



# Setting fair piece rates for homeworkers:

## Key principles and possible approaches

**This Briefing document sets out some broad principles to follow when setting homeworkers' piece rates. The principles can be applied to any method or process used for calculating piece rates, such as the two described in the appendices at the end of this document. The Briefing was developed by members of ETI's Homeworker Project<sup>1</sup>, and draws on ILO best practice guidelines.<sup>2</sup>**

Any policy for establishing good practice in the payment of homeworkers should aim to ensure that homeworkers are rewarded at least as well as workers carrying out comparable work on the employer's premises. Homeworkers should not face discrimination on pay.

Calculation of piece rates for a particular item must be based either on providing the homeworker with the minimum wage at the skill level they are working to, or on the going rate for that item, whichever is highest. It is also important that homeworkers are not out of pocket as a result of having to meet expenses in advance of being paid, or having to wait an undue length of time for payment.

### Setting the piece rate

- 1. The piece rate should be set at a level which means that *all* workers are able to earn the minimum wage.** If the rate is set on the basis of what the fastest workers can achieve, this means that many or most workers cannot earn a minimum wage during a normal working day. This would be in breach of the ETI Base Code.
- 2. Ideally, piece rate setting should be carried out with homeworkers working in their homes.** Homeworkers may not be able to match the speed required for a rate which is set under factory conditions, and preparatory work and packing, etc, may not be factored into the final rate set at a factory.
- 3. Employers should ensure that homeworkers do not have to bear the cost of additional expenses.** For example, homeworkers should not be out of pocket for expenses such as equipment or materials they are required to provide, reasonable utility costs, cost of travel to collect materials, time spent travelling to collect materials, etc. Homeworkers should be reimbursed for these expenses, either by:

- a) calculating and reimbursing actual expenses OR, where this is impractical
- b) calculating an approximate percentage for expenses which is added on to the piece rate. This rate may vary according to the tasks being carried out.<sup>3</sup>

- 4. Employers should recognise that homeworkers are being paid for their labour, not as subcontractors responsible for producing a final product.** Making deductions from homeworkers' wages for work which is deemed to be of poor quality is not good practice. If the homeworker is producing work which is regarded as substandard, then it should be the employer's responsibility to provide appropriate training and, if necessary, equipment, software or materials of a suitable quality.

Two practical approaches for setting homeworker piece rates – using time and motion studies (Appendix 1), and an empirical approach to setting piece rates in conjunction with homeworkers (Appendix 2) – are described at the end of this Briefing.

### Implementing the piece rate

In addition to the principles for setting piece rates, systems should also be put in place to ensure consistent payment. These should include the following elements:

- 1. A system for informing homeworkers about the piece rate.** For example:
  - Stamping the rate onto the cloth/item that the homeworkers will be using.
  - Including the rate in exporter's documentation. For example, the rate could be shown on job slips which homeworkers will see (and could also sign to show they had received the agreed rate).
  - Requiring contractors to display the rate prominently in locations where homeworkers will see it.
  - Working through trade unions and community organisations to disseminate information about the rate.

<sup>1</sup> See: [www.ethicaltrade.org/in-action/programmes/homeworkers-project](http://www.ethicaltrade.org/in-action/programmes/homeworkers-project).

<sup>2</sup> See for example ILO Home Work Convention 177 (1996); 'Employment of homeworkers: Examples of good practice', 1995.

<sup>3</sup> In Canada for example 10% is added to cover garment homeworkers' expenses.

## **2. A system to monitor/ensure payment of the piece rate.**

This could be based on an extension of existing 'paper trails' established by exporter's documentation – for example, using homeworkers' job slips (see above). Under this model, approved contractors/sub-contractors would commit/sign up to maintaining the paper trail, as well as to ensuring that homeworkers are paid the agreed rate.

The systems put in place should enable manufacturers/exporters to monitor payment of piece rates, and could

potentially allow checks by Brand auditors or others (eg unions/homeworker NGOs). Involving representatives of local trade unions and/or homeworkers' organisations in monitoring payment of piece rates (and other elements of the Base Code issues) will improve the sustainability and effectiveness of implementation and monitoring. Additional funds may be needed to support NGO/union monitoring and activities with homeworkers, but these are likely to represent a more cost-effective use of resources than auditor fees.

## Appendix 1. Using time and motion studies to set homeworker piece rates

Setting piece rates is complex, and appropriate expertise may be needed to do this accurately. This appendix describes a simplified approach to carrying out a time and motion study, which could be used for setting piece rates for homeworkers.<sup>4</sup> Key steps are described below and summarised in **Figure C** at the end.

### 1. Carry out necessary tests to find the 'average hourly output rate' for the specific piece or task.

The average hourly output rate is the number of pieces and fractions of pieces that workers produce in one hour. This can be worked out by timing workers while they complete a specific piece or task.

To make the test as realistic as possible:

- Choose homeworkers who are already undertaking this work, rather than asking a factory worker to do it or bringing a homeworker into a factory setting.
- Do the test in the location where homeworkers carry out their work. This not only means that it is carried out in a realistic location, but it also helps ensure that setting up and administrative tasks (both of which are often carried out by others when done in a factory setting) are included.
- Choose workers who work at a representative speed, ie not the fastest workers. (Homeworkers will usually have a good idea of who could be considered to work at an 'ordinary' speed.)
- Time a minimum of five homeworkers<sup>5</sup> as they complete the task in question. This helps ensure the measure is realistic, as well as engaging homeworkers in the concept of a fair piece rate, and increasing communication of the rate once it is set.

### 2. Set the piece rate at a level which means that all workers are able to earn the minimum wage.

Because the person overseeing the test only times workers over a relatively short period of work, the system for extrapolating timings of individual work processes into a work rate that can be maintained throughout the working day must include factors to allow for

- Fatigue and rest breaks.
- Time for setting up the work station.
- Time for packing and unpacking materials.
- Routine administration.

The rate should also allow for reasonable variation in speeds between workers. If for example, the rate set is equal to the average rate of a sample of workers, this will inevitably mean that 50% of workers would be unable to achieve the minimum wage – see **Figure A**. However, including a correction factor of 20% would mean that practically all workers would be able to achieve the minimum wage<sup>6</sup> – see **Figure B**.

The calculation would then be as follows:

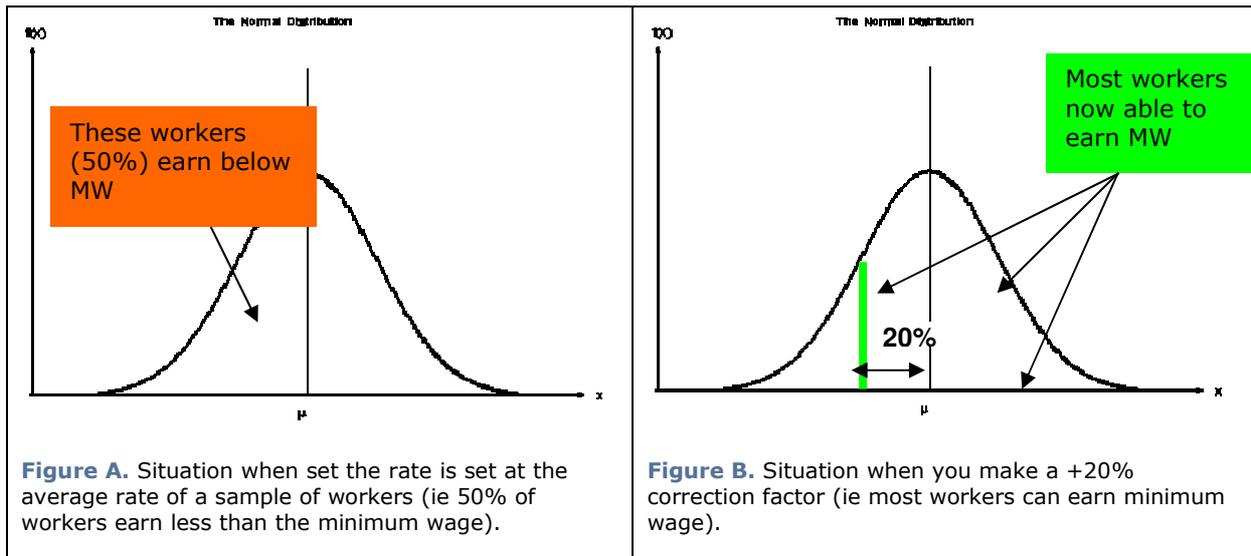
$$\text{Piece rate} = \frac{\text{Minimum wage (per day or hour)}}{\text{Average output (per day or hour)}} \times \frac{120}{100}$$

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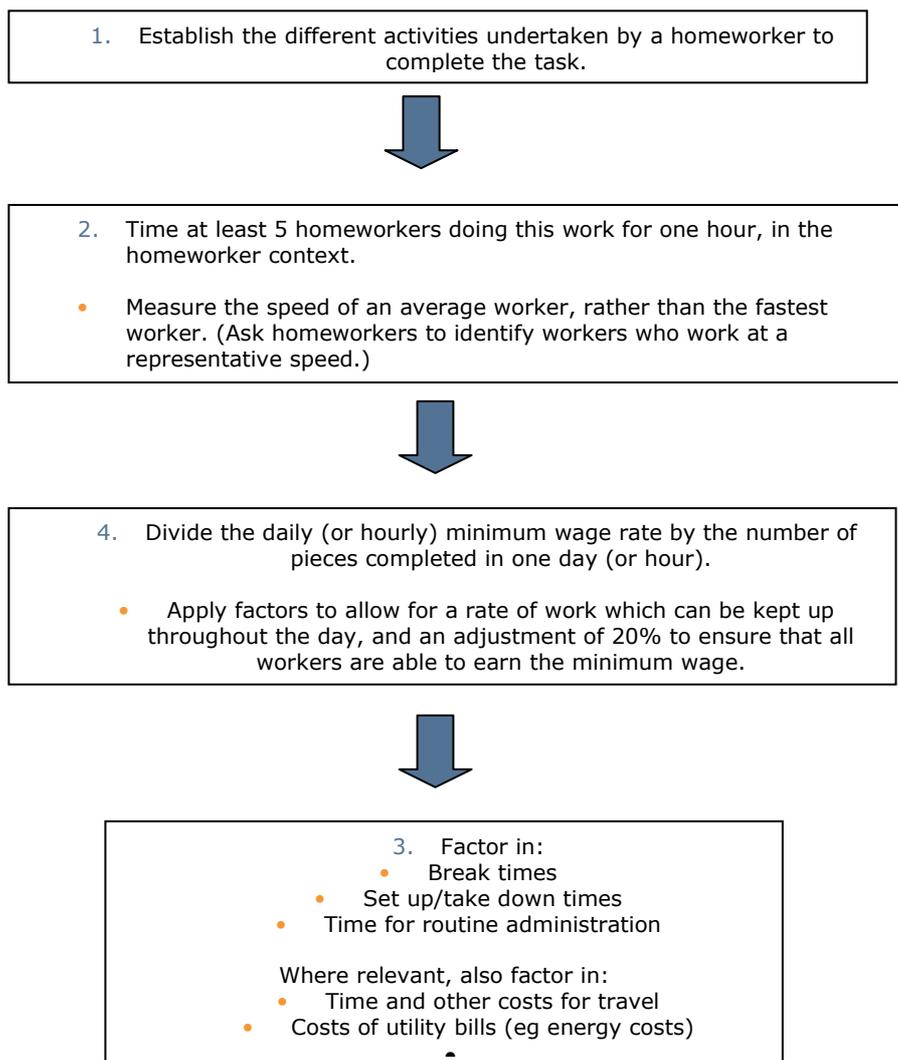
<sup>4</sup> This methodology is used by some of the members of the UK Homeworker group.

<sup>5</sup> While for example the US Department of Labour allows for rate-setting based on observation of a minimum of three workers, many time and motion studies are based on a much larger sample of workers (homeworkers or otherwise), so that piece rates take account of diverse working techniques, left and right-handed workers, etc

<sup>6</sup> The UK is one of a few countries with legislation on piece-rate setting. The UK National Minimum Wages Regulations apply a 20% correction factor (as used in this guidance) to ensure that all piece-rate workers can achieve the minimum wage.



**Figure C.** Summary of the process of setting a piece rate through a time and motion study.



## Appendix 2. Using an empirical approach to setting the piece rates in conjunction with homeworkers

This is an empirical approach to setting homeworker piece rates which is based on asking homeworkers what a fair rate should be. Key steps in this approach are shown below.

### 1. Hold discussions with homeworkers

Homeworkers typically have a good understanding of how long it takes to carry out particular types or pieces of work. Discussions with homeworkers can be used to determine a fair rate by asking them how many pieces they can carry out during a normal 8-hour day.

Discussions should be:

- led by a trusted facilitator;<sup>7</sup>
- held in groups of six or more homeworkers.

Make sure homeworkers include consideration of:

- Involvement by other family members, including children who are helping their parents by sorting or preparing materials. This may be overlooked by homeworkers themselves and can be prompted during the discussion, by asking them to describe all the processes and people involved in production and the tasks they do. (Unless this is included, family members will not be remunerated for work they are carrying out, and there will be a further barrier to the remediation of child labour.)
- Materials provided by homeworkers. For example, in traditional craft work, homeworkers may gather and prepare raw materials, and may not think to include this in their calculation of time and costs incurred.

Box 1 provides more information on questions that can be used during discussions to explore piece rates with homeworkers.

### 2. Calculate the piece rate based on information provided by homeworkers

An example of how this might be done for embroidery work done in North India is set out below.<sup>8</sup>

**Production per 8 hour day:** During discussion, homeworkers initially state that they can produce around 15 pieces of embroidery/beading during a normal 8-hour day. However, through further discussion it emerges that other family members would also be carrying out work, in particular: preparing embroidery frames (2 hours per frame, one frame holds 20 pieces) and sorting and stringing beads (3 hours per day for those 15 pieces).

Production of 100 pieces therefore involves the following:

Information from homeworkers – per day		Hours taken for 100 pieces
Embroidery/beading:	15 pieces in 8 hours	$(100/15)$ pieces x 8 hours per piece = <b>53.33</b>
Frame preparation:	20 pieces per frame  100 pieces requires $100/20$ frames = 5 frames  Each frame takes 2 hours	$(100/20)$ frames x 2 hours per frame = <b>10</b>
Sorting and stringing:	15 pieces takes 3 hours  5 pieces takes an hour ( $15/3$ )	100 pieces/5 pieces an hour = <b>20</b>
		Total hours = <b>83.33</b>

<sup>7</sup> Ideally these discussions would be led by someone who is not seen as having a direct financial interest in the level at which rates are set, for example a Project Officer or the manufacturer's QA staff, and preferably not contractors although this may be unavoidable in many areas.

<sup>8</sup> Embroidery is used in this example. However, homework is part of a very broad range of production processes including food processing (nut cracking), packing (components, gift packs), etc.

**Minimum hourly wages.** The minimum wage in Delhi is Rs 248/day, equivalent to Rs 31 per hour (Rs248/8).

**Piece rates.** Based on the calculation of total hours per 100 pieces and the minimum hourly wage, the piece rate can be calculated as:

$$83.33 \text{ (total hours worked)} \times \text{Rs } 31 \text{ (minimum hourly wage)} / 100 \text{ (number of pieces)} = \text{Rs } 25.8 \text{ per piece}$$

### Box 1. Questions for exploring rates with homeworkers

*Start by explaining the objective of the discussion – to agree a piece rate which is equivalent to the legal minimum wage which factory workers are entitled to. Inform homeworkers what the daily minimum wage is (eg for embroidery/ skilled work).*

*Questions should be directed towards particular homeworkers, but it is not the intention that each homeworker should answer separately. Questions should help you identify typical production/outputs per day (Qs 1-3), whether or not that is representative of the group (Qs 4-6), and involvement of others (Qs 8-10).*

1. How many pieces do you usually make in a day? How long do you usually work for?

*If they are already working on a similar product:*

2. How many pieces did you make yesterday? How long did you work for?

3. How many can you produce if you work for eight hours?

4. Can all skilled homeworkers produce this many pieces in a day? (or are you a very fast worker?)

*Repeat question to the group.*

5. Can all skilled homeworkers produce this many pieces in a day, or is she/he just a very fast worker?

*Select another homeworker*

6. Would **you** be able to produce this many pieces if you worked 8 hours, or would you need longer?

*Questions 1, 2 and 3 should produce similar results about how many pieces they can make in a day/8 hours. For example, if a homeworker responds that they made 12 pieces during 6 hours of work yesterday (Q2), that would be equivalent to 16 pieces per 8 hour day (Q3). If responses do not match the answer to question 3 then further discussion may be necessary.*

*Using the information provided, ask the group:*

7. Is it fair to say therefore that homeworkers can produce X number of pieces in an 8-hour day?

*Explain that, if other family members are helping, it is important their work should be remunerated. For this we need to know about any part played in production by other family members.*

8. Do other members of the family (prompt: wife, daughter, children) help you with this work?

9. What tasks do they carry out?

10. On a typical day (or yesterday) how many hours did other family members work for? (prompt: wife, daughter, children)

*For crafts production using raw materials sourced by homeworkers:*

*Ask similar questions about who gathers or pays for materials. Add this time to the calculations of hours of work per piece, or calculate the cost per piece of raw materials if these are bought by homeworkers.*