100% OF EMPLOYEES ACROSS THE ORGANIZATION EARN A LIVING WAGE

Ambition Information

This Ambition calls businesses to pay all their employees — regardless of their employment status — a living wage. This is defined as: “the remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his dependents. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing and other essential needs including provision for unexpected events”.¹

Achieving this target requires that companies develop and incorporate different elements of a fair compensation policy. All departments in the company should get involved to ensure consistency in the implementation of the strategy.

A living wage directly advances several of the Sustainable Development Goals (SDGs), in particular, Goal 1: No Poverty and Goal 8: Decent Work and Economic Growth, as well as Goal 5: Gender Equality and Goal 10: Reduced Inequalities. It also contributes material to the achievement of several other Goals. Wages are among the most important conditions of work and a major subject of collective bargaining.

Governments have an important role to play in wage-fixing and supporting wage-fixing mechanisms at a sectoral level. More than 170 countries have one or more minimum wages set through legislation or binding collective agreements. In many countries, however, companies must go beyond existing legislation on wages because minimum wages do not always allow for a decent living. Businesses can ensure that all their employees, regardless of their contractual arrangements, have the income to support their needs and those of their dependents, raising standards of health and well-being. Companies should strive to achieve this target by 2030 in line with the 2030 Agenda.

The scope of this Ambition comprises employees and contractors in direct employ of the business. However, the Ambition should be progressively extended to a fair compensation commitment for all workers in the entire supply chain of a company. This will require companies to adopt or improve their procurement practices, and engage with relevant stakeholders, including industry peers, suppliers, governments, workers’ organizations, international organizations, investors and civil society organizations. Anchoring the work at the local level will be crucial for success.

BUSINESS IMPACT ON LIVING WAGE

More than 7,000 employers in the UK have been accredited and certified by the Living Wage Foundation for paying a living wage. These leading employers and service providers publicly join the independent movement of organizations, businesses and people campaigning for a wage that is sufficient to live on and also offers accreditation for the same.

ACT (Action, Collaboration, Transformation) is a ground-breaking agreement between global brands, retailers and trade unions to transform the garment, textile and footwear industry and achieve living wages for workers through collective bargaining at the industry level linked to purchasing practices. ACT is a collaboration of 20 global companies representing a broad range of brands and labels, and the IndustriALL Global Union representing garment, textile and footwear workers from around the globe.

19% of all workers worldwide do not earn enough to escape poverty²

-3.7% decrease in normal weekly wages in the US among workers in the lowest earnings decile since 2000³

19% of UN Global Compact respondents are working towards living wages across their operations⁴
### COMPANIES TAKING ACTION

#### L’Oreal

In 2020, L’Oréal Group made two commitments regarding living wages:

1. In its Employee Human Rights Policy, L’Oréal commits to paying all its employees at least a living wage covering their basic needs and calculated in line with best practices, as soon as possible.
2. In the L’Oréal for the Future programme, L’Oréal commits to paying 100 per cent of its strategic suppliers’ employees at least a living wage covering their basic needs and those of their dependents (calculated in line with best practices) by 2030.

L’Oréal developed partnerships with experts, including the Fair Wage Network, an independent organization that provides a comprehensive and updated database that is used to define, build and deploy a living wage strategy.

Further, L’Oréal also takes into consideration various factors such as the local fertility rate and the average number of incomes per household to calculate the living wage.

The living wage strategy complements the L’Oréal “Share & Care” existing programmes that provide employees worldwide with a set of social benefits, including maternity and paternity leave, access to reimbursed medical treatments, disability insurance.

L’Oréal plans to engage their strategic suppliers as part of their “extended company” to implement a living wage for their employees as for other pillars of their sustainable sourcing strategy (social audits, environment, inclusive sourcing).

#### Inditex

Inditex is committed to facilitating the provision of a living wage to factory workers in its supply chain. In 2019, the company launched its “Workers at the Center 2019–2022” Strategy. It is based on the premise of understanding and responding to the needs of supply chain workers, their families and the communities where they live to promote decent work and sustainable productive environments. A living wage is one of the priority impact areas identified within this strategy and it is developed across four lines of work:

- Promoting and facilitating collective bargaining
- Effectively implementing responsible purchasing practices
- Enhancing the production of organization systems and methods
- Improving management systems and wage digitalization

Inditex is an active member of ACT (Action, Collaboration, Transformation) on Living Wages.

#### Unilever

Unilever set a target in 2014 of creating a structured way to define and assess how the elements of their compensation packages deliver compensation to all employees which are open, fair, consistent and explainable. By the end of 2019, Unilever was paying at or above the living wage in most places and actively working through a small number of remaining issues in areas with complex pay arrangements.

The result was a Framework for Fair Compensation and a commitment to paying a living wage that gives their employees enough to “provide for their dependents’ basic needs, for food, housing, education and healthcare as well as some discretionary income”.

Since 2015, Unilever has worked closely with the Fair Wage Network as an objective external source of the living wage value for each of the countries with employees. Unilever uses these thresholds to assess whether the fixed compensation paid to all full-time direct employees (including factory and non-factory employees) in each country is meeting the living wage standard.

Unilever also promotes fair wages through the value chain by embedding fair wage assessments into their Responsible Sourcing Policy, identifying incidents where fair wages are not paid. In 2021, Unilever made a public commitment that everyone who directly provides goods and services to Unilever will earn at least a living wage or a living income by 2030. In doing so, Unilever will ask its suppliers to adopt independent, commonly recognized and credible methodologies for measuring the living wage gap, which have been developed and validated by external experts and/or other stakeholders. Unilever is also working with others independent, expert benchmarking and vetting process to qualify methodologies as credible, acceptable and fit-for-purpose.

#### Schneider Electric

In line with its Human Rights Policy and Principles of Responsibility, Schneider Electric believes earning a decent wage is a basic human right. Schneider is committed to paying employees in the lower salary ranges at or above the living wage to meet their family’s basic needs. By basic needs, the Group considers food, housing, sanitation, education, healthcare plus discretionary income for a given local standard of living.

In 2018, Schneider started working with an independent advisor — Business for Social Responsibility (BSR) — to implement a living wage commitment. Schneider Electric has initiated a global process to analyze wage levels and employment practices against local living wage standards set by BSR. To date the analysis has covered 63 countries, reaching 99 per cent of the Schneider footprint. This partnership and process will continue and will progressively extend its scope to the Schneider supplier network.
RAISING AMBITION

MARKET-BASED COMPENSATION

Most employers use a salary structure or pay scale to determine an employee’s compensation. The type of structure companies use depends on the industry, business size, location and employee classification, as well as collective agreements and local regulation. Market-based compensation approaches — where pay levels are based on market rates for similar jobs — are no guarantee that the paid wage level is above a living wage benchmark. In a low-wage labour market, it is likely that the market-based wage rate (going rate) is below the living wage benchmark.

COLLECTIVE BARGAINING

Wage scales are often set by collective agreements. They are determined in consultation with workers or workers’ representatives through collective bargaining. Sound collective bargaining practices ensure that employers and workers have an equal voice in negotiations and that the outcome is fair and equitable. It allows both sides to negotiate a fair employment relationship, including a fair wage. Collective bargaining can take place at an enterprise level or a sectoral level.

In principle, wage levels set by collective agreements are at the level of a living wage or above, which enables the covered employees to afford at least the basic needs. But it is possible that collective bargaining is too weak, for example, because workers are not organized enough to represent their voice at the bargaining table. This can result in wage levels set by collective agreements that are too low to be considered as a living wage.

Implementing the Ambition using Living Wage Benchmarks

Performance on the Ambition — implementing a living wage for employees across the organization by 2030 — should be assessed by calculating the gap between current wages and living wages for every region in which you have business operations. To calculate the gap between current wages and living wages, companies need reliable living wage benchmarks for every region in which they have business operations. Estimated values of a living wage, or living wage benchmarks, are published per region by various organizations using their own methodologies. To establish a living wage benchmark, these organizations gather data on local costs of, among others, food, housing, education, healthcare, transportation and more (as aligned with global standards, such as the World Health Organization and The Food and Agriculture Organization). Living wage calculations should focus on employee compensation for standard working hours; figures should exclude overtime pay as well as productivity bonuses and allowances unless they are guaranteed.

IDH, the Sustainable Trade Initiative, has developed a set of objective criteria for the minimum elements a living wage benchmark methodology should include to be reliable (see Annex).
In many regions, the living wage benchmarks are higher than the legal minimum wage or poverty line wage. The achievement of the Ambition will be part of the responsibility of companies to respect labour rights and contribute to decent work priorities in compliance with international labour standards of the International Labour Organization (ILO).6

Being employed does not preclude living in poverty. In 2019, more than 630 million workers worldwide — almost one in five of all those employed — did not earn enough to lift themselves and their families out of extreme or moderate poverty.7 Businesses that have not established time-bound, measurable goals and targets for paying a living wage to all employees by 2030 would fall below the SDG Ambition Benchmark.

Business Value

Committing to being a living wage employer supports a happier, healthier and more productive workforce, reduces turnover costs and addresses consumer, customer, investor and shareholder concerns about a company’s respect for workers’ rights.

One company found that during the first year of ensuring a living wage for their sub-contracting staff, turnover in their cleaning staff dropped from 44 per cent to 27 per cent. Absenteeism also dropped by 10 per cent.8 According to a study of 800 accredited living wage businesses in the UK conducted by Living Wage Foundation and Cardiff Business School, living wages can produce a more productive workforce: 57 per cent of companies said it increased the commitment and motivation of their employees; 86 per cent felt it enhanced the company’s reputation; 84 per cent said it differentiated their organization from others in the industry.9

ILLUSTRATIVE INDUSTRY IMPACT

Retail: According to IndustriALL Global Union, more than 80 per cent of workers in the textile industry have no possibility of negotiating their salaries or working conditions.10 The garment industry is traditionally a low paying industry with poor working conditions. A fundamental change based on an industry wide collaborative effort by all stakeholders will be needed to provide relief to workers from poverty wages and crippling working hours.

Hospitality: Hospitality and tourism account for 272 million jobs in 2020, one in 11 in the world.11 The industry has the highest proportion of jobs paying the minimum wage of any sector, at around 30 per cent of the total.12 Given that minimum wage does not always allow for decent standards of living, implementing living wage, benefits and other worker protections in hospitality would have a significant impact.

PRELIMINARY ACTIONS

Develop an overall fair wage strategy: The Living Wage Ambition is part of a company’s compensation policy. A fair compensation policy encompasses typical sustainability dimensions like living wage and equal salary but is far more comprehensive and includes other wage practices and pay systems indicators. For example, wages should be adjusted to economic and social indicators, and paid regularly and formally in full; workers should be fully informed about their wage; wages should progress proportionally along with enterprise sales and profit growth; and wages should progress along with changes in intensity at work, technological contents and the evolving skills and tasks of the labour force.13

Conduct due diligence across your direct and indirect operations: An ‘adequate standard of living’ and ‘just and favorable conditions of work’ are universally recognized human rights. The Universal Declaration of Human Rights (Article 25) and the International Covenant on Economic, Social and Cultural Rights (Article 7) together make clear the inextricable link between employment and an adequate standard of living, and present business with an opportunity to step up to respect these rights through, for example, the provision of a living wage. The UN Guiding Principles on Business and Human Rights (UNGPs) outline the corporate responsibility to respect human rights, calling on business to both avoid infringing on the human rights of others and address adverse human rights impacts with which they are involved. The UNGPs state that businesses should conduct ongoing human rights due diligence to identify, prevent, mitigate and account for how they address their adverse human rights impacts. Acting on wages where low pay is an identified risk or impact on the enjoyment of workers’ rights — including in their supply chains — as a result of a human rights due diligence process is one way business can align with the UNGPs.

Engage in Social Dialogue Process: Achieving this target requires a systematic assessment and a strong social dialogue on the level of the wages paid across all locations where a business operates, mandating salaries are set at or above the living wage benchmark.

KEY RESOURCES

» International Labour Organization (ILO)
» The Anker Methodology
» The Sustainable Trade Initiative (IDH)
» The Global Living Wage Coalition
» Oxfam
» The Fair Wage Network
» BSR
» Ethical Trading Initiative (ETI)
» Action, Collaboration, Transformation (ACT)
» WageIndicator Foundation
INTEGRATION COMPLEXITY*

Understanding Integration
This section provides directional guidance on how you can design your technology systems to support the integration of a living wage benchmark methodology and calculation into your corporate wage strategy. A company must take a number of crucial steps to achieve this, from identifying a definition and calculation methodology to building leadership support and budget approval. Alongside these, companies must seek to hardwire the new threshold, based on a defined calculation methodology, into core Human Resources and resource planning software to ensure employee wage decisions in all functions and markets are informed by a consideration for a living wage.

By using technologies such as analytics and machine learning, companies can only build the Living Wage Ambition into wage strategies but can also automate the calculation based on changing macroeconomic data (e.g., cost of living) and assessments of compliance across the business. Streamlining these processes supports the implementation of the Ambition and drives accountability for adherence and progress.

Journey towards Integration
By engaging with technology partners, companies can design systems that make living wage part of the processes that underpin corporate wage structures. In doing so, you should strive for:

Dynamic compensation systems
overhaul of HR compensation systems that transition from static wage reviews to periodical, dynamic wage setters for the entire workforce.

Actionable insights
leveraging analytics tools to provide quick views of progress towards the living wage across functions and geographies to inform decision making.

Employee engagement and sensitization
developing processes for communication on living wage commitment with staff and external stakeholders to reach global coverage and no new hires below living wage.

C-SUITE OWNERSHIP
Chief Human Resources Officer

ILLUSTRATIONS OF INTEGRATION

STREAMLINING ASSESSMENT
Once a calculation benchmark methodology is selected to define the living wages for the business’s different areas of operation, an assessment of all wage levels globally for all direct employees is required to identify how many of your staff are paid a living wage or above (“calculating the gap”). This means identifying all of your employees and their current pay levels for all types of contracts (current salary levels of full-time employees, part-time and temporary workers, contractors’ employees that work on the company’s premises, etc.). This will include consultation with different units at the country level and can be initiated via a survey. A decision will need to be taken on how wage levels are defined and calculated such as if the calculation takes into account non-mandatory benefits, such as extended health benefits that the employer may provide, bonuses, or in kind payments.

Businesses can leverage intelligent functionality in Human Resources systems. Hardwiring the living wage calculation and threshold into these tools enable efficient assessments that inform more impactful decision-making as a business seeks to transition any employers currently not earning a living wage.

5% of the 250 brands reviewed by the Fashion Revolution’s Fashion Transparency Index report on any annual progress towards paying living wages to workers in the supply chain.

All KPIs and metrics listed in the SDG Ambition Table are directional, drawing on existing reporting standards. Each organization should adopt goal-setting measures aligned to their reporting methodologies and business context.
### SDG Ambition Approach

Example detail below follows the approach outlined in the SDG Ambition Integration Guide and supports ideation for Ambition Benchmark integration.

**Identify Relevant Benchmarks Based on Priorities**

**New Goal in Line with Benchmark’s Level of Ambition**

**Workforce Management**

- Evaluate living wages in all areas of operation, and raise wage for all employees who fall under the applicable living wage.

**Policy Extension & Advocacy**

- Scaling and global outreach, cascade the policy beyond direct employees to influence business partners, contractors, and other companies.

**Compensation Administration**

- All employees are paid a living wage

**KDD1**

- How might you embed the living wage review process into core HR systems?
- Companies need to map the current pay levels for all employees and all types of contracts (current salary levels of full-time employees, part-time and temporary workers). In addition, the components of compensation (the base compensation package) must be identified and an analysis done to determine which elements of compensation can be included in the base compensation to be compared to the living wage benchmark. This information might be available in the compensation database, but if not it can be gathered via a survey and consultation with local human resource teams.

- As part of this process, a guidance framework can be developed that lists all of the different components of compensation and sets the criteria for determining which ones can be included in the base compensation.

**KDD2**

- How might you evaluate your supplier network’s compensation policies and encourage supplier improvement?
- Companies can tackle opaque supply chains by leveraging digital tools to produce risk profiles on suppliers based on areas of operation and products sold. At the macroeconomic level, risk assessment models can incorporate economic and social data such as growth trends in GDP per capita, consumer prices, unemployment rates, nominal and real median and minimum wages, and the rate of unionization. At the microeconomic level for specific industries, quantitative and/or qualitative data on wage levels, production trends, unionization rates, and collective bargaining outcomes can be combined with the macroeconomic data in an analytical framework that assesses the likelihood that particular industries and therefore specific companies will have compensation profiles that are at risk of not paying a living wage.

- In cases where the risks are significant that wage levels at the country and/or industry level are likely to be insufficient to meet the living wage benchmark, engagement and consultation with specific suppliers should be initiated to understand wage profiles and the principal conditions underlying their development. This broad understanding can then be the foundation upon which supplier improvement programmes can be formulated on supply chain management tools to engage a company’s most critical partners on opportunities to improve their compensation policies and ultimately achieve living wage coverage.
BUSINESS SYSTEMS DESIGN

How might you embed the living wage assessment into core HR systems?

Identify if there are existing internal systems and databases that can be used to monitor wage levels and be deployed to support the assessment of the base compensation against the living wages, and thereby can provide alerts for cases of non-compliance. Such systems will support awareness raising around the living Wage programme among key staff associated with various aspects of the management of human resources, such as those involved in recruiting that must compare their hiring requirements against a living wage goal and adjust accordingly, ensuring all new hires are employed on a living wage or above.

In addition, data collection systems focused on economic, social, and labor market conditions can be utilized to validate the living wage data prior to the process of assessing wage levels against the living wage. For example, the living wage data points can be compared to minimum and average (mean and median) wages in order to place the living wage benchmarks within the context of social and labor market conditions at the national and local levels. This data collection and analysis process could be automated and included within the compensation review management system.

How might you evaluate your supplier network’s compensation policies and encourage supplier improvement?

This Ambition is focused on direct employees and does not cover the extension of the living wage to business partners or suppliers. However, companies do have the opportunity to design business systems for the encouragement of better compensation policies among their partners and peers and should do so when possible. For example, by leveraging digital-enabled risk assessment tools to create supplier risk profiles, companies can map partners with higher human rights risks to inform sourcing decisions as well as preventative and mitigating action.

In addition, companies can use learning management systems to engage procurement staff on purchasing practices focused on encouraging more progressive compensation structures in suppliers. The ACT Accountability and Monitoring framework provides ACT member brands with an agreed set of indicators and monitoring instruments to implement their purchasing practice commitments, which can be embedded in procurement systems and training processes.15
To ensure long-term sustainability, companies must create value for all stakeholders and an essential aspect of this strategic approach is to provide employees with wages and benefits that are sufficient to cover at least their basic needs (living wage). Similar to all company-based initiatives, successfully implementing a living wage programme requires a dedicated approach to understanding and managing organizational processes, to engaging with key internal stakeholders that can impact or will be impacted by the programme, and to identifying the goals of the programme and demonstrating how those goals align with the company’s current and future success.

Proposed Roadmap to Implement The Living Wage Ambition

The following step-by-step guidance provides an overview of the key organizational structures, processes, and strategies needed to implement a living wage programme.

1. Secure Commitment and Support of Senior Leadership
2. Identification of External Partner to Support the Operational Process
3. Develop Internal Management Procedures for Implementing the Living Wage Programme
4. Engage Social Partners in Living Wage Discussions
5. Definition of a Living Wage, Geographic Scope of Application, and Categories of Workers Covered by the Living Wage Programme
6. Determination of the Elements of the Base Compensation and Assessment of Wages Against the Living Wage Benchmark
7. Adjustments to Wage Levels to Align with the Living Wage Benchmark
8. Awareness Raising and Training on Living Wage Programme
9. Conduct Ongoing Monitoring and Update Wage Levels
10. Scaling and Global Outreach: Extending Living Wage Commitments Beyond Direct Employees

Your company does not need to reach a living wage right away: depending on the situation, it might be worth determining some steps. For example, a first phase could include reaching at least 70 per cent of the living wage calculated in line with best practices by 2023 and 80 per cent by 2025. The most important step is to set a target and then work towards reaching it.
1. Secure Commitment and Support of Senior Leadership

A living wage programme has the potential to drive internal change not only in the compensation setting process, but also across other departments such as finance and operations. As such, it is essential to engage with human resource executives in order to gain their support for the programme and to prepare them to take the lead on implementation and expanding support across other departments. Key questions that will inevitably arise are likely to focus on the why, how, and impact of the living wage programme.

The Why. Experience has shown that an effective approach to engagement begins with a focus on the alignment of the payment of living wages with a company’s core values, its policy commitments and standards on the treatment of employees, and its efforts to ensure that its policies and practices are in line with the expectations of external stakeholders.

The How. The process for accessing the living wage data (internal or external) and the key elements of the management framework should be highlighted in the engagement with the executive leadership team. In terms of the management process, which is discussed in more detail in the next section, it is important to identify the layers of responsibility for implementing the programme as well as the ultimate point of accountability. Responsibility for implementing the living wage programme should primarily rest with the human resources department at company headquarters, and depending on the geographic scope of application of the programme, active involvement of country and/or operational level human resource teams should be facilitated even if the assessment process is centralized.

The Impact. Although the full impact of the living wage programme across the company and specific departments cannot be known until it is fully implemented, it is possible to provide estimates of the financial implication by conducting an initial assessment in selected countries and/or selected operations. Such preliminary assessments are possible using a limited set of living wage data points and by soliciting the input of local human resource teams on the wage levels and elements of compensation of the worker categories with the lowest wage levels. Short-term impacts on cost are likely to occur, but wage theory and evidence from companies strongly suggest that these will at a minimum be balanced out by the longer-term impacts on workers’ job satisfaction, turnover and productivity.

IN PRACTICE

Even in those instances when the CEO has indicated support for a living wage programme, it is still necessary to engage with senior leadership across different departments in order to ensure ongoing support for the programme. A large food products company took the approach of first presenting to senior executives the rationale for implementing a living wage programme from two perspectives:

- Improving current employees’ commitment and job satisfaction, and supporting the attraction of future employees to the company;
- Aligning with the current or expected future expectations of external stakeholders, ranging from Governments and civil society organizations to the investor community.

Following these presentations was a concerted effort to evaluate the potential impact of the programme on key business outcomes by determining the likely financial impact. This was done by securing living wage data for each of the company’s global operations and then assessing the base compensation against those living wage figures. The results of the evaluation were then presented to the senior executive leadership.

IN PRACTICE

A global consumer products company went through a process of engaging with various providers of living wage data in order to understand and assess their ability to meet the company’s requirements in terms of:

- The number of countries and locations that were to be included in the living wage programme;
- The type of methodology being deployed and its ability to derive subnational living wages;
- The need for providing the living wage data on an annual basis to align with the company’s commitment on living wages.
The initial implementation of the programme can cover all workers and locations globally, or a phased approach can be implemented if the number of countries and locations involved is large. In a phased roll-out, a subset of the total number of countries and locations will be selected with possible criteria being where the largest number exist and/or where the risks are highest that workers are not receiving a living wage. If a phased approach is implemented, there should be specific and irrevocable timelines for extending the programme to all locations and employees.

After completing the initial implementation of the living wage programme in all countries and locations, the intent should be that the updating of the wage assessment will shift to an annual basis in order to ensure workers and external stakeholders that the most accurate living wages are being applied. There are examples, however, of companies currently implementing global living wage programmes where a rotating approach has been adopted owing to the large number of countries/locations, and thus the analysis is done on a biannual basis. Also potentially impacting the updating schedule is when an acquisition occurs; it is assumed that the integration process will require at least a one-year period during which the living wage programme will not be implemented for the acquired entity.

A final exception to the annual updating schedule concerns those countries wherein social, economic, environmental and/or political events are so significant as to substantially alter the cost of acquiring and/or the absolute availability within a 12-month timeframe of the goods and services necessary to achieve a basic standard of living. In these circumstances, the living wage should be updated more frequently, depending on the significance of the impact on the cost or availability of goods and services. Among the criteria that could serve to determine whether or not a more frequent updating of a living wage is necessary include:

- Consumer and/or wholesale price inflation
- Reports noting the scarcity of basic goods and services
- Political or social crises either internally or externally generated
- Economy-wide or location-specific unemployment rates

Among the first steps in implementing a living wage programme should be determining the job tasks and general responsibility for managing the programme at corporate HQs and each operational location. This will include the establishment of clear lines of responsibility for engaging with business units and protocols governing how operational units can respond to a proposed living wage. For example, the kind of evidence required to counter a proposed living wage could focus on Government data and/or research on wage and standard of living issues conducted by universities or private sector institutions. The next step is to create a system for collecting information and data on the elements of compensation at each location, the mechanisms for transferring that information and data to where the wage assessment process will take place, and the processes for assessing the base compensation against the proposed living wage.

Generally speaking, the examples of companies implementing living wage programmes have not demonstrated that there will be a need to hire additional human resources staff. In addition, it should be possible to deploy the existing management system that is used for compensation review and wage and benefit adjustments. The wage assessment process that compares compensation levels against the living wage can be conducted either at the corporate, regional or local levels. Most likely the analysis will be done at the country level, but experience has shown that some companies have highly centralized data collection and storage systems for their compensation programmes, and are thus able to conduct the analysis at corporate HQs.
4. Engage Social Partners in Living Wage Discussions

The implementation of living wages cannot be developed in a top-down manner without due consultation with workers representatives. Trade unions should play a role in wages discussions at enterprise level. Companies need to acknowledge the role of social dialogue in the wage-setting process to ensure that wages and working conditions are influenced by networks of worker representatives, worker committees, enterprise councils and trade unions.

5. Definition of a Living Wage, Geographic Scope of Application, and Categories of Workers Covered by the Living Wage Programme

There are numerous definitions of a living wage, but they all generally focus on the idea that “the remuneration received for a standard workweek by a worker in a particular place must be sufficient to afford a decent standard of living for the worker and her or his dependents. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs, including provision for unexpected events.” As such, it is important to understand that the concept of a living wage is different than common compensation reference points, like external competitiveness and industry standards, as well as the underlying principles and processes for determining minimum wages in many countries.

Fundamental to establishing a living wage programme is the determination of the geographic scope of application in terms of the countries and subnational locations (urban centers, rural areas) covered and the categories of workers that will be covered. A general principle is that all countries where a company has operations should be included in the programme as well as all direct employees (full-time, part-time, temporary); as the programme evolves it is expected that a broader array of workers will be covered, such as on-site contractors. As already noted, a living wage should reflect the cost of achieving a basic standard of living that is culturally and socioeconomically appropriate within the countries Company X is operating in. In some countries one living wage may be sufficient, but in others it is the case that different geographic locations will have varying costs of living, and this will thus necessitate the calculation and application of multiple living wages in a single country.

IN PRACTICE

Among the initial steps in the implementation of a living wage programme is determining which countries and categories of workers will be included in the programme. A major pharmaceutical firm began its living wage initiative by focusing on countries with 50 or more employees and excluding those with fewer. Eventually the living wage programme was extended to all countries where there are employees, regardless of how many, and this today is a common approach among companies starting programmes. An exception to this approach, however, has been taken by several companies that have started programmes by focusing on the “high risk” countries and then eventually (within one or two years) expanding it to all countries. Companies taking this approach have generally been based on profiles of wage levels related to the minimum and average wages, and on reports that wage levels are inadequate to meet basic needs and to keep workers out of poverty.

Another common question concerns the categories of workers to be included in a living wage programme. Illustrating this are the experiences of two companies in the consumer products and mining industries. Both initiated their programmes by including full-time, part-time and temporary employees, and subsequently evaluated the need for and impact of extending the living wage commitment to contingent workers and on-site contract workers. The ongoing evaluation includes determining the compensation levels of these workers and the steps necessary to meet the living wage benchmark if a gap exists.
Prior to the assessment, it should be reinforced to those implementing the programme that the company always complies with local laws and regulations related to minimum wages and hours of work. One application of this principle is that the living wage used in the assessment process for a country or specific location (city, region, etc.) can never be lower than the statutory minimum wage.

Once the living wage figure has been validated by the respective country office and/or operation, the assessment can be conducted of the living wage against the compensation of all applicable company employees. It will be necessary to identify all your employees and the current pay levels for all types of contracts (current salary levels of full-time employees, part-time and temporary workers). This information should be contained in a compensation database, but if not it could be determined through a survey and in addition should include consultation with different units at the country level.

A critical aspect of implementing a living wage programme is creating the proper criteria for calculating the base compensation package that will be compared to the living wage. Given the variety of laws and regulations impacting compensation systems around the world and the different approaches of companies to compensation in general, identifying which components of compensation should be included in calculating the base compensation to be compared to the living wage requires a framework that identifies the potential components and provides guidance as to how they should be evaluated. There are a number of leading sources that can be used to formulate criteria, including various ILO conventions and recognized methodologies such as the “Living Wages Around the World. Manual for Measurement.”

For example, employer payments on behalf of or in addition to those of workers for pensions and other social security programmes should not be included in the calculation of the base compensation to be compared to the living wage. The benefits of such programmes will be realized in the future and their exact value is difficult, if not impossible, to calculate with the required degree of precision and therefore their relevance for assessing the adequacy of current compensation levels is limited. In general, non-cash benefits or other benefit programmes that require an estimate of their actual value should not be included as additions to the base compensation for comparison with the living wage.

But there is scope for inclusion of some in-kind benefits assuming they can be valued as part of the employment package if the worker counts on receiving the benefit, if it meets standards of decency in terms of cost and quality, helps meet at least basic needs, and if there is a well-developed methodology for determining the value that has a demonstrated degree of accuracy with respect to the employee group concerned.

**IN PRACTICE**

A global apparel company formed a cross-departmental working group to ensure internal alignment on the question of what elements of compensation can be included in the base compensation. This working group is chaired by the VP of human resources and has conducted a thorough review of all compensation elements in all locations in conjunction with the third-party provider of the living wage data. Among the criteria used were determining if the element contributes directly to the achievement of basic needs, if it can be valued in the case of non-cash compensation, and does it align with standards contained in specific international benchmarks.

There is variance in where the living wage assessment takes place. Two global pharmaceutical companies conduct the assessment at the country level, a major food company conducts it through its regional human resource teams, and three mining, energy and consumer products companies do the calculations at corporate headquarters. The major factor determining the location of assessment is the location where the information on all elements of compensation is available. A hybrid approach, being implemented by a consumer health care company and a pharmaceutical company, is to conduct the assessment at headquarters level based on information received on the elements of compensation from country operating units.
Some general guidance on the inclusion of in-kind benefits is that they need to be:

- Customary or desirable for industry or occupation
- Appropriate for personal use and benefit of the worker and his or her dependents
- Monetary value attributed is fair and reasonable

Payment in kind should however not fully replace cash remuneration. The labour laws in many countries specify the maximum proportion of the wages that may be paid in kind; this usually varies from 20 to 40 per cent. An amount reaching 50 per cent in kind unduly diminishes the cash remuneration which is necessary for the maintenance of the worker and her or his family. Because payment in kind makes workers more dependent and vulnerable, there is a risk that improper forms of payment may lead to situations of forced labour. Payments “in-kind” in the form of goods or services should not create a state of dependency of the worker on the employer.

In addition, it is possible to include non-wage cash payments, such as incentive and productivity bonuses, as well as cash allowances for certain categories of expenses such as transport, food and housing since these have the effect of helping workers meet their basic needs. These will however need to be regular and guaranteed in order to be taken into consideration. Among the documents providing guidance on the elements of base compensation include *Living Wages Around the World: Manual for Measurement* as well as various ILO Conventions and Recommendations. The table below provides an example of the type of framework a company can create to implement the calculation of the base compensation/remuneration.

<table>
<thead>
<tr>
<th>Non-Wage Cash Payments and In-Kind Benefits</th>
<th>Include</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing allowance</td>
<td>Yes</td>
<td>Supports key element of basic needs</td>
</tr>
<tr>
<td>Transport allowance</td>
<td>Yes</td>
<td>Supports key element of basic needs</td>
</tr>
<tr>
<td>Food allowance</td>
<td>Yes</td>
<td>Supports key element of basic needs</td>
</tr>
<tr>
<td>Production bonuses paid at least annually</td>
<td>Yes</td>
<td>Limits on amount as % of base wage</td>
</tr>
<tr>
<td>General bonuses based on company finances</td>
<td>Yes</td>
<td>Limits on amount as % of base wage</td>
</tr>
<tr>
<td>Attendance allowance</td>
<td>Yes</td>
<td>Limits on amount as % of base wage</td>
</tr>
<tr>
<td>Overtime</td>
<td>Yes</td>
<td>If regular occurrence and within working time law – Limits on amount as % of base wage</td>
</tr>
<tr>
<td>Night shift, weekend and holiday pay premiums</td>
<td>Yes</td>
<td>Limits on amount as % of base wage</td>
</tr>
<tr>
<td>Housing utilities such as water or electricity</td>
<td>Yes</td>
<td>Supports key element of basic needs</td>
</tr>
<tr>
<td>Food rations or commodities given for free or sold at concession rates</td>
<td>Yes</td>
<td>Supports key element of basic needs</td>
</tr>
<tr>
<td>Transport to work and from work (and to town on weekends from agricultural estates)</td>
<td>Yes</td>
<td>Supports key element of basic needs</td>
</tr>
<tr>
<td>School and/or childcare for workers’ children</td>
<td>Yes</td>
<td>Supports key element of basic needs</td>
</tr>
<tr>
<td>Medical services not required by law and not related to work injuries and illnesses</td>
<td>Yes</td>
<td>Supports key element of basic needs</td>
</tr>
</tbody>
</table>
When gaps are identified between the pay grade and the living wage benchmark, the location-operation should prepare a wage adjustment workplan, including timelines, to align employee compensation levels with those of the living wage. Although adjustments to compensation to meet the living wage benchmark can have significant impacts on a company’s financial situation, it nevertheless should be done in a way that does not harm workers either through layoffs, reductions in the overall benefits received, or changes in workplace conditions deemed harmful by workers. Multi-year adjustment periods should be considered if the financial implications of the necessary adjustments are significant, and as part of this the wage adjustment workplan should identify key milestones in the adjustment process and the overall timing.

It may also be necessary that the workplan includes provisions for adjusting the pay grades of workers above the living wage because of the occurrence of wage compression resulting from the wage increases to those below the living wage. The reduction in pay differentials can create a variety of challenges to the management of human resources, including keeping active and relevant incentives for promotions based on higher pay levels. There are direct and indirect ways to reduce the effects of wage compression, and these include implementing the adjustments to meet the living wage benchmarks over several years and/or making other adjustments in the compensation and work profiles of higher pay grades that serve to maintain the distinction.

All of the above adjustments and associated timelines should be compiled into a workplan, and included in a report that delineates and explains all aspects of the living wage programme. Creating such a report will be important for ensuring the ongoing support of the programme across the organization and for providing the background information necessary to successfully facilitate the inevitable staff transitions in and out of project management.

### IN PRACTICE

Adjusting wages for specific workers or for job categories has potential financial implications at the operational and/or corporate levels. To adjust the wages for a particular operation in Canada, a pharmaceutical company put together a two-year transition plan that included a reduction in the ROI (return on investment) goal for the country office, and this process involved the finance and legal departments as well as approval at the senior executive level. Another key aspect of the plan was a firm commitment on the part of the company to follow through on the wage adjustments within the stated time period. To facilitate the process of approving the wage adjustments, the magnitude of impact and the timeline, the company implemented a living wage programme which involved ongoing consultation with numerous departments and awareness-raising for the entire company through an annual employee survey that includes questions on the living wage programme.

### 8. Awareness Raising and Training on Living Wage Programme

The payment of a living wage is widely recognized as a human right in itself, and it is a business responsibility for companies to act on wages where low pay is an identified risk or impact on the enjoyment of workers’ rights. To ensure effective implementation of the living wage programme, it is important to secure executive level support, and this is most effectively done through direct engagement. There is increased interest and momentum today on living wages from key stakeholders such as investors and intergovernmental organizations. Some leading companies have reached already the ambition of ensuring a living wage for all their employees and are taking steps to close the income gap for workers engaged in their business relations.

The living wage programme should align with the company’s stated values and the commitments it has made through policies and sustainability and/or human rights reports. This naturally leads into a detailed description of the programme’s implementation processes and responsibilities, and then a general
overview of the calculation methodology and the external provider of the living wage figures. The final section should focus on the anticipated financial impacts of the programme because of wage adjustments, enhanced reputation with consumers and business partners, and improvements in worker job satisfaction, productivity and tenure.

Training materials for the staff that will manage the living wage programme can follow a similar sequence of topics and issues, but with a much more detailed focus on the specific processes and milestones necessary to successfully implement the programme. This should include specification of the departments and functions responsible for gathering and distributing the living wage data to the assessment teams, the timing and processes by which the assessment will take place, the procedure for the assessment team to lodge questions and comments, the framework for creating the wage adjustment plans and securing the related approval processes, and the vehicle for reporting the results of the assessment to internal stakeholders.

9. Conduct Ongoing Monitoring and Update Wage Levels

As the living wage calculation is based on changing indicators in different markets — such as regional cost of living, taxes, cost and availability of public services — it is crucial for companies to establish processes for monitoring and updating the living wage levels to reflect these changes. This can be done in coordination with the external partners supporting the operational process.

10. Scaling and Global Outreach: Extending Living Wage Commitments Beyond Direct Employees

While recognizing that the extension of living wage commitments to the workforces of contractors and suppliers is not the primary intent of this Living Wage Ambition, it nonetheless is possible that companies will deem it in their interest to take steps to assess the wage profiles of suppliers and contractors and, if necessary, encourage their adoption of programmes to pay a living wage.

Such efforts should be grounded in best practice approaches by companies to engaging with and influencing the policies and activities of suppliers and contractors across social and environmental issues not mandated by law. Building on the extensive base of knowledge that exists, it will be possible to create a fact- and experienced-based approach to guide how a company can most effectively partner with contractors/suppliers to realistically enable (not just demand) their transitions to paying living wages.

There are a number of factors contributing to the complexity around ensuring the payment of living wages in global supply chains, but complexity is not always complication and should not be a reason for inaction. More sustainable purchasing practices between the buyers and the suppliers can for instance influence wages and working conditions. Buyers can put pressure on suppliers in terms of timeline, prices, technical specifications and delivery, which have direct effects on suppliers’ capacity to provide living wages and decent working conditions. It is important to better understand how buying prices relate to wages. Collaborative action at the industry level and the engagement and collaboration of key stakeholders are crucial to building leverage at the national level to ensure a living wage for all workers.

The new report, Improving Wages to Advance Decent Work in Supply Chains (June 2021), developed as part of the UN Global Compact Decent Work in Global Supply Chains Action Platform, highlights lessons learnt and best practices from companies and organizations on tackling low pay in supply chains and provides guidelines on steps companies and their suppliers can take to improve wages globally.

IN PRACTICE

One of the largest food companies in the world has adopted an approach to awareness raising and training on its living wage programme that includes annual meetings and ongoing consultation with the key human resource teams responsible for its implementation. The living wage programme is initiated each year by the human resource department at corporate headquarters, and the assessments of base compensation against the living wage and the preparation of programmes to adjust wages to meet the living wage standard when needed are conducted by the regional human resource teams. The recurring meeting to commence the programme each year includes a presentation that focuses on a general overview of living wages, the rationale for the living wage programme from a business perspective, how the programme aligns with the company’s stated values and commitments, and the processes of and responsibilities for implementation. This meeting also involves the third-party provider of living wage data.
ANNEX: SAMPLE CRITERIA FOR A LIVING WAGE BENCHMARK METHODOLOGY

The Sustainable Trade Initiative (IDH)\(^\text{22}\) has developed a set of objective criteria for the minimum elements a living wage benchmark methodology should include to be reliable. Companies can use the IDH Tool to find IDH Recognized Living Wage Benchmarks.

1. Estimate living wage based on data collected through field level research, online surveys, national statistics and/or modelling. Collected data should be representative of the location of the living wage benchmark.

2. Measure the cost of living of a typical family in a region. A typical family in a region means that the size of a family is estimated based on regional (or national) data through family size data or birth rate data.

3. Include in the cost of living, the cost of food based on requirements for good nutrition, housing, education, healthcare, household goods, communication, transportation, personal care and a small margin for unexpected events.

4. Factor in the expected number of working adults in a family by dividing the total cost of living by 1+ the employment rate.

5. Provide the gross living wage estimate, which is the gross pay required to ensure sufficient net take home pay to cover for the cost of living. This is necessary because net living wage would not account for statutory deductions from pay (such as income taxes, social security taxes and union fees), which will reduce the take home pay and money available for day-to-day expenses.

6. Are city- or region-specific or at least account for urban and rural differences.

7. Must have no inherent conflicts of interests. Methodologies must have sufficient distance from funding sources to maintain integrity. In addition, individual benchmark results must not be influenced by the funding source.

8. Publish a clear and consistent methodology for data collection and calculation elements.

9. Update the estimates yearly for inflation. Estimates can be updated for up to five years (considering local circumstances) before a new benchmark is needed.

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1. There is no universally accepted definition of a living wage as a concept and there is no universally accepted amount that defines such remuneration. The definition used in this document is based on the definition of the Global Living Wage Coalition and incorporates the main ideas found in over 60 living wage descriptions and definitions from human rights declarations, national constitutions, NGO, multinational and corporate codes of conduct, International Labour Organization (ILO) documents, and statements (R. Anker, Estimating a Living Wage: A Methodological Review, ILO 2021).


5. Organizations providing living wage data across multiple countries include the Global Living Wage Coalition, BSR, Fair Wage Network, Fair Wear Foundation and Wage Indicator.


8. Living Wage Employers: evidence of UK Business Cases. 2015; Andrea B. Coulson and James Bonser on behalf of the University of Strathclyde, in partnership with the Living Wage Foundation.


17. Ibid.


19. See: Article 25 of the Universal Declaration of Human Rights, United Nations, 10 December 1948 and Article 7 of the International Covenant on Economic, Social, and Cultural Rights, United Nations publication, 1 January 2018. Drawing on these binding instruments, the UN Guiding Principles outline the business responsibility for companies to act on wages where low pay is an identified risk or impact on the enjoyment of workers’ rights. This is also reflected in the OECD Guidelines for Multinational Enterprises, the ILO MNE Declaration, a tripartite declaration of principles concerning multinational enterprises and social policy, and the Draft UN Treaty on Business and Human Rights.

