Who pays for a higher wage for garment factory workers?

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This year has seen statutory minimum wage rises in a number of countries and their provinces, with a number still in the pipeline. Yet there continues to be a disconnect between buying departments and compliance teams when it comes to costing labour in price negotiations. So who should pay for a minimum wage increase? Two industry experts share their thoughts.

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While much of the debate in the last decade has focused on the lag between minimum wages and a 'living wage' within the apparel industry, sucking commentators and practitioners into a never-ending discussion about living wage benchmark methodology, garment workers continue to struggle just to get the wages they are owed as per their statutory entitlements.

This year has seen statutory minimum wage rises in a number of countries and their provinces with a number still in the pipeline. Yet ILO data for key sourcing countries in Asia estimates a third of garment workers are being paid less than they are due, whether it be the minimum wage, overtime pay, paid leave, social security provision or by illegal deduction.

CSR departments continue to firefight this at one end while trying to fulfil their code commitments on paying a living wage at the other.

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We have long been aware of the disconnect between the buying departments and the compliance function of major brands and retailers, particularly of the failure to build compliance costs into price negotiations for garments.

In a margin-driven industry where cost price negotiations are conducted against a target buyer margin, suppliers are left with few options if they are to retain their own margin, particularly when costs including labour costs rise.

Those options are well known to workers and compliance teams: shave the wage bill somehow – by reducing the workforce, introduce non-standard forms of employment, pile on the (often unpaid) overtime, verbally and physically abuse workers to get the production out, or find a non-compliant sub-contractor prepared to take any work on at any price.

Efficiency mantra

All the while a mantra from buyers has grown steadily louder – 'increase efficiency' to deal with all of this. Notwithstanding the fact that factory efficiency, and specifically assembly line efficiency, is a managerial not worker responsibility, the trend towards fast fashion shorter runs with ever-changing styles forces factories into an inherently inefficient method of working – ask any production manager, line supervisor or industrial engineer.

"The efficiency mantra is a neat foil for deflecting stakeholder attention away from wage commitments"

There is without doubt room for improvement in how a great number of garment factories are run. But the efficiency mantra is a neat foil for deflecting stakeholder attention away from the wage commitments to be found in the base codes of individual brands and retailers, the multi-stakeholder initiatives to which they belong, and latterly the due diligence requirements on wages in the garment and footwear sector as recommended by the OECD.

It is worth reminding ourselves what these commitments are: *wage compliance with national law* and an alignment with the principle that *wages satisfy the basic needs of workers and their families*. Enterprises are now urged to assess and prevent their contribution to harm through their price negotiations and purchasing practices – *specifically by developing 'pricing models that account for the cost of wages, benefits and investments in decent work'*. (p70)

Change measure commitments

We are now beginning to see some movement towards this, specifically in the change measure commitments for those brands which are members of the Action, Collaboration, Transformation (ACT) Initiative and through some of the detailed work of the Fair Wear Foundation (FWF).

Whilst the former is still engaged in establishing a consensus around a set of buying practices that will support the outcomes of yet-to-be-established sector-wide bargaining, the latter has been developing a model for costing labour in price negotiations, initially with a view to calculating the necessary amount to be found when applying specific (living) wage benchmarks.

Latterly, largely as a result of seeking to benchmark brand member performance in relation to wage compliance, FWF's work has focused on a model that might provide due diligence on mandatory – i.e. minimum wage – compliance in the first instance.

This work is still in its early stages and has been complicated significantly by the wide variation in approach to the issue of transparency in cost price negotiations. It is fair to assume that such negotiations currently take place on a spectrum from online auction to crude bargaining to some degree of 'open costing'.

Where open costing operates, suppliers are reluctant to reveal the extent of their overhead and/or margin lest they are subject to further bargaining pressure from buyers to screw the price down even further. Consequently a 'sewing minute' price may be a composite of labour cost, overhead and factory margin – often termed a 'working minute price'.

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For buyers under pressure to maintain or even increase margin, as long as the agreed ballpark unit manufacturing cost achieves the target margin there is no interest from the outset in a labour cost component that will deliver compliance with statutory requirements as a minimum.

Labour cost visibility

So how do we go about establishing this visibility of labour cost? It is possible to calculate the mandatory/statutory labour and associated employer costs of a particular country/province, and establish what can be called a mandatory labour minute value or price, by dividing the total of these monthly costs by the available statutory minutes as per the national labour regulation for normal monthly working hours.

Whilst this might give us a baseline, it is of course far short of the monthly labour cost of any average factory, which may be required to run overtime, train its workers, offer a productivity bonus and any other non-mandatory workplace benefits – costs the factory needs to recover from the buyer to remain compliant but also compete in the local labour market.

The more accurate measure has to be provided by the factory management ideally in consultation with the workplace trade union, although costing still largely remains a managerial prerogative.

This *actual* labour minute cost would have to be extracted from the factory accounts for the previous (half yearly/yearly) production period. The total costs for direct and indirect labour, divided by the available capacity minutes, would yield a more accurate labour minute value – which would then have to be multiplied by the agreed standard allowed minutes on any given garment to provide the amount in a garment costing that would have to be 'red circled' (i.e. protected and not offset against other elements in the cost price).

The Fair Wear/Mondiaal FNV project that has started in Myanmar and in Bangladesh later this year, aims to assist manufacturers to demonstrate the shortfall in labour cost following an increase in the national minimum wage – and thereby generate pressure from below for buyers to honour their due diligence requirements in respect of compliance with national law.

Whilst this might offer a way forward, initial research findings from Myanmar indicate that suppliers cost their indirect labour in with their overhead, and that agents constitute a layer that can impede transparency and pass through in this process.

This suggests not only the need for further research on how suppliers cost labour, but also the start of a discussion about a standard in labour costing which has so far proved elusive in the industry.

About the authors:

- ***Doug Miller*** *has a background in academic industrial relations. Between 2000 and 2008 he was seconded to the then International Garment and Leather Workers Federation (now part of IndustriAll). Following the conclusion of an international framework agreement between the ITGLWF and the Spanish multinational Inditex, Doug took up a jointly sponsored chair in Worker Rights in Fashion at the University of Northumbria. Since 2012 Doug has been Emeritus Professor and is working with various organisations principally on the question of how to implement a living wage.*
- ***Klaus Hohenegger*** *has 20 years' experience in the textile industry and extensive know-how of the apparel/textile value chain. Klaus has managerial experience in running a number of apparel factories and has worked at the sourcing and buying departments of a number of brands. Since 2010, Klaus has been director of Sourc!ng Solut!ons GmbH, a Swiss-based consultancy which supports brands and factories on a range of issues related to product development, sourcing, manufacturing and CSR.*
