

## The Fair Living Wage Strategy: Key Impacts and Learnings

Five years into our strategy, we have analysed the impacts and today, 930,000 garment workers work in factories that are either implementing improved Wage Management Systems or have democratically elected worker representation — or, as in most cases, both. This is an important achievement that lays the foundation for structural changes by making sure workers' voices are better heard.

**Over the past** five years, we've analysed data from hundreds of factories in some of our most important sourcing markets to gain further understanding of the impacts that have, and can be, created at a factory level. We learned that our work can achieve great progress in individual factories, but it has its limitations; we need broader perspectives, involvement at industry level and better legislation.

### Goals and Results

When we devised our Fair Living Wage Strategy, we set measurable goals, milestones and actions to be achieved between 2014 and 2018. As we started to accomplish these, we used what we'd learned to increase our ambitions, setting further goals, expanding our scope and improving our measurements. This process led to the development of four key goals for 2018:

**Goal:** Ensure that supplier factories producing 50% of H&M Group's product volume are implementing improved Wage Management Systems by 2018.

**Result:** We exceeded the goal. 67% of our product volume is made in factories that are implementing improved Wage Management Systems. This covers 500 factories and about 635,000 workers.

**Goal:** Ensure that supplier factories producing 50% of H&M Group's product volume have democratically-elected worker representation in place by 2018.

**Result:** We exceeded the goal. 73% of our product volume is made in factories that have democratically-elected worker representatives in place. This covers 594 factories and about 840,000 workers.

**Goal:** Ensure that 100% of supplier factories in Bangladesh have democratically-elected worker representation in place by 2018.

**Result:** We reached this goal ahead of schedule. 100% of our tier 1 supplier factories in Bangladesh had democratically-elected worker representation by December 2017.

**Goal:** 90% of business partners should regard H&M Group as a fair business partner by 2018.

**Result:** We have reached this goal, 93% of our business partners see H&M Group as a fair business partner by 2018. We assess this figure on an annual basis through an extensive anonymous supplier survey.

### Understanding the different components of wages

Wages are a complex issue. In order to achieve fair living wages for all garment workers, it is important to understand the components of a textile worker's monthly take-home wage and how they can be influenced.

In general, there are two major components:

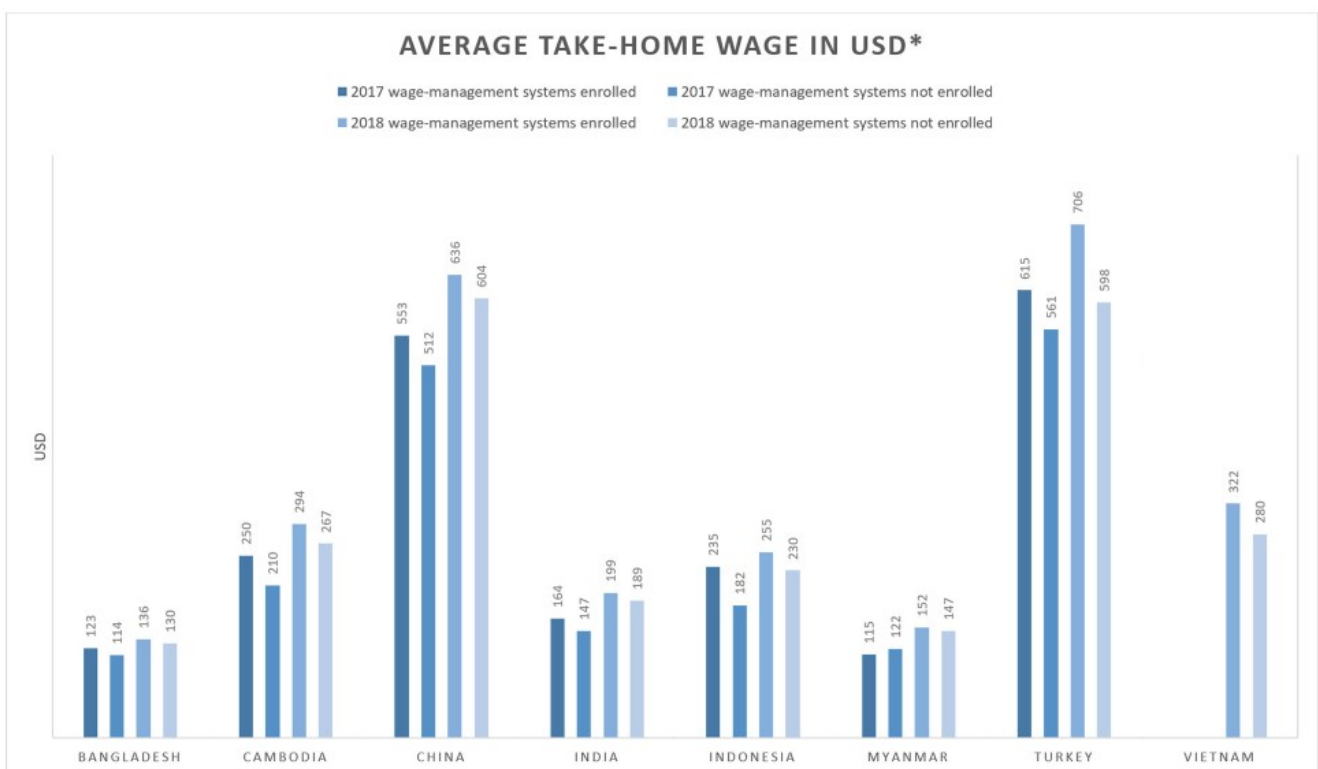
- Basic wages: these make up most of a worker's take-home wage and, in textile producing countries, are usually guided by the minimum wage levels set by the government. At a country level, the basic wage is often similar for all factories and workers within the industry.
  - Benefits and other additions: individual wage setting allows the recognition and reward of, for instance, skill, seniority and performance.
- Combined, these components make up the take-home wage for garment workers.

## Improved Wage Management Systems

We see that improved Wage Management Systems can help factories become fairer and more transparent in the way they work with individual wage setting (ie. benefits and other additions). We have supported our suppliers in establishing transparent wage grids in their factories, which show workers how they are rewarded for different skills, tasks, education and seniority. This allows the workers to better understand what it takes to influence their wage by improving their skill and performance. But it also strengthens human resources management systems, and leads to an increase in motivation, retention and productivity.

When analysing the data from our key market suppliers, we can see the factories that are implementing improved Wage Management Systems pay higher take home wages than those factories which don't. These increases can be seen as a direct result of implementing improved wage management systems as these factories had on average comparable wage levels before being part of this programme. Increases are also not driven by a difference in overtime hours.

In 2017, the difference ranged from 8% higher take home wages in Bangladesh to 29% in Indonesia. In 2018, the difference ranged from 2% in Turkey to 11% in Indonesia. In Myanmar first factories started implementing improved Wage Management Systems in late 2017 which is why first results show a positive development since 2018.

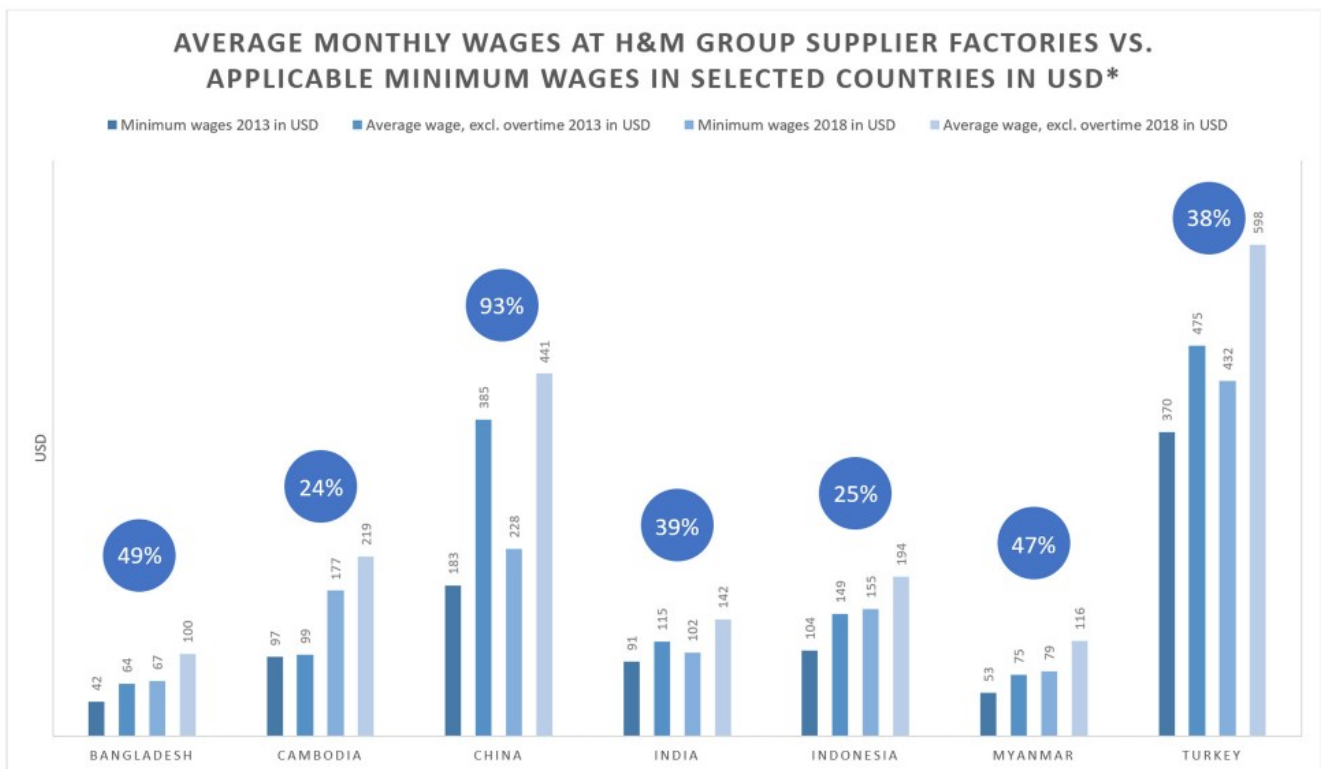


\*Take home wage is what a worker gets paid out at the end of the month including overtime compensation. \*\* H&M Group tier 1 textile supplier factories. \*\*\*Conversion to USD based on Swedish Central Bank average exchange rate for the period. Time frame of data for 2017 is 1 Jan–31 December 2017. Time frame data for 2018 is 1 Jan–30th June 2018

Additionally, take home wages at these factories continued to increase substantially and across all markets analysed from 2017 to 2018.

Besides higher take-home wages, the factories that are enrolled in our Wage Management System programme (but also all other factories) increasingly provide workers with non-monetary benefits, such as subsidised or free meals, housing subsidies, medical insurance plans, free child care or health services, and transport subsidies. This is not reflected in the take-home wage figures, but it means workers have to spend less money or receive additional benefits.

When looking at all H&M Group’s supplier factories, including those that are not enrolled in our Wage Management System programme and excluding any overtime compensation, we can see that H&M Group supplier factories pay significantly higher wages than the relevant minimum wage. For 2018, this ranges from 24% more in Cambodia to 93% more in China.



The scope is all Tier 1 suppliers and Tier 2 suppliers (all supply chains). Time frame of data for 2013 is 1 Jan–31 December 2013. Time frame data for 2018 is 1 Jan–30th June 2018.

The circles show difference between average wages excluding overtime and min. wages in USD. \*The figures for China and India in the graph are averages across various regions. In order to ensure comparability to previously published wage data you’ll find details of the min.wage levels and average wages in Guangdong province and Bangalore region: Guangdong province min. wage in 2018: 225 USD; average wage level: 501 USD Bangalore region min. wage in 2018 115 USD; average wage level: 145 USD.

Increases are in most markets often above inflations rates according to the IMF. However, even if the wage increments are higher than the inflation rate in a majority of the countries workers are facing increments of house rents, food prices et cetera, which leads to no real wage increment for the workers in the end. Additionally, take home wages at these factories continued to increase substantially and across all markets analysed from 2017 to 2018.

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## Increasing basic wages: From current basic wage to industry-wide collective bargaining

These are great improvements, and mean better lives for many garment workers, but they are not enough to reach living wages across the entire industry. To achieve this, the basic wages need to increase further and systematically – not only in our supplier's factories, but for the whole industry.

The basic wage is the most important benchmark for wages in the industry and usually defines the biggest portion of a worker's income. Today, it is usually defined by minimum wages, which are set by governments.

Over the past five years, minimum wage levels have increased substantially in several countries — they're up by 75% in Cambodia and 60% in Bangladesh. While this is a positive development, these increases are not enough. Too often, minimum wages simply reflect the country's poverty line and don't keep up with the inflation or the growth of the industry in the market. As a result, the minimum wage in most markets doesn't count as a living wage.

We share the view of ILO and many other experts, that the only lasting and viable way to achieve substantial and sufficient increases in the basic wage for all workers through fair negotiations between workers, trade unions and employers. This requires industry-wide collective bargaining agreements that empower workers' representatives to engage in fair negotiations. This approach replaces the idea that global brands should impose specific wage levels, a short-sighted tactic that undermines the role of workers, unions, employers' organisations and governments to affect lasting change. Wages are an industry-wide challenge, and therefore need to be solved at an industry level to stand the test of time. Instead of imposing specific wage levels, brands should ensure that our purchasing practices facilitate the payment of a living wage and enable collective bargaining. Brands also need to advocate governments because they can set the necessary legal framework, ensuring the right to freedom of association and enabling collective bargaining.

This is not an easy thing to achieve, especially considering trade union representation is low in many sourcing markets and industrial relation systems are often immature or even legally restricted. However, we believe this is the only way wages can increase in a sustainable way, with a level playing field. While it takes time to change complex systems like this, we can see significant progress and a growing consensus between relevant stakeholder groups to collaboratively drive structural change at an industry and country level.

## ACT — Action, Collaboration, Transformation

The formation of ACT (Action, Collaboration, Transformation) represents a significant milestone on the journey to fair wages. ACT is a ground-breaking coalition of 20 global brands, including H&M Group, and IndustriAll Global Union. The group's mission is to transform the garment, textile and footwear industry and achieve living wages for workers through collective bargaining at industry level.

One particularly game-changing component in ACT's approach is to include brands' purchasing practices in the equation. While local employers and trade unions should negotiate wage levels and working conditions with each other, brands can contribute with a commitment to responsible purchasing practices. For example, they can offer long-term commitments to source from suppliers and markets that are willing to enter such a collective bargaining agreement. To support this, all ACT brands have signed a [Memorandum of Understanding](#) with IndustriAll Global Union, which commits them, amongst other things, to ensure that their

purchasing practices facilitate the payment of a living wage.

You can read more about ACT and the meaning of an industry-wide collective bargaining agreement at [www.actonlivingwages.com](http://www.actonlivingwages.com).

## Purchasing practices remove labour costs from price negotiations

A brand's purchasing practices are an important contributor to achieving fair living wages. We developed a purchasing practice guide as part of our 2013 roadmap. It helps ensure best possible capacity planning, timely payments (never more than 30 days), and much more. Thanks to these measures, 93% of our suppliers regard H&M Group as a fair business partner.

We also developed a scientific pricing method. This involves suppliers sharing with us all the major cost components that contribute to a product's price, including the labour-cost component. This means merchandisers can and will negotiate the price of a garment with our suppliers around all component costs except one: labour.

This takes garment workers' wages out of the equation for price negotiations. If wages increase as a result of a collective bargaining agreement, our method ensures the money needed to pay for these wages is accounted for. Together with the other brands within ACT, we are committed to ensure that higher wages are covered by our purchasing price. We believe this systematic isolation of the labour cost is important as an enabler to an industry-wide collective bargaining agreement. We have also developed an app that makes this method available to the entire industry free of charge.

## Workers and suppliers better prepared for collective bargaining agreements

As a part of our Fair Living Wage Strategy, we have placed a strong focus on establishing well-functioning dialogue and democratically elected worker representation in factories. We exceeded our 2013 goal for 50% of our product volume to come from factories with democratically elected worker representation, reaching 73% by 2018. Democratically elected representation provides workers with better opportunities to make their voices heard and resolve any issues that arise.

Democratically elected worker representation also helps prepare suppliers for an industry with maturing industrial relations and industry-wide collective bargaining agreements. Many of our supplier factories undergo a mindset shift when they initiate this kind of change, in which they recognise the benefits of improved dialogue with their workers and worker representatives. In turn, this leads to an openness to addressing specific key issues such as worker wellbeing, health and safety, or wages and compensation.

Alongside this mindset shift, we have also seen an increase in the number of supplier factories with one or more trade unions. While this is a positive development that we will continue to support, more needs to be done by all acts involved.

## Independent strategy review and the next steps

In addition to our own analysis, we asked Ethical Trading Initiative (ETI) to conduct an independent review of our strategy, what worked well and learnings to consider moving forward. We will use this feedback in our work going forward, but also share these findings with the industry and all concerned stakeholders in order to build on these learnings collectively.

We remain committed to our vision of achieving fair living wages for all textile workers. We will continue to work with our supplier factories to further build on the positive learnings and impacts from the implementation of improved Wage Management Systems and workplace dialogue. Beyond this, we know we'll continue to

need strong collaboration with various actors. Therefore, we will continue and further expand our work with trade unions, other brands, the ILO and many other partners moving forward. This includes continuing to work with ACT and its ground-breaking approach to achieving fair living wages: “A joint approach is needed where all participants in global supply chains assume their respective responsibilities in achieving freedom of association, collective bargaining and living wages. “

We will continue to take a leading role in driving such collaboration based on a joint Theory of Change forward, and continue to contribute by sharing our future learnings, challenges and achievements.

## H&M group introduces Fair Living Wage Strategy

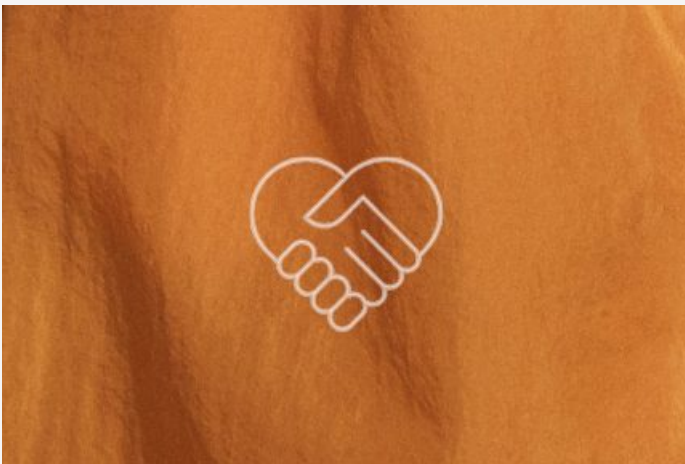
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