



# FAIR WAGE STUDY OF WORKERS OF ADIDAS- SALOMON'S BUSINESS PARTNERS IN INDONESIA

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***LP3ES***

*Institute for Social and Economic Research, Education and Information*



# Presentation Outline

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- Methodology
- Profile of the factories and workers
- Income and Expenditure
- Fair Wage Formulation
- Management Perspectives



# METHODOLOGY

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# Objectives

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- To measure needs and wage requirements as a basis for understanding the fair wage conditions
- To develop a standard methodology to measure workers' needs, irrespective of location or country.



# Objectives

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- To assess the appropriateness of adidas-Salomon's definition of a "fair wage" by comparing it to the study results.
- To assess the accuracy, reliability and usefulness of the published national and regional cost of living and consumer price indices in Indonesia and their relationship to the minimum wage and industry norms.

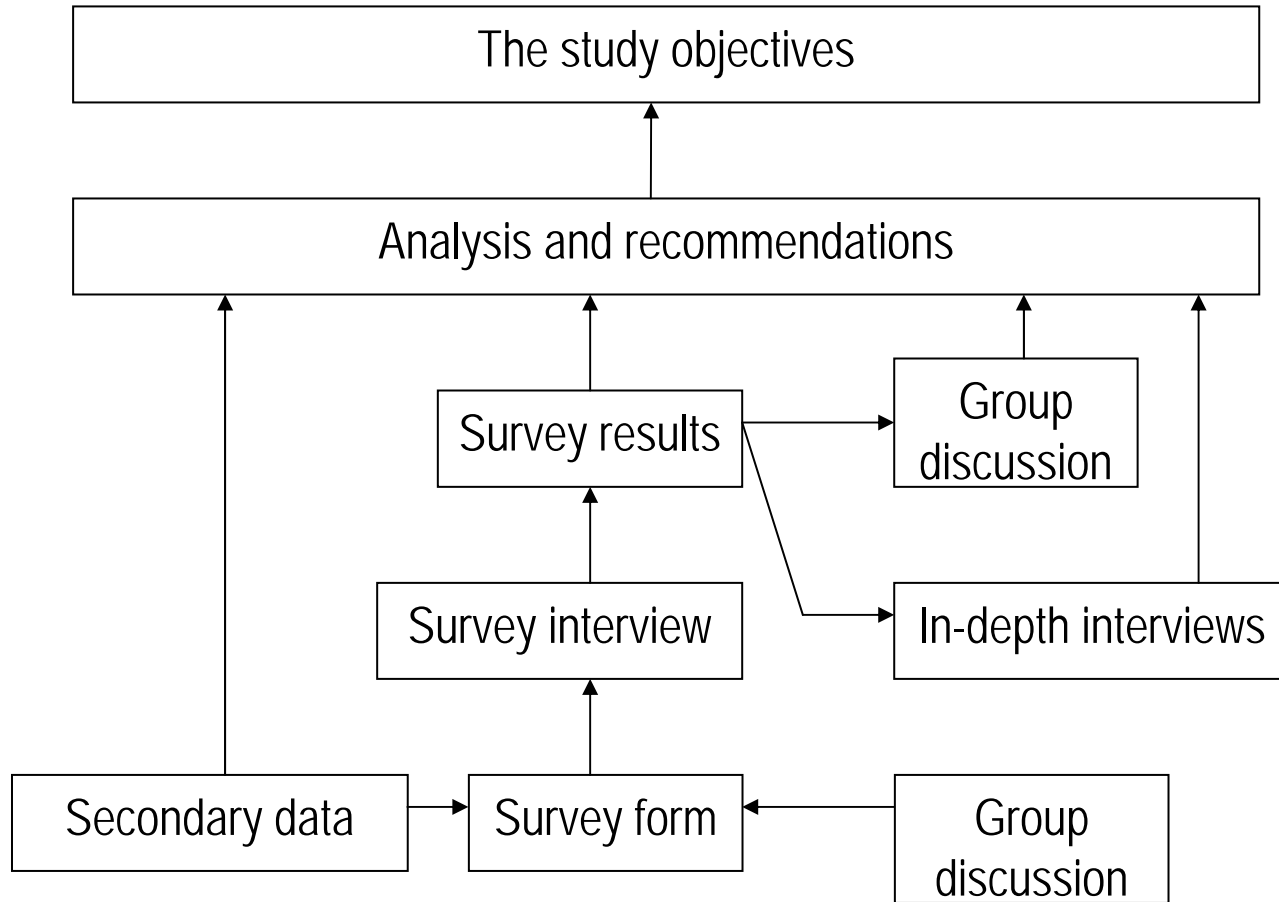


# Objectives

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- To recommend practical and workable solutions in wage-fixing mechanisms to help factory managers achieve a closer match between workers' wages and benefits and the local cost of living.

# Approach





# Activities

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- Workers Survey
  - Sample size: 1,140 workers
  - 4 factories (1 footwear, 3 apparel)
  - Face-to-face interviews: (85% at the factories)
- Focus group discussion (FGDs)
  - 7 FGDs; 7-10 workers each



# Activities

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- Indepth interviews:
  - Factory management
  - Resource persons: business associations, manpower agencies



# Factories and location

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- 4 adidas business partners
  - "A", "B", "C", "D"
  - Nominated by adidas
- Location:
  - Tanjung Priok
  - Cakung
  - Tangerang
  - Cikupa
  - Cibinong

# Number of Respondents by factory

<b>Factory</b>	<b># of Respondents</b>
"A"	360
"B"	360
"C"	320
"D"	100
<b>Total</b>	<b>1,140</b>



# Limitations

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- Method used very much depends on respondent's recollection of past expenditures
- Survey was conducted several weeks after Ramadan -> spend more
- Just before the 2002 government mandated minimum wage increase -> wage increase expectation



# Limitations

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- Fail to obtain data on the loans held by individual respondents, however such data were investigated through FGDs and cooperatives
- Method employed in determining perceived needs relies on majority opinion
  - Subjective measurement
  - Affected by existing ownership



# Limitations

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- Incomplete payroll data from factories due to privacy rights of workers honored



# Profile of the factories and workers

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# Description of factory "A"

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- Producing footwear
- Located in Tangerang
- More than 5000 workers, 90% female
- Provide non-cash benefits  
(transportation, meals, uniform, health clinic, sport and art performing activities)
- Developed workers cooperative



# Description of factory "B"

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- Producing apparel
- Located in Tanjung Priok, Cakung, Cikupa (2), Tangerang
- More than 6000 workers, 80% female
- Workers Cooperative
- Limited non-cash benefits



# Description of factory "C"

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- Producing apparel
- Located in Cakung, Tangerang
- More than 5000 workers, 80% female
- Workers cooperative
- Limited non-cash benefits



# Description of factory “D”

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- Producing bags for local supply
- Factory: Cibinong
- 150 workers
- No workers cooperative
- Limited non-cash benefits



# Demography of respondents

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- 89% female
- 76% age between 20 – 29 years
- 36% finished junior high; 37% finished senior high
- 48% single; 38% married with children
- 85% with dependent
- 70% migrant



# Income

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# Fair Wage

**Income**

Income from factory

Other income

**Expenditure**

Perceived needs

Basic needs

**Fair wage**



# Sources of Income

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## **Income from factories**

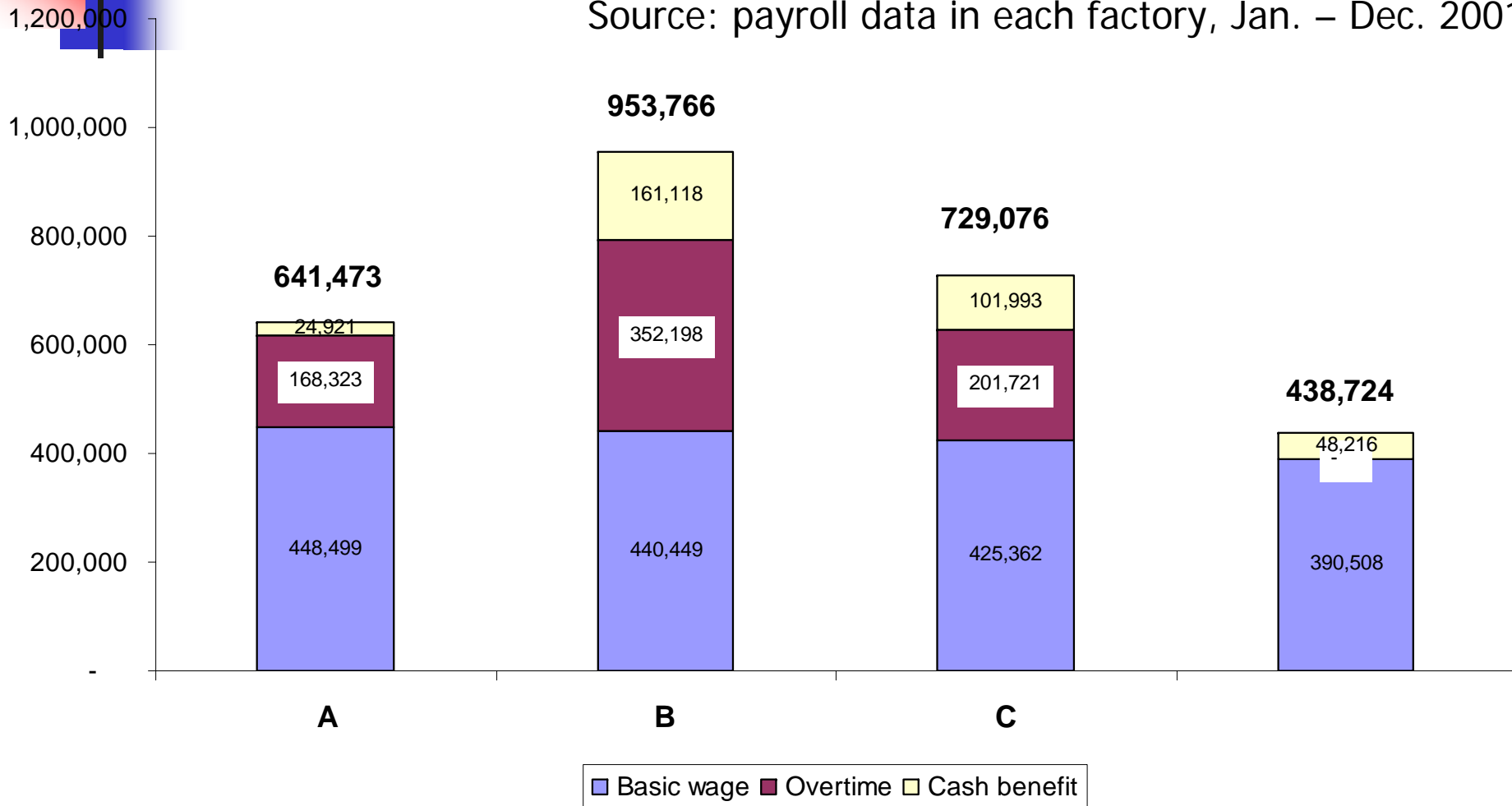
- Basic wage
- Overtime payment
- Cash allowances
- Non cash benefits

## **Income from other sources**

- Additional jobs
- Spouse income
- Contribution from others

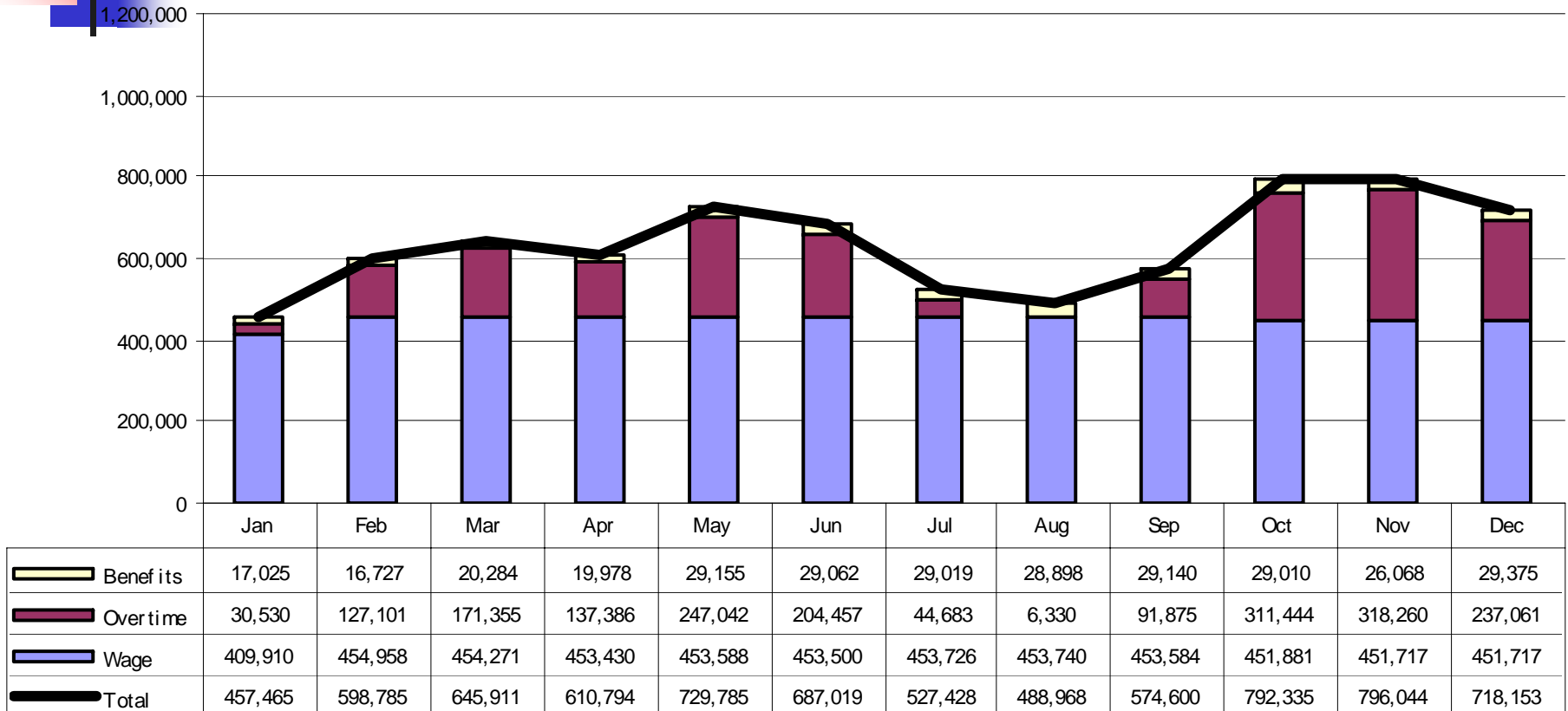
# Average total wages (Rp/month)

Source: payroll data in each factory, Jan. – Dec. 2001



# Average monthly wage in factory

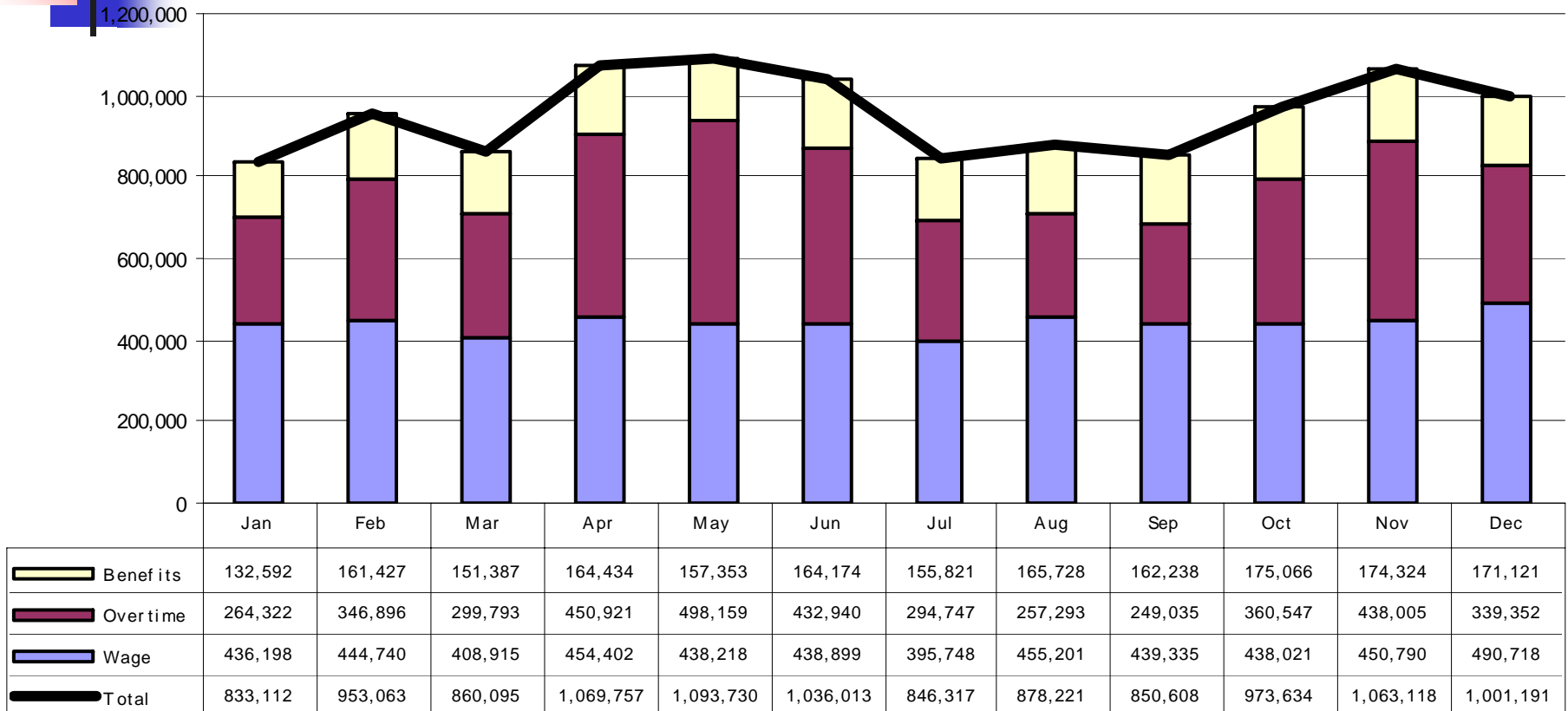
"A"



Source: payroll Jan – Dec 2001, excl. *Idul Fitri* allowance

# Average monthly wage in factory

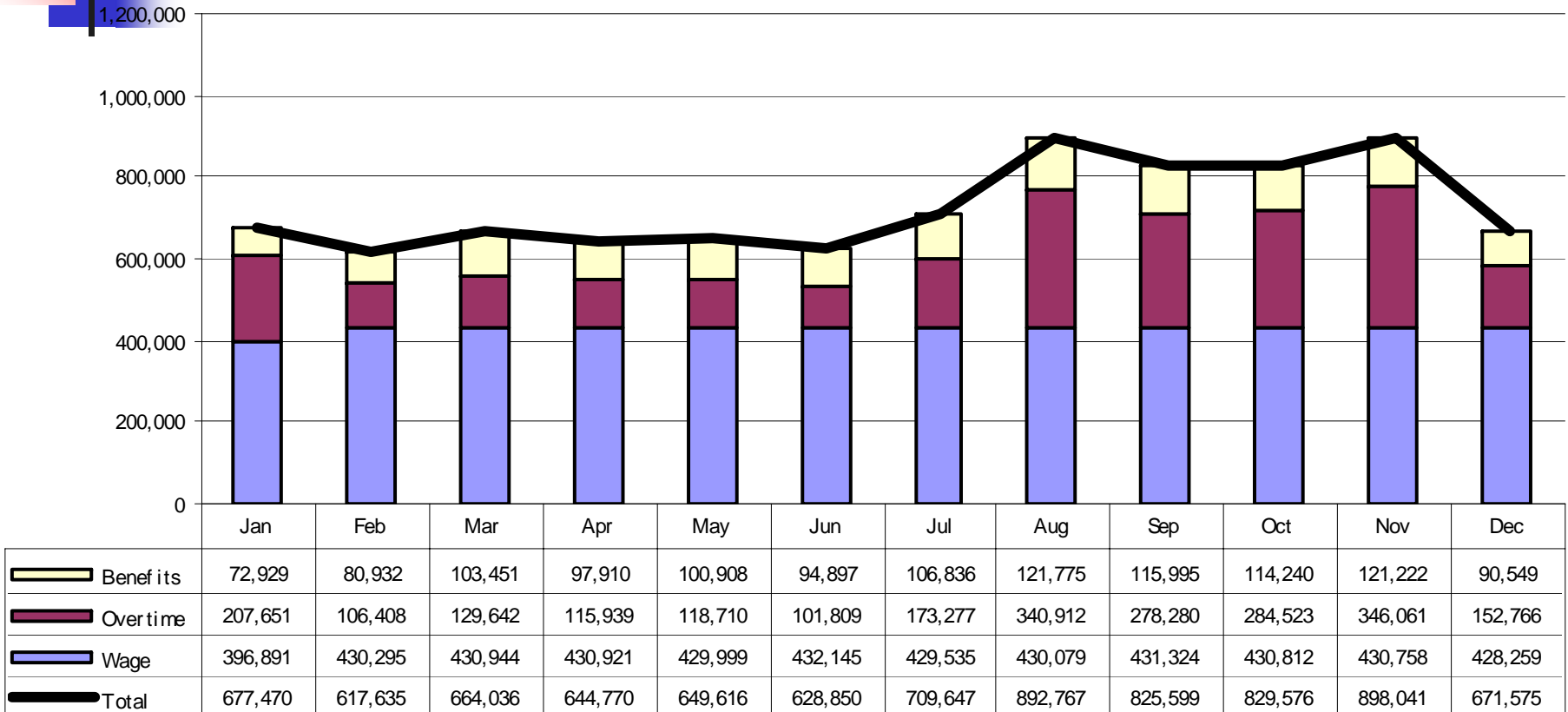
"B"



Source: payroll Jan – Dec 2001, excl. *Idul Fitri* allowance

# Average monthly wage in factory

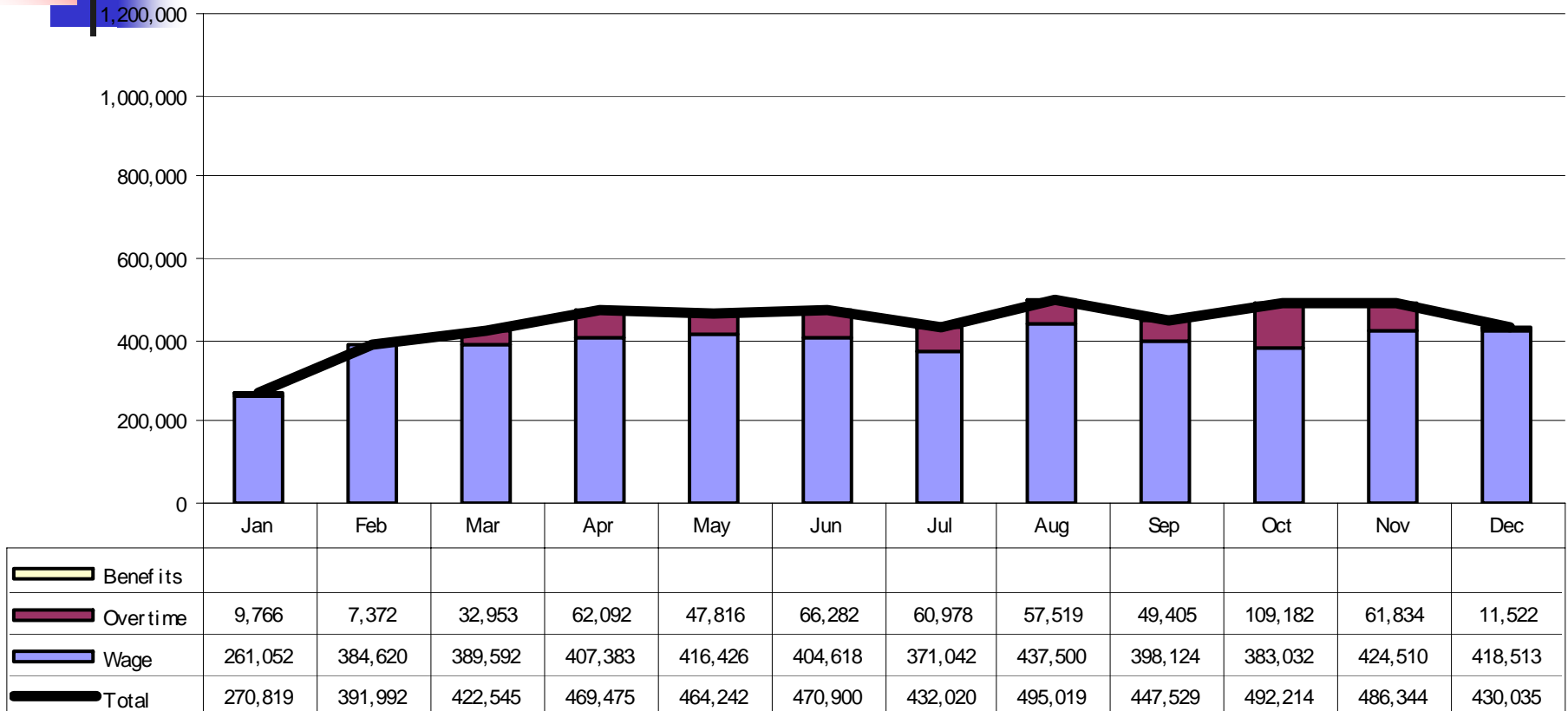
"C"



Source: payroll Jan – Dec 2001, excl. *Idul Fitri* allowance

# Average monthly wage in factory

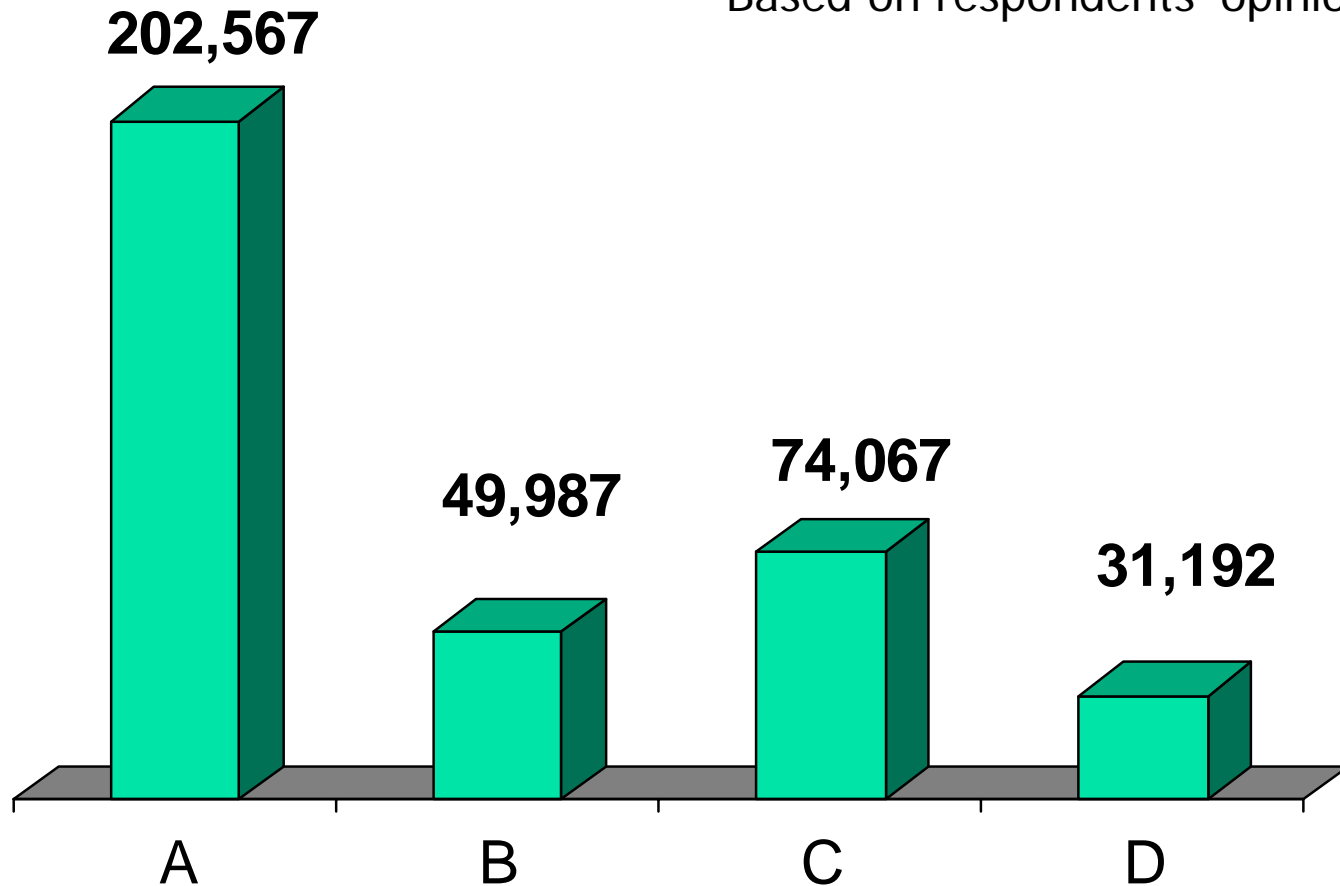
"D"



Source: payroll Jan – Dec 2001, excl. *Idul Fitri* allowance

# Cash equivalent of non-cash benefits (Rp/month)

\* Based on respondents' opinion





# Other sources of income

No.	Source of Income	% <sup>1</sup>	Rp/month <sup>2</sup>
1	Worker's additional jobs	4%	11,500
2	Spouse income	36%	199,434
3	Contribution from others	3%	12,996
	<b>Total</b>	40%	<b>224,544<sup>3</sup></b>

<sup>1</sup> Percentage of respondents who have other sources of income (multiple responses)

<sup>2</sup> Average of total respondents

<sup>3</sup> Total is different due to multiple responses

# Monetary value of non cash

## benefits

average of those who received such benefits; based on respondent's opinion

Benefits	A		B		C		D	
	N	Rp/month	N	Rp/month	N	Rp/month	N	Rp/month
Transportation	314	136,855	75	48,467	146	69,571	1	106,138
Meals	347	58,170	88	55,057	117	54,038	1	56,921
Housing	3	153,333	3	98,000	3	100,000	2	118,000
<i>Jamsostek</i>	142	8,070	95	7,538	223	18,063	2	12,785
Health	285	18,881	219	24,868	119	18,428	74	21,557
Recreation facilities	162	2,739	272	4,432	215	1,972	4	3,195
Uniform	339	3,305	272	2,574	293	1,373	1	2,4691



# Expenditure & Saving

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# Expenditure

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- Expenditures are for household, including support to dependents
- Respondents were asked to recall their last expenditure
- Derived from Government standard
- Limitation
  - Timing of the survey



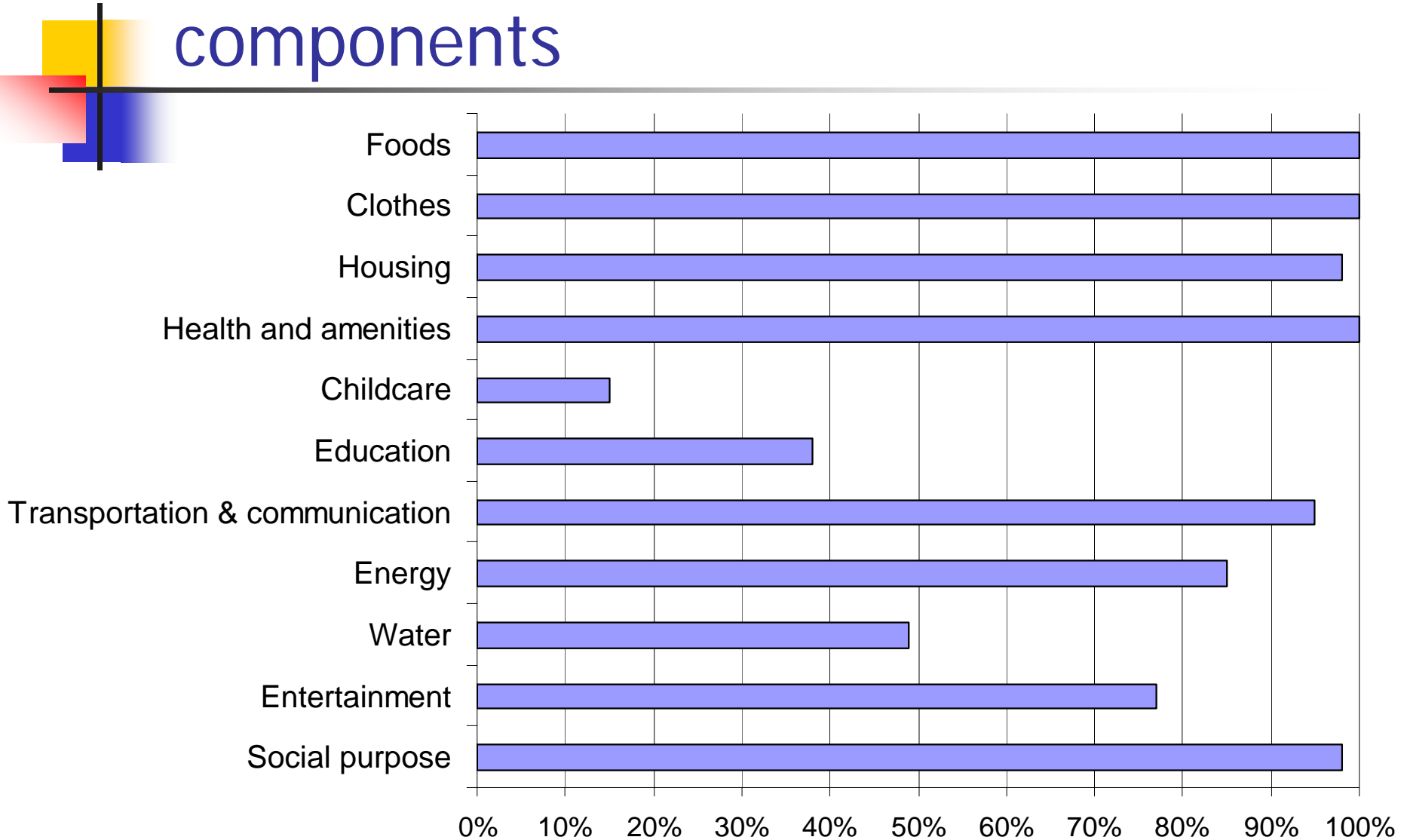
# Expenditure

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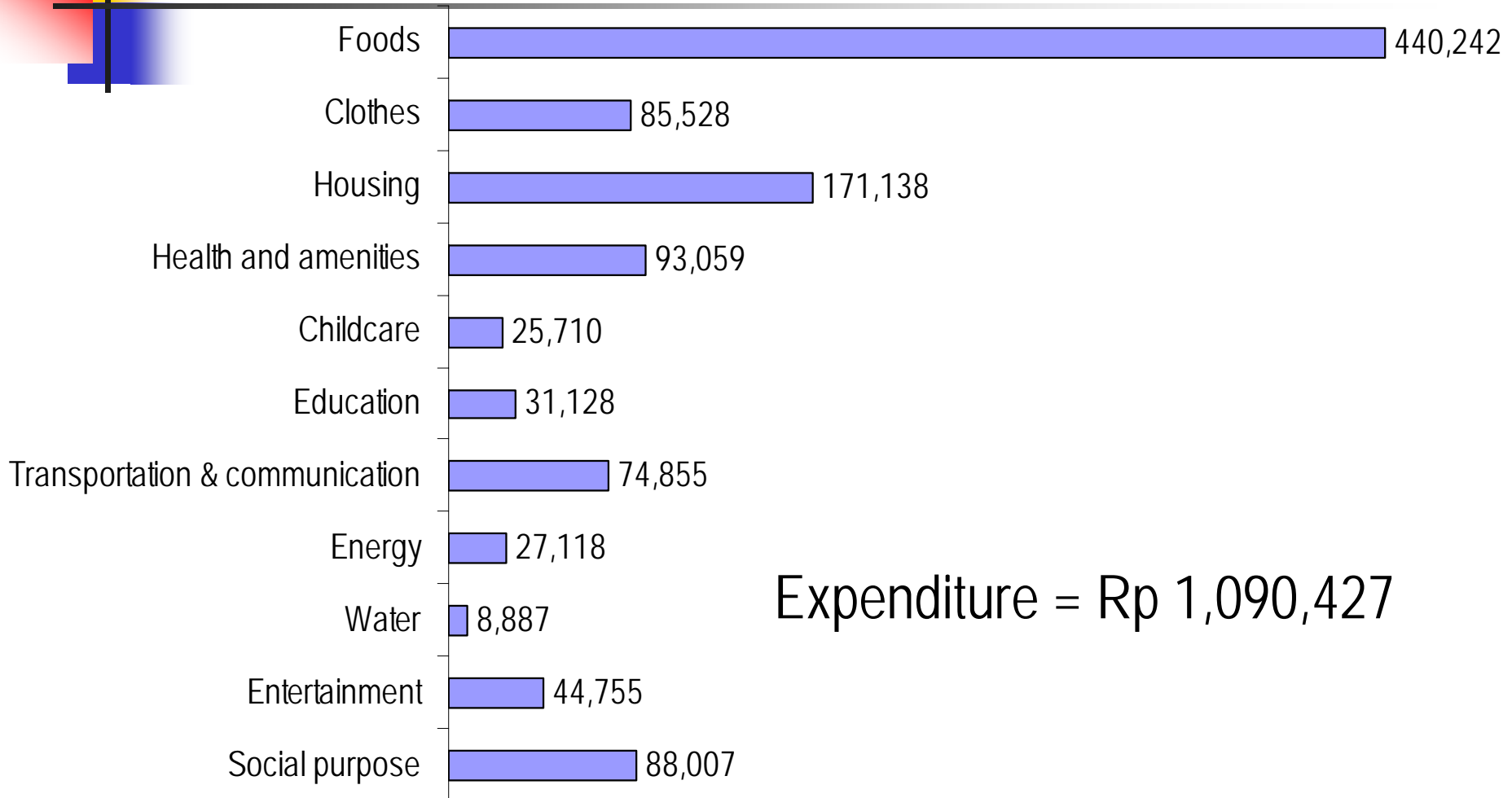
## 155 expenditure items:

- Food (21)
- Clothes (18)
- Housing (41)
- Health and amenities (26)
- Childcare (18)
- Education (11)
- Transportation (6)
- Energy (4)
- Water (2)
- Entertainment (5)
- Social purpose (3)

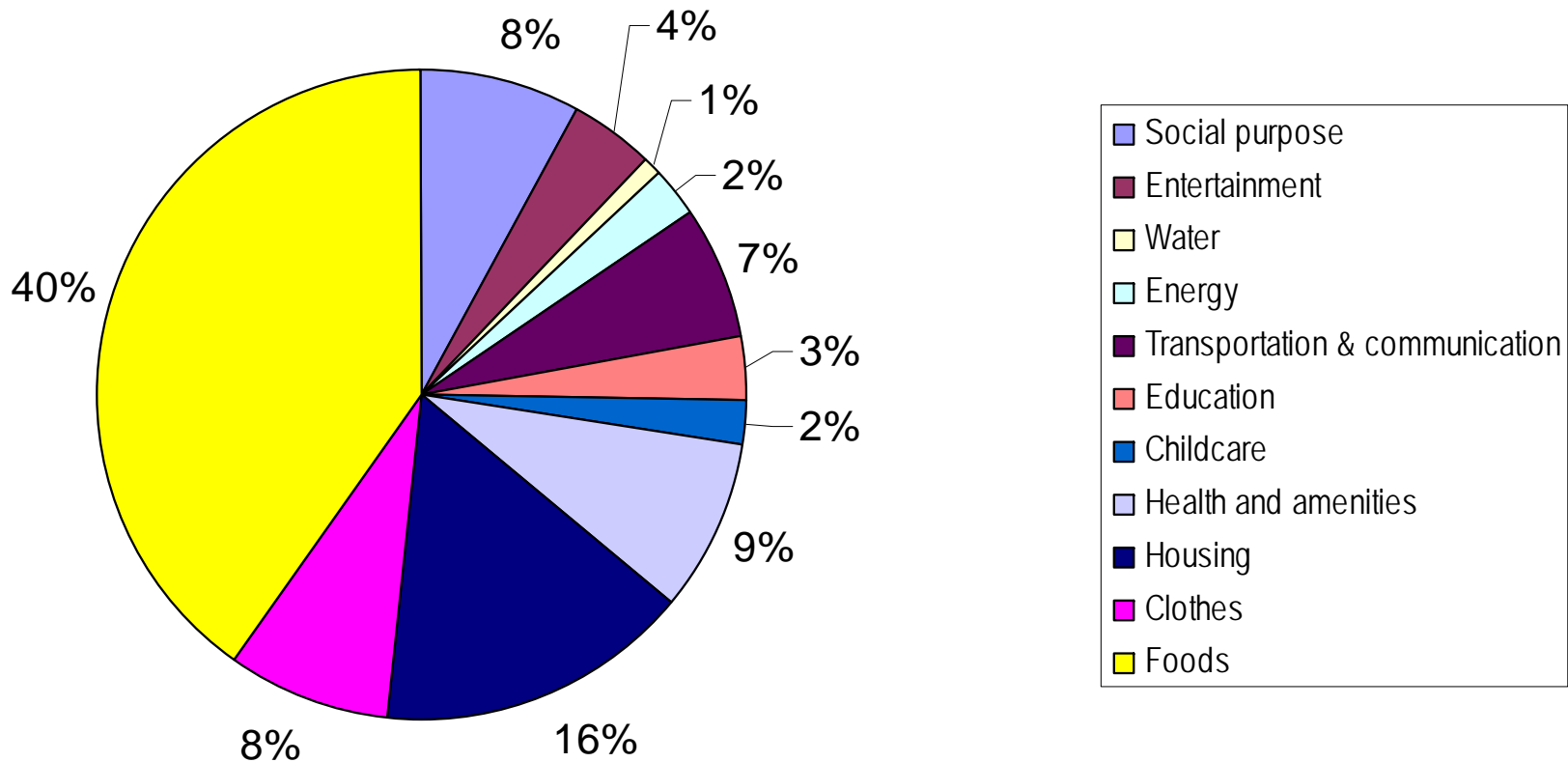
# Respondent's expenditure components



# Mean expenditure (Rp/month)



# Portion of each expenditure component



# Savings

<b>Form</b>	<b>%</b>	<b>Rp/month<sup>1</sup></b>
Savings (at home or bank)	45%	Rp 26,748
<i>Arisan</i> <sup>2</sup>	57%	Rp 61,214
Buy gold/jewelry	27%	Rp 7,903
		<b>Rp 102,830</b>

<sup>1</sup> Average of total respondents

<sup>2</sup> *Arisan* is a regular, traditional social gathering whose members contribute to and take turns at getting an aggregate sum of money or goods.



# Perceived Needs

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# Perceived Needs

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- Derived from 155 expenditure items asked in the survey
- Subjective respondent's opinion on level of urgency (3 options):
  - should be fulfilled and cannot be delayed
  - can be delayed
  - not needed



# Perceived Needs

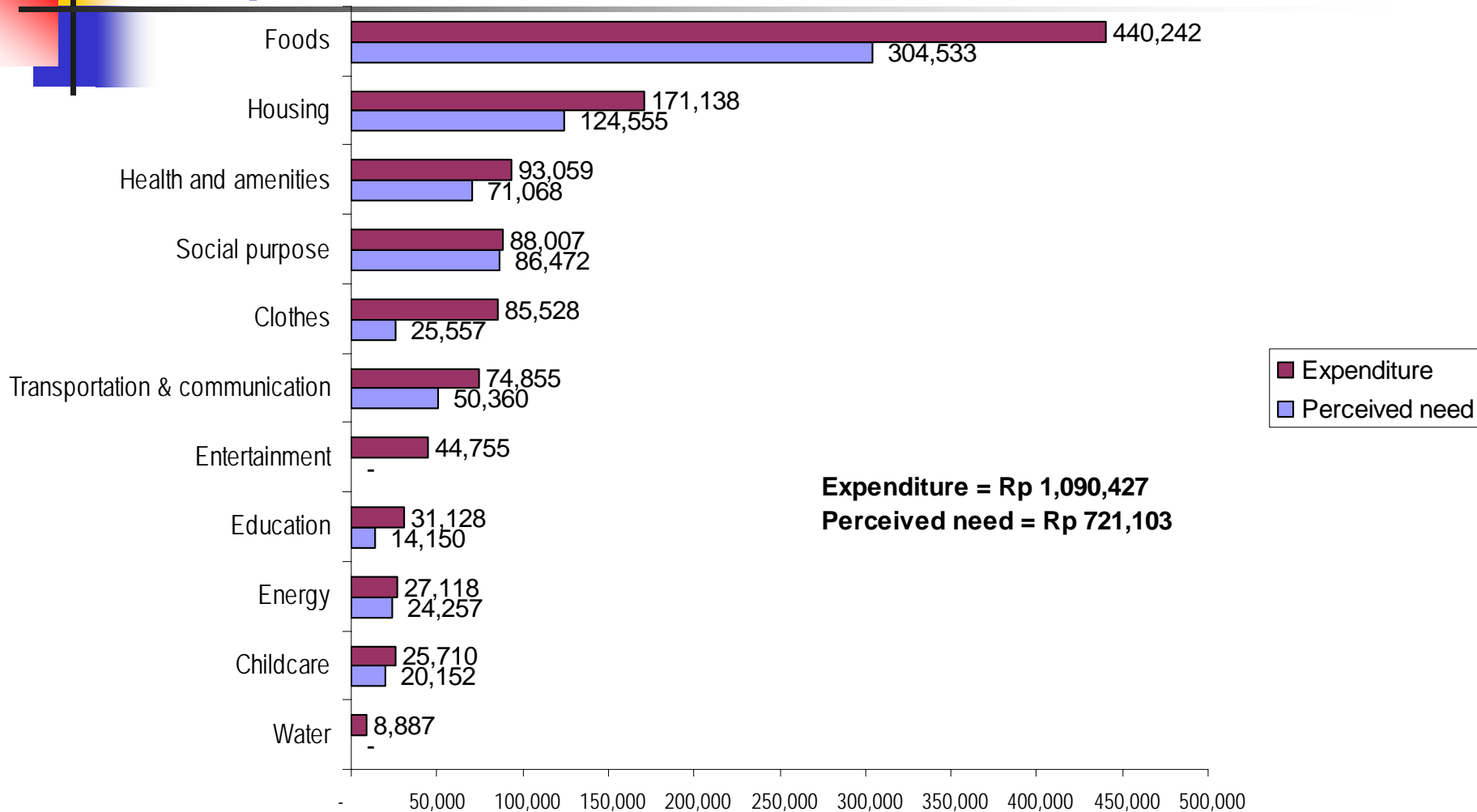
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- An item is categorized as a need based mode of opinion (the largest among the three)
- Example: 41% respondents said a bed is should be fulfilled and can not delayed -> need
- Opinion could be affected by current ownership

# Number of items categorized as need and not needed

No.	Expenditure Category	# of Items Categorized as Needs	# of Items Categorized as Not Needed
1	Foods	12	9
2	Clothes	4	14
3	Housing	27	14
4	Health and amenities	16	10
5	Childcare	7	11
6	Education	6	5
7	Transportation & communication	2	4
8	Energy	2	2
9	Water	0	2
10	Entertainment	0	5
11	Social purpose	3	0
	<b>Total</b>	<b>79</b>	<b>76</b>

# Expenditure vs Perceived Needs



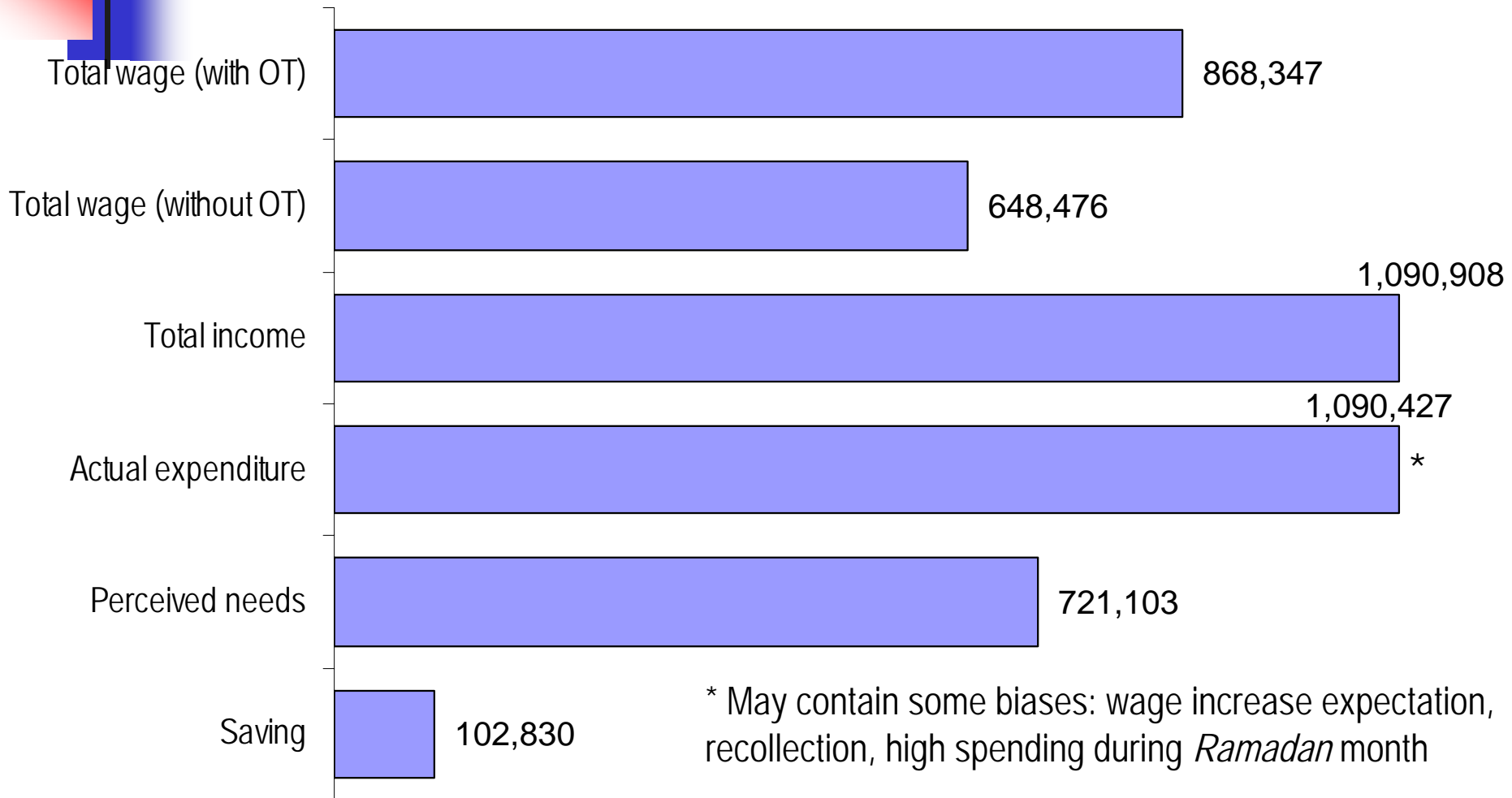


# Income & expenditure

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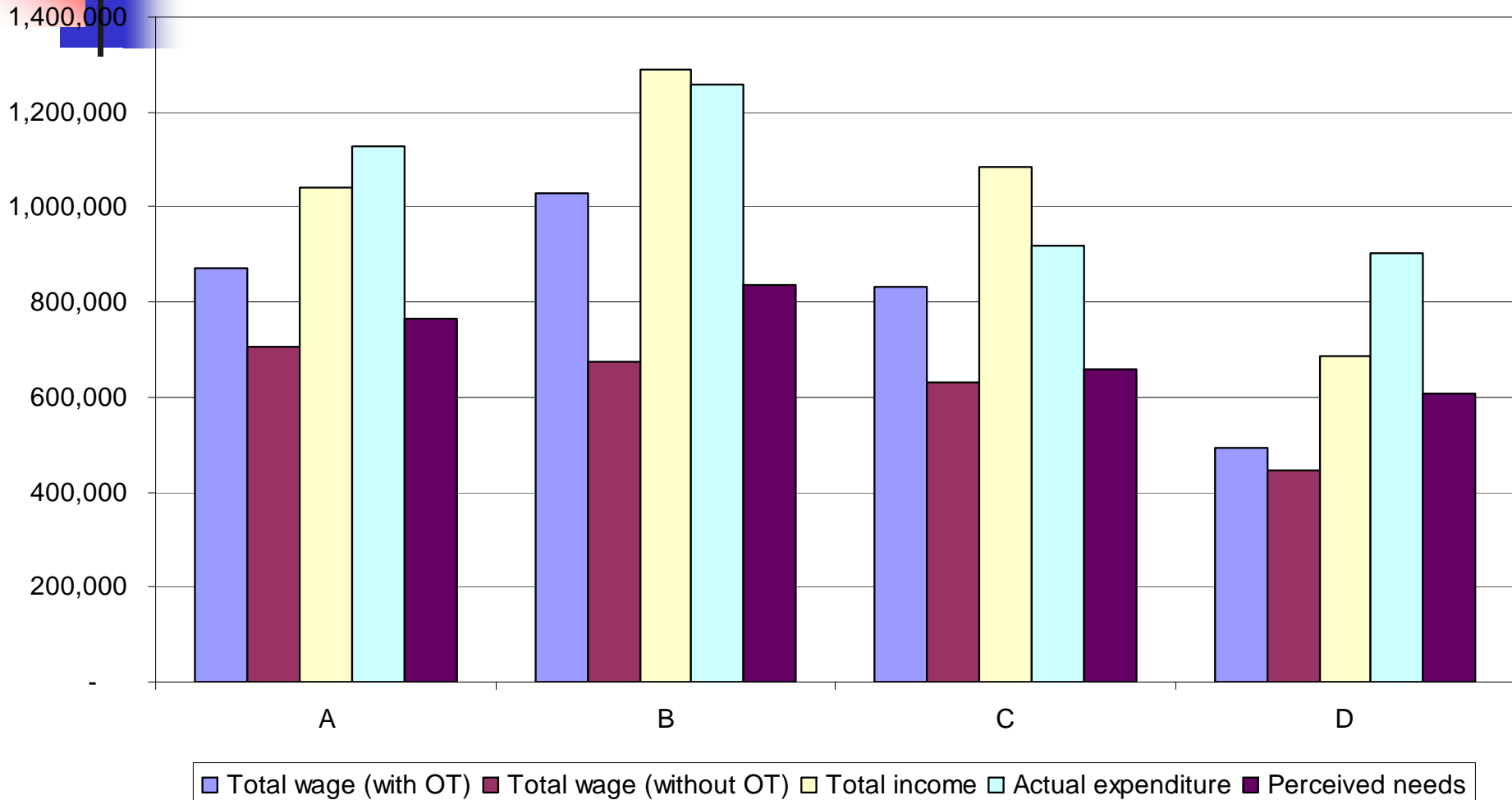
# Wage, Income, Expenditure, Needs

Total wage includes *Idul Fitri* allowance and non cash benefits



\* May contain some biases: wage increase expectation, recollection, high spending during *Ramadan* month

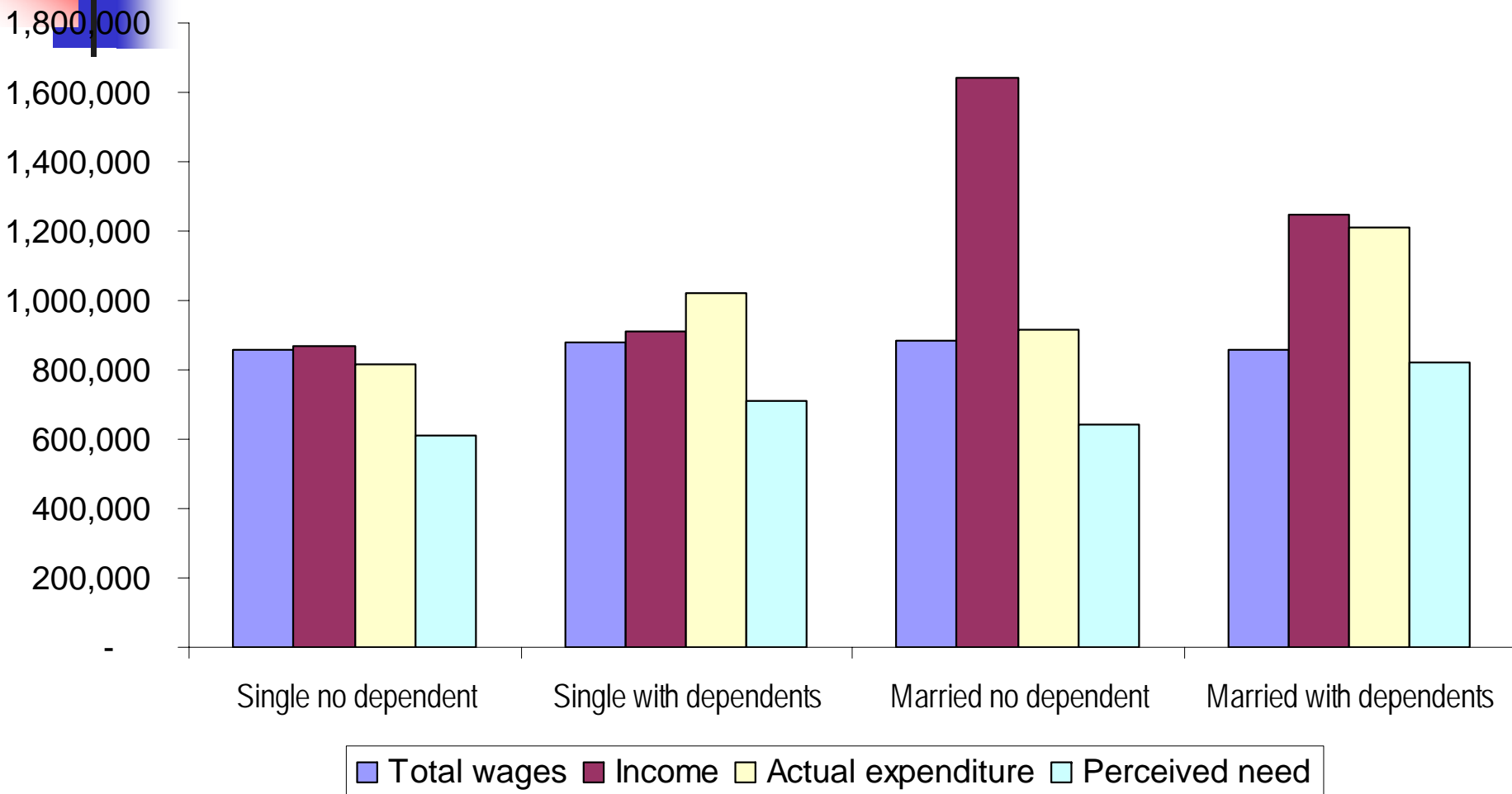
# Wage, Income, Expenditure, Needs by factory



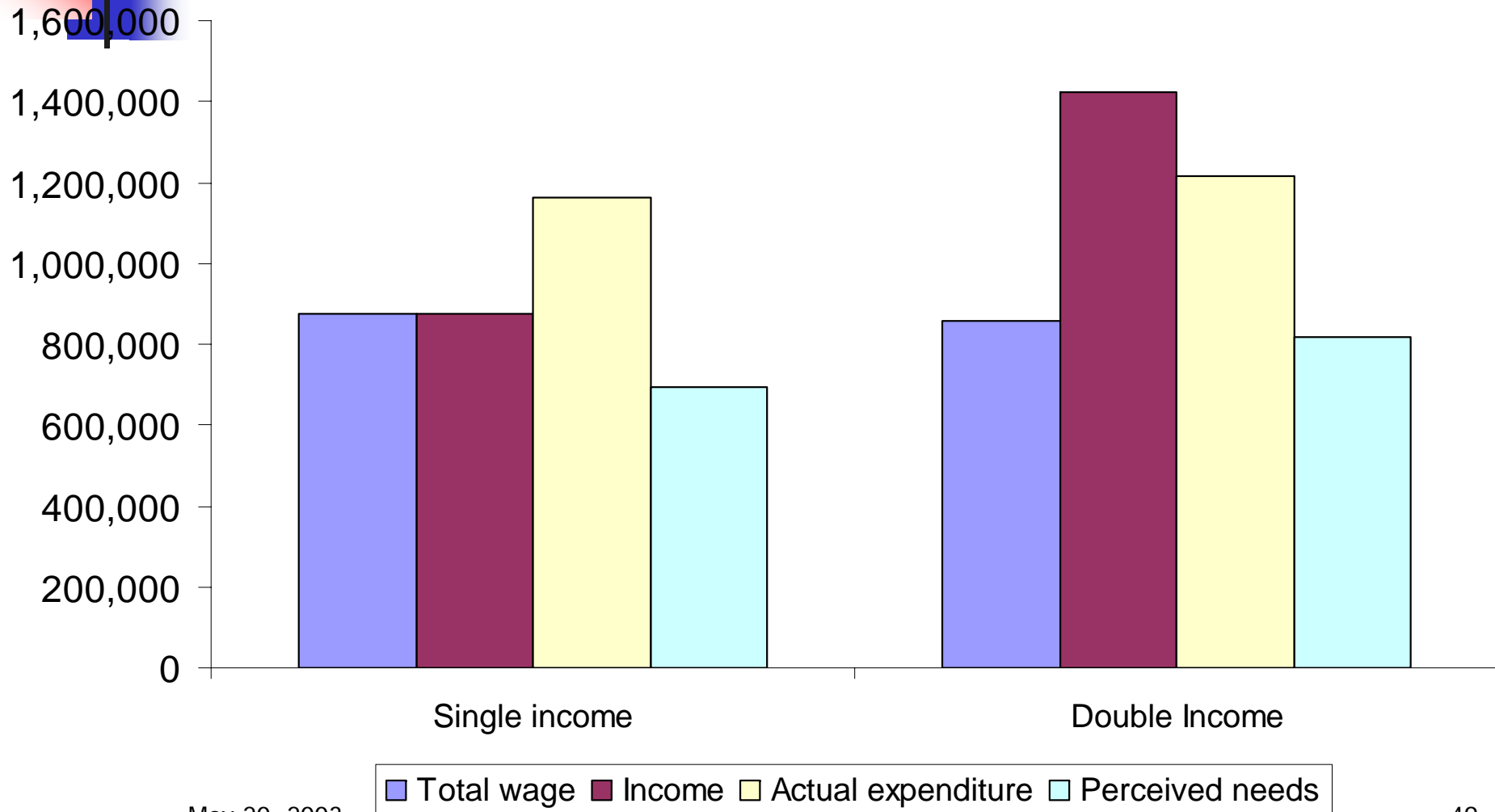
# Wage, Income, Expenditure, Needs by marital status



# Wage, Income, Expenditure, Needs by marital status and dependent



# Wage, income, expenditure and needs by number of income earners

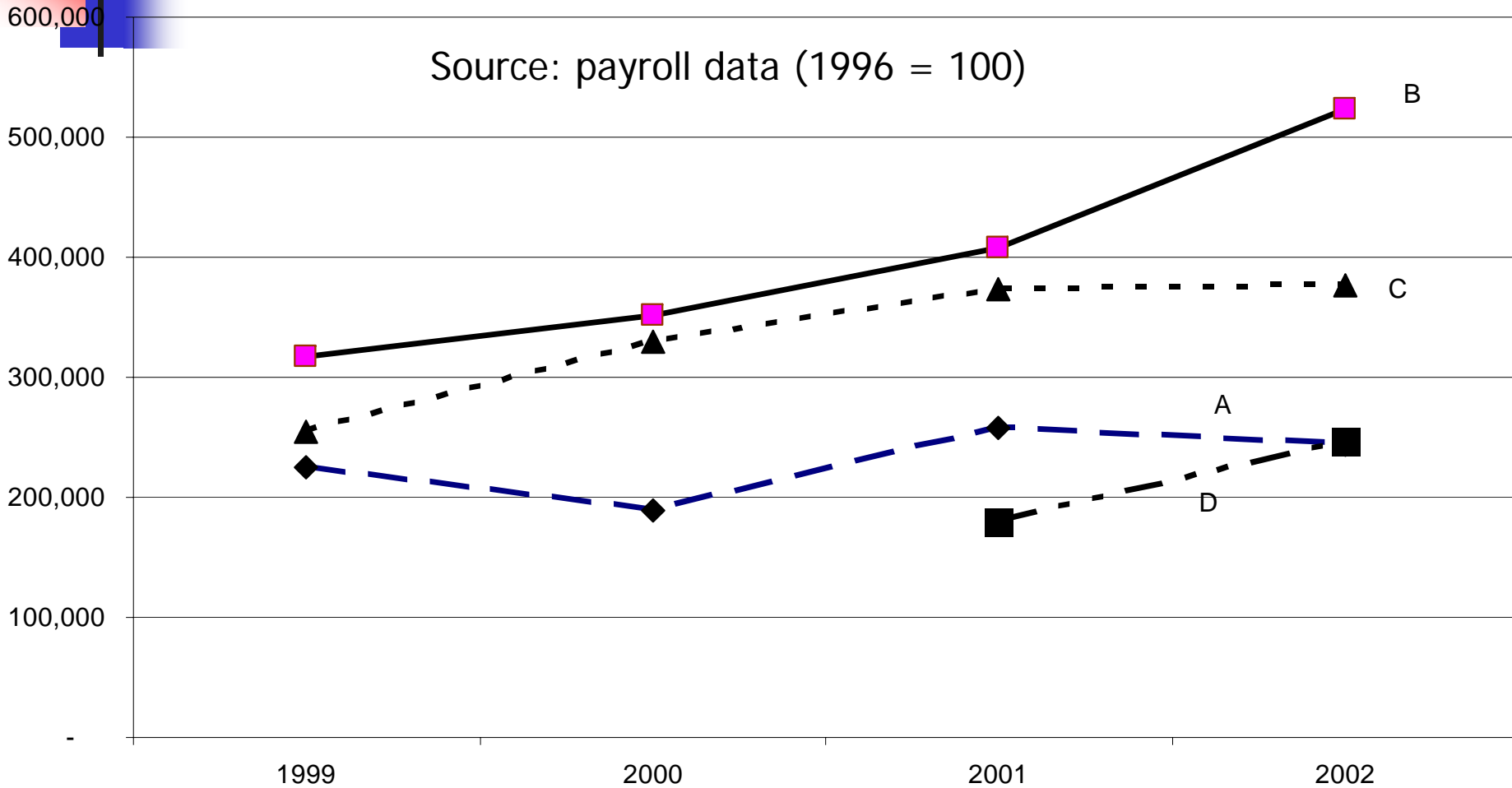


# Wage, income, expenditure and needs by number of dependents



# Real total wages (Rp/month)

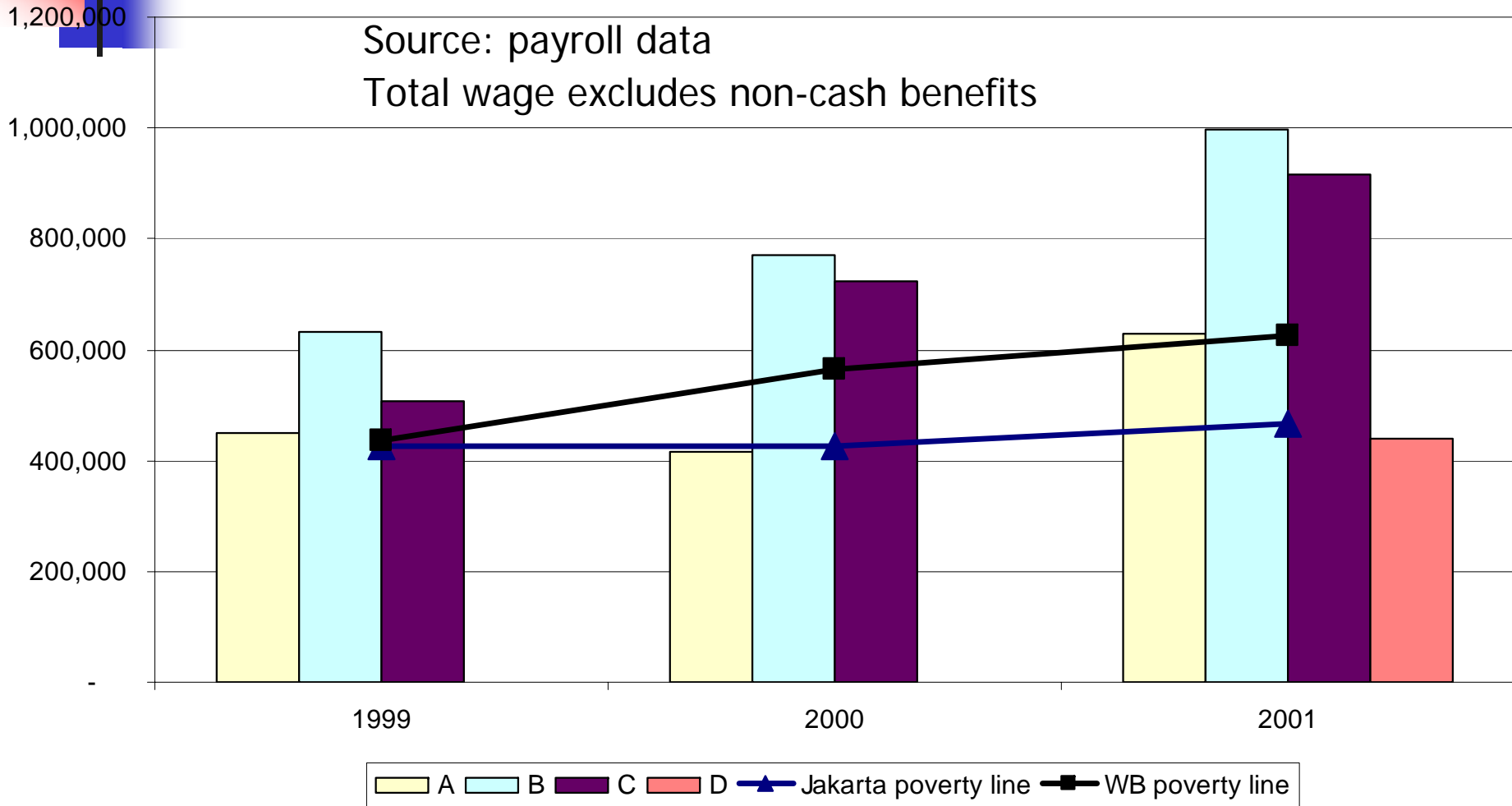
Source: payroll data (1996 = 100)



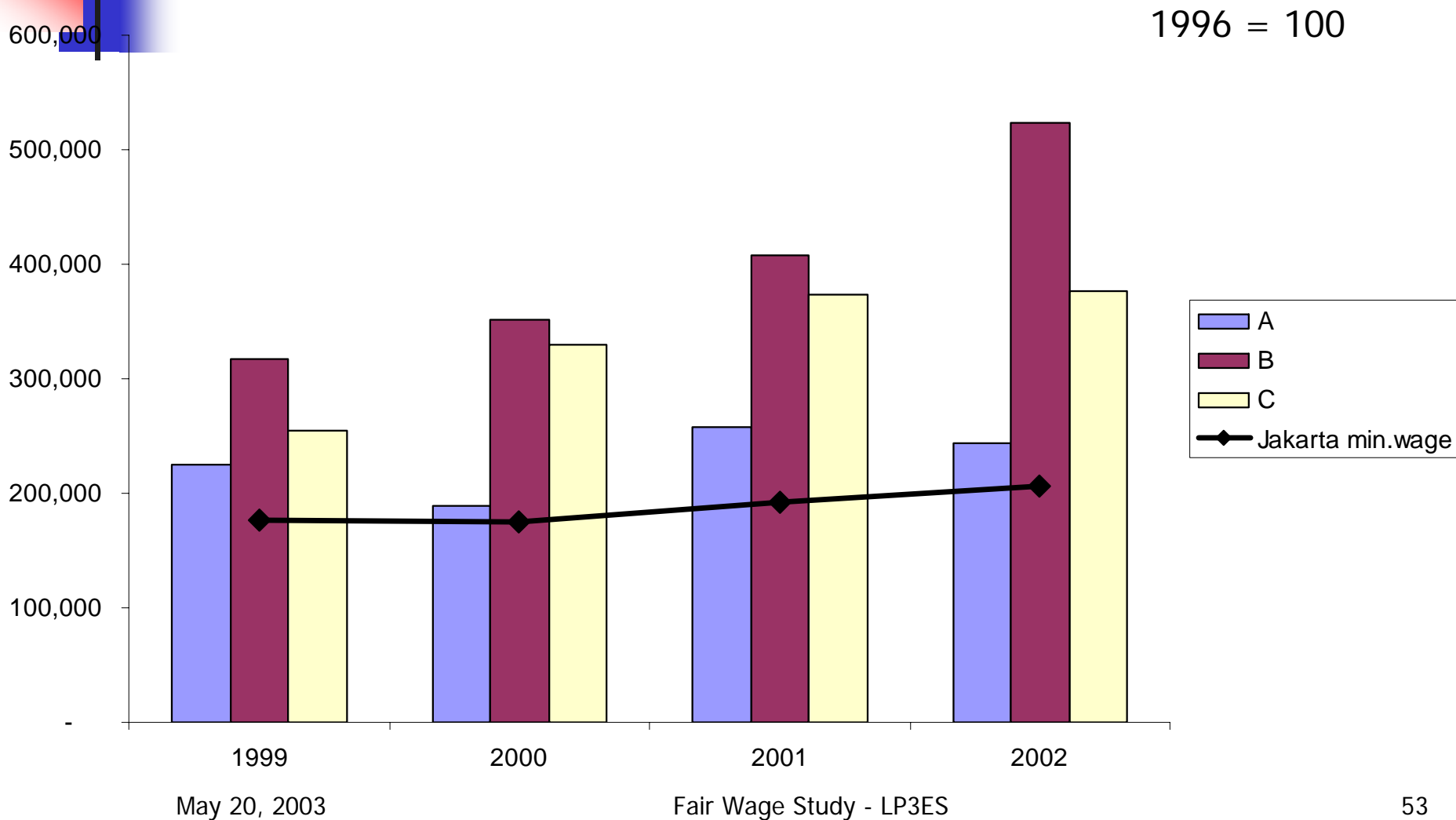
# Total wage vs poverty line

Source: payroll data

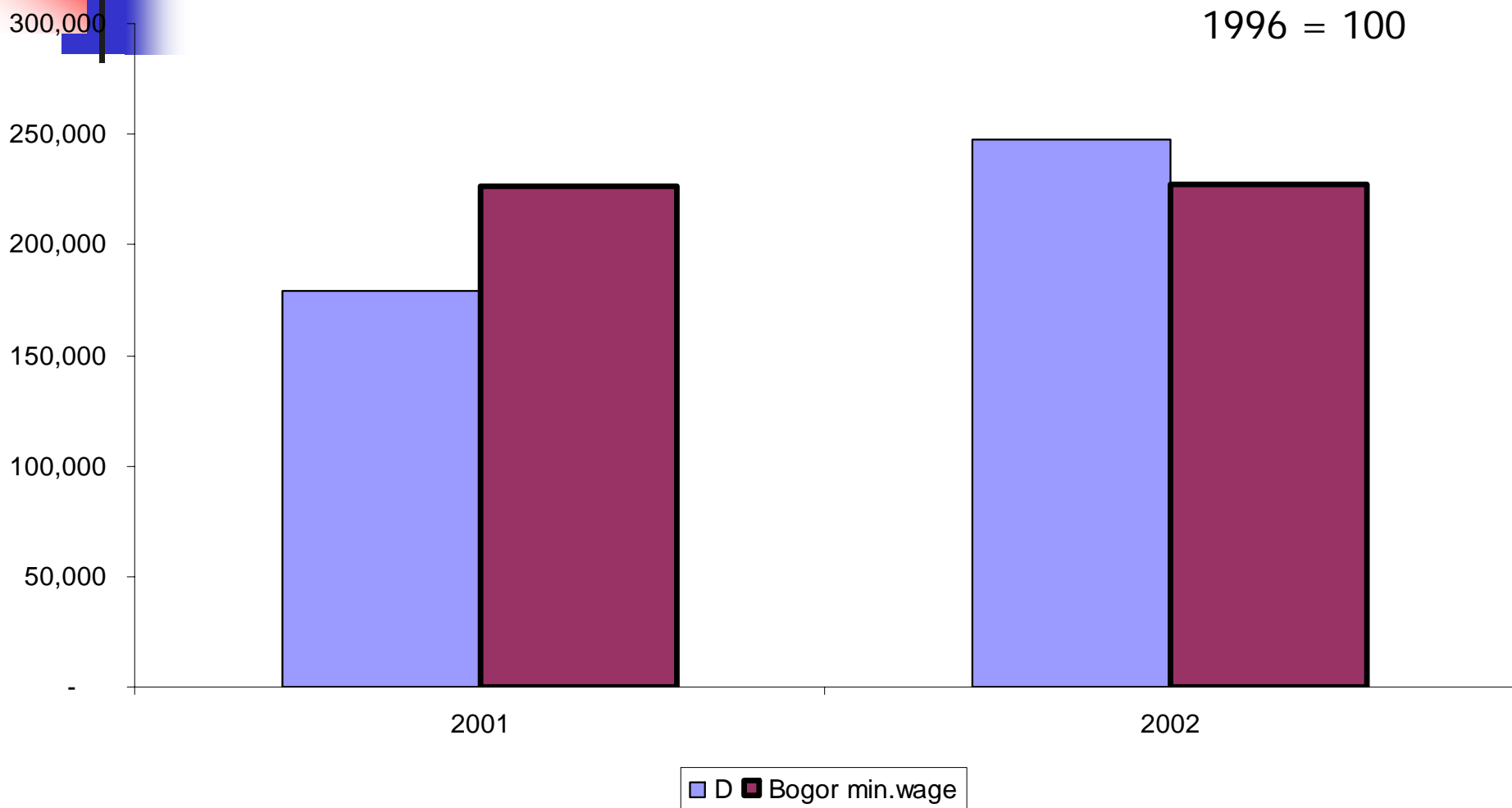
Total wage excludes non-cash benefits



# Real basic wages vs government minimum wage (Jakarta)



# Real basic wages vs government minimum wage (Bogor)





# FAIR WAGE

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# Fair wage

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- LP3ES were asked to compare the study results with other standards to measure fair wage
- Other standards:
  - Workers Rights Consortium
  - Household Livelihood Security Framework (HLSF)



# Workers Rights Consortium

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- Living wage: “a fair and decent level of income that would enable workers to meet their basic needs”
- Basis:
  - costs of basic needs of a family
  - % of income to save



# Workers Rights Consortium

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**Take-home wage (net wage) =**

[average family size/average number of adult wage-earners] \*

[cost of nutrition + clothing + healthcare + education + potable water + childcare + transportation + housing + energy + saving]



# Household Livelihood Security Framework (HLSF) by O'Brien

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- SA8000 requires companies to provide compensation that allows workers to meet their basic needs with an additional 10% left over for discretionary spending.
- Net salary + basic benefits + other income = basic needs + 10% discretionary spending

# Workers' Perception about Fair Wage

- FGD in factory "A"

Fair wage is basic wage and cash benefits with overtime received from factory that can match workers' basic needs and some discretionary.

Specifically, fair wage equals minimum wage + Rp 50,000 + benefits without overtime + discretionary.

# Workers' Perception about Fair Wage

- FGD in factory "B"

Fair wage is wages and benefits that could cover needs and other needs, namely for recreation, savings, and also cover dependents, including send money to parents or relative. Wage is without overtime.

# Workers' Perception about Fair Wage



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- FGD in factory "C"

Fair wage is wages that can fulfill workers' basic needs and of their dependents, and there is portion left for savings for future use.

# Workers' Perception about Fair Wage



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- FGD in factory "D"

Fair wage is wages that can cover all current daily needs plus some left for savings.



# Workers' Perception about Fair Wage

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- Fair wage:

- Consists of wage and cash benefits
- Without overtime
- Should be enough to cover their basic needs
- Some portion left over for discretionary spending



# Proposed Fair Wage Formula

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## **FAIR WAGE**

= BASIC NEEDS + DISCRETIONARY  
SPENDING + DEPENDENTS

= exp. and DP for single worker +  
exp. and DP for dependent

DP = discretionary spending



# Proposed Fair Wage Formula

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**Fair wage**

$$\begin{aligned} &= [115\% \times \text{basic needs}] + \\ &\quad [[15\% \times \# \text{ of dependents}] \times 115\% \\ &\quad \times \text{basic needs}] \end{aligned}$$



# Survey results

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- Basic needs = Rp 562,679

(for a single worker, based on the survey result)

- Fair wage for a worker without dependent (2002):

$$= [115\% \times \text{Rp } 562,679] + [0 \times 15\% \times 115\% \times \text{Rp } 562,679]$$

$$= \text{Rp } 647,081$$



# Survey results

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- Fair wage for workers with one dependent (2002):

$$= [115\% \times \text{Rp } 562,679] + [1 \times 15\% \times 115\% \times \text{Rp } 562,679]$$

$$= \mathbf{\text{Rp } 744,143}$$



# Adidas “Definition” on Fair Wage

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*“The take-home pay and benefits received by a worker during a legal work week which allow the worker and their dependents to meet basic needs and save a certain portion for long-term planning and emergencies. Basic needs include food, housing, education, childcare, health care, clothing, energy, water, and transportation.”*

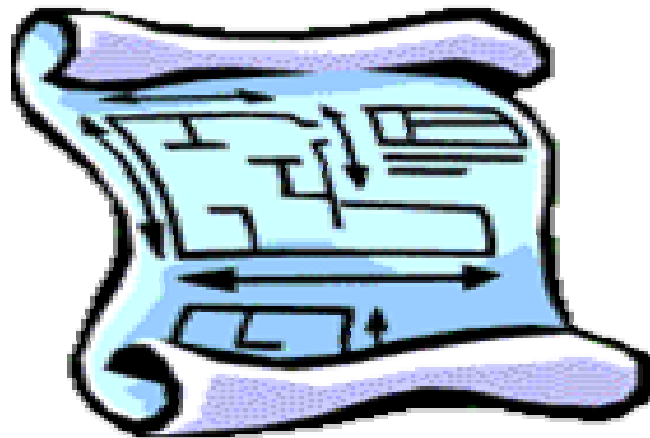
# Comparison of results

Type of wages	Study Result	(SAI)		
		WRC	HLSF	KHM
Basic wage for a single worker (Rp)	562,679	n.a.	525,087	535,087 <sup>1</sup>
Fair wage for a single worker (Rp)	647,081	632,939	577,597	n.a.
Fair wage for an average worker, incl. family (Rp)	873,236	886,113	1,366,512	n.a.

Average family size = 2.50; number of wage earner = 1.40 (study result)

<sup>1</sup> Government's minimum living need (KHM) based on December 2001 in Jakarta

# Management Report





# Overview

- Evaluation of existing wage systems
  - Compliance
  - Competitiveness
  - Equity/Workers' perspective
- Practical solutions

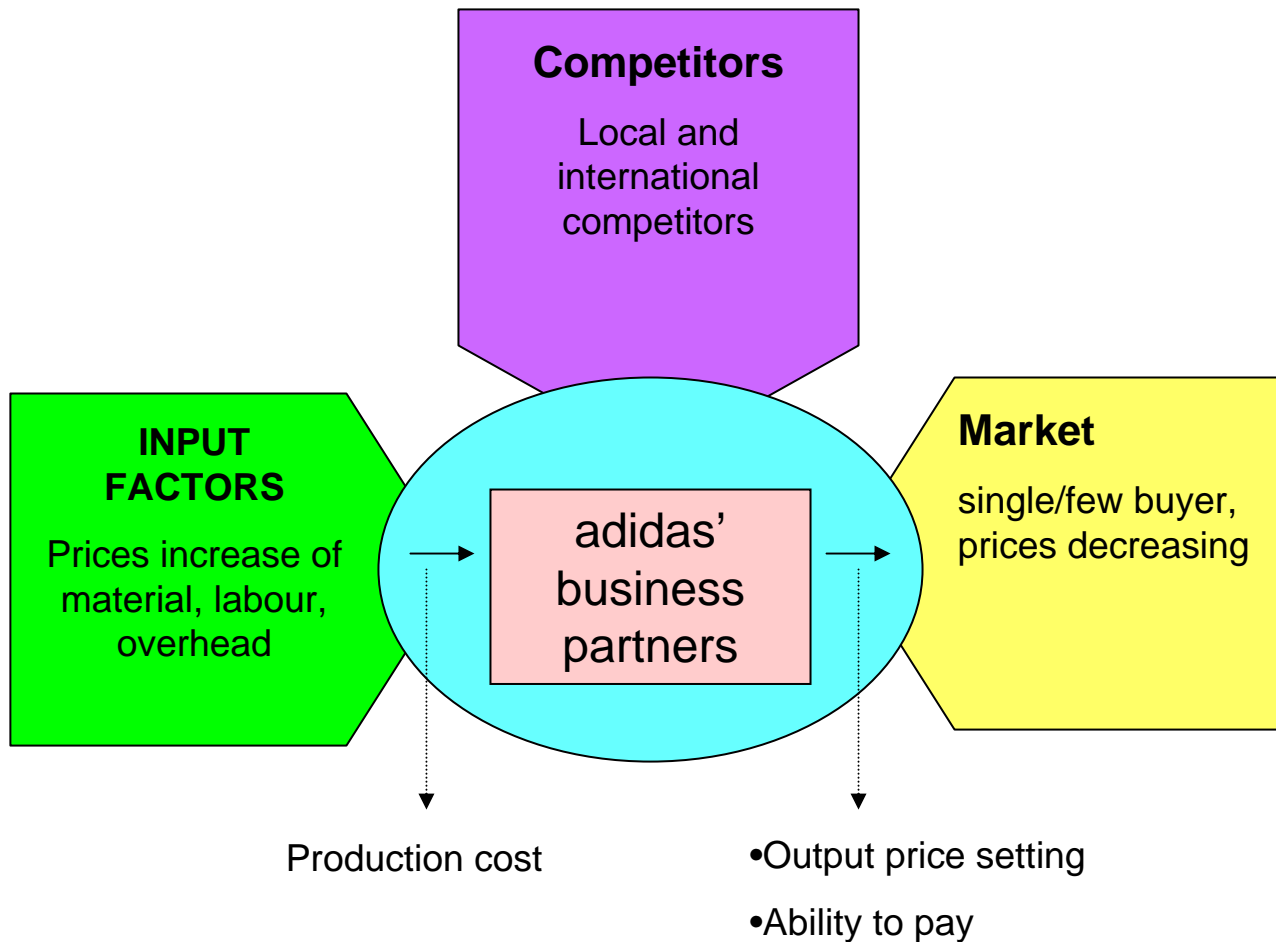


# Compliance

Toward minimum wage regulation:

- ❖ pay above minimum wage
- ❖ response it in positive way

# Competitive Environment



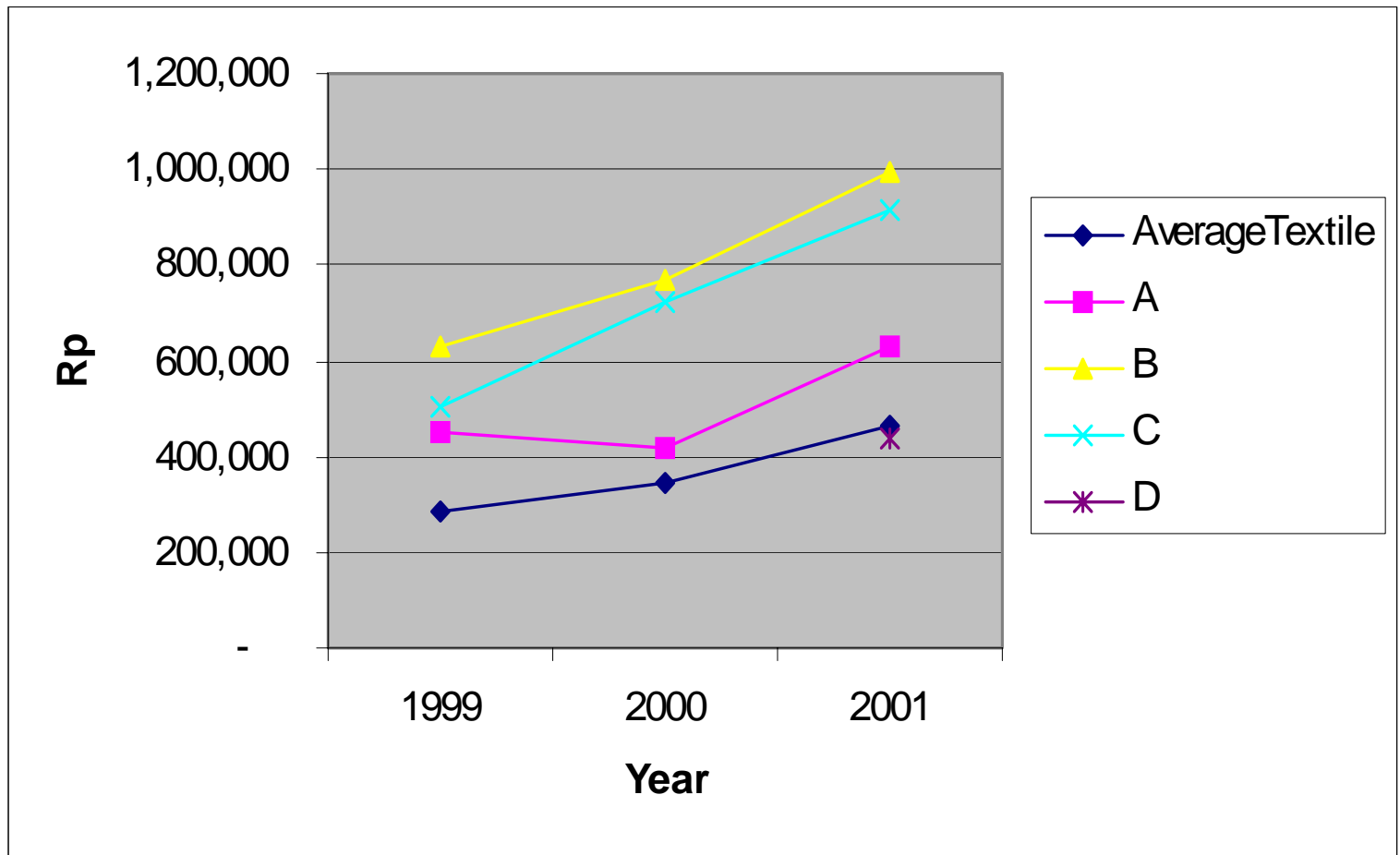


# Comparative Performance

A good above average performance compared with :

- ❖ GDP per capita
- ❖ Official poverty line
- ❖ Average industrial wage

# The factories' wages and average textile industry wage



# Workers perspectives

Current pay < workers' expectation

- ❖ single
- ❖ family

**Gap between current total wage\* and fair wage**

No. dependents	A	B	C	D
0 dependent	9%	5%	-2%	-29%
1 dependent	-5%	-7%	-14%	-39%
2 dependents	-15%	-18%	-24%	-46%
3 dependents	-24%	-26%	-32%	-52%

\* without overtime

# Strategic tensions

**Business constraints:**  
Input price increase,  
limited market,  
competition

**Higher  
Workers'  
Expectation**

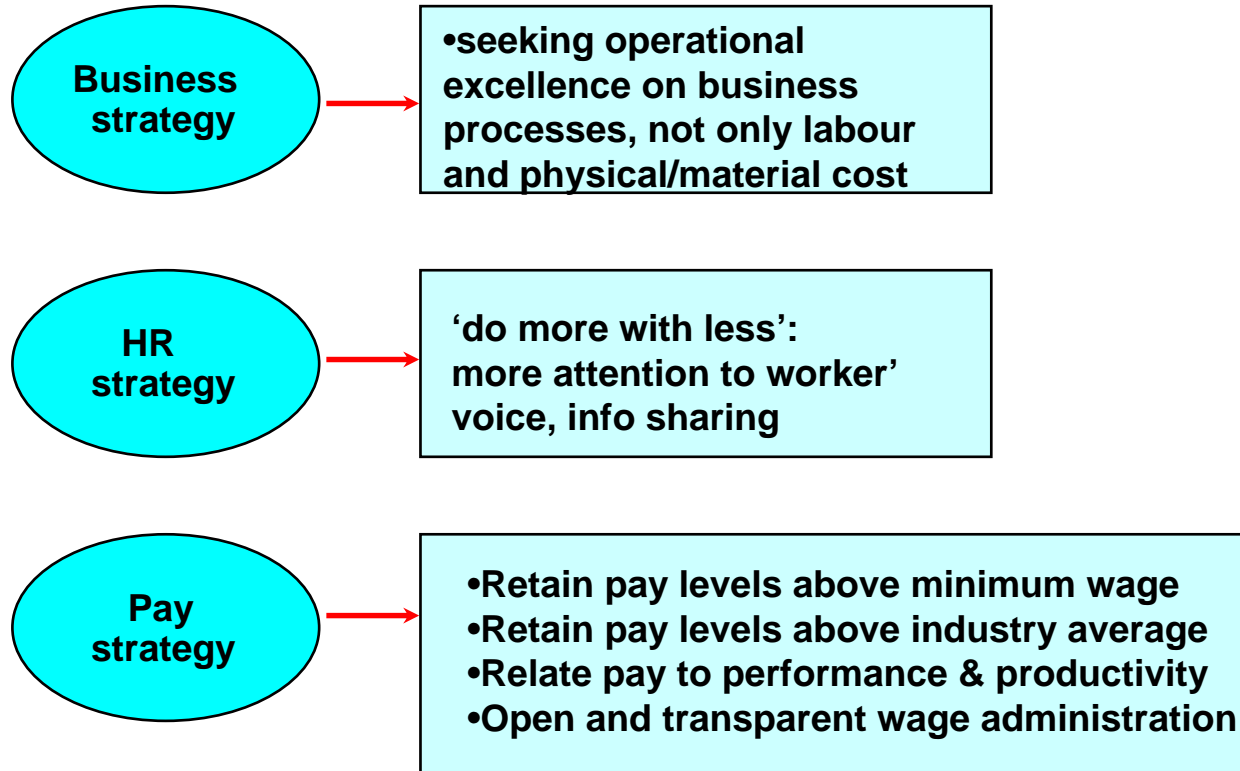
**adidas  
business  
partners**



Practical solutions

# Practical Solutions

## Key strategic decisions



**Gap between total wage\* (January 2002) and fair wage  
(December 2001)**

No. dependents	A	B	C	D
0 dependent	37%	41%	29%	-6%
1 dependent	19%	24%	13%	-20%
2 dependents	6%	9%	0%	-28%
3 dependents	-4%	-1%	-11%	-36%

\* without overtime



THANK YOU

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