

Improving Business Outcomes by Understanding What Matters to Workers

DECEMBER 2013

Evidence from ongoing Better Work impact assessment research in Vietnam shows that factory working conditions matter to the well-being of workers. And while managers may recognize this relationship and make investments that lead to better worker pay and safer workplaces, current research shows that improving worker well-being takes more than just managers perceiving and tracking progress. Rather, worker well-being typically increases only when workers themselves perceive that conditions have improved. If factory managers underestimate how a particular factory improvement can boost the well-being of workers, they are not likely to invest resources smartly. This can limit the intended benefits for both workers and the factory's bottom line.

I. KEY FINDINGS

Researchers conducting impact assessment of the Better Work programme have established that working conditions have a significant impact on the well-being of workers.¹ By studying the relationship between managers' and workers' perceptions of working conditions and worker well-being over a two-year period, researchers have found that managers of factories enrolled in Better Work might either perceive improvements in conditions where workers do not, or might underestimate the magnitude of the impact of working conditions on workers' well-being. Key findings include:

- **Greater compliance with core labour standards improves the life satisfaction and well-being of workers.** Workers report

greater levels of life satisfaction and well-being in factories with greater compliance with laws regarding child labour, workplace discrimination and forced labour.

- **Similarly, worker well-being is higher in factories where workers report better working conditions.** As measured by the perception of worker themselves, having a safe work environment, being satisfied with wage levels and having access to health facilities are the workplace conditions that have the most impact on worker well-being.
- **Managers may understand which factors affect worker well-being, but levels of well-being do not increase if workers do not recognize the improvements managers intend.** For example, human resource managers may understand that wages impact the well-being of workers. But if it is only the managers who think that workers' concern with low wages has decreased, worker well-being does not change. Greater well-being is observed only when workers themselves report fewer concerns with low wages.
- **Managers greatly underestimate the impact improvements in working conditions can have on worker well-being.** Managers and workers both recognize that the heat and ventilation conditions in a factory have a considerable impact on worker well-being. Workers, however, report that these occupational safety and health conditions affect their well-being at nearly four times the magnitude that managers estimate.

¹ Domat, G; Adler, P; Dehejia, R; Brown, D; Robertson, R (2013) "Do Factory Managers Know What Workers Want? Manager-Worker Information Asymmetries and Pareto Optimal Working Conditions," Better Work Discussion Paper No. 10.



II. BACKGROUND ON WORKING CONDITIONS, PRODUCTIVITY AND MANAGEMENT DECISION MAKING

Worker well-being can have a significant impact on productivity.² Ongoing research in Better Work factories indicates that better working conditions drive greater productivity, leading to higher profits and improving the chances of a factory's survival in an economic downturn.^{3,4} A factory environment with better working conditions not only improves the efficiency and effort of current workers, but also helps attract better workers.

Yet poor working conditions in garment factories—such as occupational safety hazards, unclear pay practices, and verbal and physical abuse—remain serious and persistent problems. If better working conditions generate higher profits, why would factories resist or delay implementing such improvements?

One explanation is that factory managers lack the information they need to make the right investments to improve conditions. A recent study demonstrates that the absence of good information prevents managers of textile firms in India from making sound business decisions. The study showed a 17 percent increase in productivity among a subset of Indian textile firms whose managers received previously unavailable information on international best-practice management techniques, such as quality control and inventory tracking.⁵ Researchers conducting the study found that information barriers had

prevented these factories from adopting such changes earlier.

Similarly, managers in garment factories who recognize the potential to boost their bottom line by improving working conditions might not have accurate information on which investments to make. This incomplete understanding can perpetuate poor working conditions and undermine efforts of well-intentioned managers to improve factory conditions. For example, reform-minded managers faced with investing limited resources among competing priorities could boost wage rates and benefits, improve workplace safety or invest in workplace amenities, among others changes. Each of these initiatives would have a unique rate of return on investment and impact on profitability. Without a clear understanding of what most acutely affects the well-being and productivity of workers, managers are unlikely to find that their investments in working conditions will pay off. Consequently, understanding what matters most to workers is critically important for maximizing the potential of higher productivity that results from improved working conditions and human resource practices.

III. RESEARCH APPROACH

To understand what factory conditions matter most to workers, researchers use impact assessment surveys to ask workers in Vietnam both about factory conditions and about their general well-being and life satisfaction. Managers are also asked about factory conditions, such as whether there are problems with worker pay, working time and occupational safety and health in the workplace, among others. With these data, researchers establish the relationship between workers' perception of different working conditions and their assessment of their well-being. They can also establish the relationship between managers' perceptions of working conditions and the well-being of workers. By comparing the difference between the perceptions, researchers are able to identify where there are gaps in managers' understanding of the working conditions that most affect workers' well-being. Compliance data from Better Work enterprise assessments are also used to understand whether compliance

² For example, see: Leblebici D. (2012) "Impact of Workplace Quality on Employee's Productivity," *Journal of Business, Economics and Finance* Vol. 1(1); Hackman, J. R. and G. Oldham (1976) "Motivation Through the Design of Work: Test of a Theory," *Organizational Behavior & Human Performance* 16, 250-279.

³ Brown, D; Dehejia, R; Robertson, R. (2011) "Working Conditions and Factory Survival: Evidence from Better Factories Cambodia," Better Work Discussion Paper No. 4

⁴ Brown, D; Dehejia, R; Robertson, R.; Veeragoo, S. (2013) "Are Sweatshops Profit Maximizing? Evidence from Better Work Vietnam," mimeo, Tufts University.

⁵ Bloom, N.; Eifert, B.; Mahajan, A.; McKenzie, D.; and Roberts, J. (2013) "Does Management Matter? Evidence from India" *Quarterly Journal of Economics* 128(1): 1-51.

trends affect the reported life satisfaction and well-being of workers. Researchers have analyzed survey responses from 3,526 workers and 320 factory managers in 83 apparel factories enrolled in Better Work Vietnam. Surveys were collected in factories between January 2010 and August 2012.

IV. FINDINGS

By analyzing the compliance reports and survey responses from managers and workers on working conditions and comparing them to the reports on well-being given by workers, researchers have identified the following main findings:

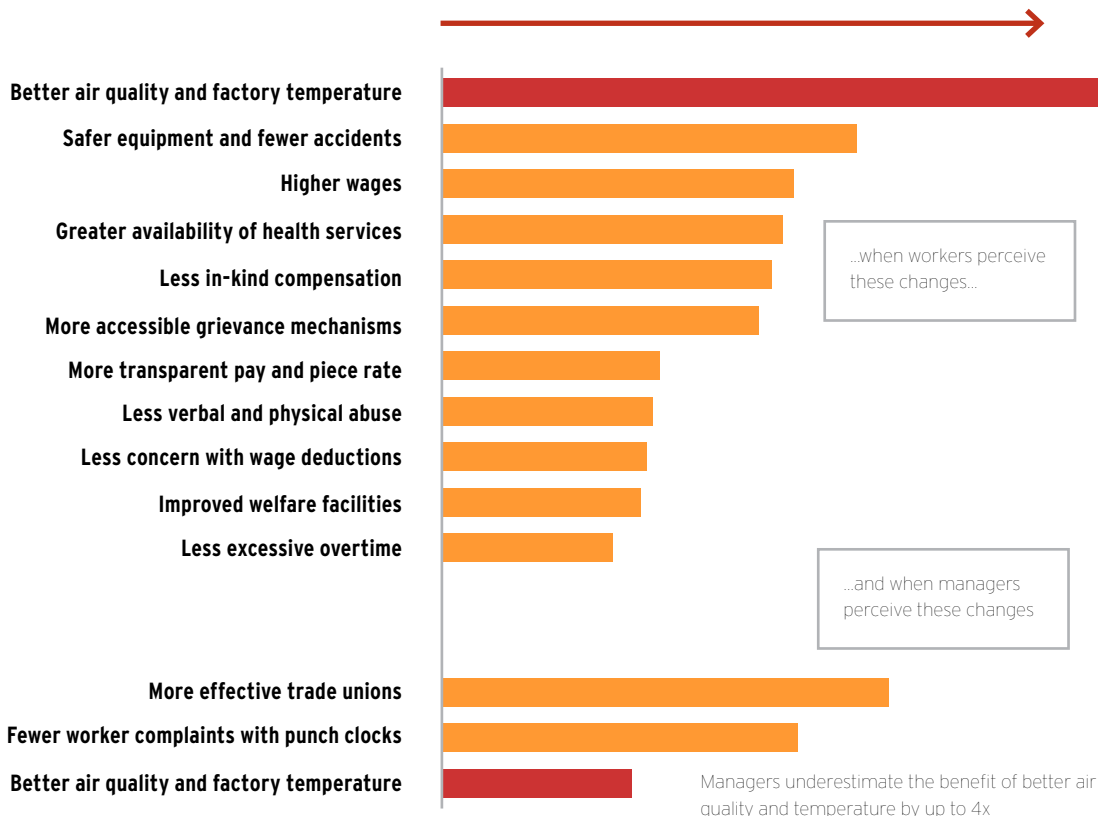
Greater compliance with core labour standards improves the life satisfaction and well-being of workers. Workers report statistically higher levels of life satisfaction and well-being if they work in factories that are in compliance on a variety of working conditions. In particular, current

evidence shows that factories in compliance with laws regarding child labour, discrimination and forced labour have happier and likely more productive workers.

Worker well-being is higher in factories where workers perceive better working conditions.

Factory working conditions have a significant impact on the well-being of workers. For each of the working conditions listed in Figure 1 below, the horizontal bars represent the relative impact on worker well-being resulting from a single unit improvement in workers' perception of that working condition. As the figure reveals, when workers perceive improvements in 11 different working conditions, their well-being increases significantly. Feeling safe from accidents and working in an environment with good air quality and comfortable temperatures are particularly important for the well-being of workers. Unsurprisingly, wages also significantly affect worker well-being—however, it is more than just the rate

FIGURE 1: Factory conditions and their relative impact on worker well-being



at which workers are compensated that affects their well-being. The variable “higher wages” in Figure 1 is based on a survey question that asks workers if they are concerned with low wages. As workers’ concern with low wages decreases, their well-being increases at a statistically significant rate. In addition, if workers have lower concern regarding wage deductions, in-kind compensation and excessive overtime, and believe pay practices are transparent, their well-being is positively and significantly impacted. Furthermore, workers have statistically higher well-being and life satisfaction in factories that are compliant with limits on working time.

In most cases, worker well-being will not improve if managers alone perceive improvements in working conditions. As seen in Figure 1, the list of working conditions that significantly increase worker well-being is much smaller when measured from the perspective of managers. The second set of horizontal bars represents the relative impact on worker well-being of a single unit improvement in each working condition, as perceived by managers. Improvements in working conditions reported by managers that do not statistically increase worker well-being are omitted from this figure. For example, although managers may be aware that wage levels affect worker well-being, worker well-being does not increase significantly if only managers believe that wage conditions are improving. This implies that in most cases, workers must also perceive improvements in working conditions for their well-being to increase.

Managers underestimate the impact improvements in working environment have on worker well-being. With an incomplete view of how certain investments can pay off in benefiting workers, managers will continue to be constrained in their ability to increase productivity. For example, managers may recognize that workers value the safety and comfort of a workplace, but they underestimate how important a safe environment is for the well-being of workers. In particular, managers greatly underestimate the impact that air quality and factory temperature have on worker well-being, as seen by the darkened horizontal bars in Figure 1. When factory managers perceive an improvement in

air quality and temperature, the well-being of workers in that factory improves significantly. However, if workers in that factory perceive the same improvement, workers’ reported well-being increases by nearly four times the level of improvement if just perceived by managers. This disparity suggests managers must find ways to better understand which working conditions affect the happiness of workers and to what extent they make an impact. With improved understanding, managers can then make factory investments and communicate these efforts to ensure the intended impact on well-being is actually felt by workers.

V. CONCLUSION

The results presented in this brief suggest there is significant potential to improve the well-being and productivity of workers by encouraging managers to better understand how improvements in working conditions are felt by workers. First, managers tend to underestimate the benefit to workers when they feel working conditions have improved. Greater dialogue between workers and managers, to the extent that it can promote better understanding of what matters to workers, can aid managers in prioritizing investments to improve both working conditions and productivity. Furthermore, managers should understand that their perception of having made improvements is not necessarily similarly felt by workers, and may be aided by greater communication about changes.

For full results, see:

Domat, G; Adler, P; Dehejia, R; Brown, D; Robertson, R. (2013) “Do Factory Managers know what Workers Want? Manager-Worker Information Asymmetries and Pareto Optimal Working Conditions,” Better Work Discussion Paper No. 10

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