DECENT WORK
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International Labour Organization

Sharing in the gains of growth:

Negotiating Decent Work-Decent Wage

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FoA & Right to CB: means to Decent Work

- ILO C 87 & C 98: a fundamental right
  - Promotes Voice, Representation & Participation;
  - Protection of union against acts of interference by Government and employers;
  - Facilitates <u>representative</u> social dialogue;
  - Help reach mutually agreeable solutions between Employers & Trade Unions while respecting each others needs;

- C-87 & C-98: Development policy? money in workers pockets promotes domestic demand, growth & employment

Pre-requisites for CB

- Respect of FoA and civil liberties
- Suitable Framework for functioning of Industrial Relations.
- Representative & strong unions (and Employers bodies)
- Recognition of trade unions
- ATITUDE (Enlightened Self Interest) & GOOD FAITH

So, what is Collective Bargaining Agreement?

- Image v/s concept
- CBA is like a 'constitution' for a company /industry

  – not a mere document for just getting some wage rise BUT a document of rights & obligations of parties to the agreement – **a means of joint regulation of workplace issues,** including union right to information & negotiate 'management policy'
- So – need for union vision – for the workers, for the Company, – then a strategy and actions to achieve that vision

Forms of Collective Bargaining

- *Conjunctive/Distributive Bargaining*: one side wins and the other loses – [initial offers or demands, target points (e.g.: desired wage level), resistance points (e.g.: unacceptable wage levels) & settlement ranges (e.g.: acceptable wage level).
- *Cooperative/Integrative Bargaining*: a win-win situation - both sides try to reach a mutually beneficial alternative
- *Productivity Bargaining*: both the parties must develop a productivity linked scheme – but this requires understanding of productivity & how to improve it.
- *Concessionary Bargaining*: the objective is to give back to management some of what the union has gained in previous bargaining in return for some other demand

Levels of Bargaining

Enterprise level Collective Bargaining

- Prevalent in many East Asian countries (Japan, Korea, Thailand, Philippines, China, etc)
- **Advantage:** flexibility & adaptability for setting enterprise specific working conditions
- **Disadvantages:** disparity between companies, enterprise level trade unions may be too weak to negotiate with their employers at the workplace – labour policy objectives of the State may not be achieved.

Source: Mr. Chang-Hee Lee, former Sr Specialist IR and Social Dialogue ILO

Levels of Bargaining

Industry wide bargaining

- widely prevalent in many European countries (Germany, Sweden, Finland, France, Belgium, etc) - prevalent in public enterprises & in some sectors like Sugar, Cement, Banking, Insurance, Textiles, etc in India; Port workers in Japan;
- **Advantages:** better solidarity among workers, less bargaining costs, enterprises relatively free from hassle of negotiations & therefore conflicts, easier to coordinate national wage policy for certain sectors.
- **Disadvantages:** less flexibility & adaptability for each enterprise
- Global Trend: decentralization towards enterprise bargaining

Source: Mr. Chang-Hee Lee, former Sr Specialist IR and Social Dialogue ILO

four main stages in the negotiation process

- preparation for negotiation
  - Consultation with the members for information and bargaining approaches; union bargaining team, data collection, formulation of charter of demands, etc
  - Pre-planning with the management on meetings, rules, recording of discussions/minutes, etc
- negotiation stage - bargaining methodology, list all the bargaining items, methodology by objectives?
- signing the agreement
- follow up action – for implementation

What should you negotiate for?

- **Any issue that has relevance to workers can become the subject matter of bargaining – in many countries the process of CB has extended to many areas beyond wages.**
- **Issues of interest (thru CB) v/s issues of rights (as per law)** – CB is for getting more than what the law says
- **Negotiate compensation system** & compensation package, Not just wages – total costs of the compensation package matter & should be calculated.

Negotiating Decent Work – Decent wage

- What are the key needs of the workers (including women workers) and the demands of the unions?
- Do Unions have common demands and position?

Preparation Of Charter of Demands

- **Duration of the Settlement:**
- **Coverage – who all it covers?**
- **Wage rise demand, Wage structure, Inflation Compensation:**
- **Benefits & Allowances: Ex. Housing Loan, Canteen & Transport facilities/Allowances, seniority pay, etc**
- **Hospitalization Insurance Policy/Medical Reimbursement:**
- **Paid Leave:**
- **Overtime Payment – beyond law demand such as compensatory day off**
- **Training/Skills Development Policy:**
- **Promotion Policy for Employees**
- **Contract Labour/Outsourcing issues:**
- **Union Office & Time Off**

- ***Union reserves its rights to add, delete and modify the said demands in the view of facts and issues revealed in the course of negotiations.***

Do higher wages mean higher wage costs?

Need to distinguish between Labour rates & Labour costs

Example:

- Two Garments factories – for 8 hours work, Factory A pays higher wages but has lower labour costs, while Factory B pays lower wages but has higher labour costs.
- How can this be?
- Productivity plays a major role.
- Factory A makes a garment in 40% less time than Factory B

- **Wage rates can go up and wage costs need not**
- **Focus on 'costs' – knowledge of cost structure of company important – what are the main costs in garments sector?**

Discussion Point: Union response to management demand

Company Management due to financial crisis demanded the Union to accept wage cut of 20% or reduce workforce by 20%. How will you respond as union?

Cost structure as per the company balance sheet:

Material Cost .... 78% Energy Cost 10%

Admn. Cost .... 4% Labour Cost........ 8%

- Reduction by 20% head count or wages mean only 1.6% savings (20% of 8%) BUT targeting saving in material & energy costs by 10% would give 8.8% cost savings. In this case, Management had no choice but to accept union's proposal and Union saved the jobs as well as wages.

- Are profits a good basis for basing wage demands?
- Focus on value added – what is it?

Value Added = Income – Non Factor Expenditure.

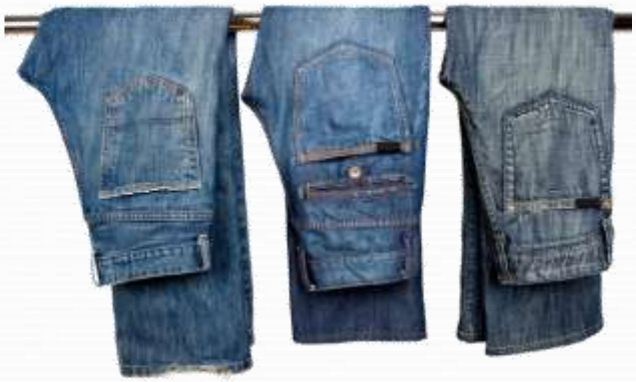
(Here non-factor expenditure means expenditure other than employee cost, depreciation and interest).

What is value added?

Input costs: $650

- Raw material inputs [Cotton, Indigo, Zipper, Buttons, Rivets, Label, etc.]
- Electricity, water, etc
- Other costs except wages, interest & depreciation

Revenue from selling 100 finished pairs of jeans: $1000



What is value added?

For effective CB, Unions need to Know

- What kind of company it is? Labour intensive? Capital intensive? Supplying directly to market or is it in supply chain?
- Capacity to Pay of the company
- Share of labour in the wealth (value added) produced in the company
- Return on capital invested in the company (if it goes down too much, investors will withdraw & firm will close down)
- Where do you get this information from? Balance Sheet and Profit & Loss Account of the Company (preferably for last 3-4 years).

One way to negotiate: Depend on production information & market price of the product

PARTICULARS	EXISTING SCENARIO	IF WAGES RISE BY 10%
PRODUCTION PER MONTH	315000	315000
NO. OF WORKERS	2200	2200
OUTPUT PER WORKER PER MONTH	143	143
WAGES PER MONTH (Rs)	8000	8800
PER UNIT LABOUR COST	56	61.6
PRICE PER UNIT (FOB) TO MANUFACTURER	600	600
LABOUR COST (MANUFACTURER) IN %	9.31	10.26
PRICE PER UNIT TO BRAND	2400	2400
LABOUR COST (BRAND) IN %	2.33	2.56

Concluding Remarks

- FoA & CB are not just about workers rights but are also instruments of State policy to achieve objectives of social justice & for promoting sustainable economic growth
- Should not be limited to industry or company level but this principle (of promoting social dialogue) should be extended to national level over issues of policies –labour, social and economic – for social harmony & social stability
- Importance of understanding financial numbers for countering management & Union information system at work place
- Need to move from mere collective bargaining over wages to 'participatory rights in industry as also the economy
- Source of bargaining power?

Balance Sheet Analysis - Example

PARTICULARS / YEARS	2008	2009	2010	2011	2012
TOTAL CAPITAL EMPLOYED	15096	26425	33100	54190	54519
INCOME	29214	26555	37446	47511	54880
EXPENDITURE OTHER THAN LABOUR COST, DEPRECIATION & INTEREST	25225	23211	30319	40130	47439
VALUE ADDITION	3989	3344	7127	7381	7441
EMPLOYEES SHARE IN V.A.	1545	1551	1836	2294	2691
CAPITAL SHARE IN VALUE ADDITION	2445	1793	5291	5087	4750
EMPLOYEES SHARE IN V.A (%)	39	46	26	31	36
CAPITAL SHARE IN V.A. (%)	61	54	74	69	64
RETURN TO CAPITAL (%)	16	7	16	9	9
Gross Profit	2576	1079	3749	2196	1341
Net Profit	2029	1001	2240	1811	1242

Understanding & Negotiating Productivity

- What is productivity?
- Productivity v/s Work Intensity
- Productivity does not only mean increasing working time or speed of work; it can also mean finding ways to produce more output within the same time or same output within lesser time thru -
  - Technological improvement/innovations
  - Methods & Systems improvement
  - Line balancing

Some typical problems in Companies/ workplaces

- Out dated and rigid work norms
- Restrictive and narrow job descriptions
- Too many non value adding activities
- Idle manpower on one hand & high incidents of overtime on other hand
- Shortages of critical items on one hand & growing inventory on the other hand
- Unbalanced work load and bottlenecks
- Break-downs
- Rejection and reworks
- Absenteeism and labor turn over
- Lack of accountability
- Discontent, low morale
- Mismatch between authority and responsibilities

Considerations before signing productivity agreement

- Work intensity differs from worker to worker, from dept to dept, some workers put in 5-6 hours of effective working time, some work for 7 or 8 hours - When management asks for 20% higher production –

  - workers working for less hours have no problem but those who already put in 8 hours at work, their workload increases intolerably

  - management demand for 20% increase is based on the highest working time – which means that workers as a whole end up giving much more while being paid for only 20%

☞ need for work study & line balancing to bring down overloaded workers while bringing up under loaded workers.

What should Union do?

Before productivity linked wage agreement can be signed, Union should demand:

- Work Study – systematic examination of the methods & time taken for carrying out activities at work place so as to improve use of resources (human, machine, material) & set up performance standards –

  joint participation of union & management required in this process

  Note: It is not only labour but also machine & methods productivity that needs to be looked into.

Work study should aim at –

- Simplifying or modifying the methods of operation
- Reduce unnecessary or excess work, reduce ineffective time spent by workers in doing things due to poor design, layout of the workplace or in material handling, etc
- Stop wasteful use of resources
- Contribute to industrial safety by identifying hazardous work and developing safer methods
- Cut down the time for performing certain activities after introducing systems & methods improvement & line balancing.

work study includes not only labour but also period required to recover from fatigue.

Total Time of operation under existing conditions

TOTAL

INEFFECTIVE

TIME

Basic work content

(Minimum time required to perform/produce one output)

Basic content added by poor product design or material

Work content added by inefficient methods of manufacture or operation
+ Poor material handling
+ Poor quality standards
+ Poor inventory

Inefficient time due to human contribution
Like: Absenteeism, bad workmanship, Accidents, etc

How Managements and Unions can reduce ineffective time?

Basic work content

Product Development

Proper Material utilization

Quality control/ensure proper standards

Better layout & process planning

Material handling/reduce time & effort

Production planning

Methods study to reduce poor methods of

Inventory control

Ensure longer life and no stoppage of

Create satisfactory working environment

Training, better working condition

Inefficient time totally Eliminated

Working Time in a day

General Norm:

- Out of 480 minutes (8 hours), at best 420 minutes of working time should be there – 60 minutes are set aside for rest, lunch break (half hour) and 2 breaks of 15 minutes each for tea-coffee, etc
- Out of 420 minutes available for work, following deductions from working time need to be considered:

  - personal needs allowance

  - fatigue allowance – differs for different job stations

  - hazard allowance – for certain hazardous jobs
- down time (disturbance in production cycle due to material not available, machine break down, etc – record should be kept of this by the workers)

Negotiating Productivity- pre-requisites

- Work study & line balancing – joint union-mgt exercise & decision making – not just consultation
- Deciding on allocable time in a shift, taking into account rest period, lunch, time off for personal needs, fatigue, hazardous jobs, down time and material handling time
- Commitment of the top mgt to invest in changes needed for improving productivity
- Sharing in the gains from productivity – share in value added, company performance allowance (over & above the CB agreement)