



# LIVING WAGES IN GLOBAL SUPPLY CHAINS

A new agenda for business





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A report commissioned by ETI Denmark, Norway and UK, researched and written by Ergon Associates.

**Layout:** Nano Design

**Cover Photo:** Iryna Rasko /Shutterstock

**Year of Publication:** 2015

Partly funded by:



MINISTRY OF FOREIGN AFFAIRS OF DENMARK  
**DANIDA** | INTERNATIONAL DEVELOPMENT COOPERATION



# Introduction

Living wages have been a key principle of the Ethical Trading Initiatives of the UK, Norway and Denmark since their very foundation. Still, it is probably one of the most difficult standards for our members to achieve and we observe that there has been less progress in this area than we might have hoped. In recent years, the 2008 global recession and increased competition have squeezed low wages even further, with growing pressure on companies to tackle the issue. Low wages are endemic in many of our members' industries, and the resulting hardship for workers and their families has also led to labour unrest and reputational damage for brands and retailers.

Efforts by individual companies to bring about wage improvements in individual supply chains – or in parts of them – have proven unlikely to be sustainable in the long run. It has become increasingly clear that the causes of low wages are systemic and therefore require systemic solutions.

So companies come back to the question: what can we do to ensure decent, sustainable wages?

This report aims to reposition the debate on living wages for companies within global supply chains. Instead of asking 'how can I calculate living wage levels in my supply chain?' and 'how can I get my suppliers to pay living wages?' it aims to help companies understand the wider wages landscape and their position and leverage within that landscape. Building on and complementing the 2013 European Conference on Living Wages Action Plan, it aims to steer companies towards collaborative action at industry level that will help create conditions for the continual and lasting improvement of

wages. Key among these conditions, we strongly believe, is the existence of mature and effective freedom of association and collective bargaining alongside robust, transparent, and predictable mechanisms for regularly reviewed, adequate national minimum wage levels set by tripartite negotiation.

The report also challenges companies to put their own houses in order, and to ensure that they are part of the solution, not part of the problem, for example, by reviewing their purchasing practices.

This is not intended as a step-by-step guide on how to bring about living wages in global supply chains; nobody yet has the definitive answer on that. But it provides an analysis of the problem at multiple levels and recommendations – based on the experience of the three ETIs, our members and others – on the direction for companies if they want to play a meaningful role in the lasting improvement of wages in global supply chains.

We are proud to present this new agenda on living wages and believe it makes a valuable contribution to the ongoing debate on this critical issue. But above all, we hope and trust that it will inspire and lead to concrete, collaborative action by our members and beyond that will demolish once and for all the blockages to living wages.

Maybe then workers everywhere can realistically expect that their hard work will be rewarded sufficiently to support themselves and their families to a standard that is universally considered decent. This is, after all, one of their fundamental human rights.

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# List of acronyms

<b>ACT</b>	'Action, Collaboration and Transformation' Initiative
<b>CBA</b>	Collective Bargaining Agreement
<b>CCC</b>	Clean Clothes Campaign
<b>CPE</b>	Compounding price escalation
<b>DIEH</b>	Dansk Initiativ for Etisk Handel / Danish Ethical Trading Initiative
<b>ETI</b>	Ethical Trading Initiative (UK)
<b>ETP</b>	Ethical Tea Partnership
<b>FAO</b>	UN Food and Agriculture Organisation
<b>FLA</b>	Fair Labor Association
<b>FOB</b>	Free on Board (price)
<b>FWN</b>	Fair Wage Network
<b>FWF</b>	Fair Wear Foundation
<b>GIZ</b>	Gesellschaft für Internationale Zusammenarbeit / German Federal Enterprise for International Cooperation
<b>GLA</b>	Greater London Authority
<b>ICoC</b>	Index code of conduct (H&M)
<b>IDH</b>	Sustainable Trade Initiative (Netherlands)
<b>IEH</b>	Initiativ for Etisk Handel / Norwegian Ethical Trading Initiative
<b>IFC</b>	International Finance Corporation (part of World Bank Group)
<b>ILO</b>	International Labour Organisation
<b>IndustriALL</b>	IndustriALL Global Union Federation
<b>ISEAL</b>	International Social and Environmental Accreditation and Labelling Alliance
<b>IUF</b>	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers
<b>JETI</b>	Joint ETIs of Denmark, Norway and the UK
<b>MoU</b>	Memorandum of Understanding
<b>MSI</b>	Multi-stakeholder Initiative
<b>NGO</b>	Non-governmental organisation
<b>PICC</b>	Performance Improvement Consultative Committee (ILO-IFC Better Work)
<b>RMG</b>	Ready-made garment
<b>SCAT</b>	Fair Wage self-assessment questionnaire
<b>SCOPE</b>	Fair Wage series of worker interviews
<b>SIDA</b>	Swedish International Development Agency
<b>SMIG</b>	National Minimum Wage (Cameroon)
<b>UNGPs</b>	UN Guiding Principles on Business and Human Rights
<b>VAT</b>	Value Added Tax
<b>WBF</b>	World Banana Forum



# Executive summary

Addressing low wages in global supply chains<sup>1</sup> is a fundamental challenge to ethical trade. The ability to earn enough in a standard week for a worker and his or her family to cover basic needs and live with dignity is recognised as a fundamental human right<sup>2</sup>. Yet for all too many workers low incomes and poverty wages are the reality and the share of wealth that goes to workers is steadily falling. Falling wage shares, low pay and income inequality are truly a global concern, and pose a significant risk to shared and sustained prosperity. How can we talk meaningfully about ‘doing ethical trade’ where wages are firmly stuck below the level at which people can live decent lives, and companies feel that it is beyond their power to change this?

The hardship that low wages cause for workers and their families is not without cost to business. Low pay commonly equates with high labour turnover and restricted skills development, limiting product quality; there is increased risk of labour unrest; and customer-facing businesses risk increasing reputational damage from exposés about goods produced by chronically low paid workers.

For workers in low-income and industrialising economies, waged work in export sectors is a potential exit from poverty, and contributes to the country’s economic development. Companies have a responsibility to support these benefits by providing decent, regular, adequately paid employment. If they fail to do so, in-work poverty and imbalances of power at local and global levels become entrenched.

## A new agenda on supply chain wages

This report offers a new agenda on global supply chain wages, outlining practical steps for companies – both large and small – to take, informed by the framework established under the UN Guiding Principles on Business and Human Rights (UNGPs).

The UNGP framework sets down the following two challenges<sup>3</sup> for any company to address living wages in its supply chain. First, to understand the root causes that may give rise to adverse impacts on wages. Second, on the basis of this analysis, to identify how a company can use its influence to reduce adverse impacts.

A thorough analysis of low wages in global supply chains suggests that a number of factors combine to keep wages low. Companies can have an impact. But to do so they need to change their assumptions and practices, and adopt a more innovative and collaborative agenda. Companies buying from global supply chains need to:

- **Coordinate and collaborate.** Coordinate between themselves, and collaborate effectively with suppliers, employers associations, trade unions, NGOs and national governments, including in relation to setting adequate national minimum wages.
- **Actively support collective bargaining.** Support the development of durable, local collective bargaining mechanisms and institutions – trade unions in particular.

- **Review and revise short-term commercial practices** to safeguard long-term, sustainable business performance.
- **Take a sector-wide approach**, linking up advances made at supplier workplace-level to broader institutional developments.

## Focus on implementation, not calculation

For companies, benchmarking wages can be an important first step - part of due diligence under the UNGP framework - to understand wage levels and ascertain and prioritise potential adverse impacts, in order to stimulate collective action. One of these benchmarks should be what workers themselves judge to be an adequate wage, ascertained through their representatives.

Ultimately, however, the challenge is not how to calculate living wages, but how to implement them.

Wage benchmarks need to be directly linked to support for the development of collective bargaining mechanisms that ensure wages reflect and keep up with increases in the cost of living.

This requires participatory wage-setting processes such as collective bargaining that allow wages to be regularly revised. Wages which are adequate to meet household basic needs need to be locally determined, and locally ‘owned’. Workers know best what they need to support their families.

Wage levels also need to be understood in the context of working hours and transparency of pay systems. Workers should not have to work excessive hours in order to earn a living wage.

If workers are not clear how their pay is calculated, they may miss out when productivity and quality improve, providing a better margin for their employers.

## Support effective institutions...

The focus must be the development of local labour market institutions<sup>4</sup> - including tripartite minimum wage setting mechanisms and collective bargaining - which can reconcile the interests of the diverse parties involved. Companies can contribute through promoting ‘social dialogue’ enabled by freedom of association and, emerging from this, collective bargaining on terms and conditions of employment.

The development of such institutions requires all stakeholders, including companies, to make a candid assessment of current power imbalances and to support the capacity of both workers and employers to make these institutions work. This is a long-term programme which should be supplemented by immediate interventions, such as influencing policy-making debates on minimum wage setting and industrial competitiveness.

Ultimately, adequate wages in global value chains will be achieved by institutionalising effective wage floors – establishing levels below which wages cannot be allowed to fall - across sectors and across regions. This is the joint responsibility of governments, companies (buyers and employers) and trade unions. Wage floors ensure that competition will not be distorted to the disadvantage of the enterprises, sectors or national economies that enable workers and their families to meet their needs.

## ...through locally driven, sector-wide collaboration

The joint ETIs (JETIs) experience suggests that, in many supply chains, it is unlikely that individual companies will be in a position to promote and effect change on this scale, or at this level. While companies have a responsibility to identify and mitigate adverse human rights impacts through their own supply chains, the best and most appropriate response to inadequate wages will almost always require sector-wide collaboration.

<sup>1</sup> In this report we use the phrases ‘supply chain’ and ‘value chain’, following the business literature, with different technical meanings. The ‘supply chain’ describes the flow of products from suppliers to consumers, with a primary focus on costs of materials and efficient delivery: a supply chain is what ensures that the product gets to market. The ‘value chain’ describes the flow from the consumer to the source, where the consumer (the ‘market’) is seen as the source of value: a value chain focuses on who creates value and who gets the value in the chain. It may be surmised that the wage issues described here concern the integration of supply chain management with value chain management.

<sup>2</sup> “Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.” Universal Declaration of Human Rights

<sup>3</sup> It also sets other challenges such as providing redress to workers whose human rights have been denied or abused.

<sup>4</sup> We use ‘labour market institutions’ to refer inter alia to collective bargaining and minimum-wage setting mechanisms, following ILO (2015), Labour Markets, Institutions and Inequality: Building just societies in the 21st century: **‘Good governance, social stabilization and economic justice are not luxuries that weigh down and impede the process of development. They are the essence of development itself.’**



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Formal or informal mechanisms for maintaining sector cost competitiveness (the ‘prevailing wage’) also often mean that wages need to be addressed on a sector-wide basis.

Furthermore, by working collaboratively and aggregating positive buying power with the express aim of addressing poverty wages, companies can act – without fear of breaching competition law<sup>5</sup> – to send a strong signal to suppliers and governments that the market will respond positively to improved wages.

This report identifies some signs of real innovation, spawned by a keen sense of urgency, and solidified through new forms of partnership. One example is the shared leadership emerging in the garment sector; a partnership between 14 garment brands and retailers under the Action Collaboration Transformation (ACT) banner which have made a commitment to work – alongside their suppliers – towards realising some core enabling principles for living wages in their sector. Members of the group are also developing an MoU with IndustriALL Global Union. Another is the work initiated in the tea sector by the Ethical Tea Partnership (ETP), Oxfam and the Sustainable Trade Initiative (IDH), which has catalysed a sector-wide response in Malawian tea production.

A third is the work of the World Banana Forum (WBF), which has brought together a wide range of global and national industry stakeholders to focus on how changes in the distribution of value can be used to improve plantation wages.

These new responses all recognise that ‘doing nothing’ on wages is not an option for any party and that urgent, credible action is required. Consistent with the longer-term view of the JETIs, these responses recognise that effective change requires companies to ‘think local and act global’ - a recalibration of the conventional ‘top-down’ dynamic in ethical trade. Wage setting decisions need to be made at local, national level in sourcing countries – while action to facilitate this is taken collaboratively at an industry or sector-wide level.

One JETIs company sums up this view with the statement;

*“It is not for brands to set wages in supplier workplaces. But every company needs to recognise they have a responsibility. And this responsibility can only be realised through effective collaboration.”*

<sup>5</sup> In the European Union, the United States, Canada, Australia, New Zealand, Japan and Korea, any form of collusion between competitors leading to price-fixing above market prices is prohibited by competition (US “anti-trust”) law, which aims to promote and maintain fair competition in markets. However, the absorption of any knock-on costs resulting from better functioning wage-setting mechanisms - which better reflect the contributions and needs of workers in global supply chains - does not require any form of collusive price-setting. All JETIs member companies interviewed for this report were clear that they do not perceive ‘anti-trust’ as a material impediment to progress on the living wage agenda.

# 1

## Why a ‘New Agenda’?

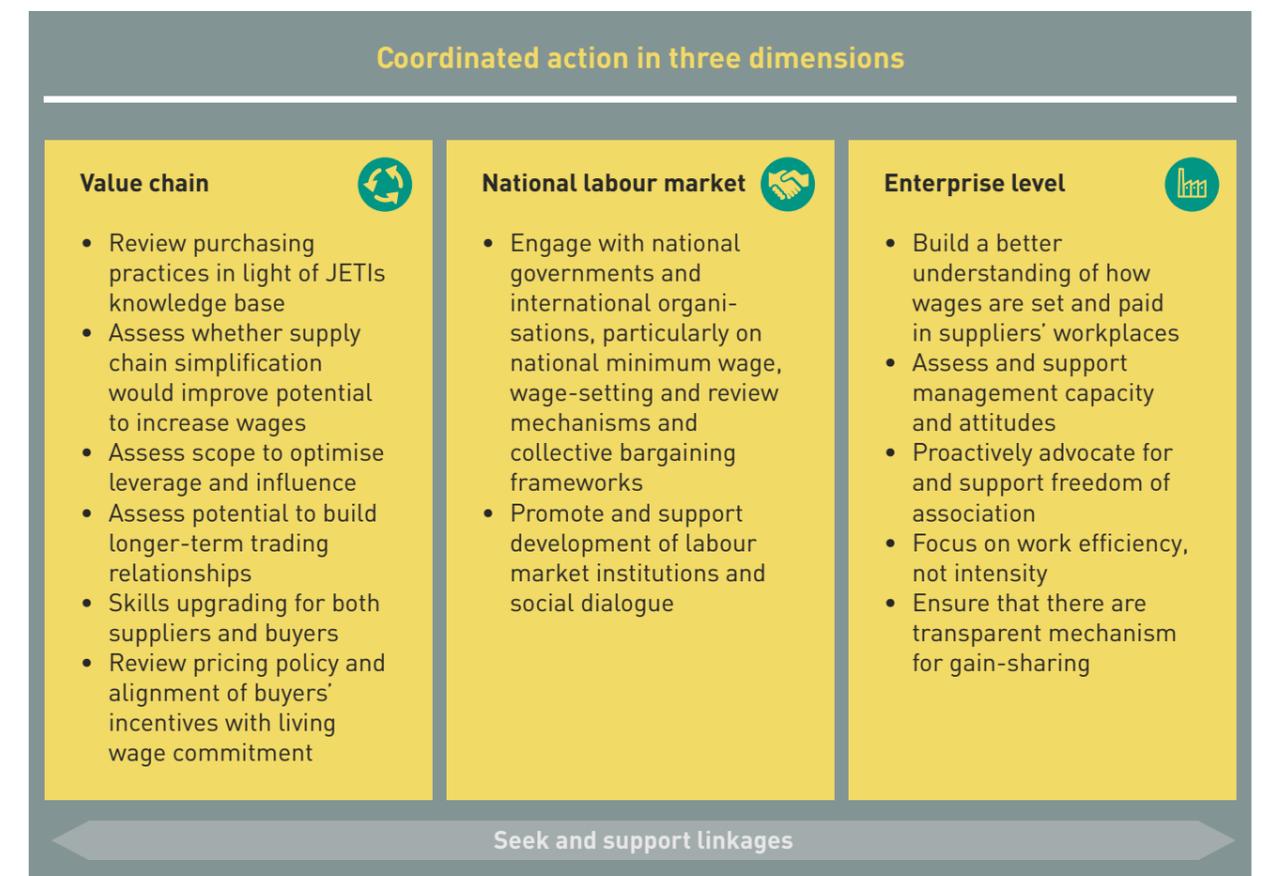
All member companies of the JETIs have a commitment to a living wage in their supply chain; but effective progress on realising this commitment has been slow. A root cause analysis of low wages offers some insight into the reasons for this and begins to explain why a new agenda is needed for companies to play their part in tackling low wages.

debate is the tendency to take sides before the debate has begun. Some will ask ‘how can workers earn so little, when their contribution to the value chain creates so much wealth?’ (we might call this the value chain equity approach), while others argue that ‘workers in export sectors earn more than they would pursuing other economic opportunities locally available to them’ (a relativist approach).

### Root cause analysis of low wages in three dimensions

An analysis of what determines low wages needs to combine an assessment of issues in both the value-chain and the local labour market and its institutions, alongside an assessment of how wages are typically set at the workplace-level.

One of the stumbling blocks to consensus in the living wage



The following is a brief summary of some of the root causes of low wages from the perspectives of the value chain, national labour market and enterprise. Further detail under each heading can be found on page 22.

### A value chain perspective



- Large and growing power imbalances now mean that suppliers often have fewer options, and less decision-making flexibility, than their buyers
- Low wages are built-into many business models, and ‘true costs’ externalised
- Wages are more likely than other costs components to absorb downward competitive pressures through the value chain
- Global value chains mean global price competition, and historic prices may not reflect the true cost of sustainable production
- The potential benefits to business of raising wages at the lowest end of the distribution (in terms of improved efficiency and stability) are poorly understood

### A national labour market perspective



- Statutory minimum wages are often low, not revised regularly and may not reflect the full participation of social partners
- Workers are absent from wage-setting processes, with no framework for representation and negotiation
- Women and vulnerable groups are over-represented among the lowest-paid...
- ... but there are often no better-paid alternatives for these groups
- Wage floors may not cover the most vulnerable workers – those in the informal sectors
- Labour market policy-makers fear that increased wages will lead to increased unemployment...
- ... and that significant wage rises will spur other cost increases, eroding purchasing power
- The potential for wage-led macro-economic growth is under-recognised; wages play a major role in the demand for goods and services in an economy.

### An enterprise-level perspective



- Pay systems lack transparency
- Wage structures may not reward skills and incentivise performance, nor provide development opportunities
- Productivity measures often focus on work intensity/long hours rather than work efficiency...
- ... and productivity gains may not be shared
- In-kind benefits such as housing and meals may not be of adequate quality, and can increase the workers’ dependency on the employer and reduce their choices

### So what can companies do?

The risk in identifying low wages as a ‘systemic’ or structural challenge is that this can be interpreted as meaning that no single party, private company or otherwise, can have any influence on the issue. But the analysis above suggests there are a number of contributing factors, many of which require companies to **act innovatively and collaboratively** to address low wages in value chains.

The past few years have seen companies coming under greater pressure to tackle the issue of low wages, both in their own operations and in global supply chains. Equally, many companies are also demonstrating greater openness to tackling the issue. This can be attributed in part to the advent of the UN Guiding Principles on Business and Human Rights (UNGPs) in 2011. The UNGPs emphasise that a company must first understand where it has potentially adverse impacts on human rights and then consider how to address these impacts based on its levers of influence. This includes an explicit



Photo: Shyamalamurathinath/Shutterstock

responsibility to prevent and reduce adverse impacts in the supply chain<sup>6</sup>. Wages, and their relationship to broader livelihoods, are acknowledged as core to these concerns<sup>7</sup>.

For some years now, individual companies have tried to address wage issues through supplier-specific projects. While this approach has generated learning on short-term wage improvement in specific locations and contexts, these experiences strongly suggest that low wages cannot be addressed as a simple ‘compliance’ issue. That is, wages are not simply a problem that can be corrected by remediation at a single supplier workplace. Wages clearly link through to broader development questions – sector governance and industrial relations, competitiveness and labour market policy.

While many of the underlying causes of low wages may extend beyond individual employers and supply chains, this report is clear that brands and retailers have a pivotal role to play. It aims to share the experience of leading organisations in addressing such a complex topic. In practice, this experience demonstrates that companies need to:

- **Coordinate and collaborate.** Coordinate between themselves, and collaborate effectively with suppliers, employers associations, NGOs, trade unions and national governments, including in relation to setting adequate national minimum wages.
- **Actively support collective bargaining.** Support the development of durable, local collective bargaining mechanisms and institutions, in particular, trade unions.
- **Review and revise short-term commercial practices** to safeguard long-term, sustainable business performance.
- **Take a sector-wide approach,** linking up advances made at supplier workplace-level to broader institutional developments.

This report aims to clarify and consolidate this new agenda, and to outline practical steps companies – both large and small – could take, informed by the framework established under the UNGPs.

Falling wage shares, low pay and income inequality are pressing global concerns<sup>8</sup>, and constitute a material risk to shared and sustained prosperity. The focus of this report is on those value chains which are most central to the majority of JETIs corporate members, including garment manufacture and primary agriculture, and on relevant sourcing regions<sup>9</sup> as this is where our knowledge and expertise is concentrated. While the complexity of the wage issue means that there cannot be a single template approach, the key principles highlighted here are of broader relevance to other geographies and sectors.

The table on page 13 covers only multi-stakeholder initiative (MSI) and corporate activities since 2013. Additionally, trade unions are, of course, engaged in collective bargaining at enterprise and industry level all over the world and have been involved in political campaigns highlighting low wages in a number of countries. Another key part of the background to the developments described in the table on page 13 is the work of civil society organisations in raising awareness of the magnitude of the issue, and pressing organisations to act. In particular, the establishment in 2009 of the Asia Floor Wage, and the resulting reports by the Clean Clothes Campaign, were highly influential in creating impetus for action in the garment sector. In agriculture, the formation of the World Banana Forum (WBF) and the initiation of the ETP-Oxfam-IDH tea wages study (in 2010-11) were similarly catalytic. The Fair Wage Network set up in 2010 has also been influential in enlarging the scope of, and making progress on, the debate on wages and has stimulated exchange of experiences between brands and different stakeholders (FLA, Fair Wear Foundation, BSCI, Better Work, ETI) on ‘Fair Wages’.

<sup>6</sup> Companies should ‘seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts’.

<sup>7</sup> While there are several ILO instruments on wages, these are all directed towards the state in relation to fixing minimum wage levels and protecting wages. There is no ILO Convention which determines wage levels per se. The reason for this is clear: wages will vary with the level of development and local living standards in a particular economy. The UN Universal Declaration of Human Rights, Art. 25, states that: ‘Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, medical care, necessary social services, and the right to security’. This provision is aimed at States and is intended to cover not just the provision of wages, but also social security, insurance and other benefits, which are often provided by the state rather than private sector employers.

<sup>8</sup> See, for example, ILO Global wage report (2014) <http://www.ilo.org/global/research/global-reports/global-wage-report/2014/lang--en/index.htm>; WEF 2015 Outlook – <http://reports.weforum.org/outlook-global-agenda-2015/> - deepening economic inequality is no.1 challenge; IMF work on inequality - [www.imf.org/external/np/fad/inequality/](http://www.imf.org/external/np/fad/inequality/) - ‘inequality is a drag on economic growth’; and OECD - [www.oecd.org/social/inequality.htm](http://www.oecd.org/social/inequality.htm)

<sup>9</sup> Particularly South East Asia and North and sub-Saharan Africa

<sup>10</sup> See [www.fairwear.org/563/wage-ladder](http://www.fairwear.org/563/wage-ladder)

<sup>11</sup> [www2.fairwear.org/living-wage-portal](http://www2.fairwear.org/living-wage-portal)

## Timeline of recent MSI and corporate developments on living wages in supply chains



MSIs



CORPORATES

2013

WBF Working Group share wage ladders for 8 producer countries

ETP / Oxfam / IDH publish wage ladders for tea in Malawi, India and Indonesia

H&M announces Roadmap for Fair Living Wage

Ikea adopt Fair wage approach and Unilever a framework for fair compensation

2014

ISEAL group (certification bodies) agree Living Wage strategy

FWF launches FWF Wage Ladder 2.0<sup>10</sup>  
Fairtrade International commissions Anker Living Wage calculations

ETP / Oxfam / IDH commission Anker Living Wage calculation for Malawi

ACT group established

Tesco commits to living wage on all exclusive banana farms by 2017

2015

FWF launches Living Wage portal<sup>11</sup>

FLA releases draft Fair Compensation Strategy and Workplan

ETP / Oxfam / IDH agree MoU for Malawi 2020 Living Wage Strategy

ACT supplier meetings planned

MoU between members of ACT and IndustriALL being developed

# 2

## What would success look like?

### Direction of travel, and institutions underpinning this, rather than a 'static' target

All actions need a concrete objective, and the development of wage benchmarks provide a tangible framework for progress on supply chain wages, and are often a wake-up call for all actors, as evidenced by the establishment of the Asia Floor Wage in 2009. For companies, benchmarking wages can be an important first step of due diligence, to understand the situation better, ascertain and prioritise potential adverse impacts, and to stimulate collective action. This has been the experience, for instance, in the tea and banana sectors, where the Ethical Tea Partnership (ETP) and the WBF respectively have collaboratively commissioned 'wage ladders' to benchmark sector wages, spurring industry actors to take action.

The methodologies developed in particular by the Greater London Authority (GLA) Economics team for the London Living Wage, and by Richard and Martha Anker in collaboration with the ISEAL alliance, represent a significant step forward in understanding how to monetise the cost of a 'decent standard of living' in very different economic environments. This is valuable knowledge, which can provide data to inform discussions on wage-setting at national, sectoral and enterprise levels, and particularly collective bargaining on wages. Furthermore, where credible wage benchmarks become public currency, this can inform both suppliers and buyers in their commercial negotiations and their costing / pricing policies. But any development of 'static' benchmarks needs to be linked to support for the development of labour market institutions – including statutory minimum wages, but particularly the institutional frameworks for collective bargaining. These should ensure that wages reflect and keep up with increases in cost of living through regular revision and participatory wage-setting. This is a particular challenge in rapidly industrialising emerging economies which may

experience steep rises in the cost of living.

More fundamentally, the development of externally-calculated living wage benchmarks is likely to be seen by those paying the wages as an unhelpfully 'top-down' imposition. To be effective, wages which are adequate to meet household basic needs need to be locally determined, and locally 'owned'. Ultimately **the challenge is implementation, not calculation.**

### Transformative sector-wide approaches, rather than piecemeal projects

Reputational risk is recognised as an important driver in spurring action on wages. This goes some way to explaining why, to date, some companies have chosen to design and implement projects with individual suppliers, or small groups of suppliers, in order to demonstrate both will and commitment to 'do something about wages'. While many of the projects have generated important insights and experience, they have often failed to address some of the fundamental causes of low wages, which may exist at a more structural or systemic level. In particular, individual projects have typically not demonstrated sustainable improvements in wages beyond the life of the project, due to:

- Dependency on a particular buyer, or small group of buyers which has meant that the ongoing success of the project relies on continued trade with (and support from) these buyers.
- Focus on absorbing costs of wage enhancements (and overtime reduction) through efficiency gains which avoids the more structural discussion of how pricing policies can put downward pressure on the labour elements of supplier costs.



Photo: Suvara Kanti Das

As the understanding of all stakeholders in the living wage debate becomes more sophisticated, they recognise that meaningful action requires partnership working between a range of actors. While individual organisations understandably wish to protect their individual reputations, it is increasingly the case that 'team-playing' companies gain more reputational credit in the wages field than those which focus solely on their own direct operations and supply chain.

Certainly, in order to address the complex, structural root causes set out above, and detailed later in this report, the parameters for company action need to be set wider. This is where the **JETIs have a uniquely valuable role to play** in convening and supporting discussion between global and national actors relevant to the value chain, so as to identify the most effective ways to gain traction.



Photo: Zvonimir Atletic / Shutterstock

### 3

## A new agenda on supply chain wages: sector-wide collaboration

The principal challenge for companies is to understand what they can – and should – do as *individual* organisations, and what is most effectively undertaken through *coordination and collaboration*.

This approach is wholly aligned with the UNGPs which state:

*“If the business enterprise has leverage to prevent or mitigate the adverse impact, it should exercise it. And if it lacks leverage there may be ways for the enterprise to increase it. Leverage may be increased by, for example, offering capacity-building or other incentives to the related entity, or collaborating with other actors.”*<sup>12</sup>

This report does not set out prescriptive guidance for companies, but aims to clarify the considerations which need to inform wage strategies in differing value chains. The significant differences in structure and dynamics between value chains mean that it is essential to **identify mechanisms which can bring durable, institutionalised change in the specific context** of the value chain and the relevant supplier countries. Ultimately, adequate wages in global value chains will be achieved by institutionalising effective wage floors – through tripartite minimum wage setting and collective bargaining - across sectors and across regions. Wage floors ensure that competition is not distorted to the disadvantage

of enterprises, sectors or national economies which take a lead in enabling workers to meet their basic needs.

JETI experience suggests that, in many supply chains, it is unlikely that individual companies will be in a position to promote and effect change on this scale, or at this level. This is the starting point for a ‘new agenda’ on wages. While companies have a responsibility to identify and mitigate adverse human rights impacts through their own supply chain, the appropriate response to adverse impacts on wages will almost always require **sector-wide collaboration**. This is because:

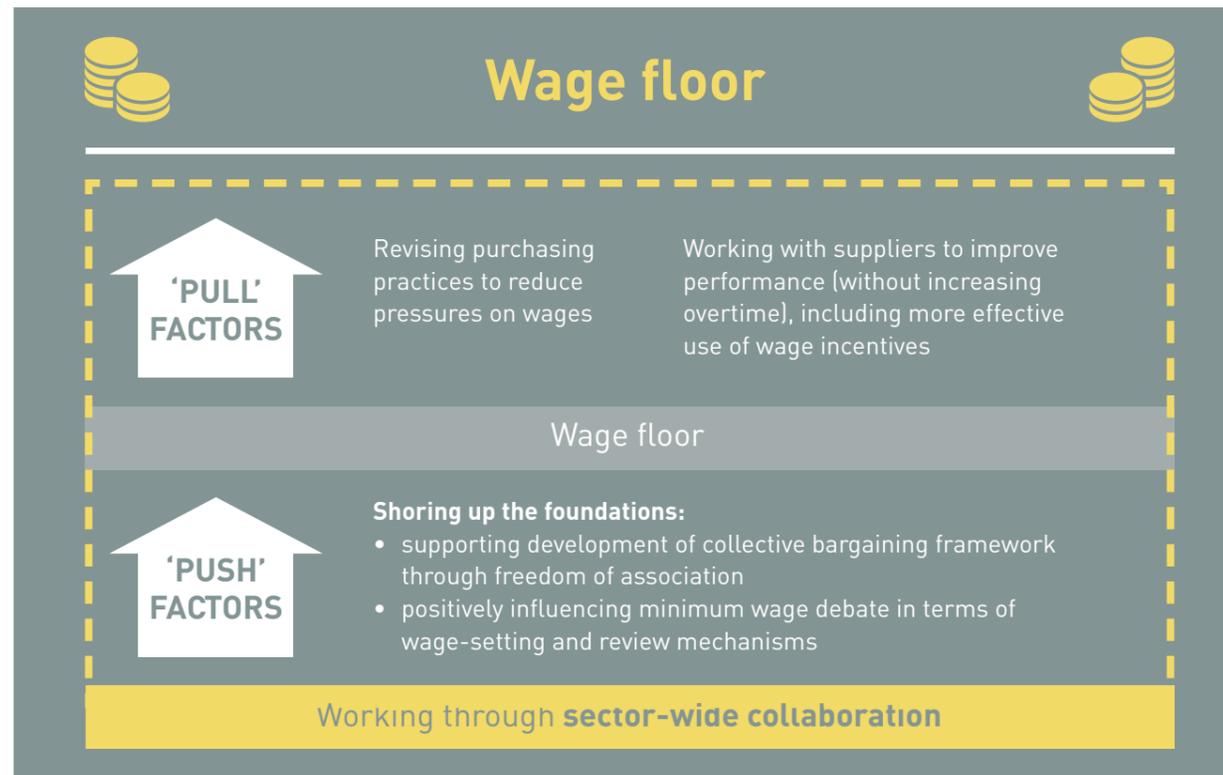
- **Wages are set and paid within competitive markets, subject to market forces.** Working collaboratively, JETIs member buyers constitute a significant market (even with consumer markets shifting to areas where sustainability concerns are not yet adequately recognised). By aggregating buying power with the express aim of addressing poverty wages, companies can act – without fear of competition law (anti-trust) – to send a strong signal that the market will respond positively over the long-term to improved wages and will not, therefore, withdraw from sourcing areas with higher wages.
- **There is little sector-wide differentiation among lower wage levels.** In most sourcing sectors in developing and emerging economies, there is relatively little sector-wide differentiation in wages at the lower-paid end of the distribution. The formal or informal mechanisms for maintaining sector cost competitiveness (the ‘prevailing

<sup>12</sup> UNGPs, The Corporate Responsibility To Respect Human Rights: Operational Principles

wage’) need to be addressed on a sector-wide basis, expressly addressing the concerns of industry and government relating primarily to competitiveness and employment. Companies will need to negotiate these complexities.

- **Mechanisms for value transfer need to be institutionalised.** Unless mechanisms for value transfer to wages (‘gain-sharing’) are built-in to legal or agreed arrangements – through, for example, collective bargaining – they are unlikely to be sustainable. In order to avoid distortion of competition, these mechanisms need to be designed to lift wages across the whole sector in question. They need to incorporate the interests and needs of those who will be most affected by wage variation, employers and workers: this is the function of collective bargaining. Hence it is vital that trade unions and employers’ associations are close partners in collaboration. Companies should work with other interested parties, including international development actors, to support the rights and capacities of trade unions and employers’ associations to play this role.

- **Statutory minimum wages are currently the most direct determinant of wages** at the lower-end of the value chain. The establishment of structures for value distribution through collective-bargaining needs to be the long term objective of any living wage initiative. But in the short term, companies can play an effective role in generating political will for discussions about minimum wage-setting and regular revision<sup>13</sup>. To do so, they need to act collectively, together with trade unions and other partners<sup>14</sup>.
- **Individual advances made at supplier enterprise-level need to be connected up to institutional developments.** It is vital that companies seek to connect individual advances made at supplier enterprise-level such as more transparent and better-aligned pay systems, the development of more strategic people management approaches (for example enabling workers to move up pay scales by improving skills), fostering social dialogue and collective bargaining, and enhancing productivity and quality with institutional developments at sector and national level. This is where collaboration can add value to individual companies’ supplier-focused efforts.



<sup>13</sup> For instance, there is currently no legal framework for sector-wide collective bargaining in the Bangladeshi RMG sector.

<sup>14</sup> See 'Engagement with national governments' at p.33 below: in 2014, 8 international brands, acting in coordination with IndustriALL, expressed their support for increases to the national minimum wage directly to the Government of Cambodia.

## What about small buyer companies?

The scale of this challenge can appear overwhelming for smaller companies sourcing from international supply chains, who understandably feel that they have less leverage. However, smaller brands can contribute to coordinated efforts. Further, smaller brands are well-positioned to review and revise their purchasing practices, and can demonstrate commitment by becoming 'Living Wage employers' in their direct operations.

Even without commercial leverage, there are a number of areas where small companies can be effective in working with their suppliers to ensure that better people management systems are in place. This includes providing training and capacity-building, and focusing on payment systems and transparency. There is also strong potential for collaboration between smaller JETI member companies sourcing from the same suppliers, the benefits of which include increased voice and potential resource efficiencies.

## How to do 'coordination'

There are positive signs of the emergence of new forms of coordination to meet the living wage challenge. One example is the sense of shared leadership emerging in the garment sector; a partnership between 14 brands under the ACT banner which have made a commitment to work - alongside their suppliers - towards realising some core enabling principles for living wages in the sector. Members of the group are also developing an MoU with IndustriALL which could lead to sector-wide benefits. This initiative results, in part, from real progress made through the Accord<sup>15</sup> after the collapse of the Rana Plaza factory in Bangladesh.

Another example is the work initiated in the tea sector by ETP, Oxfam and IDH, which has catalysed a sector-wide response in Malawian tea production. A third is the work of the WBF, which has brought together a wide range of global and national industry stakeholders to focus on how redistribution of value can improve plantation wages. These new responses all recognise that 'doing nothing' on wages is not an option, for any party, and that urgent, credible action is required.



Photo: Chinahzyg / Shutterstock

<sup>15</sup> Bangladesh Accord on Fire and Building Safety

## ACT: 'Action, Collaboration and Transformation' in the garment sector



Rana Plaza, and the Accord on Fire and Building Safety in Bangladesh that quickly followed, has proved game-changing for partnership and collaboration in the garment sector. For C&A's Aleix Gonzalez Busquets, the Accord marks "a different mode of operation, where brands understand that they can't act alone, showing that it is possible to change how brands operate along the supply chain with positive effects on workers' lives". The Accord's focus is building safety but it includes provision for fair prices as well as worker participation. Unions in Bangladesh are beginning to negotiate wages and so far five new collective bargaining agreements have been finalized<sup>16</sup>.

There have already been examples of direct financial support from some brands to pay workers' wages, while others have negotiated higher unit prices, or accelerated payment of orders or prepaid orders, to help allay some of the costs of the remediation. There are also a number of cases where Accord signatory brands have made long-term volume commitments over multiple years to their suppliers in order to provide predictability for the factory owners that are making investments in the remediation<sup>17</sup>. The Bangladesh Accord approach was one of the things that inspired the formation of the ACT

group to tackle the issue of low wages in the garment sector.

The ACT group (14 brands) has agreed on a set of Enabling Principles, covering four focus areas to address living wages:

1. Purchasing practices
2. Productivity and skills
3. Freedom of Association and Collective Bargaining
4. Influencing governments

The ACT group emphasises the importance of bringing suppliers to the table and finding solutions together, but is also pursuing dialogue and exploring collaboration with IndustriAll.

As IndustriAll's Jenny Holdcroft says of the work with ACT:

***"We are working in a way we have never been able to do before, with brands that want to make a difference."***

## Ethical Tea Partnership: From analysis to implementation



Following concerns raised by NGOs about low wages on tea estates, ETP/Oxfam/IDH commissioned a 'Wage Ladder' assessment of tea worker wages against international benchmarks in Indonesia, India and Malawi. The findings of this initial assessment were broadly accepted by most stakeholders, even though challenging. In light of the findings ETP, Oxfam, and number of certification bodies (Fairtrade, Rainforest Alliance and UTZ Certified) commissioned detailed analysis by wage and basic needs experts Richard and Martha Anker of what would constitute a living wage for rural Malawi with focus on tea growing area of Southern Malawi.

ETP, Oxfam and IDH have been holding ongoing dialogue

with Malawian producers, tea buyers, civil society, government and development partners on the reports' findings and how a living wage could be implemented.

This dialogue has led to an agreed roadmap, supported by IDH and GIZ, and underpinned by an MoU for 'Supply Chain Commitment to Living Wages on Tea Plantations and Living Income on Smallholder Farms in Malawi by 2020' signed in March 2015 by estates, buyers, traders and supporting parties (including donors). While not a signatory, the global agricultural trade union IUF has been engaged in the development of the MoU. The ensuing Roadmap outlines the following objectives and responsibilities.

- For tea producing companies: progressively close the gap to living wage; continue to improve in-kind benefits to workers; implement programme components
- For tea buying, trading and retail companies: implement business practices that support the economic ability of employers to pay a living wage; support industry improvements; particularly quality; co-fund programme
- For trade unions: increase worker representation and bargaining power in wage negotiations
- For standards and certification organisations: support programme commitments and link to standard and certification progress
- For supporting organisations: provide technical and financial support; implement specific programme components

ETP notes that the engagement and support of the Government of Malawi was vital to the successful agreement on the Roadmap. The 2020 roadmap includes a number of short- and longer-term elements to provide

an economically sustainable living wage:

- Nutrition: improving the nutritional value of the employer-provided midday meal
- Tea revitalisation, including estate replanting, supported by the entire supply chain, aiming to improve product quality and estate productivity in order to enable living wages to be paid
- Human resource management consultancy on raising labour productivity
- Scale-up of Farmer Field Schools to increase quality and smallholder business skills
- Improving wage-setting processes by improving capacity of labour unions and engaging with government
- Building real-time living wage data assessment; regular update of value of real wages and benefits and progress towards living wage

<http://www.ethicalteapartnership.org/blog/view-malawi/>

## World Banana Forum: Targeting wages in the context of costs of sustainable production



Since 2010, the WBF has enabled multi-stakeholder dialogue on issues facing the industry, with support from the FAO. WBF actively involves trade unions, small producer organisations and southern governments in the process. Vivality, the WBF approaches wages not as a 'labour compliance' issue but through its working group on distribution of value. Since 2013, the Working Group has a mandate to explore ways to identify the 'cost of sustainable production' and to ensure that the additional value reaches workers. As a labour-intensive crop, labour accounts for a significant proportion of total banana production costs, so an accurate means to capture labour input costs worldwide is required. This is the next step in identifying and 'building-in' externalities with regard to inadequate wages.

In Cameroon, a joint platform led by local trade unions and IUF, and supported by Fairtrade International and BananaLink, has negotiated wage increases and abolished the lowest wage grades. In 2014, the Government of Cameroon raised the SMIG national minimum wage – which applies to agriculture and non-agriculture alike – by some 29%.

In 2013 Tesco, as a result of the work of the World Banana Forum, committed to pay banana prices that at least

covered the Fairtrade minimum price, and in November 2014 became the first retailer to announce that it would enable payment of a living wage to banana workers on exclusive farms (where Tesco is the sole buyer) by 2017.

The Tesco strategy is informative here. Tesco's approach of having direct relationships enables the supermarket to pay its banana suppliers, on average, 6% above the Fairtrade Minimum Price. The vital question of how to ensure a mechanism for value transfer, potentially in the absence of recognised trade unions, remains a challenge which Tesco is addressing with WBF partners. The model of a 'Foundation' to oversee gain-sharing and value transfer to wages, but which would not undermine the potential for social dialogue further down the line, is a productive possibility. As NGO Banana Link notes:

***"Tesco's meaningful effort in driving forward work towards the payment of living wages in the banana industry is a significant step forward"***

[http://www.fao.org/economic/worldbananforum/wbf-aboutus/en/#.VS-6i\\_nF9Mc](http://www.fao.org/economic/worldbananforum/wbf-aboutus/en/#.VS-6i_nF9Mc)

<sup>16</sup> CBAs are at East-West Industrial Park Ltd: [www.solidaritycenter.org/bangladesh-garment-workers-win-bargaining-pacts-at-5-factories](http://www.solidaritycenter.org/bangladesh-garment-workers-win-bargaining-pacts-at-5-factories)

<sup>17</sup> See [www.juststyle.com/pap.aspx?ID=123930](http://www.juststyle.com/pap.aspx?ID=123930)

# 4

## Root cause analysis and coordinated responses

Some of the root causes of low wages were summarised earlier in the report. The following section expands this analysis, organised under the three dimensions of: the value chain,

the national labour market and the enterprise level. We also set out some of the key responses to these challenges which form the new agenda on wages.



Photo: Lukasz Janyst / Shutterstock

# 4.1

## A value chain perspective

### ROOT CAUSE ANALYSIS

#### Growing power imbalances leave suppliers with fewer options and less flexibility

Global production networks are complex and do not give rise to clear leadership or governance. The idealised model of global production networks is one where a multitude of independent economic actors transact, to mutual benefit. Yet imbalances of power and information mean that, in reality, some actors are functionally dependent on others. Suppliers typically have fewer options, and less decision-making flexibility, than their buyers. Workers remain largely absent from decision-making.

#### Low wages are built-into many business models, and 'true costs' externalised

Where functioning institutions of governance are absent, power may remain unchecked. The outcome is that some 'real' costs are externalised, unaccounted for, in value chains – such as the costs of meeting basic needs for workers and their dependents. This 'externalisation' of

costs (including accumulation of financial debt) is most acutely felt by the most vulnerable participants in the value chain – such as women workers who make up the majority of low-paid workers in many value chains.

#### Wages are more likely than other costs to suffer as a result of downward competitive pressures

Compared to 'fixed costs' such as materials, transport or energy, labour wages are more likely to be a 'residual variable' in the global value chains under consideration here – the component within the cost structure most likely to absorb downward competitive pressures through the value chain or, indeed, to sharpen a competitive edge on the Free on Board (FOB) price. This makes wages particularly vulnerable to the direct or indirect effects of a number of purchasing practices - driven by the demand for quick delivery, flexibility (including last-minute changes and add-ons, in the case of garments) and price pressure, including discounting requests.

## Global value chains mean global price competition, and historic prices may not reflect the true cost of sustainable production

Global market forces can act to keep wages at unsustainably low levels, particularly where ‘labour cost competitiveness’ has been an important driver in the development of global trade development in the value chain in question. Research by Initiativ for Etisk Handel (IEH) suggests there may be a – voluntary or enforced – unlinking of real costs of production from FOB price. In its survey of supplier views on purchasing practices (‘Suppliers Speak Up’, 2014), IEH found that 65% of suppliers surveyed indicated that they have accepted a price that is lower than total production costs per unit. The main reason given by these suppliers was the perceived risk of losing the buyer and hence valuable business. Outside the garment supply chain, agricultural commodities, too, notably suffer from an ‘unhitching’ between Costs of Production (which can be dependent on exchange rates on imported materials) and price which is determined by auction or by global trends, depending on the product.

## The business benefits of raising wage floors are poorly understood

Competitiveness is influenced both by price factors (wages and productivity, which together explain unit labour costs, but also exchange rates and inflation) and non-price factors (such as product quality, infrastructure, distance to market or proximity to raw materials). Wages, or even unit labour costs, are just one element among many: unit labour costs are not a comprehensive measure of competitiveness. Several JETI member brands confirm

that, in assessing potential sourcing markets, labour costs are only one element ‘in the mix’. Moreover, increases in floor wages may foster increases in productivity and efficiency: under ‘efficiency wage’ models, the productivity of labour depends on the wage paid, so that employees will be more productive when earning higher wages due to higher commitment. By acting as a ‘beneficial constraint’ for employers, raising floor wages may make it more difficult to choose a low-cost competitive strategy, thereby fostering efficiency and innovation – including capital investment (though the latter may have job-displacing effects – eg automation). This is the rationale of the recent FLA Fair Compensation Workplan, which notes that ‘Suppliers and buyers will instead use the pressure of higher wage levels to drive innovation in [purchasing practices], production methods, industrial relations, and worker retention, for example, and not the other way around’. The success of such a strategy evidently requires long-term buyer commitment.



Photo: Cambodia National Rescue Party

## COORDINATED RESPONSES

### Catalyse action

Companies need to base their actions to address wages on a shared understanding of the issue, which can be used to bring together different actors. Experience in the tea and banana sectors (see case studies above) suggests that collaboration is vital even at the initial stages of situation analysis and ‘mechanism identification’. In these cases, the industry moved forward only once a range of different actors began to perceive a ‘shared truth’ about the significance and magnitude of the wage challenge.

### Map adverse impacts and their root causes

In order to identify priority risks areas of potential highest adverse impacts, companies need to map their supply chains accurately – including outsourced components – before under-taking a scoping of real wages against agreed benchmarks. This can often take the forms of wage ladders. Wage ladders do not aim to provide an ‘answer’ to the wages question, but rather to create a more detailed understanding of the wage situation that can be shared and discussed with all parties. This can be particularly important in new markets, where there is less available data, and potentially higher risks.

‘Wage ladders’ originated in the JO-IN project in Turkey<sup>22</sup> – the aim being to find a simple way to measure existing wages against a number of economic, normative and advocacy-based benchmarks. JETIs experience suggests that wage ladders are a very effective way to simplify complex information – but data need to be carefully and transparently calculated. In its recent Fair Compensation Workplan, FLA identifies wage ladders as a key tool to analyse relative risks with regard to wage levels.

### Foster senior-level buy-in

JETIs member companies are clear: it is crucial that there is senior-level buy-in on the need to address supply chain wages, and the approach to take. Of course, different organisations

*“Investing in sustainability is the only way forward from a business perspective. Adding to economic growth, jobs, and stability in the sourcing markets, as well as building stable relationships with our suppliers, will help us secure the production we need in the future. Our strong presence in these markets will also give us the possibility to improve the livelihoods of hundreds of thousands of people. We also know that this is an important issue for our customers, and we see our work towards fair living wages in our supply chain as an investment in our customer offer.”*

Karl-Johan Persson, CEO, H&M

will have their own company cultures which may inform their perspective on wages, and there are some signs that those companies with a larger family-held stake may be able to operate with greater latitude on these issues. But it is vital that there are business champions for the living wage within the company.

There is a growing, and compelling, business case<sup>23</sup> for payment of a living wage. Experience in a range of companies suggests that there are several ‘broad business benefits’ which can result from improvements to wages for lowest-paid earners in the workforce. These include:

- Reduced staff turnover, resulting in reduced recruitment costs
- Reduced training costs (workers stay longer so there are fewer induction courses or basic up-skilling – and employees with higher skills can give on the job support to newer employees)
- Productivity increases, reflecting improved worker motivation and engagement; also workers who are more economically secure are less distracted by financial concerns or the need to work excessive overtime or hold down a second job.
- Reputational gains (intangible asset growth) – spawning more positive association with customers and workers (including future employees).

<sup>18</sup> Ark, B.van, et al. (2005). Unit Labour Costs, Productivity and International Competitiveness. Research Memorandum GD-80, Groningen Growth and Development Centre.

<sup>19</sup> Georgiadis, A. (2012). Efficiency Wages and the Economic Effects of the Minimum Wage: Evidence from a Low Wage Labour Market. Oxford Bulletin of Economics and Statistics

<sup>20</sup> Brosnan, P. and Wilkinson, F. (1988), A National Statutory Minimum Wage and Economic Efficiency, Contributions to political economy, Oxford Journals (1988)

<sup>21</sup> See [www.fairlabor.org/sites/default/files/fair\\_compensation\\_work\\_plan\\_feb\\_2015.pdf](http://www.fairlabor.org/sites/default/files/fair_compensation_work_plan_feb_2015.pdf)

<sup>22</sup> A collaborative project dating back to 2004 in which ETI was a participant

<sup>23</sup> See, for instance, the recent report by the UK Living Wage Foundation [www.livingwage.org.uk/news/new-evidence-business-case-adopting-living-wage](http://www.livingwage.org.uk/news/new-evidence-business-case-adopting-living-wage)

## Internalise ‘externalised costs’ in the value chain

The rationale of this new agenda on wages is that companies must institutionalise mechanisms to help ensure that wages meet basic needs. The corollary of this is that knock-on effects in the supply chain must be absorbed, so that fair wage payment does not become an effective impediment to business, but rather becomes internalised as a ‘rule of the game’.

Of course, an initial review of the root causes identified above would suggest a common-sense response: the most obvious factor under the influence of individual companies is FOB price. An individual company pays the supplier more per unit, so that higher wages can be paid. Indeed, in some supply chain contexts – where there are direct trading relationships, and the buyer is the sole off-taker – this is a very plausible response. There are a number of pre-conditions for this to occur, however:

- **The buyer needs to source all, or very nearly all, of the production** from a facility or farm, to be able to support increases to the total wage bill of the workplace to meet an agreed living wage target (paying a higher price for 30% of the production, for instance, will only cover a third of the full increase required).
- **The buyer needs to have a sound, long-term relationship with the supplier**, and to effectively underwrite the supplier risk by making some form of long-term trading commitment, emphasising that knock-on effects of wage improvements will have no adverse impact on the supplier’s competitive position.
- **There needs to be a transparent mechanism for gain-sharing** (ie distribution of value) at the workplace in order to ensure value-transfer to wages, rather than supplier margin, and a means to ensure that adequate wages are paid for a standard working week (not relying on overtime), and that wages are revised upward in light of cost of living increases or further productivity enhancements<sup>24</sup>.
- **The mechanism for gain-sharing should be consistent**

with the principles of freedom of association and collective bargaining, or should, at the very least, not undermine these principles.

- **The buyer needs to be convinced that adequate quality and productivity management processes are in place**, so as not to give a perverse incentive to the supplier to reduce focus on quality and efficiency, and that safeguards are in place to ensure that higher wage costs are not ‘clawed back’ through increases in working hours or work intensity, or reductions in non-wage benefits.
- **The supply chain arrangements need to be simple and straightforward** (ie direct trading relationships), in order to effect the necessary leverage, and to avoid potential ‘compounding price escalation’<sup>25</sup> in the value chain.
- **The buyer needs to ensure that the supplier has the political support of industry peers** and policy-makers so that it is not seen as ‘breaking ranks’ on wages, where these are determined on a sector basis – on either an ad hoc (prevailing wage) or formal basis.

JETI experience to date suggests that while wage improvements can be stimulated by enhancements to commercial terms, this approach is most effective in unmediated, direct trading relationships where the off-taker buys the vast majority (if not all) of production. In these supply chain contexts, commercial terms may be the primary driver for wage improvements.

Elsewhere, purchasing practices – including pricing policy – need to serve a dual role:

1. **Enabling wage improvements** – through identifying and reducing practices which transfer risk to suppliers, and ensuring that positive developments at supplier workplaces have optimum impact on wages.
2. **Responding to wage improvements** – by sending clear market signals that living wages are, and will be, positively received by the market, and will not result in buyers shifting their sourcing to cheaper (lower-paid) locations.

Importantly, while the aggregate effects of improvements to buying practices may play out at the level of the market,

and need to be coordinated between peers, the groundwork to anticipate and accommodate improvements to low wages needs to start within each company. Experience of members of all the ETIs suggest that bringing together ethical trade and buying teams to share knowledge and perspectives is important here, in order to understand why and how purchasing decisions are made, and what the unintended consequences of these decisions may be at the workplace level.

## Review purchasing practices

The JETIs have a considerable knowledge base on the relationship between ‘purchasing practices’ and workplace outcomes; yet recent work (see IEH, 2014<sup>26</sup>) suggests that buyers may still act – unconsciously or not – in ways which defer risk to suppliers, and put pressure on timing, working arrangements and supplier margins. In particular, poor critical path management, late changes to product specification or order size, may have major production and cost impacts on suppliers, increasing waste or making it difficult to manage shift patterns and piece work.

## Assess potential to simplify the supply chain

This includes both greater vertical integration and moving towards more direct trading relationships (eg in agricultural value chains, such as tea, potentially moving away from auction-based procurement, which may be feasible in some markets). Note that, by focusing on exclusive banana suppliers, Tesco has been able to make a significant commitment to living wage payment on supplier farms. As Giles Bolton – responsible sourcing director at Tesco Plc – notes,

*“Nearly half our bananas now come from the best-run farms who sell all their produce to Tesco. And with our direct relationships, we have been able to commit with them to ensuring banana workers on these farms will be paid the living wage by 2017.”*<sup>27</sup>

The feasibility of this commitment is a direct result of the supply chain structure. More broadly, concerns about ‘compounding price escalation’ pertain most strongly to those supply chains where there are multiple intermediaries. There may also be business-internal reasons to look again at the rationale for extended and complex sourcing arrangements.

## Assess scope to optimise leverage and influence

A central dilemma for many companies is how to effect change as a minority off-taker. One response is to look at the potential to optimise leverage – and potential for value transfer – by increasing orders at selected suppliers. This is an approach supported by Fair Wear Foundation (FWF), for instance. Another is to look, as the IEH Fair Wages group has done, at the potential to map and cross-reference supply chains with other peers, in order to aggregate ‘positive buying power’. In other words, they try to identify suppliers that they share, thus giving them greater combined leverage for promoting fairer wage practices.

## Assess potential to build longer-term trading relationships

Leading organisations’ experience to date suggests that the ‘bigger’ structural changes necessary to see durable wage improvements can only be made in a context of longer-term stability and trust. A key component of a letter sent by eight international JETIs member brands in 2014 to the Cambodian government, relating to minimum wage improvements, was to emphasise their commitment to remain engaged as buyers in the context of wage increases. Similarly, FWF reports that development in social dialogue leading to wage negotiation routinely requires support from brands in terms of long-term commitment. Part of this picture is to fully understand the costs of relocating production (in the name of unit price competitiveness, for instance). In garments, the full sum of associated costs entailed in getting the right quality product from a new supplier – production management time in-country, quality staff involvement, on-costs of sampling – may not be wholly factored in to the unit price costing.

<sup>24</sup> There also needs to be a means to anticipate and mitigate the effects of ‘wage compression’, where wage improvements are received only by lowest-paid workers – or alternatively, a means to accommodate the knock-on costs of increasing wages through the distribution while maintaining the previous wage differentials.

<sup>25</sup> This term was coined by Fair Wear Foundation (FWF) in their work on Living Wage Engineering (see [www.fairwear.org/ul/cms/fck-uploaded/documents/fwpublications\\_reports/LivingWageEngineering20141.pdf](http://www.fairwear.org/ul/cms/fck-uploaded/documents/fwpublications_reports/LivingWageEngineering20141.pdf)). ‘Compounding price escalation’ (CPE) is the practice of calculating the price paid at each step in the supply chain relative to the price quoted at the previous step. For example, a selling agent’s fee may be calculated as 24% of the FOB. So, if the pre-living wage FOB is \$10, then the agent charges \$2.40 for services. But if living wages bring the FOB price to \$11, it means the agent’s fee increases to \$2.64. No matter how big or small, an increase in wages would also spell an increase in agent fees – and, in turn, increases in prices collected by most other actors across the supply chain to VAT.

<sup>26</sup> IEH (2014), Suppliers Speak Up: How Responsible Purchasing Practices Can Improve Working Conditions in Global Supply Chains

<sup>27</sup> Tesco PLC blog – Where do our products come from? [www.tescopl.com/mobile/index.asp?pageid=4&blogid=236](http://www.tescopl.com/mobile/index.asp?pageid=4&blogid=236)

## Look at potential skills upgrading for both suppliers and buyers

In many value chains, there may be information and knowledge constraints on the part of both buyers and suppliers. In its study of supplier perspectives on purchasing practices, ‘Suppliers Speak Up’, IEH found that buyers may lack insight into current costs of production, often using historic data as a basis for negotiation. Equally, IEH concludes that a typical supplier “invariably lacks a comprehensive understanding of all labour costs they need to include when calculating price per unit prices that factor in the cost of decent working conditions”. Indeed, some suppliers may fail to distinguish between total labour costs (costs to the employer) and wage costs (received by the worker). There may therefore be scope to improve both buyers’ and suppliers’ understanding of suppliers’ cost structure, and buyers’ understanding of the (unintended) workplace-level consequences of certain behaviours.

## Review pricing policy and alignment of buyers’ incentives with living wage commitments

Living wage concerns are closely linked to a number of commercial dimensions, not least price-setting. As previously noted, without reliable mechanisms to ensure distribution of value at workplaces, any increased value from improved commercial terms will not automatically be distributed to workers through wage payments. Companies need to support stronger, more transparent institutional arrangements to deliver wage improvements, ‘building in’ these real costs to the value chain. Of course, they will also need to support these institutional developments by creating an enabling commercial environment, including reconsidering practices on lead times and changes in orders, and absorbing resulting costs in value chains.

However, where there are significant externalised costs in supply chains, it is not realistic to expect that the cost of internalising these factors can be met through workplace-level efficiency gains alone<sup>28</sup>. Other potential areas of cost absorption are:

- Supply chain efficiencies (eg stripping out unproductive costs)
- Reduced margins, for suppliers and / or buyers
- Increased FOB prices

It is therefore necessary to look at FOB price. Much detailed consideration has been given to this question in recent years, not least by Professor Doug Miller<sup>29</sup>. While this discussion has focused primarily on the specific context of the garments value chain, there are a number of central considerations for all companies:

- Can you ascertain the cost breakdown of the labour component of total unit costs? This should include both direct labour costs (wages, bonuses and premium for overtime, social security contributions and paid leave) and indirect labour costs (training, personal protective equipment (PPE), provision of canteen, changing room or other staff amenities).
- Within the direct labour component of unit costs, can you ascertain the wage element, payable on the basis of a standard working week?
- Is this wage element – in view of standard working hours or weekly piece rate averages - broadly comparable to credible benchmarks for an adequate wage to meet basic needs for a worker and their dependents?

If the answer to any of the above is ‘no’, then the company is not in a position to say that its buying practices are not exercising a downward pressure on suppliers’ ability to pay a living wage.

<sup>28</sup> See for instance [www.cambodiadaily.com/news/ilo-urges-global-brands-to-help-pay-for-new-minimum-wage-75403](http://www.cambodiadaily.com/news/ilo-urges-global-brands-to-help-pay-for-new-minimum-wage-75403): “Factories can cover some of the costs of the new wage themselves by becoming more efficient, but [...] those changes would offset only a fraction of their new expenses. “It is important that all sides work together to ensure Cambodia’s garment industry remains economically viable,” Maurizio Bussi, the ILO’s country director for Cambodia, Laos and Thailand, said in the statement. “We call on the global brands to play their part.” Assuming the factories increase their productivity by 4 percent this year, the ILO estimates the brands would have to raise the prices they pay for their orders by up to 3 percent to cover the new minimum wage, or about \$0.02 for a T-shirt that now costs \$0.80 cents to make. “This small increase could generate additional revenue of \$160 million to support the new wage level,” the ILO says.”

<sup>29</sup> See for instance Miller, D. (2010) ‘Towards Sustainable Labour Costing in the Global Apparel Industry’



Photo: Dmitry Kalinovsky / Shutterstock



Photo: Suvara Kanti Das

## 4.2

# A national labour market perspective

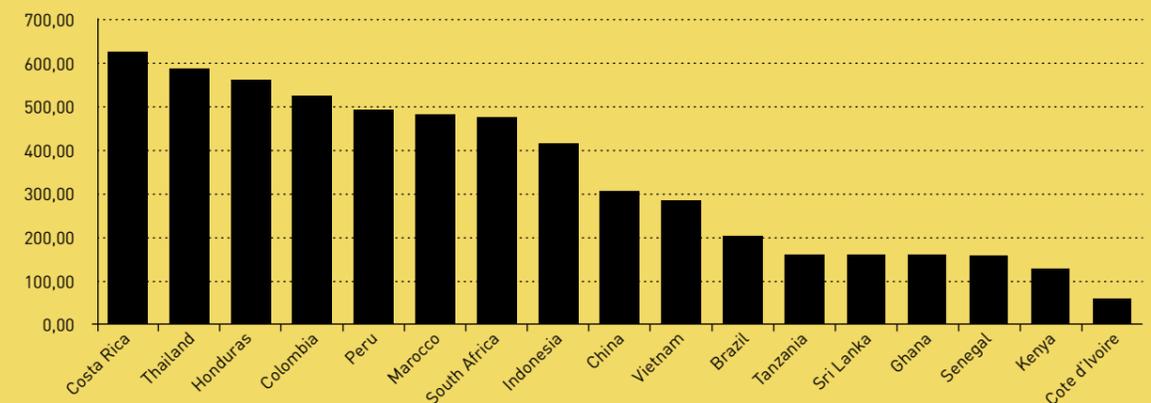
### ROOT CAUSE ANALYSIS

Statutory minimum wages are often low, not revised regularly and may not reflect the full participation of social partners

In many supplier countries, there is a risk that the level of the minimum wage is insufficient to constitute a sound measure of adequate income – for instance, where minimum wages remain unrevised through concerted periods of high inflation, or where they are initially set at an insufficient level. In other countries – including Ethiopia and Myanmar (Burma)<sup>30</sup>, such a standard is entirely absent. The graph below demonstrates statutory (or equivalent, binding) minimum wages applicable to

agriculture in PPP dollars (a comparable measure which equalises differences in cost of living).

The close involvement of workers' and employers' representatives in determining minimum wages is an essential condition for the proper functioning of the process<sup>31</sup>, allowing for the concerns and priorities of those most directly affected by the minimum wage to be taken into account.



Source: National official sources (wages), World Bank (PPP conversion factors) [Note that India is not included, as minimum wage setting in India is devolved to State level.]

<sup>30</sup> Though ILO is currently providing support for the development of minimum wage systems in both economies.

<sup>31</sup> Vietnam, for instance, has recently moved from determining the minimum wage by decree to a tripartite board system.

## Workers are absent in wage-setting processes, with no framework for representation and negotiation

Beyond the involvement of workers and employers in setting the national minimum wage, the most acute institutional deficit in many supplier countries is the absence of a framework for collective bargaining at national, sectoral or enterprise level. Vitality, this depends on the respect and realisation of workers' right to join and form organisations of their choosing, and to be recognised for the purposes of collective bargaining over terms and conditions of employment, including wages and benefits. Historically, wages have increased as a function of collective industrial strength.

## Occupation segregation means that women and vulnerable groups are over-represented among the lowest-paid...

Economies reflect the societies which sustain them. One gauge of societal inequality is the extent to which women workers, where they are able to participate in formal economic activity, are clustered in lower-earning positions in lower-earning sectors. Societal inequality is itself a recognised brake on economic development. The broader discrimination and disempowerment reflected in these patterns present a real obstacle to these workers gaining a fair and equal voice in workplace decision-making, including wage determination.

## ... but there are often no better-paid alternatives

High levels of under-employment and informality exert a downward pressure on wages, as employers in a poorly functioning labour market characterised by over-supply of lower-skilled labour are able to pay a 'going rate' which may be below the basic needs threshold. Put another way,

wages which are very 'low' in the context of an international value chain, may be 'higher' than others in the context of local labour markets. An extreme example: wages for tea pickers in Malawi fall below several poverty measures; yet the going-rate 'village wage' for those without formal employment on tea estates is 36% of the tea wage (Imani, 2014).

## Wage floors may not cover the most vulnerable workers

Minimum wages target formal economy workers – a minority in most developing countries. Even where effective wage floors are in place, workers in casual or outsourced work (including homeworking) are exempt from minimum wage standards. This situation is exacerbated where there is no legal framework for the 'extension' of collectively agreed wages, which would make them binding on an entire segment or industry.

## Labour market policy-makers fear a wage-employment trade-off

This fear is based on a neo-classical economic view that a minimum wage set above the 'equilibrium' level would necessarily lead to unemployment, since it would make some low-paid (normally low-skilled and/or young) workers too costly for employers to hire profitably, while simultaneously increasing the number of people willing to work because of the attractiveness of higher salaries. Of course, this would hold only in a purely competitive labour market where both individual firms and individual workers are 'wage takers' – that is, neither exerts control over the market wage rate. This is seldom an accurate description of labour markets in the export sectors of low-income countries. Moreover, more recent empirical work<sup>32</sup> suggests that increasing wage floors do not necessarily and automatically lead to increased unemployment in otherwise efficient labour markets.

## ... and that significant wages rises spur other cost increases, eroding purchasing power

Floor wage increases may have an effect on other prices, since companies subject to wage-derived labour cost increases may adjust their prices upwards following a wage hike. This is a significant risk where price increases erode the improvements to workers' purchasing power – that is, their ability to meet the cost of household basic needs. It is noted, for instance, that the benefits for factory workers of the introduction of an increased minimum wage in Bangladesh in 2013 were offset in some cases by increased housing costs and other charges, and an increased minimum wage in South Africa in 2014 led to farmers charging workers for benefits – such as housing and electricity – that had previously been provided free of charge. This is a good example of where collective bargaining would be a more effective tool for increasing wages in real terms and more sustainably.

## The potential for wage-led macro-economic growth is under-recognised

Globally, there is re-emerging interest in the potential significance of 'wage-led growth'. Even if a floor wage increase is simply a diversion of income from profits (capital) to wages (labour), it would increase aggregate demand and output because low-wage earners would have a higher propensity to consume, and to consume locally. Indeed, aggregate demand stimulation is central to the growth model of several emerging economies, not least China and Brazil<sup>33</sup>. And, as the ILO notes in its Global Wage Report 2014-5, 'in countries with large trade surpluses, higher wage growth can contribute to a rebalancing of demand towards domestic household consumption and away from exports'. Further, wage growth may be consistent with fiscal consolidation, through raising the income tax base, and reducing public expenditure, as vulnerable workers require fewer public 'subsidies' – through tax credits or welfare spending – as their purchasing power strengthens.

## COORDINATED RESPONSES

Real change in the dynamics which give rise to working poverty in global supply chains depends on the development of local labour market institutions. These should be strong enough to reconcile the interests of the diverse parties involved – in the long-term through 'social dialogue' and, emerging from this, collective bargaining on terms and conditions of employment. The development of such institutions requires all stakeholders, including companies, to make a candid assessment of current power imbalances and to support the capacity of both employers and workers to make these institutions work.

Institutionalising processes for determining wages can bring real gains for all parties. Not least, in many sourcing countries the current situation means that wage increases are unpredictable thereby increasing economic and social instability. Finding and developing arrangements for workers and employers to have a real voice in wage determination means that there is also greater likelihood of buy-in to the negotiated compromise, reducing the risk of conflict and

unproductive instability, as recognised by H&M on page 35, in relation to the Cambodian garment industry.

The development of this institutional underpinning is a long-term programme that companies can supplement through immediate interventions. These may include influencing policy-making debates on minimum wage setting and industrial competitiveness – ensuring that the future development of these institutions is not undermined and that the participation of local actors is not impeded.

## Engagement with national governments

Companies can request their own governments to lobby for higher wages or better minimum wage-setting machinery and enforcement in low-income countries. They can also engage with international organisations such as the ILO<sup>34</sup>, via their employers' organisations and governments.

<sup>32</sup> Notably, Card, D., & Krueger, A. B. (1994). Minimum Wages and Employment: A Case Study of the FastFood Industry in New Jersey and Pennsylvania. *The American Economic Review*, 84(4), 772- 793. See also: Dolado, J., Kramarz, F., Machin, S., Manning, A., Margolis, D et al (1996). The economic impact of minimum wages in Europe. *Economic policy*, 319-372; Vaughan-Whitehead, D. (ed) (2010), *The Minimum Wage Revisited in the Enlarged EU*, ILO.

<sup>33</sup> See for instance - <http://blogs.ft.com/beyond-brics/2015/02/03/guest-post-the-real-minimum-wage-and-poverty-reduction>

<sup>34</sup> Noting in particular that the 2016 International Labour Conference will address the issue of decent work in global supply chains



Photo: Inyna Rasko / Shutterstock

Companies can formally request governments of low-income countries to increase minimum wages. As C&A's Aleix Gonzalez Busquets notes:

*“In an ideal world, the statutory minimum wage should be a living wage. But, at the least, national governments have a central role in enabling wage improvements for the lowest paid”.*

One example is the Wage Board in Bangladesh, which received many requests from international brands to raise the statutory minimum wage. Further, in 2014, eight international brands sent a letter to the Government of Cambodia asking it to raise the national minimum wage, and stating their commitment to continue buying from Cambodia. Importantly, these brands also coordinated with trade unions, presenting a ‘united front’ on the wage issue.

### Promoting labour market institutions and social dialogue

All systems – economic, social and political – which bring together different interests need ways to exchange views, reach agreement and resolve conflict. JETI members’ experience indicates that progress towards ethical trade fundamentally requires institutions that enable dialogue, negotiation and dispute resolution. This is nowhere more necessary than on

the issue of wages. However, it is well understood that, in many sourcing countries, such a framework is lacking. This may reflect legal, material or political impediments. What is of central importance here is that express efforts are made to link support for social dialogue – resulting from the realisation of the right to freedom of association – at supplier workplace level, with developments at institutional level. This is where MSIs, alongside actors such as the ILO, can have an important role – in ‘joining up the dots’ between members efforts to promote freedom of association and collective bargaining at supplier workplace level, and convening sector-wide national-level platforms to explore the potential for the development of institutional arrangements to deepen social dialogue across sectors.

An instructive example here is that of Better Work, a joint programme of ILO and IFC (World Bank Group). Better Work’s ability to convene and encourage a range of actors means that it is able to support stronger dialogue and consensus. The significance of the modus operandi of Better Work in this context is its ability to secure commitment from (local) employers, backed up by government, with trade unions engaged in the process. Fundamentally this requires that collective action (at national / sectoral level) and individual action (at enterprise-level) are linked. Moreover, Better Work’s experience in Jordan suggests that, provided there is political buy-in and a process to support all parties to gain capacities necessary to negotiate, initial discussion on minimum wages can grow into an impetus for more sectorally-tailored collective bargaining.

## Better Work Jordan – supporting the development of a sector-wide CBA for garments

Part of Better Work Jordan’s service model is to help participating factories establish Performance Improvement Consultative Committees (PICCs), which bring together equal numbers of worker and management representatives to develop and implement improvement plans.

While migrant workers were able to participate in Better Work Jordan PICCs, it was not until 2010 that they became able to legally join trade unions, vote in union elections and participate in factory-level trade union worker committees, allowing them greater engagement with the garment union. Nevertheless, violations of labour rights, low wages and poor working conditions led to an increase in strikes and protests by migrant workers in following years.

In 2012, the National Minimum Wage Committee, comprising government officials, employers and worker representatives, agreed to increase the minimum wage of workers. The government encouraged the employers and the garment union to negotiate an agreement for the implementation of the new minimum wage for the sector, and after a month of negotiations, the two parties signed a series of agreements that increased the monthly basic minimum wage for Jordanian workers. For migrant workers, the basic monthly minimum wage did not increase, though the agreement made them eligible for seniority bonuses. However, in a positive move, minimum wage discussions did lead to interest in the possibility of

a sector-wide collective bargaining agreement (CBA).

Better Work Jordan supported the progressive effort to pursue a CBA first by introducing the concept to the employers and the garment union in early 2012. Later that year, the programme held trainings for garment union executive board members and migrant worker representatives on the collective bargaining process and began working with the union on the development of a comprehensive CBA proposal. Training for employers and worker representatives included practical skill development in negotiation.

After a series of negotiating meetings between the employers and the union, in May 2013, a collective bargaining agreement was signed, covering all workers including migrants. The agreement is one of the most comprehensive CBAs to be found in the apparel sector globally.

Moreover, the process is ongoing. In February 2015, ILO supported an initial review with the sectoral trade union and the employers group, recapping their experience during the first CBA and starting to assist both groups to prepare for the upcoming negotiations to renew the CBA. Both sides are now in the process of establishing bargaining committees. Negotiations will take place during May, building on the existing agreement, and focusing on clarification of language and additional provisions.

## Supporting collective bargaining in the Cambodian garment industry



In 2014 H&M launched a project with Swedish union IF Metall, ILO and the Swedish International Development Agency (SIDA), to strengthen industrial relations in Cambodia. Unlike many other emerging markets, Cambodia has a long history of collective bargaining and trade union representation. Around 90% of H&M’s supplier factories in the country have unions in place. However, negotiations in the sector are often confrontational, resulting in major conflicts and even violence.

The programme aims to increase the number of collective bargaining agreements in the Cambodian industry by educating workers and their trade unions, as well as employers, on the importance of solution-oriented

negotiations in good faith. In March 2014 the program started with an orientation workshop with employers (suppliers), unions, ILO and H&M. Due to the unrest in the country, this was the first time for months that employers and unions had sat in the same room, and was seen as positive by both employers and unions.

*“If workers lack the opportunity to unionise and negotiate for their fundamental labour rights it creates an unpredictable and unstable market. This can, in turn, be a challenge for our business growth. We are working to strengthen the voice of the workers.”*

**Anna Palmqvist,**  
Head of Sustainability Production, H&M



Photo: Robert Scoble / Shutterstock

## 4.3

# An enterprise-level perspective

### Q ROOT CAUSE ANALYSIS

Much discussion relating to low wages in value chains focuses on determinants of wages which are outside the structure of the enterprise itself – looking at the role of minimum wage regulation, (absence of) collective bargaining, or prevailing wages in what may be poorly functioning labour markets. Yet wages are set, and paid, to individual workers in view of their role within a specific enterprise. National – and global – trends are after all the sum of what is happening in individual workplaces.

To fully understand the root causes of low wages in supply chains, it is necessary to look also at wage differentials within supplier organisations, as well as the way that employers incentivise work effort and reward skill. In particular, wage levels need to be understood in the dynamic context of working hours, transparency of pay systems, and mechanisms for revision. All standards are clear that an adequate wage must be earned during basic weekly hours – workers must be able to earn a living wage without having an unsustainable weekly workload.



Photo: Claude Renault

## Pay systems lack transparency

Pay systems that are not transparent and are determined unilaterally can lead to the lowest paid workers losing potential gains in purchasing power. This risk is increased where there are no means for regular revision of wages in light of cost of living and, equally, in the light of productivity and quality gains. Without clear and fair mechanisms for recording working hours, underpayment of overtime can also give rise to significant wage deficits. This is part of a potentially vicious cycle, where workers work longer hours to compensate for low wages (see below). Similarly, there are reports in some sectors that seemingly positive attendance bonuses can be used as a 'disciplinary' measure – a potential deduction from, rather than addition to, basic pay.

## Wage structures may not reward skills and incentivise performance, nor provide development opportunities

Where wage structures are too 'flat', wages are often unlinked to skills or to enterprise performance. Such reward structures often fail to compensate – or incentivise – workers' learning new skills or increased contribution to company performance. In some regions and sectors, work effort is incentivised through piece-rates. This is the case for much garment manufacture in China, and for many primary agricultural activities worldwide. In the absence of a clear 'day rate', piece-rating can create lack of transparency in pay systems, and can easily lead to excessive overtime.

## Productivity measures often focus on work intensity rather than work efficiency

Where basic wages are insufficient to meet their basic needs, workers often depend on excessive overtime to

supplement their earnings. Indeed, garment production throughout Asia<sup>35</sup> is characterised by long working hours rather than workplace efficiencies. This needs to be understood as a self-reinforcing barrier to long-term productivity. Excessive overtime has a cost in terms of workers' health and safety; it can also discourage the adoption of more productive work methods.

## ... and productivity gains may not be shared

In the absence of mechanisms for equitable distribution of value at sector and enterprise level, gains from enhanced productivity are unlikely to pass to labour wages. ILO data, for instance, suggest that productivity in the garment sector in Cambodia increased by about 78% between 2000 and 2013. Over the same period, the purchasing power of average wages in the sector increased by only 16% in real terms.

## In-kind benefits may not be wholly beneficial

In certain regions and sectors – agriculture in particular – non-cash benefits constitute a significant proportion of total compensation for workers. Given the focus of the living wage agenda on the importance of access to affordable, quality housing and food, the potential value of these benefits should not be ignored. However, where in-kind benefits represent a significant proportion this can lead to increased economic dependency, and the risk that these benefits may be over-valued by employers as a monetary equivalent. This is particularly true where in-kind provision does not meet acceptable standards for accommodation or nutrition<sup>36</sup>. Ultimately, the rationale of the living wage is to ensure the cash wage for standard working hours is enough to cover basic living standards and emergency needs for workers and their dependents.



Photo: Junrong/Shutterstock

<sup>35</sup> In Cambodia, Lao People's Democratic Republic, Pakistan and Viet Nam, around one-half of wage employees in the garment industry work more than 48 hours per week. See ILO Global Wage Report 2014/15 - Asia and the Pacific Supplement.

<sup>36</sup> Examples in agriculture have shown workers may refuse 'free' but inadequate housing and feel no choice but to pay rent.

## Build a better understanding of how wages are set and paid in suppliers' workplaces

Experience of companies working with the 'Fair Wage' approach is particularly instructive in understanding enterprise-level wage systems. This includes understanding how people are paid (the wage system), the relationship to working hours and how pay rewards / incentivises performance.

### The 'Fair Wage' approach

The Fair Wage approach developed by Daniel Vaughan-Whitehead<sup>37</sup>, sets out 12 dimensions, including:

- wages must be paid regularly and in full to workers
- wages must comply with the minimum wage regulations and at least correspond to the living wage;
- wages should not require excessive working hours;
- wages must lead to a balanced wage structure, free of discrimination, and take into account different levels of education, skills and professional experience, and reward individual and collective performance.

The three main tools used in the Fair Wage approach are: 1) A Fair Wage questionnaire completed by the management; 2) a series of workers' interviews; and 3) qualitative case studies on the critical issues identified through the management and workers' surveys, including trade union participation whenever possible. Outputs from these tools are then aggregated into a consolidated Fair Wage assessment report that then represents the basis for Fair Wage remediation plans.

[www.fair-wage.com](http://www.fair-wage.com)

## Assess and support management capacity and attitudes

Companies should focus their efforts on promoting more strategic people management and more transparent wage systems, including effective alignment of reward-performance incentives.

This means exploring different management strategies – shifting from harsh labour management practices, whereby labour is managed as a cost to be minimised, to more humane labour management practices, recognising that labour is an asset to be invested in, and that an engaged and empowered workforce is also more effective and more productive. One JETI member company describes this shift in mindset and capacities as

*'making production managers into people managers.'*

## Support and proactively advocate for freedom of association

Companies can discuss the importance of worker organisation through effective realisation of freedom of association, and how it actively helps in making ethical trade a reality. They can encourage suppliers to enable unions to access workplaces and workers to join and form unions. It is important that this work is connected to sectoral-level collaboration on institution building, expressly aiming to create structures which support collective bargaining as the most effective, tailored means of ensuring that wages reflect the interests and needs of workers and employers.

An effective way to demonstrate that freedom of association is core to the business is to assess the company's compliance approach. For instance, since 2011, H&M have made a major

## Stimulating dialogue between factory management and workers' representatives: FWF experiences in Turkish garments

In December 2013, Turkish trade union Teksif concluded a Collective Bargaining Agreement (CBA) with a Turkish supplier of FWF member brand Mayerline. The agreement was the first ever CBA in a Turkish knitting factory, and includes several wage increases staged over three years, social benefits in the form of food supplies, a childcare bonus and paternity leave.

The background to the CBA shows a significant role for both buyers and MSIs in stimulating social dialogue. An FWF member brand was about to source from the facility, but would have only small leverage (10% of production). There was a history of conflict at the plant,

and workers had been dismissed reportedly on grounds of union membership. The FWF member brand managed to convince the factory management to enter into a dialogue and introduce FWF as a mediator between the trade union and the management. The result was that a CBA was agreed upon and implemented.

The experience also suggests one avenue for sharing the costs of improved wages. While some elements of the benefits package under the CBA were to be provided in-kind, the onus remains with buyers to absorb a marginally higher unit price.

shift in the way they assess compliance with this requirement in their audit programme. Instead of asking if a worker's right to freedom of association is respected, H&M now measure if trade unions are actually in place. Factories with trade union representation or a collective bargaining agreement are now rewarded with higher ICoC (code of conduct) scores. In 2011 H&M launched a social dialogue project in Bangladesh. Five supplier factories were selected to set best examples on democratic workplace representation. Since then H&M have provided the management and workers with comprehensive training on social dialogue through external experts. This finally led to the free election of workplace committees that are in active dialogue with management. The aim is to expand the project to cover 100% of H&M's Bangladeshi suppliers by 2018. Worker committees should be seen as a precursor to the establishment of formal unions wherever feasible, not as a substitute for them<sup>38</sup>.

## Focus on work efficiency, not intensity

Companies working with their suppliers to support smarter,

more productive working practices promoting work efficiency rather than work intensity creates a win-win situation. But to do so it should have an express goal of limiting systematic recourse to overtime, through pay systems that would be not only fairer but more efficient because they are more closely related to skills, education, and performance. There is a significant risk that, unless appropriate management systems are in place, any pay increases may be reflected in increases to work intensity<sup>39</sup>. Furthermore, efficiency requires building in systems for worker-management dialogue. As Philip Chamberlain (UK ETI) notes;

*'Efficiency can mean technical efficiency, but also includes building efficiency through encouraging an improved worker-management dialogue, ensuring that any resultant gains are shared in an equitable way with those workers in the supply chain.'*

<sup>37</sup> Fair Wages: Strengthening Corporate Social Responsibility, 2010, Edward Elgar

<sup>38</sup> For more information see ETI's 'Freedom of Association in Global Supply Chains – A Practical Guide' and DIEH's 'Addressing Freedom of Association and the Right to Collective Bargaining in Global Value Chains', <http://www.ethicaltrade.org/resources/key-eti-resources/freedom-of-association-in-company-supply-chains>

<sup>39</sup> See for instance: [www.dw.de/cambodias-garment-workers-facing-new-problems-as-wages-rise/a-18309345](http://www.dw.de/cambodias-garment-workers-facing-new-problems-as-wages-rise/a-18309345), [www.ethicaltrade.org/resources/key-eti-resources/freedom-of-association-in-company-supply-chains](http://www.ethicaltrade.org/resources/key-eti-resources/freedom-of-association-in-company-supply-chains)



Photo: Claudia Janke

# 5

## In conclusion

A company which is serious about contributing to bringing an end to the culture of low wages and creating the enabling conditions for the continual improvement of wages, should be able to demonstrate the following:

1. That it understands the root causes that may give rise to adverse impacts on wages.
2. On the basis of this analysis, it is identifying how to deploy its levers of influence to mitigate adverse impacts, taking into account where it has influence as an individual company, and where this influence is most effectively exerted through collaborative work with peers, suppliers, workers organisation and other stakeholders:
  - That it is coordinating with its peers and collaborating effectively with suppliers, employers' associations, trade unions, NGOs and national governments
  - That it is adopting a sector-wide perspective, supporting the development of durable, local labour market institutions, and linking up advances made at supplier workplace-level to broader institutional developments
  - That it is reviewing and revising short-term commercial practices to safeguard long-term, sustainable business performance.

Smaller companies, or those buying a small percentage of a supplier's produce should not be discouraged by their perceived limited leverage – there is much that can be done through collaborative action and through ensuring that their own practices are, at the very least, not contributing to the problem.

By 'thinking local and acting global' companies, big and small, can play a meaningful role in understanding the needs of the workers that produce their goods and ensuring that these are met through sustainable, industry- or sector-wide solutions.

The JETIs are committed to supporting members' efforts to play their part, and to share what we learn from our combined experience more widely, to help ensure that workers in a range of sectors and geographical locations have a better chance of earning a living wage now and in the future.



Photo: Claudia Janke



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