

## **Jo-In Explanatory Note on the Treatment of the Living Wage Common Code Element during the Jo-In Pilot Project in Turkey's Garment Industry ~ 2006-2007**

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Members of the Jo-In Steering Committee have drafted this explanatory note in responses to requests by brands, suppliers and some trade unions to clarify the project's treatment of the living wage provision of the Jo-In draft Common Code. The living wage standard is among the most debated code elements within the context of the Jo-In project. It is a provision where diversity exists among the six organizations' codes and implementation practices, relating to amongst others:

- a. whether or not a living wage standard is included in the language of the organization's code (e.g. the FLA code does contain a wage standard that does not refer to living wage).
- b. how the living wage is defined (e.g. whether a single wage earner should be expected to support the entire family; how many dependents would be supported; whether income from other sources should be considered; how to include non-wage benefits; how to deal with regional differences in costs of living, etc.);
- c. how the LW is assessed (e.g. use of a food/needs baskets, purchasing power parities, trade unions' negotiated wages);
- d. the extent to which perceived technical complexities in defining living wage levels and in finding a suitable approach to implementing the living wage standard are the reasons why the living wage standard has not been fully implemented or that these arguments are used as an excuse to hide underlying reasons for not really engaging on the issue (specifically concerning adapting current pricing practices at the side of the buyer and/or changes in the distribution of income between factory owners and workers);
- e. through what means and in what time period a living wage standard should be implemented; and
- f. how the role(s) and responsibilities of the different stakeholders (i.e. buyers, suppliers, trade unions, governments and local stakeholders) negotiating and implementing the living wage are defined.

The Jo-In project is informed by existing code practices and seeks to create greater uniformity to the debate surrounding wage provisions and their implementation.

All of the codes used by the six initiatives already contain elements that address the wage issue. As stated above, the FLA does not have a living wage provision. All the others do, though with slight differences in language. ETI, FWF and SAI admit to significant challenges in defining and implementing it at the workplace level. WRC and CCC agree that the living wage provision presently is not effectively implemented, but as indicated above, do not believe it is a challenge to define it, provided there is sufficient political will.

The Jo-In process promises to help participants to better understand ways in which factories and brands can comply with these standards while remaining competitive.

To this end, the project wants to move living wage discussions from “*what* is the definition of a living wage?” (dealing with points b., c., and d. above) to “*how* can a living wage be implemented?” Thus the project will focus on experimentation with techniques for brands and suppliers for improving wages to ensure that brands and factories can create conditions so that factories can implement and comply with a living wage standard.

To ensure that the project makes real steps towards an evidence-based understanding of how wages can be improved, the Jo-In Steering Committee has agreed to set to the side until after the project trials discussions seeking agreement among the six relating to points b. and c. above. Once the assessments -- and, later, remediation -- are complete, discussions can then be based on empirical, rather than theoretical, considerations and will focus on workplace and sourcing practices<sup>1</sup> that can improve wages without endangering employment. In this sense, trials will also help address questions about d. and e. above.

With a special focus on *how* to implement this standard, Steering Committee members have agreed to use a “wage ladder,” which is a tool that can be used to illustrate monetary values of various wage standards (see Appendix A). This process will evolve as follows:

***Before assessments***, the wage ladder is used to chart the various wage measurements and definitions used by the different organizations. The reported average wage of garment factories in Turkey are also charted on the ladder to provide context. It offers participants a clear idea of the monetary values assigned to the different wage standards quoted by the six participating organizations.

***During assessments***, assessors use the wage ladder as an analytical tool. Factory wage levels are charted on the wage ladder, based on information collected during assessments. As such, this information provides insights into wage realities in Turkey. This means the project will not compare current wages against *one* determined wage level, but rather against *various* levels currently used or aspired to by the Jo-In organisations. The Jo-In project does not demand from the participating suppliers to raise the wages to a specific LW level set by Jo-In within the lifespan of the project, nor does it require the participating brands to require this from the suppliers concerned. The project does, however, ask participating brands and factories to make good faith efforts to engage openly in discussions and efforts to improve if/when needed.

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<sup>1</sup> For the purposes of this note, sourcing practices are defined as the way in which a buyer (a) selects a supplier – including the grounds on which this decision is based- (b) decides which orders are given to which suppliers (c) places the actual orders, including setting the prices and the delivery schedule (d) supports and monitors the supplier, (e) sets and uses criteria for rejects or fines (d) evaluates relations with buyers and decides to continue or not this relation

As stated in the project's terms of reference, after the project is complete, brands and their suppliers will continue to be bound to their commitments, all of which include wage standards, and most of which stipulate a living wage. If successful, code language and/or the interpretation of the various codes may be modified in order to enhance the uniformity of wage standards.

**After assessments**, wage levels are charted on the wage ladder and compared against each other and against the different standards (without identifying factories). Wage levels – as well as management practices and policies, worker-management communications, sourcing practices of the brands (including pricing and delivery schedules) etc. – are discussed during a multi-stakeholder meeting in Turkey (“post-assessment wage forum”). This forum will not discuss specific companies but will discuss on the basis of generalised findings. The goal is to understand the dynamics that determine the existing wage levels, the bottlenecks to raising wages to higher levels, and the responsibilities of the different parties involved (buyers, suppliers, unions, government and others), etc. With these in mind, participants will discuss actions that can be taken by the various parties, including the brands, to improve wages. For example, some factories may be able to pay higher wages than others, or some trade unions might consider it their role to negotiate the acceptable wage level with their supplier. The “post-assessment wage forum” will discuss the causes of this. Analysis of the practices of factories that pay higher wages can lead to a greater understanding of how to raise wages effectively.

**Remediation plans** are then developed with input from stakeholders, taking into account learnings from the post-assessment wage forum. With regard to wages, remediation will focus on systems and factory- as well as brand practices that can be put in place resulting in sustainable wage increases.

Remediation will address obstacles to wage improvements, including those caused by sourcing practices, checking these against the realities of the Turkish garment industry – and its role within the international supply chain. At this stage, an in-depth analysis may be made of productivity, costs structures, work flow organisation, and the way that these are influenced by sourcing practices. Recognising that (a) this goes beyond the normal requirement on suppliers to provide information, (b) that these data are important and confidential because of competition between factories and that (c) factories may also not want the buyers to know exactly what they earn on specific production runs; the assessors will only use this analysis to:

- assist the factory in developing policies that are part of the remediation plans
- come to generalised conclusions on the current wage-paying capacity of the Turkish garment industry and what needs to be done to improve this (such as capacity for in factory productivity increases, improved supply chain managements, changes in sourcing practices).

Factory-specific data on productivity and costs structures will not be discussed with buyers, other suppliers and other stakeholders. The assessors are bound to a general

confidentiality clause and may only share this information with steering committee members and the international project coordinator.

The international project coordinator and the steering committee members that get access to these data are bound to the same confidentiality clauses as those that dealt with the suppliers selection process.

Otherwise the same provisions for reporting that are defined for the project as a whole are applicable. *Post-remediation meetings and reports* will enable participants to discuss effective methods for wage improvements. Armed with evidence from the trials, the six organizations and participating stakeholders will return to questions of defining and measuring a living wage (points b. and c. above). Lessons learned about living wages will be reported.

## APPENDIX A

### **The “Wage Ladder”**

#### *The ladder*

The “wage ladder” offers a benchmarking system for charting factory progress in improving wages. This tool will be used during the Jo-In assessments in three ways:

- To chart the various living wage measurements and definitions used by the different organizations. It offers participants a clear idea of the monetary values assigned to the different wage standards quoted by the six participating organizations. This will include negotiated wages as per CBA in garment factories. The reported average wage of garment factories in Turkey are also charted on the ladder to provide context
- Factory wage levels are charted on the wage ladder, based on information collected during assessments. This means the project will not compare current wages against *one* determined wage level, but rather against *various* levels currently used or aspired to by the Jo-In organisations.
- During the remediation stage after the assessments, the ladder will be used as a system to measure the factory progress in improving wages.
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The objective is to move factories “up the ladder” by increasing workers’ wages over time. For the purposes of this project, the ladder would chart the monetary values of the following in the Turkish context:

- Turkey’s minimum wage (MW).
- The prevailing industry wage (PIW).
- The negotiated wage (including negotiated fringe benefits). There may be several negotiated wages in the industry. All can be charted on the ladder (NW1, NW2, etc).
- The living wage as measured using SAI’s basic needs formula. Because SAI certification bodies measure the living wage independently, there may be more than one SAI “living wage.” All can be charted on the ladder (SAI-LW1, SAI-LW2. etc).
- The living wage as measured by WRC (WRC-LW).
- The cost of living as measured by trade unions in Turkey (often referred to in Turkey as the “living wage”). Such measurements in Turkey differ vastly from one another. All can be charted on the ladder (TU1-COL, TU2-COL, etc).
- Other wage levels can be added as necessary.

#### *Discussing the ladder*

The process of charting the different living wage measurements can advance understanding on the topic and merits local-level discussions (more below). The wage ladder and ensuing discussions can also facilitate the assessment process, particularly during worker interviews.

#### *Collecting relevant wage data*

- During the assessments, assessors collect a complete roster of factory workers and monthly wages for the past three months. (This roster can be organized by worker name

or employer number in order to enable assessors to verify the wage information during worker interviews and document review.)

- Assessors also collect information from workers regarding their living costs and needs during worker interviews.
- Information about fringe benefits (e.g. transportation, meals, bayram/holiday packages, health insurance, etc.) is also collected and the cash value of these is calculated.

### *Processing the wage data*

Following assessments, the wage data is analyzed. This involves calculating total remuneration per employee as well as the mean, median, and mode remuneration per factory. Calculations should also exhibit overtime hours and pay. Data about workers' expenses will also be tallied.

### *Charting the data*

Data is then charted on the wage ladder. This process does not identify the factory or brand. Rather it is an exercise in understanding current wage levels and related factory practices. One of two approaches to measuring factory wage levels can be taken. They may be charted as factory mean, median and mode – or using a more exacting method exhibiting the percentage of workers per factory that reach various “rungs” of the ladder. See the example below.

**NOTE:** Not to scale. Numbers only hypothetical.

