining the actual capacity for Timberland's development resources. We then tried to limit the volume of work to match this development capacity. There were times, however, when the new development was necessary to support the business needs. In these instances, we investigated adding more resources to meet the demand. The expectation of these changes is that excessive working hours will be minimized because the amount of work the factories' development and sample rooms have to complete will be closer to the capacity, requiring less hours to make up the shortfall.

### **Timberland's Take**

By taking a step back and reflecting on the effect internal procedures can have on our suppliers, we discovered that some of our procedures were making it more difficult for factories to control working hours. We've taken responsibility for that and are committed to reviewing internal procedures regularly to ensure that our actions remain consistent with expectations.

### **Perspectives: Factory Workers**

But is this an issue for workers? Do workers want their hours limited?

The Ethical Trading Initiative conducted focused assessments in 2006 of selected factories in five countries (India, Vietnam, UK, South Africa, and Costa Rica) in which they found that "workers' views on whether or not reductions in working hours were positive varied, largely depending on their personal circumstances and the extent to which it affected their take-home pay. Many workers were happy about the benefits associated with working fewer hours such as being less tired, having more time for their families, friends, and recreation, and being in better health. However, they sometimes complained about loss of earning as a result of reduced working hours. For example, migrant workers with no children tended to want to work as many hours as possible to maximize earnings, whereas workers with young children tended to be happier with the trade off between having more time to spend with their families and earning less money."<sup>x</sup>

Understanding the issues, concerns, and perspectives of the workers that produce product for us is a regular part of every assessment conducted by Timberland's Code of Conduct team. Much like the results of the Ethical Trading Initiative, we too found that perspectives varied and were largely affected by their personal circumstances. Some perspectives solicited in February 2007 by our Code of Conduct assessors from migrant workers at factories in China:

Factory A: At a handbag factory, a migrant worker, 28 years of age, indicated that she agreed with limiting working hours – she does not like working more than 11 hours per day and does not want to work at night or on Sunday and Saturday. She felt that her wage was sufficient to meet expenses with lower hours worked.

A migrant worker, 22 years of age, agrees with having one day off a week and hoped for no more than 10.5 working hours per day. She too felt that her wage was sufficient to meet expenses with lower hours worked.

Another migrant worker, 25 years of age, said that she would need her wage increased if hours were limited to less than 60 per week.

Factory B: At a footwear factory, a migrant worker (not living in dormitory but staying with her family near the factory) said that she was satisfied with limited overtime, even though she understood she could earn more if she worked more.

A migrant worker living in a dormitory without her family hoped that her wage be maximized with more overtime but she would still want to have one day off in seven, and no more than 10.5 working hours per day.

Factory C: At another factory, with only a few local workers and mostly migrant workers of multiple generations, the assessors found that the younger, unmarried workers wanted to work fewer hours, about 50 to 55 hours a week, and that the older, married workers liked to work more hours, about 55 to 60 hours a week. Both groups agreed that overtime should be evenly spread throughout the week from Monday to Saturday. For the peak seasons, it is acceptable to them to work 65 hours a week or even longer up to 70 hours, but 1 day off in 7 should always be guaranteed.

Factory D: At a footwear factory, where peak season weekly working hours reached 72 hours a week and 1 day off in 7 is not guaranteed, all of the workers are migrant workers. They agree with the current 60 hours policy. But older workers who have already gotten married would like to work more hours to earn more money. They accept working up to 70 hours a week for peak seasons, but the ideal practice is that 1 day off can be guaranteed. Only under rare circumstance will they accept working 7 days consecutively.

Factory E: A migrant worker at an apparel factory, in his late 30's, married and wife at same factory, son at local school. He preferred 3 hours overtime a day from Monday to Friday, plus 8 hours on Saturday. No work in the evening of Saturday, and one day off on Sunday. This worker said working on Saturday is good to him because he could ask for the time off when there was a need for child related issues or personal business during weekdays when government agency open. He also mentioned that 4 hours overtime in a day was too much, and he the resulting fatigue would affect his proficiency. As long as the piece rate was not too low, and the income was not affected by shorter working hours, this worker said that regular working hours plus some hours of overtime were acceptable.

Another migrant worker from the same factory had a similar thought. He said if there was a special need (e.g. shipment required), working more than 6 days consecutively without one day off was fine with the condition that they could take one day off afterwards, and the frequency was not often.

### **Timberland's Take**

From what we're hearing, work-life balance isn't just important to Timberland, it's important to workers too. While they want to maximize their income potential, they also see the value in putting a cap on overtime hours. Timberland is committed to working in the supply chain to find the right balance between work-life and income potential. It will be a difficult journey, but one worthy of the efforts.

### **Perspective: Factory Management**

Is factory management willing to take ownership and responsibility?

We know that the problem of excessive working hours is important to workers, is complex, and is in part caused by brands' purchasing processes – placing late orders, placing orders in excess of capacity, and (for some brands) penalizing late shipments. Improvements by brands alone will not rectify the problem. Without the factories' understanding their capacity limitations, planning accordingly, and maintaining effective communication, excessive overtime will continue. We know this and we also understand that there are challenges faced by factories in doing so.

At our owned facility in the Dominican Republic, controlling working hours takes the concerted effort of many. To better control the number of employees working more than 60 hours per week, the Human Resources department established a system to monitor accumulated hours on a weekly basis and developed a communication plan with Plant Management to let them know the number of hours worked by each employee of each factory as of the fourth working day of the week. Every Friday morning HR sends out a report to Plant and Department managers indicating the hours worked as of Thursday of that week with a projection of hours to be worked as of Friday. This report gives the Department Managers an idea of how many hours their employees have worked and how many hours they have available to work on Saturdays should they need to, without exceeding the 60-hour per week maximum. This report has helped control overtime hours to the point that, year to date, we have practically eliminated this issue. If a Supervisor or Manager violates the 60 hour per week maximum they are required to provide senior management with a written explanation and the supervisor can receive disciplinary action for repeat violations. With real-time information, the supervisors are better equipped to manage their department's working hours.

Where circumstances result in infractions beyond the supervisors' control, HR meets with production management to review the circumstances and determine ways of preventing such issues – involving corporate developers and suppliers when necessary. What they have found is that there are no reasons why a production line or any employee needs to work more than 60 hours in a given week. As Juan Rodriguez, Senior HR Manager for the facility explains, “Our production schedules, planning and standards are set up to accomplish the production requirements within the regular weekly work schedule of 44 hours. If any irregular situation occurs within the production lines such as equipment failures, absences, etc. they have 16 additional hours to make up for lost production hours. Our experience has been that if working hours violations occur it is usually because employees were asked to work overtime, when the supervisor was not watching the numbers of hours worked by those employees to avoid having them work in excess of 60 hours. This is why we have been successful in controlling the number of hours worked by providing this information to Plant Management and supervisors. If violations do occur there is a review process in place to see what went wrong, but usually it's that the manager or supervisor did not take into consideration the weekly hours report. This is why the manager or supervisor that fails in this respect may be given a disciplinary action report.”

Here's a perspective from a non-owned factory in our supply chain:

*“There are many stages in the manufacturing process that can influence working hours infractions at a factory - business, purchasing, planning, production control, quality control and human resources. If factory experiences any delays in manufacturing, there is a high probability the factory will exceed the working hours required by the brand or law of the country.*

*Working hours violations are also influenced by external factors such as brand and material suppliers. When our business department receives highly complicated orders from the brand (i.e. too many SKUs or small order quantity) or orders that fluctuate wildly, this makes it difficult for the factory to set up a production plan and schedule appropriate manpower. The orders vary significantly between high and low seasons, so the factory has to recruit additional workers to complete orders during the busy season. During the off season, the factory has to pay high labor costs due to increased headcount without brand support. In addition, the factory usually does not have the power to refuse and bargain over orders.*

*Additionally, when brands designate material suppliers, the factory loses control over lead-time for materials (i.e. leather). This creates a situation where we have to track material shipments to coordinate with the sample and mass productions schedules. Because the relationship is owned by the brand, material suppliers do not work closely with factory and this has a negative effect on preproduction.*

*I believe that the factory and brand are partners in the supply chain and should deal with all the issues together.”*

*Peter Tsai  
CSR Manager  
Pou Yen, Vietnam*

### **Timberland's Take**

Production planning is complex and dependent on so many variables – both internal and external. Only with transparency and communication is a factory able to deal with issues. Open, honest monitoring and communication. Only when issues are known can they be dealt with.

### **Conclusion: It's a Shared Responsibility**

The issue of excessive overtime is real and complex. Responsibility exists throughout the supply chain to take action toward sustainable improvements. With increased communication, transparency, ownership, and action by brands, factories, and suppliers, work-life balance should be attainable for all workers. That is Timberland's goal and we'll continue to work with our factory partners to realize it.

## More Data

This section includes subjects we would like to include in future versions of the brief.

1. Local authority: What role do local governments play in the working hours issue?
2. Living Wage: How does this affect overtime?
3. Policy: Should a brand take a stand on living wage, working hours, etc?

## Contact Us

If you would like to learn more about what Timberland is doing to “Make It Better” for factory workers producing Timberland® product and/or if you have any comments or suggestions for this report, we welcome you to contact us.

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## Toolkit

Web sites, research papers, books where the reader can go deeper on the issue

- Casey, Roseann. 2006. “Meaningful Change: Raising the Bar in Supply Chain Workplace Standards.” Corporate Social Responsibility Initiative, Working Paper No. 29. Cambridge, MA: John F. Kennedy School of Government, Harvard University.
- Ethical Trading Initiative, Reports on the ETI Impact Assessments 2006, “The ETI code of labour practice: Do workers really benefit?”
- Social Accountability International website (<http://www.sa-intl.org/>)
- International Labour Organisation website (<http://www.ilo.org/global/lang--en/index.htm>)

<sup>i</sup> AccountAbility (2006) The Global Alliance for Workers and Communities, Lessons Learned About Partnership Governance and Accountability from a Multi-stakeholder initiative, 14

<sup>ii</sup> Foreign Investment Advisory Service, (FIAS), Cambodia : corporate social responsibility in the apparel sector and potential implications for other industry sectors

<sup>iii</sup> Figures represent 2002 market level; World Bank 2003 report

<sup>iv</sup> G. Smith and D. Feldman (2003), Company Codes of Conduct and International Standards: An Analytical Comparison, Part I of II: Apparel, Footwear and Light Manufacturing , Agribusiness, Tourism, World Bank and IFC, 9.

<sup>v</sup> Social Accountability International review of the labor laws of China, Brazil, Italy, India, Indonesia, Vietnam, Mexico, Thailand, and Pakistan (Guidance Document for Social Accountability 8000, 97).

<sup>vi</sup> S. Greenhouse, Michael Barbaro, May 3, 2006, An Ugly Side of Free Trade: Sweatshops in Jordan, The New York Times, [www.nytimes.com/2006/05/03/business/worldbusiness/](http://www.nytimes.com/2006/05/03/business/worldbusiness/).

<sup>vii</sup> Casey, Roseann. 2006. “Meaningful Change: Raising the Bar in Supply Chain Workplace Standards.” Corporate Social Responsibility Initiative, Working Paper No. 29. Cambridge, MA: John F. Kennedy School of Government, Harvard University., p. 24.

<sup>viii</sup> S. Dhanarajan. 2007. “Managing ethical standards: when rhetoric meets reality” Oxfam Great Britain (Originally published in Development in Practice 15(3/4) (June 2005)

<sup>ix</sup> Casey, Roseann. 2006. “Meaningful Change: Raising the Bar in Supply Chain Workplace Standards.” Corporate Social Responsibility Initiative, Working Paper No. 29. Cambridge, MA: John F. Kennedy School of Government, Harvard University, p.24

<sup>x</sup> Ethical Trading Initiative, Reports on the ETI Impact Assessments 2006, “The ETI code of labour practice: Do workers really benefit?”, p.17