

A Guideline to factory Wage Management System

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WMS GUIDELINES - INTRODUCTION

Wage Management System guidelines referred as WMS guideline is developed to give understanding on Wage Management System definition, approach and System Implementation. This guideline document will explain what is a Wage Management System and its parameters, implementation process and requirements, WMS key performance indicators and the common requirements of Wage Management System parameters.

This guideline is the only document which will explain implementation of Wage Management System in the production units step by step. It is very important to understand each step and clarify the questions before implementation. Common requirements mentioned for the Wage Management System in this guideline are essential basics to be established in the production units/supplier organization.

KPI's mentioned in the guidelines are directly linked to 4 parameters of Wage Management System and more details are provided in separate document called Improvement Plan which will be used as document for follow up and performance measurement. There are different trainings mentioned in the Standard Operating Procedure in this guideline document, however details related to training content documents, procedures will be provided separately.

In case of any clarification required on any of the details mentioned in this guideline document, kindly contact H&M WMS team.

WMS - DEFINITION

H&M wants all workers in its supply chain to get a Fair Compensation for the work they do. Part of this commitment will be to ensure robust and functional Wage Management system within all factories.

The definition of Management System for H&M is: *A set of connected elements that organizations use to implement policies and achieve objectives.*

A Wage management system would therefore be understood as the policies, processes and practices around Wages.

The definition of a functional Wage Management System for H&M is: A wage management system that at a minimum has the below 4 mechanisms imbedded and executed within its human resource organization.

1. **Proper and correct payment of wages** according to individual contracts, legal regulations and existing collective bargaining.
2. **Internal development of human resources** policies and processes to ensure competitiveness, high motivation and sustainable social climate in the factory.
3. **A progressive and coherent pay system** that rewards workers according to their, skills, education, performance and experience.
4. **Proper mechanisms of workers' involvement** in factory decisions that generate a process of communication and possible negotiations on the content of wages and payment structures.

WMS - PRE-IMPLEMENTATION PREPARATION









Below information aims to explain the pre-implementation requirements and supplier expectations.

Supplier Expectations and Responsibilities:

- Suppliers need to send 1 Top Management/Decision makers to the kick off meeting along with 2 Management Representatives and 2 worker representatives
- The 2 Management reps should be those 'who is responsible for wage management or wage issues in the production unit. E.g. HR Manager/Rep, Finance manager/Rep, Compliance Manager/Rep

WMS - STANDARD OPERATING PROCEDURE

This table aims to explain HOW the wage management system will be introduced and executed for H&M and the Supplier. Complete timeline for the wage management system implantation will be 1 year and 3 months e.g. from Feb 2018 to May 2019

#	 Activity	 Responsible	 Location	 Timeline	 How	 Target Group	 Time	 Comments
1	Self-Assessment	Facility Management	Factory	February March	Complete the Self-Assessment in HIGG	For H&M	NA	Factory will fill the self-assessment module in HIGG. Make sure that they complete this activity within March for factories selected for WMS implementation Consider units selected for WMS as priority to complete the self-assessment
2	HIGG and PD - Desktop Validation	Social Developers	H&M office	March	Validate the self-assessment of HIGG and PD from office	To Create Improvement plan for the Suppliers	1 Day /PU	Complete the desktop validation for the facilities that has completed self-assessment and create Improvement Plan report. Document Name: Improvement plan
3	Kick off, WMS training and Introduction to Improvement Plan	Project Leader Developers	H&M office	April	Presentation and Workshop	Top Management 2 Management reps 2 Workers reps	1 Day	Present the kick off and WMS training, Improvement Plan materials Presentation on Kick off and combined training should be completed within half day It is important to highlight E Learning/Training Component and introduce it to the suppliers Introduce and discuss the improvement plan during the second half of the day Take commitment from the suppliers on Improvement Plan submission date Document Name: Kick off, WMS training and Improvement Plan

4	Baseline Questions Activity	Supplier/H&M	Factory	April-May	Conduct the survey	Workers/ Management	Half Day	Conduct the baseline survey at factory using the baseline questionnaire Details on conducting the survey will be communicated further
5	Improvement Plan Submission Verification of the Improvement Plan	Supplier	NA	May – 1 st Half	Email	H&M	NA	Supplier needs to fill the actions in the Improvement plan document and send it to H&M (to respective developer). Developer needs to verify the actions and approve the submitted improvement plan The improvement plan needs to be sent back to the supplier if it is not filled accurately
6	Training on Effective Communication Skills and Training the Trainers	Preferably H&M Trainer or Project Leader (prefer 2 trainers)	H&M	May – 2 nd Half	Training and Workshop for the participants	2 Management Reps 2 Worker Reps	1 Day	Make sure that right management reps and worker reps are chosen for the trainings Conduct Effective Communication training first half of the day and Training the Trainers during the second half Documents to Refer: Effective Communication skill and Training the Trainers PPT and Training guidelines
7	E learning/ Training Implementation (On Going Training)	Trained Trainers from Production units (Supplier)	Factory	June-December	Conduct the training for Workers and Management	Workers/ Management	N/A	Conduct E Learning/ Training at the production facility. Trained Trainers are responsible to conduct these trainings at the facility
8	Wage Classification Training	Project Leaders Social Developers	H&M	July	Conduct Workshop on Wage Classification	Management Reps related to Wages	1 Day	Verify if the correct/responsible management reps are chosen for the wage classification training Conduct the wage classification for the management reps Document: Wage Classification Training PPT
9	1 st Follow Up - Onsite	Social Developers	Factory	August September	Visit Factory	Suppliers/Factory	1 Day	Follow the SIPP cycle in terms of ACT categories and Onsite validation timings.

								<p>Check progress on the each KPI mentioned in WMS improvement plan for facility</p> <p>Update the status of progress in the improvement plan</p> <p>Communicate suppliers about the progress updated</p>
10	2 nd Follow Up - Desktop	Social Developers	H&M	December	<p>Desktop Follow up on Improvement Plan</p> <p>Onsite visit is optional</p>	Supplier	1 Day	<p>Conduct desktop follow up to identify the supplier progress of WMS implementation</p> <p>Update the status in improvement plan</p>
11	Baseline Follow up Activity	Supplier/H&M	Factory	December	Conduct the survey	Workers/ Management	Half Day	Conduct the Baseline Follow up survey at production units. If the Survey is conducted by Suppliers - Possible to check and discuss with facilities during the 2 nd follow up
12	Self-Assessment	Facility Management	Factory	January February	Complete the Self-Assessment in SIPP	For H&M	NA	Factory will fill the self-assessment module in SIPP. Make sure that they complete this activity within February for factories selected for WMS implementation
13	HIGG and PD - Desktop Validation	Social Developers	H&M office	March	Validate the self-assessment of HIGG and PD from office	To Create Improvement plan for the Suppliers	1 Day	Complete the desktop validation for the facilities that has completed self-assessment and update the Improvement Plan based on factories' progress.
14	Final Meeting	<p>Project Leader</p> <p>Social Developer</p> <p>Supply Chain Sustainability Managers</p> <p>Business Team reps (preferable)</p>	H&M	May	Meeting	<p>Suppliers</p> <p>Top Management</p> <p>2 Management reps</p> <p>2 Workers reps</p>	2 Hours	<p>Conduct individual meeting with suppliers and explain the progress and the WMS KPI's. Focus more on Wage Classification Implementation during the second Year and the Impact observed from Baseline and Follow up results</p> <p>Discuss the next steps with suppliers and ask them to submit the action plan for the pending items</p>

WMS - KEY PERFORMANCE INDICATORS

This table explains how the method will be measured and how the Factory performance will be recognized

Four parameters of WMS are used to measure the performance of a facility in Wage Management System. Maximum achievable score for each parameter is 100%

Proper and Correct payment of Wages
A Progressive and Coherent pay system
Internal development of Human Resources
Proper mechanisms of workers involvement

Below KPI mentioned for wage classification is integrated into A Progressive and Coherent Pay System KPI and Training KPI's are part of Internal Development of Human Resources KPI

KPI's for Wage classification

First Year	PU has created Wage Classification (Job Description and Skill Matrix)
Second Year	PU has implemented wage classification

KPI's for Training

% of workers participated in online or face to face training	85% of the total amount of workers in 6 months (June to Dec)
% of trainers participated in Effective Communication and TTT training	100% (minimum 2 workers reps and 2 management reps)
% of managers participated in a wage classification training	100% (minimum 2 wage responsible managers)
% of managers participated in online or face to face training	100% Min 1. HR, Welfare/compliance, Production, Wages and Finance Dept.

WMS - REQUIREMENTS

This table explains the fundamental of a Wage Management System which will be applicable for all wage parameters in a factory

COMMON REQUIREMENTS FOR ALL PARAMETERS

Policy and Procedures	Responsible Person Department	Communication and Feedback
<ul style="list-style-type: none"> • Policy must be clearly defined • Policy should be driven from the Top Management and signed by the Top Management • Policy should be documented in company letter heads or company document format • Policy should be available to all workers for reference at any point of time • Procedures related to policy should be clearly mentioned 	<ul style="list-style-type: none"> • Details of person or department responsible of policy enforcement should be clearly mentioned in the procedure document • All the responsible persons or departments should have authority to enforce the policy and procedures 	<ul style="list-style-type: none"> • Communication channels (e.g. Training, activity etc.) used to increase awareness and knowledge on policy and procedures should be clearly mentioned in procedure document • There should be feedback mechanism to understand and verify workers awareness level on Policy and Procedures

Collective Bargaining Agreement

Collective Bargaining Agreement (CBA) means an agreement in writing or writings between an employer and a trade union, or other collective bargaining agents as per law, setting forth the terms and conditions of employment or containing provisions in regard to rates of pay, hours of work or other working conditions of all employees in the workplace defined by the CBA.

A CBA should contain provisions that are above and beyond the current legal framework and be defined in time with clear provisions for re-negotiation/renewal.

All parameters in below could be considered for negotiation and inclusion in a CBA.

WMS - PARAMETERS & FOCUS AREAS

This table explains how the method will be measured and how the Factory performance will be recognized

PARAMETERS	FOCUS AREAS
Proper and correct payment of wages	<p>Minimum Wages:</p> <ul style="list-style-type: none"> • Min wage needs to be paid at least the national/local/industrial minimum wage as per the law • Min wage are reviewed and revised annually • Min wage should be paid only for basic working hours (excluding OT) <p>Payment of Wages</p> <ul style="list-style-type: none"> • Wages need to be paid on time as per legal law • No under-payment of basic wages, bonuses/benefits and overtime • Social security payments need to be paid to concerned authorities on time as per law • Workers have direct access to their wages • Workers have a bank account where they receive their wage (preferably) • Worker know how their wages are calculated • Workers are trained about wage calculation including OT • Workers know how to read the pay slip • Pay slip is provided in local language • Pay slip includes all relevant wage information (OT, holidays, days and hours of work, all components of wage, deductions, rest days, incentives or bonuses) • Deduction should be legal/ compliance with legal law • Any deduction, other than legal, should be done with consent of worker • OT compensation is paid according to local law • Deductions should not be used as disciplinary measures • Wages should not be withheld <p>Contract</p> <ul style="list-style-type: none"> • All workers receive a contract in local language according to the legal law • Copies of contract is provided • Workers understand information in the contract • Contract has all the necessary information, job title etc. • Contract is compliant with local law • Permanent contract is provided • Minimum wage, address, job title, wage information/calculation, working hours, OT-hour payment, deduction, social security, benefits and bonuses, terms and conditions (rules and regulations) should be stated in the contract • Workers should receive a handbook and should be aware about the content of a handbook • Procedure for termination is clearly described in the contract • Contract is provided to workers starting from one day of hiring • Workers are able to freely access their original identity card, work permits and travel documents at any time <p>Payment of Working Hours</p> <ul style="list-style-type: none"> • All the working hours are paid, including OT • Payment of OT-hours for different periods (regular days, rest days and holidays) with legal required rates • OT-hours should be within the legal limit • Workers are provided one day off in seven days • Workers are provided breaks during working periods • Time off is provided in accordance to law • No case of forced OT (OT should be voluntary and conducted with consent of workers)

Internal Development of Human Resources

Payment of working hours

- Dept. responsible for working hours
- System to monitor the working hours
- Workers are aware about how the OT is calculated
- Procedure to decrease the OT-hours
- Workers understand the health risks with working OT hours
- Red flag or alert system when workers are at risk of excessive OT
- Production planning process/capacity managing process that supports regular hours of work within the legal limit
- Production planning and capacity review meetings to determine hours of work involve cross function departments
- Factory monitor production capacity in regular and OT-hours prior excepting orders
- Facility has a formal request or approval process for urgent OT

Recruitment

- No discrimination - gender, sex, religion etc.
- No child labour
- No forced labour
- Induction training for workers and supervisors
- Prevention and remediation plan for forced labour
- Recruitment system is according to the law for all workers (juvenile workers, homeworkers, piece rate workers, foreign workers)
- Training about recruitment for responsible person
- Identification documents are checked during recruitment process
- Disciplinary process in facility according to legal law
- Equal opportunities recruitment practices
- All workers should be employed directly by the facility
- No workers paid illegal or excessive recruitment fees and other charges

Termination

- Termination is according to the law
- Full and final payments should be given as per law within the last working day
- Workers are aware about the rules and regulations of termination
- Termination is implemented collectively by HR and department managers
- Workers are given notice as required by law
- Facility has retrenchment plan in place to minimize impact from workers

Wage Disparity

- No discrimination on wages
- Promotion is based on performance
- All wage components are measurable based on system instead of preferences
- Workers are aware about the meaning of wage disparity
- Inform workers about how to complain about wage discrimination
- Secure that workers' complaints regarding wage disparity are handled anonymously and effectively
- Facility is aware of the diverse workforce in the community and actively recruits members from a diverse population
- All workers are granted to all kind of leaves as per law

Workers Career Development

- Factory has a development plan for workers
- Workers are aware about the criteria's of promotion
- Factory provides and communicates opportunities for skill development in the facility
- Managers inform workers about career development possibilities
- Factory provide skill development, trainings etc. during working hours without wage loss
- Postings throughout the facility encourages all employees to apply for all positions

A Progressive and Coherent Pay System

Benefit

- All legal benefits are paid
- All benefits are paid on time
- Social insurance is provided even if it is not legally required Factory provides monetary and non-monetary benefits

Competitive Wages

- System to conduct information and analyze the wage packages compared with nearby companies
- System to secure that annual wage increase (excluding OT-hours) is at or above the inflation rate (CPI)
- System to conduct and analyze living cost (market)

Payment of working hours

- Balance percentage of OT hours in total wage
- More stable OT-hours
- Balance OT hours distribution between all workers/departments through skill development
-

Job Description

- Detailed job description for all jobs in the factory
- Job description is communicated and provided during the recruitment process
- System to secure that job description is updated according to changes in the work

Wage Classification

- Job classification of all job positions in the facility needs to be in place
- Set a basic salary for each position
- Skill Matrix needs to be created
- Workers are aware about how the wages are calculated according to the wage classification
- Management reps (PU trainers) trained on wage classification need to train other managers about wage classification
- Information about wage classification implementation to workers
- Discuss wage classification with workers' representatives
- Evaluation of the fairness and effectiveness of current bonuses
- Secure that wage classification eliminates wage discrimination
- Incentive system should be fair and effective

Proper mechanisms of workers involvement

- Clear Policy and Procedures on Freedom of Association and Committees
- Elected workers representation and functional workers committees focusing on wages
- Proper mechanisms on involving workers on wage discussions
- Existence of different grievance redressal systems
- Workers involvement on action plan development and Implementation of wages
- Different communication channels on wage awareness