



On August 3, 2016, the Fair Labor Association (FLA) published its first annual report on compensation in affiliated company supply chains, based on data collected by FLA factory assessors in 2015. The report presents the findings from this data collection effort, covering 124 factories in 21 countries, providing a snapshot of the relationship between wages paid in factories and local wage benchmarks. This verified data is intended to help affiliated companies assess their compensation-related compliance efforts, and to provide local context for all stakeholders participating in global discussions on supply chain wages. The full report appears at [www.fairlabor.org/report/toward-fair-compensation-global-supply-chains-factory-pay-assessments-21-countries](http://www.fairlabor.org/report/toward-fair-compensation-global-supply-chains-factory-pay-assessments-21-countries); questions and answers about this work appear below.

## TOWARD FAIR COMPENSATION IN GLOBAL SUPPLY CHAINS

### 1. Why did the FLA begin publishing wage data as part of its workplace monitoring?

Companies that affiliate with the FLA affirm their agreement with the FLA Workplace Code of Conduct, which states that workers have a right to fair compensation, defined as a level that “meets basic needs and provides discretionary income.” This has been the FLA standard since 2011, but brands and suppliers have reported that they found it challenging to determine how close they have come to achieving this commitment. As one component of the Fair Compensation Work Plan approved by the FLA Board of Directors in February 2015, the annual compensation report is designed to:

- show companies real-world examples of the types of local benchmarks that can help them assess their compensation;
- demonstrate how to successfully collect wage data at the workplace level; and
- focus companies’ attention on regions and facilities where workers’ purchasing power is shown to be weakest, and where action is needed most.

### 2. What is included in the FLA’s definition of compensation and what size of family does the FLA estimate for each worker?

The FLA definition of compensation excludes overtime pay, taxes, and other legal deductions. Basic-needs compensation should meet the minimum necessary for a three-person-family – a worker and two dependents. The compensation formula, as expressed in the annual compensation report looks like this:

$$\text{Compensation} = \text{Basic Contracted Wage} + \text{Cash Benefits} + \text{In-kind Benefits} \\ - \text{Mandatory Taxes and Legal Deductions and Taxes}$$

### **3. Is excluding overtime from the definition of compensation placing the bar too high?**

The FLA Workplace Code of Conduct standard on compensation affirms that compensation from “a regular work week” should be sufficient to meet a worker’s basic needs and provide some discretionary income. Therefore, the FLA excludes overtime pay when collecting compensation data. Workers should not have to rely consistently on overtime work to earn compensation sufficient to meet their needs.

### **4. How is the FLA asking companies to respond to this report? Who is responsible for raising workers’ wages where compensation is found to be insufficient to the FLA standard?**

This report provides a snapshot for companies of the relationship between wages paid in factories and local wage benchmarks.

Companies are asked to evaluate their supply chains in response to the FLA’s risk analysis in general, and in response to their reflections on the actual data presented on each of their sourcing countries in particular. Companies are also required to begin collecting similar wage data on their own, so that over time each company develops a clearer understanding of whether wages paid in each company’s supply chain meets FLA standards. Where wages do not meet a level that meets workers’ basic needs and provides discretionary income, companies are responsible for devising strategies to raise wages to a level that does.

The FLA report does not prescribe wage levels, and does not endorse any sourcing country over any other. Rather, the report is intended to help companies – wherever they are sourcing – take action to achieve fair compensation throughout their supply chain. The report recommends that factories devise strategies in collaboration with workers to eliminate legal pay violations, that brands and suppliers engage in responsible purchasing and production practices that support fair compensation, and that all stakeholders engage with governments to establish fair and inclusive minimum wage-setting procedures.

The FLA will continue to produce materials (remediation guidelines, case studies, etc.) designed to help companies devise their fair compensation strategies, and each affiliated company is responsible for devising the strategy that will best achieve compliance with the FLA Workplace Code of Conduct in its supply chain.

### **5. Why doesn’t the FLA prescribe target wage levels for countries or regions?**

Not all stakeholders will agree on which specific wage levels in each sourcing region represent the fairest wages. The goal of the FLA’s annual compensation report is not to enforce consensus on target wage levels, but to provide the tools, resources, research, and motivation for companies to improve compensation for workers throughout their supply chains.

The FLA provides the comparison of average factory wages with relevant local benchmarks as established by governments, unions, civil society, and others. The FLA encourages companies to develop their own fair wage levels in collaboration with these other stakeholders, through, for example, collective bargaining and negotiation with unions.

## **6. Is the FLA asking companies to shift production away from high-risk countries?**

The FLA is not endorsing any sourcing country over any other. The FLA Workplace Code of Conduct element on fair compensation applies globally.

## **7. For some countries, the FLA did not collect very much compensation data. Is the risk analysis reliable?**

The risk analysis is reliable for the information collected, though necessarily limited by the scope of the data the FLA is able to collect annually.

In 2015, the FLA collected compensation data from 124 factories, ranging from a high of 39 factories in China (which itself is divided into wage regions, due to variations in minimum wages and cost of living) to as few as one factory apiece in El Salvador, Guatemala, Jordan, Philippines, Taiwan, and Jordan. In 2016, and subsequent years, the FLA will continue to expand the risk analysis presented in this report through the annual addition of further compensation data collected by the FLA and affiliated companies.

## **8. How did the FLA choose the 21 countries to present in the report?**

The FLA collected compensation data during every factory assessment visit scheduled for 2015. In scheduling assessment visits, the FLA selects at random (weighting countries for relative risk of Code of Conduct violations) from among affiliated companies' factories within the FLA program. Not every country will be represented among every annual cycle of assessments, but future cycles will add compensation figures from more countries to the universe of data included in FLA reports. For example, factory assessments in 2016 are scheduled for Georgia, Myanmar, and Tunisia, three countries not yet represented in the FLA's compensation reporting.

## **9. How did the FLA choose which benchmarks to publish on its “wage-ladder” charts?**

The FLA consulted widely in 2015 and 2016 with companies, academics, and workers' representatives and civil society organizations to develop guidelines for benchmarking choices, ultimately selecting benchmarks in the following categories:

1. Legal minimum wages
2. Industry / sector wage medians or averages
3. National poverty lines and basic-needs figures
4. International poverty thresholds
5. Civil society living wage estimates, and
6. Union wage demands.

Benchmarks such as minimum wages, industry averages, poverty lines, and living wage estimates provide context for actual compensation data but do not represent endorsement of specific compensation levels as goals. Civil society estimates and union wage demands demonstrate what workers and workers' advocates suggest as fair wage levels.

Some countries have many relevant compensation benchmarks, and others have relatively few. The FLA worked to establish enough benchmarks to present a meaningful picture of the compensation landscape in each country. A fuller explanation of each category of benchmark appears in Appendix B of the 2015 report "Toward Fair Compensation in Global Supply Chains."

#### **10. How can the FLA be certain that factories provided true compensation levels to factory data collectors?**

FLA assessors have many years of experience in investigating factory conditions, and in collecting information from both workers and factory management, and through factory walk-throughs and document review. In collection compensation information, assessors review actual payroll records, and corroborate this data with worker interviews.

Assessors do sometimes find through worker corroboration of payroll data that a factory may be maintaining false pay records; when this workplace violation is detected, it is publicly disclosed in the FLA's factory assessment reports.

#### **11. In which countries do legal minimum wages fail to "meet a worker's basic needs and provide some discretionary income"?**

The chart on page 16 of the FLA's report "Toward Fair Compensation in Global Supply Chains" shows how the purchasing power of legal minimum wages falls below the World Bank's poverty threshold for a three-adult-equivalent family in Bangladesh, Jordan, Mexico, and Sri Lanka.

#### **12. Do anti-trust rules prevent companies from discussing actual pay levels with each other and collaborating to ensure fair compensation in common sourcing factories?**

According to the FLA's counsel, companies may discuss both current compensation levels at shared supplier facilities and target compensation levels at shared supplier facilities. With the supplier's consent, brands may discuss methods for calculating and implementing a mechanism that provides for increased prices buyers individually would be willing to pay to support increased wages. Also on the advice of the FLA's counsel, some topics should not be discussed by companies, such as whether any brand will continue to source from a particular supplier, specific prices or components of prices unrelated to fair compensation for workers, and any other commercial terms (such as insurance risk, delivery terms, and returns policy) unrelated to fair compensation for workers.