

Report on the Fair Wage Workshop

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Rapporteur

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Introduction

At the initiative of adidas-Salomon, a Fair Wage Workshop was held on 20-21 May 2003 at the Shangri-La Hotel, Jakarta. The Workshop was convened with a number of stakeholders to discuss the general findings of a study conducted by *Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi dan Sosial* (the Institute for Economic and Social Research, Education and Information, or LP3ES) an independent, non-governmental research institute, commissioned by adidas-Salomon to carry out a Fair Wage Study. This study was intended as an initial pilot study to collect accurate information on the needs and income requirements of workers employed by adidas-Salomon's supplier firms (business partners) in Indonesia and on the existing wage systems as practiced by these supplier firms.

The Workshop was attended by five staff members of LP3ES, including the Director of LP3ES; four representatives of three business partners of adidas-Salomon, including one footwear firm and two apparel firms, who had participated in the study; three representatives of the Department of Manpower, namely the Chief of the Section of Work Requirements and Labour Dispute Settlement, the Director for Wage Affairs and the Minister of Manpower, who also happened to be the Chairman of the Confederation of Indonesian Workers Unions (ICTU); the Chairman of the Indonesia Prosperity Trade Union (SBSI); one further representative from ICTU; two representatives of the ILO-USA Project, including the Chief Technical Advisor ; one researcher of the SMERU Research Institute, a non-governmental research institute; the research director for labour affairs of AKATIGA, another non-governmental research institute specialising in labour affairs; an educational economist from the Center for Societal Development Studies, Atmajaya Catholic University; two representatives of the Labour Division of the Legal Aid Institute (*LBH*); five staff members of adidas-Salomon, including the Country Manager for Indonesia; Dr. Chris Manning, a noted expert on labour markets who presented a position paper on the issue of fair wages, and Dr. Thee Kian Wie, who facilitated the workshop discussions. Since the discussions were held in both English and Indonesian, two translators were employed to make it possible for all participants to participate actively in the discussions.

A full listing of the delegates is included in Appendix 1, together with a brief description of parent organisations.

This report consists of six parts and follows the agenda set for the two day workshop (see Appendix 2):

Part I - Introductory remarks by Mr. William Anderson, Head of Social and Environmental Affairs for the Asia-Pacific region, adidas-Salomon, on the background of the Workshop.

Part II - Major points of a position paper on fair wages prepared by Dr. Manning.

Part III - Major findings of the pilot study conducted by LP3ES, an independent, non-governmental research institute, on the needs and income requirements of workers employed with adidas-Salomon's business partners and on the existing wage systems as practiced by the four suppliers who had participated in the study.

Part IV - Major points of a speech given by Indonesia's Minister of Manpower, who briefly attended the Workshop on the first day.

Part V - Major points agreed upon in two breakout sessions, discussing respectively the issue of whether a fair wage would apply to an individual worker or his or her household, and the issue of the links between productivity and the wage structure of a company.

Part VI - Salient points raised during the general and open forum discussions that took place over the two days of the workshop, and includes concluding remarks by Mr. William Anderson on further steps to be taken by adidas-Salomon.

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I. Background of the Workshop

In his opening remarks the Facilitator stated that the purpose of the Workshop was to freely and frankly exchange views and information on the concept of a 'fair wage' and the feasibility of making this concept operational in Indonesia.

In his introductory remarks, Mr. William Anderson, Head of Social & Environmental Affairs for the Asia-Pacific region of adidas-Salomon, explained that as part of its corporate responsibility, the company had developed a code of conduct - the 'Standards of Engagement'- to establish minimum standards to which its business partners had to adhere. These standards help adidas-Salomon in selecting and retaining business partners that follow work place standards and business practices consistent with the company's values and policies. With respect to wages and benefits, the company's Standards state explicitly that 'adidas-Salomon would only do business with partners who treat their employees fairly and legally with regard to wages, benefits and working conditions' (see Background Paper and slide presentation, included as Appendix 3).

To establish a business case for the payment of fair wages, accurate information would be required on the workers needs and income requirements as well as the support of the management of adidas-Salomon's business partners and their advice on appropriate wage fixing mechanisms. To this end, adidas-Salomon chose Indonesia for a pilot study, as Indonesia had been the focus of attention of international and domestic campaigners for workers rights. Other considerations for choosing Indonesia were that it had a strong union movement and had experienced strong labour activism, particularly after the fall of the New Order government; its diverse industrial structure, encompassing a diverse range of manufacturing establishments, including large, export-oriented producers and smaller, domestic market-oriented producers; the presence of supportive business partners (supplier firms) willing to participate in the pilot study; and the availability of a credible, reputable research institute, specifically LP3ES, willing and able to undertake the pilot study.

Since measuring welfare is a complex issue, adidas-Salomon is mainly interested in the process of seeking satisfactory answers to what the concept of 'fair wage' involves and its applicability rather than simply obtaining a snapshot of wage differentials. Real data from representative factories would therefore be required, which could be used to test a suitable definition of a fair wage. Ways would also have to be identified in which wage-fixing mechanisms can better take into account the costs of living of workers.

Mr. Anderson expressed the hope that by engaging the stakeholders present at the Workshop, a better understanding of their perspective on fair wages could be obtained. It was also hoped that the findings of the study and the results of the workshop could raise the general awareness and understanding of adidas-Salomon's business partners (supplier firms) of fair wage requirements, and also help refine the firms' thinking and develop the tools necessary to measure and support fair wages in the workplace. Mr. Anderson also stated that the views and recommendations presented at the Workshop would be circulated to participants and would be reported on the adidas-Salomon website.

II. A review of the concept of fair wages and its implications for productivity and employment in the garments and footwear industries in Indonesia

At the invitation of adidas-Salomon, Dr. Chris Manning, Head of the Indonesia Project, Economics Division, Research School of Pacific and Asian Studies, the Australian National University, Canberra, and a noted expert on labour markets, had prepared a position paper on fair wages, productivity and jobs in the garments and footwear industries in Indonesia (see Position Paper and slide presentation included as Appendix 4).

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In his presentation, Dr. Manning stated that while the notion of a minimum wage is well known in Indonesia, the concept of a fair wage is quite new. One major problem in arriving at an unambiguous, operational measure of fair wages is that the concept can vary widely according to the precise definition adopted. There are at least four, quite distinct approaches to measuring fair wages:

1. **The cost of living approach**, where fair wages are defined in terms of the needs of an individual worker or of a household;
2. **The dollar standard approach**, where fair wages are set at one or two US dollars a day;
3. **The capacity to pay approach**, where fair wages are determined by the capacity of companies to pay these wages;
4. **The prevailing wage levels approach**, where fair wages are determined by the existing wage levels, that is the average wages in a particular region or industry.

All these approaches, however, have their shortcomings, as some are difficult to measure, while others, although easier to quantify, have only weak connections with local basic needs or a “fair” wage.

The concept of a fair wage (or living wage) differs from minimum wages in three key ways:

1. The concept of fair wages is generally applied to a specific target population whose minimum needs are easily assessed;
2. Fair wages are generally defined to cover a wider range of consumption items, including savings, than minimum wages, which tend to focus on ‘minimum’ needs;
3. Proponents of a fair wage recommend that the concept should be extended to encompass the needs of total households, rather than individuals. On the other hand, in setting a minimum wage, reference is only made to the basic human needs of a single worker.

With regard to minimum wages, Dr. Manning pointed out that Indonesia’s minimum wage policy is only applied to the modern sector, including large enterprises employing more than 50 workers, most of which are located in the urban areas or in the vicinity of urban areas. Workers employed in this sector only account for 30 to 35 per cent of the total labour force.

In order to make the concept of fair wages more operational, Dr. Manning suggested some basic principles for defining a fair wage:

1. Keep the rules as simple as possible, that is include fewer, rather than more, items in a basket of worker needs;
2. Define the ‘family’ or household precisely;
3. Set a fair wage which is realistic in terms of existing wage levels;
4. Establish a benchmark for annual revisions to fair wages. In defining the benchmark, the longer-term survival of a firm will depend on flexibility in linking wage adjustments to productivity improvements.

In his concluding remarks, Dr. Manning stated that a fair wage policy in Indonesia is possible and could deliver significant benefits to workers, while at the same time support productivity and employment growth in labour-intensive industries, such as garments and footwear. Hence, to make this concept feasible, several conditions would have to be met:

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1. Higher wages would have to be offset by higher productivity;
2. In setting a fair wage, some technical issues have to be dealt with, such as:
 - Providing a realistic assessment of the basic needs of households to determine the components of a fair wage;
 - Determining the unit of coverage which is not too ambitious;
 - Setting a fair wage, which does not differ too much from the existing wages, to preserve wage relativities across firms and industries, and to ensure that the fair wage does not jeopardise employment growth in labour-intensive industries.

In defining a fair wage for the low skill, labour-intensive garments and footwear industries, special consideration should also be given to the fact that it would be costly for employment in these industries if fair wages would be set too high. Thus the emphasis should be on a level of fair wages which support improved living standards in the longer term.

III. Major findings of the Fair Wage Study of Workers of adidas-Salomon's Business Partners in Indonesia

At the request of adidas-Salomon, LP3ES, an independent, non-government research institute, conducted a pilot study on worker needs and income requirements of a sample of 1,140 workers employed at four factories operated by four supplier firms (business partners) of adidas-Salomon in Indonesia and on the existing wage systems as practiced by these firms. These firms included one large footwear firm and three garment firms, including one small and two large firms, all located on the outskirts of Jakarta and near by towns (see Appendix 5, slide presentation by LP3ES). Most of the interviews with the workers were face-to-face interviews, 85 per cent of which were, with the consent of the management of the firms, held at the factories. In addition, seven focus group discussions (FGDs) were held, each involving seven to 10 workers.

In addition to obtaining information on workers needs and income requirements, the LP3ES study also interviewed the management of the four supplier firms. The objective of these interviews was to obtain information on the wage-fixing mechanisms practiced in these firms, given their highly competitive business environment.

LP3ES pointed out a number of limitations to their study. For one thing, the interview method used depended very much on the respondent's recollection of past expenditures. Secondly, the survey was conducted several weeks after Ramadan, the fasting month, when people tend to spend more; and thirdly, the survey was conducted in 2002 just before the government had introduced a mandatory minimum wage increase. In view of the expected wage increase, it is assumed that workers would have tended to spend more than usual. Fourthly, the survey also failed to obtain data on the loans held by the individual respondents. This problem was overcome by obtaining information on these loans through the focus group discussions and from the workers' cooperatives. Fifthly, the method employed in determining the perceived needs of the workers often relied on the majority opinion, and is therefore a subjective measure. A final limitation was that privacy rights were respected, and a relatively large number (around 30 per cent) of the workers did not want their payrolls to be revealed by the factories.

The major findings of the study revealed that the main components of the incomes earned by workers from their employment with these supplier firms consisted of:

1. Their basic wage;
2. Payment from overtime work;
3. Cash allowances;
4. Non-cash benefits

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For a number of workers income was also obtained from other sources:

1. Additional jobs;
2. Income obtained from their spouse (applicable to married workers only);
3. Contributions from others.

The study also focused on the total expenditures and expenditure components of the workers, including food, clothes, housing, health and amenities, child care, education, transport and communications, energy, water, entertainment, and social purposes. The study found that savings by workers took several forms, including:

1. Savings at home or with a bank;
2. *Arisan* (a traditional social gathering where members contribute to and take turns at getting an aggregate sum of money or goods);
3. Buying gold or jewelry.

Based on the perceptions gained from the interviews with the workers on how a fair wage could be defined, the LP3ES study proposed the following formula of a fair wage:

Fair wage = Income to cover basic needs of the worker (single) and his or her dependents (if married or supporting relatives) + some discretionary spending by the worker and his/her dependents (if married or supporting relatives)

The LP3ES study also found that on the whole total wages earned by workers employed with adidas-Salomon's four business partners in Indonesia exceeded Indonesia's GDP per capita; Indonesia's official poverty line; and the average prevailing wage in the garment and footwear industries.

However, average wages (excluding overtime payments) fell short of estimated needs for an average-sized household among the sample workers. The LP3ES researchers emphasized, however, that estimated expenditures may be overstated by the survey, compared with 'normal' monthly expenditures, because of the specific timing of the survey that was undertaken in January 2002.

In the interviews with the management of the four supplier firms, information was sought about the competitive pressures facing these firms in the inputs as well as output markets, both from local and international competitors. These interviews indicated that price increases of imported materials would increase the costs of production. Since the introduction of regional autonomy on January 1, 2001, the costs of production also rose because of various extra levies imposed by the regional governments. In the output market the costs of production of the export-oriented firms had to be reduced in response to competitive pressures in the international market. This implied that competitive market pressures forced the firms to raise their productivity and efficiency in order to survive.

In the face of the strategic tensions experienced by the supplier firms, namely the business constraints facing the firms (competitive market pressures, input price increases, limited market) and the expectations of the workers for higher wages, the LP3ES study offered some practical solutions to the firms. With regard to business strategy, it suggested that the firms should seek operational excellence in business processes, and not focus only on economising on labour and material costs. In regard to human resource management, the study suggested that management should attempt to 'do more with less', that is pay more attention to the 'workers' voice' and share information in a transparent way with the workers about the performance of the firms. Finally, in regard to pay strategy, the study suggests:

1. To retain pay levels above the minimum wage;
2. To retain pay levels above the industry wage;

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3. To relate pay to the worker's performance and productivity; and
4. To pursue an open and transparent wage administration.

IV. Major points raised by Indonesia's Minister of Manpower and Transmigration in his speech at the Workshop

In his speech at the Workshop, Mr. Jacob Nuwa Wea, Minister of Manpower, welcomed the initiative of adidas-Salomon to convene a workshop on fair wages. He expressed the hope that the major conclusions and recommendations of the Workshop would be sent to him and to the Research Council on National Wages (*Dewan Penelitian Pengupahan Nasional, DPPN*). This Council had been set up by the Minister to prepare a draft National Law on Wages which should be enacted by 2004. However, thus far the Council had not been very active. It could therefore benefit from the findings of the Fair Wage Workshop.

This new Law would have to establish the following principles:

1. Every worker is entitled to earn an income enabling him to lead a decent life;
2. A fair wage would have to be adequate to cover human needs to enable workers to enjoy a fair or fitting standard of living (*kebutuhan hidup layak, KHL*); a minimum wage, however, is only a social safety net. The actual wage of a worker would have to be above the minimum wage.
3. The Law should arrange that employers establish an appropriate wage-setting mechanism which would take into account the job category, rank, length of employment, education, and competence of the worker;
4. A fair or fitting wage should consist of the basic wage and fixed contributions. The basic wage should account for at least 75 per cent of the total wage, including basic wage plus fixed contributions.

The Minister pointed out that on average, the Provincial Minimum Wages in 2003 only covered 87.5 per cent of the Minimum Human Needs (KHM). Hence, the welfare of workers is on the average still inadequate. However, efforts to raise the welfare of workers should take into account the viability and sustainability of the firm, as well as labour relations.

V. Six major issues to be resolved in defining a fair wage

To discuss more intensively the findings of the LP3ES study, specifically the major issue of defining a fair wage, the Workshop held two breakout sessions. The first session was devoted to discussing the issue of whether a fair wage should cover the human needs of a single worker or of his or her household. The second session discussed the issue of the link between productivity and the wage structure.

The first breakout sessions on defining a fair wage

Three questions were to be addressed at the first breakout session:

1. ***What items should be covered by the fair wage and how should they be valued?***

In his introductory remarks on the three questions to be addressed in the first breakout sessions, Dr. Manning raised the issues related to the first question, namely what items should be included in a fair wage and how should they be valued. Thus the problem is what the coverage of a fair wage should be. Does it cover all food items, clothing, housing,

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transport, and savings (considered as discretionary income)? The issue here is not only what items or components to include in the fair wage, but also how they should be valued. This issue of valuation is important if the firm provides transport in kind to the workers or food in kind. How should these items be valued as part of the fair wage?

In regard to the coverage of a fair wage, a manager of one of adidas-Salomon's business partners pointed out that his firm provided bus transportation to its workers to and from the factory. In this way the workers did not have to spend money on transportation, the costs of which they would incur if they had to take public transport. By providing food in the firm's canteen, the workers were able to get food at a cheaper price than when they purchase food outside the premises of the canteen. These facilities provided by the firm should also be taken into account in determining the coverage of a fair wage.

In regard to the coverage of a fair wage, a participant pointed out that setting a fair wage at too high a level may not affect large businesses adversely, but may well hurt smaller firms.

Participants in the breakout sessions generally agreed that it was not easy to agree on which items to include in a fair wage. Hence, the participants agreed that reference should be made to the LP3ES report on which components should be included in a fair wage. However, some felt that the list was rather too long and inclusive for even a 'fair wage' standard.

2. Should the fair wage only cover the needs of a single worker or should it cover the entire family (and how should family be defined – nuclear or extended)?

In his introductory remarks on the second question, Dr. Manning raised the issue of what the appropriate family unit is? Are we talking about an average household of 2.5 household members? Does the concept of the Minimum Human Needs (KHM) in setting a fair wage only apply to a single worker or to the nuclear family? Should remittances by the workers to their parents also be included in the fair wage? If you have a working husband and wife, how do you take account of this in determining a fair wage? These are difficult methodological issues which have to be addressed.

Dr. Manning also pointed out that setting a fair wage at too high a level would have implications for employment. If the employers think that they can not pay a fair wage which is set too high, they may reduce the number of workers they employ or change their process of production into a more labour-saving one. A proper balance should therefore be struck between the need to provide welfare for the workers and the need to recognise the reality of the market, which is currently a depressed given the slowdown of the world economy.

In the discussions the workshop participants generally agreed that if the 'fair wage' concept were to be implemented, it would not only have to cover the needs of the individual worker, but also the needs of the worker's family. The extent of these family needs clearly depends on the definition of a worker's 'family'. This is important as in the Indonesian context individual workers often give financial support to their elderly parents and their younger siblings, for instance to cover their school fees.

Although no agreement could be reached on how a worker's family should be defined, it was felt that a realistic definition of a family unit for defining fair wages should be a nuclear family (taking account of employed family members). Based on this definition, most participants agreed on a minimum figure of 1.5 dependents whose needs would have to be met by a fair wage.¹

3. Is the fair wage practical and achievable in the Indonesian context?

In his introductory remarks to the third question, Dr. Manning posed the question whether introducing a fair wage in Indonesia would be too difficult? If this were to be the case, a

¹ *Implicit in this definition is the notion that savings should be defined broadly to include remittances and transfer to family members outside the nuclear family unit.*

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different approach should be considered. In that case maybe the government should take responsibility of setting an adequate minimum wage. The social responsibility of companies could perhaps be exercised through a community approach, such as setting up healthcare centres and helping with education for the surrounding community.

In discussing this issue, most participants agreed that a fair wage is achievable in Indonesia. However, the chairman of SBSI, an independent trade union, emphasised that to make a fair wage practical, this wage would have to be fair to the worker as well as the firm. Pushing up a fair wage without taking into consideration the viability of the firm could endanger employment in that firm. In this respect it is important that the workers and the management of a firm must be able to come to a mutually satisfactory agreement on the appropriate level of a fair wage. This could be achieved through the mechanism of collective bargaining between workers and management.

The second breakout sessions on the link between productivity and the wage structure

Three questions were discussed at the second breakout sessions:

1. How can an increase in worker productivity lead to a fair wage?

To provide a better understanding of the link between productivity and wage structure, Mr. Iwan Koswara, a manager of one of adidas-Salomon's supplier firms making footwear, talked about the mechanism in his firm. In cooperation with adidas-Salomon, Mr. Iwan's firm has implemented a 'lean' manufacturing system² for two-and-a-half years. A graph displayed by Mr. Iwan clearly showed that productivity had steadily increased during the period 2000-2002 (see Appendix 6). During this period the average monthly production increased by 95 per cent. This meant that the average monthly production of shoes had almost doubled during this period. This increase was not only caused by the rise in productivity, but also by expanding the capacity of the firm by opening new lines of production in the factory.

On the other hand, during this same period the number of workers employed by this firm only increased by 21 per cent. During this period the total annual wage of a worker, including overtime pay, increased by 188 per cent, which meant that by the end of 2002 the total annual wage of a worker had trebled compared to that paid in 2000. The average monthly minimum wage paid in this firm increased by 106 per cent, which meant a doubling of the minimum wage. Through the 'lean' manufacturing system, the firm was able to accommodate the rise in wages by increasing productivity.

The key components of a 'lean' manufacturing system are an increase in a worker's productivity and less idle time. This does not mean that the workers are being pushed harder, for instance by having to cut or sew the shoes faster. As a result of the 'lean' production system the 'dock to dock'³ time has been cut from 10 days to four hours only. This has been achieved not by pushing the workers harder, but by managing the production process in a better way. This has also led to less material being wasted.

Another strategy of making a fair wage possible by increases in productivity is by tying wage levels to bonuses. These bonuses might be earned by workers after they achieve a minimum standard of output. According to the manager of one supplier firm, workers are expected to achieve a certain level of output, say 100 pieces of garments. Workers able to exceed this level, will earn an extra income determined by the number of excess pieces over 100. Workers unable to produce 100 pieces will still earn minimum wages.

² *Lean manufacturing is an approach that eliminates waste by reducing costs in the overall production process, in operations within that process, and in the utilisation of production labour. Inventory waste is also eliminated by producing to customer order, rather than forecast requirements.*

³ *This term refers to the two ends of the production process: the loading dock at which is received incoming materials and inventory, and the dock from which products are shipped out.*

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2. How can a fair wage be reached in a competitive environment?

The discussions focused on the constraints to providing fair wages in a highly competitive industry. Several points were raised on this issue.

i. Many participants agreed that one strategy was to reduce 'invisible or informal costs', such as illegal levies, both to labour administrators and in the resolution of labour disputes. One employer mentioned that the cost of time devoted to these issues was often greater than the actual payments themselves. In response to a question what the approximate percentage of the 'phantom costs' was in the overall costs of operation of a firm, one manager mentioned that it had never really counted the percentage of these costs.

ii. Another supplier firm explained that by achieving economies of scale in, for instance, transport through the provision of buses rented by the firm, workers were able to spend less on transport. Uniforms and meals provided by the factory were other items where economies of scale benefited the workers, as did the purchase of goods at wholesale prices through a worker-run cooperative. Through the availability of a health clinic within the premises of the factory, the workers were also able to reduce their medical costs. Generic drugs were generally provided free of charge.

3. How improvements in industrial relations and collective bargaining can improve workers' welfare?

The Chairman of SBSI, a workers union, emphasized the necessity for a proper system of collective bargaining to achieve a collective labour agreement which should improve workers' welfare. Collective bargaining would not only improve industrial relations, but also ensure an amicable agreement about fair wages and about the need to raise fair wages over time in line with, say, the rate of inflation.

Some specific suggestions included improvements in the Basic Labour Act regarding the determination of bargaining units in collective labour agreements and the representatives of multiple unions in the bargaining process. A senior union official stressed that genuine collective bargaining can only be made by unions that are truly independent of management, and also that bargaining would be more productive through the sharing of information. Mr. Anderson agreed and added that adidas-Salomon had been promoting and providing training on the negotiation techniques required in collective bargaining to both the unions and management of its suppliers firms.

Aside from addressing the issues raised in the breakout sessions, several general points were made by participants. These included:

- i. The need to adopt different strategies in large compared to smaller firms, and in industries, such as garments, where demand for the product varies quite significantly during the year.
- ii. Workers should be well informed about information on production, prices and wages in an industry, at the regional as well as national level. These data are provided by the Central Agency of Statistics (*BPS*). However, it is not realistic to assume that firms will share detailed information with workers on profits and specific costs, and the audit requirement embodied in some regulations is not particularly helpful, except as costly regulation. Hence, in establishing a basis for fruitful wage negotiations, one could consider the experience of first world economies, such as Hong Kong, where a rise in the consumer price index (CPI) is used as the basis for demanding higher wages. Conversely, under conditions of deflation, the drop in the CPI may be used as the basis to cap wage increases.

VI. Salient points raised during the general and open forum discussions, including concluding remarks by Mr. William Anderson

a. Salient points raised during the general discussion

This section presents some of the salient points raised by the workshop participants in the general discussion, following the presentation of the LP3ES report.

Question 1: What is the percentage of permanent workers compared to the percentage of contract workers in the supplier firms?

Answer by LP3ES: The percentage of permanent workers employed by the supplier firms is generally quite high, around 97 per cent on the average. Since the firms participating in the survey were selected on a random sample basis, there is a sound scientific base for assuming that this high percentage of permanent workers does reflect the actual proportion of permanent workers employed by the surveyed firms.

A manager of one of the suppliers added that there are also probationary workers with his firm. That is newly recruited workers who, after a trial period of three months, are then employed as permanent workers if their performance is considered satisfactory. LP3ES went on to state that most of these supplier firms have been operating in Indonesia for a long time, that is, since the late 1980s and early 1990s. Industrial relations in these firms appear to be quite good. In fact, one of these firms has a large workers' cooperative managed by the workers themselves. This cooperative caters to the various needs of the workers, including the need for loans to pay for school fees, marriage, etc. Its turnover amounts to billions of rupiah.

Question 2: A representative of a trade union asked whether the face-to-face interviews with the workers were held in the factories during working hours or in the houses of the workers after working hours? How was the food provided by the factories, and how was the accommodation of the workers? Did they live in rented houses or lease their house, or did they stay in their own homes?

Answer by LP3ES: Most of the interviews (about 85 per cent) were held in the premises of the factories, but in a quiet place where the interviewees would not be disturbed by or disturb the production process. This could be in a quiet room or in the garden of the factory. The remainder of the interviews were held in the houses of the workers. Most of these workers lived in houses they had leased. We asked the workers about their wages and about their expenses. The visits to the dwellings where the interviews were held revealed that most of these dwellings were sub-standard, that is small and crowded, and were generally located in crowded places vulnerable to fires.

Question 3: A participant from the SMERU Research Institute asked whether the sample of interviewed workers reflects the right proportion of workers employed in the various parts of the production process (for example, in the sewing activities in the footwear industry) and the right proportion of blue and white collar workers?

Answer by LP3ES: Yes, the sample of workers represents the right proportion of workers employed in various parts of the production process. 95 per cent of the workers who were interviewed were blue collar workers (called operators), while the remainder (5 per cent) were administrative staff.

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b. Salient points raised during the open forum discussions

In the final session three points were raised which were considered problematic. The first was the concept of 'clean wage', mentioned by the Minister of Manpower. If such a concept were introduced, there would be a contradiction between the efforts of the government to enhance workers' welfare by introducing a wage system which was cash-based, and a system mentioned by Mr. Iwan (manager of the footwear supplier firm) which was not purely cash-based, i.e. offered non-cash benefits. This latter system could enhance workers' welfare at a lower cost to the firm. However, if the Minister of Manpower goes for a National Wages Act, as he mentioned in his speech, how could the issue of a wage system, which was not purely cash-based, be settled?

The second point relates to the relations between the workers, management, and the government as an impartial arbiter. Each of these three parties has their own interests. In many cases the interests of the workers and management are closer to each other than to those of the government. One example concerns the mandatory rise in minimum wages. By taking the initiative in steadily raising the minimum wage, the government is reducing the opportunity for collective bargaining between workers and management.

The third point relates to the cost structure of the firm. There is a general feeling on the part of workers unions and NGOs that firms should open their books to the workers. According to a participant, such a view is not realistic. There is no country in the world where private firms are required to open their books to the workers' unions. Therefore a more realistic or balanced approach should be pursued. For instance, by looking at the changes in the volume of output, information could be obtained about how a firm is doing. Perhaps courses could be given to workers to help them understand what the general situation is of the firm where they are employed. In developed countries trade unions can obtain good information about how an industry is doing, what the demand for the products of this industry is, what the prices of these products are, or they can obtain macroeconomic information, for instance on the rate of inflation. But detailed firm-level information cannot be obtained.

In response to these observations, Mr. Anderson added that what is critical in this regard is the quality of the information available. For instance, if there is a downturn in the electronics sector, wage negotiations between workers and management will be different than in a sector which is performing well. The point is whether the information available in Indonesia is sufficiently reliable to be useful for conducting fruitful wage negotiations. In many first world countries, including for example Hong Kong, inflationary pressure, as tracked by changes in the consumer's price index (CPI), is considered as a good basis for wage negotiations.

One participant familiar with Indonesian statistics observed that among researchers, Indonesia's Central Bureau of Statistics (BPS) is considered as one of the best and most highly regarded statistical agencies in Southeast Asia. However, the issue is that there is a problem of credibility, that is, there is a general suspicion in Indonesia that any information from an official agency cannot be trusted.

c. Concluding remarks by Mr. William Anderson

In closing the Workshop, Mr. William Anderson thanked all those who had participated in the discussions and outlined the 'next steps' for adidas-Salomon. He indicated that a report would be prepared which would summarize the discussions, and together with the materials presented at the Workshop, these would be posted on the adidas-Salomon web site. He would proceed to use the information obtained through the LP3ES study and the Workshop to further develop tools and guidance for adidas-Salomon's business partners on the application of welfare measures, such as Fair Wages, in defining wage and benefit packages for workers.

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At a local level Mr. Anderson stated that Ms. Elly Safitri would develop specific guidance for adidas-Salomon's Indonesian suppliers, drawing directly on the LP3ES study findings to raise awareness of worker needs and discretionary spending patterns.

Jakarta, 4 June 2003

Rapporteur: Dr. Thee Kian Wie, assisted by Dr. Chris Manning.