



FAIR WAGE PILOT

In order for workers to meet their basic needs, such as access to nutritious food, schooling for their children and health care, sufficient wages are crucial. Wages in many developing countries often do not allow for workers to meet these needs because they do not earn a *living wage*.

The Universal Declaration of Human Rights (1948) recognises the worker's right to "a just and favourable remuneration ensuring for him/her and his/her family an existence worthy of human dignity". The ILO highlights three key conventions that are related to ensuring proper wages:

- Protection of Wages Convention, 1949 (No. 95);
- Minimum Wage Fixing Convention, 1970 (No. 131);
- Equal Remuneration Convention, 1951 (No. 100).

These ILO conventions and declarations have been ratified by most governments, though some major textile producing countries have not included them in national legislation. Where they have been included, government enforcement is weak. Of the three conventions mentioned above, the main textile producing countries China, Bangladesh and India have only ratified the Equal Remuneration Convention. In reality we see that in those countries where minimum wage levels are set, these are often insufficient to live a dignified life. At the same time, the Ruggie framework clearly states that governments' failure to protect human rights does not relieve businesses of their responsibility to respect these rights.

In this light, more and more fashion brands committed to sustainability are looking for practical, effective means of improving wages in their supply chains. Social audits have been shown to have serious limitations when it comes to uncovering issues around wages and overtime, thus leaving brands vulnerable. An approach that is too compliance-driven cannot solve a complex issues such as living wage.

Need for a new approach

To date, a lot of attention has been given to the level of the living wage, or the actual salary paid. In order to bridge the gap between current wage levels and a fair or living wage, a focus on implementation and step-by-step improvements was needed, according to all participants of this project. A fair wage is more than just a number. It's about various interlinked dimensions, for example, regular and formal payment, periodic review of the wage against costs of living, and wage levels that do not generate excessive working hours.

A Solidaridad study (year 2015/2016) among workers in five sourcing regions in China showed that a good wage goes beyond the salary alone. Workers indicate the salary is an important factor, but broader employment conditions and opportunities for skills development also rank very highly. Workers' own concerns and priorities need to be the central starting point of any proposed solution.

The Fair Wage Methodology, as developed by Daniel Vaughan-Whitehead and as implemented by the Fair Wage Network, sets a comprehensive framework of 12 wage dimensions to be integrated into HR management processes. It attaches great importance to dialogue between management and workers to establish solid wage policies and practices.

The 12 dimensions are:

- 1) Payment of wages
- 2) Living wage
- 3) Minimum wage
- 4) Prevailing wage
- 5) Payment of working time
- 6) Pay systems
- 7) Communication and social dialogue
- 8) Wage discrimination/ disparity

- 9) Real wages
- 10) Wage share
- 11) Wage costs
- 12) Wages along work intensity, upskilling, technology

Objective

Solidaridad and the Fair Wage Network collaborated with G-Star and Lindex in a pilot project to implement Fair Wage Methodology as a tool to improve wages in Chinese textile factories, while simultaneously improving the brand's impact of purchasing practices on factory wage issues.

Approach

In this pilot project, Solidaridad and the Fair Wage Network joined forces with G-Star and Lindex and two of their RMG factories in China. In these factories, the Fair Wage Methodology was implemented and tested. The factories were provided with guidance and training on how to integrate key dimensions into their HR systems by the Fair Wage Network. At the buyers' end, Solidaridad analysed the purchasing practices and their link to wages in the supply chain, and provided guidance on how to improve them.

Project activities

- A) Analysis of the purchasing practices at brands level
- B) Implementation of the Fair Wage Methodology at factory level
- C) Analysis of changes at factory level
- D) Next steps

A) Analysis of the purchasing practices at G-Star and Lindex

Solidaridad executed a thorough analysis of the purchasing practices of both G-Star and Lindex. The Ethical Trading Initiative Norway (2014)¹ developed an approach that enables an analysis of direct and indirect links between purchasing practices and working conditions in global supply chains. The critical path that is part of this approach was used to look into the purchasing practices of the brands.

Interviews were conducted with the key staff (COO, Production Manager, Senior Product Developer, Manager Product Development China, CR director, Sustainable Supply Chain Manager, CR Supply Chain Manager China, Sourcing Director, Sourcing and costing manager, Data & pricing & purchasing manager and Quality Assurance Manager) in both Europe and China. Internal documents were also reviewed (codes of conduct, general agreements etc.) After the analysis, a workshop was organized at the brand office to discuss the results and to make an action plan to improve the purchasing practices.

The analysis showed that brands can take several actions that have positive effects on wages on working conditions in factories:

- Creation of a vendor capacity planning;
- A production planning that takes into account the actual working days and indicating which styles have priority;
- Booking yearly capacity at a factory;
- Open cost calculation to check that supplier's price quotation covers decent working conditions;
- Sharing forecasts to allow the supplier to plan for production;
- Good supplier relationships (open and transparent, true partnership);
- Delivery of products in multiple drops;
- No order placement or changes after the final order date.

These are clearly important aspects that can help improving wages, working hours and other working conditions at supplier level.

B) Implementation of the Fair Wage methodology at factory level

In the factories, we implemented and tested the Fair Wage Methodology and provided factories with guidance and training on how to integrate these key dimensions into their HR systems. Aim of this

¹ IEH (2014) Suppliers Speak up: a practical guide. Accessed on 10-08-2015.

approach is to professionalize HR and pay systems in the factory, improve dialogue and increase worker satisfaction.

The Fair Wage Methodology uses the following steps

1. **Baseline assessment and in-house support** (through worker and management surveys and qualitative case studies). The purpose of the baseline assessment is to understand the existing wage system, create a wage risk matrix and identify priority areas for intervention. In-house expert support/training was offered, including meetings with both management and workers to brainstorm on possible improvements to be implemented. An individual report with a list of possible improving measures was developed, which served as a reference document for each factory in elaborating its action plan.
2. **Remediation plan.** After the baseline assessment a remediation plan was created and all parties committed to this plan. Training workshops were organized for management and worker representatives on the different dimensions (pay systems, management-worker dialogue), worker satisfaction), and off-site tailor-made support was offered to help factories implementing their improvement plan.
3. **Final evaluation.** The final evaluation was done via worker and management interviews to determine the results of improvement measures and potential for further actions.

C) Analysis of changes at factory level

- The final Fair Wage Analyses showed that factories were paying their workers far above minimum wage. Furthermore, factories were giving incentives to workers. Proper functioning wage grids were needed. Therefore, HR departments received important support from the Fair Wage Network but would have needed even more than provided and could not fully implement the wage grid.
- Factories learned to conduct the surveys on living wage/fair wage, so that they could monitor their own wage level compared to the market level and also identify areas where workers have difficulties to cover their needs.
- Factories has enhanced the social dialogue notably with workers by improving their communication skills about minimum wage, how to calculate the wages through different training sessions and the information board.
- Some significant results were achieved between the initial and final assessment. Factories have improved their performance in a number of areas such as the payment of wages, payment of overtime hours, compliance to the payment and communication on minimum wage, on the prevailing wages (with some progress compared to market rates), communication on wage issues, social dialogue on wages with workers' representatives.
- More progress is expected in the following months on wage adjustments (notably according to price increases and performance) and also on the living wage front (results from final assessment compared to initial assessment were encouraging but not sufficient). Although factories started to elaborate a wage grid, they should continue. Improvements in pay systems are also required, notably to introduce some bonus to performance and progressively reduce the piece rate component in total pay. Social dialogue is also an area to be developed. While significant progress has been done on workers' representation (workers knowing better their representatives who are selected by workers), such workers' representatives are not yet sufficiently involved in discussions and possibly negotiations on wage issues. A follow-up in the above areas will be required to make sure that initial steps will be confirmed and lead to positive results on wages and human resources policies.
- Pioneering field work has as limitation that there is no manual or guideline to support the factories during the implementation of the Fair Wage Methodology or best practices yet.
- Time span of the project was one year. However, we have not been able to complete the full implementation of the methodology on the 12 Fair Wage dimensions. There has been a final assessment after one year but not with the full implementation of the wage grid as agreed upon in the remediation plan. Implementation time of one year has proven to be too short for some dimensions like pay systems to see real progress. Experience from other brands shows that an implementation period of three years for the Fair Wage dimensions that require more structural changes like pay systems or building social dialogue might be more realistic.
- Process: there were quite a few hiccups that influenced the success of the project, but we had committed partners both in Asia and Europe.

- Scaling up: before scaling up, it would be advisable to continue to fully reform elements in all Fair Wage dimensions, especially in those identified above, to make sure that they also lead to positive results in terms of both wage and sustainability. We first want to successfully finish the pilots, or at least, gain enough knowledge that we know what to improve.

D) Next steps

Based on the findings of the pilot project, G-Star, Lindex and Solidaridad have identified some next steps:

- At the moment, we will not continue or expand our collaboration with the Fair Wage Network, nor scale up the process to more suppliers before pilots fully produce the expected improvements and results for the pilot suppliers. Scaling up for small(er) companies with little leverage in the factories has proven to be too challenging.
- Explore collaboration with other organizations that are more advanced in implementing the Fair Wage Methodology to learn from each other and to collectively develop a scalable approach.
- Broaden the scope towards social dialogue and involve workers better in the wage negotiations.