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Let's Clean up Fashion 2009: Next Submission

Dear Anna,

Thank you for once again inviting Next to update you on our work on living wages for your 2009 'Let's Clean up Fashion' report.

We continue to communicate our commitment to a living wage in both our code of practice and as an ETI member and have continued with our work to that end throughout the last 12 months.

In your report last year you summarised that our update didn't quite live up to expectations and perhaps lacked a coherent strategy and a clear path to implementing a living wage. As we and many other brands you feature in your report have commented, this is a complex issue and there are many 'pillars' that need to be in place to achieve sustainable progress.

As those of us working in this field are well aware, we do not have an internationally accepted definition of a living wage or of a methodology which has been specified for calculating one.

We have come to believe that less emphasis should be placed on finding a universal formula and more on how to ensure workers and employers engage in dialogue to enable mature systems of industrial relations to develop. Improvements in pay and working conditions have happened historically through collective bargaining between workers and employers and where fundamental rights such as freedom of association, are respected.

We believe that our pilot and research projects have now been pulled together to form the foundation for what will become sustained implementation of an effective living wage policy across our supply base.

Update on existing Living Wage projects and what we have learnt from them

Following the living wage research we undertook in 2007 in our key sourcing regions we initiated a number of pilot projects in different countries.

These projects were designed to test different solutions to achieve a living wage. These are summarised below:

China

Wages and Productivity

Since 2002, we have been working with a number of strategic suppliers in a project designed to reduce overtime hours and increase hourly pay rates. In 2008 we established a Factory Project Improvement Team specifically to manage this work in China.

There are currently 17 factories engaged in this initiative. The programme with each factory consists of three phases; Wage and Productivity Analysis, Human Resource Management and Production Re-engineering. To date, the factories engaged with this work have achieved between 10-20% reduction in total working hours and 20-30% increase in hourly wage rates over a 12 month period.

Through this initiative we have learnt a number of key lessons. Firstly, low levels of productivity is an issue in many developing countries. It often has a significant impact on workers pay and the need therefore to work overtime. Secondly, poor HR skills particularly of supervisors and middle managers contributes to high levels of worker turnover and absenteeism which in turn leads to high levels of rework and therefore more overtime. Whilst these two issues are well documented through this programme we have learnt ways to address them which have a positive impact on workers pay.

Sri Lanka

Overtime Project

In Sri Lanka we are in the advantageous position of having our own factory which is owned and operated by our sourcing arm, Next Sourcing Ltd. We have undertaken an initiative to share the expertise and experience we have within our own organisation to other factories in the region. We are working with the industrial engineering departments within other factories and providing information and skills on the implementation of management systems that will help reduce overtime and improve wages by improving productivity. The work we have undertaken in Sri Lanka is similar to the programme that is underway in China but we are now starting to add to these pilots the learning we have taken from our work on purchasing practices. This includes critical path management, production forecasting and planning.

Bangladesh Project

Living Wage Study

Working together with The Arcadia Group Ltd we have identified a shared factory in Bangladesh where we have carried out an in-depth wage study.

We have reviewed a full years wages from the project factory whilst conducting extensive worker discussions in homes or accommodation to understand in detail what workers need to be able to live on and their priorities. To complement this we have also conducted a study of basic food and utility levels (living and subsistence costs), including any seasonal fluctuations. To be able to compare the work undertaken in this research we have referred to a leading campaign organisation, War on Want and their calculation of 5333 Taka per month as a living wage in Bangladesh which is significantly higher than the legal minimum wage of 1662 Taka.

The study established that 73% of workers were earning the living wage as defined by War on Want. In some case this was only being achieved by working overtime, however overtime was within legal limits. We are in the process of finalising calculations on the amount required to bring each workers wages to this figure. The next stage will then be to identify the root causes that contributed to areas of low pay and overtime. This will involve various stakeholders and include workers and will consider our own internal purchasing practices and factory management systems.

The objective will be to ensure the long term sustainability of this model.

The learning from this study has played a significant part in our strategic planning going forward, providing us with a platform to focus on the development of better workplaces. A focus which puts responsibility for change back in the hands of employers and employees through strong management systems and worker management dialogue.

Piece Rate Study

Next and Arcadia share a number of common suppliers. We have been analysing the introduction of a piece rate system through one such supplier, with encouraging results. The study focused on the implementation of a full piece rate system during 2008 and full year figures show a positive result for workers and the company. Average earnings compared Jan-Dec 07 with Jan-Dec 08 have shown an increase of over 50% for all workers.

Alongside this work, the supplier has also strengthened its management systems focusing on critical workplace areas including a right to organise guarantee, freely elected workers councils for local and migrant workers, harassment, discrimination and disciplinary policies and robust grievance procedures.

This work reinforces our belief that establishing and strengthening effective management systems, including the opportunity for workers to earn equal pay by rate and type of work, and good worker-management communication is at the heart of ensuring decent and fair working conditions.

Mauritius

Analysing Minimum Wage Calculation

We have been working in collaboration with The Arcadia Group Ltd to achieve a number of objectives in relation to living wage and migrant labour in Mauritius.

Over the past year we have met with Government Ministers, the MEF (Mauritian Employers Federation) and other industry bodies in order to seek a better understanding of how the minimum wage compares to a living wage or as it is referred to by the Mauritian Government 'a decent wage'.

Our latest meeting in June 2009 provided us with a detailed breakdown of social components which contribute to livelihood necessities including free education, free health care, free transport, pension schemes and national insurance and saving schemes.

Local and migrant workers are eligible for differing aspects of these components and therefore our work has included a comparison of earnings packages.

Our next steps will be to review earnings, including an analysis of parallel social components to help us to understand the overall earning and whether this translates into a decent or living wage, again for both local and migrant workers. A full breakdown of how the legal minimum wage in Mauritius is calculated needs to be obtained from the NRB (National Remuneration Board) which we do not yet have but we aim to continue this dialogue.

In Addition

Some other significant pilot and research work has also been taking place over the last 2 years which has also contributed to our strategy for the implementation of an effective living wage policy.

Purchasing Practices

In 2008 we commissioned a substantial piece of independent research into our purchasing practices in recognition of the importance of the 'way we buy' in ensuring labour rights improvements are sustainable in the long term. The subsequent report identified a number of opportunities to benefit our suppliers and their workers and also our business. We have taken the learning and already begun to build the internal systems and management processes which will allow us to increase the support, information and tools needed by our commercial teams to manage the buying process in ways that will reduce the negative impact on our supplier's ability to comply with our code. This review of our purchasing

practices has also led to a reassessment of our supplier sourcing strategy and a consolidation of our supply base.

Marginalised Workers

An important element that we have purposely sought to incorporate in our living wage work has been to ensure the inclusion of the most vulnerable workers in our supply chain. Homeworkers and migrant workers are often either invisible or unacknowledged and are marginalised through lack of formal working terms and conditions. They are vulnerable due to irregularity of work and the potential for exploitative practices by those around them but are also a vital part of some supply chains therefore, these are two sectors we have given particular attention to. Migrant workers remain exposed to potential exploitation through differing, and often much lower wage rates when compared to other local workers. They are unable to negotiate a fair wage which they can live on for the work that they do as homeworkers, who fall into the informal sector.

We have reviewed with a number of our suppliers the way in which migrant workers are recruited, analysing for example, nationality, gender breakdowns and through the guidelines we have developed (in collaboration with Arcadia) and with input from the ITGLWF we are making changes to the way in which recruitment costs are met. Our key objective is that migrant workers are not indebted in their home country and therefore their earnings are their own.

In our work with homeworkers we have completed initial wages studies through four selected supply chains of embellished product in India. These studies have shown us how complex these chains are with many tiers which unfortunately result in the homeworker receiving the lowest amount. Further studies will be conducted for different product types to expand our understanding of how piece rates are broken down through these tiers. We continue to work both within the ETI homeworking group and externally on this (in collaboration with another retailer) focusing on time and motion studies and the setting of piece rates. Taking into consideration the livelihoods of all tiers in these supply chains we aim to build a sustainable mechanism which will transparently allow homeworkers to receive a fair rate for the work they do.

The presence of vulnerable workers is becoming increasingly evident in global supply chains and our commitment to improving working standards including fair and decent wages in our supply chain includes a commitment to monitor and improve the recruitment practices and employment conditions of the marginalised workforce.

Bangladesh

ETI Wages Project

Through participation in this project we and other ETI members hope to raise wage levels in a sample of garment factories in Bangladesh in a manner that is sustainable, replicable and credible to all participating organisations.

We remain committed to participating in this group.

Auto Pilot

These projects, as we have said, have all been ongoing since 2007. During the second half of 2008 we initiated a significant piece of work that draws together much of the learning from these and other initiatives.

This has now come together into a work stream called 'Auto Pilot', which is about promoting better workplaces and we are working on this with an international NGO and Trade Union.

The central or core strand of work has been driven by the need to move on from the audit based policing approach which we know does not, on its own deliver compliance to our code including the provision of a living wage. The aim is to develop a sustainable strategy that puts responsibility for change in the hands of employers and their employees and is about

ongoing internal monitoring. The overriding objective of this work is to develop a way of working across our supply base that will replace auditing and instead will rely on sound management systems covering all aspects of our code. An essential part of a 'good workplace' is the relationship between workers and their management which enable mature systems of industrial relations to be developed and where the rights to freedom of association are respected. This includes collective bargaining on working conditions and wages.

The other aspects of this project include our work on FOA with the ITGLWF which we started back in 2007, which we will continue by further developing relationships with local ITGLWF affiliates in our key sourcing locations. Secondly, our work on purchasing practices over the last 2 years which has led to some changes in our supplier management strategy enabling us to support this programme. In 2008 we completed the research phase of our purchasing practices work. In 2009 we will take this learning to enhance our buying practices in ways that will minimise their impact on our suppliers ability to meet the requirements of our code. Lastly, as part of the preparation for the start of the implementation phase of this work we are extending our local stakeholder networks including relationships with local Trade Unions, NGO's, Local Government, Trade Associations and other industry bodies. This is to facilitate capacity building activities and develop locally the training model for the better workplace pilots.

Together with our NGO and Trade Union partners we have identified the 2 factories to run the pilot programmes with, and these pilots are scheduled to start in October 2009. In brief these pilots will;

- Enable workers and management to work together to identify shortfalls in the workplace against labour law, ethical codes and ILO conventions.
- Link shortfalls into new, robust management systems.
- Develop understanding and ownership of both workers and management, of the policies procedures, rights and responsibilities within a management system.
- Through training at all levels, embed social compliance standards into the workplace.

Whilst our work on project 'Auto Pilot' has not so far been done in collaboration with any other brands, as members of the ETI we recognise the importance of a collaborative multi-stakeholder approach. We have already shared details of our auto pilot work with the ETI and the Corporate, NGO and Trade Union Caucuses' and have committed to sharing the outcomes and learning on an ongoing basis. We plan to scale up this work in 6 monthly stages as we build local capacity to support it within our supply base.

As we have said, this work is ongoing and will take time to scale up however, it is set within our long term objective to find a sustainable solution to this important issue.

Yours sincerely,



Pam Batty
Global Code of Practice Manager