

Linking wages, overtime and productivity

There is growing recognition that wages, working hours and productivity are all interlinked, and that the issues usually need to be addressed together. This workshop aimed to improve understanding of these links and to explore options for improving wages, reducing excessive overtime and improving productivity. The experiences of the Impactt Overtime Project in China, the Dewhirst Group (UK)¹, Prem Durai Exports (India) and the Free Trade Zone and General Services Union (Sri Lanka) provided practical examples of how to tackle the issues.

5.1 Background

If they are paid very low wages, many workers work excessive overtime in order to make ends meet. Efforts to reduce overtime without tackling poor wages can therefore be problematic. Improving wages and cutting excessive overtime can both lead to improved productivity, by improving workers' motivation and work efficiency. If handled effectively, this can be a strong incentive for managers to address both issues. Conversely, looking into the underlying causes of excessive overtime often reveals that low productivity (resulting from poor management systems and practices) is a root cause of excessive overtime.

Recognising this, some sourcing companies are working with their suppliers to improve management skills and efficiency at the factory level. Experience indicates that productivity gains can be substantial and shows the potential for win-win strategies in certain circumstances. With improved productivity rates, the need/demand for overtime is reduced, and suppliers – at least theoretically – are given the financial leeway to improve wage rates.

5.2 What is a 'living wage'?

A 'living wage' is a simple concept, but in practice poses a number of challenges. A living wage may be defined as a wage level that allows the worker, within a standard working week (that is without having to work excessive overtime), to meet their basic needs and those of their dependent family members, and allow for some discretionary income. In practice, companies have found it difficult to identify what constitutes a living wage. It is not too difficult to find out whether workers at a particular workplace are earning

1. The Dewhirst Group is a garment manufacturer based in the UK, and is a member of ETI

a living wage, but development of a universal formula for calculating a living wage in different situations has proved problematic. This is because what workers consider as 'basic needs' vary significantly from country to country, and between groups within a country. In most developing countries, a 'family' is also a difficult unit to define – a worker's number of 'dependent relatives' may well increase if their income increases.

Studies on the issue indicate that many workers in global supply chains are earning significantly less than a living wage. Moreover, many workers, including piece-rate workers working to unrealistic production targets, earn less than the legal minimum wage. The studies also show that, in many developing countries, the legal minimum wage is considerably lower than a living wage. Therefore, even workers who earn the legal minimum wage may find it is insufficient to meet basic needs, and cope by working excessive overtime, taking on more than one job, sending their children to work, and/or borrowing money.

In countries where the legal minimum wage is significantly below a living wage, some suppliers may genuinely find it difficult to pay a living wage. Often operating in unstable economic and political conditions at the national level, and under constant price pressure from their customers, profit margins can be small and provide little leeway for a substantial increase in wages.

5.3 The causes and costs of excessive overtime

Poor production planning, inefficient work methods, lack of skilled operators, lack of training opportunities and limited management capacity within the factory can all contribute to demand for excessive overtime. External pressures such as short lead times, 'just in time' ordering patterns, late confirmation of orders, changing quality requirements, penalties for late deliveries and other purchasing practices of customers, in conjunction with flawed or late delivery of raw materials, make it difficult to predict, plan and keep to production schedules. Balancing these disparate pressures, factories can often find it difficult, if not impossible, to ensure production targets are met without demanding overtime, often at very short notice.

As noted above, insufficient wages or piece rates and unrealistic production targets also push many workers into working long hours on a 'voluntary' basis.

The possible repercussions of excessive overtime include a tired and frustrated workforce, high worker turnover resulting in a lower skilled workforce, increased health and safety problems, reduced productivity, reduced production quality, increased wastage of material, and over-utilisation of machines resulting in increased maintenance problems.

5.4 Curtailing overtime and improving wages and productivity: companies' experiences

5.4.1 Prem Durai Exports, India

One client company of the Prem Group has been implementing a quality management standard (ISO 9000), an environmental management standard (ISO 14000) and SA 8000 management systems. Implementation of these standards had led to substantial improvements in the company's management systems and practices. This has allowed the company to reduce overtime work and pay a living wage, while also making many operational improvements.

Specific changes which helped to reduce overtime included:

- improved production forecasting and planning
- improving productivity through adoption of a line production system and a range of other measures
- improving interdepartmental co-operation
- improving grievance handling mechanisms
- introducing measures to reduce absenteeism.

The improved management practices led to a range of benefits for workers and management. These are summarised in the table below.

TABLE 5.1 Benefits from changed management practices at Prem Group client company

Improvements in...	Reduction in...
<ul style="list-style-type: none"> • productivity • planning accuracy • product quality • corporate image • management practices • environmental performance • social accountability • health and safety • human resources development and work culture • labour relations 	<ul style="list-style-type: none"> • use of raw materials • panic, hassle and confusion • overtime • accidents and compensation • errors • confusion about roles and tasks • costs of production • inventory • number of air shipments required • frequency/number of rejected products and products that needed to be reworked • number of complaints from interested parties

5.4.2 Impactt Overtime Project, China

This project, co-ordinated by Impactt Limited², is a collaborative initiative involving 10 sourcing companies and a range of Chinese partner organisations with expertise in labour and management issues. Working with five factories, the project focused first on identifying the underlying causes of excessive overtime. They found that a combination of internal and external pressures resulted in long working hours, inexperienced workers, low productivity, low efficiency, quality problems and high worker turnover.

To address these problems in an integrated way, the project:

- provided factories with productivity consultancy and training
- provided human resources consultancy and training
- organised participatory workshops to improve communication between workers and supervisors, and to develop a common understanding of overtime and other labour issues.

These interventions led to substantial improvements in productivity, working hours and wages. For example, one company saw a 78 per cent increase in productivity, 21 per cent reduction in working hours and a 30 per cent increase in wage rates.

2. Impactt Ltd is a UK-based consultancy company specialising in ethical supply chain management.

5.5 Moving ahead

Participants made the following general suggestions for how to move forward:

- **Conduct targeted research** into factors contributing to overtime, and collect data and case studies indicating the benefits of reducing overtime. These can help to persuade factory managers to eliminate excessive overtime.
- **Ensure effective consultation and communication with workers and factory management.** Participants felt this was key to ensuring sustained improvements in efficiency and benefits for workers.
- **Involve workers in calculating a living wage.** The data and process used to define the living wage need to be transparent and shared with workers as well as management.
- **Review purchasing practices in consultation with suppliers.** For effective tackling of overtime problems, buyers need to identify and modify practices that put unnecessary pressure on suppliers and subsequently result in excessive overtime.

5.5.1 Suggestions for suppliers

Workshop speakers offered the following practical suggestions for suppliers, for curbing excessive overtime:

1. **Identify the underlying causes of excessive overtime.** As noted above, the causes can be varied. Correct diagnosis of the underlying causes is crucial to address the problem effectively, and to ensure benefits for both workers and management.
2. **Identify strategies to address the underlying causes.** Strategies/options that have worked for different companies include:
 - Review/improve overall management systems and practices through application of appropriate management standards, for example quality management standards such as ISO 9000, environmental management standards such as ISO 14000, and labour management standards such as SA 8000;
 - Review/improve production planning processes and explore other ways of improving efficiency;
 - Multi-skill the workforce, that is provide appropriate training to staff to ensure that workers can cover for each other;
 - Improve provision of paid time off for workers;
 - Improve communication and co-ordination between different departments;
 - Review production targets in consultation with workers, with a view to setting more realistic targets;
 - Ensure that all workers fully understand production targets, and that they know how to calculate daily/weekly earnings;
 - Ensure that effective systems for monitoring and authorising overtime work are in place;
 - Raise issues with the customer – try to discuss ways of addressing current purchasing practices that contribute to excessive overtime.

Further information

Presentation slides for Dewhirst, Impactt and Prem Group are available from the ETI Secretariat.

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