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UNIVERSITY OF WASHINGTON FAIR WAGES WORKSHOP

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Within global trade, wage practices along the supply chain are characterized by a number of serious problems, which have long gone unaddressed and have been further exacerbated by global economic crises. While there is increasing international concern and a number of corporate social responsibility (CSR) initiatives on wages, work on this topic remains rather fragmented and would benefit from a more comprehensive and coherent approach.

In October 2009, the Fair Labor Association (FLA) convened its first stakeholder forum focused on wages, titled “**Wages Along the Supply Chain: Assessment and Prospects.**”¹ Held in Washington, D.C., the forum brought together academics, practitioners and representatives of international organizations, companies, and civil society organizations, to discuss wage issues facing workers throughout the world. A number of recommendations emerged from the October 2009 forum, including the formation of an international network on wage issues. A new international **Fair Wage Network** was launched (www.fair-wage.com) to enable companies and other actors in this field to share information and take common initiatives on wage developments, wage setting mechanisms, and best practices.

In 2010, the FLA hosted a follow-up forum on wages, titled “**Wages Along the Supply Chain: Developments and Responses.**”² The event was held in Hong Kong at the offices of affiliated company Phillips-Van Heusen Corporation. With an emphasis on Asia, the group discussed approaches and responses to ongoing wage issues and made recommendations on moving wages forward in the global social responsibility dialogue.

¹ Report available at: www.fairlabor.org/report/wages-along-supply-chain-assessment-and-prospects

² Report available at: www.fairlabor.org/report/wages-along-supply-chain-developments-and-responses

In June 2011, the FLA convened its third stakeholder forum on wages in Istanbul, Turkey. With global wage trends as a backdrop, experts and representatives from companies, civil society organizations and universities exchanged ideas and presented recommendations at the forum, titled “**Wages Along the Supply Chain: Trends, Progress and Looking Ahead.**”³ At that session and subsequently, there was discussion of the **Fair Wage Assessment tool**, which is based on the **Fair Wage approach**.⁴ This enables companies and factories to assess whether their wage practices are fair and sustainable and has been piloted by some FLA affiliates.

The debate continued during a conference of the Fair Wage Network in Geneva, Switzerland, in May 2012, organized by the FLA, Business Social Compliance Initiative (BSCI) and Better Work. This event was two days to allow for necessary and complementary discussions. The first day involved NGOs, and had as its aim, to assess all initiatives taken by civil society on wage issues, and possible synergies. The second day included brands, and examined the needs and challenges at the enterprise level. This led to a number of policy conclusions, which are included in the summary report available on the Fair Wage Network website⁵.

In October 2012, in conjunction with its Board Meeting in Seattle, the FLA organized a one day “**Fair Wage Workshop**” to provide information on the Fair Wage Assessment tools and to facilitate understanding of the methodology, and to share information about current pilots and brand experience with the assessments. Some of the emerging issues, as well as possible remediation in this area, were also discussed. This report summarizes the event and provides an overview of each session.

³ Report available at: www.fairlabor.org/report/wages-along-supply-chain-trends-progress-and-looking-ahead

⁴ www.fair-wage.com/en/buy-the-book.html

⁵ Report available at: <http://fair-wage.com/en/component/content/article/13-events/120-fair-wages-for-incorporating-wages-into-csr.html>

WORKSHOP INTRODUCTION

FLA President and CEO, Auret van Heerden, opened the workshop by noting that as a group, FLA stakeholders have not been able to move the dial on wages and wage adjustments have only occurred in reaction to labor unrest or government action. While we have seen wages rise, they often have not been the right responses and the adjustments have been too little too late. Whereas in the past, CSR expectations were about codes of conduct and compliance auditing, there has been a shift towards outcomes. The question now isn't is a company conducting due diligence?, but rather, is the company addressing identified labor issues?

Van Heerden noted that the methodology developed by Daniel Vaughan-Whitehead has reframed the wage discussion in terms of fairness and not numbers. It provides the most comprehensive picture with a sophisticated and enterprise-specific analysis and a roadmap for further action. With the technology already developed and tested by the FLA in hundreds of online surveys, affiliates and allies are able to obtain the most detailed and relevant data on wages ever collected.

He also noted that, according to buyers and suppliers in recent meetings, there is no money to make wage adjustments; margins are tight and supply chains are pressed to hold prices steady or even reduce them. Van Heerden noted that despite these objections, wage improvements could also be made through savings, efficiency gains and training. An obstacle to this, however, is the very high turnover rate of the workforce – as high as 60-100 percent in some factories. He argued that a prerequisite to wage improvements is a stable workforce; in order to achieve this, an effective HR department and solid workforce retention plans must be put in place. Since many factories are



FLA President and CEO, Auret van Heerden, opened the Fair Wage Workshop by providing context for the current discussions.

missing these essential elements, the FLA and other stakeholders must help to develop them and put them into place.

THE FAIR WAGE ASSESSMENT TOOLS

Daniel Vaughan-Whitehead, who is responsible for wage policies at the International Labor Organization and co-chair of the Fair Wage Network, explained the origins of the Fair Wage Assessment methodology, as well as the assessment tools, and sample results.

WAGE TRENDS

Vaughan-Whitehead noted that even before the economic crisis, in a period of economic growth, there were a number of worrying long-term wage trends: wage moderation (except in emerging and transition countries), increased wage inequalities, and a continuous decline in the wage share, even in countries with rapid growth like China. These reflected a clear disconnect between productivity and wages. This wage moderation and unequal

income distribution has led to a growing phenomenon of the “working poor”, now reported all over the world. The economic crisis has aggravated these already existing trends, as shown in the new ILO Global Wage Report⁶, which highlights particularly negative wage growth in developed countries.

At the micro level, enterprises have focused on wages as a cost, and have forgotten about all the basic functions of wages for sustainable development at the enterprise level: to motivate and retain workers, to increase human capital, to promote internal equity and fairness, to boost quality and innovation, and to stimulate social dialogue.

The Fair Wage approach was developed precisely to respond to these drawbacks both at the macro and micro levels and to help provide a comprehensive picture of global wage practices. **The Fair Wage approach centers around 12 complementary “dimensions”:**

1. Payment of wages
2. Living wage
3. Minimum wage
4. Prevailing wage
5. Payment of working hours
6. Pay systems and wage structure
7. Communication and social dialogue
8. Wage discrimination/wage disparity
9. Real wages
10. Wage share
11. Wage costs
12. Wage and work intensity, technology and up-skilling

⁶ More information available at: www.ilo.org/global/publications/books/forthcoming-publications/WCMS_178191/lang--en/index.htm



Daniel Vaughan-Whitehead, who is responsible for wage policies at the International Labor Organization and co-chair of the Fair Wage Network, provided background on global wage trends to the workshop participants.

Taken together, the existence of each of these dimensions in a factory or company’s wage structure constitutes what we call a “fair wage.” Vaughan-Whitehead noted that while there are complementarities between the Fair Wage and the Living Wage approaches, the Fair Wage methodology focuses on processes along a series of benchmarks rather than on absolute numbers; it also tries to incorporate both the social (workers) and economic (employers) aspects. He noted that the Living Wage approach has been – and continues to be – extremely useful in terms of awareness, but that limiting discussions only to one wage dimension, the living wage, would not be enough to capture the full picture and thus to provide appropriate remediation.

TOOLS

The three main tools utilized in the Fair Wage approach are: 1) a Fair Wage self- assessment questionnaire (SCAT), which is completed online by supplier management; 2) a series of worker interviews (SCOPE); and 3) the qualitative case studies, which are a deeper

dive on the critical issues identified through the management self-assessments and worker interviews. Outputs from these tools are aggregated into a consolidated brand report and improvement plans. See below for details:

1. **Fair Wage questionnaire.** FLA affiliated brands submit a list of strategic suppliers. The selected factories' management then receives access to the online tool. There are a series of multiple-choice questions, which generate scores, comments and policy recommendations on each Fair Wage dimension.
2. **Worker surveys (SCOPEs). A representative sample of workers** anonymously answer multiple-choice questions about the 12 Fair Wage dimensions. This is an independent and autonomous process with no interference from management or buyers. Aggregate results are provided to management.
3. **Qualitative case studies.** Based on critical issues identified in the management self-assessments and anonymous worker surveys, visits are organized in a few enterprises to better investigate the causes of the problems, their extent, and possible solutions. They lead to individual Fair Wage assessments with each participating supplier.

The outcomes of these exercises feed into a **Fair Wage Matrix**, which provides an overview of information on each of the Fair Wage dimensions by country, product, and type of supplier, thereby creating a global picture of wage practices along the brand's supply chain. These matrices also contain policy recommendations and preliminary remediation suggestions.

CASE STUDIES: BRANDS' EXPERIENCE WITH THE FAIR WAGE ASSESSMENT

PILOT ASSESSMENT AMONG ADIDAS' SUPPLIERS: SPECTRUM ENLARGEMENT AND MINDSET CHANGES

Gregg Nebel, Head of Social and Environmental Affairs, Americas, Adidas-Group, discussed Adidas' participation in Fair Wage Assessment pilots. The original commitment to participate in the Fair Wage Assessment was intended to reinforce and continue the wage work that Adidas started in 2002. In fact, this work so far proved that wages are complex and interdependent on multiple critical dimensions for wage setting and pay practices. The Fair Wage Assessment, by getting at more than just minimum wage and living wage, posits that a more holistic consideration of wages will result in positive wage developments. Thus far, 25 Adidas suppliers in eight countries have completed management self-assessment questionnaires and four factories have received full Fair Wage Assessments, which add worker surveys to the management self-assessments. Nebel noted that an outcome from these pilots is the enhancement of the methodology to monitor compensation. Fair Wage assessments have supported the supplier training on effective Human Resources Management Systems (HRMS). The integration of Fair Wage dimensions with HRMS clarifies systemic gaps in monitoring and measuring wage performance, defines sustainable remediation, and complements initiatives for manufacturing excellence and responsible buying practices.

The Fair Wage matrix resulting from the pilot with Adidas indicated that:

- There are relatively fairer practices around regular payments, prevailing wage, communication and social dialogue, there is rather low wage disparity and discrimination, and no dramatic reduction of wage costs in total production costs were reported.
- Less fair practices were the underpayment of working hours, wage systems that are not linked to skill sets or to the economic performance of the company, a high frequency of “piece rate”, and rather weak pay systems performance.

Moving forward, Adidas plans to commission three qualitative case studies, more worker surveys in the factories which have already completed management self-assessments, and then a new set of management self-assessments and full assessments. The work will remain within the eight original target countries, and there will be a deep dive for cases studies on 2012 findings on minimum wage and overtime payment, living wage and pay systems.

A most notable challenge brought by the Fair Wage approach has been a change in mindset for the compliance team from traditionally working directly with suppliers throughout the entire assessment process, to a new, more limited role – a condition for confidentiality and the best collection of wage data – that focuses on project preparation and then remediation. Another challenge will be to enlarge remediation work beyond the legal precedence focus of existing mediation practices. Fair Wage remediation will also test the assumption that fairer wages could help mitigate workforce turnover.



Gregg Nebel, Head of Social and Environmental Affairs, Americas, spoke about Adidas' participation in the Fair Wage Assessment pilot.

H&M: WHAT PROSPECTS OUT OF THE FAIR WAGE ASSESSMENT?

Lars Bergqvist, Social Sustainability Coordinator at H&M Hennes & Mauritz AB (H&M), detailed the company's involvement in the Fair Wage Assessment. According to Bergqvist, H&M began making wages an important focus area in 2009. Internal discussions have been different depending on the production market – in Bangladesh and India, for example, the discussion centers around the fact that wages are likely too low to sustain a decent living standard. In Cambodia, meanwhile, the discussion highlights the insufficient mechanisms for collective wage negotiations and living wages. The debate on wages in China has not been as intense, prioritizing the existence of fake records and lack of documentation on actual payment and overtime compensation.

Two hundred of H&M's strategic factories representing more than half of H&M's total production have participated in the Fair Wage Assessment pilot in China, Cambodia, Bangladesh and India. As part of this project, 4,861 workers were interviewed through

SCOPes. This resulted in a massive amount of data for comparative analysis. One of the learnings for H&M is that the company cannot act alone either in the supply chain or on a macro level because of the various countrywide, regional and local issues and root causes at play. In other words, a concerted effort among all stakeholders is necessary to improve wage practices, and the Fair Wage Network can be the vehicle.

Some of the findings from the H&M Fair Wage Assessments included a lack of social dialogue and workforce motivation; overall low wages; and lack of wage reviews, particularly in Bangladesh. The CEO of H&M, Karl-Johan Persson, met with the Prime Minister of Bangladesh, Sheikh Hasina, and presented H&M's request for increases in the minimum wage and annual wage reviews of workers in the Bangladeshi textile industry. The company began a pilot with five suppliers (and 5,000 workers) that included training in Swedish study circles and Japanese improvement circles. According to Bergqvist, the end-goal is to have democratically-elected Worker Participation Committees (WPCs) in Bangladesh and to equip workers with the information they need to address wage and collective bargaining issues in that country. H&M is currently involved in an internal analysis of the results to better define what follow-up action should be taken in the future.

Q&A

A member of the audience asked Nebel and Bergqvist to speak about the time commitment required for participation in the pilots. Bergqvist said that there was definitely a time commitment involved, and H&M had worked with FLA to conduct training in the selected countries along with workshops to build up momentum. Convincing suppliers to participate also took time although less than expected. Nebel



The CEO of H&M, Karl-Johan Persson, met the Prime Minister of Bangladesh, Sheikh Hasina, in Dhaka, Bangladesh to present H&M's request for an increased minimum wage and annual wage reviews for workers in the Bangladeshi textile industry.

noted that 14 individuals from the 63-member compliance team are championing Fair Wages fieldwork. They recruited suppliers to participate in the project, and conducted preparatory briefings around the theme of improving wage practices. It's not yet clear how much time will be needed for remediation plans and related activities.

RESULTS AND REMEDIATION: EXAMPLES OF REMEDIATION STRATEGIES

Daniel Vaughan-Whitehead started the afternoon session by reviewing the Fair Wage framework and the type of results to which it leads to. He provided as an example, a scorecard of participation in four countries (China, Vietnam, the Philippines and Malaysia). In total, 102 factories participated in management self-assessments; 30 SCOPes were completed (3,842 workers were interviewed); and 11 case studies were conducted.

Vaughan-Whitehead used examples from the sample results to illustrate similarities and gaps between information provided by management versus workers:

- The workers and the management seemed to agree on the rather good performance in terms of payment of wage and absence of wage payment delays.
- A gap was found in the reporting of underpayment; worker interviews revealed that there was a problem of under-payment in over 30% of cases, whereas managers reported that the percentage was 15%.
- Workers and managers also gave different answers as to whether wage levels were enough to live on.

An important finding was that 54 percent of factories in the sample provided a starting wage less than the minimum wage, while 26 percent provided the minimum wage. Twenty-two percent of the factories in the

sample provided a starting wage above the minimum wage. Starting below the minimum wage occurred in over 50% of cases in China and the Philippines.

Another important finding was that wage adjustments were rarely related to profits. In a similar vein, Vaughan-Whitehead presented a wage grid that showed that pay is predominately not related to skills and qualifications. Vaughan-Whitehead also reviewed results around the provision of paid holidays, communication on wages, social dialogue and the existence of trade unions and collective agreements. He then presented a sample Fair Wage matrix, which gives a visual representation of how an organization is performing on each of the 12 wage dimensions on the spectrum from unfair to fair (See Fig.1). This helps to identify the areas where wage practices should be improved.

FIGURE 1: SAMPLE FAIR WAGE MATRIX				
	UNFAIR	RELATIVELY UNFAIR	RELATIVELY FAIR	FAIR
1. Payment of wages		Underpayment of overtime		Payment of wages; No delays in payment
2. Living wage		Basic expenditures not always covered but wage above living wage measures		
3. Minimum wage	MW not respected			
4. Prevailing wage				Majority of suppliers paying above prevailing wage
5. Payment of working hours		Some cases of legal rates of OT not respected		
6. Pay systems and wage structures	Unbalanced pay systems (over dominance of piece rate); non-provision of paid holidays and social security contributions			
7. Social dialogue and communication		Poor communications	Trade unions with wage negotiation but not much outcome such as collective agreements	
8. Wage disparity	Cases of discrimination against migrants; increased wage disparity			
9. Real wages		Nominal wages have increased but not up to price increases		
10. Wage share	No link between wages and performance			
11. Wage costs				Wage costs continue to increase
12. Wages, training and technology	Upgrading and training not leading to wage adjustments			

Vaughan-Whitehead then defined the aims of the Fair Wage remediation process, which include immediate action on most urgent issues (i.e., legal compliance) and the implementation of a roadmap to progressively change practices and mindsets in other -more structural - wage areas (i.e., wage levels, pay systems, social dialogue). Another goal is to pursue long-term objectives; for example, more prominently placing wage issues at the core of Human Resources policy.

The tools to achieve these goals are diversified and include: data analysis, policy advising and technical assistance, training, and social dialogue, on both the definition and implementation of the Fair Wage remediation plan. An improved monitoring process is also achieved, with concrete progression in fair wage practices at the supplier level and also along the whole supply chain of a brand.

IMPROVING PRACTICES THROUGH THE FAIR WAGE APPROACH: THE EXAMPLE OF PUMA

Charmaine Nuguid-Anden, Team Head, PUMA.SAFE Humanity, Puma SE, outlined the company's participation in the Fair Wage Assessment pilots. Prior to Puma's involvement, the company had been working on human resource management broadly with other brands and participated in the JO-IN project⁷ starting in 2002.

Nuguid-Anden noted that consumers still lack trust in brands, but that they might be willing to pay more if they trusted brands to do the right thing. She outlined some of the common arguments against paying a living wage (taken from Ecouterre⁸), and Puma's responses to those. For example, the first argument is that calculating a

⁷ www.jo-in.org/english/index.html

⁸ www.ecouterre.com/10-biggest-excuses-for-not-paying-a-living-wage-and-why-they-suck/



Charmaine Nuguid-Anden, Team Head, PUMA.SAFE Humanity, Puma SE, outlined the company's participation in the Fair Wage Assessment pilot.

fair and balanced wage is impossible, and that some companies don't raise wages because they can't agree on a figure. Puma's stance is that, as opposed to being engaged in the debate to define fair wages, they are focused on exploring how wages can go up sustainably, when there is acknowledgement that wages are low. Puma is taking steps to ensure sustainable production by strengthening public sector engagements in their primary production countries and by investing in markets where they can have the most impact.

Fair Wage Assessments of 25 Puma factories showed that the linkage of wages to workers' skills and training were unsatisfactory. Fairness regarding payment of working hours was found to be poor in general, as social dialogue mechanisms are too rarely present among suppliers.

To address issues and improve wage practices, Puma is currently developing fair wage roadmaps and matrices for all suppliers that participated in this exercise in Indonesia, China, Vietnam, Cambodia and Bangladesh. The company's approach to

remediation prioritizes facilities in Indonesia and Bangladesh, with various enterprise-level initiatives and specific targets for better wages in the supply chain by Q3-Q4 2012.

MODERATED DISCUSSION AND Q&A WITH ALL THE SPEAKERS

Karen Daubert, Executive Director of Brand Management and University Relations at Washington University in St. Louis, moderated a discussion involving all of the speakers. Questions were submitted in writing during the day and attendees also had the opportunity to ask questions verbally during this session. Some of the most common questions regarded ramping up the Fair Wage project from the pilot phase to include more widespread participation; the integration of FLA's Sustainable Compliance Initiative (SCI)⁹ and the Fair Wage approach; and how relevant Fair Wage assessments might be for smaller brands. With respect to the latter, Gregg Nebel noted that size of the company is not as important as its relationship with the factory. He said that Adidas would consider working with any company that shared suppliers, similar to the efforts already established for other compliance remediation efforts. It was noted that every brand has strategic suppliers – maybe not necessarily on volume, but perhaps on some other metric.

One participant asked why, if we already know the results in some regions, companies couldn't just focus on remediation (and forego the assessments). Charmaine Nuguid-Anden noted that the assessments uncover valuable information – some of which will be uncomfortable but that brands need to know anyway. The speakers stressed that individual companies don't need to move alone on certain issues, but rather can use the FLA community and other networks (i.e. Fair Wage and Better Work) to effect change.

⁹ www.fairlabor.org/our-work/our-methodology



Karen Daubert, Executive Director of Brand Management and University Relations at Washington University in St. Louis, moderated a discussion with all the speakers.

WRAP-UP AND CONCLUDING COMMENTS

Auret van Heerden brought the workshop to a close by discussing the importance of worker engagement in the wage improvement process. If proposals and changes are simply announced to workers after the fact, it is likely that they will not buy in. As an example, cutting working hours and eliminating a piece rate system without any explanation may cause alarm among workers. Many facilities do not yet have the communication system or structure in place to adequately inform and update workers on this important topic. Additionally, many companies are trying to address wage issues at a very challenging economic time, which can add to workers' anxiety and uncertainty. One of the conditions for success, therefore, is a thorough and strong workers' consultation process in the factories along the planned changes in wage practices. This won't be an easy process, but FLA can assist by mapping, identifying resource constraints and providing the technology.