

# Contractual Workforce Dilemma: The Intersection of Wage Violations and Sustainable Business Growth in Pakistan's Textile Sector

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## Abstract

**Purpose:** Contractual workers hire in textile and garment industry of Pakistan have high probability to receive wages that may not meet minimum wage standards and overtime payments. This inquiry depicts overtime payment and minimum wage violations among contractual workers observed during social compliance (SC) audits conducted for foreign buyers by social compliance auditors. Such violations have profound consequences for sustained business growth and supply chain sustainability with foreign buyers and often result in termination of purchase orders and prospect trade. The current study intends to investigate the association between hiring contract workers and minimum wage and overtime payment violations

**Methodology:** Fifty-four onsite audit reports on social compliance in export-oriented textile and garment factories in Pakistan were scrutinized. The investigator used the Z test for proportion and the Chi-Square test for association to test the hypothesis.

**Significance:** The present report may help minimize violations reported during the code of conduct audits. This may also ease the suppliers and factories in keeping sustained business growth with foreign retailers and avoid termination of trade, increasing trust and revenue. The current research

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may also help the factory management and government to make such policies that may help to rectify the existing problem that's not only violates international labor standards but also Pakistan labor laws.

### **Introduction**

The concept of modern slavery is a severe undervaluation and exploitation of abundant, replaceable resources primarily labor in the organizational quest to mitigate costs (Szablewska & Kubacki, 2023). This is especially prevalent in manufacturing sectors, where firms predominantly employ unskilled or semi-skilled laborers. Furthermore, globalization has contributed to certain trends, one of which is the proliferation of external collaborations, including outsourcing, subcontracting, and supply chains (Syed, 2023).

These trends, involving foreign buyers and multinational companies, have occasionally been linked to alarming issues like forced labor and slavery in global supply chains (Rahman & Chowdhury, 2020). The surplus of such workers intensifies their susceptibility to exploitation, creating a critical area of investigation, given the profound ethical and socio-economic implications involved. Paying employees for what they agree to work for may be an economically sound idea in terms of efficiency, yet its repercussions may lead to multiple social injustice ranging from deterioration of quality of life to rise in crime rate. Against this backdrop, the prevalence of modern slavery in the form of underpayment to employees is a relevant area to explore.

According to Textiles Intelligence (2022), the textile and garment sector in Pakistan has traditionally been a cornerstone of the country's economy, employing approximately 40% of the population either directly or indirectly and contributing to 61% of the country's total exports. However, rising competition from neighboring low-cost countries like Bangladesh, Vietnam, and Cambodia poses significant challenges to Pakistan's textile sector. These challenges emphasize the urgency to strategically address and navigate these cost disadvantages. Moreover, these cost disadvantages are further magnified by the regular increase in the country's minimum wage rate, a move to offset the reduced buying power due to persistent inflation.

Despite the pivotal role of Pakistan's textile and garment sector in the national economy, it is crucial to address the growing concerns related to sustainability and social compliance voiced by

international buyers. There is a noticeable gap in the literature concerning the practical measures the industry can adopt to align with sustainable business practices.

Inconsistencies exist in the textile and garment sector of Pakistan, particularly among minimum wage regulations and overtime compensation, for contractual and non-contractual workers. These disparities could hinder the sector's sustainable business practices, especially in light of the increasing attention international buyers are giving to social compliance. The situation becomes even more critical as factories that persistently breach these standards risk severing ties with international buyers.

Given these concerns, it becomes imperative to address specific questions to understand the depth of these issues and provide actionable solutions. This study aims to explore key research questions (RQs) related to non-compliance within the textile and garment sector of Pakistan. Firstly, it seeks to determine whether there is a significant difference in the minimum wage violation between contractual and non-contractual workers (RQ1). Additionally, it investigates the association between the type of employment—contractual versus non-contractual and overtime violations (RQ2). Furthermore, the study delves into the broader implications of these non-compliance issues for the sustainability and profitability of businesses in the textile and garment sector of Pakistan (RQ3).

In line with these research questions, the study outlines several research objectives (ROs). It aims to analyze and compare the proportion of minimum wage violations between contractual and non-contractual employees in the textile and garment sector (RO1). Another key objective is to determine the relationship between employment type and violations related to overtime payment (RO2). Additionally, the study seeks to evaluate the potential risks and implications for businesses due to non-compliance, including the potential loss of international contracts (RO3). Finally, it aims to provide recommendations for improving social compliance in garment and textile sector of Pakistan (RO4). By addressing these research questions and objectives, this study intends to contribute valuable insights for policymakers, industry stakeholders, and regulatory bodies to enhance compliance and sustainability in the sector.

To make themselves competitive in the international arena, textile firms look for immediate cost advantages. Luckily for them, and unluckily for employees and society, they find employees to be the ones who can be forced to work at lower cost. As governmental laws do not allow the payment of less than minimum salary, firms resort to using contractual employees. In Surat, 70 per cent of the power loom workers were from Odisha working on piece rates on long shifts and when the power looms shut during the lockdown, many were stranded without wages (Srivastava, 2020).

In this study, we empirically test our proposition of prevailing modern slavery in textile sector. We purport that employees' exploitation in the form of minimum wage violation and under payment of overtime will be more prevalent in textile firms that use contractual employees. Often, employers neglect labor law obligations like paying overtime or meeting minimum wage standards (Garnero, 2018). Vulnerable groups, including migrant workers, women, minorities, unskilled workers, and contractual labor, face these violations more frequently (Fine & Shepherd, 2021).

Textile and garments industry are the key source of generating revenue and foreign exchange for Pakistan. For the last two decades, this sector has been serving as the backbone for Pakistan economy. American and European retailers are the main sourcing agents for placing orders as far as manufacturers of Pakistan in textile, and garments are concerned.

In Pakistan, textile and garment industries opt various compensation practices for hiring labors. Labors are hired on (a) company salaries (b) daily wages, and (c) on piece rate (PR) basis. Salaries are generally negotiated at the time of joining between an employer and employee and are paid mostly monthly. Labors hire on daily wages are paid by dividing the minimum wage by the number of working days in a month. Manufacturers are expected to pay workers a fixed salary or daily wages regardless of the number of pieces produced (i.e., the number of pieces they produce daily or monthly)

Through the strategic outsourcing of labor, retailers and manufacturers can assert, within legal confines, that assemblers in the textile and garment sector are solely contracted through various independent entities, allowing principal companies to circumvent labor laws and tax obligations typically incumbent upon traditional employers (Howard 1997). This model not only raises questions about legal and ethical implications but also underscores the pressing need for stringent

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regulatory frameworks and enforcement.

Manufacturer is directly below the retailer in the commodity chain. Manufacturers are those who operate their own factories (Bonacich and Appelbaum 2000), referring to companies that produce in-house. Designing garments under their label or brands, arranging productions facility and selling goods to the retailer are some of the key functions of manufacturers (Bonacich and Appelbaum 2000).

Following the manufacturers, contractors and subcontractors are responsible for hiring cutters, machine operators, and pressers, as well as supervising the ongoing production. (Mazur 2000). To further save on costs, contractors, at times, also subcontract our work to other facilities that are usually unregistered, and without any legal contract.

Top-down price setting enables retailers to control manufacturers, who then pass on cost pressures to commodity chain workers (McGurrin, D 2007). To maximize profit, manufacturers seek contractors and subcontractors offering the most competitive prices.

Because of the highly competitive environment, contractors and subcontractors stay under tremendous pressure to gain an increasingly slim profit margin. By supplying low wages and “sweat out” the labor to stay in the business, workers are often forced to endure sub-poverty wages and unhealthy work environment. Miller (2013) argues that in the labor-oriented textile sector, material and labor costs are the main part of the total cost. All the other costs like material prices, exchange rate, utilities, fixed expenses, freight etc. are determined by the market forces, which is beyond the control of local manufacturer. However, to some extent manufacturers try to control the labor cost by hiring contractual workers.

To cut prices at a lower rate the manufacturers often move offshore and downsize their local operations. They seek those contractors that can deal with sudden changes and are more flexible in terms of production and labor facilities. By using contractors, manufacturers get few competitive advantages: they can outsource their labor so that they do not require managing recruitment, maintenance of their labors and legal benefits. In addition to that, because of high competition among contractors for grabbing business, manufacturers can often get the low bidder for an order (Loucky et al. 1994).

Since workers are mostly hired through contractors, these contractors are expected to manage all activities from hiring and production to overseeing compensation and benefits rather than the factory management. A significant portion of the set rate is claimed by the contractor instead of being fairly shared with the workers they hire. Additionally, because purchase orders in garment and textile factories fluctuate seasonally, these factories tend to hire contractual workers, especially in production, to minimize their liabilities.

To keep the prices competitive and merchandise as low as possible, to attract foreign buyers, the factory and supplier management often hire contractors who pay their workers on a piece rate basis. As McGurrin, D.,2007 stated

“It was during this time of unprecedented immigration and a burgeoning ready wear clothing market that the piece rate system (also known as the task system) developed in tandem with the contract system. The piece-rate system was often used to the advantage of the shop owner who contracted or subcontracted out the cutting and sewing to home workers. If the worker kept a high output, the owner would often try to save money by paying the worker by the hour. If the worker’s output was lower, the owner often would pay the piece-rate, which was almost always lower than the minimum wage”.

Though workers are often protected by local labor laws however to avoid such issues buyers or retailers outsourcing goods, set up code of conducts in business to address social issues generally following the guidelines given by ILO, FLA, basic human rights and local labor laws. Zero tolerance policy is practiced by these foreign buyers and retailers about the code of conduct, especially in the case of child labor, forced labor and illegal transshipment and occasionally in case of serious fire hazards. In addition, any issues related to wage verification, minimum wage, working hours, overtime payment or applicable wages are also taken very seriously. Repetition of such violations must end the business partnership between buyer and supplier.

Contractors often engage in illegal industry practices that jeopardize the livelihood of legitimate, law-abiding contractors. As Mazur (1998) states, “contractors cannot compete based on different production methods, machinery, or other efficiencies. They compete based on offering a lower price for producing the garment. Thus, the manufacturer controls labor standards by forcing the contractor through fierce competition to drive down wages.” When production increases, more

labor is hired and when production downs the labors are released by the contractors. Such practices of labor hiring are cost effective and lead to less liability on the manufacturer. The most frequently reported legal violations in the informal sector related to contractual obligations, payment of salaries, changes to the labor contract, and overtime (Bureau of Democracy, Human Rights, and Labor, 2019).

During the peak season, though the contractual workers sometimes receive more than the minimum wages, these workers are generally not paid the overtime premium. According to local law, it is double their regular pay for normal working hours. As the workers are on piece rate, it is the mutual understanding of both workers and contractor that they will be paid only on the pieces they produce, and there won't be any overtime if they are working beyond 8 hours of work. The contractor and management justify that as these workers are on piece rate therefore, if they will be offered the overtime, they will slow down their pace of productivity and will prefer to produce more in overtime hours as they will get double of their actual rate. This has also resulted as the law still is quiet how to compensate overtime of piece rate (PR) workers. Contractors are given lump sum payment, and it is expected that it is the responsibility of the contractor to pay to the employees, which are termed as subcontracted employees. Rates of remuneration should ensure equal remuneration for men and women workers for work of equal value (ILO, 2023).

With overtime and premium issues, workers often do not receive minimum wages especially when the factory ships the merchandise and is waiting for new orders. In addition, when production declines because of low orders or because of unpredictable delays in the operations like waiting shipments, shipment strikes etc. these employees are not even paid the minimum wages as defined by the laws. Several important laws, such as the Minimum Wages Act, Employee's Compensation Act, and the Bonded Labour Abolition Act, which are applicable to all informal workers (contractual workers), also remain unimplemented due to poor enforcement (Srivastava, 2020).

Factory management typically rationalizes hiring contractual workers for the reasons mentioned above. Moreover, the nonpayment of overtime is justified by the understanding workers have of the PR wage offered by their contractors. In addition, misclassifying employees as independent contractors to pay a wage lower than the legal minimum (Cooper, D., & Kroeger, T.,2017).

Non-compliances (NCs) are reported if the workers do not receive the minimum wages and overtime premium during the SC audit despite the justification by the management for lack of orders or contractual (third party owned) workers etc. Such NCs if reported during the SC audits, have severe consequences. Repetitions of such NCs often lead to termination of business partnership between retailers and suppliers. To avoid such NCs factories sometimes indulge in manipulation of records, double book record keeping or decoupling of documents.

Burnett and Mahon (2001) shared their findings that to avoid non-compliances the factory engaged in forgery and double book record keeping, and many times are not picked by the SC auditors and therefore remain unreported. This lack of detection of violation was primarily narrated to the fact that the suppliers deliberately manipulate the records for deceiving the inspected monitors and successfully manage to decouple (Westphal, J.D., & Zajac, E. J.2001). Academics often criticize the tedious process in auditing and do not always reflect the actual situation (Welford, 2005).

Despite such criticism, auditors are trained so that they find such discrepancies. Workers' interviews are generally performed to check the factory practices, and this also aids in finding the double book record keeping. For example, in case most of the interviewed workers in a sample complain about the overtime premium and the wages they receive, it is doubled verified with the documents provided by the factory. In case if majority of the interviewed workers' responses differ (in terms of OT or wages they received) from the official documents (i.e., From wage record or overtime records provided by the factory) the auditors may report overtime violation. However, auditors further verify such differences by either increasing the sample size of the interviewed workers or searching for more documentary proof by checking needle records, daily production records, time records etc.

The present study figures out the factors associated with serious non-compliances, such as overtime premium not paid and failure to provide minimum wages, found during SC audits. These can lead to the termination of business with suppliers.

## **Literature**

### **Contractual workers**



Contractual workers are hired when a facility outsources their production. Workers working in such a facility are often termed sweatshops. A sweatshop is as characterized by “very low fixed costs” (Piore, 1997), including rent, electricity, health, and safety precautions, etc., are normally held to a minimum by running unhealthy, overcrowded, and substandard factories, managed by a contractor or subcontractor. To misuse labor practices the companies hire temporary agency labor on differentiated terms and conditions and pay who work alongside their permanent workers, thus resulting in a two or even multitier workforce. The lower tier includes workers with lesser class with low wages and limited benefits firms (Davidov 2004; Purcell et al 2004; Forde & Slater 2005). Jobs in Mexico are often linked to cheap goods, low wages, and poor working conditions. Rosales and Czarnecki (2019: p. 05) describe occupational precarity as the instability in wage-earning jobs characterized by insufficient legal and medical protection, insecurity, and low income. This reflects Mendoza-Cota's (2017: p. 42) view that such precarity arises from labor flexibility strategies, specifically the rise in temporary workers, introduced during the 1990s liberalization reforms.

Lowering labor cost is the prime way, in apparel and textile sweatshops, that contractors compete for very thin profit margins. The margin of profit is not distributed uniformly by the corporations. For example, in 2008 one of the shoe brands took an enormous 84% of the sales price and only 2 % was received by the workers working for that brand. Workers receive even less i.e., 1% in the year 2010 (Ngoctran, Angie, 2011).

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An added adversity faced by clothing industry workers is that many of them receive payment on the price-rate system. The piece rate framework is portrayed by every piece or unit a laborer completes or produces. To diminish work expenses to the least conceivable level, articles of clothing specialists are typically paid by the quantity of sewing operations executed, generally known as the "PR" (Bonacich and Appelbaum, 2000).

For instance, a laborer is paid a certain sum for each zipper that is tied to some jeans, or each skirt that is hemmed. As one of the significant reward issues with the piece rate framework is that the rates are controlled by what the manufacturer pays to the contractor or subcontractor. In doing so, if the manufacturer does not remunerate the contractor (which is ordinarily the case), the laborers wind up getting sub-poverty compensation (Louie 2001).

Most of the textile and garment industry in Pakistan are still tied to contractual workers. At the time, when the garment industry started export it was an obligation by the foreign buyers to directly hire the operators rather than through subcontractors mainly because of the quality and compliance requirements. Per a survey (Makino 2008), sewing operators can earn more under the piece rate system and they themselves seem to prefer being hired at piece rates because they can earn more. Besides PR, there are time base rate systems too in which the employee is being paid on the time he or she spends on the employment per day. In time-based payment it is not considered that either the employee is being productive or not in the time they spend on the work. To motivate the employees, the PR is assumed to be effective, and the employer also gets the most efficient output within the least possible time.

In a study at knitwear industry of Pakistan working for NIKE it was responded to one of the managers that all the sewing operators were shifted from PR to salary on request of NIKE. These workers were offered a base salary and added incentive payment on a PR basis. The core reason for this shift was caused by the quality and social compliance concern of NIKE. A common observation about the contractual-based PR workers is that they invariably compromise on quality. In contrast, to PR workers salaried workers have fringe benefits and are also protected by the minimum wage law (Makino 2012).

### **Minimum wage Violations**

When labor becomes excessively capable and efficient, contractors often punish their profit by paying them the lowest pay allowed by law. Then again, if the laborer yield is not sufficiently high, workers' piece rates spare contractor's finance, as their yield rate is lower than the lowest pay allowed by law (Bonacich & Appelbaum 2000).

As the situation is in Pakistan, the scenario also prevailed in America. Per the California Employment Development Department; per hour, standard wage among ready-made garments was

\$8.7. Contractors usually pay on PR basis for low skilled jobs such as cutting, sewing, pressing, or finishing with least probability of meeting minimum wage standards (Chapple, K.1998).

Apple conducted audits of four facilities in China serving as supplier during the year 2008. Audit of one facility revealed shortcomings related to minimum wage of PR workers. As per Chinese law, the minimum wage of a PR worker must comply or exceed the minimum wage. The PR workers who did not receive their minimum wages Apple push the facility to reimburse the underpaid workers. In addition to that, Apple also convinced the suppliers' top management to work with Apple-approved consultant and to implement a new payroll scheme to avoid any shortcoming about pay wage calculations in future. (Supplier Responsibility Progress Report 2010)

One of the factories in China engaged in supply chain of toys for Swedish toy retailer reflected the breach of overtime payment for the workers working late hours and on weekends particularly during the high season (May-October). While in terms of overtime compensation during the high season was problematic, the factories were inclined to decrease the wages well below the minimum wage during the low season (Nov.-Apr.). Five out of nine investigated suppliers did not pay minimum wage prescribed in retailer's social code of conduct (Egels-Zandén, N. 2007).

As per Factory Audit Report - Fair Wear Foundation (2013) garment workers are generally paid on PR basis. The wages received during the peak season are well enough to run their families. However take-home pay is often low in the low season. Low production often results in take home wages for laborers well below the minimum payment that often result in overtime to get better pay.

One of the major drawbacks for piece-rate workers is that buyers and retailers generally squeeze the manufacturers to keep the rate as low as possible and that in turn is reflected while setting the rates with the contractor. This adversely affects the pay of PR workers and often results in receiving less than standardized wages. As Mark Anner and associates (2012) stated in the working paper;

“What was unique about the employer agreement structure was precisely that it was looking to ensure that buyers paid a price sufficient to cover the cost to the contractor of paying adequate wages and working conditions. As explained above, this was achieved via a provision specifying that PRs had to be set in such a way as to yield minimum hourly earnings for production workers,

and an additional provision requiring the jobber to pay to the contractor a price per garment that included the labor costs specified in the contract plus an additional amount for overhead and profit. The intent of this pricing structure was precisely to “ring fence” labor cost in the price negotiation between the jobber and the contractor, thus restricting the content of their business negotiation to the overhead and profit part of the price”.

Regarding compensation, the code of conduct of different buyers says that the supplier organization is obliged to meet the minimum applicable wage rate in the local country. The wage rate should include provision for the late time work allowance and extra time work. Compensation should be fair and paid promptly. Delays in the payment would be considered as a violation of the code of conduct. Wages should not be based on the contract or sale of the supplier.

### **Overtime Violation**

The factories are under pressure to work beyond regular hours mostly because of the orders placed by the buyers with short notice of their shipment, especially during the peak season. To finish the production in time and, because of limited manpower workers are pushed to work extra hours generally welcomed by the workers as it increases the chance of their earnings particularly who works on PR. According to Welford, R., & Frost, S. (2006), it is getting increasingly difficult for the workers in supply chain to work within legal limits and to pay them especially in high seasons. Pressure to decrease prices along with shorter shipment time has amplified demands along the supply chain to the factory production:

Overtime amount can be explained as the extra amount that the employee should receive for the extra time, they spend in the organization for the work ahead of the actual working hours. The actual working hours on a normal course are 8 h/day. As per the Pakistani law the standard working hours is also 8 h/day. By the Pakistan Provincial Regulation Factories Rule 1975, there should be separate, and eligible register for the adult workers that clearly describe the details of the employees along with the actual daily time the worker spends in the organization. The law vest authority to the employee to inspect the register and ask for modification or correction if any. As Per law, any worker cannot be forced to work more than 10 hour per day and 60 hour per week including overtime. If the employee is being asked for the overtime work, then they should receive a minimum of double the basic salary for each hour worked.

Lack of awareness about labor rights is another factor contributing to the suffering of workers on PR. There were cases of overtime underpayment, workers were unaware of the legally mandated minimum wage, the piece-rate system was excessively used for wage determination, and there was no direct link between wages paid and the facility's financial performance. Subjective contextual analyses confirmed these findings and provided insights into the potential underlying causes. (Adidas Sustainability Progress Report 2013)

Employers, to minimize the salary expense violate the law and give a lump sum or fewer amounts as per the standard. This phenomenon is well known as wage theft. Wage theft mostly occurs when workers lack to understand their rights (Estabrook 1909, Glynn 2011) and are common in the sector particularly garment and textile, agriculture and private households (Lynch 2011).

In one of the studies in India (Sincavage, Jessica et.al 2010) it was reported that 50 percent of the workforce that were contract labor working several overtime hours but was not compensated of overtime (OT) rates. It was also noted that employers and subcontracted laborers set a rate and were paid lump sums despite the number of hours they worked. The increased contract labor has likely to decreases the mean hourly cost of wages in Indian Manufacturing OT. In addition to that, it could not be assured how much work was happened “off the book”.

Such wage theft can be detected in the SC audit by comparing the actual hours with the salary expense. If such organizations do not book the overtime of the employee, then such an instance is difficult to detect. However, many other inferences and tools are used in the SC audit to detect such unreported hours and to find the overtime payment violation. To detect the unrecorded overtime SC, auditors perform the reverse engineering of the product about the time and compare the calculated time with the reported time. If the reported time is significantly lower than the calculated time, then this is assumed as an indicator for the non-report of overtime and thus leads to noncompliance of the overtime payment to employees.

In seeking to understand the labor practices and compliance behaviors within the textile and garment sector of Pakistan, it's pertinent to anchor our investigation within the broader framework of Institutional Theory. This theory probes into the deeper and more entrenched facets of social structure, focusing on how structures, including schemas, rules, norms, and routines, solidify as authoritative guidelines for social behavior.

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Three primary pillars underscore the Institutional Theory: coercive, mimetic, and normative pressures. Each of these offers a unique lens to comprehend the findings of this study:

1. **Normative Pressures and Practices:** The sector's discrepancies between expected labor practices, such as paying the minimum wage and curbing overtime violations, and the actual on-ground practices, reflect the normative pressures. Institutions often face a dichotomy of adhering to these societal norms while navigating their operational realities.
2. **Mimetic Processes:** The study's observation of factories presenting deceptive receipts to auditors or contractors guiding workers to withhold overtime information mirrors the mimetic processes integral to the Institutional Theory. In a bid to assimilate successful or beneficial outcomes, factories sometimes resort to inauthentic or unlawful practices.
3. **Coercive Pressures:** International buyers' demands for social compliance juxtaposed with factories' endeavors to showcase (sometimes feigned) compliance highlights the coercive pressures they face. Such pressures are driven externally by authoritative figures or entities and significantly influence institutional behaviors.

Furthermore, the deeper societal and cultural undertones in the observed organizational behaviors, like double book record keeping and challenges with minimum wage adherence, resonate with the cultural-cognitive pillar of the Institutional Theory.

Keeping in view the findings in literature contractual workers are more vulnerable to receive the minimum wage and overtime premium that increases the probability of reporting violations during the SC Audits, and hence it can be narrated as

**H1:** Contractual workers are more likely to experience minimum wage violations compared to non-contractual workers in the textile and garment sector of Pakistan.

**H2:** Contractual workers are more likely to experience overtime payment violations compared to non-contractual workers.

**H3:** Minimum wage and overtime payment violations negatively impact the sustainability and profitability of businesses in the textile and garment sector of Pakistan.

## Methodology and Conceptual Framework

### Sampling and Data Collection

In current study secondary data were used. The secondary data were collected by reviewing non-published SC audit reports.

Overall, 54 non-published SC audit reports (secondary data) were analyzed. The secondary data were collected by reviewing three SC Audit reports; sample audit report is attached in Appendix. Non-published SC audit reports were reviewed from factories situated in Karachi, Faisalabad, Lahore, and Multan as most of the manufacturers work with foreign buyers in these vicinities. Using convenience-based sampling, nine factories were taken from Karachi, four from Faisalabad, three from Lahore, and two from Multan. Convenience based sampling was opted as factory management was reluctant to share classified data.

In the context of the textile and garment sector in Pakistan, obtaining primary or secondary data is particularly challenging due to the confidential nature of business operations and reports. Most factories are hesitant to share internal data, especially if it highlights potential non-compliances, fearing repercussions and negative publicity. For this study, access to the non-published SC audit reports was facilitated through personal connections with some factories. These factories agreed to share the data on the strict condition of anonymity and assurance that specific names or identifiers would not be disclosed in any public forum or publication. Given these constraints and the inherent difficulty in obtaining unbiased access to a larger and more representative sample, convenience-based sampling was the most feasible method. It is essential to note that while this sampling method has its limitations in terms of potential biases and generalizability, it was adopted out of necessity rather than preference

In addition to that, the data was shared on the condition that the reports will not be shared publicly. Factories were divided into two categories (a) with Contractual workers (hired through third party on piece rate) and (b) non-contractual workers (piece rate on payroll of the factory). The reason for taking piece rate workers hired through contractors is because this is a widespread practice in

textile and garment industry that contractors hire workers on piece rate. The selected factories, with contractual workers, were picked based on at least 50% workers working on Contractual based piece rate serving in the production department of cut to pack units.

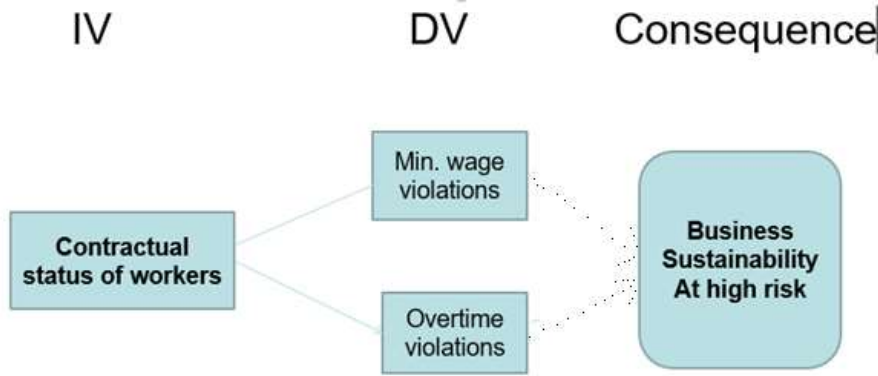
When selecting population characteristics, differences in the number of employees, supply chain structure, and organizational hierarchy were not considered, as the study's main focus was comparing factories with contractual and non-contractual workers in terms of minimum wage and overtime violations. Quantitative techniques were applied to test the hypotheses. Statistics as Chi-square was used to test and analyze the data.

For further understanding tabulated frequency for Minimum Wage and Overtime for contractual and non-contractual workers are shared in Appendix.

### **Conceptual Framework**

As an indicator of the intensity of the relationships hiring contracted workers is proximal to other severe non-compliances, and therefore arbitrates the relationship between do not receive minimum wage and overtime premium not paid. The diagram illustrates that there may be an association between hiring contract workers, minimum wage and overtime payment violation. If any such violation exists, the factories are considered as high-risk factories for sustainable business. Repeating such issues leads to the business partnership's termination, so buyers are discouraged from giving further orders in such facilities, which ultimately adversely affects the country's economy.





**Results**

*Table I. Differences in Two Proportions for Min. Wage in Contr. & Non-Contr. workers*

Issue	Group	Mean Proportion	Mean Difference	SE	t-test	p-value
<b>Minimum Wage</b>	Contractual	0.2333				
	Non-contractual	0.0416	0.1917	0.0875	2.19	0.028
<b>Overtime</b>	Contractual	0.6333	0.550	0.1045	5.16	0.000
	Non-contractual	0.0833				

Table I shows the minimum wage violation reported in contractual and non-contractual employment. Among contractual employees, the minimum wage violation was 23.33% while there is 4.16% minimum wage violations among non-contractual workers. The difference in minimum wage violation is statistically significant between contractual and non-contractual employees (Mean Difference = 0.1917, p = 0.028).

For the minimum wage violation, contractual and non-contractual employees' data (table I), Z is 2.19, and the associated p-value is 0.028. This means that there is less than a 0.05% chance that we would have obtained the difference in sample proportions that we did if the difference in population proportions was 0.

Based on the above findings we can statistically conclude that, at the 0.05 level, two proportions (contractual and non-contractual employment) are unequal in terms of minimum wage violation.

**Association between type of employment and Min. wage violation**

**Fig. I. Chi-Square test for association between type of employment and Min. wage violation**



Figure I shows that there is an association exists between contractual PR workers and minimum wage violation in contrast to non-contractual workers. However, this association is not much significant to draw any clear conclusion.

**Table II. Type of Employee \* Minimum Wage Violation Cross tabulation % within Type of Employee for Min. Wage**

	Minimum Wage Violation	Total	
		No Violation	Violation
Type of Employee Contractual	42.59%	12.96%	55.56%
Employee Non-Contractual	42.59%		

		1.85%	44.44%
Total	85.19%	14.81%	100.0%

Within contractual employees (Table II) 42.59% workers did not experience minimum wage violation while 12.96% experienced minimum wage violation during SC audits. In contrast, 42.59% of non-contractual workers did not suffer from nonpayment of minimum wages while 1.85% did not receive minimum wages. Though there is an association between the contractual workers and minimum wage not paid, this percentage is not significant enough.

**Table III. Type of Employee \* Minimum Wage Violation Fisher’s Exact test within Type of Employee for Min. Wage**

	Value	Df	Exact Sig. (1-sided)
Pearson Chi-Square	3.881	1	0.0632704
Likelihood Ratio	4.394	1	0.0632704
Fisher’s Exact Test			0.0632704

Since p-value of 0.0632 in Fisher’s Exact Test (table III) is higher than the commonly accepted levels of 0.05. So, we cannot reject the null hypothesis. Keeping in view the calculated P-value it is difficult to conclude that there is no significant relation between minimum wage and type of employment as the calculated value is close to 0.05. However, the relationship between contractual worker and minimum wage violation is not significant in contrast to non-contractual workers to reject the null hypothesis.

**Association between type of employment and Overtime Premium Violation**

**Fig. II. Chi-Square test for association between type of employment and Overtime Premium Violation**

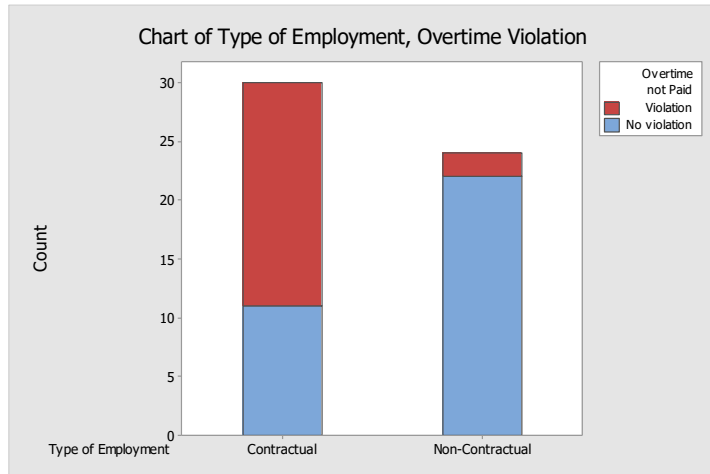


Figure II shows that there is an association between contractual PR workers and overtime premium violation in contrast to non-contractual workers. Keeping in view above findings the null hypothesis can be rejected, and it can be stated that “Hiring contractual PR workers will lead to failing to receive Overtime Premium violations during SC audits.”

**Table IV. Type of Employee \* Overtime Violation Cross tabulation% within Type of Employee for OT**

		Overtime Violation		Total
		No Violation	Violation	
Type of Employee	Contractual	20.37%	35.19%	55.56%
	Non-Contractual	40.74%	3.7%	44.44%

Total	61.11%	38.89%	100.0%
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Within contractual employees (Table IV) 20.37% workers did not experience Overtime not paid violation while 35.19% experienced Overtime not paid violation during SC audits. In contrast, to contractual workers, 40.74 % of non-contractual workers did not suffer from nonpayment of OT. However, 3.7% of non-contractual workers suffered from nonpayment of OT.

**Table V. Type of Employee \* Overtime Violation Fisher's Exact test within Type of Employee for OT**

	Value	Df	Exact Sig. (1-sided)
Pearson Chi-Square	16.971	1	0.0000497
Likelihood Ratio	18.973	1	0.0000497
Fisher's Exact Test			0.0000497

Since the p-value of 0.000 in Fisher's Exact Test is lower than the commonly accepted levels of 0.05. So, we can reject the null hypothesis. In other words, there is a meaningful relationship between overtime premium not paid violation and type of employment (i.e., contractual and non-contractual).

To minimize these deceptive practices many companies now use unannounced audits a day to control such practices. Despite these unannounced audits as soon as auditors enter the factory premises workers are at once communicated, educated and reminded by the contractors on the production floor and therefore this often doesn't help much to overcome this issue.

During the review of SC audit reports, this was found that some companies (factories) were at risk because of the repetitive violation of overtime premium. They were having the last chance and if they do not improve the buyer will certainly end the business.

## Discussion

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The aim of the study is to investigate the association between hiring contractual piece rate workers, minimum wage and overtime violations during SC audits in textile and garment sector of Pakistan. This section briefly summarizes the results and related outcomes.

Though we do not accept the null hypothesis about minimum wage, there are several factors that can be considered for discussion. Firstly, if we consider the raw data as many as seven out of (n=30) reports for contractual factories as compared with “only one” out of (n=24) reports for non-contractual factories reflected violation about minimum wage. In contrast, for non-contractual workers, one out of (n=24) reports reflected minimum wage violation. There is no major difference between these two figures as the data size also differs in terms of contractual and non-contractual factories.

In contrast to above findings, Jamal, N., (2014) discussed in his article that during interview with Mohammad Ayub, Secretary Pakistan Hosiery Manufacturing Association- North Zone disclosed that “most employers, except for corporate sector, neither pay their workers minimum wages nor register them with the Employees Old–Age Benefits Institution (EOBI) or provincial employees Social Security Institutions to cut their costs. Resultantly many workers and their families are deprived of pension and health benefits”.

For overtime violation statistical analysis shows there is an association between contractual PR workers and overtime violation.

It is expected that non-compliances of overtime premium for contractual piece rate workers were not reported for 11 SC audit reports (fig. II) as the auditors might be deceived due to forged documents or denial of workers for overtime work it’s a common practice in industry. Most of the time auditors search and verify documents when workers claim overtime. In case when there are no claims auditors generally don’t investigate much if there is no discrepancy between workers’ response during the interview and checking wages and overtime records. However, on the day of the audit, this is a frequent practice that contractors educate workers not to share with auditors about any work beyond 8 hours with a fear that this may result in noncompliance.

As the scope of the research was limited to review the SC audit reports, interview with workers, checking documents as wages, time and production records may further clarify about double book record practices. Verifying the documents of the contractual workers interviewed might have

further improved the understanding whether double-book recordkeeping is practiced or not, which was not exercised in the current research. Falsified records are kept when factories want to hide excessive working hours and /or did not compensate for the overtime payment (Faraz et al. 2014).

In contrast to contractual PR workers, the non-contractual workers who are hired directly by the factory management generally work in shifts and are planned by the factory management at the beginning of the year. This eases the pressure and ensures smooth and good compliance with the labor law and buyers code of conduct.

On many occasions to satisfy the audit requirements fake receipts are presented to the auditors and that's exceedingly difficult to verify as these receipts appear as good as the original. Such deceptions lead to passing the audits but it's the workers who suffer at the end of the day. In case if such deceptions are caught factory, management argue that the rate offer by the buyers are too low and therefore it's challenging to enroll every worker as this may significantly increase the overall expenditures and cost ultimately resulting in lowering their profit margin.

## **Conclusion**

There is much competition for exporting value-added products in the textile and garments industry in Asia. Aside from quality, importers are overly concerned about social compliance. Suppliers with no violations and non-serious violations are obtaining and will continue to get a high advantage and enjoy the benefits of sustainable business. Because of the complex production processes, such issues as overtime premium not being paid among contractual PR workers may continue to hinder smooth and sustainable businesses that are an immense source of foreign exchange for Pakistan. The current study was conducted to compare hiring contractual and non-contractual workers on non-compliance issues that lead to minimum wage and overtime violations.

The findings of the current investigation indicate that there is an association between hiring contractual PR workers and overtime not being paid violations. Repetition of such issues as overtime not being paid may lead to the termination of business with the buyer. Additionally, double book record-keeping is practiced to avoid non-compliances, especially to manage serious issues that can impair sustainable business.

The current investigation was based on a pilot study, and one of the sources of information was secondary unpublished data (SC audit reports). For minimum wage violations, due to the small sample size, it is expected that findings might differ if the sample size were increased further. The reason is that certain factories were almost neglected due to their seasonal orders, making the issue of minimum wage violations less visible. Another limitation is that SC audit reports are neither easily accessible nor publicly available. Factories were generally reluctant to share SC audit reports and to provide easy access to their workers and contractors, mainly because factory management is insecure about the confidentiality of their data and access by competitors. Therefore, selecting factories randomly was difficult, which may further obscure the actual picture of the addressed violations. Another important variable affecting the investigation of such violations is double book record-keeping.

Due to the limited scope, sample size, and budget constraints of the current study (such as reviewing SC audit reports), the investigator could not explore much about double book record-keeping. Wage records, time records, production records, breaking needle records, and many related documents were not verified, making it challenging to fully understand the extent of double book record-keeping. Increasing the study's scope could have further improved research validity and reliability.

Factories should be more careful while hiring contractors and contractual workers. Factory management should closely check that contractors maintain transparency with their workers in supplying compensation and other benefits as per legal requirements. The factory may be at minimal risk if they hire PR workers on their own payroll rather than contractual PR workers, as this may allow more control over workers' fair compensation. Factory management should clearly devise ethical and legitimate practices and ensure their implementation for contractors and their workers.

Other industries that are either exporting or have the potential for export, such as food, beverages, confectionery, footwear, and pharmacy industries, can also benefit from these findings. Government interest in proactively making policies for these sectors based on these findings will lead to a bright future for exports in these industries.

Based on the conclusions, several areas remain unaddressed, making it necessary to continue research on social compliance as the requirements become increasingly stringent. For minimum



wage violations, factories working for buyers with cheap merchandise can be further investigated by broadening the sample size. Further research on double book record-keeping and its root causes can help increase the probability of social compliance.

Hiring contractual workers increases the probability of working off-the-clock violations, as the turnover of contractual workers is high. This often results in improper and manual record-keeping of work hours without signatures, which is considered another significant issue in social compliance. Hiring direct workers on PR and the associated issues of overtime premiums and working off the clock can also be tested in future research.

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