



Wages Along the Supply Chain: Trends, Progress and Looking Ahead

Preface

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.” 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, and a new international Fair Wage Network was launched (www.fair-wage.com) to enable companies 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.”¹ 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.

On June 15, 2011, the FLA convened its third stakeholder forum on wages in Istanbul, Turkey, hosted by Participating Supplier Hey Tekstil.² 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.” Speakers included representatives from TEKSIF Union, H&M, Gibor Alfa, Knights Apparel, the Fair Wear Foundation, University of Northumbria, Jatiya Sramik League & Bangladesh National Council of Textile Garments and Leathers Workers Federation, Women Working Worldwide, and Alternative Movement for Resources and Freedom Society.

Forum Introduction

FLA President and CEO Aurret van Heerden noted in his introductory remarks that there finally appears to be some consensus among businesses, civil society, academics and others that wages are a critical element of the employment relationship. Collectively, fair wage advocates across the globe have been able to propel the wage discussion to the frontline of the corporate social responsibility debate. Today, three years after

FLA's first stakeholder forum on the topic, wage issues are recognized as being crucial to the overall improvement of working conditions throughout the global supply chain. In short: we can no longer turn a blind eye to unfair wages.

Previously, the discussion around wages focused on minimum wage and other forms of legal compliance. This approach is flawed because legal compliance is but one element of a much larger mosaic. Rather

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Auret van Heerden opens the 2011 Stakeholder Forum on Wages in Istanbul, Turkey

than looking at wages as a single line item on an audit checklist, it is essential to dig deeper and direct assessors to examine the root causes of unfair wages. Additionally, as the emphasis has been on legal compliance, information has not typically been collected from factories with regard to pay systems, discrimination, unreasonable pay disparities, wage inequalities among staff, and more.

In 2009, the participants in the first FLA Stakeholder Forum on wages committed to work together toward finding sustainable solutions to wage issues. Since then, we have made progress. We have improved the collection of data tremendously, notably through the annual FLA auditing exercises. We have also conducted dozens of pilots and assessments at factories to test the applicability of the Fair Wage approach, which was created partially as a result of that first meeting. The Fair Wage approach seeks to ensure that wages are not just compliant with local law, but are actually fair

along 12 dimensions of Fair Wages, which—in addition to legal requirements—include proper payment for working hours, communication and social dialogue, wage discrimination, wage disparity, proper adjustments of wages, and more. The Fair Wage approach paints a much fuller picture of wages than the traditional auditing approach.

The positive steps regarding wages could not come at a more fitting time in our global economic history. While countries' GDPs and trade continue to grow, workers—the foundation of it

all—have little to show for it. Over the past two decades in many parts of the world, wages and benefits have shown little-to-no growth, while profits have grown. This is not a sustainable scenario, van Heerden argued, and we have already reached the tipping point. If there are doubts, one has only to read the latest headlines or speak to a worker from Cambodia, Bangladesh, China or the Middle East. The inequality between workers and their employers has spilled over into social unrest. Strikes, protests and demonstrations abound. What could this be but a result of fundamental economic inequality?

We are at a point, van Heerden said, where we are able to make long-term, sustainable changes that can influence wages everywhere. To do so will take commitment from everyone in this room, and of every actor in the supply chain. Together, we can continue elevating wage issues to the forefront and enacting lasting change.

Recent Global Wage Trends

Daniel Vaughan-Whitehead, Responsible for wages at the International Labor Organization and Professor at Sciences Po University, presented a global picture of wage trends after the financial crisis and discussed the relationship between economic recovery and wages.³

Declining Wage Growth

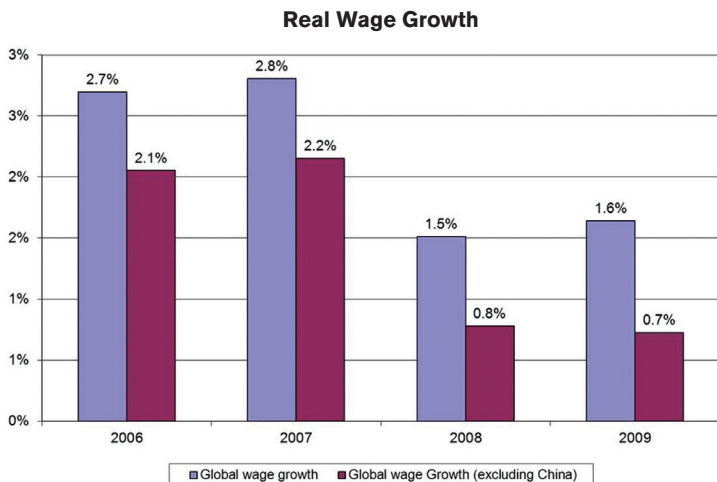
According to Vaughan-Whitehead, global wage growth declined considerably during the economic crisis, costing workers an estimated \$200 billion over two years (2008-2009). In fact, this is likely an underestimate of actual losses due in part to the fact that data for China only includes urban centers. Globally, monthly wages grew by 2.7 percent in 2006 and by 2.8 percent in 2007. However, this growth was cut by half in 2008 (down to 1.5 percent) and did not recover in 2009 (Figure 1).

Significant structural reforms are necessary, Vaughan-Whitehead said, in order to reverse a troubling trend: while economic recovery is moving forward, wages continue to lag behind. In other words, wage growth is stunted even as profits begin to increase.

Growing “Low-Paid” Workforce

Another global trend is the increase in the number of “low-paid” workers—those who are paid less than two-thirds of the median wage in their country of employment. This is especially the case in South Africa, where more than 30 percent of the workforce is considered low-paid (Figure 2). While recent rises

Figure 1

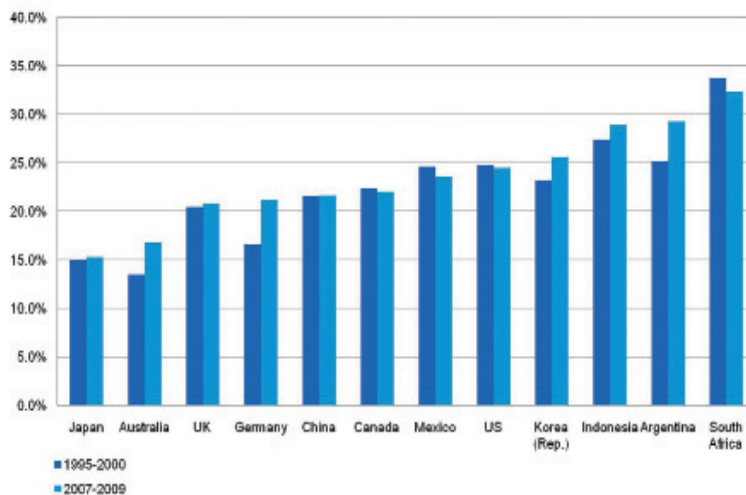


in employment worldwide are encouraging, Vaughan-Whitehead cautioned that most of this growth is in the low-paid sector.

The growth of low-paid employment is giving rise to several issues that have long-term social implications for workers across the globe. As low-paid jobs increase, more workers are unable to transition to higher paying jobs—meaning they live in poverty for longer periods of time or are never able to earn a living

Figure 2

The Share of Low-Pay in Selected G20 Countries



wage. In fact, 17.5 million people suffer from “in-work” poverty in the 27 member-states of the European Union. In China, the risks of being trapped in the low-pay sector are especially high among migrant workers. This increasing inequality has a negative impact on household consumption and aggregate demand, compensated in some countries by low interest rates, excessive credit, or by reliance on export surplus. According to Vaughan-Whitehead, the widening gap between low-paid workers and other workers will continue to result in growing global inequality.

Finding Solutions

Vaughan-Whitehead stressed the importance of developing approaches that ensure that wages move ahead proportionally during economic recovery. One of the most important actors in this effort is government, which for the most part has not made the link between policies and wages: when a state’s minimum wage increases, the number of low-paid workers decreases.



Governments that have made this connection are using minimum wage as a policy tool to limit negative long-term social implications, such as poverty and lower household consumption. Brazil and Poland, for example, increased the minimum wage during the financial crisis, and Malaysia, Kuwait and several Middle Eastern countries have now expressed a willingness to increase the minimum wage.

In addition to increasing the minimum wage, Vaughan-Whitehead suggested that governments should consider policies that strengthen social protection for those most vulnerable to low wage and wage disparity, such as migrant and female workers. He noted an overall concern about the ongoing lack of respect for collective bargaining and added that governments and enterprises should support collective bargaining efforts, which ensure a better link between wages and productivity. While government intervention is essential, enterprises play a key role in wage developments. It is critical, Vaughan-Whitehead argued, for enterprises to develop new initiatives to improve wage practices and to start working more closely with governments and NGOs to address wage issues.

There is a growing expectation among consumers for more ethical behavior from brands along the supply chain. Consumers, he argued, are ready to pay more for products to ensure ethical treatment of workers at the factory level. This consumer behavior complements government and enterprise-level efforts and is an indication that a growing demand for better wage practices is emerging and might contribute to improving wage standards globally.

Wage Issues in Turkey

Asalettin Arslanoglu, organizing manager for the Union of Turkish Textile, Knitting and Apparel Industry Workers (TEKSIF), provided an overview of minimum wage practices in Turkey. According to Arslanoglu, minimum wage is included in the Turkish Constitution and labor law. In fact, the regulatory framework in place in Turkey—which tasks the Minimum Wage Board with setting the minimum wage—theoretically is a good model. The Board is made up of fifteen representatives—five each from business, government, and labor. Unfortunately,

only ten votes are required for a resolution to pass, which means that decisions can be made without the worker representatives. Over the past few years, the workers on the Minimum Wage Board have abstained or voted against wage rates that fall short of a living wage, but the measures have still been approved by agreement between government and business representatives.

The current minimum wage in Turkey after taxes and social security contributions is approximately 629 TRY per month (352 USD). According to Arslanoglu, this is much less than what is necessary to feed a family of four (881 TL/493 USD) or keep that same family above the poverty line (2,871 TRY/1,608 USD). In the Turkish textile sector, it is not uncommon for workers to be paid below the minimum wage, although doing so is in clear violation of the law.

Sibel Ökan, corporate social responsibility manager for H&M, discussed the company's compliance efforts and how H&M is working toward long-term, systemic change and away from the catch-and-fix approach of audits.⁴ She described how audits can be used as a measurement tool after management systems are in place throughout the supply chain. She mentioned that some of the most common noncompliance issues found in audits in Turkey since 1999 have been related to compensation—from late payment of wages to insufficient overtime payments.

Izzet Benveniste, a partner at Gibor Alfa, discussed the ongoing need for suppliers and brands to work together to find sustainable solutions to labor challenges such as wages.⁵ Gibor Alfa, a company located in Duzce, employs 320 people and has the capacity to produce 25 million pairs of socks per year. Working with TEKSIF and the Ministry of Education, Benveniste reported, Gibor Alfa provides training and education to workers and continues seeking ways to improve working conditions and exceed compliance standards.

Initiatives and Tools to Address Wages

PANEL 1: Update on Initiatives

Strengthening the Fair Wage Approach

Daniel Vaughan-Whitehead provided an update on



the development and implementation of the Fair Wage approach.⁶ Since the approach was presented at the first FLA stakeholder forum on wages, the twelve dimensions of fair wages have been further developed and tested. Based on this approach and the accompanying research, the FLA has developed a self-assessment tool that companies and factories can use to assess whether their wage practices are fair and sustainable.

Over the past three years, we have found that the Fair Wage approach is pragmatic and works well in the field. During this time, seventeen case studies applying the methodology have been conducted with factories and brands in China, Vietnam and Indonesia. As a result of the lessons learned from the testing, the FLA has been able to include fair wage questions in auditing exercises and develop management self-assessments and worker surveys to examine wage issues. Additionally, worker interviews were conducted in order to complement the assessments and surveys. This Fair Wage approach is aimed at going beyond legal wage compliance, which is the most basic level. It is vital that we raise the bar and address all the factors that determine a fair wage. The auditing results from 2009 clearly show that:

- 40 percent of enterprises surveyed had fake records—revealing rather massive underpayment of wages, especially of overtime payments
- 22 percent had a starting wage lower than the official minimum wage
- In only 28 percent of enterprises, the average wage was greater than the wages paid by competitors
- 24 percent were not adjusting wages for inflation
- 42 percent had a union or a collective bargaining agreement in the workplace but without much influence on the final wage outcome at the enterprise level

Other issues that were discovered regarding pay systems included: 1) a disconnection between education or skill level and wages; and 2) the excessive use of “attendance bonuses,” which lead employees to work many hours or skip leave time in order to qualify for such a bonus.

Where unfair wages were found, particular recommendations were provided to both the brands and suppliers in order to help them to identify and develop detailed corrective action plans in problematic areas such as overtime and minimum wage compliance; reforming the wage setting process by creating more balanced and more effective pay systems; and anchoring wage issues to human resources policies.

During the development and testing of the Fair Wage approach, it has become clear that it is impossible to understand the full wage picture at the enterprise level without addressing the fair wage dimensions in their totality. They are all complementary, and each dimension must be addressed in order to improve wage practices industry-wide. In an ongoing effort to maintain an open dialogue for the industry and other stakeholders, and to give more prominence to fair wage issues, we launched the Fair Wage Network last year. The Fair Wage Network provides a forum for brands, suppliers and others to discuss and compare remedial actions and plan common initiatives on fair wages.

The “Living Wage Factory”

Mike Hess, Vice President of Compliance for Knights Apparel, Inc., gave an overview of the Alta Gracia facility located in the Dominican Republic.⁷ This “living wage” factory produces the Alta Gracia line for Knights Apparel, the largest supplier of collegiate clothing in the United States. At Alta Gracia, Knights Apparel has committed to paying a living wage: compensation that allows workers to provide food, water, housing, energy, clothing, health care, child care, transportation and education for themselves and their families. All told, Alta Gracia wages are 340 percent higher than the minimum wage required by law.

According to Hess, social responsibility can lead to profitability. In fact, he said, 89 percent of millennials (those born between 1979-2001) are more likely to purchase a brand associated with a good cause. So far, Alta Gracia has proven that the concept of a living wage works, yields profits, and most importantly helps improve workers’ lives. There has been zero turnover since the factory opened, and the waiting list for job openings is quite extensive.



Fair Wear Foundation: Building the Wage Ladder

Henrik Lindholm, International Verification Coordinator for the Fair Wear Foundation, provided an update on the wage ladder, which was developed by members of the JO-IN project, including the Fair Labor Association.⁸ The wage ladder is a benchmarking system used to chart wage levels in a factory relative to various wage standards in a country or region, including minimum wage, cost of living estimates, national wage statistics, and more. To illustrate the operation of the wage ladder, Lindholm referred to a factory in Macedonia, where the highest paid worker earned around 15,149 denars (MKD) per month (approximately 354 USD). Most workers were earning 9,514 MKD per month. All workers in the factory—even the highest paid—earned less than the average salary in Macedonia of 20,000 MKD. The most troubling indicator of insufficient wages is that the estimated monthly cost for a food basket for a family of four in Macedonia is 12,342 MKD. This means that the earnings of most workers at the factory were short by about 2,828 MKD of being able to afford food for their families.

According to Lindholm, the wage ladder will help enterprise, government and NGOs understand wage gaps and help them set priorities to determine where to begin in addressing wage issues. The Fair Wear Foundation continues to develop an online wage ladder tool and assist its affiliates with collecting and interpreting data.

PANEL 2: Productivity and Wages

Costing Model Methodology

Doug Miller, Chair in Worker Rights in Fashion in the School of Design at the University of Northumbria, argued that there is a structural problem in wage determination in the apparel industry.⁹ The biggest challenge, he said, is determining the price brands should pay suppliers so that those companies may pay a living wage to workers.

He added that wages make up only a small fraction of the sale price of the typical garment, and buyers do not consider labor costs in negotiating the cost of a product. In fact, Miller said, it is impossible for a brand to pay a living wage at a supplier unless the brand controls 100 percent of the production process, or

includes living wage requirements in the price paid for consignment of garments placed in an order. Most buyers can only therefore contribute to raising wages, and they can do this by using predetermined time standards methodology rather than historic data.

The “standard minute value” estimated by a buying company can be used as part of a negotiation with a manufacturer, which has its own “actual minute value.” This time value, when multiplied by a labor minute value (arrived at by dividing the available working minutes in a month by the average actual labor cost adjusted to reflect a living wage) can provide a figure which can be held on account pending disclosure of the same to workers and the negotiation of a collective agreement indicating how this amount is to be distributed in the wage. Such an initiative would need to be accompanied by education programs to enable workers to understand the processes involved in labor costing, efficiency calculations and incentivisation.

Productivity, Wages, and Impact on Workers

Roy Ramesh Chandra serves as General Secretary for the Jatiya Sramik League & Bangladesh National Council of Textile Garments and Leathers Workers Federation (JSL & BNC). He described the opposing views regarding productivity held by workers and businesses. Workers, he said, want fewer working hours; better conditions; and to produce higher quality items. Businesses, on the other hand, want employees to work harder for longer periods of time; and to produce greater quantities of products.

He painted a picture of imbalance in Bangladesh, where garment orders have increased by 42 percent in the last eight months. Workers, however, are not getting their share of this apparent prosperity—they are still working in poor conditions and for low wages. Chandra discussed a recent meeting hosted by JSL & BNC, where they asked brands to invest more of their profits in Bangladesh to improve production processes and protect workers’ safety and health. This should be automatic, he argued, because it has been proven that more productivity leads to increased profits. In the long-term, protection for workers is an investment in a company’s future.

One example of social responsibility that Chandra



outlined was the creation of a retirement fund for workers. In a country like Bangladesh, where there is no social insurance, workers are vulnerable and at-risk when they retire. He argued that all stakeholders—including the government, brands, suppliers and others—should build a fund to protect workers in retirement. Without incentives for productivity, Chandra said, the garment industry in Bangladesh is not sustainable. He called on all members of the supply chain—brands, retailers and suppliers—to work together to find solutions.

Maggie Burns, Director of Women Working Worldwide, defined wages as that which stands between workers and destitution. She said that most workers in the global supply chain are poor, vulnerable women, and that they are unable to attain their basic human rights such as housing, food and health care with the wages they earn.

She told the story of a woman in Uganda who is leading the charge for unionization in the agriculture sector. Despite the fact that there is now free education in Uganda, this woman is still unable to send her children to school because they need a uniform and books in order to be admitted. Burns argued that people are so desperate for a job today that they are not likely to negotiate with employers over terms and conditions. She said that four things must happen in order to improve conditions for workers:

1. Strengthen negotiation processes for workers to bargain with employers;
2. Examine brand purchasing processes;
3. Scale up CSR roadmaps by brands and retailers and apply best practices throughout the global supply chain; and
4. Ongoing, multi-stakeholder collaboration, such as the FLA stakeholder forums.

Continuing discussions of global wage trends, Khorshed Alam, Executive Director for Alternative Movement for Resources and Freedom Society, described conditions in Bangladesh. According to Alam, there are more than 3 million workers in Bangladesh's garment sector, and 80 percent of them are women. These workers are responsible for over 75 percent of Bangladesh's exports, but they

are economically and socially vulnerable. In fact, Bangladesh has the lowest minimum wage in the world.

Alam also gave a brief history of the inadequate growth of minimum wage in Bangladesh (estimates):

- 1985: minimum wage set at BDT 635 (8.5 USD) per month
- 1994: minimum wage increased at BDT 930 (12.4 USD) per month
- 2006: minimum wage increased to BDT 1662 (22.2 USD) per month
- 2010: minimum wage increased to BDT 3000 (40 USD) per month

Clearly, Alam argued, minimum wage growth does not match inflation and is far below the living wage. In Bangladesh, more than 60 percent of a workers' income goes toward buying food. In fact, a worker living in Dhaka needs a minimum of \$75-82 per month to support herself, and a minimum of about \$164 per month to support her family, far below the minimum wage.

Conclusion

In his closing remarks, FLA President and CEO Auret van Heerden asked the NGO, university and business leaders gathered at the forum to think ahead to 2016—five years from now. Where would we like to be, collectively, regarding wages? With the combined expertise, commitment and resources of the group, van Heerden expressed hope that:

1. We will have developed solutions to many of the “mechanical” and practical problems discussed today, such as data and the impact that the sourcing relationship has on wages. This will require working with all the key players—including consumers and governments—to analyze pay systems, identify inefficiencies, and put mechanisms in place to ensure fair wages.
2. Conflict between inadequate production planning and costing would have a mechanism for resolution. Inadequate production planning results in factories becoming overloaded, delays in production and, in the end, large amounts of overtime that are not paid to the workers.

3. Increased efficiency would lead to wage adjustments. Currently, workers are not rewarded for increased efficiency; rather, it goes only toward increasing company profits. When efficiency rates in factories are increased—through a reduction, for example, in factories' water and energy usage—they should be captured, because there is so much going to waste. In this way, prospects for wage adjustments would be opened immediately.

In addition, van Heerden said he envisioned ongoing dialogue and collaboration toward sustainable, fair wage practices across the globe and invited participants to visit www.fair-wage.org to get involved, share ideas and stay updated.

Footnotes

¹ The 2009 and 2010 wage forum reports are available at www.fairlabor.org/fla/go.asp?u=/pub/mp&Page=CT_WageIssues.

² View the 2011 stakeholder forum program and speakers' bios at www.fairlabor.org/fla/Public/pub/Images_XFile/R482/TurkeyStakeholderForum_final.pdf.

³ PowerPoint presentation available at www.fairlabor.org/fla/Public/pub/Images_XFile/R477/Vaughan1_TurkeyForum.pdf.

⁴ PowerPoint presentation available at www.fairlabor.org/fla/Public/pub/Images_XFile/R481/Okan_TurkeyForum.pdf.

⁵ PowerPoint presentation available at www.fairlabor.org/fla/Public/

[pub/Images_XFile/R480/GiborAlfa_TurkeyForum.pdf](http://www.fairlabor.org/fla/Public/pub/Images_XFile/R480/GiborAlfa_TurkeyForum.pdf).

⁶ PowerPoint presentation available at www.fairlabor.org/fla/Public/pub/Images_XFile/R478/Vaughan2_TurkeyForum.pdf.

⁷ PowerPoint presentation available at www.fairlabor.org/fla/Public/pub/Images_XFile/R475/Hess_TurkeyForum.pdf.

⁸ PowerPoint presentation available at www.fairlabor.org/fla/Public/pub/Images_XFile/R479/Lindholm_TurkeyForum.pdf.

⁹ PowerPoint presentation available at www.fairlabor.org/fla/Public/pub/Images_XFile/R476/Miller_TurkeyForum.pdf.