



# **DRAFT FAIR COMPENSATION WORKPLAN**

Prepared by the Fair Labor Association

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Many leading companies in the global supply chain and multi-stakeholder initiatives (MSIs) have written commitments to fair wages into their codes of conduct. The Fair Labor Association’s fair wages commitment is embodied in its Workplace Code of Conduct. The Compensation element of the Code defines the obligation of company affiliates on worker compensation:

Every worker has a right to compensation for a regular work week that is sufficient to meet the worker’s basic needs and provide some discretionary income. Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract. Where compensation does not meet workers’ basic needs and provide some discretionary income, each employer shall work with the FLA to take appropriate actions that seek to progressively realize a level of compensation that does.<sup>1</sup>

The FLA’s October 2014 Wage Strategy noted that acting out these commitments has been slowed or halted at companies and multi-stakeholder initiatives by disagreements over scope and methodology, and a lack of urgency. That paper detailed the ways in which the wage debate globally has continued and intensified since the FLA amended its compensation standard in 2011, and stated that the “important obstacles to a coherent and scalable [compensation] strategy have been cleared away.”

That paper also recognized that while compensation “at the supplier [level is] influenced by changes in productivity, worker turnover, collective bargaining, new regulation, and other factors,” meaningful and measurable progress on compensation cannot be made to wait on progress on these factors. Where the data indicates that compensation is too low to meet basic needs and provide some discretionary income, “[S]uppliers and buyers will instead use the pressure of higher wage levels to drive innovation in [purchasing practices], production methods, industrial relations, and worker retention, for example, and not the other way around.”

In other words, this strategy challenges FLA affiliates to treat the compensation issue as a critical business problem and opportunity that requires the use of some of their considerable resources and talents “rather than a social compliance obligation to be housed at and debated by the FLA.”

The focus on supply chain compensation has intensified in the short months since that paper was published. Oxfam’s December 2014 “Steps towards a Living Wage in Global Supply Chains” rates recent efforts by companies and spells out specific actions they should take to bring fair compensation into their business models. In discussing Cambodia’s new minimum wage, The International Labour Organization (ILO) in January 2015 called on “global brands and buyers to play a part in absorbing the higher pay as the increase is expected to raise factory owners’ costs

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<sup>1</sup> FLA Code of Conduct, <http://www.fairlabor.org/our-work/labor-standards>. Annexed to the code are the FLA definitions of key terms in the compensation code element: “**Basic needs**: The minimum necessary for a worker and two dependents to have access to resources, including food, safe drinking water, clothing, shelter, energy, transportation, education, sanitation facilities and access to health care services. **Compensation**: Total remuneration, in cash or in kind, payable by the employer to an employee in return for work done by the latter during a specific time period. Compensation of employees has two main components: (a) Wages and salaries payable in cash; (b) The value of the fringe benefit or social contributions payable by employers: these may be actual social contributions payable by employers to Social Security schemes or to private funded social insurance schemes to secure social benefits for their employees; or contributions by employers providing unfunded social benefits. **Discretionary income**. The amount of a worker’s wages available for spending or saving after basic needs have been met.” [http://www.fairlabor.org/sites/default/files/fla\\_complete\\_code\\_and\\_benchmarks.pdf](http://www.fairlabor.org/sites/default/files/fla_complete_code_and_benchmarks.pdf)

by nearly 20 percent, while their margins continue to shrink.”<sup>2</sup>

FLA stakeholders — labor rights organizations, universities, buyers, and suppliers — need to confront the issue together and, where indicated by the data, begin to show measurable progress now on this core obligation to workers.

Several leading apparel, agriculture, and pharmaceutical companies have made serious starts, from small-scale pilots to company-wide shifts in pay structures. H&M, for example, announced in 2014 that all strategic suppliers “should have improved pay structures for fair living wages” for their 850,000 workers in place by 2018.<sup>3</sup> Nestlé, Patagonia, and Ikea have also made specific and time-bound commitments to ensure fair compensation for some or all workers, and have made public their plans to get there. Novartis has set living wage standards for employees in every country and pays workers at those levels and higher.<sup>4</sup>

Wherever affiliates are on the continuum, the goal of this workplan is to help the FLA and its company affiliates close the ‘say-do’ gap on fair compensation. To operationalize the compensation code element, we will:

- set standards for fair compensation
- monitor and report on compensation in the supply chain
- support progress with learning, innovation, and planning
- measure progress and hold affiliates accountable

The only approach to fair compensation accepted universally by FLA affiliates is collective bargaining by effective, legitimate unions at the supplier, sectoral, and national levels. This is the best, simplest, and most sustainable mechanism, and the FLA explicitly endorses it.<sup>5</sup> However, organizing rights are violated in many major sourcing countries, and workers and unions and their employers in those countries as yet engage in little or no real collective bargaining. The FLA’s strategy recognizes both the need to act with buyers, suppliers, and unions to protect freedom of association and support collective bargaining for workers in supply chains, and the need for additional measures to ensure fair compensation.

The FLA’s strategy acknowledges that compensation issues are complex and that there are no finely tuned and universally applicable solutions. Consequently, we do not describe a close-fitting, prescriptive model that affiliates can adopt everywhere and all at once.

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2 Sourcing Journal, “ILO Calls on Global Buyers to Help Absorb Cambodia’s New Minimum Wage”, 2 January 2015.  
<https://www.sourcingjournalonline.com/ilo-calls-global-buyers-help-absorb-cambodias-new-minimum-wage/>

3 “We believe that wage development in production countries, which is often driven by governments, is taking too long. H&M wants to take further action and encourage the whole industry to follow. With size comes responsibility and we have the ability to contribute to a positive change.”  
<http://sustainability.hm.com/en/sustainability/commitments/choose-and-reward-responsible-partners/fair-living-wage.html>

4 <http://www.novartis.com/downloads/corporate-responsibility/responsible-business-practices/living-wage.pdf>

5 Freedom of Association and collective bargaining are core FLA values: “Employers shall recognize and respect the right of employees to freedom of association and collective bargaining” and “the Association expects all Participating Companies and College or University Licensees to address this issue by taking steps to ensure that employees have the ability to exercise these rights without fear of discrimination or punishment. Such steps include contracting with factory owners that understand and recognize these rights and who shall not affirmatively seek the assistance of state authorities to prevent workers from exercising these rights. [http://www.fairlabor.org/sites/default/files/fla\\_charter\\_2-12-14.pdf](http://www.fairlabor.org/sites/default/files/fla_charter_2-12-14.pdf)

The strategy also acknowledges that affiliated companies — brands, suppliers, apparel, footwear, agriculture, electronics — have different distances to travel in order to operationalize the compensation element of the FLA code with tier one suppliers. Flexibility in approaches, solutions, and timing is written into the plan.<sup>6</sup>

We also intend to draw on the experience of affiliates and multi-stakeholder initiatives such as the FairWear Foundation, ISEAL Alliance members including GoodWeave and SAI, Fair Wage Network, the ILO's Better Work program, Ethical Trading Initiative, Fairtrade International, WageIndicator Foundation, and more. Co-operating where we can will save the FLA time and improve our chances of success.

However, the lessons learned are not of a piece. This is illustrated by the comments made by stakeholders — company affiliates, worker rights organizations and unions, research economists, campaigners — on the first draft of this workplan. The workplan below incorporates many of the suggestions, but naturally not all, and slates others for further research and debate as part of the evolution of the strategy.

The resulting workplan shows how the FLA will develop, adapt, and deliver data and tools enough for affiliates to begin to test approaches, design plans, set goals, and make measurable progress in two phases over the next five years. The FLA will work with counsel throughout all phases of the workplan to ensure that the FLA remains in compliance with all applicable laws.

## HOW THIS WORKPLAN IS ORGANIZED

The elements of the fair compensation strategy are laid out here in terms of objectives and outputs that are practical, measurable, and progressive.

### **Taking Stock, Learning and Planning, and Making Change.**

First, “Taking Stock” includes organizing and benchmarking of compensation data (Element 1), and reporting (Element 2). Progress toward fair compensation has no meaning without relevant baseline data and benchmarks against which to measure.

Second, “Learning and Planning” requires intensive research and training by the FLA on current approaches. It also includes experimentation by company affiliates to help them individually design compensation strategies for their supply chains. The FLA can help affiliates and stakeholders figure out how to address four larger issues that affect compensation: minimum wage-setting, industrial relations, greater productivity, and purchasing practices.<sup>7</sup>

The FLA will begin developing “Taking Stock” and “Learning and Planning” elements immediately upon approval of the workplan and roll them out between mid-2015 and mid-2017 following the proposed schedule in the Gantt chart in Appendix 1.

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<sup>6</sup> The strategy differentiates between apparel, footwear, electronics, and agriculture sectors as well as between categories of affiliates — buyers, suppliers, universities, and licensees — where the measures, timing or mechanics of fair compensation differ, and these elements are developed individually.

<sup>7</sup> This refers to the Principles of Fair Labor and Responsible Sourcing from the FLA Charter: “Company Affiliate aligns planning and purchasing practices with commitment to workplace standards... [and] holds relevant staff accountable for the implementation of planning and purchasing practices that help avoid negative impacts on workers and working conditions.”

“Making Change,” the third element, is slated to begin in mid-2017. It describes how we will measure progress — where the data indicate that compensation is too low — and hold company affiliates accountable for progress towards fulfillment of the compensation code element. This phase of the plan naturally follows the research, training and planning in the earlier elements. The ultimate measure of progress will be that compensation starts to rise in real terms (adjusted for inflation), first and most urgently in ‘high risk’ countries where gaps between pay and living costs are greatest, and ultimately everywhere in affiliated companies’ supply chains where compensation falls short of the FLA standard. The FLA will set clear timelines and specific measurable goals for affiliates at the beginning of this phase in mid-2017.

Progress by affiliates will be measured and reported annually in this phase by the FLA. Formal evaluations — for the organization as well as individual companies — will follow in 2017 and 2020 and serve as the basis for consideration of changes to the FLA’s strategy.

Finally, operationalizing the workplan will require resources and oversight.

**Resources.** Some of the work will be incorporated in the day-to-day work of staff, in particular the Technical Advisor for Statistical Tools and Surveys, the Research and Innovation team (including FLA’s team in China), and the staff working in the Accountability department, including the field assessors. The Communications team will lead the consultation and communication element.

The Vice President for Programs will be responsible for the day-to-day supervision and for making sure milestones are met. Given the importance of this workplan as a core priority of the organization and the fact that additional resources will need to be mobilized, the overall strategic direction will be determined by the President, after approval by the Board.

Where specified in the workplan, additional resources will be sought. Resources will be gathered from three sources:

1. “Special projects” funded by companies or other donors;
2. FLA’s additional resources that will be the part of the overall revenues we commit to spend on implementing the workplan. For 2015, a budget of \$200,000 is proposed, which will be presented for approval at the time of the mid-year budget revision in June 2015;
3. Redirect funds, which will be used for specified activities that are directed toward accredited companies; this will amount to approximately \$100,000.

**Oversight and Communications.** Communication and consultation will accompany each element to ensure that all actions are realistic, principled but pragmatic, and based on a shared understanding. Specifically, progress on the development and implementation of the strategy will be reported every four months by FLA staff to the Monitoring Committee. Objectives and specific activities for the next four months will be discussed and approved via a formalized check-and-adjust methodology whereby adjustments can be introduced three times per year.

We propose that the Board create a twelve-member technical working group composed of two civil society and two university caucus representatives, four business representatives (one

each to represent Participating Companies, Participating Suppliers, Category B licensees, and agricultural affiliates), three outside experts, and the FLA Vice President for Programs as the chair. Appointments will be made in March 2015 with approval of the Monitoring Committee. This group will review the work of the inter-departmental staff team assigned to operationalize the compensation strategy. Brief terms of reference for the technical working group are explained in Appendix 2.

The Communications Committee will also be a key sounding board for the development and implementation of both the internal and public communications roll-out of the workplan.

## ELEMENT 1. TAKING STOCK: ORGANIZING AND BENCHMARKING COMPENSATION DATA

*March 2015 to June 2017*

**1.1 Organizing data.** The FLA can access complete payroll records from FLA Sustainable Compliance Initiative (SCI) assessments to calculate suppliers' median compensation, and a data-collection protocol was successfully piloted and revised in 2014. (Apparel, footwear, electronics, and large-scale food processing suppliers are treated alike here; the FLA will be required to develop analogous compensation measures for smaller-scale agricultural suppliers.) Related SCI data on collective bargaining and freedom of association will be included. But the FLA's sampling of suppliers for assessment is necessarily small, at five percent for non-accredited companies and one percent for accredited companies, and additional data — see 1.2 and 1.3 below — can be useful to allow us to track changes in compensation over time by supplier, sector, city/region, or country. Unorganized data is wasteful, so the FLA could contract out the data analysis and related tasks to free field and headquarters staff.

**1.2 Data from companies.** Affiliates that are already collecting and/or organizing compensation data from suppliers are asked to confidentially provide that data 'as-is' with the FLA. The FLA will publish a brief best practices report by June 2015. The FLA will use these findings to help company affiliates not already collecting this data to begin collecting it where possible, or to arrange for suppliers to provide it confidentially to the FLA in order to track their progress, if required, toward fair compensation.

**1.3 Data from workers.** The FLA will develop and pilot in 2015 a project using mobile phone platforms to capture and organize (anonymous) compensation data directly from workers and organize it in a usable form. A hypothetical six-month pilot project involving 2,500 Dhaka apparel workers providing information from 12 suppliers would cost US \$21,000 - 25,000. Alternative locations to test the approach include China or any sourcing country where mobile phone usage is well-supported and call costs are reasonable. The pilot will allow us to test the accuracy of the data workers provide and determine how many workers we can pull into the data set. Developing the platforms with other MSIs, the ILO, and donors can expand our reach and spread out costs.<sup>8</sup>

**1.4 Wage ladder.** Country- or city/region-specific wage ladders that define and track progress toward fair compensation are simple, scalable and flexible instruments. The FLA contributed to

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<sup>8</sup> This capacity — if successfully built — can vastly expand the FLA's reach and radically reduce the cost of gathering information on compensation, working hours, fire safety, and more. The FLA can also use the data to help fill gaps in wage data during clean up minimum wage debates in countries where the data and the processes are opaque. Finally, developing the platforms with other MSIs, the ILO, and donors can expand our reach and spread out costs.

the development of the first and most widely used supply-chain wage ladder as part of the Jo-In project, later adopted by the Fair Wear Foundation in 2011. The main advantage of the wage-ladder approach is that its various “benchmarks avert lengthy debates seeking to hone in on a single benchmark” and it allows companies to “move up the rungs of the ladder step-by-step” rather than all at once.<sup>9</sup>

We compared wage ladders to alternative approaches including the tightly fitted Fair Wage Process tested by some FLA affiliates, and intensive field research to quantify accurately “basic needs plus some discretionary income” in the areas and countries where FLA affiliates source. The latter would resemble Richard and Martha Anker’s work for the ISEAL Alliance and would require an enormous investment by FLA affiliates.<sup>10</sup> It would also deliver specific compensation levels rather than a wider range of fair compensation measures at which to aim.

We propose to negotiate access to the revised Fair Wear tool and collaborate on research and upgrades. If that option does not work, we can develop a flexible and highly functional online tool that meets our specific needs and puts the FLA’s stamp on compensation work globally.

To allow for meaningful measurements of progress, the FLA will select four readily available “living wage” benchmarks from the last 12 months, plus a few standard measures, for the ladder.<sup>11</sup> We will consult extensively and transparently with affiliates, unions, MSIs, and others in selecting benchmarks. A typical 2015 ladder for any country would include the current legal minimum wage, plus:

1. (Standard) World Bank gross national income (GNI) per capita
2. (Standard) OECD 60% of median income
3. SCI assessment median prevailing compensation
4. Prevailing sectoral wage (if available)
5. (Fair compensation band) NGO/Government fair compensation estimate
6. (Fair compensation band) National/sectoral union fair compensation estimate
7. (Fair compensation band) Anker/ISEAL fair compensation estimate
8. (Fair compensation band) Asia Floor Wage compensation estimate

The technical working group will be responsible for settling data issues, including the calibration of supplier compensation data with benchmarks to ensure that comparisons are apples-to-apples.<sup>12</sup> The working group will also pilot the choosing of benchmarks and develop a protocol for use in all SCI countries and cities/regions. Updating of benchmarks each year will be done using readily available benchmarks from other MSIs, unions, employer organizations, NGOs,

<sup>9</sup> Fair Wear Foundation: <http://www.fairwear.org/ul/cms/fck-uploaded/documents/policydocs/ClimbingtheLadderReport.pdf>

<sup>10</sup> An overview is at <http://www.isealalliance.org/sites/default/files/Descripton%20of%20Living%20Wage%20Methodology%2020131124.pdf>. A sample study is at [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/resources/LivingWageReportEnglish\\_DomRep.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/LivingWageReportEnglish_DomRep.pdf)

<sup>11</sup> See “Learning and Planning” Element 2.4 for a discussion of fair compensatoin bands proposed in the November 2014 draft.

<sup>12</sup> For example, supplier compensation averages that include allowances or bonuses based on total hours (with overtime) are adjusted to be comparable with a labor ministry’s ‘living wage’ estimate based on a 48-hour week.

governments, and multilateral institutions.

### **1.5 Fair compensation in agriculture.**

The lack of formal labor market structures among small-scale growers makes measuring and benchmarking compensation more complicated than among apparel, footwear, and electronics suppliers.<sup>13</sup> We propose that the FLA begin in May 2015 to use compensation findings in Independent External Monitoring (IEM) assessments, input from the newly established agriculture working group, and the experience of other MSIs to craft agriculture-specific compensation measures and benchmarks.

### **1.6 Reporting SCI compensation data.**

FLA assessors will report median compensation for the four largest categories of suppliers' workers in SCI reports beginning in January 2016 after benchmarks are set and assessors trained. The FLA will consult with counsel to define any limits on internal and public uses of compensation data reported to the FLA.

Each suppliers' compensation will be plotted against the designated benchmarks in a fair compensation ladder in its SCI report, but compensation will not have a finding of 'compliance' or 'non-compliance'.

On the next page is an example of a wage ladder using compensation data collected in a recent SCI assessment of a Shanghai-region apparel supplier.<sup>14</sup>

### **1.7 Compensation reporting by affiliates.**

As noted above (1.2), the FLA needs aggregate compensation data from suppliers — in addition to SCI data — in order to measure progress more widely in the supply chain. Where the data indicate that compensation is too low to meet basic needs and provide some discretionary income, supplier affiliates as well as buyers can use the online ladder tool to plan and measure

## **DEFINING COMPENSATION**

The Anker standard for compensation has been adopted by the Forest Stewardship Council, GoodWeave, Fairtrade International, Social Accountability International, and others to calculate compensation as follows:

- Compensation is earned during standard working hours, overtime pay is excluded.
- Mandatory taxes are not included.
- Fair (market) value for in-kind benefits is included.<sup>14</sup>

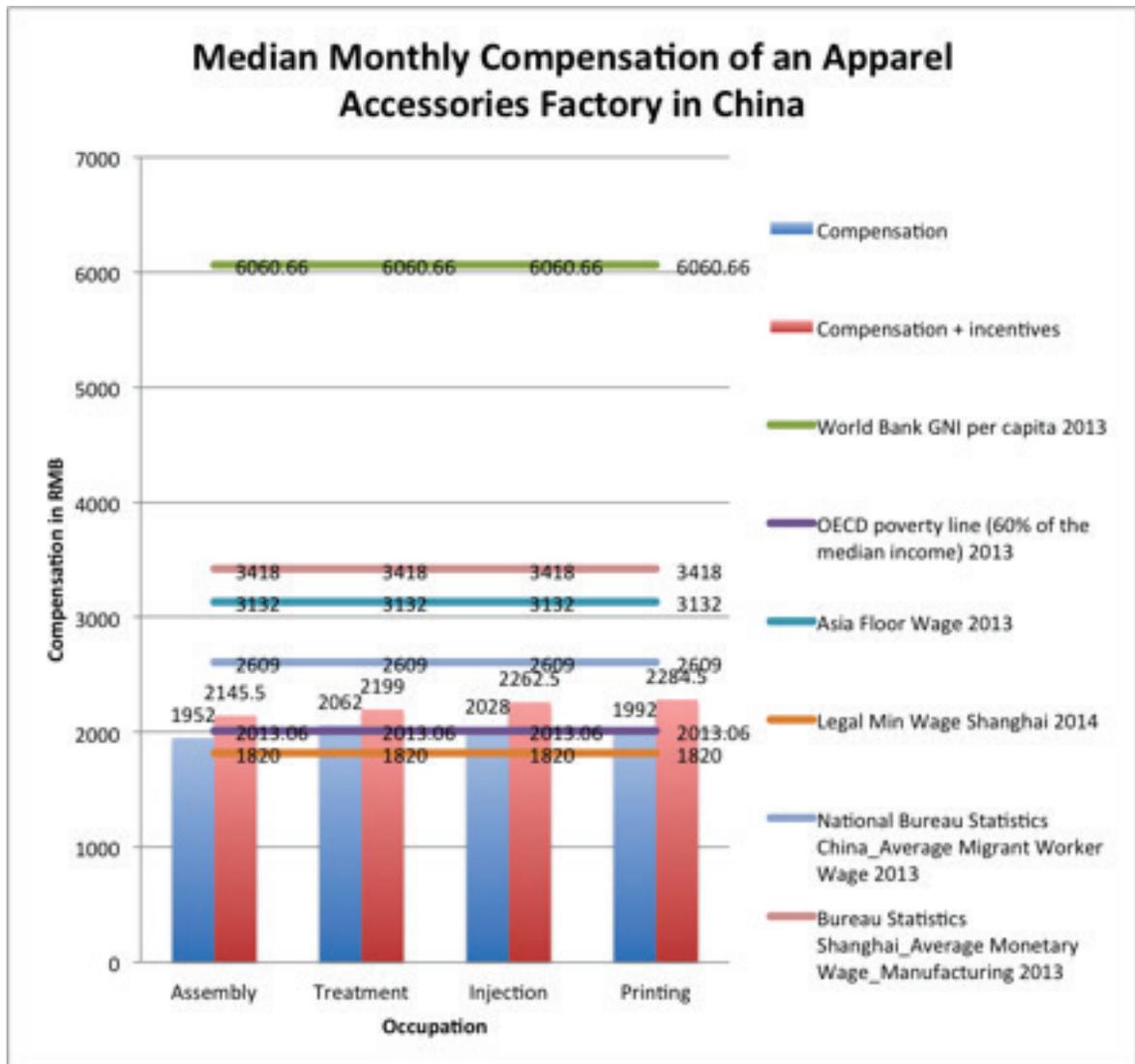
The ISEAL/Fairtrade/SAI definition excludes productivity bonuses (including piece-rate payments) and allowances unless guaranteed by law or a collective bargaining agreement in part because they are variable and not available to all workers.

This can count out a significant share of workers' income. As in the graph on page eight, we report both median compensation levels — with and without incentive bonuses — in our compensation findings.

<sup>13</sup> The 2012 'Wages of Inequality' report published by the FLA and the India Committee of the Netherlands details some of the challenges the FLA and agricultural affiliates will have to overcome or plan around in devising an effective fair compensation strategy.

<http://www.fairlabor.org/sites/default/files/documents/reports/wages-of-inequality.pdf>

<sup>14</sup> In this example, "Compensation" = basic contracted wage + in-kind payments (meal allowance, transportation allowance, etc.) - taxes and legal deduction. "Incentives" include productivity bonuses, quality bonuses, etc. Overtime work is not included. Additional city/regional benchmarks would be included where available.



their progress.

**1.8 Annual compensation report.** The FLA will inaugurate in 2016 an annual compensation report that shares aggregate compensation (not company-specific) data by sector and country along the lines of the Better Work ‘synthesis’ reports. A significant measure of transparency on compensation will help re-establish the transparency bona fides of the FLA and company affiliates. The report can also fill critical gaps in stakeholders’ data-sets and understanding of supply chain compensation issues. An accompanying online ‘wage page’ will aggregate findings as they are released on 10 or more key SCI compensation measures and present them in an accessible format.

**1.9 Remediating pay violations.** Finally, in the “Taking Stock” phase we must address suppliers that fail to pay their workers all that they are owed under the law. No workers in affiliates’

supply chains should be paid less than they are owed. The persistence of legal pay violations undermines the move to fair compensation.

Pay violations are a particular problem among small-scale agricultural producers, and recent reporting by the ILO and FLA shows that a significant share of apparel suppliers assessed in countries with Better Work programs are not paying workers what the law or collective agreement requires.<sup>15</sup> Apple also found up to 25 percent noncompliance on pay issues — chiefly underpayments for holiday and overtime work pay — in its 2013 assessments.<sup>16</sup>

FLA affiliates, including Category B affiliates, are expected to take prompt and effective action to pay workers what they are owed and ensure future compliance. The FLA will share code language and successful pay violation remediation programs with company affiliates.

An SCI assessment that finds significant or chronic pay violations may indicate a larger problem in that city/region or country. Affiliates are expected to review their own findings from similarly situated suppliers, remedy any pay violations they find, and build programs to prevent future violations. These affiliates will track and self-report progress on pay remediation to the FLA on a schedule to be determined by the technical working group.

We propose to verify some pay remediations by suppliers. Suppliers that fail to fully remediate legal pay violations within three months — or on a schedule agreed with a union or worker representatives — should be handled like suppliers who ignore fire safety or child labor violations.<sup>17</sup> Chronic and widespread legal pay violations among a company affiliate's suppliers will lead to public disclosure by the FLA and, ultimately, to a review of the company's FLA membership.

In a few sourcing countries, there are genuine disputes over the handling of a legal compensation issue. The widespread non-payment of social insurance in China is the best-known example.<sup>18</sup> See Element 2.5 (“Engagement on wage-related issues”) for a description of FLA engagement on compensation issues with affiliates, CSOs, unions, employer organizations, and governments to identify possible solutions and develop a collective plan of action.

Agricultural companies will work on a longer timeline to be proposed by the technical working group in consultation with affiliates, but they are expected to arrive at the same place — prompt and effective remediation.

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15 See, for example, [http://betterwork.org/global/wp-content/uploads/BWI-4rd-Synthesis-Report-Final\\_July-4\\_22.pdf](http://betterwork.org/global/wp-content/uploads/BWI-4rd-Synthesis-Report-Final_July-4_22.pdf). A 2011 ILO report by Vaughn-Whitehead cites 2010 FLA assessment data showing that 17 per cent [of assessed suppliers] reported having been obliged to postpone wage payments: nearly 20 per cent of companies — or one in five — thus reported a problem with wage payment.”  
<http://betterwork.com/global/wp-content/uploads/Session-3-How-%E2%80%98fair%E2%80%99-are-wage-practices-along-the-supply-chain.pdf>

16 This figure does not include non-payment of social insurance in China.  
[https://www.apple.com/supplier-responsibility/pdf/Apple\\_SR\\_2014\\_Progress\\_Report.pdf](https://www.apple.com/supplier-responsibility/pdf/Apple_SR_2014_Progress_Report.pdf)

17 Suppliers with large liabilities can spread re-payment to workers over a longer period by agreement with FLA affiliates.

18 Non-payment of social insurance in China will not trigger a remediation under this workplan, while the FLA and affiliated companies prepare a policy strategy.

## ELEMENT 2: LEARNING AND PLANNING

*March 2015 to June 2017*

This element requires the FLA and affiliates together to identify, develop, and test workable models for fair compensation that are robust enough to be applicable across supply chains.

**2.1 Code language.** Every FLA affiliated company must make an explicit commitment to compensation that allows workers (including two dependents) to meet their basic needs and provides some discretionary income. This commitment must meet or exceed the standard to achieve or maintain accreditation.<sup>19</sup>

Recognizing on one hand that code language by itself has little or no value to workers, and on the other hand that the design, testing, and implementation of a compensation program is not an overnight exercise, the FLA nonetheless expects below-standard code language to be brought in line with the 2011 code enhancement no later than Dec 2015. Failure to take this preliminary step by the deadline will trigger a special review by the FLA.

**2.2 Fair compensation case studies.** Suppliers, buyers, unions and worker rights organizations have experimented extensively in the last five years with fair compensation strategies. The FLA will write or commission seven to ten studies of these recent efforts in 2015 to help affiliates evaluate these approaches. Studies will focus on program development and mechanics, internal debates, the role of industrial relations including collective bargaining, impacts on purchasing practices, productivity, costs, and replication/scaling-up.

The studies will examine buyer, supplier, and worker perspectives on fair compensation strategies in:

- Strategic ('high leverage') apparel/footwear supplier(s)
- Fair Wage (Vaughn-Whitehead) pilot FLA supplier(s)
- Sectoral freedom of association and collective bargaining program(s)
- Supply-chain-wide fair compensation program(s)
- A strategic ('high leverage') electronics supplier
- The university/licensee/supplier relationship
- Multi-buyer/'Low-leverage' apparel/footwear supplier(s)
- Buyer-supplier strategies for meeting higher labor costs/minimum wages
- Minimum wage payment in direct and indirect agricultural supplier(s)

<sup>19</sup> An ongoing FLA review that compensation language in codes meets the FLA standard in: 65% of Accredited PCs, 73% of Unaccredited PCs, 100% of Accredited PS's, and 27% of Category Bs. Companies may use terms like "standard of living" instead of the FLA's 'basic needs' formulation as long as they can demonstrate to the FLA's satisfaction that the code language meets or exceeds the expectations of the FLA Code.

- Fair-trade pricing for agricultural small-holders

The first task is identifying where relevant studies are already planned, and sounding out potential partners: affiliated companies (both buyers and suppliers), university affiliates, and other MSIs. All three are potential funders who can share the FLA's research costs.

A series of trainings and sharing sessions for all affiliates and stakeholders on the case studies will begin in mid-2016. The FLA will produce a detailed training calendar for 2016 - 2017 (and subsequent phases) as well as a list of training tools the FLA proposes to develop for affiliates.

**2.3 Pilot strategies.** Piloting possible strategies is the best way for affiliates — buyers and suppliers alike — to learn what works. Some FLA affiliates including H&M, adidas, Puma, Patagonia, Knights Apparel, and Nespresso among others are already testing fair compensation strategies, including the Fair Wages methodology, where they have built the strongest supplier and worker or union relationships. Some of their lessons learned will be captured in the proposed case studies and learning sessions described above.

Some other company affiliates are capable of starting to pilot approaches now on a small scale in a handful of strategic suppliers in a few strategic and relatively “high risk” sourcing countries. The FLA strategy explicitly endorses this experimentation and will work with affiliates to consolidate and share the lessons learned. Yet another group of company affiliates are lower along the learning curve and will need the guidance that the case studies and learning sessions will provide before testing possible strategies and developing plans.

One of the most anticipated problems in developing strategies is how to make progress on compensation — where indicated by the data — among multi-buyer suppliers where many buyers are sourcing relatively small shares of production. The FLA proposes to help coordinate one pilot in 2015 and two more beginning in 2016 among stakeholders including unions in multi-buyer suppliers, and one pilot with a supplier that has a very small number of strategic partners. This is another instance in which the FLA will seek guidance from anti-trust counsel. Together with an academic partner, the FLA proposes to help design, track and report on these pilots. We will incorporate their lessons in the proposed mid-2017 learning sessions.

**2.4 Designing supply chain-wide programs.** The FLA will not present a close-fitting model with countless standards to accommodate every variation in compensation practices. Instead, we will extract and organize important lessons from case studies and pilots in order to model the key elements of successful fair compensation strategies. We will bring affiliates together in June of 2017 to teach these lessons and model elements, and to allow affiliates to learn from one another.

We will also use the data analysis and learning of the first phase of the strategy to articulate the quantitative and qualitative goals for affiliates and the organization as a whole. We will consult extensively and transparently with affiliated companies, unions, MSIs, and others in setting goals, including specific fair compensation goals by country or region/city.

These June 2017 sessions mark the end of the “Learning and Planning” phase. With models, tools, and specific goals in hand, affiliates that have not already developed and shared their fair compensation plans are expected to draft and finalize plans by December 2017. In advance of this deadline, the FLA will comment on individual companies' goals and plans if requested.

In broad terms, affiliated companies' individual plans should have the explicit public support of the company CEO. Plans should also be integrated into the company's core sustainability and sourcing strategies. We expect that plans will be enacted in stages and focused first on strategic suppliers (high leverage) in strategic sourcing countries with relatively low compensation (high risk). For example, a manufacturing affiliate — apparel, electronics or large-scale food processing — might develop and announce a plan to ensure fair compensation for workers in 60 percent of strategic suppliers in their top ten sourcing countries within three years, and in 100 percent of strategic suppliers within five years. Such a plan might call for compensation for 30 percent of workers in low-leverage suppliers within three years, for example.

In specific terms, plans will detail actions individual companies will take to reach these goals. Like the case studies and pilots, plans are expected to address the factors over which affiliated companies have some measure of control, including compensation data collection and analysis, prioritizing of suppliers and sourcing countries, internal policy-making regarding fair compensation, industrial relations including collective bargaining, impacts on purchasing practices, productivity, and replication/scaling-up.

Buyers who are unable to drive change on compensation in individual suppliers (or via licensees or brokers) may be tempted to write them out of their fair compensation strategies. We will coordinate pilots to test approaches to the low-leverage problem — a “micro” approach to the problem — but buyers have “macro” options that need to be explored and developed.

For example, a buyer may decide to help drive change on compensation by concentrating sourcing in fewer factories or to source from factories that already pay workers fairly, or have a plan and are making progress toward this goal. We acknowledge that these are unattractive options for some buyers but this is representative of the challenges FLA affiliated companies will face as we begin to operationalize the compensation element of the code and confront purchasing practices more generally. The next objective (“Engagement”) roughs out how FLA affiliates can develop and test collective approaches to these macro issues.

**2.5 Engagement on wage-related issues.** Unions and workers' rights advocates, buyers, and suppliers recognize that practical fair compensation plans cannot hinge on players or actions they cannot control. For example, a fair compensation plan that relies chiefly on worker organizing and collective bargaining or — on the other hand — big productivity gains to make room for fair compensation is not tackling the issue.

However, as part of the “Learning and Planning” phase, the FLA can help affiliates and stakeholders figure out how to address larger issues — minimum wage-setting, industrial relations, greater productivity, and purchasing practices — that affect compensation. The FLA will incorporate lessons learned here in the 2016 - 2017 training and sharing sessions, and affiliates are expected to incorporate these four elements in their fair compensation plan.

The FLA can also take this opportunity to cooperate with MSIs and strengthen workers' voices inside the FLA by engaging labor CSOs and unions, including the Solidarity Center, AFL-CIO, IndustriALL, Clean Clothes Campaign, Uni, ITUC, and others.

**2.6 Engaging national governments on wage policy.** The FLA will pilot a strategy of engagement with governments on wage issues such as minimum-wage-setting processes

and real and effective enforcement of compensation laws — of particular importance in the agricultural sector. Protection of fundamental rights including worker rights is a central tenet of the United Nation’s Guiding Principles on Business and Human Rights, and a set of issues on which the FLA could cooperate closely with other MSIs. The FLA President, in consultation with the Board, will recommend two or three countries and wage-related issues on which the FLA might engage with governments in 2015, and outline the respective roles of the FLA and affiliates in these engagements.

**2.7 Freedom of association and collective bargaining.** Collective bargaining by employers and activist, pro-worker unions is preferable to compensation built around government-mandated minimum wages. It is an explicit part of this fair compensation strategy. But many key sourcing countries — China, Vietnam, Bangladesh, Cambodia and so on — have little or no effective bargaining by activist, pro-worker unions at the supplier, sectoral, or national levels. Protecting freedom of association and the right to bargain collectively should be a priority for the FLA and affiliates but its many facets deserve in-depth treatment by the FLA — perhaps with other MSIs — along with learning, clear standards, and accountability measures of its own.

**2.8 Productivity.** Likewise, the productivity gains to be had in low-wage apparel production and small-scale agriculture through investments, training, and worker-management collaboration need greater emphasis inside the FLA. We do not propose that the FLA develop technical expertise in field- or floor-level productivity enhancement programs but begin to advocate for these investments as a sustainability measure, a corollary for continuous improvement, and a factor in compensation.

**2.9 Purchasing practices.** Finally, the FLA needs to set parameters for its role in responsible sourcing and begin this fundamental conversation inside the FLA: How can individual affiliated companies “align planning and purchasing practices with commitment to workplace standards... [and] hold relevant staff accountable for the implementation of planning and purchasing practices that help avoid negative impacts on workers and working conditions”? This work will be integrated with the work done by the Principles Working Group.

### ELEMENT 3. MAKING CHANGE: MEASURING PROGRESS AND HOLDING AFFILIATES ACCOUNTABLE

*June 2017 to June 2020*

#### **3.1 Measuring progress toward fair compensation**

The first hard measures of affiliated companies’ readiness to implement a fair compensation strategy come at the start of the second phase:

1. Compensation code language that meets or exceeds the FLA code standard
2. Prompt remediation of supplier pay violations in SCI and internal assessments
3. Implementation of an effective program to prevent pay violations
4. Specific, measurable and time-bound plan for fair compensation of workers in the supply

chains

5. Collection where possible and analysis of supplier compensation data, directly or via the FLA
6. Participation where possible in fair compensation pilots
7. Publication of a plan and a public CEO-level commitment to implementing strategy

The first four actions are threshold issues for FLA affiliates on compensation issues. Affiliated companies who have not met these requirements by December 2017 will undergo a special review. A timeline for agriculture affiliates will be confirmed by the October 2015 board meeting.

In the “Making Change” phase of the plan, affiliates will implement their plans beginning no later than the FLA’s February 2018 board meeting.

The measures of progress will track with the quantitative and qualitative standards and goals to be set by the FLA in June 2017. (Again, the standard for agriculture will be determined separately, as will the obligations of universities, their licensees, and suppliers.)

Affiliated companies will report annually to the FLA on progress toward their goals. The FLA will review self-reported data as well as SCI reports, and verifiable compensation data from workers via mobile platforms, CSOs, and unions. The FLA will use this data and affiliates’ self-reporting to produce an annual scorecard to be used internally to gauge progress by affiliates. The end of the first phase of the strategy also provides an opportunity to evaluate formally the work to date and its impact. The technical working group will design this report and evaluate the terms of reference in 2017 in consultation with the Monitoring Committee.

**3.2 Define accountability for progress.** If the data and reporting show or suggest that an affiliated company is not hitting its fair compensation marks, the report will be flagged for consultation to help the affiliated company recalibrate its strategy — both internal and external — and get back on track. The emphasis is on support, learning and improvement.

However, if an affiliated company refuses to engage constructively on this issue, the FLA must hold that company accountable, to maintain its effectiveness on this issue and its credibility more generally. A company affiliate that fails to meet the threshold standards listed in 3.1 above by December 2017 will be recommended by the President to the Board for special review (See Special Review in the FLA Charter).

In the second phase, affiliated companies that fail to craft realistic plans and/or repeatedly fail to meet goals will similarly be recommended for review. The specific measures will be developed and adopted by the FLA in 2017.

**3.3 Evaluation and revision.** The workplan will undergo regular review and revision as befits work on a complex and critical issue. However, a formal evaluation — for the organization’s compensation work as well as individual companies’ — will follow in 2020. It does not mark the end of the strategy but a pause for reflection and consideration of changes to the FLA’s fair compensation strategy for the coming years.







January 14, 2015

*Draft terms of reference, FLA Compensation Working Group*

## **Background**

The primary goal of the Fair Compensation Workplan is to operationalize the FLA's compensation code element, which requires that "where compensation does not meet workers' basic needs and provide some discretionary income, each employer shall work with the FLA to take appropriate actions that seek to progressively realize a level of compensation that does."

As part of the strategy to implement the code element, FLA staff propose that the Board of Directors approve the creation of a twelve-member technical working group at the FLA to be composed of two civil society and two university caucus representatives, four business representatives (one each to represent Participating Companies, Participating Suppliers, Category B licensees, and agricultural affiliates), three outside experts, and the FLA Vice President for Programs as the chair.

## **Objective**

The technical working group works with FLA staff to research, discuss, and contribute to the resolution of technical issues to be addressed in the implementation of the fair compensation workplan.

## **Scope of Work**

The primary responsibilities of the working group will be:

1. Provide guidance to staff on technical compensation issues
2. Discuss and resolve technical issues in implementation of the workplan approved by the Monitoring Committee
3. Assists staff in preparation and finalization of FLA reports for the Monitoring Committee
4. Assists staff in preparation of decision memos for action by the Monitoring Committee
5. Follow FLA and affiliates' progress on workplan objectives and outputs

Members of the working group are expected to participate in working group discussions monthly or more frequently, as needed.

## **Timeframes**

Caucus representatives are to be nominated by their caucuses, and the outside experts by the President, then confirmed by the Monitoring Committee by March 16, 2015.

Monthly meetings of the working group will begin in March 2015. Other meetings and discussions will be scheduled as needed.

Appointments to the working group are for the first phase of the workplan (March 2015 to December 2017). Members may be re-appointed beyond the first phase subject to approval by the Monitoring Committee.

## **Special Terms & Conditions / Specific Criteria**

Members should have experience with compensation issues in the supply chain and familiarity with the FLA's code as well as its multi-stakeholder, consensus-driven decision-making model.

Members who miss more than one-third of scheduled meetings will be recommended for replacement.