

Treehouse: an ongoing experiment within the Chinese garment industry.

Chinese context

China is the dominant player in the garment industry. With a total export of 115 billion US dollar and a share of more than 30% in the world's total export in 2007, it is the leader in the industry. More than 20 million workers contribute to this success which is driven by Chinese competitive prices, the good infra structure, the established supply chain, the well educated workforce and the nearby business hubs formed by Hong Kong and Taiwan.

Due to the fact that China is such a dominant player a lot of audits and compliance efforts are directed towards China. As in other developing countries a lot of labour issues need to be tackled. Working excessive hours is one of the most common labour standards problems in China. Workers often work 360 hours per month and some work up to 400hours. This is the equivalent of 12-13 hours per day or 80-90 hours per week with no days off in a whole month. Overtime is often not paid following national or standard requirements.

These and other problems are addressed following an approach where brands and retailers mainly focus on audits and where suppliers mainly regard the audits as an unavoidable nuisance. Incentives to comply and effective implementation strategies are often not presented. A cost benefit analysis for factories and sufficient knowledge to conduct such an analysis is often lacking. This combined with an increasingly competitive business environment does not lead to the best results in the Chinese market.

However opportunities emerge. The Chinese government is more serious than ever in enforcing a labour law which is recently updated and considered as one of the most stringent in the world. Combined with a labor shortage in certain areas and growing awareness among factory owners that social compliance can also bring business benefits, a new landscape where compliance efforts can become more effective than in the past is coming to its existence.

Together with Social Accountability International (SAI) based in New York, Solidaridad tries to contribute by building a team giving support to factories willing to become compliant with labour standards as SA8000. This team also supports suppliers of brands being a member of MADE-BY.

The case: Treehouse

Treehouse is a knitwear factory with its sales office in Hong Kong and its production facilities in Dongguan, Guangdong Province, China. The factory employs 600 workers and has an annual capacity of 800.000 pieces. The factory offers service to leading brands in the EU and USA. The annual turnover is 8 million Euro. Treehouse is a key supplier for one of the MADE-BY member brands.



“The factory”

The Solidaridad/SAI team started its activities within the factory end of 2007.

The base scan made on the working conditions found in 2007 gave the following results:

- 380 hours per month during peak season (legal cap: 204 hours)
- One day off each month (legal: 4 days at least)
- Average monthly wage for core operators: EUR120 (Legal per actual hours: EUR200)
- Only 10% workforce got labor contract (legally required)
- Only 20% workforce got any insurance coverage
- No worker representation
- Fines/penalties are prevailing

The team did not just address the found social problems but approached and presented social compliance to the factory management as related to the overall management of the factory . It focused on the relationship between social compliance and efficiency/productivity and social compliance and HRM management.

Concerning the relationship between social compliance and productivity an analysis was made on the interrelations. Excessive overtime as found in Treehouse is partly driven by inefficient internal production systems, inadequate internal communications and poor quality and late delivery of inputs. Overtime often leads to reduced efficiency, high rates of accidents, worker dissatisfaction and

therefore high worker turnover. Improving efficiency was therefore key in order to find a direction enabling factory management to facilitate less hours for the workers and improve overall quality at the same time.

Main elements in improving the efficiency were realized by:

- Investing RMB 6.24 million (Euro 624.000) to add 47 sets of auto-knitting machines in order to replace hand knitting machines.

- Investing RMB 250.000 (Euro 25.000) to install an ERP system (to improve overall management, inter departmental communication and input planning). The system is currently implemented

Although a lot of money had to be spent by the management to increase the level of efficiency this is the part of the operation which goes rather fast and without resistance.



“Old hand knitting machines”



“New auto-knitting machines”

More complex are the issues around the Human Resource Management or soft skills of the factory.

Activities employed in the factory are among others:

1. Set up an internal compliance/HR team to oversee the integration between compliance and business operations.
2. Develop a KPI (key performance indicator) system, so that the evaluation of performance will include compliance issues, such as control of overtime, worker turnover rate, and satisfactory handling of worker complaints.
3. Management and worker trainings.
4. Set up a worker committee to learn workers' genuine needs and improve worker-manager dialogue. In May 2008, 11 worker representatives were elected by peer workers, observed by the Solidaridad/SAI team. Three sessions of trainings have been offered to the worker representatives. So far worker representatives are very open and willing to share their concerns. More follow up training will be given to prepare them to engage in regular dialogue with management.

While developments under 3. and 4. are going rather smooth, serious setbacks are encountered in setting up the HR team and KPI system. The HR managers hired so far met heavy resistance of the production middle management in the factory. Two of them quit already. A third is hired. The implementation of the KPI system is suspended due to the turnover in the HR team.

The problems encountered can be related to the fact that one of key brands of the factory is the driver behind the process. The motivation is coming top-down and did not start bottom up from the

factory itself. The management of the factory was extremely open and co-operative in disclosing facts and figures from the start. This helped enormously in establishing the gap between the present and desired situation and in finding ways to improve the overall situation. Changing the hard skills (machines and planning systems) was not challenging overall practices that much, changing the soft skills (setting up the HR department) is a cultural phenomenon which takes time and resistance.

Convincing the management of changing its management style and enabling the HR team to do its work properly will take some more time. The initial target of reaching SA8000 certification in 2008 will not be met. Reaching BSCI compliance within 2008 will hopefully function as a stepping stone towards SA8000 certification in a later stage.

The process so far did lead to the following in-between results:

- A worker committee is set up
- The wage is increased to EUR 150 per month
- Working hours are reduced to about 280 hours per month (4 days off per month)
- 100% of the workers now got a labor contract
- About 40% of the workers now got a social insurance coverage
- No fines and penalties are given

The Solidaridad team will continue its work within the Treehouse factory and will gradually realize more results enabled by the openness of the factory management and the brands continuous involvement in the process.