



WAGES



A CHAPTER FROM THE BUSINESS TOOLKIT

This is only one chapter of the toolkit. You can download the full document or any of the other chapters from the Partner Africa website. www.partnerafrica.org/business-toolkit

WELCOME

This toolkit provides practical assistance on how to improve **Productivity, Quality and Workforce Management - areas which are inextricably linked**. People are a core and valuable asset for every business and in order to have an efficient, productive business, employees need to work in good conditions. Partner Africa, through its extensive auditing, training and consulting work have found that workers who are safe, respected and content in their work are more efficient and productive. For instance, productivity is increased by reducing the need for sick days and constant recruitment and onboarding due to high worker turnover. The connection also flows in the other direction: as productivity and efficiency improves, there are opportunities to improve wages and reduce excessive working hours without impacting price.

Productivity, Quality and Workforce Management are all essential elements to building a lasting business and a strong partnership with purchasing companies into the future.

The group of companies and organisations behind this toolkit want to share best practice and learning across the industry. This toolkit gives suppliers practical assistance on how to improve productivity, quality and workforce management in production sites. It will enable you to understand each issue and why it matters for your business, what is required, what that means in practice and will also enable you to assess your current situation and provide you with practical tools to make the necessary improvements.

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Produced by Partner Africa for The Coca-Cola Company, Diageo, ABInBev and Aim-Progress



DIAGEO

ABInBev



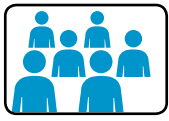
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6. WORKFORCE MANAGEMENT

? WHY THIS IS IMPORTANT TO YOUR BUSINESS

Workforce management (also called Human Resources Management or HRM) means the way that people are managed within the business. It is not something that happens in one department but it is everyone's responsibility to ensure good practices and relationships are developed.

The benefits

In many cases, the biggest competitive advantage a business has is the knowledge, skills, competence, motivation and productivity of its workforce. Businesses need to have the right practices and systems in place, in order to actualise and really capitalise on the full potential of the talents and value of the workforce. **If good workforce management succeeds in increasing workers' motivation and commitment, there are significant benefits to the business**, including lower turnover, higher skill retention, lower recruitment costs, higher productivity and the attraction of skilled and experienced workers (as illustrated in many of the business benefits flow diagrams in this toolkit).

The cost of employee turnover

If you have good relations with your workers and manage them well, they will be less likely to be absent and leave. The true costs of employee turnover are often underestimated. The total of the direct and indirect costs are estimated to be between 30% and 150% of the employee's remuneration package (for entry and mid level employees). Direct costs include management time and other costs of recruiting and training new staff and indirect costs include lost productivity, reduced performance levels and unnecessary overtime premiums related to new staff being less skilled ⁶⁴.

It is a valuable exercise to calculate the employee turnover costs to your business, to understand the cost benefits of better engagement and treatment of workers. A **practical tool** is provided for you to do that in Appendix 1 (page 108).

? WHO

Who needs to be informed and involved in tackling these issues?

Senior management, HR managers, production manager, supervisors, payroll staff, those involved with recruiting permanent and temporary staff.

GENERAL PRACTICAL TOOLS AND TIPS

The cycle of Human Resource Management

This is a useful tool for planning and maintaining Human Resources Management, while keeping the big picture in mind. Every element of HRM will fit into one aspect of this cycle: Recruitment, Staff motivation (including remuneration and conditions of employment), Staff development and performance (including training and performance management), Separation or transfer (including dismissal).



The Lifecycle of the Human Resources Strategy ⁶⁵



Staff motivation

A key part of this cycle is 'staff motivation'. A valuable concept in thinking about staff motivation is Maslow's hierarchy of needs^{65,5}. Maslow's theory suggests that the lower or basic needs (safety and security) have to be satisfied before the higher order needs (self-esteem and achieving potential) become a concern to the individual. It suggests that employees will only be motivated to improve productivity and grow in their skills and abilities, if the lower level needs are met first.

There are a number of factors that can be drawn out from this diagram, that impact the motivation of employees at work, some of which are dealt with in this 'Workforce Management' chapter and others are dealt with in other chapters.

- **Basic biological and physiological needs met:** wages and benefits
- **Feeling safe and secure:** health and safety, not working excessive hours, job security/regular employment, a culture of respect - with no discrimination or harassment
- **Belonging:** Teamwork
- **Feeling valued:** Teamwork, regular feedback and appraisals, able to contribute ideas for improvements, grievance mechanism
- **Self-actualization:** Training, opportunities for promotion

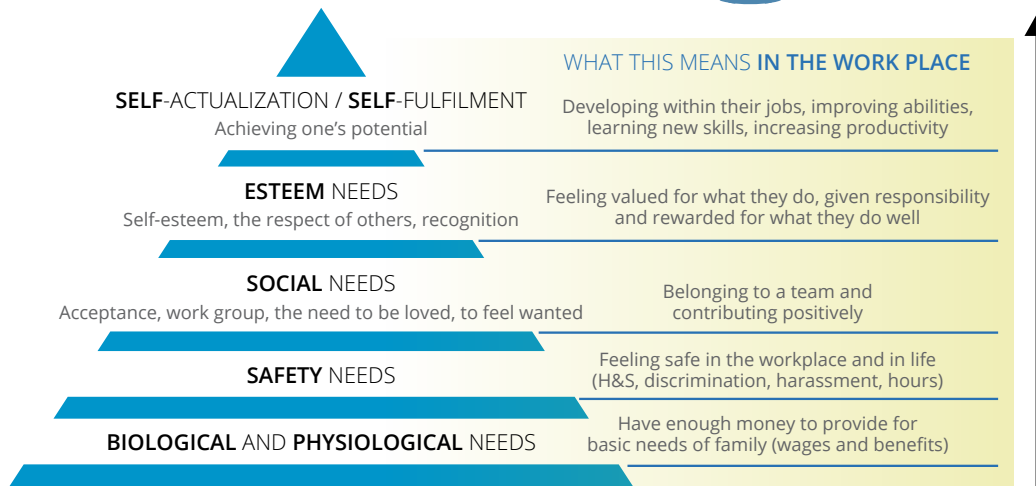
Internal and external factors

Every business is impacted by both internal and external factors. These impact how it functions and how it manages its workforce. Internal factors include: strategic business objectives, organisational structure, enterprise culture/ policies and labour relations. External factors include: economic context, industry policy, activity of competitors, requirements of customers, national laws and regulations, international labour standards, demography and labour supply issues.

A key aspect of the external factors impacting how a business runs is the national laws and regulations it must adhere to in order to have licence to operate in the country. These legal requirements have a significant impact on workforce management and set certain minimum standards for a number of issues. Some of these issues/topics are covered in other sections of this toolkit but many of the key elements of legal requirements for workforce management are covered in this chapter: wages/benefits, discrimination and harassment, child labour, forced labour and regular employment.



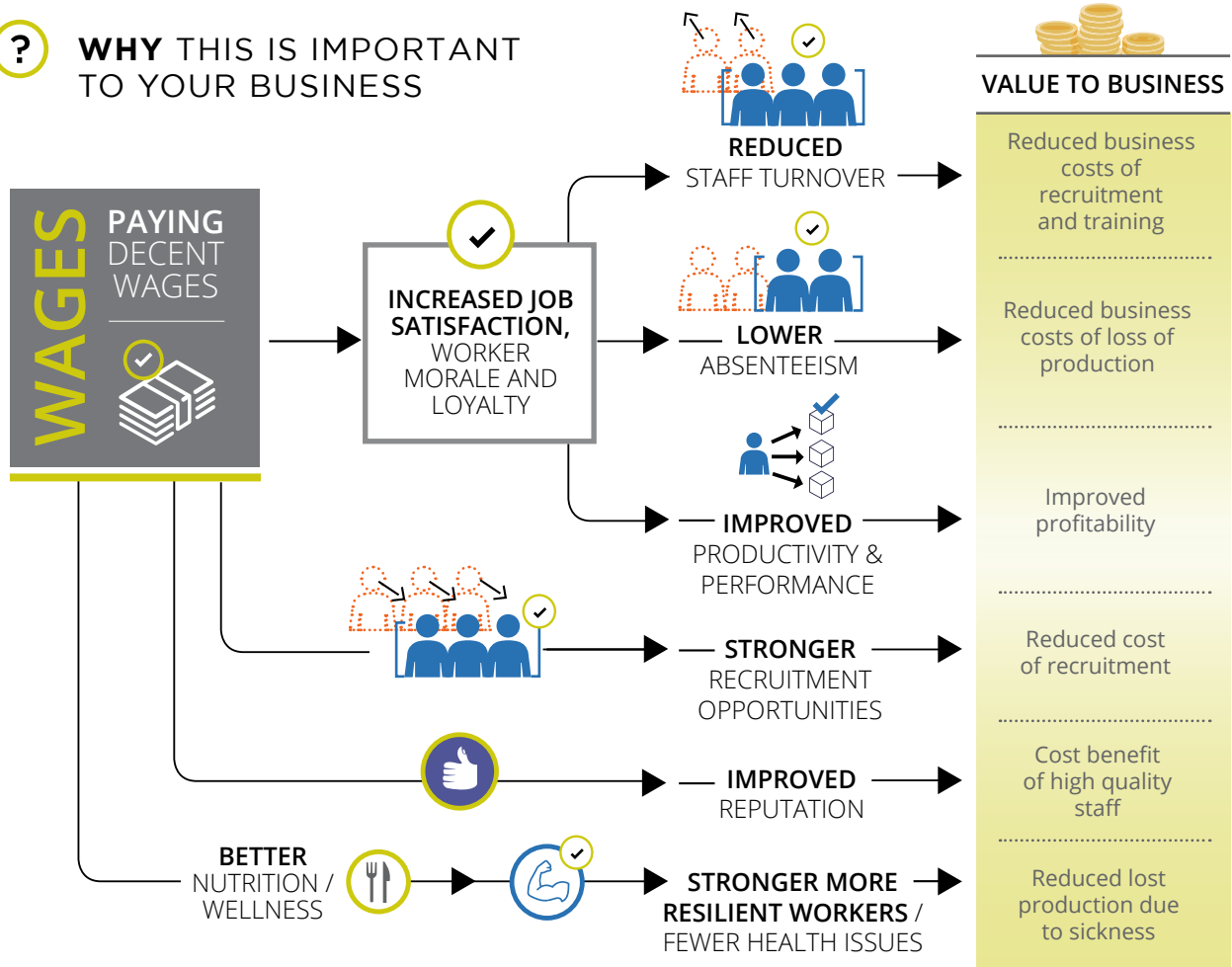
MASLOW'S HIERARCHY OF NEEDS






6.1 WAGES AND BENEFITS

? WHY THIS IS IMPORTANT TO YOUR BUSINESS



The connections illustrated in this diagram have been evidenced by various studies reported in Forbes Magazine and Harvard Business Review.⁶⁸



CASE STUDY

US retailer Costco has decided it makes business sense to give good wages, benefits and training and in turn it has significantly higher retention and performance levels, which saves significant costs of employee turnover (recruitment and training).⁶⁶

The company's more stable and productive workforce has been shown to more than offset the costs. Costco has a employee turnover of 17% overall (just 6% after one year's employment) compared to 44% at Walmart, close to the industry average.⁶⁷

✓ THE EXPECTATIONS

- Pay wages according to at least the legal minimum standards or appropriate industry standards, whichever is higher.
- Provide the legally required benefits to all workers
- Best practice: Beyond this, suppliers should work towards providing workers with a pay and benefits package that supports an adequate standard of living ('living wage'/'fair wage')^c



WHAT THIS MEANS IN PRACTICE

This section explains the details of what this means in practice and can also be used as a tool to self-assess your site.

Put a if you think that point is in place in your business and put a if it isn't or needs improvement. You can then create an action plan, to assign and follow up an action for every (sample action plans are given at the back of the toolkit).

- Know what the legal minimum wage is for your country, your industry as well as employment categories within your business
- Know what the legal requirements are regarding benefits
- All workers' wages meet or exceed the legal minimum wage or industry benchmark standards, whichever is higher (before overtime premiums and bonuses).^c
- Wages are paid directly to the worker by the employer (for example the employer may be the supplier or a sub-contractor to the supplier)
- Deductions and fines are all legal and not excessive (including for food, housing, transport and utilities)
- Deductions from wages as a disciplinary measure is not allowed
- Payslips are provided indicating hours, overtime premiums, pay (piece rate if applicable), bonuses and any deductions
- Wage and payment details are communicated to workers in written and understandable format, before entering employment and for each pay period
- All legal benefits are given to workers (eg holiday and sick pay). This includes developing a system for workers to request and have holiday approved and a clear procedure for taking a sick day. This is clearly communicated to workers
- If local law requires it, employers and employees participate in social benefits and social insurance premium payments, paid in full at the required time
- Records are kept for at least 12 months including pay journal/payroll, timecards, production records, piece rate records for all workers

^c In some cases you may be paying the legal minimum wage but workers still do not seem to be able to live on that salary and support their families. In many countries, production site workers are supporting up to 10 dependents on their salary. The ideal is for your business to work towards what is called a 'Living Wage', which enables a family to meet their basic needs and some discretionary income. Social Accountability International breaks down "basic needs" into: "a standard level of nutrition, housing, transportation, energy, healthcare, childcare, education and savings within regulated working hours (eg without overtime hours)." For more information: Base Code Guidance: Living wages. Ethical Trading Initiative <http://www.ethicaltrade.org/resources/base-code-guidance-living-wages>



PRACTICAL TIPS

As you increase productivity and efficiency of your production unit, it may be possible to increase wages for workers, beyond the minimum legal wages and ideally to move towards ensuring they can meet their basic needs on their wage. This progress will benefit the company by reducing the costs of employee turnover, sickness and dissatisfaction and attract better skilled workers.

In order for wages to be negotiated there needs to be positive social dialogue between workers and management. This can include in-factory and sector-wide collective bargaining mechanisms and it can also include more informal worker engagement methods such as focus groups and committees, to bring people together to discuss improvements.

If you are working towards not just a minimum wage but a 'living wage' (which enables a family to meet their basic needs and some discretionary income) you may be interested to carry out a 'living wage study' at your facility using the International Labor Organisation's methodology: <https://tinyurl.com/ydz4r47e>



TACKLING TOUGH SITUATIONS

WHAT DO YOU NOTICE



There is a difference in your workplace between what men and women are paid for the same job role and also a difference between local and foreign workers' pay levels. There is also a worker who is injured and he is paid less. The manager says it's because the value/output of their work is not the same.



PAUSE



THINK



WHAT NEXT

All workers, regardless of gender, race, disability or any other factor, should be paid the same for the same role.

WHAT DO YOU NOTICE



The workers receive just the legal minimum wage. There are deductions for accommodation, food and travel. There are also deductions for quality mistakes. After all the deductions some workers only receive 45% of the minimum wage.



PAUSE



THINK



WHAT NEXT

No deductions should be taken as a disciplinary measure (eg quality mistakes or being late). Deductions shouldn't be excessive. In this case the deductions are excessive and do not leave the worker enough to live on.

APPENDIX 1

CALCULATING THE COSTS OF STAFF TURNOVER

It's important to know the business value of committed workers and retention. Use this table to calculate the cost of one staff member leaving. Where you don't have an accurate figure, give an estimate, or calculate what it is for a group of workers and divide by the relevant number of workers.

SEPARATION COSTS	COST (LOCAL CURRENCY)
Salary of worker(s) filling-in while the position is vacant	
Lost productivity of fill-in worker	
Conducting an exit interview – manager's time (<i>annual salary, divided by working hours in the year, multiplied by number of hours taken on this task</i>)	
Costs of training provided to departing worker (that is now lost to the organization)	
Severance and benefits to be paid	
Lost knowledge, skills and contacts	
Separation administrative costs	
Sub-Total:	
REPLACEMENT COSTS	
Agency Fee (if being used)	
Internal Recruiter – cost of time spent on this (<i>annual salary, divided by working hours in the year, multiplied by number of hours taken on this task</i>)	
Costs of advertising	
Time for handling resumes	
Time for candidate interviews/ selection process (salaries for all those involved)	
Medical and reference checks	
Pre-employment tests	
Travel and relocation expenses	
Start-up administrative functions	
Sub-Total:	
TRAINING COSTS	
Induction training – trainers time and organisation time	
Departmental training – trainers time and organisation time	
Trainer's time if internal (<i>annual salary, divided by working hours in the year, multiplied by number of hours taken on this task</i>)	
Trainers' fee, if external	
Training materials, manuals, etc.	
Supervision during training	
Sub-Total:	
LOST BUSINESS	
Lost customers and business ideas	
Lost sales/production (estimate based on average performer)	
Lost revenue	
Sub-Total:	
LOST PRODUCTIVITY - NEW WORKERS ARE LESS PRODUCTIVE	
Lost Productivity @ 25% productivity rate	
Lost Productivity @ 50% productivity rate	
Lost Productivity @ 75% productivity rate	
Co-workers lost productivity (due to disruption)	
Quality mistakes of new worker	
Reduced productivity of supervisor or manager (whilst involved in recruitment process and due to disruption)	
Sub-Total:	
Total Cost:	

Cost of one employee leaving as estimated above

X

Average number of employees that leave per year

=

Annual cost to your business of your current turnover levels

Insert your figures here:

(usually doesn't include temporary staff or retirements and deaths)

	X		=	
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