Verité insights

The Tea Industry: A New Sustainability Approach

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What do unions do? In a landmark title by this name (1984), Harvard University economists Richard Freeman and James Medoff demonstrated that labour unions have two faces. One is confrontational and the other is cooperative. The confrontation face emerges when unions negotiate upwards the wages of its members; the cooperation face emerges when the union feeds back worker level information to management and uses its influence on workers to foster improvements in performance and productivity. Freeman and Medoff call this second cooperative element "voice". The union can give "voice" to insights accruing at the worker level and effectively "voice" to workers the needs of management.

Conundrum for the Tea Industry

Presently, the tea industry in Sri Lanka is in a serious conundrum. The industry believes that the cost of wages is too high, and that they cannot be further increased without losing financial sustainability. But the wage received by workers is hardly able to get them up to the poverty line even when both husband and wife of a household are employed (see Figure 1). It's a very poor sustainability strategy for Sri Lanka's prime export industry to depend on the necessity of having a permanent underclass of workers, who remain desperately poor, despite long and hard work under harsh conditions.

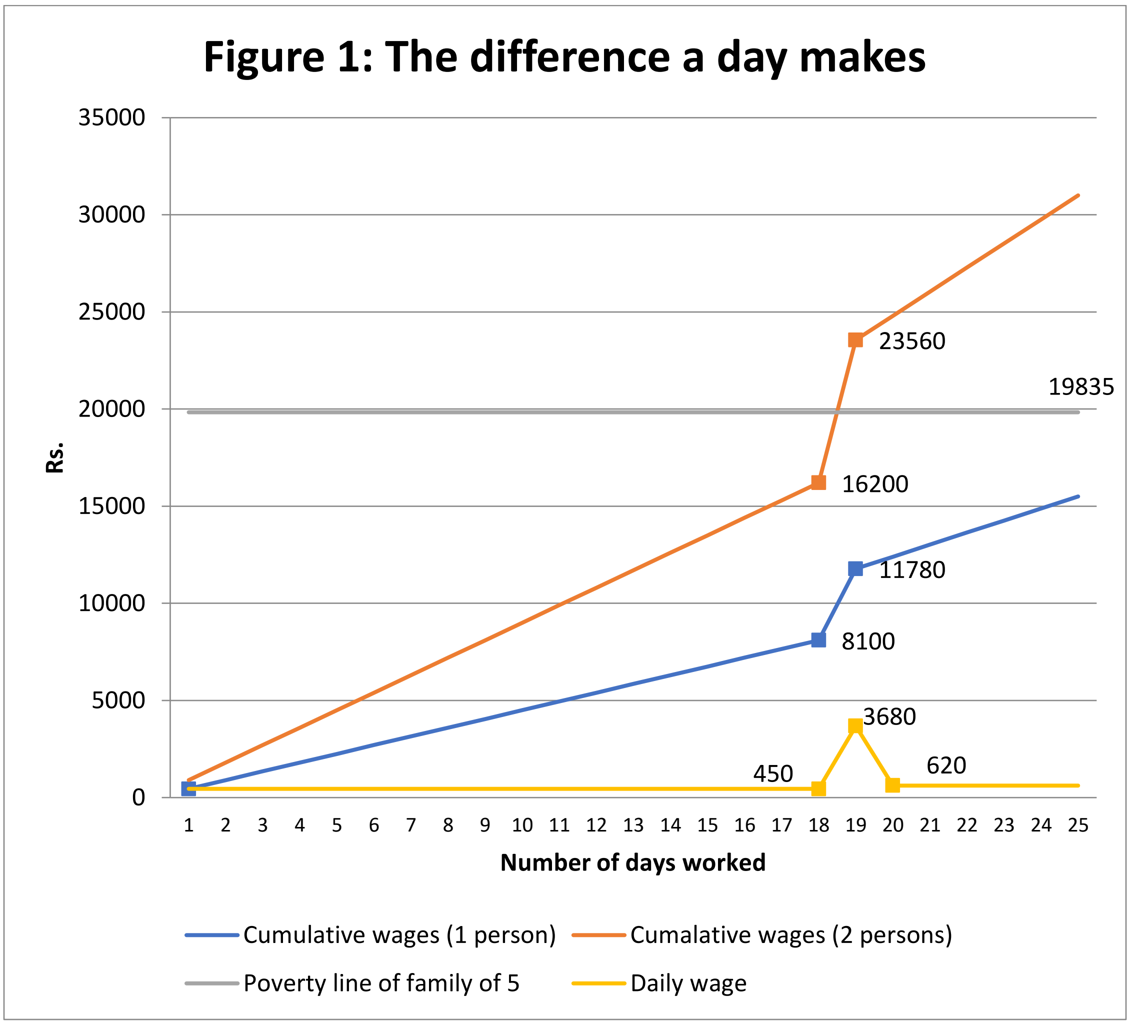
Economics of Bargaining

Economists recognise that in atomised market conditions the normal approach to "bargaining" is quite drastic. That is, to silently vote with your feet: individual blue collar workers exit industries that pay less and move to work that pay more. As economic opportunities increase this becomes more pronounced (the unemployment rate in Sri Lanka is reported to be 5 percent in the third quarter of 2015).

One reason for such drastic action is that workers ***as individuals*** cannot negotiate their wages or properly explain their problems to management. This is the case presently with the tea industry (and also, incidentally, with the apparel industry). If solutions are not found, capable workers will continue to exit these industries and the problems will become more severe. If solutions are delayed there will come a tipping point from which it will be very difficult for the industries to recover – workers who exit cannot be readily wooed back.

This is where the "voice" of unions can play an important role. They can prevent worker exit by providing "voice" to workers, and negotiating win-win outcomes with management. Essentially, unions are able to overcome asymmetric power, information and prisoner's dilemma type issues involved in individual bargaining outcomes- presenting **collective commitments** and **collective benefits** to both management and workers.

The Benefits of Cooperation



The previous VR Insight titled "A win-win solution for estate workers and management" demonstrated that both workers and management would stand to gain if the incentive structure of wages were changed. The present incentive structure implies daily payments in the form depicted in Figure 1. For a household of five (a couple with one aged parent and two young children) to rise above the poverty line, both husband and wife must work at least 19 days of 25 work days offered a month. This is because the effective wage for each person on the 19th day increases by Rs. 3680. In short it is a perverse payment model that can easily foster discouragement to work, when for reasons of illness or emergencies work days are missed early in the month, and the 19 day target seems unlikely to be achieved.

It is the cooperative function of unions to "voice" this type of worker level insight to management and help build wage structures that can better incentivise work. Having done so, the unions can also "voice" to workers the importance of increasing their monthly work-days and take responsibility for delivering collective performance improvement results. When unions take on the task of such collective education and encouragement of workers, they are not only likely to be more effective, but they also saves significant costs to the organisation which otherwise must undertake these tasks through costly management interventions and structures.

Fair Trade Concerns for Tea

Ceylon tea is a global brand. Increasingly, global consumers are more concerned with, and want to be better informed about, the working conditions of those who produce what they consume.

It is well known that Sri Lankan estate workers are an extreme underclass. Compared to the rest of the population they suffer severely diminished public services in terms of schools and hospitals. Their housing reflects slum conditions and their work involves constant exposure to the elements. All this is compounded by the problems in wage structures and income explained above.

Tea exporters should take serious note. Being too narrowly focused on labour costs can become counter-productive. After a brand is named and shamed by global watchdogs on labour rights, the respectability of that brand is not easily recovered. The point is to close the barn door before the horse has bolted.

Renegotiation of the plantation workers' collective agreement began in April 2015, is still ongoing. This is an opportune time for both the unions and management need to see beyond the confrontational face of trade unionism and invoke their cooperative face. The costs of failing to do so are serious, not only for workers but also for the industry and for Sri Lanka's economy.