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Review of H&M group's Roadmap to Fair Living Wage

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Executive summary

H&M group has taken bold action in becoming the first apparel brand to address the complex wage issue and set significant public goals to help achieve what it terms “fair, living wages” (FLW) for garment workers. It has sought to deliver its Fair Living Wage Roadmap (FLWR) amid challenging market conditions, political instability and intense stakeholder scrutiny. Despite this, it has persevered in implementing a considered and coherent strategy, supported by commitment at a senior level, and shown flexibility and a willingness to learn and adapt. Challenges have arisen due to different interpretations of H&M group’s approach and consequently different expectations.

This review accepts that H&M group did not set out to determine specific wage levels and that its efforts are aimed at improving wage systems at factory level, supported by improved industrial relations and its own purchasing practices. There is evidence that this approach could deliver an impact on wages levels over time. However, we believe that as the Roadmap moves ahead, it will be important to monitor the impact on real wage levels, separately to minimum wage increases, and in terms of workers purchasing power, accounting for inflation, in a robust and independent way.

H&M group’s systemic approach to addressing garment workers’ wages is commendable, and the overall concept of its FLWR is both coherent and relevant. At its core is the concept of enabling industry-wide collective bargaining agreements, in order to help empower workers and their representatives to negotiate better pay. The four key components of the strategy (effective wage management systems, empowering workers to engage in workplace dialogue, responsible purchasing practices and minimum wage advocacy) are broadly welcomed as the right approach. “Overall the strategy is the right direction. I would encourage H&M to follow through,” one trade union leader noted. “[H&M has the] right attitude and approach in general”, an industry association representative remarked.

The Roadmap has four interlocking components:

- H&M group action to improve its purchasing practices and planning to enable suppliers to pay a Fair Living Wage.
- Supporting suppliers in developing fair and legal contracts and establishing pay structures that enable a Fair Living Wage.
- Developing better industrial relations, focusing on worker representation through social dialogue at factory level to empower workers to negotiate improved pay and labour conditions.
- Encouraging government to set up tri-partite process that sets minimum wages through a fair negotiation with labour market stakeholders and reviewing annually.

The goals H&M defined in 2013 were:

- By 2014, develop a roadmap addressing H&M’s purchasing practices to improve existing price method and improve purchasing plans.
- By 2014, implement and evaluate in three model factories the Fair Wage Method, and by 2018 all H&M’s strategic suppliers should have well-functioning pay structures.
- In 2013, launch an industrial relations project in Cambodia, and in 2014 expand H&M group’s existing social dialogue project in Bangladesh to cover 15% of suppliers’ factories and by 2018 100%.

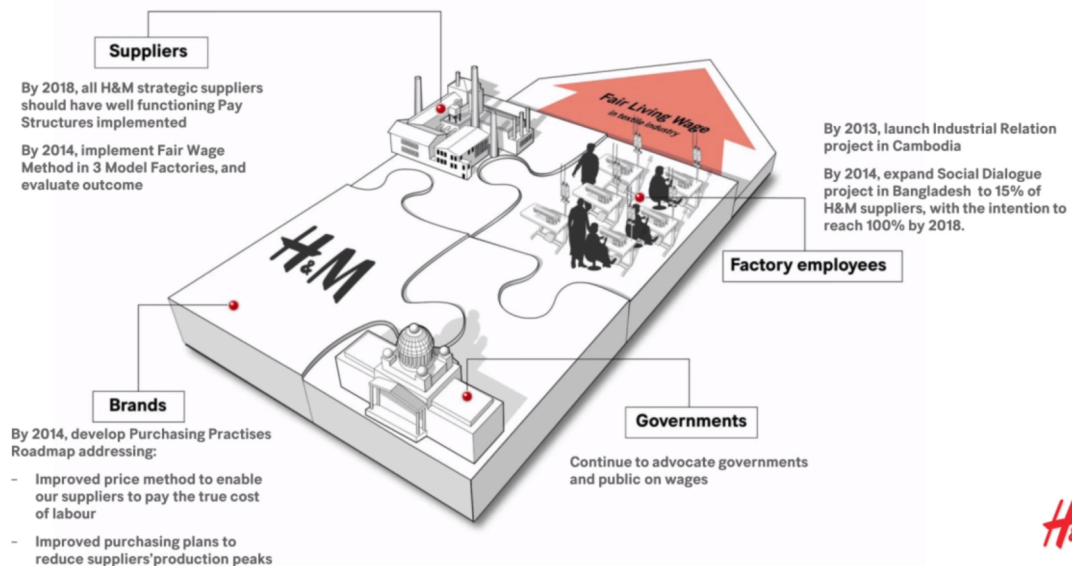
Through this review H&M group:

- Shared a clear strategy for a revised approach to purchasing practices in line with the commitment made, which is currently being implemented.
- In September 2018, revealed that 500 of its factories (representing 67% of its product volume) were implementing improved wage management systems, reaching 635,000 workers, and
- 594 factories (representing 73% of its product volume) were implementing freely elected worker committees, reaching 840,000 garment workers.
- Furthermore, it provided evidence of its work to engage with governments and its role in the ACT initiative, of which H&M group has been a founding and leading member.

These achievements, as shared by H&M group, substantially meet the objectives that it set out in 2013 and are in line with the Roadmap strategy. Through this review, we have assessed the design of this strategy and the extent to which it has been implemented, and gained some insights from limited first hand interviews on progress generated at factory and country level. However, we have not been able to test its effectiveness in terms of raising wages across H&M group's supply chain in key production countries on a significant sample basis. While we have not had access to data on the impact of the strategy on workers' wages, which was being collated and prepared at the time of writing, evidence from earlier pilots does point to positive progress.

Figure 1. H&M Roadmap on wages in supply chain

H&M ROADMAP ON WAGES IN SUPPLY CHAIN



Source: Screenshot from video of Helena Helmersson's 2013 launch speech in Berlin.¹

¹ https://www.youtube.com/watch?v=_TMv5DbV1h8

Overall observations on H&M group's FLWR

- H&M group's bold decision to devise a strategy to address the complex wage issue is **unprecedented** for an apparel brand and should be applauded.
- H&M group's holistic, multi-faceted and interconnected approach is **coherent and has the potential for impact**. But at the outset, it may not have given sufficient consideration to the **magnitude of the challenges involved** in each of the four components, the challenges arising from their complex, interrelated nature, or the differing lengths of time required to drive change on each component in different production countries.
- Importantly, H&M group has shown **flexibility and perseverance**, and a willingness to learn and adapt, adjusting its plans in recognition of any tactics that were not as successful as anticipated. **It did not always communicate or explain these evolutions clearly**, however, which gave rise to perceptions among some stakeholders that it was "watering down" the original strategy.
- There is some evidence that the four components are progressing. To date, 500 factories supplying the H&M group are working to improve their wage management system, of which 336 factories participated in H&M group's collaboration with the Fair Wage Network (FWN) to implement the Fair Wage Method from 2014-18. The follow-up study on 198 of the 336 factories supported by the Fair Wage Network found that **slight wage increases have occurred in the majority of factories**. This was partially due to minimum wage increases in the respective production countries, although the FWN notes that wage increases at participating factories were often higher than the national average.
- There is a clear strategy in place for purchasing practices, although this may not yet be fully implemented among H&M group's strategic suppliers, as intended. It will be important to ensure that all H&M group's buyers are fully supporting and implementing this strategy.
- While we acknowledge the complex and inherently long-term nature of H&M group's Fair Living Wage strategy and the incremental rise in wages for some workers, our study² indicates that (even in its top-performing factories) some workers in H&M group supplier factories still report that, at this stage, wage levels are too low to cover their living costs.
- There was some ambiguity and confusion at the launch of the FLWR and certainly lessons to be **learned in terms of coherent communication of this strategy and its objectives**. However, we do not believe that the intent of H&M's FLWR should be assessed against the measure of whether 850,000 workers at strategic suppliers' factories achieved a living wage in 2018. H&M group was explicit that it was not going to establish specific wage levels or rates at the outset of this work. We recognise that those calling for H&M group to demonstrate that its suppliers are paying workers living wages may have sought a different and more direct approach to raising wages. However, we do concur that there has been (to date) a lack of robust data demonstrating the impact of the FLWR on wages levels (see final point below).
- Given the emerging importance of the Action, Collaboration, Transformation (ACT) initiative, which brings together 20 brands to drive improvements in wages in the

² ETI's study was limited in its scope due to a short timeframe and a lack of available information.

garment sector, it is important to note and applaud the leading role that H&M group has played in the formation and strategy development of ACT.

- The evidence we have seen suggests that significant progress has been made toward H&M group's target of creating systems and instituting social dialogue programmes to facilitate negotiations on wages and working conditions, contributing to improvements in wider wage-setting for the sector.
- H&M group has taken a leadership position on the wage issue. We have heard from many external stakeholders, and would echo, the **significant support for H&M group to continue its effort to improve workers' wages and working conditions through this strategy**, and for other brands to make similar efforts. The company's work on wages and sustainability is also a source of pride for employees.
- The Roadmap and goals have focused on outputs, for example number of factories with wage management systems, or percentage of factories covered by worker participation committees. While this is important to record, we would have also expected a more systematic collection of data on outcomes, **such as evidence that improving suppliers' wage management systems has translated into higher wages**, as well as feedback from workers on the effectiveness of worker participation committees. Measuring the overall impact of the strategy in terms of progress towards a Fair Living Wage is also vital.

The reviewers believe that all four components are needed to raise workers' wages in a systematic and sustainable way. While we acknowledge that with the emergence of ACT, more effort is being directed to the industry-wide collective bargaining element as a precursor, we believe that the full effects will not be realised without consideration of some other key elements. These are: workers' bargaining ability at factory level, the effectiveness of improved wage management systems and a transition to responsible purchasing practices by individual brands.

1. Introduction

In 2013, H&M group made a commitment to help enable a lasting transition to “fair, living wages”³ for garment workers. It sought to engage with all key stakeholders who could influence positive change, including its own employees, in order to create a more constructive dialogue between workers, trade unions and factory managers, influence government policy on wages, and set an example for the industry. To help achieve this aim, H&M group defined its Fair Living Wage Roadmap (FLWR), a plan that sought to address the systemic challenges at the heart of the wage issue, with some goals set for 2018.

Now, five years on, H&M group is ready to reflect on its strategy and progress to date, considering both positive outcomes and opportunities for improvement. H&M group commissioned ETI (please see disclaimer in Annex) to conduct an independent review of its Roadmap, exploring the extent to which its ambitions had been realised. Importantly, ETI was also invited to consider H&M group’s initiative in relation to broader macro-economic, industry and political developments influencing progression on wages. In this way, the review will consider how H&M group might improve its own strategy, while contributing to the broader debate on improving wages in the garment sector.

Both H&M group’s work and this review must be seen in the context of the global garment manufacturing industry and its prevailing business model, which typically works on the basis of sourcing products from countries where workers’ wages are low. Many consider that low wages are endemic throughout the industry, particularly given that garment production is often viewed as a point of entry for countries beginning to diversify from agricultural production or local market to export-orientated manufacturing.

Women represent the majority of garment workers and often opt to work in the industry because they can earn substantially more than through agricultural labour or alternatives (such as domestic service). However, garment workers’ wages are still lower than wages in other types of manufacturing, as noted by UNIDO.⁴ Additionally, with limited access to education or opportunities to learn new skills and senior roles typically allocated to men, women workers are often unable to progress to better paid roles within factories.⁵ As Helena Helmersson, then H&M group’s Global Head of Sustainability, said at the launch of H&M group’s FLWR Roadmap in 2013: “As brands, we are aware that the situation on wages in the textile supply chain must change and there are many brands apart from H&M that have a great willingness and ambition to do so”.

This review is based on an analysis of H&M group’s records, publicly available information and a limited sample of stakeholder interviews, conducted in August and September 2018. This included 27 external experts (representing labour rights experts, trade unions, NGOs, suppliers and academics), 18 H&M group employees from relevant teams across the world (e.g. sustainability, business development, sourcing) and eight factory visits to H&M group suppliers’ factories in Bangladesh and Cambodia (see Annex). Our review is therefore based on a snapshot of qualitative information, rather than a long-term examination of qualitative and

³ By “fair” living wages, H&M originally meant incorporating the Fair Wage Network’s 12 dimensions of a fair wage, including wages being negotiated through well-functioning industrial relations and appropriately reflecting skill and seniority levels. H&M has since developed its own Wage Management System covering some of these dimensions.

⁴ UNIDO: Industrial Development Report 2013: Sustaining Employment Growth: The Role of Manufacturing and Structural Change, Vienna, 2013

⁵ H&M group supported a 2017 pilot initiative run by the ILO-IFC programme Better Work in Bangladesh to help more women workers gain supervisor positions.

quantitative data. H&M group aims to release data on improvements in factory wage systems by the end of 2018. The reviewers did not have access to this data at the time of writing.

2 Context

2.1 General context on wages⁶

The preamble to the International Labour Organization (ILO) conventions calls for “an adequate living wage” to guard against a world characterised by “injustice, hardship and privation....” This was further elaborated as “a wage [for the employee] adequate to maintain a reasonable standard of life, as this is understood in their time and country”. Every worker has the right to be remunerated fairly for their work. This should be a living wage – a wage that both meets their basic living costs and provides additional income for emergencies and savings – in order to help the worker achieve a “reasonable standard of life”. Yet wages that meet these criteria remain beyond the reach of many garment workers, with real wage growth often failing to keep up with inflation in garment production countries.

The ILO notes that despite gradual wage increases, wages remain low overall, with garment workers in eight Asian production countries earning an average of less than \$200 per month.⁷ In particular, young, low-skilled women comprise nearly 70% of the industry, typically receiving 25%-30% less pay⁸ than men for the same work, and often lack opportunities to progress to better paid roles, either within the garment industry or beyond.

Multiple factors combine to keep wages low. Firstly, workers’ wages, particularly women worker’s wages (or income if they are working informally) are typically low across emerging economies. Achieving living wages in any country requires broader, nationwide economic development and is influenced by a number of political and economic factors. Secondly, wages in garment factories themselves are determined through a variety of criteria, some of which are beyond the influence of brands and retailers. They are influenced by factors such as the supply and demand for labour, the level to which factory managers are willing to share any surplus margin with workers, order frequency and the prices paid by buyers, the factory’s level of productivity and workers’ ability to bargain collectively.

Further, the garment industry broadly is characterised by an entrenched power imbalance, whereby brands and retailers derive the majority of value from a product, while production workers derive the least value. It is an industry fragmented across continents with multiple sequences of production occurring in diverse locations, vulnerable to poor predictability and low profit margins for most suppliers. The trend towards ‘fast fashion’ and its inherent demand for speed, affordability and flexibility is intensifying pressure on suppliers, who are already engaged in a ‘race to the bottom’ on price in a fiercely competitive market. In this equation, it is women workers who suffer the most – a relentless focus on price weakens suppliers’ ability to pay living wages or improve labour conditions.

A 2017 survey by the ILO and the ETIs of Denmark, Norway and UK (the Joint ETIs) found that ‘39% of suppliers reported to have accepted over the last year prices below production costs, an average that climbs to nearly 60% in Bangladesh’. When suppliers are not paid enough to cover their costs, or their expected profit margin, this lowers their ability to pay workers appropriately or invest in areas such as worker health and safety. It can also hinder

⁶ See Appendix IV for data on the garment industries of Bangladesh and Cambodia

⁷ Developing Asia’s garment and footwear industry: Recent employment and wage trends, ILO, October 2017

⁸ Source: <http://datatopics.worldbank.org/gender/key%20gender%20employment%20indicators#sthash.4AHslpzi.dpuf>

suppliers' long-term competitiveness or even force them to close their business. Garment suppliers may also face payment delays and financial penalties for orders that do not meet requirements (NB we did not find specific evidence of the latter practices in H&M group's supply chains in this limited study). According to Better Buying, 31% suppliers report that brands level prices year on year, and 26.2% report take-it-or-leave-it target cost negotiations.⁹

Without sufficient education or awareness of their rights and little formal representation through trade unions, workers (particularly agricultural labourers, for whom this may be their first formal employment) typically remain trapped in a situation of vulnerability and in-work poverty. They are often unable to negotiate constructively for improved pay and conditions with their employers, who, in most production countries know that they can continue to attract new workers by paying the going 'market rate'.

Although researchers have noted that women garment workers in some production countries earn slightly more than women working in similar industries,¹⁰ global average wages in the clothing industry are 35% lower than the manufacturing industry average wage, according to UNIDO.¹¹ This could be partially due to women comprising the majority of employees, as women in developing countries typically earn less than men across comparable industries. Women face particular challenges in achieving their rights due to entrenched cultural perceptions of gender roles, which may be reinforced by the absence of human resources policies that ensure equal treatment and pay. Men typically occupy the more senior roles of supervisor and manager, and there are inadequate mechanisms to help women production workers develop their skills or achieve progression through pay differentials.

Despite these pervasive challenges, the US\$3 trillion¹² garment industry remains a source of jobs with regular wages, employing 43 million women and men in Asia alone.¹³ The presence of garment factories supplying foreign brands and retailers can boost regional and national economies and create new earning opportunities, particularly for women. In Myanmar, diversifying into more competitive sectors (which could include apparel) has been proven to be critical in increasing and improving job opportunities.¹⁴ Similarly, participating in global value chains tends to create more and better quality jobs than the local market alone can offer.

However, there are often negative consequences for workers in terms of poor working conditions, long working hours and low pay. In particular, governments may seek to keep wages low in order to develop a competitive advantage, as they strive to attract foreign investment, knowing that they are competing with other countries and that cost is a key factor on which apparel companies base sourcing decisions.

In many cases, production begins before countries have developed systems that allow for proper wage bargaining to promote fair pay and support workers' rights. Where there is poor human resource management, ineffective wage systems and weak industrial relations,

⁹ https://betterbuying.org/wp-content/uploads/2018/10/Better-Buying-Benchmark-Report_fall-2018.pdf

¹⁰ Robertson, Raymond; Drusilla Brown; Gaëlle Pierre; and Laura Sanchez-Puerta (eds.) (2009) *Globalization, Wages, and the Quality of Jobs Five Country Studies*, The World Bank, Washington, D.C.

¹¹ UNIDO: *Industrial Development Report 2013: Sustaining Employment Growth: The Role of Manufacturing and Structural Change*, Vienna, 2013.

¹² Source: <https://fashionunited.com/global-fashion-industry-statistics>

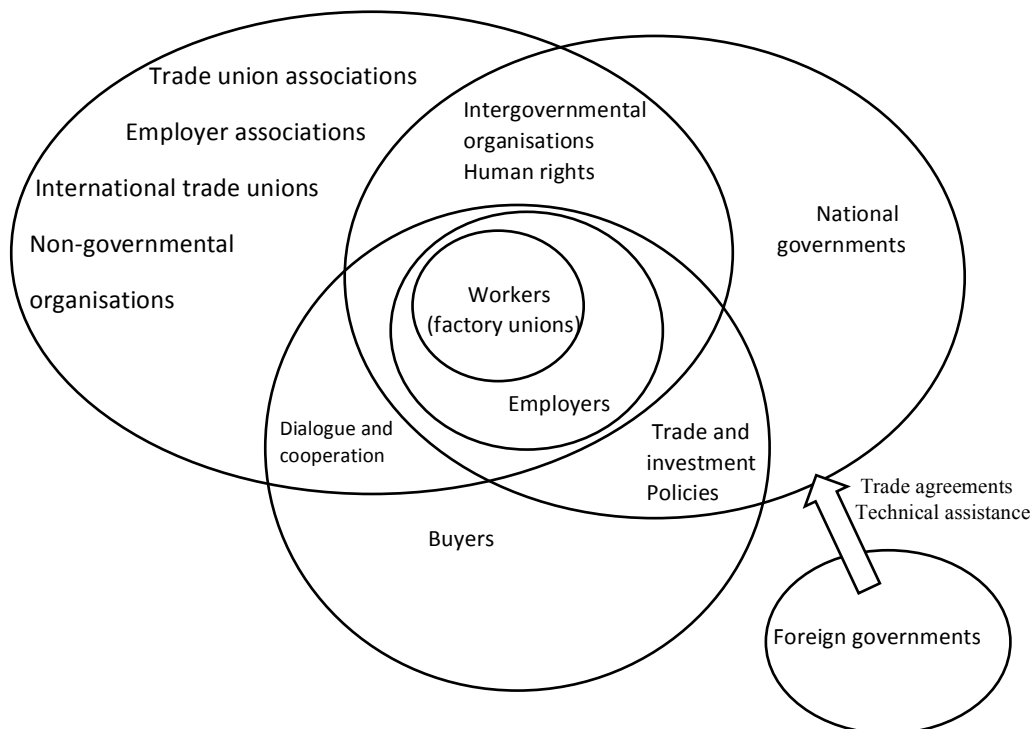
¹³ *Developing Asia's garment and footwear industry: Recent employment and wage trends*, ILO, October 2017

¹⁴ *Myanmar's Future Jobs: Embracing Modernity*, World Bank

workers are left vulnerable to exploitation. Indeed, with relatively low barriers to entry, garment manufacture is a common entry-level industry for emerging economies.

A lack of progressive policies and regulations on wages may also mean that production countries lack sufficiently robust mechanisms to set legal minimum wages at an industry or national level. Where legal minimums do exist, they often remain well below what can be considered a living wage, they may be compromised by vested interests and may not be monitored or enforced effectively.

Figure 2: Relationships shaping human resources management policies



2.2 Factors influencing the progress of H&M group's FLWR

The above context informed H&M group's decision to develop and implement a project to address workers' wages in its production markets. It defined a strategy that addresses the key factors that can enable wages to be set in a more inclusive way, reflecting worker's needs and built on sustainable systems. However, it is important to note that progress on workers' wages in production countries is also influenced by a number of political and economic factors. Such factors include:

- **Political developments in sourcing markets** – In H&M group's key production countries, notable political developments have included elections that have come under scrutiny from international observers and electioneering practices that have had a direct impact on the sector. For example, wage rises were promised to garment workers ahead of elections in at least one market.
- **Local market economics** - High inflation, change in fiscal or monetary policy, or exchange rates. In Turkey, for example, there were significant declines in the lira exchange rate to the Euro from 2016 to 2018 and high inflation rates. This would have

caused export prices to fall and local costs for workers to rise, and could have contributed to workers' difficulties in both meeting their living costs and seeking higher wages.

- **Business performance** - Buoyant performance on revenue growth creates a more favourable environment for considering how value is shared along the supply chain and therefore creating the conditions for wage growth. Conversely, weak performance is likely to create limitations to progress. H&M group is among a number of garment companies that have experienced considerable change in market conditions since 2013, which in turn would have had an effect on the environment in which it was implementing the FLWR.
- **External stakeholder impact** - External stakeholders, such as campaigners and the media, have subjected H&M group's FLWR project to intense scrutiny, which may have put additional pressure on H&M group and its partners, creating a need to respond to accusations and potentially detracting from the methodical implementation of a project or initiative. This may also have affected how the strategy was communicated.
- **Regulations** – Regulatory changes that may have influenced the rate of progress occurred in both Cambodia and Bangladesh. For example, such changes for trade unions in Cambodia prevented unions below a certain number of members from negotiating improvements with employers, which may have slowed the rate at which collective bargaining agreements were developed at a factory level. Government action to reduce the space for civil society to operate – for example in Bangladesh – has also created constraints. However, it must be noted that H&M group has chosen to source from these countries and implement its FLWR with them, knowing the political and regulatory difficulties that exist, rather than seeking smaller, more compliant markets.

3 Our understanding of H&M group's Roadmap to a Fair, Living Wage

3.1 Setting out the vision

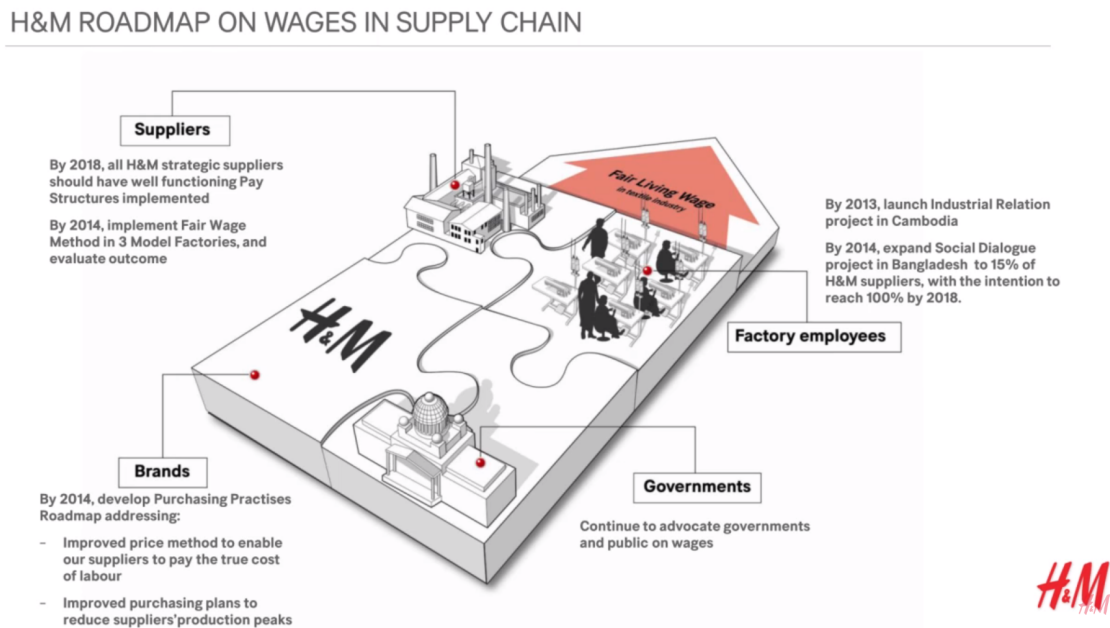
We understand that the FLWR theory of change is as follows:

- Improved purchasing practices create the value that can underpin improved wages at factory level.
- Effective wage management systems enable factories to better identify and reward skills and productivity, while helping to ensure that workers know how much they should be earning.
- Workplace dialogue creates a constructive environment and culture that fosters collaboration, common goals and effective resolution of issues between workers and management.
- Advocating for minimum wage setting mechanisms and in collaboration with others for basic wages based on collective bargaining arrangements that raise wage rates.

When Helena Helmersson, H&M group's Chief Operating Officer, who was Head of Sustainability from 2010 to 2015, launched H&M group's Roadmap to a Fair Living Wage (FLWR) at the European Conference on Living Wages in Berlin in 2013, it was welcomed by NGOs and campaigners with cautious optimism. Until then, most apparel brands and retailers had taken little or no visible action on the sensitive, high profile issue of improving garment workers' wages. H&M group's public commitment to tackling wages, through influencing the components that could enable "fair living wages", was and is ground-breaking. Supported by its most senior executives, the company's ambition to achieve sustainable change at scale is commendable, as is its decision to address the fundamental systemic issues that support progress on wages for garment workers.

Indeed, H&M group’s ambition that “a fair living wage, covering workers basic needs, should be paid by all our suppliers” was extraordinary, considering that achieving living wages must be seen in the wider context of economic development, and is influenced by many external political and economic factors, as described above. H&M group knew it was taking on a complex and multifaceted challenge encompassing some aspects that it was able to directly influence and some that required collaboration.

Figure 3 H&M Roadmap on Wages in Supply Chain



However, the bold, ambitious way in which H&M group presented its strategy has led to different interpretations of its stated goals and criticism by some of its perceived failure to achieve “fair living wages” in real terms. In particular, some stakeholders believed that the company had set a definitive overall goal to achieve fair living wages for 850,000 workers by 2018, as might be inferred from its 2013 Sustainability Report. While H&M group itself has been clear that its intent was to ensure that well-functioning pay structures were in place for its strategic suppliers, which could reach 850,000 workers, some stakeholders, and certainly the media headlines, focused on the achievement of actual living wages for these workers. The latter view has since gained traction. However, we believe that the strategy should be considered first and foremost as a ‘vision for change’, with a clear recognition of the complexity of the task and time required to achieve systemic change.

There is strong evidence of genuine, positive intentions from H&M group's leaders, and the four components of the Roadmap create a coherent and compelling overarching strategy, (see Figure 3. above). However, there is not significant evidence to suggest that the company developed a detailed implementation plan at the outset to operationalise the four components in each production country. Indeed, the lack of detailed planning in advance may have led to over-ambitious goals. H&M group admits that it was under significant pressure and may have rushed the planning process and its communication, in order to demonstrate a willingness to address the pressing wage issue. This observation should be understood in the context of widespread public pressure and the fact that H&M group was the only major company publically disclosing a wage strategy at the time.

3.2 H&M group's definition of a fair, living wage

H&M's conviction is that wage rates should be set through an inclusive negotiation between workers representatives and employers, supported by well-functioning pay systems and robustly set and enforced national and sectoral wage levels. This is coherent and reflects mature systems of industrial relations, as might be found in parts of Western Europe. On launching the Roadmap, H&M group initially defined its vision of a "fair living wage" as one that enables employees to meet their living costs and is paid in line with fair wage processes and systems. The original definition, as described below in 2013, did not include a reference to discretionary income that enables workers to improve their lives.

In 2014, H&M group defined Fair Living Wage as:

"A wage that is the minimum income necessary for a worker to meet basic needs for himself/herself and his/her family, earned during legal normal working hours (excl. overtime)."*
H&M document: 'Strategy regarding wages in H&M group's supply chain', 2013

By 2017, the definition had evolved to include a mention of discretionary income, but no longer mentioned standard working hours: *"We define a fair living wage as one which satisfies the basic needs of workers and their families as well as providing some discretionary income."*
H&M group Sustainability Report 2017

Best practice

In line with best practice thinking and the ETI Base Code Guidance¹⁵, we would encourage H&M group to retain both of these key elements (standard working hours and a discretionary amount) each time it communicates its fair living wage definition, in line with the way in which ACT's definition is communicated. It is vital that H&M group communicates clearly and precisely in all its statements on this highly sensitive issue.

In doing so, H&M group will need to be consistent in the way it defines wage rates and agree a robust set of indicators so that progress can be measured. Incremental improvements in wages are not sufficient if they are not compared to a benchmark of what a "living wage" would be. Understanding relevant benchmarks could be achieved by working with an

¹⁵ The ETI Base Code clause 5, 'Living wages are paid', defines living wages as: *"Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income."*

organisation such as the Global Living Wage Coalition to understand local living wage levels in different locations and consulting with workers representatives.

3.3 Forming the strategy

H&M group's commitment to help influence sustainable change on garment workers' wages followed in the wake of increased stakeholder pressure, notably through high profile campaigns from IndustriALL and the Clean Clothes Campaign (CCC). As a large fashion brand with 800 million transactions per year¹⁶ and around 1.6 million workers in its supply chain, H&M group has a significant opportunity to make a positive difference.

Building on its workplace dialogue research, H&M group consulted with key stakeholders and labour rights experts, concluding that its existing efforts to improve workplace dialogue must continue, along with additional efforts on improving wages for workers. The company determined that workers in H&M group supply chains should be paid enough to meet their living costs, and that it was not H&M's role to set the living wage level. Instead, H&M group believes its role is to influence the process of fair, living wages through systemic change on multiple fronts.

This consultative process also helped H&M group to decide that its best opportunity to influence the creation of fair, living wages was to create the enabling conditions for wages to improve.¹⁷ The company did not believe that it would be viable or appropriate to impose specific wage levels on its suppliers. While this may have had a real impact on wages for some workers in the short term, and may have temporarily enhanced the company's reputation, H&M group did not believe that a 'quick win' of this kind would be realistic, sustainable or replicable.

As many of those we interviewed confirmed, obliging suppliers to pay higher wages may be possible in the few factories where H&M group buys the majority of the supplier's output, but this could not be replicated in factories where production is shared with many other companies, and which would therefore require a significant change in H&M group's sourcing strategy. Further, if circumstances dictated that H&M group were unable to continue sourcing from those factories, the suppliers may not be able to compete effectively in a global market still largely characterised by low labour costs. Indeed, such suppliers would likely have to reduce wages to be competitive.

However, this decision has been criticised by the CCC and some other stakeholders, who feel that H&M group has sufficiently high profit margins and market leverage to take a far more direct approach to influencing wage increases.

H&M group subsequently developed its Roadmap to a Fair Living Wage through consultation with key stakeholders. At the 2013 European Conference on Living Wages in Berlin, the Roadmap was launched by H&M group's then Head of Sustainability, Helena Helmersson, who stated that "a larger share of the value should end up in the pockets of worker". Helmersson clarified that by seeking to create the right conditions for workers and their

¹⁶ H&M group Sustainability Report 2017 page 5

http://about.hm.com/content/dam/hmgroupp/groupsite/documents/masterlanguage/CSR/reports/HM_group_SustainabilityReport_2017.pdf

¹⁷ This approach is in line with advice given in the joint ETI's Living Wages in Global Supply Chains – A New Agenda for Business (<https://www.ethicaltrade.org/resources/living-wages-global-supply-chains-new-agenda-business>) and ETI's Base Code Guidance on Living Wages (<https://www.ethicaltrade.org/resources/base-code-guidance-living-wages>)

representatives to negotiate wages with their employers, H&M group would help to achieve sustainable change.

The company's plan was rooted in the understanding that improving workers' wages requires action, commitment and change among multiple stakeholders at a systemic level. H&M group's strategy therefore sought to help deliver a solution designed to address fundamental, systemic issues and involve all key stakeholders. See Figure 3 above.

3.4 Implementation

H&M group sought to influence change among suppliers, workers, its own purchasing practices, and within the governments of production countries.

3.4a Suppliers: Effective wage management structures

H&M group identified that in many factories there were non-existent or inadequate systems to establish and proactively manage a wage structure that could reflect and reward productivity or different skill levels, or support individual promotion. While addressing this issue does not address basic wage levels directly, H&M group sees fair pay systems as a key mechanism to supplement workers' basic wages by delivering further benefits and pay in line with workers' skill level, experience and performance. In particular, establishing efficient wage systems (wage grids) enable employers to remunerate workers according to skill level, helping to ensure progression, calculate wages appropriately and communicate wage information transparently to their employees.

This approach also facilitates productivity increases, and can improve supply chain stability, raise delivery performance and increase product quality. Research suggests that increasing wages and improving working conditions is sustainable due to its potential effect on productivity,¹⁸ a fact that is both recognised and valued by factory management. In particular, improvements in human resource management, including in wage management, leads to a more positive work environment, in which workers perform more effectively, compared to the effect of a negative environment.¹⁹

To this end, H&M group piloted the FWN's Fair Wage Method (FWM), based on the 12 Dimensions of a Fair Wage, in three pilot factories: two in Bangladesh and one in Cambodia. The FWM is a comprehensive system encompassing 12 key aspects that combine to achieve fair wages, based on extensive research by Professor Daniel Vaughan-Whitehead and associates.²⁰ Following the pilot, H&M group engaged with the FWN to help deliver the FWM in 336 strategic factories in Bangladesh, Cambodia, India, Turkey, Vietnam and Pakistan. This brought about numerous improvements, including implementation of wage grids, reforms of pay systems, shift from piece rates to basic wage plus bonuses, reduction of working hours without wage loss for workers, and fair wage remediation plans signed by both employers' and workers' representatives. Based on this experience, H&M group subsequently developed its own, slightly less comprehensive Wage Management System (WMS), in order to reach more workers by making the requirements more readily understandable for suppliers, and a clearer business case for suppliers to participate. By training a further 190 factories on H&M group's own system, the company reached a combined total of 500 factories by the end of 2018.

¹⁸ Prof. Raymond Robertson 'Wage economics' briefing paper

¹⁹ Bloom, N., Eifert, B., Mahajan, A., McKenzie, D. and Roberts, J. (2013), 'Does management matter? Evidence from India', the Quarterly Journal of Economics, 128: 1-51.

²⁰ <http://www.fair-wage.com/>

These efforts have led to further positive results reported by workers and managers in a number of factories. In Turkey, for example, a participating factory has improved its wage management system such that workers are now encouraged to undertake training and paid in line with their increasing skill level. This has led to improved employee satisfaction and more opportunities for individual workers to earn a higher wage.

3.4b Workers: Empowerment through workplace dialogue

To create a more inclusive and collaborative environment at factory level and empower workers to vocalise concerns on pay and labour conditions, H&M group sought to deliver training on workplace dialogue in key production countries. This included Bangladesh, building on the company's existing Workplace Dialogue Programme, which consists of training workers on their rights and responsibilities and encouraging the election of worker participation committees, as mandated in Bangladeshi law. Through our sample factory interviews, we heard that workers' awareness of rights had increased, partially as a result of the training.

A similar programme was developed and implemented among H&M group suppliers in Myanmar. Additionally, the company created a Centre of Excellence in Bangladesh for technical garment skills training, a joint three-year initiative (now complete) with the ILO and the Swedish International Development Cooperation Agency (SIDA), with a view to helping 5,000 students gain a certification that proves their level of experience.

3.4c Industrial relations

In the same year in which the FLWR was launched (2013), H&M group helped to establish ACT. This is a group of major brands and retailers that have entered into a formal agreement with the IndustriAll global union federation to improve wages for workers in the garment, textile and footwear sectors. H&M group has since largely taken action on the industrial relations component of its FLWR through the ACT initiative, since it presents a collaborative platform through which the company can potentially achieve more impact than by working alone.

According to an ILO representative, "H&M's Fair Living Wage Roadmap has had considerable impact on ACT's strategy," which consists of enabling wage growth through freedom of association, collective bargaining, improved purchasing practices and advocating for better minimum wage setting (although this does not yet cover social dialogue at factory level). These areas are also reflected in three of H&M group's four Roadmap components (the exception being improving wage systems in factories). As part of its ACT commitment, H&M group also undertook an industrial relations project with the ILO in Cambodia, ACT's first focus country.

H&M group also signed a landmark Global Framework Agreement (GFA) with IndustriAll in 2015. Through this agreement, H&M group has created National Monitoring Committees (NMCs) in five production countries, whereby trade unions and H&M group representatives come together to discuss workers' disputes on issues such as recognition of freedom of association or unfair dismissals. H&M group is one of few brands globally to have an agreement of this nature in place and the only brand to have used the concept of NMCs as a platform to address workers' disputes. The company's focus on strengthening industrial relations has emerged as the overarching imperative of the strategy.

3.4d Company: Responsible purchasing practices

From the outset, H&M group recognised the importance of responsible purchasing practices in building strong relationships with suppliers, and saw the potential of such practices in influencing suppliers' ability to increase wages for standard working hours. This public

recognition and commitment to work on this aspect of its business model stands out in the sector.

Corporate purchasing practices can produce a substantial effect on suppliers. The Joint ETIs-ILO supplier survey (see Figure 4 below) found that short-term planning, last minute changes in order specification or order size, rejections and late payments have very negative effects on issues such as overtime and wages. Adopting a responsible stance on purchasing allows suppliers to plan production effectively, manage working hours, pay workers fairly (through effective wage management structures) and invest in improving labour conditions, which in turn helps to boost productivity, stabilise suppliers' workforce and build resilience in apparel supply chains.

Figure 4 – Business practices and relationship with average hourly wages

Table 1. Business practices and relationship with average hourly wages (all sectors)

(1) Item	(2) Factor description	(3) % change in hourly wages ¹⁴
Purchasing practices	Full flexibility expected from suppliers	-5.95%
	Very inaccurate technical specifications	-21.91%
	Buyers agree to pay at least production costs	9.74%
	Imposing prices below the cost of production	-11.33%
Market power	Supplier only has 1 customer	-20.27%
Labour relations	Existence of a firm-level collective agreement	11.17%
	Existence of a workers' committee and a trade union	15.57%

Source: ILO. Vaughan Whitehead, D and Pinedo Caro, L. (2017) Purchasing practices and working conditions in global supply chains: Global Survey results, page 14

H&M group engaged in dialogue with key suppliers to understand how its purchasing practices were affecting suppliers' ability to invest in wage and productivity improvements. It subsequently decided to focus its purchasing policy on longer-term commitments, better planning and forecasting. Meanwhile, it sought to pursue joint product development and pricing strategies that recognise suppliers' overheads, factoring in labour costs based on standard minute costs that can ring-fenced from any price negotiation. This is not common practice in the industry, and is a significant departure for a major brand such as H&M group. Interviews with senior H&M group representatives indicate a sound understanding of this course of action as a strategy for positive change.

In addition to its own work in this area, H&M group sought to influence thinking on purchasing practices among ACT members. According to an ACT representative, "The difference with H&M group is that they brought their purchasing teams to the table from the beginning". This suggests that the relevant H&M group teams were fully engaged in the process and were able to provide pragmatic and viable input into ACT's strategy development.

3.4e Governments: Minimum wage advocacy

Legal minimum wages that reflect the real costs of living in an economy, set through a transparent inclusive process, act as a starting point for wage levels. They should form the basis of subsequent negotiations between workers, their representatives and employers, in

order to establish basic wage rates and rates for semi-skilled and skilled roles. Furthermore, they create a level playing field for employers and their customers. H&M group believes that this minimum wage should provide for the basic cost of living, with the worker's overall wage determined by factors including collective bargaining, skill level and experience, as well as production bonuses, pension contributions and other benefits.

As part of its FLWR, H&M group set out to advocate for both effective wage-setting mechanisms and appropriate legal minimum wages. H&M group lobbied governments both as part of ACT and through its CEO's engagement with heads of state in Bangladesh and Cambodia. As the apparel industry began production in Ethiopia, H&M group supported the ILO's call for the Ethiopian government to introduce a national wage-setting mechanism – reportedly the only brand to do so.

4. Observations on H&M group's Roadmap to a Fair Living Wage

4.1 Observations - Intent, design and approach

H&M group's move to take action on a critical apparel industry issue – and from a systemic perspective – is widely regarded as a positive step and many respondents recognised the leadership role that H&M group has taken. The company was the first in its industry to develop a strategic plan to address the living wage issue and share it publicly. Smaller-scale efforts have previously occurred, for example in the original M&S sustainability strategy, Plan A. Furthermore, H&M's Groups efforts on this issue are also considered progressive compared to other similar industries. Another direct competitor to H&M states in its code of conduct that suppliers should pay workers a wage that meets or exceeds legal minimums or industry benchmarks, whichever is higher. However, the company does not have a specific initiative dedicated to living wages in place and is seeking to make progress on this issue through the collective garment industry initiative, ACT.

Many other brands subscribe to, or have their own, ethical codes in which wages are referenced. For example, Fair Labor Association members have committed to implementing a strategy towards a "Fair Compensation Strategy" from 2018. Looking beyond the garment sector, one large furniture retailer's code of conduct requires suppliers to pay their workers legal minimum wages, but does not seek to address living wages.

H&M group chose to collaborate with credible stakeholders in the development and implementation of their FLWR (the ILO, the Fair Wage Network, IndustriAll, Better Work, Solidaridad, Just Solutions, other brands and SIDA). The four key components of its strategy are broadly considered by our interviewees, and by the reviewers, to be well conceived, with the potential for impact. If implemented effectively, we believe they could influence improvements in wider wage-setting. Further, these four interdependent cornerstones have the potential to be sustainable and replicable. However, each one presents fundamentally different challenges, with differing levels of proven practice, and requires different lengths of time to achieve results in diverse production countries.

Although the components are coherent and interlocking at a conceptual level, at implementation level it is not evident that they were sufficiently well linked together from the outset. In addition, the implementation strategy for each component was not clearly defined for each country. Crucially, H&M group did not define how it would measure the outcomes of the work in each area and the impact of its strategy on wage levels on an ongoing basis in every factory. The reviewers note that the FWN did provide a comprehensive report on wage levels in 198 of the 336 participating factories, based on its own independent evaluation.

While H&M established some goals for each component, these were designed to monitor the results of particular strands of activity, e.g. “by 2018 all strategic H&M suppliers should have well-functioning pay structures...”. However, not all goals were easily quantifiable or measurable. For example, “Continuing to interact with governments and public agencies to advocate for annual wage revision and enforce labour legislation protecting the freedom of association” is as an expression of intent, rather than a measurable goal. An alternative to this particular goal could have been changes in specific policies and practices in target markets on inclusive annual wage setting systems, in line with ILO guidance. As a milestone towards this, governments and public agencies’ awareness of the importance of revising wages annually and protecting freedom of association could be measured using outcome mapping techniques.²¹

Importantly, H&M group has shown that it was ready to learn from the challenges and obstacles it faced in implementation. The company consistently developed and adapted its approach so that each component evolved and stood a better chance of succeeding. For example, it sought to accelerate progress on fair wage systems by complementing the FWM with its own simpler (though less comprehensive) Wage Management System. This system did not include the component that links wages to the company’s profits, or the living wage component (which shifted to the industry level under ACT), but did enable H&M group to reach a combined total of 500 factories by 2018.

Similarly, H&M group switched from lobbying policy-makers as an individual company, notably at CEO level, to approaching governments through ACT, perceiving that a group of influential companies with a shared objective stood a better chance of achieving change. Its role in helping to establish and lead ACT is commendable (and arguably more important than its own efforts on this topic). This collaborative approach to government advocacy was recognised by most interviewees as the right strategy to deliver sector-wide change on wages, particularly when complemented by industrial relations and responsible purchasing practices, despite taking time to set in motion.

Of all the four components, the ambition to influence policy-making on effective wage-setting mechanisms and collective bargaining agreements (CBAs) was probably the furthest beyond H&M group’s control, and is by its nature, a long-term objective. It is nevertheless a vital factor in achieving real change on wages. Without catalysing policy changes, the company’s wider strategy for improving wages will be unlikely to yield sustainable results at scale.

Given the complexity and long-term nature of the overall FLWR strategy and the ongoing struggles of workers and suppliers in a competitive market, the question also arises as to whether H&M group - and indeed other brands - have a responsibility to take more definitive, short-term action on wages alongside their long-term strategy. In particular, critics suggest that H&M group should tackle short-term low wages by raising the prices it pays suppliers, or at least cease exerting pressure on them to lower prices, and use its leverage to enforce higher wages. Critics feel that this would demonstrate more genuine intent to increase the wages of workers in H&M group’s supply chain.

However, most of the stakeholders we interviewed believe that the idea of any single brand paying a higher price and enforcing higher wages among specific suppliers, particularly when production is shared with other brands, is not sustainable or widely replicable. The apparel

²¹ <https://www.outcomemapping.ca/resource/start-here>

industry is intensely competitive, and as such H&M group's purchasing practices and the prices it pays to suppliers are likely to be influenced by market pressures and other external factors. However, our reviewers noted that where there is a culture of engaging with workers through social dialogue, and suppliers have implemented an effective wage management system, workers do experience wage increases (depending on individual skill levels and productivity).

4.2 Observations: Communication

While H&M group's public commitment to address an entrenched industry issue was widely applauded, the company's 2013 communication of its vision and strategy was both bold and problematic. It put H&M group at the forefront of a sensitive, high profile issue, committing to drive sustainable change at scale, while leading the way for other brands. H&M group's 2013 Sustainability Report, published in 2014, gave an overview of the strategy and its complexity, and explained the approach and goals set out earlier at the Berlin conference. It states that "By 2018, all of H&M's strategic suppliers should have improved pay structures for fair living wages in place. By then, this will reach around 850,000 workers".

While the decision to create enabling conditions was in line with best practice thinking, it was not sufficiently well communicated, with some key stakeholders and the media, focusing on the idea that 850,000 workers at H&M's strategic suppliers would actually receive a fair living wage 2018. This has subsequently led to unrealistic expectations and sharp criticism based on the perception that H&M group is not living up to its promises on fair wages. A CCC representative noted that in launching the Roadmap, H&M group had expressed that "with size comes responsibility", acknowledging that the majority of workers in its supply chain did not earn a living wage and committing to achieve living wages for workers at strategic suppliers' factories within five years. This is an interpretation, CCC claims, that was not contradicted by H&M group at the time.

But a trade union leader expressed concern about the criticisms levelled at H&M group, suggesting that while it is important for campaigners to hold companies to account, "H&M is genuinely trying to do something of value and many other companies are doing nothing at all". One apparel brand commented: "We are all watching H&M group take the heat on this issue", while an industry observer said "the CCC report [criticising H&M's FLWR] means that no company will be open any more, when they see what happened to H&M".

H&M group should also have been more transparent about the risks and limitations of its FLWR strategy, sharing these openly with the public, alongside any progress, and the reasons behind any changes. "We need more transparency [on the FLWR and H&M group's purchasing practices] to learn from their experiences, what works and what doesn't. If they want to transform the industry, they must be more honest and open", noted one academic specialising in labour rights.

Further confusion has arisen from the name of the strategy itself. H&M group decided to use the term "living wage" partly as an attempt to associate it firmly with workers, their representatives and employers, "reclaiming" the term from the realms of NGO campaigning, as more than one H&M employee suggested. But for some, this only compounded the confusion surrounding whether H&M group would intervene directly to raise wages to a "living wage" level, particularly given that this can be defined differently and according to country specific rates, calculated by diverse stakeholders.

For certain interviewees, adding the term “fair” before “living wage” was interpreted as a dilution of the living wage concept. Again, the subtlety and complexity behind the name was lost in headline communications. For H&M group, “fair” and “living wage” were two different concepts combined into one. The term “fair” referred to the broader set of conditions that must be in place in order for workers to be paid appropriately. It referred in particular to factors such as effective negotiation between workers and their representatives and employers, pay differentiation between workers with different skill levels, appropriate wage management systems etc. Given the communicated focus on living wages, however, some interviewees questioned why H&M group did not measure or communicate pay levels.

The term “fair” is also based on H&M group’s interpretation of the FWN’s FWM. According to this theory, the 12 core aspects that combine to create and uphold a fair wage include transparency in contracts and payslips, recognising workers’ skills, paying legal minimums and compensating both basic and overtime hours. Paying a living wage is just one of the 12 dimensions. Given the inherent complexity of this concept (which seeks to address a complex social and economic phenomenon), it is reasonable to consider that the thinking behind the name of the Roadmap was lost in translation and could not be meaningfully distilled into simple, coherent soundbites. Audiences believed the bold, headline vision statement and may have missed the pragmatic intricacies and complexity behind the concept.

Despite the ongoing controversy surrounding the impact of the Roadmap, H&M group’s FLWR has helped to establish fair wages as a major talking point in the industry and contributed to the formation of ACT. As one H&M group representative noted, “In order to get the industry moving, [you] have to be bold. [By bringing a] huge, almost impossible goal, [we were saying] how can we achieve this together?”.

4.3 Observations: Just pay more?

H&M group has reported that 500 of its suppliers’ factories, covering 635,000 workers²² are now implementing improved wage management systems. This is in line with the commitments it made in 2013, although it has not been possible to assess to what extent this has resulted in increased wages for some or all of these workers at this time. However, according to a 2018 CCC report,²³ some workers in H&M group’s supply chain receive between 10% and 50% of a living wage²⁴ and work up to 80 hours a week. The campaign group considers that H&M group has not met the goals it committed to achieve, and together with some other stakeholders, has called on H&M group to make clearer commitments to – and monitor progress towards – the actual payment of living wages by its suppliers. To make this possible, CCC proposes that H&M group should build long-term, sustainable relationships with its suppliers, an ambition that runs throughout the current FLWR, and demonstrate clear increases in ‘free on board’ (or ‘freight on board’, FOB) prices.²⁵

Among our interviewees, some agreed with CCC that in the short to medium term, H&M group can and should pay suppliers more, in order to help at least some workers realise their right to living wages and alleviate in-work poverty. “I completely agree that H&M group and other

²² Source: <https://about.hm.com/en/media/news/general-news-2018/3057029.html>

²³ Clean Clothes Campaign. Musiolek, B. (2018) H&M: fair living wages were promised, poverty wages are the reality <https://turnaroundhm.org/wage-research-september-2018>

²⁴ As defined by the interviewees, trade unions or the Asia Floor Wage.

²⁵ The FOB price typically includes everything up to the point of shipping, at which point it becomes the buyer’s responsibility to pay for and take on all risks associated with the transport of the goods to the buyer’s own premises.

brands should pay more and use their leverage to ensure workers are paid more”, one industrial relations expert noted.

A CCC representative added that brands should make wage improvements a condition of doing business, in the same way that suppliers are required to comply on child labour and health and safety issues. However, a trade union representative observed that to achieve a similar level of compliance on wages is far more complex.

While recognising the need to raise workers’ wages urgently, the majority of interviewees agreed that a ‘just pay more’ policy would not be sustainable or scalable if implemented.

As one ACT representative noted: “‘Just pay more’ won’t work – it would create a dual market - a few responsible brands would pay better prices that could enable a living wage, while others would still go for the cheapest possible price... We need to change the rules of the game rather than ask individual companies to choose to play fair”.

He also suggested that such a strategy would create isolated pockets of fairness within a broader situation of unfairness, with workers in some factories being paid well while others would continue earning less, leaving the underlying balance of power and inequalities in the supply chain unaddressed.

On the practical challenges of verifying that any additional price agreed for products reaches the pockets of workers, one labour rights expert commented: “If you give [suppliers] more money, they won’t give it to workers. There is no way to force a company to pay its workers the money you give them. And even if you could, which workers? Factories could have one line for [company A], one line for [company B], one line for H&M – should extra be paid only to those producing for H&M? How would you police that?”.

Additionally, as noted earlier, suppliers are operating in an intensely competitive market, with some accepting orders that are less than the true cost of production. Prof. Raymond Robertson highlights²⁶ that if suppliers shared surplus profit with workers without increasing productivity, this could put them at risk of closing. He adds that in a typical labour-economics model, increasing the price paid by buyers may only result in suppliers recruiting more workers, rather than paying their existing workers more.

This point is echoed by an H&M group representative, who told us that in the majority of the company’s suppliers’ factories, H&M group only accounts for a proportion of the supplier’s business, as is typical in the garment industry. “And if we need to move to another factory – if the supplier can’t deliver [the right] product quality, for example, what would happen to those workers [who were being paid more]?” he added. The supplier would lose H&M’s custom, having already committed to wage levels that would make it uncompetitive in the global market”.

The key to raising wages in a sustainable way, Prof. Robertson notes (if it is not possible to raise the market wage or share surplus profits with workers), is to raise productivity in ways that are valued throughout the market. In particular, he notes that all workers would benefit from more training (such as the training provided by H&M through the Centres of Excellence it is supporting). In this way, factories would value both workers with general skills (such as standard sewing skills) as well as those with specialist skills.

²⁶ See Appendix VI – Robertson, R. (2018) ‘Wage Economics’ - A Precip of Current Economic Theory

Nonetheless, Prof. Robertson also recognises that paying higher wages allows factories to select more productive workers, reducing the costs associated with high staff turnover and training, so there is an argument to raise wages in the short term.

For comparison, we considered some other wage initiatives in the garment sector and beyond that follow a 'just pay more' approach (see Appendix V). For example, US apparel brand Patagonia works with Fair Trade USA to pay a premium to suppliers, which the workers decide how to use. However valuable this is, it is not a sustained increased wage. Patagonia is, however, also working with the Fair Labor Association to establish living wage benchmarks.

Similarly, a small Swedish garment brand, Nudie Jeans, claims to be "paying living wages" by paying an additional premium to its Indian supplier for every pair of jeans made for Nudie, which factory managers then pass on to workers as a bonus. In this way, Nudie seeks to take its share of responsibility for paying living wages within the limits of its capacity. While a laudable effort to improve workers' pay package, the bonus is not a wage; it is only paid when the factory is making Nudie jeans, and because Nudie is the only customer of the factory that pays the premium, it does not amount to a significant increase for individual workers, certainly not up to a living wage.

Further, in the absence of a CBA, workers have not had a say in the process, which was negotiated between managers and Nudie Jeans, and have not been given the opportunity to describe how it could be designed to suit their needs. The process is entirely reliant on Nudie continuing as a customer and managers continuing to agree to pay the bonus.²⁷ It could be argued that a larger company like H&M group, that does dominate sourcing from some factories, could have a greater impact on wages, but the underlying issues of sustainability, replicability and the potential lack of collective bargaining remain.

A more sustainable model is that of Alta Garcia, a Dominican Republic-based supplier with a policy of paying living wages to all its workers, and respecting workers' rights. Buyers must make a conscious decision to pay more by opting to buy from this supplier.

Beyond the garment sector, workers belonging to the Coalition of Immokalee Workers (CIW) in Florida, USA, have themselves developed an initiative to improve their wages and working conditions on tomato farms in the United States, asking customers to pay a penny more per pound of tomatoes. In this case, the money goes directly to workers. Similarly, the Malawi 2020 Tea programme, a multi-stakeholder initiative to improve the quality of tea and enable the payment of living wages, developed a 'price discovery mechanism' to help buyers establish where they could increase prices. It collaborates closely with producers and worker representatives to explore how to channel any resulting increases towards wages. Both these models are sustainable because they are based on the voluntary cooperation of the supplier and – in the case of CIW – empowered workers.

Among H&M group interviewees, as well as trade union representatives and labour rights experts, the overriding perspective was that addressing the fundamental underlying causes of low wages remains the most effective way to achieve viable, long-term change. These stakeholders believe that the industry should work together on the issue towards shared goals. They saw strategic partnerships with suppliers as the key to building trust, rather than

²⁷ The Role of SMEs in Global Production Networks - A Swedish SME's Payment of Living Wages at Its Indian Supplier, Niklas Egels-Zandén, 2015 <http://journals.sagepub.com/doi/abs/10.1177/0007650315575107>

“transactional” relationships, and noted that buyers must take wages into consideration when negotiating prices.

Another stakeholder highlighted that if an effort by one company pushed wage levels up, that may be detrimental to the production country in the long term. “Other brands would just leave the [production] country,” he said. “That’s why we believe in an industry-wide approach.”

“It has to be systemic and it has to last,” another H&M group sustainability representative concluded. “This should be something that transforms the whole industry.”

4.4 Observations: Suppliers – Wage Management Systems

Gradual improvements have occurred in H&M group supplier factories on certain key aspects of wages, according to our factory interviews and other independent reviews conducted by the FWN and development finance NGO Microfinance Opportunities.

Firstly, H&M group representatives report a noticeable shift in mindset among some suppliers, which was borne out by our factory interviews. Suppliers are starting to see the benefits of improved wage management systems from a business perspective – as a way to both increase worker satisfaction and improve productivity and quality, while reducing worker unrest and turnover.

However, the implementation of the Roadmap is in its early stages and for many factories, the new systems have only been in place for a few months, so it is too soon for these changes to translate into an overall trend towards higher wages. H&M group’s efforts in the first two years of its Roadmap focused on building the foundations for change, running pilot programmes and learning from experience. This made sense, given that the methodology that was new to H&M group (and to the sector). H&M group has worked with the FWN in 336 factories in China, India, Bangladesh and Cambodia to deliver training on the FWM. In 2017, H&M group reported that “227 supplier factories, covering over 375,000 workers, have implemented an improved wage management system”.

With reference to the FWN’s 12 Dimensions of a Fair Wage, workers responding to our small sample survey highlighted that dialogue between workers and managers had improved. Some workers had seen progression to better paid jobs, in recognition of their skill level, and others had noted clearer pay slips or payments occurring on time.

The FWN’s own 2017 evaluation of 198 of the 336 suppliers implementing the FWM found that while there was definitely room for improvement on remunerating workers in line with their skills and workplace dialogue, wages had typically risen in participating factories. In Cambodia, wages at the 19 participating factories had risen by an average of 16%, compared to the initial assessment in 2016, which could be partially attributable to the FLWR but also reflects a general trend in Cambodia. Similarly, in China, where minimum wages also increased, workers’ wages rose by 8%, on average, in participating factories. Wages in China were frequently above the national average, and in some cases, near to or above living wage thresholds. In Bangladesh, the national picture was different, as minimum wages had generally stagnated across the country, which may have affected progress.

Nevertheless, the FWN found that in nearly a third of the participating factories (20), wages had increased slightly. However limited, this progression in wages is a positive development and should continue to be monitored – and compared with control groups within the wider economic landscape – to assess the extent to which increases arise as a result of the FLWR.

This point is echoed by Prof. Robertson, who suggests that in addition to monitoring wages in non-H&M group garment factories to make robust comparisons, H&M group might also measure progress against women workers' average earnings in a particular production country, or against the wages of comparable workers (particularly young women who lack access to education). The company could also gather data relating to external factors affecting wages (see Recommendations).

The Garment Worker Diaries study,²⁸ a 2016-2017 research project on garment workers' wages in Bangladesh and Cambodia, led by Microfinance Opportunities (MFO), has also found that "by almost every variable, workers are better off in H&M group factories". For example, the team discussed wage and working hour issues with 135 workers in Bangladeshi garment factories, of which nearly a quarter (33) worked in 14 factories supplying H&M group. Of these workers, 100% reported receiving written pay slips. They also tended to work less overtime (an average of 211 hours per month vs 229 for workers in non-H&M group supplier factories), although working fewer hours also yielded a lower overall income. The study also suggests that workers in H&M group suppliers' factories receive better hourly wage rates and skilled workers receive higher rates of pay (with an operator receiving 8,504 BDT per pay period compared to 7,854 BDT).

In the factories visited during this review, we observed that employers and workers had welcomed the wage grid as a practical, objective way of identifying appropriate pay levels for workers, based on their skill level and other factors. "Workers felt that [the wage grid] system was fair and motivated [them], as it encouraged [them] to learn how to operate new types of machines or improve working skills," one of interviewers commented. This more structured approach, advocated by the FWN, is enabling some workers in these factories to progress to better paid roles, in line with their skills and experience. Both workers and employers also noted that it had the potential to improve productivity and quality and reduce worker turnover.

In at least one of the Bangladesh factories we approached, employers are now conducting wage reviews every quarter, rather than annually, meaning that some workers have the opportunity to gain several wage rises per year based on these assessments. H&M group hopes to see wage grids included in ACT's ambitions, and wage levels factored into the collective bargaining agreement for which ACT is calling.

On overtime hours, the Garment Worker Diaries study found – throughout Bangladesh – that many factories did not pay workers the correct wage for overtime: "For respondents in H&M factories, we found that they were more likely than respondents in other factories to receive a salary that was at or above the legally required minimum for the number of overtime hours they worked. However, in almost half of the pay periods we observed, H&M respondents still received a wage that was below the legally required minimum, given the number of overtime hours they worked". It is possible that workers responding to the Garment Worker Diaries survey did not fully understand their rights or pay slips, which could have clouded their responses. However, either way this is a cause for concern that should be fully analysed.

Overall, it is important to note that wages have not risen for all workers in the diverse factories surveyed by FWN, Microfinance Opportunities and ETI. In particular, workers are still not being paid a living wage when compared to third party calculations of living wage levels. Many workers are still struggling to cover basic living costs with their standard weekly pay, and in

²⁸ Microfinance Opportunities, Garment Worker Diaries, workerdiaries.org

some cases, taking out loans to cover basic expenses such as milk for babies and medical care. The Garment Worker Diaries study found that despite having marginally higher salaries and smaller debts, H&M group suppliers factory workers are still just as likely as comparison factory workers not to be able to buy sufficient food for their families. This is also reflected by the FWN evaluation, which noted that workers in Cambodian factories were still working a high number of overtime hours in order to cover the cost of living.

Nevertheless, H&M group is being approached by other companies that want to learn how it has achieved the progress made to date, which is a strong indicator that other industry leaders see progress. H&M group is also keen to share the lessons it has learnt, and is already collaborating with other organisations and initiatives to share its knowledge. For example, the ILO's Better Work programme intends to include references to H&M group's Roadmap in its guidance for factory managers. Meanwhile, the NGO Solidaridad has created a wage management system implementation package, funded by ASN Bank, which it intends to pilot in garment factories in China in 2019.

4.5 Observations: Workers - Worker empowerment

Improved workplace dialogue is central to workers being more able to raise issues via their representatives, and where permitted, negotiate better pay and conditions with their employers. Effective representation and social dialogue reduce the fear of reprisal and help employers to form a better understanding of workers' needs.²⁹ We noted a trend towards better social dialogue through our factory interviews, with workers and managers reporting better communication and cooperation. As a result, some workers and their representatives typically felt better informed on pay issues. From managers' perspective, workers were more likely to make reasonable demands, and less likely to strike, which in turn contributes to improved business stability.

In Cambodia, H&M group's workplace dialogue efforts have led to workers and unions feeling more able to negotiate with managers in some cases. For example, when workers at one factory were made redundant following low order volumes from H&M group, their representatives negotiated with managers for either reduced working hours instead of redundancies, or for workers who lost their jobs to be guaranteed a position if order volumes improved. An ILO representative in Cambodia also felt that H&M group's workplace dialogue efforts had enabled workers to negotiate better conditions, although not necessarily wages.

Workers in the sample Cambodian factories we visited may also have developed a greater awareness of their rights (compared to non-H&M group factories), with more workers opting to report cases of discrimination. However, there is no evidence to suggest that awareness has grown in all H&M group production countries. The Garment Worker Diaries study found that workers in H&M group supplier factories in Bangladesh were often unaware of not receiving the legal overtime rate, for example.

In 2017, H&M group reported that "458 supplier factories and more than 620,000 workers have been reached by our workplace dialogue programmes". Additionally, it has noted that all the factories from which H&M group sources directly in Bangladesh have democratically elected worker committees in place, with 2,882 workers elected, 40% of them women.

²⁹ ETI runs a social dialogue training programme, based on H&M's workplace dialogue model.

H&M group's workplace dialogue programme has some limitations. Its implementation depends on factory owners' willingness to participate, and there are some country-specific barriers to consider. In Bangladesh, for example, the programme focuses on the free election and training of Participation Committees (PCs), worker committees that negotiate on issues affecting workers. However, these PCs are not authorised to negotiate on wages, which is the legal remit of unions.

Additionally, while social dialogue can improve relations between workers and managers, effective formal trade union representation will be likely to have a more direct impact on changing wage systems in factories. H&M group's FLWR focus on industrial relations and collective bargaining agreements demonstrates an understanding of this point, and a trade union representative who was involved in the programme explained that the PCs were intended to enable the formation of trade unions. This has not in fact happened to any great extent in H&M group suppliers' factories, and it is not clear how the intended progression from PC to trade union is being addressed.

In terms of associating freely as part of unions, the Garment Worker Diaries study was inconclusive. No respondents reported that their factory owners threatened or harassed union members, although 21% admitted that they did not know whether this practice took place. A few individual cases suggested that unions were not in place, with five respondents reporting that their factory had no union at all and one respondent reporting that factory owners hand-picked union members. The reviewers noted no trade union presence in three of the four factories visited in Bangladesh, which is not out of the ordinary given the low number of unions in the wider industry. In terms of H&M group's efforts to create mechanisms for constructive industrial relations, the reviewers' factory interviewees gave largely positive feedback on the NMCs created by H&M group in five markets (see section 3.4c Industrial Relation). To our knowledge this remains a unique mechanism in the industry, even among others with GFAs, and should be considered good practice in turning a global agreement into a practical industrial relations tool.

Overall, our findings suggest that there have been positive improvements in workplace dialogue, and although there are other efforts to support social dialogue in garment factories, no other apparel brand is working on the same scale. Social dialogue is still relatively new to the industry as a whole, and it is likely that the full benefits will only be realised over time, with continued support (particularly given the entrenched power imbalance between workers and their employers). It will be important for H&M group to measure the effectiveness of its broader workplace dialogue programme in order to understand its impact over time on factory working conditions and benefits, and how this supports improvement on wages and other pressing labour rights issues.

4.6 Observations: Company – Purchasing practices

An H&M group interviewee described purchasing practices as “the enabler and major engine behind Collective Bargaining Agreements (CBAs)”. Since the introduction of the FLWR, H&M group has focused on two key aspects of its purchasing practices:

- 1) How its practices influence suppliers' capacity to deliver on orders (including in terms of planning, forecasting, execution and deviation); and
- 2) How to move towards fully open costing and transparent prices, in order to exclude labour costs from price negotiations.

According to one H&M group representative, this is “purely good business”. “We would do this even if didn’t have sustainability [benefits]; it means better relationships, more efficient forecasting...and all that leads to better wages – that will be a product of the system,” he explained. He also added that this is driven by H&M group’s understanding that the ‘race to bottom’ among suppliers on price no longer works. “Business partners [H&M group and its suppliers] need to be more advanced and have less transactional relationships,” he said.

H&M group has shared this approach through a workshop in Cambodia with all ACT members, through which members explored how to take wages out of the price equation. It has also introduced an app to help calculate wage components, including cost per minute and factory efficiency. Once the wage element is set aside, suppliers and H&M group can look at where else they can make savings instead. H&M group describes this as a “scientific” process for establishing purchasing practices that support decent wages.

This is a considered and comprehensive approach to reviewing how purchasing practices affect the relationship between buyer and supplier. Furthermore, we believe that H&M group not only genuinely realises that this has the potential to yield business benefits for both themselves and the supplier, but that it is a vital component in ensuring wages are not under undue pressure. However, the reviewers heard from the factory managers we interviewed that some of H&M group’s purchasing practices, including strong price pressure, orders with shorter lead times and reduced volumes, continue to reduce their margins and impinge on their ability to plan production effectively. This may prevent suppliers from being able to move towards paying better wages. For example, some interviewees thought that there had not been sufficient progress on negotiating fair FOB prices, which in turn could be hindering the payment of fair wages.

Given this feedback, there may have been some inconsistency in terms of how the H&M component of the FLWR strategy was implemented across the group. Similarly, the group’s buyers may not have fully integrated the new approach into the daily activities. H&M group’s own 2017 supplier survey suggests that 94% of its 698 respondents are happy with their business relationship with H&M group. Such online surveys conducted by brands do have value, but also inherent limitations on sensitive issues (given the precarity of the brand-supplier relationship). Of the small number of suppliers interviewed by reviewers, a few still considered that H&M group’s purchasing practices posed challenges for their business. H&M group’s survey also indicates that only a few suppliers (23%) believe they can contribute to the company’s sustainability efforts. This may reflect that the FLWR is still early on in its implementation for many suppliers. We were unable to test this theory within the limited scope of the review, but suggest that H&M group ensures that all buyers are fully aware of and applying the purchasing practices strategy.

This area of the FLWR is an important factor to monitor as, across the industry, corporate purchasing practices are a significant cause for concern. For example, in 2017, the Joint ETIs and the ILO reported that 39% of suppliers (among some 2,000 suppliers supplying ETI members) at times accept orders below the cost of production.³⁰ As well as lowering their ability to pay workers appropriately or invest in areas such as worker health and safety, this can also hinder suppliers’ long-term competitiveness or even threaten the sustainability of their business. Similarly, short lead times do not allow suppliers to plan production effectively,

³⁰ ILO (2018) Purchasing Practices and working conditions in global supply chains: Global Survey results Op. Cit. See also Joint Ethical Trading Initiatives’ Guide to Buying Responsibly, 2017 <https://www.ethicaltrade.org/resources/guide-to-buying-responsibly>

with potential consequences including overtime, increased production costs and delayed deliveries.

Additionally, the Joint ETI-ILO report found factories often hear conflicting messages from ethical trade, sustainability and purchasing teams. For example, 90% of suppliers are expected to adhere to a Code of Conduct (CoC), yet 10% (or less) of buyers incentivise ethical improvements, and many companies do not provide sufficient support to help suppliers meet their CoC requirements. To prevent this type of conflicting message, H&M group has sought to create dialogue and collaboration between sustainability and purchasing teams, with senior buying managers attending ACT meetings.

H&M group's FLWR strategy has clearly and rightly embedded the need for changes in purchasing practices, so it is important that this is rapidly and widely rolled out in full. In an open letter published in 2014, H&M group wrote: "Our purchasing practices will enable the payment of a fair living wage and increased wages will be reflected in our prices, taking also into account productivity and efficiency gains and the development of the skills of workers, carried out in cooperation with unions at workplace level". However, H&M group notes that this promise did not in fact refer directly to FOB prices but rather to the Cut Make Trim prices, prices paid for the manufacture of the garments only, and acknowledges that it did not communicate its intention clearly.

As one industry association representative noted: "There is no evidence of change in pricing in Cambodia...The pledge³¹ used vague language and the global trend is that prices are in decline; why would they treat Cambodia differently?"

Indeed, all brands failed to increase prices to keep pace with higher minimum wages in Cambodia, according to a 2015 Garment Manufacturers Association in Cambodia (GMAC) survey, despite their 2014 pledge to raise prices. While there is undoubtedly more progress to be made on purchasing practices, commercial and economic constraints may also have been a contributing factor here. Garment export prices from Cambodia to the US declined by nearly 24% between 2006 and 2015, for example.³² This downward trend in prices is also leading to a growing gap between men and women's earnings, according to researchers.³³ One H&M representative also noted that the past two years had been a "difficult trading time", which has made progress on purchasing practices harder. The company's purchasing policy (now superseded by its commitments as an ACT member) states that "fair, transparent and comparable pricing is a prerequisite for fair jobs with good working conditions and adequate compensation to the suppliers' employees".

Factory managers in Bangladesh and Cambodia opined that it was easier to do business with H&M group than with some other brands. But although they considered that H&M group was generally more responsive to supplier concerns, some felt their buyers still negotiated aggressively on price. Some factory managers in Cambodia also reported more frequent pattern changes and order fluctuations, which in turn makes it harder and less cost-effective for them to implement effective wage management systems. We were unable to test this assertion, but would suggest that putting good planning, human resources or wage systems in

³¹ The pledge by eight major apparel brands, including H&M, to raise the prices they paid suppliers in Cambodia following the government's violent reaction to worker unrest over wages.

³² Trends in Cambodian garment and footwear prices and their implications for wages and working conditions, ILO, 2016

³³ Prof. Raymond Robertson 'Wage economics' briefing paper

place should enable better management. We also recognise that more frequent order changes does incur set-up costs for the supplier, which then need to be recovered.

We welcome H&M group's plans to reduce suppliers' production peaks and enable them to better plan capacity, as well as its ambition to remove labour costs from price negotiations. As was noted in interviews with some H&M group employees, winning over supplier management on this initiative was sometimes more of a challenge than expected, which slowed implementation. We note that for many suppliers, this new approach has only been in place since 2017, and will take time to fully realise its benefits. H&M group should continue to support and assess progress of implementation.

Given that H&M group's work in this area is now largely conducted with and through ACT, please see below the purchasing practice commitments under the ACT initiative.

Ensure purchasing practices facilitate the payment of a living wage by **taking labour cost out of competition.**

- Provide country specific support for the first countries implementing the ACT approach, as in the case of Cambodia, offering a commitment to increase **sourcing** for a defined period of time.
- **Exclude unfair competition** by moving to exclusive sourcing from suppliers/manufacturers in pilot countries that ensure freedom of association and continuous and substantive wage growth based on industry wide bargaining agreements.
- **Change purchasing practices that are impediments to progress towards living wages**, based on self-assessment and supplier feedback.
- **Support long term partnerships** with manufacturers to enable/reward progress to paying a living wage.
- **Incorporate higher wages** as a cost item in their purchasing price calculations.

4.7 Observations: governments – minimum wage advocacy

It was widely recognised through our interviews that the governments of production countries need to create the regulatory framework for a level playing field on wages and wage growth. If this does not happen, any companies that choose to support payment of higher wages voluntarily risk being undercut by less scrupulous competitors.

In terms of advocating for change, ACT represents an unprecedented move by the apparel industry to push collectively for better wages at government level, and across the sector in multiple sourcing markets. The ACT initiative is regarded by all interviewees as credible, viable and sustainable, with widespread support from industry, unions, governments and civil society, although one ILO representative warned that this “must be accompanied by enterprise-level work as well”. An industrial relations expert concurred, opining that “ACT cannot be used as an excuse [for companies] not to improve practices with [their] own suppliers”.

In Cambodia, around 50% of all garment workers work for ACT member suppliers, most of whom supply H&M group. The company therefore perceived a strategic advantage in opting to

use ACT as a primary vehicle to help achieve its ambitions on minimum wage advocacy as well as its purchasing practices ambitions. However, CCC considers that this has also slowed the rate of progress on H&M group's original Roadmap commitments. The campaign group also suggests that ACT, despite its good intentions, ought to agree binding goals, in a similar way to the Bangladesh Accord on Fire and Building Safety, in order to drive concrete progress. This is a matter for ACT as a whole to consider, rather than H&M group in particular.

Some interviewees also questioned the feasibility of a sector-wide collective bargaining agreement (one of ACT's key objectives), given that half of industry suppliers in Cambodia will not be influenced by ACT's activities. These suppliers would be required to pay higher wages without benefitting from reformed purchasing practices and potentially higher prices paid by ACT members.

Interestingly while some think progress is slow one labour rights expert expressed the view that ACT is trying to move too fast, overlooking the fact that there is "no real culture of CBAs" in Cambodia, for example. To address this issue, ACT's Executive Director met with Cambodia's Minister of Labour and Vocational Training in September 2018. The Minister has subsequently issued a statement to the effect that the two parties are "discussing a plan to develop a collective bargaining agreement aiming to improve the garment sector, while ensuring [ongoing] orders of garment products from Cambodia." An H&M group representative described the impending CBA as "a revolution in the industry's development".

Within ACT and the industry more widely, H&M group is perceived as a leader, with most interviewees acknowledging the company's leadership and influence. One ACT representative said: "If H&M makes a proposal, you know that they have done their homework; they have discussed it widely within the company and done research." A trade union leader added: "H&M have made a very strong contribution to ACT and have been a driving force behind this, which is appreciated." Importantly, senior H&M group buyers have attended ACT meetings, helping to overcome the 'disconnect' that often exists in apparel companies between corporate responsibility goals and buying practices.

H&M group has also played a prominent role in advocating with governments on labour rights at a company level. The company's CEO, Karl-Johan Persson, met with the Prime Minister of Bangladesh in 2012 (to discuss minimum wage and annual wage reviews) and the Cambodian Prime Minister in 2013 (to discuss the urgency of annual wages reviews and effective industrial relations).

This engagement was viewed as positive by all stakeholders, with H&M group praised for setting itself apart from other brands by engaging with senior government officials, speaking out about labour rights issues and urging reforms around wage practices. Advocacy efforts in Bangladesh and Cambodia by H&M group and other brands may have been a contributing factor in the subsequent minimum wage rises that occurred in these countries (in 2013 and 2015 respectively). However, other likely drivers for these rises were garment worker unrest, pressure from unions and the political interests of the major ruling parties.

Importantly, a CCC representative noted that initiatives such as H&M group's FLWR should not be perceived by governments as a reason not to address the wage issue at a policy level. She added that CCC had already observed reluctance among policy-makers to take action, deciding instead to see what results arose from corporate efforts.

In Ethiopia, where garment industry production is in the early stages of being established, the ILO described H&M group as an important and consistent ally in lobbying the government to establish a wage-setting mechanism, which it is now seriously considering. According to an ILO representative, “If business is saying ‘improve wages’ they [the government] are more likely to listen, because they are interested in foreign direct investment.”

Overall, H&M group’s willingness to speak out on key issues in the sector, including but not limited to wages, is widely appreciated, recognised as leading in the sector and should be applauded.

5 Wages: Minimum, basic and living

There is much written globally about wages, including on the value of setting minimum wages. However, it is firstly important to define minimum wages. The ILO defines a minimum wage as “the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract”. In terms of the minimum wage itself, the ILO further states: “The purpose of minimum wages is to protect workers against unduly low pay. They help ensure a just and equitable share of the fruits of progress to all, and a minimum living wage to all who are employed and in need of such protection”.

A minimum wage is therefore a legal requirement that cannot be reduced and serves the dual purpose of protecting workers and ensuring that workers receive a minimum share of the supplier’s profit. Minimum wages might be set at a national or sector level. Employers can and should pay a wage or wage rate above this minimum. Indeed, very few, if any skilled work, would be paid at a national minimum as it is very unlikely to attract or retain workers.

The ‘basic wage’ is defined as a rate of pay for a standard work period exclusive of such additional payments such as bonuses and overtime. The basic wage is therefore not a regulatory level but the actual wage that an employer is willing to pay in exchange for labour in a certain set of circumstances. Basic pay in different industries can vary widely and is sometimes set by the employer alone, or through negotiation with trade union representatives. This is essentially a labour market approach.

A ‘living wage’ is a wage earned in standard working hours that is sufficient to meet the real cost of living, calculated from a basket of household goods and services, and which would allow for the worker to support their family and live in dignity, with a surplus for emergencies. In the UK, for example, there is a national minimum wage (inaccurately called the ‘National Living Wage’), the Real Living Wage (based on an independent calculation of living costs) and basic wages that vary according to different business sectors.

83% of people in 13 of the G20 countries believe that the minimum wage is not enough to live on, according to a 2017 International Trade Union Confederation (ITUC) poll. Despite economic growth, wages for most workers have stagnated globally, and have not kept pace with rising productivity. Wage inequality is increasing, with workers seldom seeing the benefit of increased profits through pay rises, while falling export prices in some garment production countries have also led to a deepening gender pay gap.³⁴ The net result is that many millions of workers do not earn enough to achieve a decent standard of living or access sufficient

³⁴ Prof. Robertson ‘Wage economics’ briefing paper

healthcare and education, particular where they are not covered through a national health system. Many remain trapped in a cycle of in-work poverty,³⁵ or near poverty.

In Bangladesh, the Global Living Wage Coalition notes³⁶ that the “large gap between minimum wages and our [estimated] living wages is due to the low wages in the garment industry”. Apparel brands and retailers are being called upon to take responsibility for helping to address this shortfall, alleviate poverty and advance sustainable development in production countries. H&M group’s FLWR can be viewed as an effort to take responsibility and leadership on this complex issue.

By empowering workers to engage in effective workplace dialogue with managers, H&M group believes that workers’ basic wage will move towards a level that meets their needs, with further benefits and performance-related pay arising from fair pay systems. H&M group and ACT are pushing for collective bargaining agreements that will focus on a liveable basic wage, rather than legal minimum wage levels, in order to achieve living wages. There is logic within this strategy. Given the economic value generated via international garment supply chains, a negotiated agreement on basic wages that is built into the purchasing practices, pricing and business model of the sector may be more achievable than trying to influence national minimum wages. The latter have a wider remit (beyond the garment sector) and involve wider institutional engagement.

However, if this dialogue occurs instead of rather than complementary to continued action to encourage inclusive regular and predictable minimum wage setting, this could have negative consequences for those who are not directly affected by the collective bargaining arrangement. We would therefore encourage H&M group to continue working with governments to advocate on effective systems for minimum wage-setting in line with ILO best practice.

The strategy above is inherently long term, and as mentioned above, some therefore argue that apparel companies could instead, or in addition, choose to request that their suppliers pay workers more than the minimum wage, and enable them to do so through immediately improving purchasing practices. The Garment Worker Diaries study found that workers in Bangladeshi factories supplying H&M were generally paid slightly higher than workers in non-H&M factories, even though collective bargaining does not yet exist for the sector.

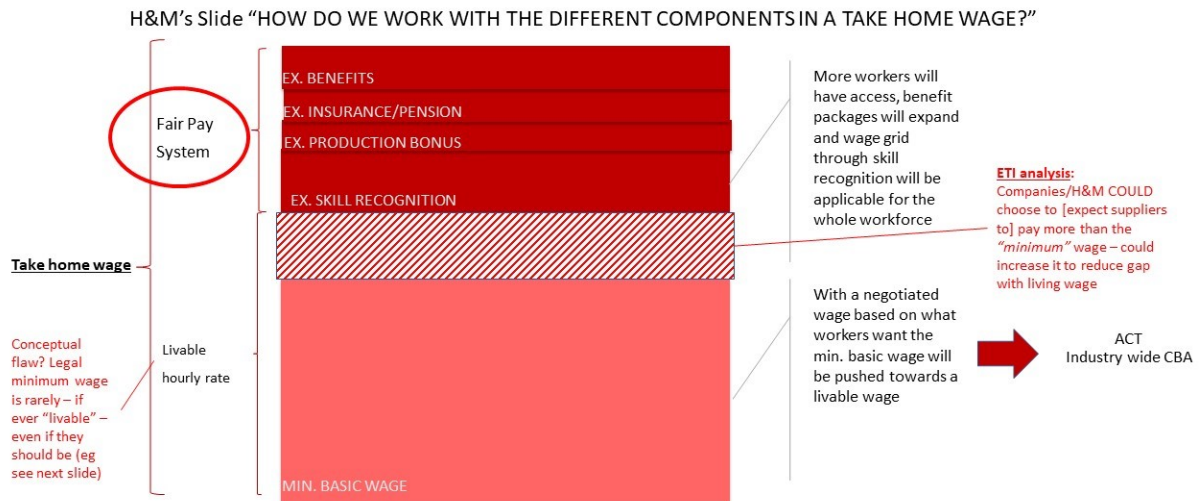
Importantly, recent research conducted on the ILO’s Better Work programme in Vietnam indicates that it is possible for suppliers to raise workers’ wages without adversely affecting profits.³⁷

Figure 5. H&M group view of minimum wages and the supplementary income provided via fair pay systems (with ETI analysis/comments)

³⁵ Oxfam. Wilshaw, Rachel. (2015) In Work but Trapped in Poverty. <https://policy-practice.oxfam.org.uk/publications/in-work-but-trapped-in-poverty-a-summary-of-five-studies-conducted-by-oxfam-wit-578815>

³⁶ Global Living Wage Coalition. Khan, M.E; Anker, R; Anker M et al. (2016) Living Wage Report Dhaka, Bangladesh and Satellite Cities. https://www.isealalliance.org/sites/default/files/resource/2017-12/Dhaka_Living_Wage_Benchmark_Report.pdf

³⁷ <https://betterwork.org/blog/portfolio/better-work-discussion-paper-n17/> , quoted by Prof. Robertson.



The Global Wage Coalition's 2016 report

“Our estimate of a living wage for Dhaka, Bangladesh is Tk13,630 (\$177) per month for its satellite districts like Narayanganj, Ashuliya and Ghazipur and Tk16,460 (\$214) for Dhaka City (Mirpur). These estimates are more than twice the minimum wages in the garment industry in Bangladesh.

This large gap between minimum wages and our [estimated] living wages is due to the low wages in the garment industry, as indicated by the fact that current wages excluding overtime are lower than [or only slightly above] the urban poverty line wage for many garment workers.”³⁸

6. Recommendations

6.1 Approaches to build on

Based on our review of the FLWR strategy and its implementation to date, we find that the strategy overall is broadly the right one, containing some strong elements that seek to address the long-term, systemic root causes of low wages. The following are activities already undertaken by H&M group that we recommend it continues to address:

- Continue to pursue the strategy with its four interdependent components, while involving other brands through diverse initiatives, including and beyond ACT.
- Continue to play the leadership role it has established in this space, particularly within ACT, as a medium to long term strategy.
- Continue to implement and assess changes in purchasing practices at factory level, in order to ensure that this is being effectively applied throughout the group, and the impact of this is being robustly assessed.

³⁸ Living Wage Report, Dhaka, Bangladesh and Satellite cities, Global Living Wage Coalition 2016

- Continue to be an ally to organisations like the ILO in advocating for better wage-setting systems and minimum wage levels to production country governments, particularly beyond ACT priority countries.
- Continue to develop strong relationships with suppliers and be responsive to their concerns, in order to ensure that the intrinsic power imbalance within the partnership does not lead to the suppression of workers' wages. In particular, support suppliers in adopting effective systems and technologies that help to boost productivity (although not at the expense of decent working hours or loss of jobs to mechanisation).
- Continue to capture (more regularly) and communicate (more clearly) evidence of the impact for workers of improved wage management systems and workplace dialogue.
- Continue to build on existing knowledge-sharing efforts with other companies and organisations, in order to help bring positive impacts to the industry beyond H&M's own supply chains.

However, wage levels among garment workers remain low – and wage growth is slow – across the industry, including in H&M's supply base, with some workers still unable to access their basic human rights, and some not always receiving legal overtime rates.

The reviewers therefore recommend taking urgent action across multiple topics:

6.2 Towards a living wage

- **Ensure H&M group's 'fair, living wage' definition is complete and consistent** - Include both standard working hours and discretionary income in its 'fair living wage' definition in all communications, internally and externally, ensuring that both aspects receive attention during implementation of the strategy.
- **Focus on improving the basic rate of pay for all workers and particularly for women** – Work closely with suppliers for a standard weekly wage that is closer to a living wage in factories where H&M group has greater leverage, particularly where ACT is not active. While this may be challenging, although not impossible for entry-level wages, the FWM and WMS have demonstrated positive impacts and could be further developed to move wages closer to a living wage level for more workers. Women workers in particular should be supported to benefit from this approach through additional training, such as is provided by the Education Centres supported by H&M group. Supporting strategic suppliers to conduct a gender analysis may also help to identify and overcome the principle barriers to enabling women workers to develop their skills. Combined with implementing improved purchasing practices, this could succeed in achieving short-term wage increases for many workers, alongside the development of longer-term wage improvement conditions.

Resources

- **Review H&M group resources devoted to the FLWR** - A strategy of this scale and complexity requires considerable human and financial resources. We recommend that H&M reviews whether it has sufficient resources in place to accelerate the implementation of FLWR and secure fair wages and decent labour conditions for workers. Overall, companies should implement policies and processes that are appropriate to their size and circumstances.

Strategy and theory of change

- **Clearly articulate how the FLWR components help to raise wage levels** - Set clear, consistent and achievable goals, accompanied by indicators that can be measured and reported on a regular basis, and taking into account relevant

benchmarks and comparisons (see Monitoring and measurement below). Goals should focus on the overall outcomes that H&M group aims to achieve rather than relating to individual activities. They should be accompanied by a clear ‘theory of change’ explaining why the company believes that the actions it is proposing to take will lead to certain results, and why it believes these results will eventually lead to the attainment of living wages in the garment sector.

Combined, we believe the elements of the FLWR theory of change (improved purchasing practices creating value to underpin improved wages; effective wage management systems enabling factories to better reward skills and productivity, and workers to know how much they should be earning; workplace dialogue creating a constructive environment for collaboration, common goals and effective resolution of workers-management issues; and advocating for minimum wage setting mechanisms and basic wages based on collective bargaining arrangements that raise wage rates) will create the enabling conditions for garment wages to rise, over time to a living wage level.

While we understand that this theory of change may be implicit in H&M group’s FLWR strategy communications, we believe that this should be articulated more clearly. This will both benefit external stakeholders and help to ensure that H&M group employees at all levels and in all functions fully understand how they are contributing to the overall goal of the FLWR.

- **Consolidate and integrate FLWR approach** - Implement the FLWR in a more coordinated and integrated approach in each production country, and ensure that in each market, all four elements (purchasing practices, effective wage management system, worker empowerment, minimum wage advocacy) are applied simultaneously and in a coherent, connected manner. This will be the case in Cambodia, pending industry-wide collective bargaining negotiations, for example. In this way, the potential impact of the complete strategy could be observed, measured and reported, with the lessons learnt informing decision-making within H&M group and across the industry.

Purchasing practices

- **Accelerate improvements in purchasing practices** - Provide further training to H&M group buyers on the FLWR strategy and purchasing practice component to ensure that the desired approach is faithfully and fully implemented. The actual experience of suppliers should be measured by a third party rather than by H&M group itself, given how sensitive this can be and how critical a component this is for success. As part of this effort, H&M group is encouraged to give clearer evidence of how it is calculating (and excluding) the cost of labour within its price calculations.
- **Improve forecasting and production planning more rapidly** – Provide suppliers with more accurate order information, allowing them to plan production more effectively, and reduce the risk of incurring high costs and paying low wages.

Communication

- **Make clearer, more realistic public commitments** – Share strategy, the theory of change and progress, report on interim outcomes and continue to communicate clearly about successes and opportunities for improvement, including the reason why any strategy adjustments are made. Rather than simply communicating numbers reached,

we suggest that it would be better to communicate the results of actions taken. This could include changes in attitude and behaviour, implementation of wage systems and how they are affecting workers, and workers' sense of security, dignity and motivation in the workplace etc. (See 'Monitoring and measuring' below). Communicating the numbers of workers and factories reached is only a milestone on the road towards more important outcomes and impact for workers.

- **Advocate within ACT for greater transparency** – H&M group is encouraged to use its influence within ACT to ensure that the initiative's goals, strategy and progress are clearly communicated. Many actors in the space are watching ACT and stand to learn equally from its successes and lessons learned. Greater transparency would also help to reassure those who may be sceptical of corporate-led supply chain initiatives.

Monitoring and measurement

- **Establish an effective monitoring and evaluation system** that measures not only actions and outputs (e.g. number of training sessions delivered, or factories/workers reached) but also the outcomes of the actions (e.g. increased awareness, changes in behaviour, and – above all – changes in wage levels),³⁹ and communicate these clearly. Tools such as Outcome Mapping⁴⁰ and SenseMaker⁴¹ can be used to quantify or measure 'soft' impacts such as changes in attitude or receptiveness to ideas. They also support the collection of qualitative evidence, which is valuable in its own right and could provide the basis for meaningful public communications on the progress of the FLWR. H&M group should build on its positive record for transparency and share data on the FLWR and its progress with stakeholders.
- **Monitor progress against relevant benchmarks and comparison groups** – This could include non-H&M group apparel factories, women's average earnings in the economy or wages of comparable workers elsewhere in the economy (particularly young women who lack access to education). H&M group could also gather data for other key external factors that may affect wages, so that the impact of the FLWR is clearly identified.
- **Calculate the real cost of living** – We recommend working with relevant organisations (e.g. Global Living Wage Coalition or Wage Indicator Foundation) to assess living costs in diverse production countries, research living wage levels in relevant markets and develop wage ladders including national poverty lines, minimum and prevailing wage levels and the living wage level. These will be relevant for the industry as a whole and help as a benchmark for progress. Monitor the gap on an ongoing basis to establish whether and at what rate it is closing, and conduct thorough analysis to understand what is driving the change or preventing it. Use this understanding to adapt the FLWR strategy and explain the changes to stakeholders.
- **Monitor impact of improved purchasing practices** - Develop tools and methodologies to measure improvements in purchasing practices, firstly by establishing FLWR-related KPIs for H&M group employees responsible for negotiating prices with suppliers, and secondly by engaging with a credible third party such as Better Buying.⁴² Any H&M group surveys should be implemented by a trusted third

³⁹ ETI has also provided this feedback to H&M in response to its annual ethical trading report to ETI

⁴⁰ <https://www.researchtoaction.org/2012/01/outcome-mapping-a-basic-introduction/>

⁴¹ <http://cognitive-edge.com/sensemaker/>

⁴² www.betterbuying.org

party to increase the chance of robust accurate feedback, particularly when it comes to understanding the impact of purchasing practices. They should be designed so as to help H&M group uncover the root cause of any related production, working conditions or pay issues.

H&M group is confident that its investment in its own monitoring initiatives will help drive sufficient change on purchasing practices. However, the Better Buying approach of inviting suppliers to provide anonymous feedback on their customers is being carefully watched by stakeholders, and it would be in H&M group's interests to encourage its suppliers to participate. It would also provide another source of data to compare with its own monitoring of the FLWR's outcomes.

H&M might consider working with a credible academic group as an ongoing monitoring partner to help design and implement ongoing monitoring and evaluation of progress.

Ends.

APPENDIX I - Disclaimer

H&M group has corporate ETI membership. ETI seeks to help its members to make the best possible progress towards meeting human rights standards in global supply chains and it is therefore in our interest to be completely objective in this review. ETI has undertaken this review in good faith and has made its judgements based on the evidence available, using independent consultants and drawing on both primary research data and data provided by H&M group and by external organisations.

ETI runs a Social Dialogue programme in Bangladesh that is based on the principles of H&M group's Workplace Dialogue programme – with some adjustments.

APPENDIX II - Methodology

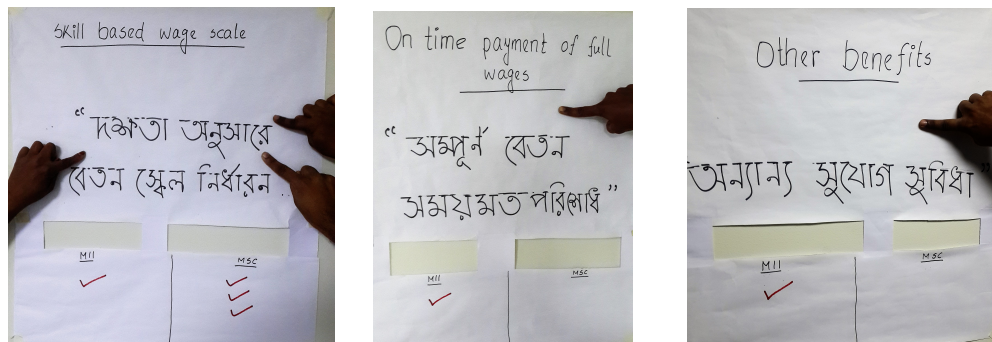


Image: Hasan Iqbal, participatory workshop with Bangladeshi garment workers for this review. Sept. 2018

To assess the progress of H&M group's FLWR, ETI conducted both stakeholder and factory interviews, and conducted a literature review.

- We interviewed 27 external stakeholders, representing trade unions, the International Labour Organization (ILO), SIDA, academics, suppliers, ACT, consultants, IndustriALL and NGOs. In addition, we spoke to 18 H&M employees from relevant teams (e.g. sustainability, business development, sourcing) based across the world (in Hong Kong, Stockholm, Bangladesh, Cambodia, China, Ethiopia, Turkey and Germany).
- We visited and conducted interviews at eight factories supplying H&M group in Cambodia and Bangladesh (four in each country). We spoke to a broad cross-section of people, including senior managers, middle managers, trade unions, workers and worker committee representatives, reaching approximately 160 people overall.
- We reviewed H&M group materials including country reports, FLWR evaluations and reviews, strategy and planning documents, country reports, guidelines, sustainability reports and videos.
- We studied ILO wage reports, ACT briefings, and reports by SHIFT and the Clean Clothes Campaign. To supplement our own factory visits, we also reviewed independent studies of progress on wages in factories supplying H&M group factories led by the Fair Wage Network and Microfinance Opportunities.

ETI team

ETI's review of H&M group's FLWR was led by its Executive Director, **Peter McAllister**, and supported by senior ETI advisors and expert consultants.

The team included:

- **Sabita Banerji** Independent consultant. Managed the project, conducted interviews, consolidated findings, steered and contributed to the analysis and development of the final report.
- **Martin Buttle** ETI expert on ethical trade within the apparel and textiles industry, advised on analysis.
- **Katharine Earley** Writer. Drafted and contributed to the report.
- **Grace Gao** – consultant. Conducted factory and external stakeholder interviews in Cambodia.
- **Hasan Iqbal** and **Kamrul Dewanjee** (ProActive Engineers) Independent consultants. Conducted factory and external stakeholder interviews in Bangladesh.
- **Anuja Madore** Research assistant. Compiled data on wage levels and the garment sector in Bangladesh and Cambodia
- **Prof. Raymond Robertson** Professor and holder of the Helen and Roy Ryu Chair in Economics and Government in the Department of International Affairs at the Bush School of Government and Public Service. Provided expert knowledge on the macro-economic context for low wages in production countries in the form of the ‘Wage economics’ briefing paper (see Appendix VI)
- **Ben Rutledge** ETI specialist in the UN Guiding Principles on Business and Human Rights. Conducted interviews and advised on analysis, particularly pertaining to Cambodia.
- **Khun Tharo** Consultant. Interpreter for Cambodian interviews.
- **Yun Gao** and **Kadir Uysal**, ETI managers, conducted supplier interviews in China and Turkey and **Francis Booker** provided administrative support.

APPENDIX III – Bibliography

ILO publications:

- (2017) Huynh, P. Developing Asia’s garment and footwear industry: Recent employment and wage trends
- (2018) India Wage Report: Wage policies for decent work and inclusive growth
- (2017) Vaughan Whitehead, D; Pinedo L. Purchasing practices and working conditions in global supply chains: Global Survey results
- (2018) Cambodian Garment and Footwear Sector Bulletin: How has garment workers’ pay changed in recent years?
- (2018) World Employment Social Outlook
- (2017) Miller, D and Hohenegger, K. Redistributing value added towards labour in apparel supply chains: Tackling low wages through purchasing practices

ACT materials:

- Myanmar Info Brief
- Collective Bargaining at Industry Level
- Communications Fact Sheet

ETI resources:

- (2016) Base Code Guidance: Living Wages (ETI UK only)
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Other resources:

- AAU. Geda, Alemayehu (2018) Towards a National Minimum Wage in Ethiopia – An Exploratory Study
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Appendix IV – Data on Garment Worker Wages in Bangladesh & Cambodia

BANGLADESH

Size of Garment Industry			
1	Exports	80% of country's exports at \$28B; 2 nd largest exporter after China	BDNews24
	<i>Note</i>	<i>With cost competitive edge, now looking to export garments worth \$50B annually by 2021; US, UK & Germany among top markets</i>	IPSNews OECD
2	Factories	4600 (in 2017)	BDNews24
3	Workforce	4 Million; mostly women; <10% unionized	BDNews24
Wage Stats			
4	Level	National and industry specific min. wages. Applies to multiple sectors.	Wage Indicator
5	Grades	7 worker grades in garment sector	ILO
6	Min. wage for entry-level (mthly)	a. Review in 2010: Tk 3000 (~\$39) b. Review in 2013: Tk 5300 (~\$68) [Per ILO, Grade 1 is Tk13000 (\$168)] c. Review in 2018: Under review, potentially TBD by end of August	Daily Star
7	Bonuses	Included in above rates	ILO
	<i>Note</i>	<i>Worker's average salary had a PPP < World Bank poverty line (China/Vietnam: 2.5 times the poverty line)</i>	FLA's 2016 assessment

	Note	<i>Living wage for areas around Dhaka (basic living cost for family Tk 20542) should be Tk13630 (\$177) and in Dhaka (basic living cost for a family Tk 24809) Tk 16460 (\$214) (assume family of 4; 1.58 workers)</i>	GLWC May2016 update
	Note	<i>National Upper Poverty Line: Tk 4987 Local Legal Minimum Wage: Tk 5290 World Bank International Poverty Line: Tk 6784 GLWC Estimate: Tk 13620 Worker Minimum Wage Demand: Tk 16000 Asia Floor Wage: Tk 36385 (In 2013 it was Tk 25687)</i>	FLA Wage Ladder
Wage Setting Mechanism			
8	Review Body	Wages Board (<i>seems to be formed reactionarily</i>) - specialist tripartite board established under article 138 of Labour Act 2006	Wage Indicator
9	Review Mechanism	Min. wage rates declared by Govt. on an industry basis following recommendations by the Wages Board. Fixed & variable components	Wage Indicator
	Note	<i>In Jan 2018, an official panel formed by Labour & Employment ministry, with reps from trade body and labour org., each, was created as a permanent wage board and a report with its recommendations was to follow in 6 months for a new wage structure. (Formed reactionarily to prevent worker unrest).</i>	BDNews24
10	Methodology	In making its recommendation, Wages Board shall take into consideration cost of living, standard of living, cost of production, productivity, price of products, business capability, economic and social conditions of the country and of the locality concerned and other relevant factors per the Labour Act 2006. Wage Board may recommend min. wage rates for all classes of workers in any grade in that industry and may specify the min. wage rates of wage for time-work and piece-work and the min. time-rates specifically for the workers employed on piece work. It shall indicate if min. wage rates should be adopted nationally or with local variations. Govt. may, specify exceptions from the declared rates.	ILO
11	Frequency	The minimum rates of wages for any industry may be re-fixed after every five years as may be directed by the Government	ILO
	Note	<i>In 2017, BGMEA, with govt. support, dismissed wage review demands stating this was not mandated for 5 years after previous review i.e.2018. But per section 140A of the Bangladesh Labour Act 2006, a wage review could be ordered by govt. at any time</i>	HRW
	Note	<i>According to BGMEA, minimum wages were being paid taking inflation and worker efficiency into account</i>	IPSNews
	Note on 2010	<i>In 2010, PM Sheikh Hasina, intervened during wage negotiations, to set the minimum at a level slightly above the</i>	NYTimes

	<i>review</i>	<i>wage board's recommendation</i>	
	<i>Note on 2018 review</i>	<p><i>In early 2018, the IndustriALL Bangladesh Council (IBC) put forth the following demands to the Wage Board (claimed to have studied cost of living, inflation trends & min. wages etc. in major garment producing countries):</i></p> <ol style="list-style-type: none"> <i>a. A threefold increase to Tk 16,000 taka (\$192) citing Tk 19,000 was minimum needed for basic living expenses and needs</i> <i>b. Job grades be streamlined from 7 to 5, on which pay is based</i> <i>c. Promotion criteria – (absent today) 5th grade promoted to 4th after 1 year of work. Subsequently after every 2 years of continuous work, workers should be promoted to upper grades</i> <i>d. 10% annual increase in payment</i> <i>e. Piece rate workers - rates to be agreed prior to work starting (current practice - paid according to production of each unit; rate decided only after completion of certain amount of work (often leads to disputes)</i> <i>f. Restrict training for apprentice workers to 3 months, instead of 6 with wage increase from US\$50 to US\$120 for them</i> 	IndustriALL
	<i>Note on 2018 review</i>	<p><i>At the Wage Board meeting in July 2018,</i></p> <ul style="list-style-type: none"> <i>- BGMEA (representing owners) proposed a 20% hike to Tk 6,360 citing an adjustment in accordance with inflation and expressing concerns about rising costs of doing business as well as slash in garment demand, especially to the western world. (Tk 3,600 as base salary, rest allocated for transport, rent and other)</i> <i>- Workers proposed Tk 12,020 as the minimum considering the inflation rate and cost of living. (Tk 7,500 as base salary, rest allocated for transport, rent and other)</i> <i>- A decision will likely be reached at the next meeting on Aug 29</i> 	Daily Star
Conformance, Grievance & Satisfaction			
12	Enforcement	Min. wage rates are to be binding on all employers concerned. A worker to whom money is due may apply to the Labour Court for recovery of same within one year from the date on which the money became due. Chief Inspectors are appointed by govt. for enforcement	ILO
13	Penalty	In case of non-compliance, employer shall be punishable with a fine of up to Tk 5000 or up to 1 year imprisonment, or both. The employer may also be ordered to pay the affected worker(s) the difference between the remuneration due and amount paid. Sanctions are sometimes applied	Wage Indicator
	<i>Note</i>	<i>Workers believe that strikes are their only option to raise grievances as efforts towards organizing and bargaining collectively with employees in a formal way are thwarted by the government</i>	HWR
	<i>Note</i>	<i>Physical threats and violence directed towards union organizers</i>	HWR

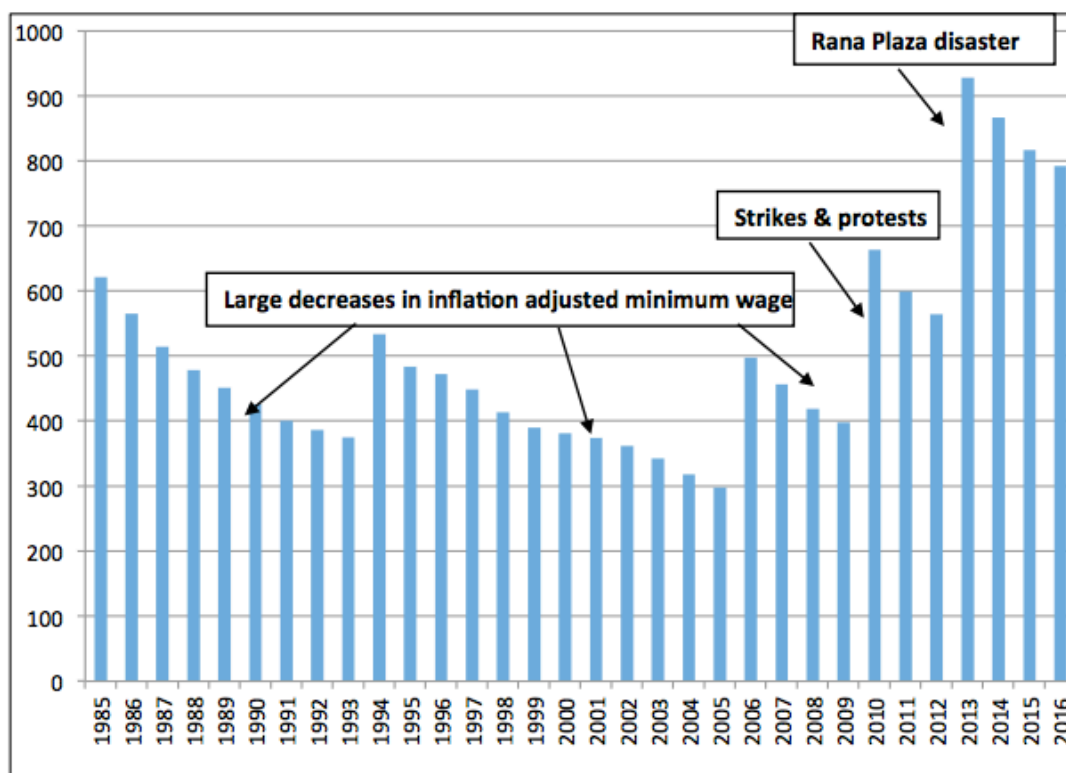
		<i>and other union members by factory owners are commonplace</i>	
	<i>Note</i>	<p><i>Longstanding requests for wage increase have been consistently ignored resulting in frequent strikes and unrest</i></p> <ol style="list-style-type: none"> 1. <i>2010 saw significant strikes</i> 2. <i>Dec 2016 saw significant strikes (Ashulia strikes) leading to multiple union leader arrests by the government, persecution and retaliatory worker dismissals. (IBC launched a global campaign to negotiate with employers and the government to free the jailed union leaders).</i> 3. <i>Feb 2018 - IndustriALL affiliates organize press conference & human chain march for a wage increase</i> 4. <i>July 2018 - numerous rallies organized which jointly represent more than 100 trade unions</i> 5. <i>11 Aug 2018 - IBC held human chain protest increase to Tk 16,000. "We will continue to organize various actions to convey garment workers' demands to the govt." (This was after July board meeting</i> 	<p>HWR</p> <p>IndustriALL</p> <p>Clean Clothes</p> <p>IndustriALL</p>
International Spotlight & Pressure			
14	Recurrent International Spotlight	<p>Frequently shown poor labor rights record – absence of wage reviews, wage exploitation, prevention of unionization, poor health and safety standards and is often in the international spotlight for this</p> <ol style="list-style-type: none"> 1. 2012 Tazreen fire & 2013 Rana Plaza collapse drew major international attention and forced trade restrictions. 2. In 2017, based on an appeal from HRW, some global brands boycotted the Dhaka Apparel Summit and ~20 brands including H&M, Inditex, Gap, C&A, Next etc., appealed to the PM about a wage increase and rights' violations 3. In April 2018, Clean Clothes urged large global brands to collectively appeal to the govt. for a wage increase and end the harassment against activists. (Cited recent research showing that since the large wage setting in 2013, prices paid to suppliers reduced by ~13% & production lead times reduced by ~18%. Brands were called on to commit to sourcing from Bangladesh despite a wage increase and to support a collective bargaining approach. 4. In July 2018, Clean Clothes expressed solidarity with workers, just ahead of Wage Board meeting that was to make recommendations 	<p>HRW</p> <p>Clean Clothes</p> <p>Clean Clothes</p>
Dilemma (& Other)			
15	Dilemma about wage increase	<p>Industry under huge pressure to remain competitive but ensure worker satisfaction; Lagging 2017 export targets (6% against 14% target) would only be exacerbated with any worker unrest events</p> <p>Fears that a sudden wage increase could trigger similar increases in other sectors affecting global competitiveness</p>	<p>BDNews24</p> <p>BIDS Study</p>

		overall	
	<i>Note</i>	<i>Appeal extended by BGMEA to global brands to increase garment prices to accommodate worker compensation increase</i>	DW
	<i>Note</i>	<i>In July 2018, Ministry of Labour, employers and trade unions adopted a Decent Work Country Programme in collaboration with ILO to set priority action areas for Bangladesh until 2020 which also includes income inequality, and inadequate opportunity for social dialogue</i>	ILO
	<i>Note</i>	<i>With majority women workers, violations of factors like maternity leave, gender inequality of pay etc. have also been observed. Women pursuing union membership have faced threats or insults of a sexual nature</i>	

Bangladesh Country Stats

GDP Annual Growth Rate		WorldBank
2014: 6.06%		
2015: 6.55%		DhakaTribune
2016: 7.11%		
2017: 7.28%		
2018: Projections are in the 6.5-7% range		
Inflation Rate		CIA
2014: 7.01%		
2015: 6.16%		Trading Economics
2016: 5.68%		
2017: 5.7%		
2018: Continued declining trend in inflation since Jan 2018 (5.88%) to Jul 2018 (5.51%)		ISEAL

Figure 5. Inflation adjusted minimum wage expressed in 1985 Tk, 1985-2016



Cost of Living Trends

GLWC's 2016 report shows average rent in Dhaka's satellite cities for an acceptable standard of housing is 7000 taka (\$77.40) and when adding in the cost of essential utilities, this cost rises to 7900 taka (\$87.35)

Wage Indicator Jan 2018 report:

Expenditure and Living Wage calculation (monthly rates in Taka)

	Typical family from-to	Standard family from-to	Single-adult from-to
Food	4930-6480	4690-6170	1180-1550
Housing	6420-9050	6420-9050	2570-3500
Transport	1000-2000	1000-2000	500-1000
Health	1000-1500	1000-1500	250-375
Education	1000-2000	1000-2000	0
Other costs	715-1050	705-1040	225-320
Total Expenditure	15065-22080	14815-21760	4725-6745
Net Living Wage	8862-12988	8231-12089	4725-6745
Gross Living Wage	9750-14300	9060-13300	5200-7420

FLA

Wage-Indicator

Family Living Wages (monthly rates in Taka)

There is not a single answer to what is the adequate cost of living. The result is complex, as the cost of living varies by household composition, location, and employment pattern. The following table presents the Living Wage estimates for a set of most common family household compositions and under different assumptions about working hours.

	from-to
Typical family (two parents + 2.2 children, 1.7 working)	9750-14300
Standard family (two parents + 2 children, 1.8 working)	9060-13300
Two parents and two children, 2 working	8150-12000
Two parents and two children, 1.5 working	10900-16000
Two parents and two children, 1 working	16300-23900
Two parents and three children, 1.7 working	10400-15100
Two parents and four children, 1.7 working	11200-16200
Single-adult without children, 1 working	5200-7420

CAMBODIA

Size of Garment Industry			
1	Exports	Garments = 70% of total 2017 exports at \$7.3B	PhnomPost
	<i>Note</i>	<i>EU, US, & Canada top 3 export markets;</i> <i>Main importer is the EU, offers duty-free access under the EBA agreement, on the condition that democratic and human rights standards are met</i>	PhnomPost
	<i>Note</i>	<i>Export growth slowed to 5% from 7% in 2017</i>	GMAC
2	Factories	1031 as of 2018	PhnomPost
3	Workforce	~850,000; 80% young women, mostly migrants from rural areas	PhnomPost WorldBank
Wage Stats			
4	Level	One min. rate at national level; does not vary by regions/provinces even if the law allows it. Minimum wage exists only for garment sector	ILO
5	Grades	Three: Apprentice, Probationary, Regular	WageIndicator
6	Min. wage for regular employee (mthly)	a. 2014: \$100 b. 2015: \$128 c. 2016: \$140 d. 2017: \$153 e. 2018: \$170 (KHR 680,000) – Apprentice \$30 & Probationary \$165	Trading-Economics WageIndicator
7	Bonuses	(1) Regular attendance bonus (2) Seniority bonus (3) Housing and transportation allowance (4) Meal for overtime work	WageIndicator
	<i>Note</i>	2017 (PPP\$1181) Asia Floor Wage for Cambodia: KHR 1,939,606 (\$477)	AsiaFloorWage

	<i>Note</i>	<i>Cambodia's growth driven heavily from garment industry, has been pro-poor. The percentage of Cambodians living under the national poverty line fell from 47.8% in 2007 to 13.5% in 2014, according to official estimates</i>	WorldBank
	<i>Note</i>	<i>Jobs in the garment sector usually pay higher wages and are considered to be more stable over time. However, workers often complain that wage increases are often met with steep increases in rents and food costs.</i>	WorldBank
Wage Setting Mechanism			
8	Review Body	Labour Advisory Council (LAC) - a tripartite institution with 14 govt., 7 trade union and 7 employer representatives	WageIndicator
9	Review Mechanism	No individual legislation but Labour Code, 1997 has a section for min wage. Minimum wage is set by discussion in LAC whose recommendation is then communicated to the Ministry of Labour	WageIndicator
	<i>Note</i>	<i>Ministry always seems to add \$5 to LAC recommendation for each year</i>	ILO
10	Methodology	<p>Based on Labour Law, LAC is required to conduct study on Min. Wages in Cambodia to make the recommendation. Labour Law requires Ministry of Labour to issue Prakas - Ministerial Regulation to determine Min. Wage, based on regional, sectoral and so on.</p> <p>(LAC has failed to conduct any study & a nation-wide Min. Wage has never been determined. In practice the Ministry has never issued any Prakas, just a notification on Min. Wage in garment sector which is likely fixed in a bilateral negotiation between the employer and union representatives under the facilitation of government.)</p> <p>In case of piece rate workers, whose wages are based on productivity, it says that if the performance of a piece rate worker is above min. wage rate, they should be paid as per their performance. But if it is below, they must be paid the fixed Min. Wage. As per Labour Code 1997, determinants of min. wage shall include, 1) needs of workers & families in relation to general salary level in country (Wage Indexation), 2) cost of living (Consumer Price Indexation), 3) comparative standard of living of other social groups (Decent Living Standards). It also includes economic factors like economic development, productivity, and advantages of achieving & maintaining high level of employment</p>	WageIndicator
11	Frequency	Annually, starting from 2014. (Labour Code 1997 simply states that Min. Wage should be revised (adjusted) from time to time.)	ILO
	<i>Note on 2017 wage review</i>	<i>Unions agreed to demand US\$179.60 for 2017</i>	IndustriALL
	<i>Note on 2018 wage review</i>	<i>IndustriALL's affiliates took strong position in LAC to demand US\$176.25 for 2018 based on a 7-point criteria</i>	IndustriALL
	<i>Note on 2019 wage review</i>	<i>Just ahead of the 2019 wage review process, IndustriALL's living wage campaign brought garment unions together on 20 Aug 2018 to develop and agree on joint demands and strategy for minimum wage and national sectoral bargaining. Garment unions also discussed brand practices & their impact on wages and working conditions, agreeing that late orders caused major problems like increased working hours, undermining wages and working conditions etc. The workshops are part of a global programme between IndustriALL Global Union and the Friedrich</i>	IndustriALL

		<p><i>Ebert Stiftung (FES), which focuses on technical assistance for IndustriALL's garment affiliates in strengthening their living wage campaigns.</i></p> <p><i>Negotiations between unions and employers for an industry agreement linked to the ACT process on living wages are well underway.</i></p>	
Conformance, Grievance & Satisfaction			
12	Enforcement	<p>Labour Inspector or similar body regulates minimum wage compliance. Per Labour Code, the labour inspector is to ensure enforcement of all the labour law compliance. (In reality, both labour inspector and trade unions regulate minimum wage compliance.)</p> <p>Individuals can complain to employer/management/contractor or labour inspector. Labour Code, 1997 does not explicitly mention about where and to whom individuals should report in case of non-compliance. But it mentions that LAC will study the problems related to wages, and in case of any dispute, the employee can try to negotiate or involve third party for conciliation or can report to Labour Court (Labour inspector) and in case of collective dispute the matter directly goes to arbitration council.</p> <p>(In practice, workers tend to go to their trade unions for assistance. No research exists to assess the effectiveness of trade union advice and assistance to their members).</p>	WageIndicator
13	Penalty	<p>Both fines and imprisonment can be applied in case of non-compliance of minimum wages. Article 369 of the Labour Code, 1997, states that those guilty of violating the provisions of Article 104 (Guaranteed minimum wage) are liable to a fine of 61 to 90 days of base daily wage (minimum wage) or imprisonment of 6 days to 1 month. No information is available whether the sections are applied in reality.</p>	WageIndicator
	<i>Note</i>	<p><i>Non-compliance rates (%) with the minimum wage in the garment sector is estimated at 25.6% (likely a 2015 figure)</i></p>	ILO
	<i>Note</i>	<p><i>Short term (or fixed-term) contracts, which are increasingly in use, mean that the threat of not having a contract renewed is used to force workers into overtime, as well as being used by employers to avoid having to pay benefits such as maternity pay, and to dissuade union membership.</i></p>	CleanClothes
	<i>Note</i>	<p><i>Strikes by trade unions are common with occasions of confrontation between workers and official authorities</i></p> <p><i>1. In 2014, police opened fire on textile workers protesting for an increase to their then-monthly wages of \$80, killing 4 and injuring dozens more in Phnom Penh. Govt. raised the min. wage to \$100 per month for the rest of the year</i></p> <p><i>2. On 10 Dec, 2015, International Human Rights Day, IndustriALL took to the streets to support affiliates' manifestation for a living wage</i></p> <p><i>3. In 2016, a controversial new trade union law was adopted by parliament amid violent protests on Monday. IndustriALL & many other parties, repeatedly voiced concerns to the govt. about the law not meeting core international labour standards, including ILO Conventions 87 and 98. "The new trade union law must not be used to undermine workers, but to strengthen them. The fundamental right of workers to organize and bargain collectively is vital to achieving better wages and working conditions in Cambodia."</i></p>	<p>WorldBank</p> <p>IndustriALL</p> <p>IndustriALL</p>

International Spotlight & Pressure			
14	Recurrent International Spotlight	<p>1. In 2014, the international community including brands, unions and the FLA condemned the govt.'s use of deadly force against striking garment workers in Phnom Penh as grave violations of international labor standards and basic human rights</p> <p>2. In 2016, CleanClothes published an open letter to all brands to publicly support freedom of association & independent unions which was being undermined by the Government.</p> <p>3. In July 2017, the FLA sent a letter to the Labor Ministry with serious concerns about a min. wage law under consideration that would compromise brands' efforts to pursue fair compensation</p> <p>4. In Oct 2017, CleanClothes, Workers Rights Consortium & International Labor Rights Forum released a joint global statement pleading with global apparel giants to take a stance against the recent political crackdown and repression, violating labor rights</p> <p>5. In Mar 2018, a group representing 200 buyers & major global brands wrote to the PM urging implementation of key labor law reforms (incl. min. wage law) agreed to in Oct 2017 but not yet implemented</p>	<p>FLA</p> <p>CleanClothes</p> <p>FLA</p> <p>PhnomPost</p> <p>PhnomPost</p>
Dilemma (& Other)			
15	Dilemma about wage increase	The 2017 hike in min. wage & recent political deterioration, perceived as a threat to Cambodia's democracy, have received mixed responses - some of the largest brands have shown widespread support for the wage increase but smaller companies lament the anticipated loss of profitability and all businesses fear increased political tensions	PhnomPost
	Note	<i>According to the GMAC, the new (2018) min. wage was "beyond the affordability of some of our members and the competitive level of the country"</i>	Reuters
	Note	<i>"The industry is a powerful political force and major source of employment. But it is also in the crosshairs of foreign governments critical of Cambodia's crackdown on political dissent, with threats of possible economic penalties that could hurt the sector." Dec 2017</i>	Straitstimes
	Note	<i>In coordination with ILO, the Decent Work Country Programme (2016-2018)'s 3 main priorities also include wage setting (training and improving literacy about wage setting and supporting collective bargaining) as an outcome.</i>	ILO

Cambodia Country Stats

GDP Annual Growth Rate

[WorldBank](#)

2014: 7.14%

2015: 7.04%

[ADB](#)

2016: 6.95%

2017: 6.82%

2018: Projections are at about 6.9-7%

Inflation Rate

[Statista](#)

2014: 3.85%

2015: 1.23%

[Trading Economics](#)

2016: 3.02%

2017: 2.91%

2018: Decreasing trend from 2017 but slight increase from Jan 2018 (2.01) to Apr 2018 (2.4%)

Cost of Living Trends

[Wage Indicator](#)

Wage Indicator Jan 2018 report:

Expenditure and Living Wage calculation (monthly rates in Riel)

	Typical family from-to	Standard family from-to	Single-adult from-to
Food	666300-930400	567000-791900	141800-198000
Housing	508900-837400	508900-837400	171100-269600
Transport	40000-80000	40000-80000	20000-40000
Health	40000-100000	40000-100000	10000-25000
Education	80000-150000	80000-150000	0
Other costs	66800-104900	61800-98000	17200-26600
Total Expenditure	1402000-2202700	1297700-2057300	360100-559200
Net Living Wage	737895-1159316	720944-1142945	360100-559200
Gross Living Wage	804300-1263700	785800-1245800	392500-609500

Family Living Wages (monthly rates in Riel)

There is not a single answer to what is the adequate cost of living. The result is complex, as the cost of living varies by household composition, location, and employment pattern. The following table presents the Living Wage estimates for a set of most common family household compositions and under different assumptions about working hours.

	from-to
Typical family (two parents + 2.7 children, 1.9 working)	804300-1263700
Standard family (two parents + 2 children, 1.8 working)	785800-1245800
Two parents and two children, 2 working	707300-1121200
Two parents and two children, 1.5 working	943000-1495000
Two parents and two children, 1 working	1414500-2242500
Two parents and three children, 1.9 working	829900-1299500
Two parents and four children, 1.9 working	915300-1418700
Single-adult without children, 1 working	392500-609500

Living Wages in Context (monthly rates in Riel)

The Minimum Wage is a national legally binding obligation on employers which often make no reference to a living standard. Living Wage describes the adequate living standard. The common goal of the many living wage campaigns currently taking place all over the world is to lift Minimum Wages levels to those of the Living Wages. WageIndicator presents Living Wages jointly with Minimum Wages, aiming to raise awareness concerning the remaining differences in levels. Living Wages are presented in context with other wage indicators including prevailing wages of workers over recent years.

	2015	2016	2017	2018
Minimum wage	512000	560000	612000	680000
Living Wage - Single Adult	.-	.-	.-	392500-609500
Living Wage - Typical Family	.-	.-	.-	804300-1263700
Real wage of low-skilled worker	.-	.-	.-	159500-517300
Real wage of medium-skilled worker	.-	.-	.-	883700-1245700
Real wage of high-skilled worker	.-	.-	.-	1398800-2007200

Appendix V - Comparative chart of Living Wage Initiatives In Global Supply Chains

Initiative	Organisation type	Headlines	Progress	Signals brand willingness	Independent of brand goodwill	Aims to empower workers	Addresses root causes	Clear trajectory towards LW	Evidence of sustainable impact on wages
H&M Fair Living Wage Roadmap ⁴³	Brand	Addressing systemic issues underlying low wages in garment industry including collective bargaining, wage systems, purchasing practices and national laws.	500 of H&M supplier factories (67% of product volume & 635,000 workers) implementing improved wage management systems, and 594 factories (73% of product volume & 840,000 workers) implementing freely elected worker committees. Member of ACT initiative addressing purchasing practices (isolating labour costs from price negotiations) and engaging in government advocacy.	Green	Orange	Green	Green	Orange	Orange
Nudie Jeans Living wage bonus ^{44,45}	Brand	Pays a premium representing its share of a living wage to factories in India - LW level decided by factory management - bonus for all workers on Nudie production run	- Workers in one of Nudie's supply chains receive additional bonus during Nudie jeans production run. - Living wage not achieved.	Green	Red	Red	Orange	Red	Red
ACT on Living Wages ⁴⁶	Multi-stakeholder collaboration	- 17 leading Western garment brands collaborating pre-competitively to address living wage issue. - Signed MoU with IndustriALL to support FACB. - Working to ringfence labour component of FOB price. - Encouraging factories to establish CBAs by committing sourcing volumes. - Prioritising sourcing from target countries.	- Organisation established. - MoU signed. - Principles, approach and target countries agreed. - Good number of key members recruited (looking for more). - Focus on Cambodia where over 50% of workers are in ACT supplier countries. - Using joint leverage to lobby governments on minimum wage legislation.	Green	Orange	Green	Green	Orange	Red
Patagonia ⁴⁷	Brand	Works with Fair Trade USA to pay premium	"workers at one of our Indian factories not only	Green	Red	Orange	Orange	Red	Orange

⁴³ <http://sustainability.hm.com/en/sustainability/commitments/choose-and-reward-responsible-partners/fair-living-wage.html>

⁴⁴ <https://www.nudiejeans.com/page/mend-the-gap>

⁴⁵ Journal of Cleaner Production. Zanden, Niklas et al (2015) Trade-offs in supply chain transparency: the case of Nudie Jeans Co. <https://www.sciencedirect.com/science/article/pii/S0959652614004375?via%3Dihub>

⁴⁶ <https://actonlivingwages.com/>

⁴⁷ <https://www.patagonia.com/living-wage-vs-minimum-wage.html>

		which workers decide how to use. Working with FLA to establish living wage benchmarks.	earned additional income in Fair Trade premiums, but also gained new lines of communication with the management team”						
Alta Garcia ⁴⁸	Supplier	- US based supplier that pays living wages to factory workers. - Markets to Universities; large volumes/social awareness	Alta Gracia pay their workers more than 3 times the minimum wage for apparel workers in the Dominican Republic. The company also respects its employees’ rights to a safe, healthy workplace, to be treated with dignity and respect, and to form a union.						
Coalition of Immokalee Workers – Fair Food Programme ⁴⁹	Supplier	- Worker-led initiative to address wage and working condition issues in tomato farms. - Stipulates price that enables payment of better wages.	- Members include large retailers - including Walmart - and NGOs, including Oxfam America - Customers “agree to pay a penny more per pound of tomatoes, money that goes directly to the farmworkers as a line-item bonus. In some cases, it doubles their paychecks”. ⁵⁰						
Malawi 2020 Tea Regeneration programme ⁵¹	MSI	- Brands, retailers, suppliers, growers, trade unions collaborating to improve quality/value of tea to enable payment of living wages.	- Established initiative, got players at different levels of value chain on board. - Developed 'price discovery mechanism' to enable buyers to establish where prices could be increased to enable better pay - Improvements in other areas (eg provision of nutritious midday meal)						
World Banana Forum Living Wage Advocacy Initiative ⁵²	MSI	Pilot project in Ecuador & Ghana, aiming for national consensus on living wage benchmarks that can be used for future wage negotiations and minimum wage setting interventions in the banana sector of each country.	- Research analysis and field work benchmarking study - In-country validation sessions and meetings with relevant stakeholders - Advocacy and capacity building work based on benchmarks established						

⁴⁸ <http://www.alta-gracia.com/living-wage.html>

⁴⁹ <http://www.fairfoodprogram.org/>

⁵⁰ CNN. Cohen, Lisa (2018, 28 September) How America's 'ground-zero' for modern slavery was cleaned up by workers' group <https://edition.cnn.com/2017/05/30/world/ciw-fair-food-program-freedom-project/index.html>

⁵¹ <https://www.malawitea2020.com/>

⁵² <http://www.fao.org/world-banana-forum/projects/living-wage-advocacy-initiative-liwin/en/>

Appendix VI - Wage Economics - A Precis of Current Economic Theory

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with a particular emphasis on apparel markets.

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October 2018

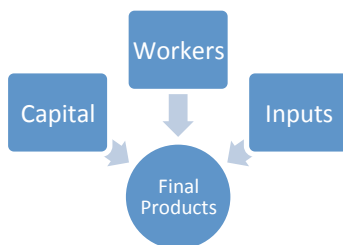
Wage Economics

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The Root of Wages: Value

The wage a worker receives for work is, at the most basic level, tied to the value of the worker's production. The simplest example of this idea is a person alone on an island. The person's food, shelter, and clothing are determined by how the person converts available resources. In essence, the person is "paid" for work with the food, shelter, and clothing that person is able to produce.

In modern firms, wage determination is not as different from the simple island model as one might think. In modern firms, workers and capital (often referred to as management or factory owners) combine inputs to produce output that is then sold in the market. The key debate, and often conflict, rests with how the value created by the firm is divided between the workers and the owners.



Economists call the value of the worker's output the *marginal revenue product (MRP)*. The MRP is equal to the physical output of a worker per unit of time (for example, 30 t-shirts) times the price of each unit of output. If a worker produces 30 t-shirts that sell for US\$2.00 each, the marginal revenue product of that worker would be \$US60.00. The total value generated by the firm is equal to the sum of the marginal revenue product of each worker.

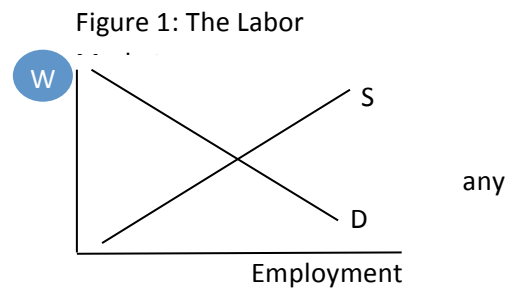
Conflict arises because the total value of output of the workers has to be shared among the factory owners, the costs of inputs, and the workers themselves. It is important to point out that if workers got all of the value, then there would be no inputs and no machines, and therefore no value created. Of course, without workers, there would be no value either. How the total value of output is divided, and, thus, how much workers get paid, is the result of several key factors.

Factors Affecting Wage Determination

Summary

The key to understanding wage determination, especially in the context of living wage campaigns, is productivity. Workers currently earning less than their productivity can be paid more, but increasing wages above levels justified by productivity levels puts the firm at risk.

In the most basic labor economic theory, the wages workers earn are determined in a labor market. In other words, the supply of workers (made up of workers looking for jobs) and the demand for workers (made up of firms seeking to hire workers) combine to determine the market wage. In the most basic labor economic theory, firms are too small to affect the wage determined in the labor market. They would not attract workers if they paid less than the market wage and they would not need to pay more than the market wage to attract the workers they need. As a result, firms pay no more than the market wage and any amount of value created by the workers and firms over and above the market wage is kept by the firm as payments to inputs and profits.



As such, economists who describe wage determination in developing countries often talk about “local labor market conditions” that include the going wage rate. Indeed, the growth of the supply chain model came about because local labor market conditions had very low wages and foreign factories had the capital and technology to generate high-value output.

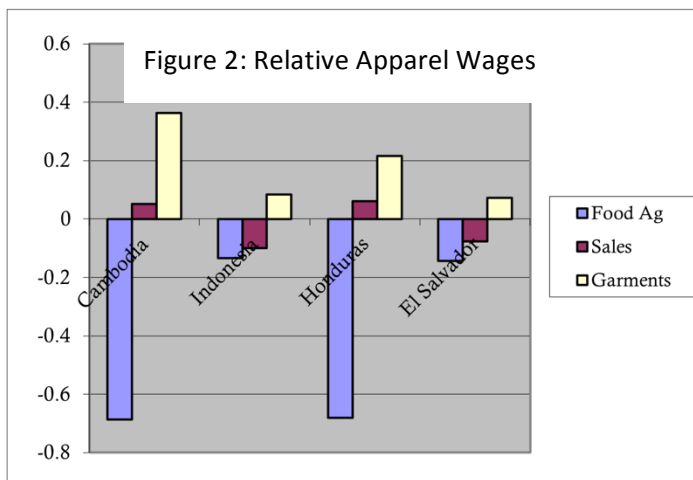
Box 1: Minimum Wages and Wage Setting

While it is well known that minimum wages are legally-set wage floors, it is less known that they only matter if the equilibrium wage (the wage determined by supply and demand) is below the minimum wage. When the equilibrium wage is below the minimum wage, we say that the minimum wage is binding. If the equilibrium wage is above the government-set minimum, firms will pay the equilibrium wage. When governments do not adjust the minimum wage enough to keep up with current labor market conditions and inflation, we expect to see wages paid above minimum wage levels. H&M observes many wages paid above minimum wage levels. The key to understanding whether or not the higher wages are due to successful living wage campaigns or higher market wages is comparing the wages of comparable workers throughout the economy.

While the market determination theory above suggests there is a single wage determined by the market, the reality is more complex. A wide range of factors contribute to any given worker’s wage. In essence, there is a separate market for men and women, older and younger workers, workers with more and less experience, and workers with more and less education, and markets for other factors. One can think of a supply and demand, say, for education. When the demand for education increases, workers with more education get paid more

than otherwise identical workers. Thus, the same market principle applies. Firms will pay workers no less and no more than they could get elsewhere in the market as a result of their particular combination of characteristics.

Workers in a particular industry, however, may get higher or lower wages if the value in the industry is high or there are other industry-specific characteristics that increase labor demand. High labor



demand might occur when an industry is focused on exports or is characterized by significant amounts of foreign capital. Using the idea, Robertson et al. (2009) find that wages in the apparel sector in five developing countries are higher than they are for observationally equivalent workers in other industries. Figure 2 shows these results for four of these countries. The zero value on the vertical axis represents the mean wage in the economy. Each bar, therefore, represents the difference between the

average wage in that industry and the overall average wage. For example, the wages of young women in these countries are especially low throughout the economy, including in apparel. But the fact that the apparel industry in these countries is characterized by exports and foreign capital might explain why the wages of these young women were higher than what young women were earning elsewhere in the economy. That is, young women's wages are low in these countries, but they are much higher in apparel than elsewhere in the economy. Figure 2 shows that in Cambodia, apparel workers earn about 30 percent more than similar workers earn in the rest of the economy. Having more foreign capital and producing for export are both indicative of a higher value of output, and therefore workers in that industry earn more than they would elsewhere. The key to evaluating these wage differences is having wage data that represent the entire economy, such as labor force surveys or household surveys.

These same concepts can be applied to the wages of women relative to men throughout the economy. Robertson et al. (2018) analyze changes in global apparel prices and the wages of women in Cambodia and Sri Lanka and argue that falling apparel prices between 1995 and 2015 are consistent with a rising gap between male and female earnings. The explanation offered is that falling global apparel prices reduces the value of apparel output, which lowers the earnings of women both in the apparel sector and throughout the economy (not just in apparel).

The Wage-Productivity Relationship

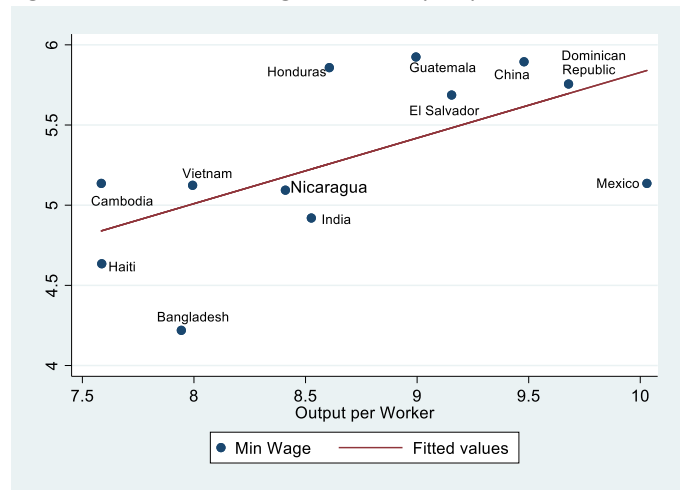
Due to market forces, wages are tied, imperfectly, to productivity. In particular, it is clear that wages cannot exceed the value of output generated by the worker. It is also clear that some of the value has to go towards inputs and towards the owners. In economic theory, the payments to the owners must be at least as much as the owners could earn doing something else. Trivially, if owners can earn more doing something else, they will leave their current firm or sector or location and move elsewhere. Thus, the tension between workers and firms over who gets the value of output is quite real.

That said, however, the question of how high can wages go is taken very seriously by all stakeholders. The key element to understanding that question has to do with the relationship between productivity and wages. Consider Figure three. Figure three shows the relationship between output per worker (as calculated by the International Labour Organization) and the 2017 minimum wage in a selected group of countries. The overall relationship is positive: countries with

higher productivity tend to have higher minimum wages. This is no accident. On the contrary, it is consistent with the economic prediction that wages and productivity are linked. The next relevant feature of this figure is whether a country is below or above the solid “Fitted Values” line. This line roughly represents the positive relationship and provides a benchmark that may help understand if wages are “high” or “low” in an international context. Countries that are too far above the line (such as Honduras) may begin to see companies leave and seek workers in other countries. Countries below the line (such as Bangladesh) are attractive to investors. The key here is not that wages are low in Bangladesh and high in Honduras, but rather that they are low and high relative to productivity. Wages relative to productivity plays an important role in determining investment.

This figure also helps us understand what the potential for increasing wages in a “living wage” campaign would be. Countries that are below the line are good candidates for “living wage” campaigns that seek to increase wages. One way to think about this is that there is room for the wage to increase without risking becoming higher than the level that could be sustained by productivity.

Figure 3: Minimum Wages and Output per



The main message of this section is that it is very important to consider, and measure, productivity in order to understand how wages are determined. Attempts to increase wages beyond those supported by productivity will risk being counterproductive because factories will simply leave and seek lower wages elsewhere. In addition, understanding productivity levels will also help provide guidance as to how much wages might be increased. Workers earning below the levels suggested by the marginal revenue product are good candidates for living wage campaigns.

Productivity and market forces, therefore, determine the “base” of the wage. Other demographic characteristics also contribute to the determination of the final wage. But are workers and firms purely at the mercy of market forces? Is there room for wage increases for workers outside of the constraints of the market and current productivity levels? The simple answer, according to labor economics, is yes. There is a large and growing literature that suggests that increasing wages, specifically, and improving working conditions in factories more generally, can be sustained because increasing wages and improving working conditions can contribute to improving productivity. We review these arguments, and the literature that supports them, in the next section.

Can Higher Wages Improve Productivity?

Living wage campaigns have much in common with a broader academic literature in the subfield of labor economics called human resource management (HRM).⁵³ HRM studies examine the

⁵³ See Lazear and Shaw (2007) for an introduction to this literature using the term “personnel economics” rather than HRM.

determination of both wages and working conditions within firms. The term HRM originates from the idea that, ultimately, wages and working conditions are set by decisions that are usually made in the human resource department of firms.

Within the HRM literature, there is a debate that spans more than fifty years⁵⁴ over whether or not HRM or strategic HRM (SHRM) policies to improve wages and working conditions might increase productivity in particular or improve firm performance more generally. The main link in this literature between increasing wages, improved working conditions, and factory performance is that increasing wages and improving working conditions induce specific worker responses (e.g. loyalty or effort). If increasing wages increases loyalty or effort, then they are more likely to be sustainable by firms that already pay close to the marginal revenue product.

Some job characteristics can motivate workers to improve the quality of their work (Hackman and Oldham 1976). The recent debate often centers on Huselid's (1995) finding that positive working conditions are correlated with lower turnover, higher profits, and increased firm value. Ichniowski, Shaw, and Prennushi (1997) find empirical support for this hypothesis. Leblebici (2012) finds that 100 percent of employees strongly agree that supervisor relations affect their productivity. While the causality has been debated (e.g. Wright et al. 2005), meta analyses (Combs et al. 2006, Judge et al. 2001) and broad literature reviews (Bloom and Van Reenen 2011 and Croucher et al. 2013) suggest an emerging consensus of a positive relationship.

Econometric studies also find that HRM innovations improve firm performance. Jones et al. (2010) and Lazear and Shaw (2011) find that incentive pay and teams contribute to productivity. In the United States, however, these gains may have required that workers be well educated (Shaw 2004) or implemented effectively (Black and Lynch 2001). Jones et al. (2006) find that productivity gains occur even when employees are doing simple tasks and are relatively low-skilled. These results are not limited to the United States. Singh (2004) finds that training and compensation increased the perceived market performance.

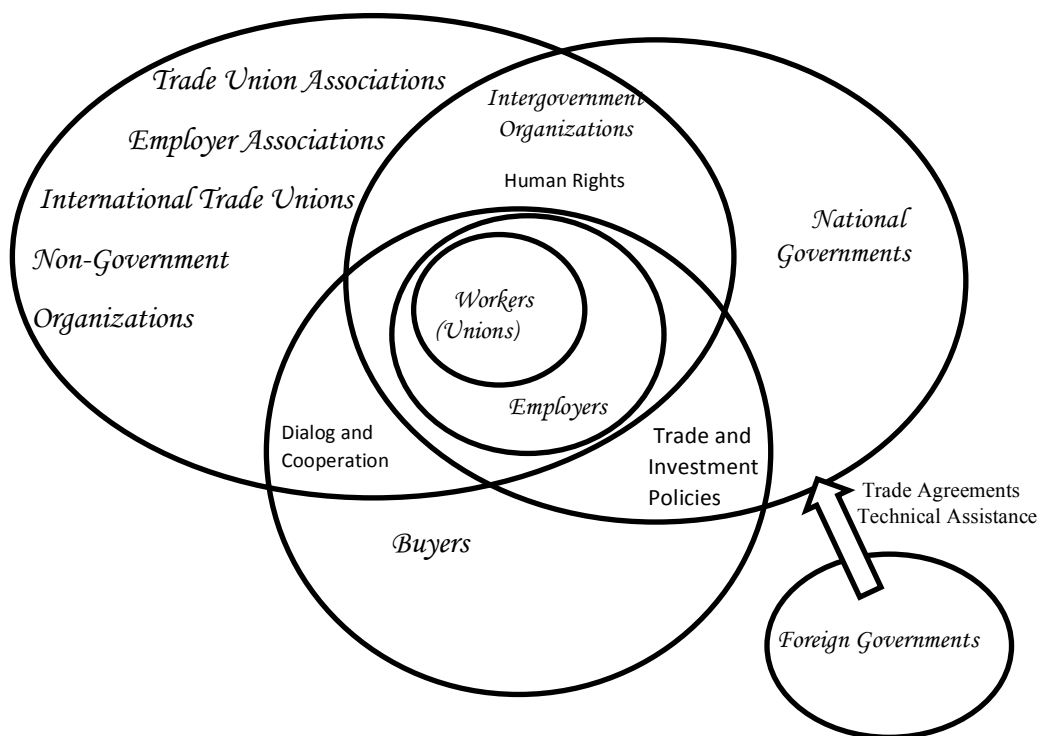
The bottom line is that improvements in HRM seem to make workers more productive. In a positive work environment, workers will perform more effectively than they would in a negative work environment.⁵⁵

⁵⁴ McGregor (1960) points out that firms may choose to view workers as either costs to be minimized or as talent that improves with investment.

⁵⁵ A common argument is that firms have an incentive to implement productivity-improving changes, and therefore it is unlikely that they have not already implemented the profit-maximizing HRM policies. Bloom et al. (2013), however, show that in developing countries firms benefit from consulting that induces factories to try different ("better") policies than they currently use. de Grip and Sieben (2005) show that small Dutch factories may not implement optimal HRM policies.

In developing countries, studies of the relationship between HRM policies and factory performance are rare. Brown et al. (2013, 2016) analyze the relationship between factory-level compliance and factory survival. They find that factories that increase compliance between the first and second visits of the Better Factories Cambodia (BFC) are more likely to survive than factories that do not increase compliance. For example, factories that increased their compliance in payment of wages to workers had higher survival rates than factories that did not increase compliance in this area. These results control for the characteristics of the factories that affected initial compliance, which suggests that the changes in compliance were likely due to the BFC program. The results seem to be stronger in areas that are consistent with the HRM literature. Higher compliance in wage payments, for example, are likely to affect worker effort and therefore increase the performance of the factory. These results are consistent with Asuyama et al. (2013), who find that Cambodian productivity increased at the same time that other studies were demonstrating significant increases in factory compliance. New research from Vietnam shows that wages at Better Work factories are higher than comparable factories not participating in the Better Work program. Profits, however, are comparable between the two groups, which suggests that Better Work factories are able to support higher wages without adversely affecting profits.

Figure 4: Relationships Shaping HRM Policies



What have we learned about the most successful approaches to improving HRM policies? Figure 4 shows the complex relationship between forces shaping HRM policies in developing countries. Employer decisions are influenced by national governments, their own profit motives, their customers, and international organizations. As such, the emerging literature increasingly suggests that collaborative, multi-stakeholder approaches are the most effective.

Conclusions

This precis argues that there are three key concepts necessary to understand wage determination in developing-country apparel value chains: Productivity, local labor market conditions, and HRM policies. The core of wages resides in, and therefore must be compared to, productivity, ultimately defined as the value of worker output. In many developing countries, workers are paid less than might be expected given the value they produce. These countries and workers are good candidates for living wage campaigns because there is enough value to support rising wages. One must keep an eye on productivity, however, because wages that exceed value produced can cause firms to leave for other markets. Local labor market conditions, such as the supply of available workers, both generally and in particular labor markets (defined by demographic characteristics) set the base for wages that a firm must, and would, pay to attract workers. Finally, the living wage campaigns that have the best chance of success are those that help firms become more productive through technology and sharing modern human resource management practices, which are often scarce in developing countries.

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