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FAIR LABOR
ASSOCIATION

HUMAN RESOURCES MANAGEMENT (HRM)

Manual for China



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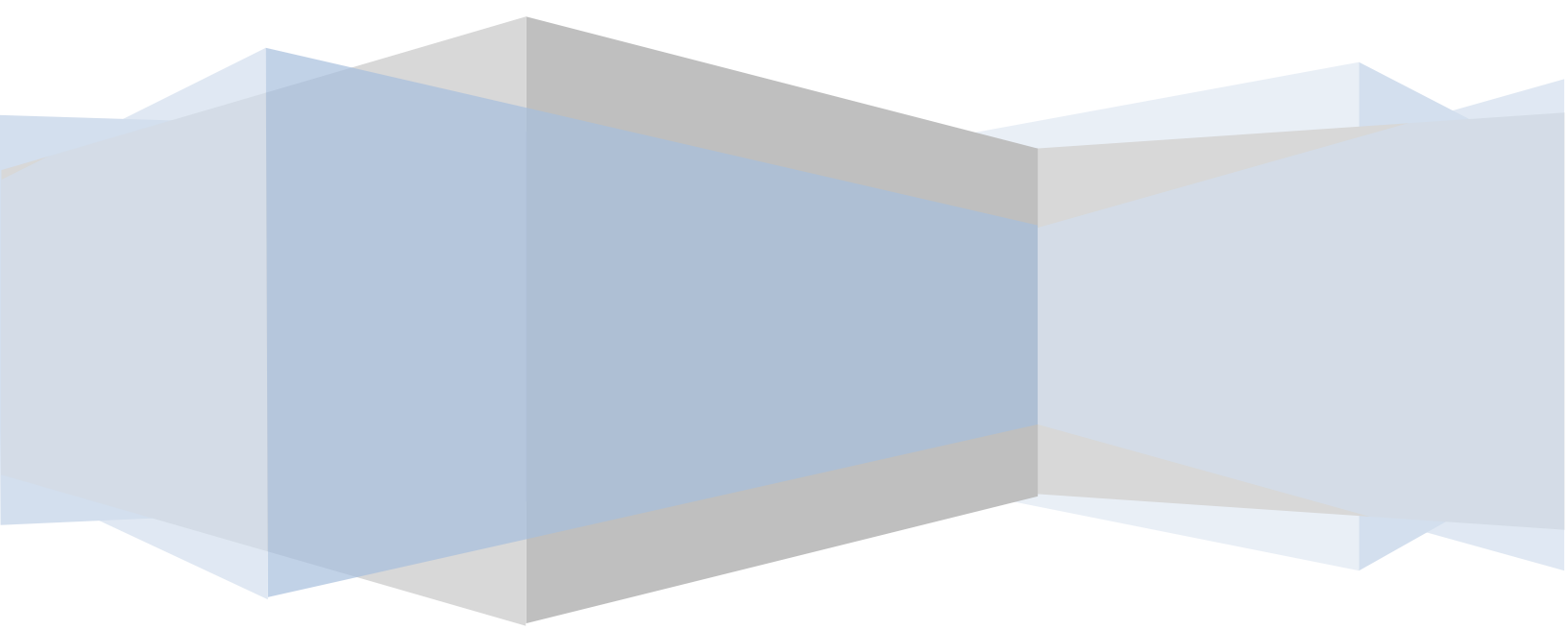


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I. Introduction: Human Resources Management (HRM)

Competition used to be all about price, quality and delivery. However, it is increasingly about service, innovation and above all, speed. Time has become the biggest single determinant of competitiveness. There are investments in technology and systems that can improve performance in terms of service and speed, but ultimately it comes down to the human resources that operate the technology and the systems. People are the greatest asset and source of competitive advantage that a company has. Many companies however, see people as a cost to be limited rather than as a resource to be developed. The introduction of human resource management therefore involves changes in attitude and in systems.

1.1 The Human Resources (HR) Function

The HR function connects people with activities and helps the company to be more efficient while meeting the demands of International law and of the customers' codes of conduct.

The main objectives of the HR function are:

- ❖ Provide the skills necessary to the smooth running of the enterprise, today and tomorrow,
- ❖ Maintain internal cohesion, fairness and efficiency,
- ❖ Define and update the principles of action and the values that guide such action,
- ❖ Ensure compliance with local, national and international regulations.

.....

II. Preamble: practical case and evaluation grid

2.1 Practical case

This manual draws on field realities in China as an attempt to respond to the core issues business owners come across.

We have chosen to focus on a real situation that we think sums up the core issues outlined on the one hand by the business owners we met and on the other hand, by the main strengths and the items to improve regarding the Human Resources management of the companies we analyzed. The practical case below identifies the stakes. Throughout this manual, you will then find the practical and theoretical aspects you can draw on to improve the Human Resources management of your company.

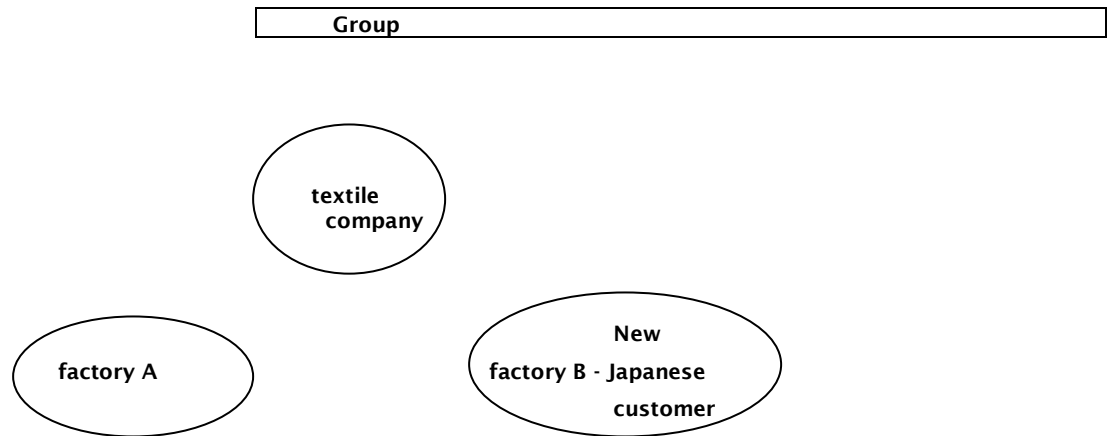
2.1.1 Statement of facts

The textile Company

The Company's activity is essentially dedicated to the production of sports clothing. It is part of a group and its headquarters are located in Hong-Kong. In Shanghai, the company has two factories. is subcontracted by big western groups concerned with the compliance of their code of conduct.

The production's requirements

The company must meet the requirements of international companies in terms of quality as much as quantity. In this regard, the Japanese company's requirements in terms of lead time and quality are greater than in other companies. The company's orders are handled by factory A.



Factory A has 500 workers while factory B has 450 workers. 90% of them are women. Each row of workers has a supervisor at its head. Several rows on a single floor are supervised by a manager. A production manager is in charge of each factory. One of the company's general managers runs the two factories with the help of two assistants. The relation with the group is provided by the vice-president of the group and the coordination-implementation of the social responsibility is provided by a manager based in Hong-Kong.

There's no real HR department but there is an administration of the staff divided in three departments with no obvious coordination. Three people are in charge of the management of working hours and absences. Three others are dealing with statistics, counting the number of "parts" produced per employee. Paychecks are processed by an accountancy department. There's no coordination regarding staff management.

The company's General Management is aware of some of the weaknesses and of the need for a new staff management policy. However, because of the lack of hindsight and training and because of a series of patterns giving priority to production management, such policy would require significant changes.

The implementation of a staff management policy in the medium term would first and foremost imply in-depth strategic thinking regarding the company's commercial and technical evolutions.

In order to determine the necessary types of changes to be implemented, we will analyze the strengths and weaknesses of the company's HR system, so as to draw up a business review.

2.1.2 Main considerations

The company is facing paradoxical injunctions that most subcontracting companies face. The questions the company is asking itself correspond to the issues it faces:

- How to increase production and standardize it between the low and the high season and between the two factories?
- How to improve quality? The level of bad quality and scrap is high, ranging from 15% to 19%.
- How to reduce the management's and workers' turnover? The workers' turnover is high, especially in factor B. The Japanese customer has high quality requirements which often mean having to do the work all over again. Since the workers are paid by the job, they have a feeling of inequity compared with the workers of factory A which has a lower turnover. The managers' turnover is close to 100% while it usually is closer to 25% in Chinese factories even though the textile industry has a higher turnover than other factories.
- How to improve the compliance with the customers' international standards and those of FLA (respecting overtime hours) in an economic context where competition is intense.

2.1.3 Analysis (carried out after a week of audit mission on field)

Lack of common vision

- No common value or vision formalised or shared at company or factory level. Each manager has its own vision of management and group values and has not yet understood the customers' and the group's values.

Lack of staff administration and HR monitoring

- **No HR guidelines and procedures**
- **No collection of all needed HR data and no analysis of these data.** A computer system dedicated to Human Resources allows for the collection of basic information which is then distributed and available to various users, which guarantees efficiency and real time. However, as with any information system, its relevance is limited to the

quality of the information collected if the information entered is partial or erroneous or if there are losses in the system.

- **No real HR department or HR manager.** The splitting up of the Human Resources duties between three different departments (Accountancy, Administration and statistics) and the absence of a manager to co-ordinate all the HR activities demonstrates that factory Y has no HR policy. Numerous plans of action have been implemented but they are still under the influence of administrative control. Therefore, the Code of Conduct of company X regarding the staff cannot be enforced in the long run and the staff is still a variable when it comes to cost issues related to quality control or production.

Promotion and remuneration system

- No formalised rule for promoting people (no job description / no clear criteria / no HR control)
- The piece rate is known at the end of the production process (staff does not know in advance their monthly remuneration)
- Monthly wages vary a lot, leading to a great dissatisfaction of the workers and therefore causing the turnover to be very high. Contrary to any basic principle imposing a minimum wage to the worker, his/her wage depends on the number of parts they will manufacture with a price for each part determined by the supervisor, after the job is done, thus causing great instability. Because of this, the presentation document showing the minimum wage is very confusing for the worker, because the number of hours done is never taken into account, even though this document is normally directed to customers.
- Management partly paid on hourly basis could sometimes lead to useless overtime hours.

Management system

- No job description and appraisal system. The descriptions starting to be written for executives (which is rather positive) are too often about the sanctions and not enough about the objectives of the job itself,

- The Management feels that it needs training in HR and management. They're not familiar with the code of conduct, as well as with the different definitions and concepts (value=authority, management=improving production)
 - Need for Teambuilding at top management level.

Workers' representation

- The election of staff Representatives is quite a new practise (in one of the two factories) and is not yet effective. As a consequence, there is no real counter power or safeguards against biased decisions or potential discrimination. The manager is overwhelmed with complaints he has no time to handle, the production managers feel like they're losing face when the manager agrees with the employees and threaten to resign, which happens to be a problem when there's a lack of production managers. The Management is aware that trained and efficient staff Representatives would help solving this particular problem at least.

VII. REMUNERATION

7.1 The different objectives of a remuneration system

Remuneration represents an important cost for the company and therefore greatly affects its competitiveness. As a result, the relevance of the adopted policies and their coherence with goals the company sets for itself in terms of remuneration, of staff management and more generally in terms of competitiveness is part of the components of a rewarding and efficient remuneration system.

Each company must therefore adopt a remuneration policy aiming at achieving the balance between its result objectives on the one hand and the satisfaction of its own staff on the other hand.

Remuneration is an essential element of the relationship between the company and the employee; for the employee, it is a factor of motivation, gratitude and consideration that he/she will consider as fair internally and externally, when the system appears to be transparent and objective and allows him/her to have decent living conditions as specified by the ILO.

That way, the remuneration policy must allow the company to accurately determine remunerations for each position, from the top to the bottom of the pyramid and to define the way a function is going to be remunerated and to what extent that remuneration has to be modified.

In short, transparency and equity in the remuneration system are essential to achieve the company's strategic goals:

- Each employee must find in his/her remuneration the consideration of his/her work and participation in the company;
- This also means that the remuneration system must be transparent (the employees must understand and agree to the rules) and abide by certain common principles (remunerate skills and reflect qualifications...)

The two objectives of a remuneration system

Table 16

Objectives		
Objective 1	Improving external competitiveness by comparing the company's wages with those in force on the labor market for the intended skills (surveying employees).	<ul style="list-style-type: none"> • Attracting the best employees and keeping them. Reaching competitive levels in terms of quality and quantity. • Maintaining an appropriate level of satisfaction for employees regarding their wage in comparison with other competitors.
Objectif 2	Improving internal equity by implementing: <ul style="list-style-type: none"> • A wage hierarchy as rational as possible according to each position as well as an objective consideration of skills, working experience, and individual and collective performance. 	<ul style="list-style-type: none"> • Preventing an unwanted and expensive absenteeism and turnover rate. • Guaranteeing the objectiveness and transparency of wages according to skills, seniority...

There's no magic formula, only certain tools enabling businesses to reach a balance between the company's and the employee's needs.

7.2 The different remuneration systems allowing companies to achieve those various objectives

An inconsistent remuneration system which doesn't give the possibility to achieve the company's objectives. Case of the Company (ILO report)

The Company doesn't have any specific remuneration system or objective criteria. And the company at present clearly does not appear to have a pay classification grid. The only information taken into account by the management to fix wage to a worker was the levels for his/her category/profile on the labor market.

The enterprise just had to pay more than the market to recruit the workers. However this means that once the worker was hired there was no pay classification system that could help in progressing along the wage and grading scale. Not only this system is very approximate - with potential injustice between peer workers for similar experience and skills - but it is also not motivating for the workers since they have no way to compare their wage with their colleagues. They also have no criteria to understand how to progress along a non-existing wage scale.

The manager acknowledged that there was a need to introduce a more coherent wage system that would better remunerate workers according to their initial skills, education and professional experience.

7.2.1 Base salary and individual & collective incentives

Setting remuneration presupposes that the company has primarily planned out its remuneration policy by big category (managers, supervisors, workers) and by factor (i.e. the components determining wages) that it wishes to pay first. The company needs to clearly determine what it intends to do in terms of remuneration, in consistency with the objectives it pursues (see part III).

The different types of remuneration and their impact:

Table 17

I	Base salary	Attracting, reassuring	motivating,
II	Individual and collective incentives		
	Allowances and bonuses linked to individual performance	Motivating, employees	retaining
	Seniority bonus	Motivating	
	Allowances and bonuses linked to the company's performance	Motivating, employees	retaining
	SAYE scheme, the employee's participation to the company's results, the employee's shareholding	Motivating, employees	retaining
	Benefits in kind	Attracting, retaining employees	committing,
	Social benefits	Retaining	

Base salary

Even though free wage-setting is the rule, you may however come up against obligations that you must follow. Otherwise, you may be subject to a bad reputation, legal or market problems because you can lose all your customers or create a big turnover. The main obligations are:

- Minimum wage guaranteed in their country
- Legal overtime premium pay
- Respect of other agreements (with unions)
- Non-discrimination and equal remuneration of men/women, migrants
- Limitation of deductions
- Giving a pay slip itemizing the payment method
- Banning financial sanctions
- Base salary must be set in the employment contract
- Preliminary information about the remuneration system
- Distinguishing, in the pay slip, normal working hours and overtime hours, and setting corresponding wage rates.
- Other remuneration sources must appear in the employment contract

Basic principles

The base salary can be calculated on the basis of working hours or based on the task to carry out;

For the former, the wage must be a weekly payment or must at least be paid according to a fixed number of hours that the employee is supposed to do every month. That way, each employee knows beforehand the minimum wage he/she will get, which allows him/her to ask for a loan and plan his/her expenses.

Piece rate is progressively abandoned in many countries and sectors because **it does not motivate the employees** and does not allow the company to keep them as the case of the Company shows.

The lower you are in the social hierarchy (worker), the less flexibility there is. The employee must get a base salary for which the calculation method must be known beforehand (contract). Flexibility is limited to a certain part of the remuneration (collective or individual incentives) which gets even higher as you climb the social ladder (not the contrary).

Even the best piece rate system is useless if it is not linked to a good corporate atmosphere, clear missions, a good information flow and a non-ambiguous definition of skills.

An employee is happy with his/her remuneration when:

- The amount seems fair to him/her internally and externally
- The remuneration system and its management seem consistent to him/her
- The criteria to determine the level of remuneration are known and relevant

Calculation of overtime hours as part of a piece rate system to attract, motivate, reassure the workers and meet the expectations of international law and of the customers' codes of conduct.

The base salary should be paid on a monthly basis and should be based on work time, as part of a remuneration grid consistent with the company's policy and transparent for the employees. As for individual and collective bonuses, they are useful for motivating the employee.

However, if the company would still rather use a piece rate system, the base salary rate of each part -according to which the output rate shall be calculated-, and the calculation method of overtime hours must be known by the workers beforehand, in order to respect the basic principles of any aforementioned remuneration system.

Practical case: the Company

Pay systems in the Company were clearly dominated by the piece rate system that did not leave much flexibility for any other type of wage practices. Workers were able to reach the target average wage of the company only through carrying out overtime. This over-reliance on the piece rate system also implies that wages of production workers was totally flexible, with the only guarantee that they will be paid the minimum wage. Work time is deducted but not taken into account. Wage fluctuation is even more important since the worker is at the bottom of the social ladder. The minimum wage earned does not correspond to the number of hours done. The workers are aware of their piece rate wage only after their job is done, which leads to a significant feeling of insecurity. Therefore, the company does not respect the basic principles to motivate the workers and run the (known) risk to reach a high turnover. This turnover represents a risk for the company that must hire and train a significant number of new employees.

How is the wage calculated for the employees in the Company?

The piece rate is calculated on the basis of the amount of work carried out, regardless of the time spent working.

Let's observe the case of a worker paid on a weekly basis in the Company.

He/she earns between \$0.10 and \$0.30 per sewed item, without ever knowing his/her wage beforehand. Therefore, he/she has no reference point to know his/her wage according to the number of items sewed.

In order to comply with the Western customers' standards, the Company will grant the legal minimum wage set to \$80 for 40 hours a week to the employee, even if he/she doesn't achieve such wage thanks to his/her work (which is extremely rare).

However, piece rate is not linked to the work schedule because the worker can get \$80 no matter how many hours he/she works over 40 hours. This calculation therefore happens to be in noncompliance with the standards of the Western customers' codes of conduct. It is not very rewarding especially for the employees of factory B, who are compelled to start the work all over again more often than in factory A because of the customer's demands.

How to calculate overtime hours?

To calculate the remuneration of overtime hours of pieceworkers, an hourly rate for a certain period of payment must be determined, normal working hours and overtime hours must be counted during the period of payment, and then wages must be calculated.

A single base salary must therefore be attributed to all workers in both factories in the case of the Company. **Incentive bonus plans will help to increase the wage but can never lower it.**

The reference price of piece rate can be the minimum price (\$0.10), but it would be more attractive to calculate the average item rate prices (base salary) which will be calculated by dividing the sum of all items to the number of items. For example, the average price in the Company could reach $(0.10+0.15+0.20+0.30)/4 = \0.18 . Whatever the decision of the company may be regarding the basic price, the price must include the number of hours worked and the legal threshold to calculate overtime hours.

If during the period of payment, the worker sewed 1,000 items, he earned a total of \$100 ($0.1 \times 1,000$) for 45 hours of work.

To calculate the hourly rate, the following formula is used:

Wage	=	Hourly rate	or	$\frac{\$100}{45}$	=	\$2,22
Number of total hours				45		

The hourly rate must at least be equal to the hourly rate in force in the country or at least \$2.22 if this rate is more favorable. In the case of the Company, the legal hourly rate is 80/40, that is \$2 per hour. The hourly rate of the company is therefore more favorable.

The worker did 40 normal hours and 5 overtime hours. The hourly rate (\$2.22) multiplied by the number of normal working hours (40) becomes his/her normal wage for this specific period of payment (\$88.89). That is $40 \times 2.22 = \$88.89$.

The remuneration rate of overtime hours corresponds to the hourly rate (\$2.22) multiplied by 1.5 (This rate corresponds to the additional cost of overtime hours in comparison with the normal hours worked but it differs depending on the country). The remuneration rate of overtime hours ($2.22 \times 1.5 = \$3.33$) multiplied by the number of overtime hours (5) becomes the remuneration of overtime hours for this specific period of payment (\$16.67).

Therefore, the total wage will correspond to the sum of the normal wage (\$88.89) and of the remuneration of overtime hours (\$16.67), that is \$105.56.

Since the worker has already earned \$100 as a piece rate, the surplus of \$5.56 would become the employee's remuneration of overtime hours.

Individual and collective incentives

As we saw with the factory, the wage-fixing system remains dominated by the piece rate system and does not leave enough space for rewarding different education and skills levels, as well as for linking wages to individual and collective performance on the basis of more objective criteria. Pay systems should thus be reformed within a more coherent system, and with the objective to tackle different 'fair wage' dimensions: to progressively introduce a classification and pay grid; promote a series of other incentives either monetary -for instance related to enterprise profits- or non monetary as accommodation and meals; to promote social dialogue around all wage issues.

At the same time wage issues should also be addressed along the supply chain, to make sure that suppliers will be allowed to carry out the necessary wage policy reforms in order to respond in a more balanced way to the increasing international demand.

The different forms of bonuses can be on an individual or collective basis.

Remunerating individual performances

In many textile companies and particularly within the Company, bonuses are only about quantity (number of produced items). The quality is indirectly taken into account, not as an incentive but as a penalty since bad quality work is not paid, which leads to a feeling of inequity between factory A and factory B which has a more demanding customer in terms of quality. As part of a survey carried out by the ILO, the interviewed employees feel that it is unrewarding not to have their skills taken into account in the remuneration. Such dissatisfaction includes risks of demotivation and stress linked to the absence of a base salary.

The company may remunerate:

- Regular attendance: Many bonuses can be awarded to encourage the employees to be present. The most common bonuses are attributed when a worker hasn't been absent for any reason or duration;

- Insights or improvements found or implemented: suggestion box systems are a way to encourage employees to get involved in solving the company's problems or the problems within their work unit; bonuses can be granted to the whole group who came up with such ideas; participative management initiatives such as the composition of task forces, of flexible structures by project designed to develop a collective approach regarding certain issues.
- Performance: the quantity and quality of work.

Remunerating the employee as a team member

A policy of incentive according to the team's merit is rewarding, because of the link that is created between the team's performance and the remuneration. Collective incentives must fulfill three requirements: To have an information system useful for checking through the collective effort and the team's results, the team must be small enough for the individual effort variation to have an impact on the remuneration attributed to each employee (5 to 15 employees).

Remunerating the employee as a member of the company

Creating a link between wages and collective performance: Case of the Company

Linking wages to the company's profits is a way to involve the workers more closely to the company's performance, and thus also to be better associated to the information about profits and also eventually the decisions of the company. It is also a way for the company to make part of workers' wages more flexible according to its performance with thus less incidence on labor costs, with the flexible part increasing in periods of strong production and being reduced in periods of economic downturn. The introduction of such profit-sharing schemes could well complement a base salary that would come out from the pay and classification system (Part III).

7.2.2 How to progressively help the piece rate system to evolve towards a more attractive system for employees

To determine its remuneration policy, the company shall:

- Analyze the decisive elements of the wage the company currently gives by category
- Determine the decisive elements of the wage the company should give
- Set the decisive elements of the wage the company intends to favor from now on
- Rank priorities

Analyzing the decisive elements of the wage the company currently gives

Self-evaluation questionnaire: this questionnaire is designed to identify the remuneration criteria which currently are the most important criteria and which the Management intends to favor from now on.

In the following table, choose what you believe are the most important criteria. Choose 5 or 6 criteria and rank them in order of importance, by awarding 5 points to the most important criterion, then 4 points for the second one...The total number of points can't exceed 15. Draw up an assessment work for executives, supervisors and workers.

Table 18

	Criterion	Rank Unskilled worker	Rank Skilled worker	Rank Supervisor	Rank Management
1	Age				
2	Seniority, loyalty				
3	Degree				
4	Individual performance (number of items, quantity)				
5	Multiskilling				
6	Performance of the work team				
7	Company's performance				
8	Presenteeism				
9	Good terms with workers				
10	Respect safety rules				
11	Tasks and responsibilities				
12	Work time done				
13	Individual performance (quality)				
14	Normal working hours				
15	Overtime hours				
16	Skills				
17	Complexity of the production process				
18	Other: specify				

Determining the elements the company should remunerate

Discuss the results with the Management team, and fill in the questionnaire, this time asking yourself what should be remunerated.

Compare both tables for each category (example Company).

Fill in the following questionnaire for unskilled workers and do it again for each category. Then, compare the two following tables with table 18.

Table 19 Example for unskilled workers in the Company

	What does the company currently remunerate for unskilled workers (Company example)	Problems resulting from this remuneration	What remuneration would be acceptable (example Company)
1	Age	no	No
2	Seniority, loyalty	no	Yes
3	Degree	no	Yes
4	Individual performance other than the task itself	no	Yes
5	Multiskilling	no	Yes
6	Performance of the work team	yes	Yes
7	Company's performance	no	Yes
8	Presenteeism	The employee is doubly penalized as he can't achieve his/her output goals	yes
9	Good terms with workers		
10	Respect of safety rules	Not taken into account	Yes
11	Tasks	Wage insecurity	No
12	Individual performance (quality)	Penalizes the employee as he/she can't achieve quantity goals	Yes, with specific criteria to motivate the employee and not to penalize him/her
13	Normal working hours	Is not really taken into account (see part II) and leads to a lack of understanding from the employees	Yes
14	Overtime hours	are not really taken into account (see part II) and leads to a lack of understanding from the employees	Yes
15	Skills	Not taken into account, leads to a demotivation of skilled workers	Yes
16	Complexity of the production process	Not taken into account, leads to a demotivation of skilled workers	Yes
17	Other: specify		

From then on, the discussion can start for each category since the company can no longer expect the same skills from a worker (among which are beginners, senior workers, skilled and unskilled workers), an employee, a supervisor or a manager.

Ranking priorities

From the elements of column 3 (what remuneration would be acceptable), the company must name those it wishes to value (4: most important, 1: least important)

From the elements of column 2 (problems), three categories are needed:

- The elements the company should get rid of first or the elements which should evolve towards more adapted incentives (1)

- Those the company should get rid of in the medium term (2)
- Those the company will probably have a hard time to get rid of without the time needed and the progressive awareness of managers and workers (3)

Table 20 Example for supervisors in the Company

	What does the Company currently remunerate for supervisors (Company example)?	Problems	Prior ity	What remuneration would be acceptable?
	Age			Age
	Seniority, loyalty	While the Company has a significant TO, seniority is not rewarded	1	Seniority, loyalty
	Degree			Degree
	Individual performance (number of items, quantity)			Individual performance (number of items, quantity)
	Multiskilling			Multiskilling
1	Performance of team work (quantity)	The team's performance is assessed but the quality of management, respect of safety rules, absence of work accidents and respect are not	4	Performance of team work (quantity)
	Company's performance	Help diminish the turnover	3	Company's performance
1	Performance of team work (quality)	Bad quality is penalized as it has an impact on quantity. It is not an incentive	4	Performance of team work (quality)
	Presenteeism			Presenteeism
	Good terms with workers	Efficient management is not assessed	4	Good terms with workers
	Respect of safety rules	The respect of safety rules is not assessed	4	Respect of safety rules
	Tasks and responsibilities			Tasks and responsibilities
	Individual performance (quality)			Individual performance (quality)
1	Normal work time		4	Normal work time
1	Overtime hours	Supervisors are paid for overtime hours while pieceworkers are not (effectively), which leads the supervisors to tend to let the workers work in the workshop even though the job is done.	4	Overtime hours
	Skills		4	Skills
	Complexity of the production process		4	Complexity of the production process
	Other: specify			Other: specify

7.3 The means to implement the remuneration system

An efficient remuneration system requires a social dialogue with the staff representatives, a wage scale with decisive elements understandable from everyone, and an efficient remuneration management system.

7.3.1 Dialogue with staff representatives

The case of the Company: Improving social dialogue on wages

The introduction of a bonus related to individual performance intended to reward better performance on the basis of an evaluation process was not always understood by the workers. The signature of a collective agreement would have the advantage of clearly defining the contents of wages and working conditions, and help the workers to better understand not only the management policy but also their trade unions' influence and initiatives. It would help workers in participating more actively in the wage-fixing process.

For instance, at the factory, workers were not sure that wages in 2007 had reflected price increases although nominal wages had increased by 12 % against a 5.5 inflation rate in the province. Open negotiations around **wage increases rather than unilateral decisions of the management even if taken in consultation with the trade unions would ensure more transparency of the whole wage-fixing process**, and may insure better 'fair wage' practices. Not only workers' representatives should be involved in negotiating the average wage annual target but also associated on the progressive revision of pay systems, that is the use of the piece rate system and bonuses, as well as the eventual introduction of classification and pay grids and profit-sharing schemes.

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