VERITÉ®

For Workers' Benefit:

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If your brand sources from Chinese factories, chronic, illegal overtime may be imposed on employees at those factories without your knowledge. While the Chinese government has developed a regulatory system intended to provide protections, it is often misused to enable the very overtime it was designed to alleviate. Often, the result is many more work hours, lower overtime wages, no time off and greater risk of worker injury or worse.

Unlike other non-conformances to social responsibility standards (which are often unintended outcomes of a business practice), many work hours violations are intended by management to recover lost production time or to accommodate unplanned orders. As a result of this, addressing excessive overtime in China requires a different approach – one that accounts for numerous interconnected supply chain business processes and the needs of workers.

Verité regularly finds excessive overtime in the Chinese factories we assess. Some examples from recent Verité facility social compliance assessments are:

- At one factory in China, workers worked continuously for 20 days without a day off with 70 - 80 total work hours per week.
- At an electronics facility, whenever a 10-minute break is over, the line leader shouts at workers and threatens that if they do not return to their work immediately, they will be disciplined or not paid. Workers described this to Verité as "hurrying us to work as if driving pigs."
- A worker at a garment factory in China told the Verité team that he did not have a day off for the whole month because the line was extremely busy, and the section even worked overtime until 3:00 or 4:00 a.m. Before the Verité audit, workers were told by the factory's public address system to give standard answers to our auditors, saying they never work lots of overtime, and that they end work around 7:00 p.m.

Some examples of work hours violations are extreme – workers not having a day off for 20 days and working upwards of 80 hours overtime per month.

Solving these problems requires a multi-faceted approach, and one that involves all levels of staff across the supply chain. Fundamentally, solutions must consider benefit to workers, which results in sustained legal and Code compliance.

The Problem

At some point, every factory is pressured to produce more with less. This can be attributed to causes within the factory's control, such as broken machinery or high employee turnover, while others are external to the factory, like a rush order from a customer. When this pressure occurs, factory managers often believe that the solution is for everyone to work longer and harder to help "dig out" of trouble. Workers are pressured to work in violation of the law, in violation of corporate Codes and at risk to themselves. The results can be bad for business, resulting in reduced product quality, unsafe working conditions and higher worker turnover.

Excessive work hours are a serious concern at manufacturing facilities in China. Verité routinely encounters factory work schedules that violate China law[1] on work hours and customer Codes of Conduct. The examples above are extreme, but not rare.

Workers that are tired are more prone to make mistakes or become distracted, often with dire consequences to their health and safety. Serious injuries – or even fatalities – are significantly more likely to happen when workers are tired. For factories and manufacturing companies in China, work in excess of 60 hours per week is more the rule than the exception.

[1] China law on regular work hours states that a standard work week is eight hours per day and 40 hours per week. There are 250 regular 8-hour workdays per year, and 20.83 regular 8-hour workdays per month. Overtime is limited to three hours per day and 36 hours per month, and workers must receive one day off in seven.

Workers' hours at factories with the Comprehensive System are still excessive, and consistently in violation of companies' own Codes of Conduct.

Workers' interests are often cited as a reason for excessive work hours. Factory managers and brands note that workers often want to work long hours for diverse reasons. Migrant workers residing in China's manufacturing hubs may want to work many hours to earn income to send back to their families. Being so far from home also means that many workers lack a social and family life in the community and fill that gap with work. Workers generally cannot afford the higher cost of living and entertainment in large cities, so they do not feel the pull of their leisure hours. Factories often feel the need to offer overtime to workers in order to reduce worker turnover; otherwise, workers will simply find another job where they can earn more income.

Compounding the problem is that factory managers in China often rely on excessive work hours, mandatory overtime, limited or no break periods and the elimination of rest days to fulfill the orders they receive. Illegal work hours are seen as the 'safety valve' when orders cannot be met during a regular workweek. This means that brands are often doing business with factories that are breaking local law.

Well-rested workers work faster, are more productive and are less likely to have work-related accidents. They are less likely to argue with coworkers or superiors, and have fewer behavioral problems that can hamper factory operations. In general they will be more satisfied, productive and healthy.

In some cases, management is aware of the negative impact of excessive overtime on workers, but perceive that they have no choice.

The Regulatory "Solution"

China's regulatory framework has attempted to alleviate this problem, with little success. According to China labor law, companies unable to comply with the legal limitation on work hours for their employees may apply for a Comprehensive Work Hour Calculation System. This system allows companies to exceed legal work hour limits for any given day, week, or month during a defined period of time so long as the average working hours for that period (usually three months to a year) do not exceed the legal limit (see the box on the right).

The intent is for this system to account for peaks and dips in production requirements over the year. The main problem is that the Comprehensive System does not achieve the objective of controlling hours. Verité continues to encounter work schedules at manufacturing facilities with Comprehensive Systems where work hours are excessive and workers are not receiving mandated days off each week. In some cases, the requirements set forth by local labor authorities are so vague that workers are left vulnerable to exploitation, sometimes in the form of decreased overtime wages.[2]

Comprehensive System - Regulatory Framework

Guidelines for the Comprehensive System are stipulated at the national level, and local labor authorities are shouldered with the responsibility of establishing detailed approval and implementation measures.

Typically, work hours are calculated comprehensively over a quarterly or yearly calculating cycle.

During a calculating cycle, the actual working hours may exceed the daily, weekly, and monthly legal limits; but the average daily and weekly regular work hours over the full calculating cycle should not exceed the legal limit.

Work done on normal days off during a comprehensive calculating cycle may be considered regular work. For example, if a company has obtained approval for adopting the Comprehensive Working Hour Calculation System for a three-month calculating cycle, the total work hours may exceed eight per day and 40 per week. However, accumulated working hours for the three-month period should not exceed the legal limit of 500 (20.83 days per month x 3 months x 8 hours per day) regular hours.

[2] China law sets basic overtime wage rates of 150%, 200%, and 300% of the regular wages for overtime performed on regular workdays, normal days off (usually Saturdays) and holidays, respectively. Under a vague Comprehensive System approval, employers may be able to pay workers only 150% in overtime wages regardless of when the overtime is rendered.

The "Systems Approach" Solution

A variety of supply chain business processes affect an employer's ability to meet standards on work hours. Sometimes extra hours are unintentional and unavoidable. Sometimes, however, they are intentional management actions to recover 'lost' production time or to accommodate unplanned orders.

Managing work hours depends on more than just the production business process, identifying root causes and finding solutions. This means working across different business and functional units, as well as all of the company's processes (e.g., Production, Human Resources, Quality, Procurement, Sales, and Marketing).

Involving staff from different functions within your company will provide insight into root causes and help you make operational changes.

The first step to sustained resolution of these problems is to communicate directly to workers that management understands it is important to conform to work hours standards. Factory management should develop specific policies that state the company is committed to meeting social standards and applicable law, as well as reviewing and improving any business processes that result in excessive work hours. And, as importantly, the factory must commit to paying workers the legal overtime rates. If factories guarantee overtime within the limits of the law and Code of Conduct requirements, workers can still earn the income they need. Management can further incentivize workers to stay motivated and remain with their employer by exploring provision of bonuses, housing and other perks – any additional cost is likely to be offset by reduced turnover.

Analyzing a company's many interrelated business processes to find the causes of excessive work hours begins with forming a cross-functional team. A good team will include staff with responsibility for internal operations as well as external client relationships.

By involving staff from different functions within a company, important insight into the root causes of excessive work hours can be derived. At the same time, a cross-functional effort can help put in place operational changes for improved productivity and profitability. Most importantly, it increases the liklihood that solutions will be effective and sustained, and will have the support of key managers and departments.

Asking these questions is the way to assess a company's current level of knowledge and management of work hours:

- Is the company currently gathering and tracking work hours data?
- Is it clear where work hours violations most commonly occur in your facility (which shift, production area, etc.)?
- Can specific trends and patterns in overtime be tracked at your facility?
- Have instances of excessive work hours in your facility been identified and investigated?
- Were these instances isolated events or systemic problems?
- What controls are in place for managing work hours?
- What solutions have been implemented to the problem?
- Has the effectiveness of these solutions been measured?
- Are production metrics tracked against excessive work hours to see where there might be a relationship?

Once the links have been identified between work hours problems and specific business processes, it is vital to establish leading metrics to identify problems before they occur (e.g., what months constitute peak production period?) and lagging metrics which measure the success of solutions that have been put in place (e.g., average hours worked).

How Verité Helps

In spite of the ongoing efforts of brands and suppliers alike, the problem of excessive overtime remains a prevalent one. We work directly with companies and their suppliers to put the business controls in place to effectively control work hours while meeting production demands, thus achieving legal and Code of Conduct compliance and reducing costly worker turnover while positively impacting employees working lives.

Verité provides consulting and capability building services and resources to help brands and their suppliers reduce work hours, improve their business management systems to eliminate and prevent excessive hours, and overcome the obstacles to building sustainable systems solutions that benefit companies and workers alike.

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Auditing Services
Verité's worker-focused audits are uniquely positioned to detect indicators and root causes for excessive and illegal work hours that typical social compliance auditing may not. We pioneered a comprehensive model that integrates workers as key stakeholders to effectively monitor labor practices and conditions.

Capability Building and Training
We build critical competencies at all levels of the supply chain with our training programs - which are in part shaped by the knowledge gained by our assessment. Our programs focus on the root causes of business process failures and the understanding, skill, and system improvements needed to resolve them. We have an unparalleled reputation for depth and quality of multi-source information on conditions and causes.

Verité training programs have provided suppliers, managers, and regional/corporate CSR staff in factories with knowledge and skills to eliminate work hours issues. Embedding the capacity, knowledge, and systems-based approach across the entire supply chain helps companies establish effective preventive measures, to measure the effectiveness of those measures, resulting in a self-correcting system.

Who is Verité?

Verité is an international not-for-profit consulting, training, and research NGO that has been a leader in supply chain social responsibility and sustainability since 1995. Verité is a member of the Alliance to End Slavery and Trafficking, and has presented its solutions to forced labor at the Clinton Global Initiative. For our work, Verité was winner of the Skoll Award for Social Entrepreneurship in 2007 and the Schwab Social Entrepreneur of the Year Award for 2011.

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