



Wage Ladder background study

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Introduction

A wage ladder is a benchmarking system used to chart wage levels in a factory relative to various available wage standards in a country or region. It is a concept that was developed by Jo-In¹ Steering Committee member Rut Tufts during the Jo-In project in Turkey and is frequently referred to in living wage discussions. Yet such discussions often reveal divergent understandings of this tool and how it can be used.

This document² aims to clarify the purpose of the wage ladder and offer clear, straightforward guidance for its practical application in factories. The primary purpose is to provide support to FWF auditors, but also for FWF member companies monitoring wage levels in their supplier factories, other multi-stakeholder initiatives working on wages and anyone wanting to use the FWF web based wage ladder tool. To this end, the guidance document is divided into four chapters:

Chapter One offers an **explanation of the wage ladder concept**, consolidating and clarifying available guidance surrounding the wage ladder, as developed during the Jo-In project in Turkey (2005-08).

Chapter Two offers guidance for the creation of a **region- or country-specific wage ladder**, illustrating various institutions' calculated wage standards for workers in that particular country or region.

Chapter Three provides guidance for **collecting and charting factory-specific data on a wage ladder** to illustrate a factory's wage situation in context.

Chapter Four focuses the **application of wage ladders** in broader discussions about wage improvements.

It is worth noting that this guidance is intentionally simple. Although it is clear that more complex wage data processing techniques can be applied to a wage ladder (e.g. changes in real wages over time), such considerations are not included here. It is our hope that by identifying the basic methods for collecting and charting data, this document lays the foundations for others to build upon as they apply more technical methodologies for analysing wage data over time.

¹ The Joint Initiative for Corporate Accountability and Workers Rights (Jo-In) is a multi-organizational, multi-stakeholder initiative, seeking common ground and learning on some of the most pressing and challenging issues in the field of labour rights and codes of conduct. Founding organizations include Clean Clothes Campaign, Ethical Trading Initiative, Fair Labor Association, Fair Wear Foundation, Social Accountability International, and Worker Rights. To learn more about Jo-In, access jo-in.org

² Written by Anne Lally, independent consultant

1. Explanation of the wage ladder

1.1. What is a wage ladder?

A wage ladder is a benchmarking system used to chart wage levels in a factory relative to various wage standards in a country or region. The wage ladder was first developed by Rut Tufts during the Jo-In project in Turkey. He aimed to develop a tool that would help the project push past obstacles created by divergences in the ways various participating organisations approached wage standards and on-going debates about the definition and measurement of “living wages”. Tufts’ wage ladder evolved as a means of shifting the focus of wage discussions in CSR from the “*what*” of living wage measurement to the “*how*” of wage improvements.

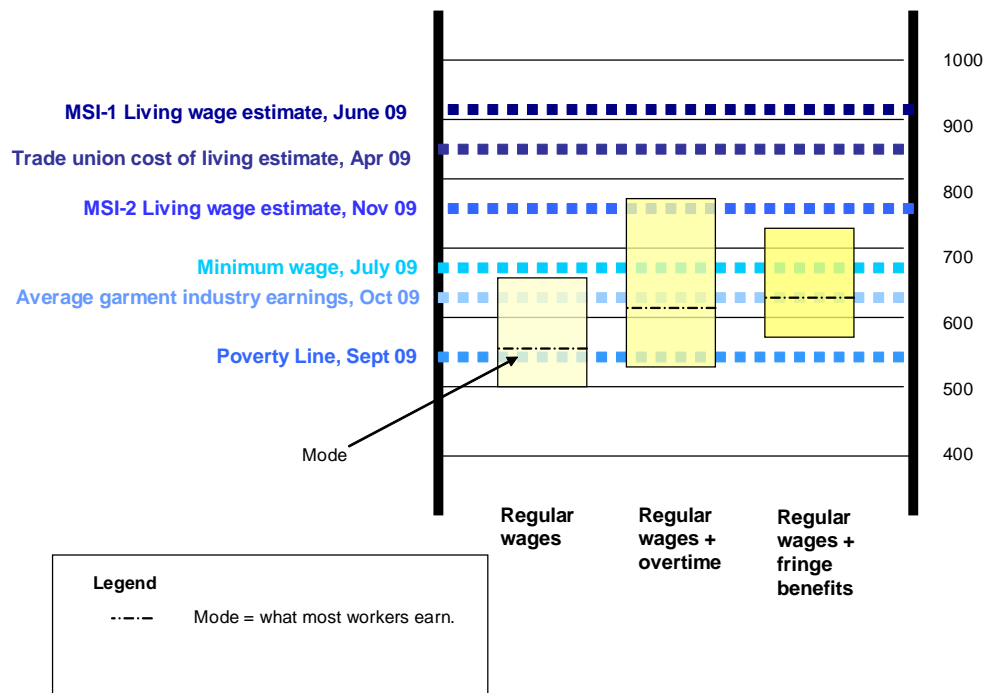
A wage ladder serves three main purposes:

- It illustrates the monetary values assigned to relevant and available wage standards and measurements in a country or region.
- It charts factory wage levels relative to these wage standards, illustrating how workers’ wages measure up to applicable prescribed wage levels.
- It can be used to chart factory progress in improving wages over time.

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The wage ladder can also be used to compare wage levels among factories based in the same country or region. This is how the wage ladder was used in the Jo-In Turkey project. As Tufts envisioned it, such comparisons could be part of a broader learning process where the good practices of factories with higher wages can be shared with other factories.

Sample Wage Ladder



1.2. Key characteristics of a wage ladder

A wage ladder is:

Inclusive

All relevant wage measurements are included on the ladder, enabling users to bypass discussions about competing living wage measurement that have the potential to short circuit progress on improving wages.

Illustrative

It is a basic tool that quickly and effectively communicates discrepancies in wage levels. For example, in a single wage ladder it is possible to observe:

- The extent to which two different organisations' measurement of a living wage varies
- The difference between the amount paid to workers in a factory and the estimated cost of living for a family in that region/country
- Wage differences between departments and how different wages between departments are connected to the gender composition of the factory
- Wage gaps between the highest- and lowest- paid employees, as well as the average (e.g. mean, median or mode)

Inclined towards positive improvement.

Instead of focusing discussions about corrective action on achieving one particular living wage standard, the wage ladder focuses on prompt, realistic actions that can move factory pay rates farther up the ladder. It enables companies and factories to improve wages step-by-step and to measure progress against various wage standards/measurements along the way.

1.3. Creating and using a wage ladder

The process for using a wage ladder can be divided into three main phases:

The first phase (addressed in Chapter 2) involves collecting and charting up-to-date figures for relevant wage standards in a country or region (e.g. minimum wage, poverty line, cost of living estimates, collective bargaining wages, and Asia Floor Wage). When charted together on the wage ladder, these figures provide a backdrop against which to consider the wages paid by factories in the region or country.

The second phase (addressed in Chapter 3) involves the collection of factory wage data in a manner that is consistent and reliable. This data is then applied to the relevant regional or country wage ladder.

In the third phase (addressed in Chapter 4), the factory-specific wage data charted on the wage ladder is used as part of a broader process of corrective action and wage improvement. Taken together with other corollary factory information, the wage ladder can be used to make recommendations and illustrate a path of corrective action. Or, in factories where wages have improved, the wage ladder can be used to illustrate this progress, accompanying an explanation of the actions taken.

2. Guidance for developing a country - or region - specific wage ladder

Chapter 2 covers the process of 1) collecting wage measurements and levels in a country or region (e.g. minimum wage, negotiated wage, and cost of living estimates) and 2) charting these measurements to create a country- or region-specific wage ladder. FWF and its partner organisations regularly update the wage benchmarks in the online tools, but this process is relevant to those organisations/companies working in countries not covered by FWF's activities.

2.1. Collecting wage levels for a country or region

During this step, FWF researchers consult with local stakeholders and research resources provided by various governmental, intergovernmental, and civil society agencies. Based on this information, they use a data collection sheet to amass a list of the most recent wage levels prescribed by various organisations as they pertain to garment workers in the region/country.

The availability of up-to-date numbers for different wage standards/levels varies by country and region. The list below offers guidance for the kinds of wage information you should seek out and some points to keep in mind for each. For most countries and regions, only a portion of these figures will be available. Where possible, you should look at collective bargaining wages, legal minimum wages and living wage estimates by the main social partners (trade unions and employers organisations) in the production country.

Minimum wage requirements

- If a country's minimum wage is classified according to industry, note down minimum wages for the garment industry.

Wage levels defined by the Asia Floor Wage Campaign

- If working in a country in Asia, consult the various wage levels listed on the Asia Floor Wage website (www.asiafloorwage.org).

Negotiated wages resulting from collective bargaining agreements (CBAs)

- Identify the wage levels included in one or more CBAs in the region/country's garment industry. Or, if CBAs are not present for garment workers, look to wages in CBAs for textile and leather workers in the region/country.
- Note different wage levels per job title (e.g. tailor, cutter, helper) or classification (unskilled, semi-skilled, skilled).
- Note bonuses or fringe/in-kind benefits provided. If possible, discuss with trade union representatives the most accurate way to notate total worker earnings. In some cases, it may be appropriate to add

bonuses or fringe/in-kind benefits to regular earnings in order to indicate total income.

- If multiple CBAs are available for this sector, try to access a representative sample (e.g. negotiated by different trade unions).
- Identify CBA wage levels for other manufacturing industries in the region/country. This offers insights into the broader context in which workers are living.
- Note the value of bonuses or fringe/in-kind benefits. See notes above.

Cost of living estimates

- Local trade unions, NGOs, research institutes, or international agencies may have calculations for the cost of living in a region or country.
- Note the number of family members included in cost of living calculations.
- Note whether a consumption basket or other method was used to calculate costs.

Poverty Line / Standard

- Usually provided by a governmental body or UN agencies (e.g. UNDP or World Bank).
- Note the number of family members including in cost of living calculations.
- Note whether a consumption basket or other method was used to calculate costs.

National wage statistics

- For the garment industry, if available.
- For the manufacturing sector as a whole.
- Note bonuses or fringe/in-kind benefits, if provided.

Wage scales from factories identified as "best practice" companies in the region

- Identify the source of information and contact person at the factory for future reference and learning.

Other sources

- Consultations with local experts and practitioners may lead to additional institutional sources of data. For less well-known sources, it is important to investigate stakeholders' perceptions on the institution and its legitimacy.
- Using this list for inspiration, discuss with local contacts the wage data currently available in your particular country/region. Use the



FWF data collection sheet to record your findings (available through FWF).

2.2. What to keep in mind when collecting wage information

Familiarise yourself with the context first

1. Before setting out to find specific wage levels, it is important to understand the broader context of wage setting in the country or region you are investigating. Discussions with local stakeholders and researchers can be helpful in this regard. Officials working for the labour ministry/department are likely to be familiar with data on current wage levels, as well as wage levels prescribed – either by the government or international institutions (e.g. UN agencies). Kinds of items to consider here:
 - Do wage levels in different regions of a country differ so greatly that wage analyses should be broken down by region?
 - Does gender play a role in garment worker pay, meaning other comparably-skilled, predominantly-male manufacturing sectors gain more?
 - Are there particular sources that offer highly disputed figures? Should these sources be included in the wage ladder? (Please note: disputed wage standards may be included on the wage ladder if the researcher believes they offer important insights into the local context. Nevertheless, arguments against a particular institution's calculations should be noted in the wage data collection form.)

Scope all sources, then dig in

Take the time to get a sense of all the kinds of data available. Identify the most authoritative and reliable sources among those identified. Which sources update their numbers most frequently? Which are referred to most frequently by local trade unions/NGOs, companies, and academics? Which selection of wage levels, taken together, can offer the best picture of wage realities in the country/region? Will what is available provide a clear, apples-to-apples illustration of the wage context in that region/country? Based on your assessment, prioritise investigations accordingly, returning to other sources if time allows.

Focus on consistency

Since the wage ladder is a tool for comparison, it is only reliable if the data compared is apples-to-apples. This can become a challenge in a situation where inflation rates are very high (rendering a wage standard calculation meaningless in a short time), or where different sources provide data in only net or gross values. Wherever possible, record values for net *and* gross earnings. Remain attentive to some standards that only provide either net or gross calculations. Of course, all monetary values should be provided in the same currency (though do note the rate of exchange, if a conversion is necessary).

Note sources, updates, and contact people

It is important to include clear notes on the data collection sheet about the sources providing the data. Note how often each organisation updates wage data, and key contacts. Even if a source's information could not be included in this year's wage ladder (e.g. it was too outdated at the time of publishing), please record source contacts for potential use in future templates.

2.3. Using wage levels collected to create a wage ladder for the country/region

Once you have completed the data collection process and recorded findings in the data collection sheet, you are ready to begin applying the data to a wage ladder. Follow these steps to complete the process:

Before creating the ladder, review your data. In most cases, all of the wage levels collected can be transferred to the wage ladder. But to be sure that data is appropriate for inclusion on a wage ladder, first check that all recorded wage levels are:

- **Reliable and representative** – Do the wage levels taken together offer a fairly comprehensive view of relevant institutions' calculations of wage standards?
- **Comparable** – Are the calculations in an apples-to-apples format (i.e. all in the same currency, either gross or net values, all measured the same way (e.g. hourly wage or monthly salary)?

If you decide not to include some of the wage levels recorded, note the reason why. If it was necessary to translate some values in order to achieve apples-to-apples comparisons (e.g. translating hourly wage standards into monthly ones), note how calculations were undertaken.

3. Guidance for collecting data for and creating a factory-specific wage ladder

The guidance in this chapter is meant primarily for FWF auditors collecting factory-level wage data. However, it can be used by anyone collecting wage data that they want to apply to the FWF wage ladder tool.

Chapter 3 seeks to address the process of 1) collecting factory wage data, 2) processing factory wage data and 3) laying these calculations on a country- or region-specific wage ladder. The outcome is a factory-specific wage ladder, which illustrates the wage situation in the facility relative to various institutional wage levels/standards. This wage ladder can in turn be used in discussions about wage improvements (discussed in Chapter 4).

In developing this guidance, FWF has sought to balance the competing interests of on the one hand collection of data that is comprehensive and, possibly, statistically-significant, and on the other hand the desire to use FWF auditor hours judiciously.



Given the wide range of facilities worldwide to which this methodology may be applied (i.e. from small facilities with disorganised paper payroll files to large facilities with complex electronic payroll records), what the best method is for gaining an understanding of what most workers are earning will vary. Auditors will in many cases have to use their judgment on what the best method is for identifying the range of wages received by workers.

Factory wage information is collected during a FWF audit. As part of FWF's existing auditing process, teams already *review* most of the information required to build a factory-specific wage ladder. Creating a wage ladder, however, requires auditors to *record* and *process* such wage data. Yet the numbers alone are not the goal. Just as important is the corollary information that enables FWF auditors, staff, and partners to understand the numbers illustrated on a wage ladder. The guidance below touches upon both.

3.1. Documentation and payroll review

Most of the data used to process a wage ladder can be collected by the FWF documents inspector. The goal is to capture enough data per department to be able to:

- calculate the range of earnings among workers divided per department – from the highest to lowest monthly wages – and
- get a sense of what most workers are bringing home. For this, FWF has chosen to use the mode as a way of representing this. The mode is the wage earned by the most number of workers in the factory, or in a specific department.³

To do this, inspectors should review the past three months of payroll records (see also FWF audit manual). They may use the (FWF) wage data collection sheet to record the wage range and averages for the following:

2. Regular wages

This data emerges from payroll records and includes piece rates, bonuses, and profit-sharing BEFORE overtime is added into workers' total earnings. While in many facilities overtime is the norm, it is important to have a baseline understanding of how much the worker population would earn at current levels if they only worked regular hours.

3. Regular wages plus overtime

For each worker, find the regular wages received plus overtime pay (whether paid at premium or not).

4. Regular wages plus fringe/in-kind benefits

In cases where fringe/in-kind benefits (e.g. meals, transportation, holiday gift/food baskets, education vouchers, uniforms, crèche services, etc.) are provided, calculate the financial value of these goods/services. Note: this is

³ This should not be confused with mean wage (the sum of all wages divided by the total number of workers), or the median wage (the wage separating the highest half of the wages paid from the lowest half of the wages paid, i.e. the wage in the middle if all wages are listed from the lowest to the highest).



the amount paid by the factory for these fringe/in-kind benefits, rather than the market value paid by a hypothetical worker (see audit guidance with regard to document review for fringe/in-kind benefits). Calculate the per-worker value of total fringe/in-kind benefits provided monthly or annually and add this to the regular wages paid.

3.2. Worker and management interviews

FWF's auditing procedures look to management and worker interviews to establish the reliability of information collected during the documents inspection. Such interviews also provide valuable information that explains the wage data collected and indicate where corrective action might be effective.

Wage information to collect during worker interviews

It is not realistic to expect the worker interviewer to collect all the below data from each factory for every audit. The worker interviewer should adjust the collection of data to what wage statistics that are available. For example, if there are good national or regional statistics on cost of living, it is not needed to in detail investigate the cost of living through workers interviews. The below list provide guidance on what kind of information can be collected from workers.

- Information about workers' living costs relative to wages, including:
 - Average number of people in workers' household and average number of wage earners (this can be estimated based on a sample)
 - Cost of staple grain purchased, rent, transportation and children's education per month
- Other costs commonly incurred by workers in the region/country
- Workers opinion on wage standards collected from local stakeholders.
- Any actions taken by management to improve worker wages.
- Any recent wage increases. What impact have they had on workers and their families? Have any wage increases had an impact on workers' livelihoods?
- Ideas for approaches to improve workers' total pay. Do workers seek more cash or would they gain more from the provision of certain fringe/in-kind benefits?

Wage information to collect during management interviews

Wage information and information about challenges limiting wage increases are important to collect during management interviews in order for the continued dialogue on wage increases to be fruitful. Questions to ask the management includes:

- Actions taken by management to improve wages.

- Action recommended by management to improve workers' wages. Is profit-sharing a possibility? What support is offered by FWF member companies to ensure workers are paid adequately?
- Conditions under which real wage improvements would be possible. What level rise in pricing would increase wages? What other support would lead to increased wages? Will management commit to raise wages if such support is given?
- Current and future order levels. Is the factory working at full capacity – or is it working under or over capacity? What does this mean in terms of future cash flow?

3.3. Processing factory wage data for use in wage ladder

Depending on the amount and format of wage data, it may be possible for auditors to process the data as they collect it. The wage data collection sheet is designed for this purpose.

In short, the outcomes we seek from this step in the process are:

- The bandwidth, or range, of pay received by the total worker population, from lowest to highest (including trainees and apprentices as well as skilled workers).
- A sense of the amount of pay received by most workers in the facility population. This can be communicated through an average (the mean, the median, or the mode). Alternatively, it could be relayed by dividing data into 4 quartiles and marking these on the wage ladder. For example, the bandwidth of the top 25% of workers, the bandwidth earned by the middle 50% of workers, and the bandwidth of pay received by those in the lowest 25 percentile.

3.4. Charting factory wage calculations on the wage ladder

Once the wage data collection sheet (which may be amended, depending on the outcomes of FWF's on-going consultations) is complete, the data is ready to input into the FWF Wage Ladder tool.

See also the [Wage Ladder Quick Guide](#), available online.

Follow these steps to create a factory-specific wage ladder:

1. Access the relevant country- or region-specific wage ladder on the website.
2. When completed as part of the broader auditing process, it is important to consider corollary information about wages. This information is what explains what is depicted in the wage ladder and is the basis of recommendations for improvement. Avoid distributing the wage ladder without attaching adequate explanations and conclusions. (See chapter 4 for further guidance here.)
3. Once complete, the wage ladder can be included in the audit report.

4. When coupled with a solid analysis of a factory's wage situation, a wage ladder represents a potentially powerful tool for explaining the need for wage improvements and working to set targets for improvement.

4. Using the wage ladder as a tool for wage improvements

The guidance in this chapter is meant for FWF auditors, FWF member companies, or other partners using the FWF Wage Ladder as a tool in a broader process of wage improvement. The chapter considers ways in which a factory-specific wage ladder can be used in a broader process of corrective action and wage improvement.

4.1. Using a wage ladder as a tool in corrective action

A wage ladder is only as effective as the analysis that accompanies it

A wage ladder is a handy tool to support a broader process of wage improvements in a factory. The data represented is comprehensive, offering a birds-eye view of the factory wage situation vis-à-vis other local wage standards/levels. And, thanks to the use of a ladder framework, the illustration also naturally lends itself to discussions focused on "moving up" the ladder – a good starting point for discussions about corrective action.

Nevertheless, when considered alone, a wage ladder is unlikely to inspire the action needed to bring wages to the next level. It is necessary to consider the wage ladder alongside other wage related information, which can explain the situation depicted on the wage ladder. So, for example, if there is significant wage discrepancy among workers in the workforce (i.e. a very broad bandwidth), what is the cause of it? What practices may be limiting the earning power of portions of the population? Or, if the wages jumped in a recent month, what was the reason for the jump? And what can be learned from that situation? Armed with such information and analysis, it is then possible to develop realistic, concrete steps to improve wage levels in a fixed amount of time.

Review and analyse the data

Prior to engaging in discussions with factory management and other stakeholder partners, it is wise to sit with the wage ladder and accompanying wage information to analyse the wage situation in the facility and consider potential corrective action. The following questions may help inspire your thinking here.

- What does the wage ladder indicate about a factory's performance, relative to the wage standards/levels set by institutions in the region/country?
- What do divergences between regular wages, overtime wages, and wages including fringe/in-kind benefits tell us about the wages

received by workers? Do they create a situation where workers have little choice but to work overtime? Do they indicate that most workers are working overtime – or does a good portion of the workforce opt out of overtime (potentially indicating the adequacy of regular wages)? How significant is the bump from fringe/in-kind benefits for workers?

- If some workers are not paid in accordance with basic legal minimums, what portion of the worker population does this represent? What portion of the population is above this and other levels?
- How does other corollary wage information help explain the wage ladder? Are higher paid workers those with more experience or skills, or are wage disparities between departments explained by the composition of the workforce (gender or ethnicity)? Do workers prefer more cash or fringe/in-kind benefits?
- If there has been a recent slump or peak in wages, how is that explained? Does it correspond with order levels?
- If data is available, how do factory wage levels compare to wages in nearby, comparable facilities?
- In light of your analysis and a review of management and worker interviews, what are some approaches to corrective action that factory management may wish to consider?

Discuss the wage ladder and accompanying information with factory management

After spending some time analysing the situation, use the wage ladder to initiate a discussion about wage levels. Explain the wage ladder, how the data included on it was collected, and what the illustration tells us about the factory wage situation. If corrective action is required to bring factory wage payments into accordance with FWF Code standards, discuss approaches to raising wages stepwise to move up the ladder. Consider some of the following:

- Based on a comprehensive review of wage-related information, what is the best way to bring wages that fall below key benchmarks up to scratch? (Consider across-the-board wage increases, bonuses, profit-sharing, training, productivity gains, etc.)
- What action can be taken by brands to raise wages? (Consider changes in sourcing strategy and pricing schemes, wage premiums, etc.) The buying company has the responsibility to pay a price that gives the supplier a possibility to provide a living wage. The rising wage costs should be a shared responsibility between buyer and supplier. Additional activities to enhance productivity and to control overtime might be necessary to provide for a sustainable situation. This should be accomplished without putting extra pressure on workers.

- Preferably the steps to be taken towards a new wage structure are negotiated between the management and worker representatives. If this is not possible, or if support is needed, the FWF affiliate could consider offering support.
- A new wage structure requires the support of other buyers from the same factory. FWF affiliates are encouraged to work together with other buyers with whom they share the supplier. An alternative approach would be for suppliers to calculate one single wage structure for the entire workforce based on their assumptions about the percentage of volume supplied to customers who support the increase.
- For sustained wage increases, FWF affiliates should support their suppliers with clear commitments about volumes and duration of orders and through consolidating the relationship, for example by offering preferred supplier status.
- Furthermore it is of utmost importance to communicate with workers and their representatives and consult them on processes to improve their wages. Workers need to understand new wage entitlements so as to be able to monitor them. Stimulating and facilitating social dialogue and effective worker representation is necessary to communicate about the progress up the wage ladder.
- Which workers must be targeted? What goals for wage increases can be set? Within which timeline?
- How will improvements be measured and verified?

4.2. Other uses of wage ladders

Charting wage level improvements and setting new wage targets

In cases where a factory has taken action to raise wages, the wage ladder is a great tool to acknowledging this progress. What's more, the same tool used to mark the factory's progress up the ladder can be used to set new targets for further improvements.

Comparing wage levels across factories in the same region and country

When inventing the wage ladder, Rut Tufts envisioned using it as a tool for sharing good practice across factories. That is, the wage ladder would quickly indicate those factories where wages were higher than others, presenting opportunities to identify effective approaches to raising wages and apply them to facilities where wages were lower. As FWF auditing teams put the wage ladder to use in more factories, this will become possible.

Comparing wage improvements over time

Comparing the wage ladders of the same factory taken at different points in time can indicate changes in the pay workers receive. Depending on the rate of inflation, a reliable year-on-year, apples-to-apples comparison may not be



possible. Nevertheless, when accompanied by real wage data and/or worker interview findings that indicate real improvements in workers' livelihoods over time, wage ladders can be used to plot progress over time. Similarly, wage ladders can be used to illustrate backsliding by factories, as well.