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Rising Production Targets Undermining Minimum Wage Increases

Rationale

In recent years, as minimum wage levels in Cambodia have annually increased, workers have seen production targets rise in tandem. Moreover, although production targets have risen, workers report that the number of employees has fallen. Often, rises in production targets are also caused by shorter lead times imposed by purchasing brands. Whilst the recent Better Factory Cambodia (BFC) 2018 Annual Report¹ discusses factories' compliance with respect to wages and piece rate wages, it omits discussion of production targets and the impact of these targets both on wages and on working conditions more generally. As such, the purpose of this report is to show the way in which rising production targets have served to effectively undermine the wage increases that Cambodian garment and footwear workers have won in recent years.

Methodology

To support this report, CENTRAL collected payslips and held consultative meetings with 41 workers from 10 factories in Phnom Penh. Participants were divided into groups by each respective factory. Participants were asked to discuss and breakdown wages in their factory, as well as production targets. 16 participants then provided individual responses regarding health and safety issues and the way in which factories pressure workers to fulfil rising production targets.

The represented factories were:

- Apple Apparel (Cambodia) Co., Ltd
 - Supplier to C&A
- Berry Apparel (Cambodia) Co., Ltd
 - Supplier to C&A, Carter's, H&M (Silver)
- Cambo Kotop Ltd.
 - Supplier to Carter's, Uniqlo, Walmart
- Gladpeer Garments Factory (Cambodia) Ltd
 - Supplier to H&M (Gold), Sears
- King Fashion Garment Co., Ltd.

¹ <https://betterwork.org/dev/wp-content/uploads/2018/12/BFC-Annual-Report-2018.pdf>

- Supplier to Americo Group, H&M (Silver), Loblaw Companies, Morsam Fashions, Ralph Lauren, Topsville
- Pantessa Garment (Cambodia) Co., Ltd
 - Supplier to JV Apparel, Jellifish Kids
- Roo Hsing Garment Co., Ltd
 - Supplier to 5.11 Inc, H&M (Silver), Gap, Levi Strauss
- Tak Fook (Cambodia) Garment Ltd.
 - Supplier to Carter's, Global Brands Group
- Violet Apparel (Cambodia) Co., Ltd
 - Supplier to C&A
- Yi Da Manufacturer Co., Ltd.
 - Supplier to C&A, Gap, Levi Strauss
- YTC Corporation (payslips only)
 - Supplier to Carter's, Gap, Levi Strauss, Old Navy, Walmart

All factories represented in these findings were also inspected by BFC as part of its 2018 Annual Report.

Findings

Wages

ប្រាក់ខែគោល	170.00	ប្រាក់ជូសការអោយដំណឹងមុនវិទូទាត់ការឈប់	-
ប្រាក់គិតតាមគុណភាពទំនិញ	4.00	ប្រាក់ឈប់សំរាកប្រចាំឆ្នាំ	-
ចំនួនម៉ោងធ្វើការធម្មតា	208.00	ប្រាក់រង្វាន់មិនដែលមកយឺត	11.00
ចំនួនថែមម៉ោងថ្ងៃធម្មតា	26.50	ប្រាក់រង្វាន់អតិថិភាពការងារ	4.00
ចំនួនថែមម៉ោងថ្ងៃបុណ្យ	-	ប្រាក់រង្វាន់ផ្សេងៗ	-
ចំនួនថែមម៉ោងថ្ងៃអាទិត្យ	-	កាត់ប្រាក់វិភាគទានសហជីប	-
ចំនួនថែមម៉ោងវេនឈប់	-	កាត់ប្រាក់ខ្ចី	- 50.00
ប្រាក់ខែ	170.00	កាត់បន្ថយថ្លៃឈប់	-
ប្រាក់ខែធ្វើការវេនឈប់	-	សន្និសុខសង្គម	-
ប្រាក់ថែមម៉ោងសរុប	32.49	ពន្ធលើប្រាក់បៀវត្ស	-
សាហ៊ុយស្នាក់នៅ	7.00	ចំនួនទឹកប្រាក់ត្រូវបាន	178.49
ជាប្រាក់ដុល្លា	175	ជាប្រាក់រៀល	14,100

Photo: Payslip for November 2018 from Roo Hsing Garment

Wage levels reflected through payslips varied, from a minimum net pay of \$146.79 to a maximum of \$356.44. The average net wage reflected in payslips for the months of October and November 2018 was \$236.70. Whilst this figure is slightly higher than the legally

mandated minimum wage of \$170 USD per month, it must be noted that all the workers who provided payslips to CENTRAL had worked overtime for the months of October and November 2018.

Workers at all factories surveyed except two reported a basic wage of \$170 per month. A payslip from King Fashion Garment showed a basic wage of \$175 per month, whilst two payslips from YTC Corporation showed a basic salary of \$180 per month, with another from YTC Corporation showing a basic salary of \$187 per month. That is a basic wage for 208 hours of work per month, approximately 81 cents per hour with a basic wage of \$170 per month.

ប្រាក់ខែគោល	170.00	ប្រាក់ជូសការអោយដំណឹងមុនវិទ្ធាត្តការឈប់	-
ប្រាក់គិតតាមគុណភាពទំនិញ	6.00	ប្រាក់ឈប់សំរាកប្រចាំឆ្នាំ	-
ចំនួនម៉ោងធ្វើការធម្មតា	208.00	ប្រាក់រង្វាន់មិនដែលមកយឺត	11.00
ចំនួនថែមម៉ោងថ្ងៃធម្មតា	14.00	ប្រាក់រង្វាន់អតីតភាពការងារ	7.00
ចំនួនថែមម៉ោងថ្ងៃបុណ្យ	-	ប្រាក់រង្វាន់ផ្សេងៗ	-
ចំនួនថែមម៉ោងថ្ងៃអាទិត្យ	-	កាត់ប្រាក់វិភាគទានសហជីប	-
ចំនួនថែមម៉ោងវេនយប់	-	កាត់ប្រាក់ខ្ចី	- 50.00
ប្រាក់ខែ	170.00	កាត់បន្ថយថ្ងៃឈប់	-
ប្រាក់ខែធ្វើការវេនយប់	-	សន្តិសុខសង្គម	-
ប្រាក់ថែមម៉ោងសរុប	17.16	ពន្ធលើប្រាក់បៀវត្ស	-
សាហ៊ុយស្នាក់នៅ	7.00	ចំនួនទឹកប្រាក់ត្រូវបាន	168.16
ជាប្រាក់ដុល្លា	165	ជាប្រាក់រៀល	13,000

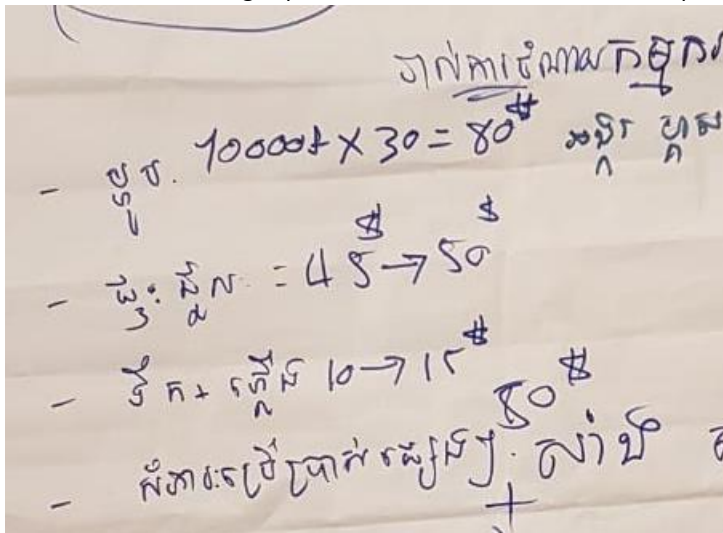
Photo: Payslip for November 2018 from Roo Hsing Garment

Whilst most factories reported identical basic wages, the amounts of other allowances slightly varied. For example, attendance bonuses ranged from between \$10 to \$13 per month, whilst transport allowances were from between \$7 to \$12 per month. All workers also received seniority bonuses, usually calculated on the basis of \$2 for the first year and \$1 for each additional year. All also received an allowance for food during normal working hours, between 1000 and 2000 riel per day (approximately \$0.25-\$0.50). The basic wage, plus these allowances, are the minimum amounts that workers receive every month (assuming their attendance bonus is not deducted by the employer for non-attendance). This 'guaranteed' amount averaged \$197.92 per month (not including seniority bonus) across the factories for a worker working standard weeks of eight hours a day, six days a week – approximately 95 cents per hour.

This 'guaranteed' amount, despite being slightly higher than the legislatively mandated minimum wage, does not constitute a living wage. For example, workers at Cambo Kotop provided CENTRAL with a breakdown of their estimated monthly living expenses:

- Food – \$75
- Accommodation – \$45-50
- Utilities – \$10-15
- Other expenses (e.g. gasoline, phone cards, clothing) – \$50

Photo: Estimated living expenses from workers at Cambo Kotop



These expenses come to \$180 – \$190 per month and do not include expenses such as education for children, debt or healthcare costs. Food costs were calculated by allowing 10,000 riel (approximately \$2.50) per day. For workers at Cambo Kotop the 'guaranteed' salary for workers who did not work overtime was \$196.50 per month (approximately 94 cents per hour). In this sense, the wages being paid to workers do not

constitute a living wage. As such, in order for workers to supplement these poverty wages, workers feel the need to work overtime, both for the extra hours, and in order to meet ever-increasing production targets.

Production targets

All workers reported that increases to the minimum wage over recent years had affected their production targets, either in the actual number of the target or in changes to disciplinary actions if targets were not reached.

Many workers reported that production targets had increased over the years, whilst the number of workers often decreased. For example, workers at Roo Hsing stated that in 2012, a production line of 105 people would have a target of 1500 pants per day. Now, the target is 2300 and there are only 55 people in the line. Workers at Cambo Kotop reported that different styles attracted different targets. For certain styles, the target is 60 shirts per hour for a total of 480 over the course of an 8-hour work day. In the quality control section, certain styles have a target of 500 shirts per hour. At Pantessa Garment, workers in the ironing section have a target of 1200 pants per day per worker.

Workers' wages are supplemented by bonuses paid for meeting production targets. However, failure to meet production targets often has dire consequences for workers. Workers at

Cambo Kotop reported that workers who fail to meet production targets are called to their supervisors' office for questioning. If they fail to fulfil the production target on three separate occasions, they are summoned to the administration office, for the administration staff to decide whether to terminate the worker or not. Similarly, at Gladpeer Garments, if workers make a mistake or fail to meet a production target, they are issued a warning. If they receive three warnings, they are subject to termination. Workers at Gladpeer reported that their production targets had not increased, but previously they had not been subject to any disciplinary action for failure to meet targets or for making mistakes.

Increases in production targets in tandem with increases to the minimum wage also have a direct effect on piece rate workers. For example, workers at Violet Apparel stated that the piece rate (0.28 per piece) did not change with the minimum wage. As a result, after the minimum wage increased from \$153 in 2017 to \$170 in 2018, the production target for certain styles of shirt raised from 70 shirts per hour to 80 shirts per hour. In this sense, piece rate workers have not experienced any practical pay rise – only an increase in the workload they are expected to complete. Whilst piece rate workers are theoretically 'guaranteed' the minimum wage even if they do not complete sufficient pieces, the fact that workers face termination for regular failure to meet production targets suggests this guarantee does not work in practice.

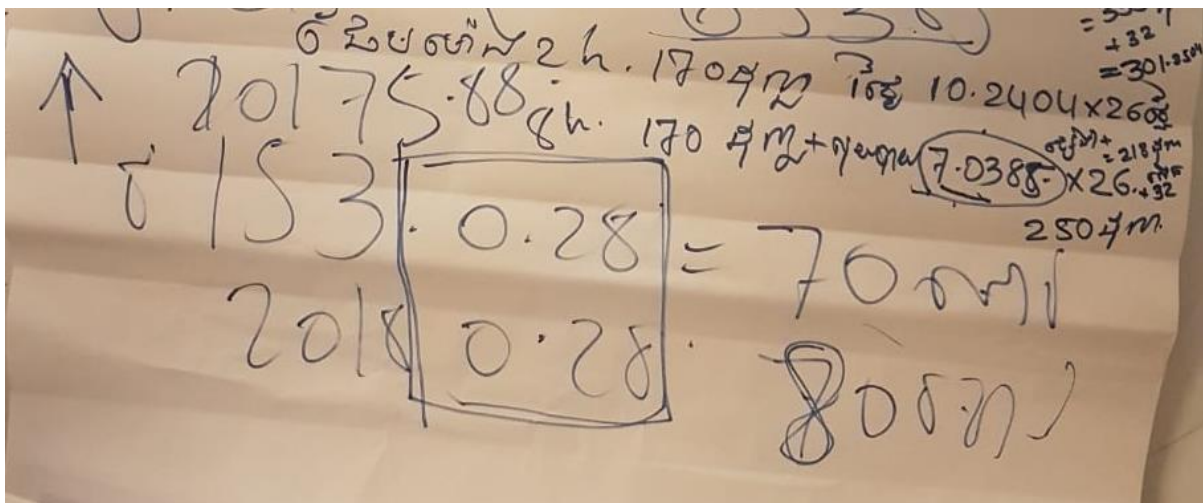


Photo: Calculations from workers at Violet Apparel demonstrating how wage rises only result in increased minimum workloads for piece rate workers.

Along with formal disciplinary actions, failure to meet production targets often exposes workers to verbal abuse, violence and threats. For example, workers at Pantessa Garment reported being yelled at for failure to meet production targets. In February 2018, CENTRAL conducted research into gender-based violence in Cambodian garment and footwear factories. Then, workers at both Roo Hsing and Yi Da reported being verbally abused by managers for failure to meet production targets.² Workers at Cambo Kotop, meanwhile, reported fears of termination because of failures to reach production targets.³ Workers at

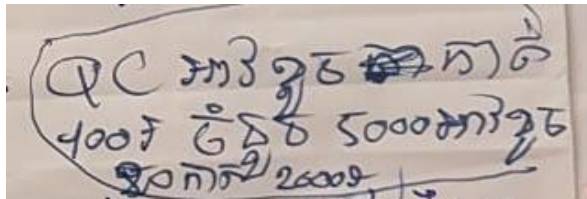
² <https://www.central-cambodia.org/wp-content/uploads/2018/05/GBV-HM-May-2018.pdf> p. 66

³ <https://www.central-cambodia.org/wp-content/uploads/2018/05/GBV-Walmart-25-May-2018.pdf> p. 53

Cambo Kotop also reported that line leaders also receive bonuses – higher than that of ordinary workers – if workers successfully meet production targets. In this sense, line leaders are directly incentivised to push workers to work harder, which may itself contribute to instances of violence against workers.

Consequently, in order to avoid the consequences of failure to meet production targets, workers often go without proper rest or water. For example, at Cambo Kotop, workers reported that, in order to meet production targets, they are forced to spend half of their lunchtime working unpaid. This is not a requirement of the factory, but rather a practical requirement in order for workers to meet their targets. Workers at Cambo Kotop also reported that they were unable to keep a water bottle at their desk. When they wanted to drink, they had to walk to a water tank to drink. However, workers stated that they did not do this, because they did not want to leave their desks for fear of not fulfilling production targets. Similarly, workers at Yi Da reported they had no time to drink water or go to the toilet. Workers at Yi Da also stated that one person needed to operate two or three machines in order to meet production targets.

Photo: Quality control section targets at Cambo Kotop



Rising production targets are the result of both individual employment decisions by factories and purchasing practices by sourcing brands. On the one hand, factories make individual business decisions to increase

production targets and lower the number of employees per line. In some instances, factories may engage in underquoting in order to secure orders from brands. However, it is brands that place increasingly shorter lead times on factories in order to meet the demands of fast fashion. In this sense, both employers and brands can be seen as holding responsibility both for rising production targets as well as the consequences of those production targets on workers.

Occupational health and safety

Workers who provided individualised responses to CENTRAL reported a wide range of concerns regarding health and safety in their workplaces.

BFC's report found high levels of non-compliance with respect to occupational health and safety requirements. 33% of factories were non-compliant with regard to noise levels, with 93% non-compliance regarding lighting levels.⁴ This was reflected in workers' responses, with many reporting extremely loud sound levels and poor lighting. BFC's report also found a 41% non-compliance level regarding workplace cleanliness and 61.64% non-compliance rate for

⁴ <https://betterwork.org/dev/wp-content/uploads/2018/12/BFC-Annual-Report-2018.pdf> p. 51

provision of adequate accessible toilets.⁵ Nearly all workers reported issues with the cleanliness of their workplace, bathrooms, drinking water and eating spaces.

BFC's report found a 65% non-compliance rate with respect to heat and provision of proper ventilation.⁶ Many workers reported hot working temperatures inside their factories. Hot working temperatures caused by lack of ventilation or cooling systems is one of the primary contributing factors cited by victims of mass fainting incidents.⁷ In combination with the exertion required to meet production targets, hot working temperatures have been a major factor in the steady increase in mass fainting incidents in Cambodian factories over recent years, with a total of 10,857 workers between 2011 and 2017.⁸

Conclusion

The findings described in this report show the way in which rising production targets, fuelled in part by purchasing practices of brands, have served to largely undermine the wage increases that Cambodia's garment and footwear workers have secured in recent years.

The effect is particularly significant for piece rate workers, who have consequently not experienced any real practical wage rise, but merely an increase in the work expected of them. Nearly all workers, however, have experienced rising production targets following rises to the minimum wage, often accompanied by reduced staff numbers per line. Furthermore, whilst employers clearly want to incentivise productivity, it is apparent that these targets have less incentivised productivity so much as they have given rise to a culture of violence and intimidation perpetrated against workers. Reports of verbal abuse and threats of contract termination or non-renewal are a common theme across Cambodian factories and almost always appear inextricably linked to production targets. Threats of contract termination or non-renewal are strengthened by a high non-compliance rate in the legal requirement to change workers' contracts from fixed-duration contracts to unspecified duration contracts after two years.⁹

This report also shows that, despite regular wage increases, Cambodian garment and footwear workers' wages remain below that of a living wage. Consequently, workers are effectively forced both to work overtime and to significantly exert themselves in order to meet production targets so as to supplement their low wages. Rising production targets also affect workers' wages in terms of the bonuses received; where production of a certain number of items in a day would have garnered a bonus for a worker in the past, now that same number is merely a minimum expectation.

⁵ Ibid.

⁶ Ibid.

⁷ <https://www.central-cambodia.org/archives/2417>

⁸ <http://www.nssf.gov.kh/default/wp-content/uploads/2018/04/Binder1.pdf> p. 21

⁹ <https://betterwork.org/dev/wp-content/uploads/2018/12/BFC-Annual-Report-2018.pdf> p. 29

In addition, health and safety concerns remain a clear area of major non-compliance amongst Cambodian factories. Heat in particular is a primary concern because of the way in which hot working temperatures contribute to instances of mass fainting in Cambodian factories. In addition, light and sound issues also pose a risk to workers' health.

Recommendations

- Amend the Law on Minimum Wage to remove all restrictions and in particular Article 7 to require employers to adjust piece rates in conjunction with the minimum wage to ensure that piece rate workers experience genuine wage increases;
- Brands must work to ensure payment of a guaranteed living wage based on a standard eight-hour work day, either by brands through an enforceable brand agreement or through an alteration in purchasing practices that requires and enables employers to pay a living wage;
- Brands must alter their purchasing practices to allow longer lead times so as to lower production targets for workers;
- Employers must stop using threats of contract termination or non-renewal to pressure and intimidate workers to fulfil rising production targets;
- Brands must conduct regular unannounced spot checks of suppliers alongside trade unions and NGOs to inspect working conditions and occupational health and safety.