



RESEARCH PAPER

# THE CASE FOR LIVING WAGES

How paying living wages  
improves business performance  
and tackles poverty

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The views expressed in this paper are those of the authors and do not imply endorsement of the content within by the organisations that have provided input or support for the research of this paper.





**“Capitalism is evolving to incentivise businesses to create better outcomes for more stakeholders. Living wages are an important part of this evolution.** They strengthen businesses by improving employee engagement and productivity, and align corporate conduct with customer expectations. A living wage economy would dramatically increase consumer purchasing power – uplifting millions from poverty and creating a prosperous market for consumer goods companies like Unilever. **This would also be an important step to healing inequalities in our fractured society, and increasing the odds of success in tackling the biggest challenges that the world faces today.”**

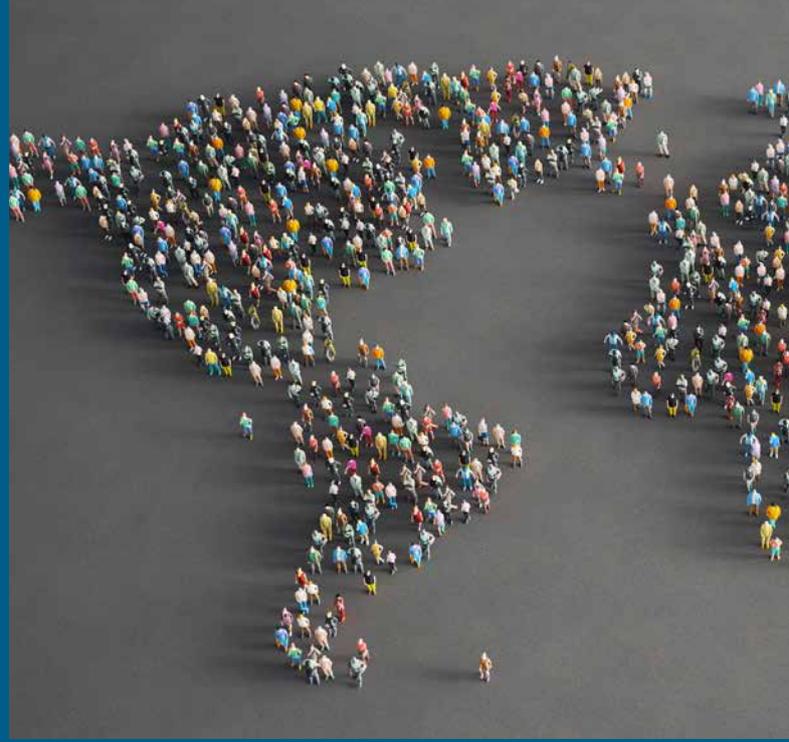
*Alan Jope, CEO, Unilever*

# FOREWORD

The payment of living wages remains one of the most powerful routes to help people out of poverty, start to tackle inequality, realise human rights and achieve the Sustainable Development Goals (SDGs). There is growing recognition that poverty wages pose a significant barrier to progress on all these issues.

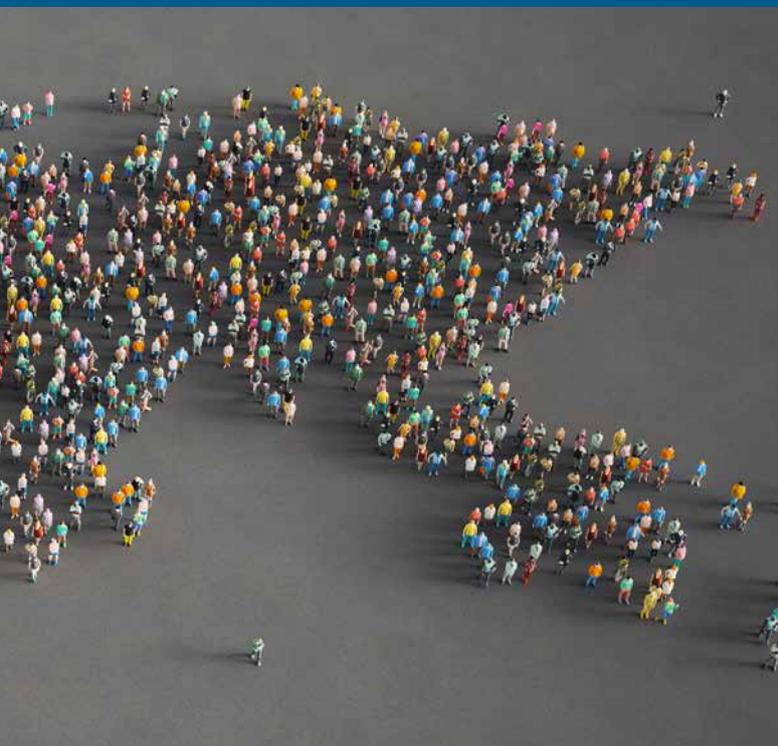
Globally, 630 million people are in working poverty, earning under US\$3.20 per day in terms of Purchasing Power Parity (PPP). In the face of this challenge, minimum wages are often set too low for workers and the dependents in their households to escape poverty, as well as not having wide enough coverage and sometimes not being enforced. The COVID-19 pandemic has exacerbated and scaled the challenge.

This paper shows an exciting new momentum towards living wages, coming from businesses, investors and numerous civil society organisations. A vanguard of leading companies is moving beyond statutory minimum wages to ensure that workers are paid enough to achieve financial security. Importantly, this trend is spreading beyond commitments to employees and workers in core operations, to workers in local and global value chains.



*Globally, 630 million people are in working poverty, earning under US\$3.20 per day in terms of Purchasing Power Parity (PPP).*

However, too many businesses still see living wages as a challenge rather than an opportunity. This paper seeks to change the narrative. It provides a new perspective on what paying living wages offers to companies and demonstrates that living wages generate a wealth of benefits to workers, businesses and society.



The persistence of widespread in-work poverty and inequality demands renewed attention for living wages. Two shifts would accelerate progress. Firstly, we need to change the dominant narrative away from poverty wages being seen as an unfortunate and unavoidable by-product of global capitalism. Instead, wages are within the power of businesses to adjust. The old status quo must give way to urgent action.

Secondly, leading companies need to partner with each other, non-profits, financial institutions and multilateral organisations to develop industry- and sector-level solutions, and advocate for policy reforms and market incentives.



*This paper shows an exciting new momentum towards living wages, coming from businesses, investors and numerous civil society organisations.*

Implementation is complex and remains a challenge. The good news is that a growing number of pioneering organisations and businesses are developing rigorous tools, methodologies and management frameworks for implementing living wage commitments. No business needs to start from scratch, as they can join a growing movement of practitioners, policymakers and civil society leaders.

The time for living wages is now. The payment of living wages is increasingly seen as a social equivalent of the 'race to zero' for the environment. As new commitments are made, and new collaborations form, living wages are becoming an important guiding principle and indicator of intent for any good business.

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# GLOSSARY

**Decent work.** Productive work which delivers a fair income, with security in the workplace and social protection, alongside prospects for personal development and social integration, freedom of expression and organisation, equality of opportunity and equal treatment for women and men.<sup>1</sup>

## **Environmental, Social, and Governance (ESG).**

Environmental, social, and governance dimensions of investments, considered alongside financial factors by investors.<sup>2</sup>

**Inequality.** Economic inequality is the uneven distribution of money amongst a defined population. Usually distributions of income or wealth, between individuals or households, are measured.

**Living wages.** Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her/his family, including food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events.<sup>3</sup>

**Living wage gap.** The difference between the living wage and the prevailing wage.

**Living income.** Net annual income required for a household to afford a decent standard of living for all members; this covers food, water, housing, education, healthcare, transportation, clothing, other essentials, and provisions for unexpected events.<sup>4,5</sup>

**Minimum wage.** Minimum remuneration that an employer is legally required to pay wage earners, and which cannot be reduced by collective agreement or individual contract.<sup>6</sup>

**Poverty.** Poverty may be determined in either absolute or relative terms. The World Bank has defined international poverty lines: \$1.90 PPP/day for low income countries; \$3.20 PPP/day for lower middle-income countries; \$5.50 PPP/day for upper-middle income countries. In high-income European or OECD countries, poverty is often defined in relative terms as living below 50 percent or 60 percent of national median income.<sup>7</sup>

**Extreme Poverty** is defined as living on less than US\$1.90 PPP/day. SDG 1 aims to end extreme poverty defined in this manner.<sup>8</sup>

**Purchasing Power Parity (PPP).** Currency conversion to equalise the purchasing power of different currencies by eliminating the differences in price levels between countries.<sup>9</sup>

**SMART targets.** Goals that are Specific, Measurable, Achievable, Relevant and Time stamped.

**Sustainable Development Goals (SDGs).** Global Goals adopted by the United Nations in 2015 to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.<sup>10</sup>

**Social dialogue.** Negotiation, consultation or exchange on policy issues between governments, employers and workers;<sup>11</sup> unions promote social dialogue for wage setting.<sup>12</sup>

**Working poverty.** Workers in households with per-capita consumption or income below the poverty line.<sup>13</sup>

4 Global Living Wage Coalition. 2021b. Living Income.

5 The paper does not cover the field of living income, a separate although highly related area of dialogue and action between business, civil society and governments.

6 ILO. 2021b. How to define a minimum wage? International Labour Organisation.

7 Ferreira, F., & Sanchez-Paramo, C., 2017. A richer array of international poverty lines.

8 Ferreira, F., & Sanchez-Paramo, C., 2017. A richer array of international poverty lines.

9 OECD. 2021. Purchasing power Parities - Frequently Asked Questions. The Organisation for Economic Cooperation and Development.

10 UN. 2021. The Sustainable Development Goals.

11 ILO. 2021c. Social dialogue. International Labour Organisation.

12 ILO. 2020b. Global wage report: 2020-21. International Labour Organisation.

13 Ibid.

1 ILO. 2021a. Decent work.

2 Morgan Stanley Capital International. 2021. What is Environmental, Social and Governance?

3 Global Living Wage Coalition. 2021a. The Anker Methodology for Estimating a Living Wage.

# EXECUTIVE SUMMARY

*A COMPREHENSIVE AND URGENT RESPONSE IS NEEDED TO END IN-WORK POVERTY AND REDUCE INEQUALITY.*

As a route out of working poverty and a pre-requisite to tackling growing income inequalities, living wages have growing support among business, civil society, and governments.

This paper offers a new perspective, by considering the business benefits of living wages alongside the high costs of inaction. We provide evidence for a much needed new narrative around the risks of inaction. We show that in addition to being part of the corporate responsibility to respect human rights, paying living wages can deliver measurable business benefits. Nevertheless, we recognise some possible short-term costs or investments may be required to deliver measurable long-term benefits.

Living wages establish a wage floor above which workers' remuneration for a standard workweek is sufficient to afford a decent standard of living for themselves and their families.

First and foremost, a company is significantly better positioned to deliver on its human and labour rights obligations when living wages are paid in its own operations and across its value chain. Moreover, payment of living wages provides a powerful engine to achieve the Sustainable Development Goals (SDGs), in particular SDG 1 (No



*THE BUSINESS CASE FOR A LIVING WAGE IS CLEAR AND COMPELLING. SO IS THE COST OF INACTION.*

Poverty) and SDG 8 (Decent Work and Economic Growth), while supporting SDG 10 (Reducing Inequalities).

In addition to these human rights and social impact benefits, this new synthesis of a broad body of literature and 31 expert interviews details how living wages can offer businesses many advantages. Living wages also help to mitigate risks within core operations, value chains, and the broader operating environment – and offer a clear, measurable indicator of corporate responsibility and values in action. Living wages should be at the top of the list of priorities of any company interested in improving their social impact and business performance.

It is striking how the benefits of paying living wages align and reinforce one another. Comprehensive living wage commitments mean there is no trade-off for business leaders between prioritising their own workers, workers in their value chains, or the people within the wider operating environment.<sup>14</sup>

<sup>14</sup> Note that short term implementation costs will require some sequencing.

Meanwhile living wages offer companies the direct benefits of a more stable workforce and more resilient value chains, leading to positive multiplier effects in local economies which boost incomes and likely increase demand for goods and services along the way.

Going full circle, these business benefits may then encourage further investment based on high levels of social responsibility paired with tangible material benefits. Such spiralling benefits should position living wages high on companies' agendas.

Figure 1. **How living wages contribute to human rights and the sustainable development goals.** Source: © Shift 2021.<sup>15</sup>



**Shift**

15 Shift. 2021b. The Human Rights Opportunity: 15 real-life cases of how business is contributing to the Sustainable Development Goals by putting people first.

## THE BUSINESS BENEFITS OF LIVING WAGES

This paper identifies the business benefits of living wages within core operations, across value chains, and more widely within the operating environment (Figure 2). The key benefits in each area are as follows:

Figure 2. **Spheres of business benefits from living wages**

### CORE OPERATIONS

- > Employee satisfaction
- > Worker retention
- > Increased productivity

### VALUE CHAINS

- > More stable, resilient, reliable and better performing
- > Increased reputational value due to greater transparency and more measurable social impact
- > Time and cost savings managing labour issues

### OPERATING ENVIRONMENT

- > Improved business reputation
- > Stronger social license to operate
- > Meet investor expectations
- > Stronger business environment



LIVING WAGES OFFER BUSINESSES A PATHWAY TO TACKLE WORKING POVERTY AND REDUCE INEQUALITY.

## CORE OPERATIONS

Living wages offer companies a wide range of internal benefits. Ninety-three percent of Living Wage-accredited employers experience some form of benefits from their accreditation.<sup>16</sup>

- > **Living wages lead to lower staff turnover, which reduces recruitment and training costs.** Employees remain at the company because they want to and can afford to do so while achieving a decent standard of living. They develop more and better skills, contribute to institutional memory, and then provide on-the-job support to newer employees.<sup>17</sup> In addition, employers are incentivised to invest in their long-term workers, e.g. through training.<sup>18</sup>
- > **Living wages can promote a more motivated and productive workforce, by improving morale and commitment.** These benefits also link to reduced absenteeism, better health, and greater economic security.<sup>19</sup> Up to 4/5 of employers indicate that work quality increased once they introduced living wages.<sup>20</sup>

<sup>16</sup> According to a study conducted for the UK Living Wage Foundation in 2017. Source: Heery, E., Nash, D., & Hann, D. 2017. The Living Wage Employer Experience. Cardiff Business School / Living Wage Foundation.

<sup>17</sup> Ethical Trading Initiative. 2015. Living Wages in Global Supply Chains.

<sup>18</sup> Niedt, C., Ruiters, G., Wise, D., & Schoenberger, E. 1999. The effects of the living wage in Baltimore.

<sup>19</sup> See, for example: London Economics, 2009; Ethical Trading Initiative. 2015. Living Wages in Global Supply Chains. ETI Denmark, Norway, UK.

<sup>20</sup> London Economics. 2009. Business Benefits of Implementing a Living Wage Policy in London.

- **Greater economic security, higher motivation, and better health contribute to employee satisfaction, improving the overall working environment and contributing to productivity.** Relationships between staff members and managers seem to improve after Living Wage accreditation,<sup>21</sup> and employee loyalty increases.<sup>22</sup>
- **There are early signs of living wages improving revenues and profits.**<sup>23</sup> For example, PayPal attributes much of its recent growth to the decision to pay 'decent wages' to all employees.

## VALUE CHAINS

Ensuring living wages are paid in the value chain is nascent practice for most companies, and insights on opportunities, benefits and challenges are only starting to emerge.

What is clear is that sourcing companies are recognising their ability to influence supplier behaviour on living wages. For example, Unilever has committed to ensuring that everyone who directly provides goods and services to the company earns at least a living wage or income by 2030. UK retailer Tesco has committed to paying the living wage gap to banana producers, equivalent to the volumes it sources, from January 2022.<sup>24</sup>



*THERE ARE EARLY SIGNS OF LIVING WAGES IMPROVING REVENUES AND PROFITS.*

- **Living wages are integral to responsible sourcing strategies, and strengthen value chain stability, performance and resilience.** Companies are shifting procurement spending towards long-standing suppliers with shared values and standards. Responsible procurement practices include "ring-fencing" labour costs in price negotiations and investing in suppliers' improvements.
- **Companies highlight a direct correlation between supplier performance and their treatment of workers.** Interviewees for this paper identified that suppliers who perform well emphasise the importance of paying their workers fairly and investing in their welfare.
- **Living wages offer a measurable pathway to improve supply chain transparency and social impact, while reducing the costs of managing labour issues.** Living wages can offer cost savings by reducing time spent managing labour issues, which often stem from low wages.

21 Heery, E., Nash, D., & Hann, D. 2017. The Living Wage Employer Experience. Cardiff Business School / Living Wage Foundation.

22 Wills, J., & Linneker, B. 2012. The costs and benefits of the London living wage. Queen Mary University of London. Trust for London.

23 Zetlin, M. 2021. PayPal Raises Wages for Hourly Workers and Profitability Soars. Inc.com.

24 Tesco. 2021. Tesco commits to paying the living wage gap to banana producers.

## OPERATING ENVIRONMENT

Living wages create benefits and opportunities for companies in the wider operating environment:

### *Reputation and market*

- > **Consumers increasingly seek out ethical companies, and living wages can deliver significant reputational benefit.** In a 2015 survey, 78 percent of individuals stated they were more likely to buy the goods and services of companies that had signed up to the SDGs.<sup>25</sup> Conversely, social controversies pose a considerable risk and potential cost to business.
- > **Paying direct and supply chain employees a living wage can increase their disposable incomes, thus increasing market size in key communities and creating new customers.** A Canadian study found that a 1 percent increase in minimum wages translates into a 0.5 percent increase in real retail sales.<sup>26</sup>

### *Investment*

- > **Leading investors increasingly recognise that the time for the “Social” in the Environmental, Social, and Corporate Governance (ESG) sphere is now.** The living wage is a social topic that particularly appeals to investors due to its potential for measurability.
- > **Payment of living wages is becoming more prominent in investor indices.** For example the Dow Jones Sustainability Index (DJSI).

- > **Mitigating the systemic risk of poverty and inequality is the primary long-term motivation for investors to promote action on living wages.** Businesses that address living wage concerns will be seen as less risky investments, thus likely to attract more capital.

### *Corporate disclosure and stricter regulation*

- > **The legal and regulatory environment increasingly prioritises living wages.** Proactively paying living wages can help to preempt or prepare for future reporting and regulatory requirements.
- > **Looking ahead, it is likely that payment of living wages will become embedded as a new labour standard for businesses.**

### *Economy, society and existential risk*

- > **Wage increases stimulate local economies, leading to positive multiplier effects, and contribute to societal well-being.** The “living wage dividend” may be as high as £700 per person in London, assuming a quarter of low-wage employees are increased to living wages.<sup>27</sup> This is through creating a better, more stable operational environment for businesses.
- > **Paying living wages throughout global supply chains can reduce the push factors driving young people to leave their home countries in search of work.**

<sup>25</sup> PwC. 2015. Make it your business: Engaging with the Sustainable Development Goals.

<sup>26</sup> Jung, Y. C., McFarlane, A., & Das, A. 2021. The effect of minimum wages on consumption in Canada.

<sup>27</sup> Hunter, P. 2021. The Living Wage Dividend: maximising the local economic benefits of paying a living wage. The Smith Institute.

## IMPLEMENTING LIVING WAGE COMMITMENTS

While the business case for paying living wages is increasingly powerful, some operational and strategic challenges slow this transition. Challenges that can be addressed at company level include establishing what the living wage is for a specific place, as well as changing business culture, systems and incentives in a way that shifts living wages from “nice to have” to “essential to good business practice and upholding human rights.”

Harder, system-level challenges include ensuring payment of a living wage when the company is one of many customers sourcing from a supplier. There is also a lack of supportive policy environments for the living wage. These challenges demand collaboration between companies, civil society and governments.

### *Key questions companies and investors should be asking*

There is a handful of useful questions that any business should ask themselves when starting their living wage journey, regardless of industry sector or location of operations:

- A. *What is a living wage in the countries, regions and cities in which we operate?*
- B. *How can we be certain that we are paying living wages in our core business operations, and advancing wages in our value chains? And how can we implement policies, targets and management systems to close the gaps where they exist?*
- C. *What actions are we taking to ensure that our procurement and recruitment practices, and other aspects of our business model, don't work against the payment of living wages in our core operations and value chains?*
- D. *Where are the major systemic obstacles to achieving living wages and how can we partner with others to address them?*

Institutional investors also have a crucial role to play in influencing companies to pay living wages. They could ask themselves:

- A. *How can we better equip our portfolio managers, analysts, and ESG stewardship and research teams to engage with companies on living wages?*
- B. *How can we assess company performance and integrate living wages into ratings and modelling frameworks?*
- C. *How can we learn from and collaborate with global initiatives to standardise measuring and reporting on living wages?*

### *Resources to help businesses to get started*

There is an extensive range of existing practical tools and resources to help businesses get started on the journey to paying living wages. These are being developed by the growing number of organisations already championing living wages, many of which are working with leading companies to ensure the approaches are feasible and effective.

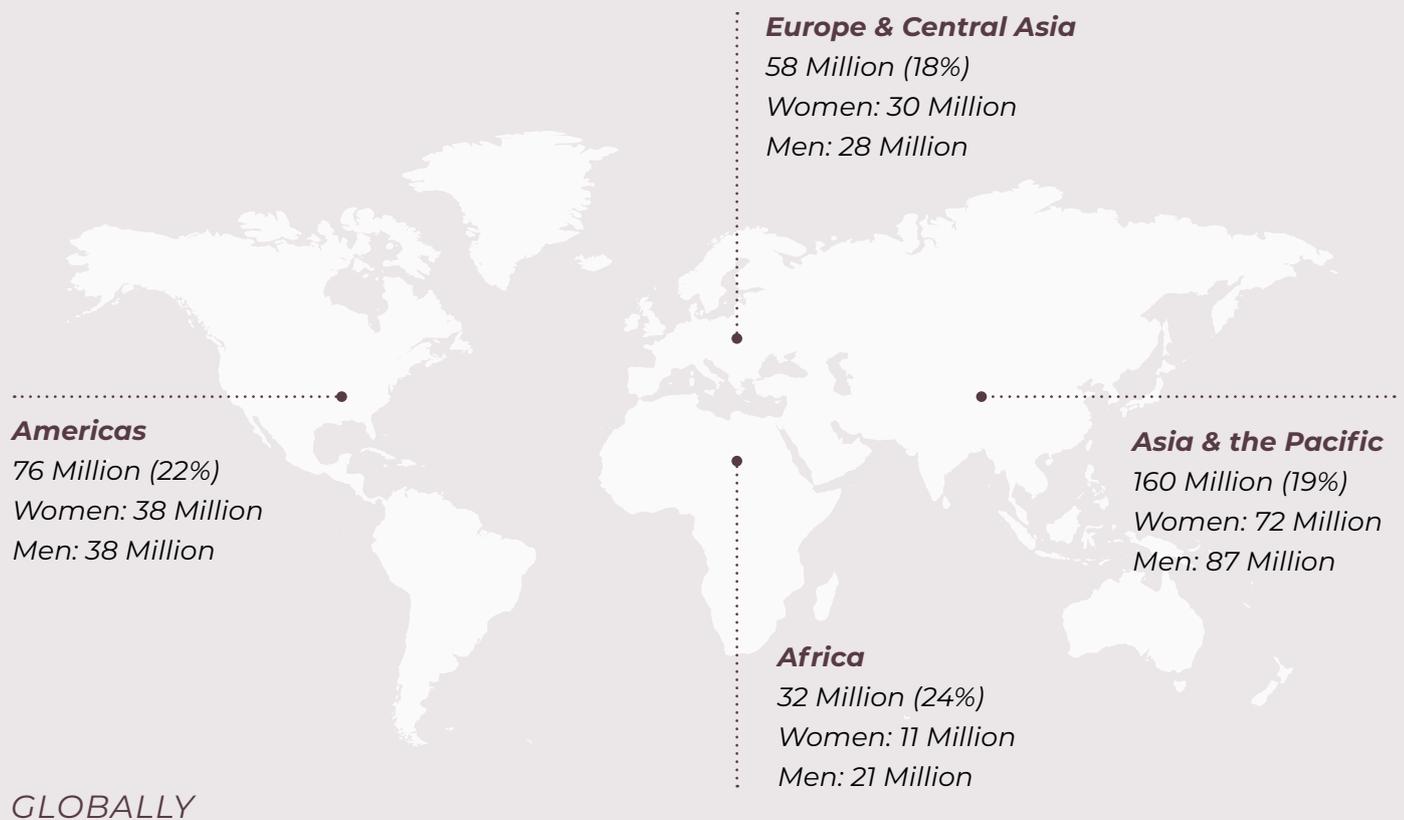
# SCOPE OF PAPER

## THIS PAPER AIMS TO:

- > **Provide insight into the benefits of paying living wages** while also acknowledging challenges.
- > **Support those interested in making living wage commitments** with new insights about the challenges and opportunities presented by Living Wages.
- > **Identify what more can be done to accelerate corporate engagement with living wages** given the low wages paid globally (Figure 3).

Figure 3. **Wage earners at or below the hourly minimum wage, in 2019.**

*Note:* The denominator for the percentages is all wage earners. *Source:* ILO, 2020b, p.67.



**327 Million** wage earners are paid at or below minimum wage representing **19%** of all wage earners. Of these workers, 152 Million are women.

**Note:** This table shows the numbers of wage earners earning below hourly minimum wages. However, minimum wages are often set at levels below credible living wage thresholds.

The evidence underpinning this paper is from two key sources. Firstly, a literature review was undertaken, using peer-reviewed and expert literature to distil the state of knowledge surrounding the benefits (and any risks) of paying living wages. Secondly, 31 expert interviews and three group discussions were conducted. Both these methods engaged businesses paying or planning to pay living wages, investors with a strong environmental, social and governance (ESG) remit, and other organisations supporting fairer wages, including United Nations organisations, NGOs, and fellow researchers ([see p.50](#)).

Our intended audience includes, but is not limited to, companies, financial institutions, policymakers and academics. This paper focuses on the living wage and does not cover the distinct but related field of living incomes.

*The paper reads as follows:*

**Section 1** sets out the current need for living wages.

**Section 2** examines how living wages benefit businesses within their own operations, across their value chain, and in their wider operating environment.

**Section 3** poses key questions for businesses and investors to consider when embarking on their living wages journeys, also signposting useful organisations and resources.

## BOX 1. DEFINING LIVING WAGES

Living wages definitions sometimes illustrate businesses' motivation to pay workers better rates. The first written reference to living wages, in 1894, was Dewsbury textile factory owner Mark Oldroyd's description of wages designed to "maintain the worker in the highest state of industrial efficiency."<sup>28</sup>

### More recently, the living wage was defined as:

*"Remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events."* (Global Living Wage Coalition, 2021 b).<sup>29</sup>

### Methods to define living wages for countries, regions, or cities include:

- Living Wage Methodologies, e.g. the Anker Methodology and Reference Values
- Living Wage Benchmarks such as those recognised in the IDH Living Wage Benchmarks Series
- Social dialogue and collective bargaining
- Employee consultations and surveys

<sup>28</sup> Oldroyd, M. 1894. A Living Wage.

<sup>29</sup> Global Living Wage Coalition. 2021a. The Anker Methodology for Estimating a Living Wage.

# 1. THE NEED FOR LIVING WAGES

## POVERTY, HUMAN RIGHTS, AND THE SDGS

*Work is an important route out of poverty; however, legally mandated minimum wages are not lifting people out of poverty fast enough.*

### **UNIVERSAL DECLARATION OF HUMAN RIGHTS ARTICLE 23.3**

*“Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection”*

### **1919 ILO CONSTITUTION, PREAMBLE**

*“conditions of labour exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled; and an improvement of those conditions is urgently required; as, for example, by [inter alia] the provision of an adequate living wage”*

### **1966 INTERNATIONAL COVENANT ON ECONOMIC, SOCIAL AND CULTURAL RIGHTS, ARTICLE 7**

*“The States Parties to the present Covenant recognize the right of everyone to the enjoyment of just and favourable conditions of work which ensure, in particular ... remuneration which provides all workers, as a minimum, with ... a decent living for themselves and their families”*



Figure 4. **The global challenge of working poverty in a context of wider economic inequality**



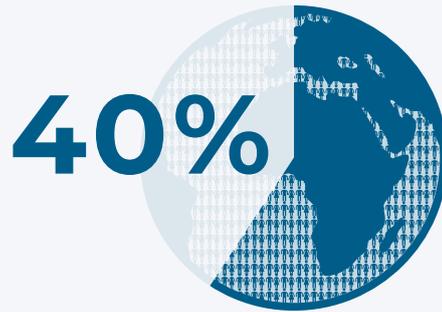
*Minimum Wage*

Wage earners receive below the minimum wage due to either non-compliance or not being covered by legislation.

**Source:** ILO. 2020b. Global wage report: 2020-21. International Labour Organisation.



**10** of the richest men globally own more wealth than approximately...



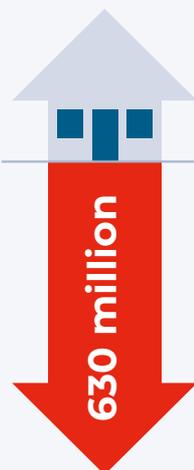
...of **the poorest 3.1 billion** people.

**Source:** Oxfam. 2022. Inequality Kills: The unparalleled action needed to combat unprecedented inequality in the wake of COVID-19.



**Almost 1/10 European workers are at risk of poverty**

**Source:** In 2020, 9% of employed Europeans were at risk of in-work poverty, based on an at-risk-of-poverty threshold set at 60% of national median equivalised disposable income. Eurostat. 2021. In-work at-risk-of-poverty rate.



*The Poverty Line*

The global population of workers living in households below the poverty line - *the working poor* - reached 630 million in 2019, earning less than US\$3.20 PPP/day.

**Source:** ILO. 2020a. World Employment and Social Outlook: Trends 2020. Executive summary. International Labour Organisation.

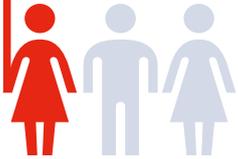


**Young people** aged 15-24 are **twice as likely** (14%) as adults over 25 (7%) **to be in in-work poverty**

**Source:** ILO Stat. 2019. Spotlight on Work Statistics No 6.



## In the USA:



**Almost 1/3 (32%) of the workforce earns less than \$15 per hour**

...that's around 52 million people

**25%** Men **vs.** **40%** women

**26%** of white workers;

**46%** of Hispanic/Latinx workers;

**47%** of Black workers



**50%** of all working women of colour earn less than \$15 per hour.



**89%** of those earning less than \$15 per hour are over the age of 20.

Source: Henderson, K. 2022. The Crisis of Low Wages in the US. Oxfam.

## Working Poverty Rates in the Top Exporting Countries in World Bank Country Groups

Low Income Less than US \$1.90 PPP/day		Lower Middle-Income Less than US \$3.20 PPP/day		Upper Middle-Income Less than US \$5.50 PPP/day	
<b>Liberia</b>	46%	<b>India</b>	37%	<b>China</b>	12%
<b>Mozambique</b>	58%	<b>Vietnam</b>	7%	<b>Mexico</b>	33%
<b>Togo</b>	37%	<b>Indonesia</b>	20%	<b>Russia</b>	2%
<b>Ethiopia</b>	20%	<b>Philippines</b>	18%	<b>Thailand</b>	6%
<b>Sudan</b>	9%	<b>Egypt</b>	24%	<b>Turkey</b>	6%
<b>Democratic Republic of Congo</b>	67%	<b>Bangladesh</b>	34%	<b>Brazil</b>	11%
<b>Afghanistan</b>	34%	<b>Pakistan</b>	21%	<b>South Africa</b>	34%

Source: This table shows the top seven countries by exports in each World Bank Country Group, with their corresponding rates of working poverty, in 2019. Data on export flows from WITS World Integrated Trade Solution, 2022. Export by country and region 2019. Data on working poverty rates from ILOSTAT, 2019. Statistics on the working poor. Information on country classifications obtained from World Bank, 2021. World Bank Country and Lending Groups.



*The inequalities we face are enormous, with the world's billionaires - just **2,153 people** - having **more wealth than the poorest 4.6 billion people**.<sup>36</sup>*

**Amongst the poor, certain demographic groups are overrepresented.** Indigenous people are over three times more likely than non-indigenous people to be in extreme poverty.<sup>30</sup> In the USA, black people are overrepresented amongst the poor (by 1.8 times).<sup>31</sup> Women are more likely than men to be living in poverty.<sup>32</sup> A recent report by Oxfam analysed low wages in the USA that highlighted the relationship between gender and racial dynamics and low pay.<sup>33</sup>

Furthermore, poverty can affect resilience. For example, poorer people with less reliable work and minimal access to social protection and health care are worse impacted by the COVID-19 pandemic than their better-off counterparts.<sup>34</sup> Patterns of working poverty are geographically heterogeneous and in flux ([figure 4](#)).



**Income and wealth inequality are significant drivers of societal dysfunction - to the extent that nearly all social problems are worse in countries with greater income inequality.**<sup>35</sup> Even before the COVID-19 pandemic struck, the private rate of return on capital was so much greater than the growth of income or output, that without redistributive interventions the gap between the rich and poor was set to widen further.<sup>36</sup> And the inequalities we face are enormous, with the world's billionaires - just 2,153 people - having more wealth than the poorest 4.6 billion people.<sup>37</sup>

30 ILO. 2020c. COVID-19 and the world of work.

31 US Census. 2020. Poverty rates for Blacks and Hispanics.

32 Oxfam. 2021. Why the majority of the world's poor are women.

33 Henderson, K. 2022. The Crisis of Low Wages in the US. Oxfam.

34 See, for example: Deaton, A. 2021. COVID-19 and Global Income Inequality. LSE Public Policy Review, 1(4), 1-10.

35 Pickett, K., & Wilkinson, R. 2010. The spirit level. Note: based on a study of OECD countries.

36 Piketty, T. 2013. Capital in the Twenty-First Century.

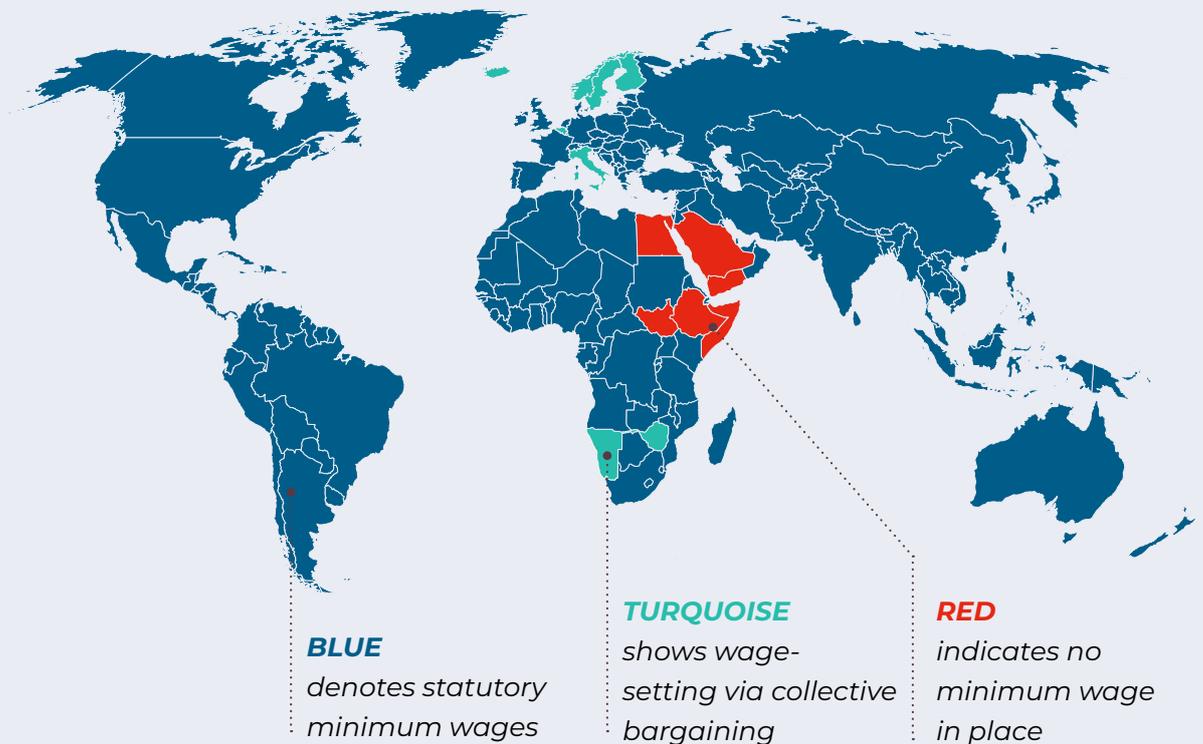
37 Oxfam. 2020. World's billionaires have more wealth.

**The payment of living wages offers a route out of working poverty, and a partial solution to the broader challenge of inequality.** An old idea, but a good one, the living wage provides for the needs of the worker and their families, with enough extra for savings.<sup>38</sup> The impetus to end poverty, in all its forms, everywhere, is enshrined in the United Nations Sustainable Development Goal 1; while Goal 10 is to reduce inequality within and between countries.<sup>39</sup> Furthermore, through addressing poverty, other Sustainable Development Goals can also be addressed, such as gender equality, zero hunger, and access to health care and education (Figure 1).



*Even before the COVID-19 pandemic struck, the private rate of return on capital was so much greater than the growth of income or output, that without redistributive interventions the gap between the rich and poor was set to widen further.*

Figure 5. **Minimum wage systems**



*Where minimum wages only apply to public sector employees, these countries are categorised as not having a minimum wage in place.*

Source: ILO, 2020b, p.62-63.

38 Barford, A. 2021a. Unilever makes global commitment.

39 SDG. 2021. Goal 1: End poverty in all its forms everywhere.

**Most countries (149) have a statutory minimum wage that aims to prevent “unduly low pay” (Figure 5).**<sup>40</sup> In other countries collective bargaining is used to set wage levels.<sup>41</sup> Yet, millions of workers do not earn a minimum wage. In 2020, for example, 52 percent of workers in Arab States and 21 percent in Africa, were not protected by national minimum wages.<sup>42</sup> Minimum wages work best where there is compliance with minimum wage legislation, when people on low incomes benefit directly and when set at an ‘adequate level’.<sup>43</sup> At present, minimum wages in many countries persistently fail to reflect credible living wage thresholds. Ideally, minimum wages would converge with living wages; and be enforced. In the meantime, there is an immediate need for employers to voluntarily pay living wages.

**In most cases, living wage payments are voluntarily adopted by businesses, forming a key pillar of the decent work agenda of Sustainable Development Goal 8.**

A broadly defined concept, decent work includes matters of fair pay, health and safety in the workplace, voice and representation (including worker empowerment and collective bargaining), legal and social protection, equal treatment for women and men, and broader issues of opportunity for personal development and access to services (Figure 6). As the features of decent work pertain to various actors - the worker, the business, and the wider operating environment - some

of these can be hard to pin down.<sup>44</sup> Within this context, living wages tend to fall within the remit of employers, but governments can help by closing the gap between minimum and living wages and ensuring a strong framework of labour regulation.



*“Living wage payments form a key pillar of the decent work agenda of Sustainable Development Goal 8.”*

**Despite the apparent simplicity of paying living wages, there are a variety of operational and strategic obstacles for businesses to navigate.**

Living wage levels vary by location, and according to the chosen method of calculation. The assumptions used in these calculations must be gender sensitive. In value chains, some companies struggle to trace, monitor and influence wage levels; especially if buyers purchase a small slice of a factory’s output so have little influence. Furthermore, domestic companies and national governments may prefer to suppress wages to stay internationally competitive. Lastly, as the application of the normative framework around living wages is still in its infancy, a compelling business case still needs to be made.

40 ILO. 2020b. Global wage report. p.58.

41 Ibid.

42 Ibid.

43 Ibid. p.59.

44 See, for example: Piasna, A., Burchell, B.J., Sehnbruch, K. & Agloni, N. 2017; Sehnbruch, K., Burchell, B., Agloni, N. & Piasna, A. 2015. Human Development and Decent Work: Why some concepts succeed and others fail to make an impact. *Development and Change*, 46(2).

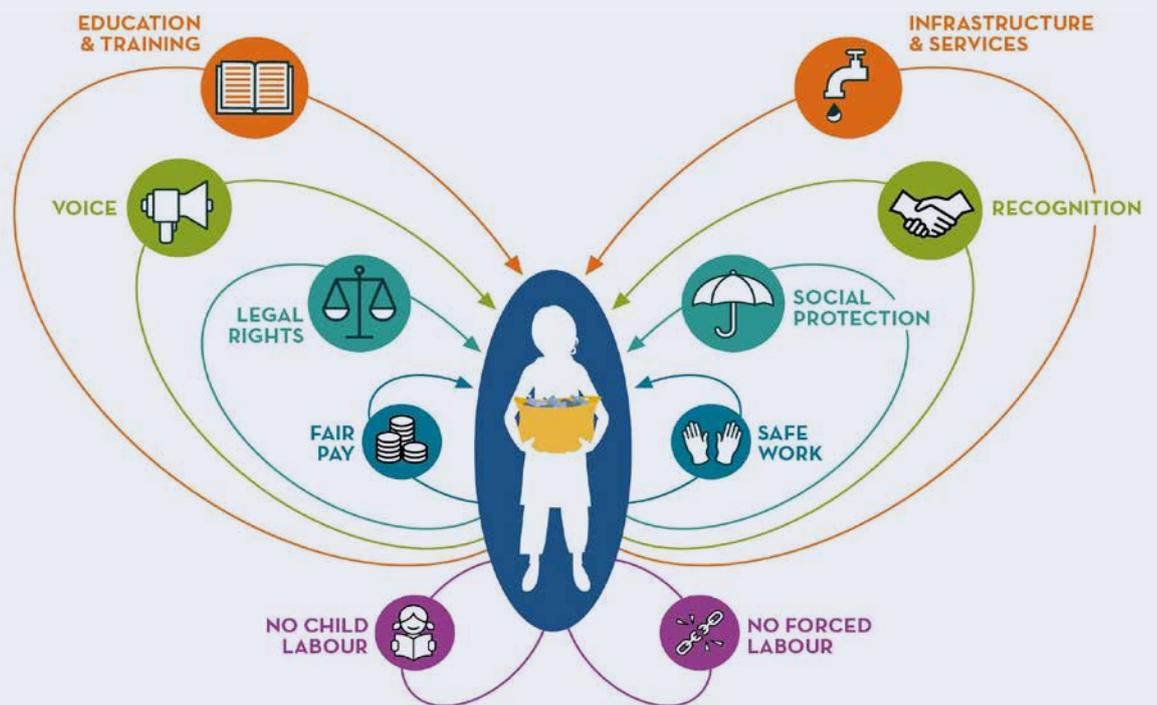




**Overall, living wages offer businesses a way to address working poverty directly, which helps to tackle inequality.** Becoming a living wage employer, whereby the living wage forms the wage floor rather than the ceiling, supports a move towards a fairer distribution of earnings. Businesses are particularly empowered to make these changes, given that in OECD countries at least, they make up 72 percent of GDP.<sup>45</sup> In recent years, a growing number of platforms and initiatives have emerged to engage and mobilise businesses on the living wage, offering tailored support and collaboration (see [section 3](#)). The next section details the business benefits of paying living wages.

Figure 6. **Decent work, or a butterfly for a socially restorative economy.**

Source: Barford and Ahmad, 2021.



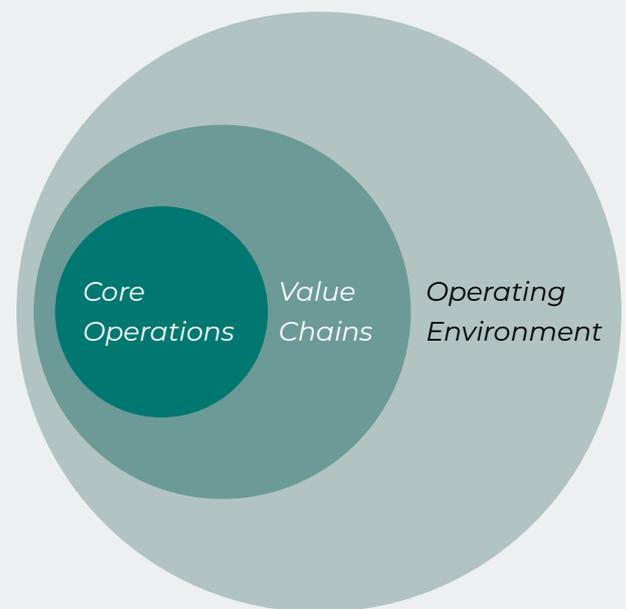
<sup>45</sup> Manyika, J., Birshan, M., Smit, S., Woetzel, J., Russell, K., & Purcell, L. 2021. A new look at how corporations impact the economy and households.

## 2. WHAT LIVING WAGES OFFER BUSINESSES AND INVESTORS

This section captures both sides of the coin: the business benefits of paying living wages and the costs of inaction on living wages. Here we focus on the spheres of core operations, supply chains and the wider operating environment.

**Businesses in high-income economies increasingly understand the operational reasons for paying a living wage.** In the UK, for example, the Living Wage Foundation accredits 10,000 companies as living wage employers.<sup>46</sup> There are over 250 living wage employers in New Zealand<sup>47</sup> and over 300 in British Columbia, Canada.<sup>48</sup> Taking the next step to ensure payment of a living wage to workers in value chains is a “work in progress” for many, and as such, the benefits are only starting to emerge. Nevertheless, it is becoming increasingly clear to companies that acting on living wages creates opportunities and helps to mitigate risks in the broader operating environment. This paper offers insight into a fast-evolving area, which requires further exploration and evidence as the field develops ([Table 1](#)).

Figure 7. **Spheres of business benefit from living wages.** Living wages offer benefits to businesses’ core operations, value chains and operating environment.



*In the UK, for example, the Living Wage Foundation accredits 10,000 companies as living wage employers.*

<sup>46</sup> Personal communication

<sup>47</sup> Living Wage NZ. 2021. Accreditation Fee Structure.

<sup>48</sup> Living Wage for Families BC. 2021. Living Wage Rates.



**For many, the justification for paying employees at least a living wage is fundamentally a question of ethical practice and respecting human rights.** In fact, many of the interviewees for this paper suggested that seeking a *business case* for an ethical commitment was missing the point – after all, human rights are at stake. This paper contends that also identifying the business case for paying living wages can accelerate and scale progress, and create positive knock-on effects. This section considers how businesses fare according to living wage or poverty-wage pathways, at three leverage points: core operations, value chains, and the broader operating environment ([Figure 7](#)).

**At present, the prevailing logic is that wages are a net cost to businesses, so increasing wages is financially detrimental.** Current accounting rules do not help here. Rather than being an asset in which companies would want to invest, staff appear as net costs on the income statement.<sup>49</sup> Until wages are viewed as investments in success, and living wages are accepted as a minimum standard, businesspeople, investors, and human resources teams will have to argue for why it makes sense to pay living wages.

**Living wage commitments and actions are emerging from many business sectors, including fast-moving consumer goods, retail, mining, textiles, and finance.** The research presented here engaged interviewees from across these sectors. There was considerable overlap in the benefits and costs of inaction highlighted, and the challenges of implementation. Nevertheless, the relative importance of these costs and benefits varies between sectors and business models.

**There are many good reasons for businesses to pay living wages to employees and throughout value chains.** While it remains hard to isolate how living wages directly affect financial performance, paying a living wage to direct employees and to workers in supply chains is fast becoming a critical indicator of corporate responsibility. Furthermore, preventing working poverty can improve risk management and pre-empt other challenges.

<sup>49</sup> Shift. 2021a. Accounting for a living wage.

Table 1. **Business benefits from living wages and business risks of poverty wages**

CORE OPERATIONS	<i>Benefits of paying living wages</i>	<i>Risks of not paying living wages</i>
<b>Worker retention</b>	Attract and keep skilled workers and invest in a skilled workforce, contributing to institutional memory, know-how, and keeping recruitment and training costs low.	Lose skilled workers who take up better-paid jobs due to a lack of recognition and lack of employer-employee trust. This leads to increased costs of recruitment and training.
<b>Productivity</b>	Workers are better motivated, rested, and healthier, so they are likely to have better concentration, make fewer mistakes and be more productive during working hours.	Worker stress and exhaustion leads to lower productivity / quality work, brought on sometimes due to working several jobs or too much overtime to make ends meet.
<b>Employee satisfaction</b>	A more positive working environment. Employees are satisfied and motivated to work, promoting innovation and business development.	Employees' satisfaction and motivation is reduced, leading to a negative working environment and hostile employer-employee relationships.
VALUE CHAIN	<i>Value chain benefits of living wages</i>	<i>Value chain risks of not paying living wages</i>
<b>Resilience</b>	Value chains are more predictable and resilient.	Value chains become less reliable and more vulnerable to disruption because of social and industrial unrest.
<b>Performance</b>	Improved supplier performance.	Poor worker health, morale and productivity impacts the performance of suppliers.
<b>Transparency, impact and cost</b>	Strengthened supply chain transparency increased social impact and reduced costs of managing labour issues.	Limited understanding of social impact in supply chains and subsequent increase in costs of managing related labour issues.
OPERATING ENVIRONMENT	<i>Wider benefits of paying living wages</i>	<i>Wider risks of not paying living wages</i>
<b>Business reputation</b>	Redefined corporate purpose, improved reputation as a socially responsible and sustainable employer and organisation.	Social controversies may affect consumer purchasing decisions, share prices and investment decisions.
<b>Business environment</b>	A more cohesive and prosperous society is a foundation for strong economies and growing markets.	Inequality, social unrest and poverty negatively impact the business environment.
<b>Human rights commitments</b>	By paying living wages, companies can show they are meeting one part of their responsibility to respect human rights.	Paying below the living wage is linked to human rights issues, including excessive working hours, abusive working environments, child labour, and forced labour.
<b>Investor expectations</b>	Investors more likely to reward companies with a low-risk profile regarding human rights and industrial unrest.	Investor sentiment may become negative. Shareholders worry about the business and reputational impact of poor labour relations.
<b>Social Licence to Operate / Stakeholder Engagement</b>	Supports social licence to operate - this may be particularly important for certain sectors and provide a focus for community engagement (e.g. mining, construction), in which close relationships with local communities are essential.	Companies known for paying below the living wage may face declining trust and low approval of their business conduct.  Costs of engaging with stakeholders may increase if they are dissatisfied with wages.

## 2.1 CORE OPERATIONS

**The internal benefits of living wages for employees are increasingly documented.** A majority of the organisations interviewed agreed on three broad benefits:

- > Improved employee retention
- > Heightened productivity and product quality
- > Better employee satisfaction, engagement and relations.

A study conducted for the UK Living Wage Foundation in 2017 found that 93 percent of the Living Wage-accredited employers surveyed had experienced some form of benefits from their accreditation.<sup>50</sup>

**Living wages help to ensure a more stable and skilled workforce, lowering staff turnover and reducing recruitment and training costs.**

Lower turnover rates are a widely-cited business benefit of living wages: employees stay because they want to and can afford to do so.<sup>51</sup> A 2017 study found that over half of the UK living wage employers reported living wage accreditation improved retention and recruitment.<sup>52</sup> The magnitude of this effect varies from study to study, with reported average reductions in turnover rates ranging from 41 percent for small firms to 19 percent for large firms.<sup>53</sup>

With less transience, employees develop more and better skills, contribute to institutional memory, and can support new employees.<sup>54</sup> Investment in staff training is rewarded with a more skilled workforce. This offers further benefits, including attracting more applicants, including graduates.<sup>55</sup>

IKEA became an accredited living wage employer in the UK in 2016, as part of a redesigned business strategy aiming to reduce underemployment and make better use of workers' skills. One of the targets of this commitment was a reduction in employee turnover to less than 10 percent, through which the company expected to save up to £10 million due to consequent improvements in service quality and customer satisfaction.<sup>56</sup>

**Living wages promote a motivated and productive workforce, with good health and well-being, low absenteeism, and higher quality work.**

In one study, almost  $\frac{3}{4}$  of workers and  $\frac{4}{5}$  of employers indicated that work quality increased with the introduction of living wages.<sup>57</sup> A one-year fair wage programme with 81 suppliers to a major global brand found a 5 percent reduction in managerial concerns about productivity.<sup>58</sup> Decent wages are linked to improved workers' health, due to access to sufficient nutritious food and ending excessive work hours.<sup>59</sup>

50 Heery, E., Nash, D., & Hann, D. 2017. The Living Wage Employer Experience. Cardiff Business School / Living Wage Foundation.

51 See, for example: London Economics, 2009; Gardiner, L., & Hussein, S. 2015; Zeng, Z., & Honig, B. 2017.

52 Heery, E., Nash, D., & Hann, D. 2017. The Living Wage Employer Experience. Cardiff Business School / Living Wage Foundation.

53 Niedt, C., Ruiters, C., Wise, D., & Schoenberger, E. 1999. The effects of the living wage in Baltimore (Working Paper No. 119). Economic Policy Institute.

54 Ethical Trading Initiative. 2015. Living Wages in Global Supply Chains. ETI Denmark, Norway, UK.

55 Wills, J., & Linneker, B. 2012. The costs and benefits of the London living wage. Queen Mary University of London, Trust for London.

56 Living Wage Foundation. 2016. Good jobs in retail: A toolkit.

57 London Economics. 2009. Business Benefits of Implementing a Living Wage Policy in London.

58 Vaughan-Whitehead, D. 2019. Fair Wages – a key to effective social capital management.

59 Otto, L. 2020. The positive effects of living wage laws. University of Wisconsin-Milwaukee.

Our interviews with Fairphone and the Fair Wear Foundation attributed excess overtime to poverty wages. Maeve Galvin<sup>60</sup> described the ‘burn-out jobs’ in Cambodian textile factories, where exhaustion from overwork is a major contributor to periodic mass fainting. For employers, excessive overtime translates into lower efficiency and more mistakes, increasing costs of reworking and workplace accidents.<sup>61</sup> Good health also reduces sick days; one company attributed a 25 percent drop in absenteeism to the introduction of living wages.<sup>62</sup> Using two statistical techniques, a study found that a \$1 increase in the real minimum wage causes a 19% and 32% decrease in absenteeism rates due to self-reported illness.<sup>63</sup>

**Economic security and better health improve the overall working environment and contribute to higher motivation and greater employee satisfaction.** Relationships between staff members and managers seem to improve after living wage accreditation, and employee loyalty also increases.<sup>65</sup> A comparison of the psychological well-being of 173 workers paid the London Living Wage with 127 workers who were not, found that 50 percent of living wage employees registered above average scores, compared to 34 percent of the latter.<sup>66</sup> Another study found average well-being scores for 131 living wage employees were 4.5 units<sup>67</sup> higher than for 198 non-living wage employees.<sup>68</sup> It is well established that employee satisfaction is essential to good practice and business success, offering benefits of heightened productivity, innovation, and business development.<sup>69</sup>



*“Not only is there a strong moral case for paying staff a liveable wage, there is also a compelling business case, with research showing that money and debt problems may impact people’s performance at work, which can ultimately hurt a company’s bottom line.”*

**Charles Cotton, Senior Reward and Performance Adviser,  
Chartered Institute of Personnel Development (CIPD)<sup>64</sup>**

60 Project Manager for European Citizens Initiative on Living Wages at Fair Wear Foundation.

61 Fairphone. 2020. Paying Living Wage in the Electronics Supply Chain.

62 London Economics. 2009. Business Benefits of Implementing a Living Wage Policy in London.

63 Du, J., & Leigh, J. P., 2017. Effects of Minimum Wages on Absence from Work Due to Illness.

64 Trenaman, C. 2021. Majority of people living in poverty are in work, report finds.

65 Wills, J., & Linneker, B. 2012. The costs and benefits of the London living wage. Queen Mary University of London, Trustfor London.

66 Flint, E., Cummins, S., & Wills, J., 2013. Investigating the effect of the London Living wage on the psychological wellbeing of low-wage service sector employees. p.190.

67 On the Warwick-Edinburgh Mental Well-being Score, which ranges from 14 to 70 points. Higher numbers equate to greater well-being.

68 Wills, J., & Linneker, B. 2012. The costs and benefits of the London living wage. Queen Mary University of London, Trustfor London.

69 Preston, C. 2017. Promoting employee happiness benefits everyone. Forbes.

**There are early signs of living wages improving revenues and profits.** PayPal attributes much of its recent growth to the decision to pay ‘decent wages’ to all employees. In 2019, PayPal increased the net disposable income of the lowest-paid employees to 16 percent of the average employee’s pay (from 4-6 percent at market wage rates). They aimed to ensure that employees could make ends meet and save for future emergencies. PayPal reported that revenue grew by 15 percent and profitability by 28 percent in non-GAAP<sup>70</sup> earnings in 2019 compared to 2018. The company projected similar growth from 2020 to 2021.<sup>71</sup>

Although it is challenging to establish a causal relationship – as other aspects, such as the rapid rise of e-commerce, could partly explain the change in revenues – PayPal’s CEO maintains that the increase in wages is a key driving factor.<sup>72</sup> This falls in line with the “gift exchange” theory, introduced by Nobel laureate George Akerlof, describing that when employers are “nicer” than they need to be (for instance, by paying above-market wages), employees will, in turn, be more productive than required.<sup>73</sup>



*PayPal attributes much of its recent growth to the decision to pay ‘decent wages’ to all employees.*

**History reminds us that providing higher wages and decent working conditions is good for business.** In 1914, Henry Ford more than doubled workers’ wages to US\$5 per day and shortened the workday to eight hours, emphasising the importance of lower turn-over and leisure for his workers.<sup>74</sup> Although his competitors initially thought this was foolish, the indisputable resulting boost in productivity, employee loyalty, and pride soon made the industry follow his example – and the Monday-to-Friday workweek became standard practice.<sup>75</sup>



70 GAAP are the ‘Generally Accepted Accounting Principles,’ used to standardise financial reporting by publicly traded companies.

71 Zetlin, M. 2021. PayPal Raises Wages for Hourly Workers and Profitability Soars.

72 Ibid.

73 Fisman, R., & Luca, M. 2021. How Higher Wages Can Increase Profits.

74 NPR. 2014. The middle class took off.

75 History. 2021. Ford factory workers get 40-hour week.

## 2.2 VALUE CHAIN

**In recent years, outsourcing production and services to global value chains to lower costs and increase flexibility has been a key feature of business practice.** An increasing number of companies are committing to living wages in their value chains, some of whom have provided input to this paper. These companies are taking the strategic decision to make living wages integral to their responsible sourcing strategy to strengthen value chain stability, performance and resilience.



*Companies are taking the strategic decision to make living wages integral to their responsible sourcing strategy.*

**Current supply chain disruptions herald a shift towards channelling procurement spending to long-standing suppliers with shared values and standards.** This shift includes ring-fencing labour costs in price negotiations, investing in supplier business processes to boost productivity and make cost savings to absorb increased labour costs, and supporting suppliers to meet social performance criteria on working conditions and wages.

### SPOTLIGHT ON INDITEX

Inditex, a leading global apparel company working with ACT,<sup>77</sup> is investing to drive progress towards living wages by transforming its commercial relationship with suppliers.

#### Their four-pillar plan combines:

1. Collective bargaining agreements
2. Responsible purchasing practices
3. Improving supplier production processes
4. Improving management systems, including digitising payroll administration, to ensure greater efficiency, traceability, and transparency in payments to workers.

For example, having identified work and compensation violations by a supplier in Vietnam, German apparel and footwear brand PUMA provided resources and support to the supplier factory in Vietnam. This supported (i) swift improvements in production planning and (ii) a transition to a more transparent and equitable pay and incentive system. These solutions have ultimately raised worker wages and reduced excessive overtime. With incentive pay and leave pay, workers' monthly net wage increased 43 percent from 2016 to 2019 and is 26 percent above the Global Living Wage Coalition rural living wage estimate for rural Vietnam.<sup>76</sup>

<sup>76</sup> Fair Labor Association. 2021. Reaching Living Wage for Garment Workers.

<sup>77</sup> ACT (Action, Collaboration, Transformation) is an initiative between international brands and retailers, manufacturers, and trade unions to address the issue of living wages in the textile and garment supply chain.

Further interventions include facilitating social dialogue between suppliers, unions, and workers, and supporting sector-level collective bargaining agreements. For example, through the ACT (Action, Collaboration, Transformation) initiative, Inditex is one of a number of global apparel companies working to transform the whole sector and achieve living wages for workers in the supply chain. To do this, collective bargaining and freedom of association are supported by responsible purchasing practices.

Investments also extend to training sourcing teams on responsible purchasing practises. A recent ACT survey of purchasing practices of 1,338 suppliers in the garment sector identified the most critical purchasing practices for enabling living wages as: price negotiations (57 percent of suppliers), order placement (49 percent), and price quotations (48 percent).<sup>78</sup>

**Sourcing companies are recognising their ability to influence supplier behaviour on living wages.**

For example, Unilever has committed to ensuring that everyone who directly provides goods and services to the company earns at least a living wage or income by 2030, specifically focusing on the most vulnerable workers in manufacturing and agriculture. Through purchasing practices, collaboration and advocacy, the company will work with its suppliers, other businesses, governments and NGOs to create systemic change and drive the global adoption of living wage practices.<sup>79</sup>

UK retailer Tesco recently announced a new commitment to close living wage gaps in their UK banana supply chain.<sup>80</sup> They committed to paying the living wage gap to banana producers, equivalent to the volumes it sources, from January 2022. Tesco also plans to reward suppliers who make measurable progress on closing living wage gaps with higher volumes and ensure that producers have a time-bound commitment to pay all workers a living wage. The ambition is to only source from banana producers who pay a living wage to all workers by January 2024.

Global apparel brand Patagonia has embedded the Fair Labor Association's (FLA) Living Wage Standard into its code of conduct. This states that workers have a right to compensation within a regular work week that is sufficient to meet their basic needs and provide some discretionary income. Patagonia has also developed an approach to improving wages in partner factories. As of 2019, 35 percent (11 out of 31) of its apparel assembly factories are paying their workers a living wage, on average.<sup>81</sup>

**Companies highlight a direct correlation between supplier performance and their treatment of workers.** Research interviews with sourcing companies identified a clear link between the quality and reliability of suppliers, and the working conditions and levels of pay received by workers in supplier factories. Procurement teams in some leading companies now benchmark and track how investments in responsible purchasing practices are paying back to the business.

78 ACT. 2021. Purchasing Practices Surveys by Brands and Suppliers.

79 Unilever. 2021. Unilever commits to build a more inclusive society.

80 Tesco. 2021. Tesco commits to paying the living wage gap to banana producers.

81 Patagonia. 2022. Living Wage.

**Living wages offer a measurable pathway to improve supply chain transparency and social impact while reducing the costs associated with managing labour issues.** With social performance in supply chains under growing scrutiny, ensuring the payment of living wages is a clear, measurable intervention, enabling companies to demonstrate quantifiable social impact to stakeholders. For example, Fairphone, which produces more sustainable smartphones, tops up workers' pay to fill the gap between the Chinese minimum wage and a living wage. For Fairphone, living wages for factory workers cost less than €2 per smartphone.<sup>82</sup> Furthermore, our interviewees recounted how living wages offer cost savings for multinational buyers as time spent managing pay-related labour issues reduces.



*Analysis by Fairphone shows that paying factory workers living wages costs less than €2 per smartphone.*



*“Working poverty in supply chains is at odds not only with companies’ values and those of their employees, but also with the potential to secure resilient supply chains and to grow consumer markets in emerging and developing economies.”*

**UN Global Compact<sup>83</sup>**

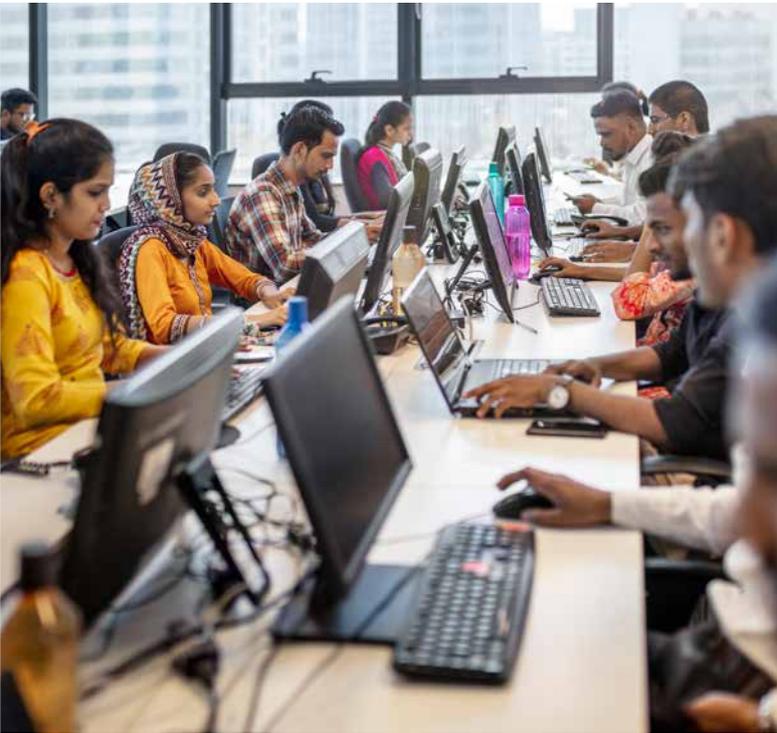
**Ensuring living wage premiums reach workers can be a significant challenge.** For companies sourcing from factories supplying multiple product lines to diverse customers, it is challenging to ensure living wage premiums reach the people who made their product. Within a factory setting, directing extra pay exclusively to workers on specific product lines is unfair and could lead to conflict. Instead, some sourcing companies calculate what is required to close the living wage gap and divide it among the whole workforce of the factory. Fairphone made a similar decision, to share the living wage premium evenly throughout the workforce.<sup>84</sup>

Another approach has been to team up with other buying companies to ensure all workers are on the living wage. This highlights the need for collective bargaining and a sector-level approach to paying a living wage.

82 Fairphone. 2020. Paying Living Wage in the Electronics Supply Chain.

83 UN Global Compact. 2021. Improving Wages To Advance Decent Work in Supply Chains.

84 Ibid.



**Technology can improve supply chain visibility and transparency.**

Growing adoption of digital payroll and payment systems, which has accelerated due to the COVID-19 pandemic, offers the potential for companies to gain greater visibility on whether the living wage premiums paid to suppliers reach workers. For example, the HERfinance Digital Wages program brings together global brands, their suppliers, and local NGOs, to support the transition from cash to digital payrolls, increasing the financial inclusion and economic empowerment of female workers and improving the payroll efficiency of factories.<sup>85</sup> Additionally, blockchain technologies have potential to increase supply chain transparency. For example, Fairfood is utilising blockchain technology on issues such as living income.<sup>86</sup>

<sup>85</sup> BSR. 2022. HerFinance: Expanding financial inclusion of low-income workers in global supply chains.

<sup>86</sup> Fairfood. 2021. Blockchain for food supply chains.

## 2.3 OPERATING ENVIRONMENT

### 2.3.1 Market development

**Sustainability is a fast-growing market within which social issues are increasingly prominent.** The COVID-19 pandemic and its socio-economic fallout has catalysed a new prominence for social issues in discussions about sustainability, ethical business and ESG. Furthermore, sustainable business offers opportunities for growth.<sup>87</sup> In 2015, 78 percent of citizens stated they were “more likely to buy the goods and services of companies that had signed up to the SDGs.”<sup>88</sup> In a competitive marketplace, living wage standards can be used by businesses to assert their moral authority, and there is some evidence to suggest that businesses who benefit most from the reputation of being ‘good citizens’ are the early adopters.<sup>89</sup>



*“There’s a reputational risk ... that’s probably what most companies will be worried about. But we also think that there are reputational rewards.”*

**Richard Anker co-author of  
*Living Wages Around the World***

<sup>87</sup> Business and Sustainable Development Commission. 2017. Better Business, Better World.

<sup>88</sup> PwC. 2015. Make it your business: Engaging with the Sustainable Development Goals. p.8.

<sup>89</sup> Sellers, P.J. 2017. The UK living wage: A trade union perspective.

A study of the London Living Wage found that the biggest business benefits were reputational; nearly 70 percent of buyers and suppliers reported that living wages impressed upon customers that they were ethical employers.<sup>90</sup> Another study found 80 percent of living wage businesses found accreditation boosted their reputation as an employer, while 78 percent saw accreditation enhance their corporate reputation.<sup>91</sup>

**Many companies explain living wage payments as simply the right thing to do.**

From large companies such as HEINEKEN to smaller local companies such as Cambridge Organic, business leaders chose to pay living wages based on the moral case. Duncan Catchpole, Founder and CEO of Cambridge Organic, explained that they “couldn’t not be Living Wage-accredited” given their company ethos. Natura &Co, the parent company of The Body Shop cosmetics, explained how the legacy of the values of founder Anita Roddick persists and paying living wages is part of that.

When asked about the business case for living wages, interviewees from diverse organisations retorted that the aim of living wages is not to generate business advantage but is to end the contravention of human rights by the payment of poverty wages.

Our contention is that identifying the business benefits of paying the living wage can shift the dial more quickly and create knock-on effects, such as making it easier for companies to obtain financing from investors or banks.

90 London Economics. 2009. Business Benefits of Implementing a Living Wage Policy in London.

91 Heery, E., Nash, D., & Hann, D. 2017. The Living Wage Employer Experience.



*“I always convey the message internally and externally that we should not be competitive on this issue. We will not achieve anything alone, if we are working in isolation on a systemic endemic issue.”*

**Julie Vallat, VP Human Rights, L’Oréal**

**New benchmarking means it is now much easier for investors, and consumers, to identify which companies ensure decent work.**

The World Benchmarking Alliance (WBA) is developing a series of benchmarks to rank and measure the SDG contributions of 2000 of the world’s most influential companies. The WBA identified seven “systems transformations” necessary to achieve sustainable development. The expectation that workers receive living wages, while businesses “support efforts to ensure workers in their value chains are paid a living wage”<sup>92</sup> applies across all WBA benchmarks.<sup>93</sup> Through WBA and other ranking initiatives, actions on living wages will directly impact business ranking and reputation in coming years.

92 World Benchmarking Alliance. 2021. Social transformation benchmark.

93 The Social Transformation Baseline Assessment, published in January 2022, found that 4% of the 1,000 assessed companies had targets, or claimed to pay workers a living wage. Such benchmarking provides an incentive for other companies to follow suit. Source: World Benchmarking Alliance. 2022.

**Securing a living wage for workers in operations and supply chains can increase their disposable incomes, thus creating new customers. A**

historical example of this at work is the Fordist model, which balanced production and consumption,<sup>94</sup> with workers earning enough to buy the cars built in Henry Ford's factories. While excessive consumerism comes at a high environmental and social cost, the additional consumption of people earning just over the living wage threshold is primarily spent on meeting basic human needs. As a proxy for what happens when living wages are introduced, we can study the effects of increasing minimum wages. Canadian research into the long-term consumption effects of wage increases shows that over three decades, a 1 percent increase in minimum wages translates into a 0.5 percent increase in real retail sales.<sup>95</sup>

### 2.3.2 Investment

**Leading investors increasingly recognise that the time for the “social” in the analysis of companies’ environmental, social, and governance (ESG) performance is now. Investment decisions and engagement activities are starting to reflect this.** Environmental dimensions have been in the spotlight, especially in the run-up to COP26, and with rapidly progressing requirements for corporate disclosure on carbon emissions and nature. However, many investment interviewees expect investors to consider the social performance of companies more in 2022/2023, as the concept of a just transition gains investor attention.



**There is now consensus in the financial community that materiality is double: sustainability topics have financially material consequences for companies, but companies also have material impacts on people and planet.**<sup>96</sup> Moreover the relationship between these two categories of materiality is increasingly recognised as dynamic, with material impacts of the company on people and planet being a significant source of financially material consequences for the company. Introducing this understanding of double materiality into reporting<sup>97</sup> will increase the amount of attention given to non-financial topics. Measuring living wages would meet several social sustainability expectations.

94 Hudson, R. 2009. Fordism. International Encyclopedia of Human Geography.

95 Jung, Y. C., McFarlane, A., & Das, A. 2021. The effect of minimum wages on consumption in Canada.

96 Harrison, D., & Bancelhon, C. 2021. Why Companies Should Assess Double Materiality.

97 Forthcoming EU sustainability reporting standards will reflect this double materiality approach.



*“From an investment point of view, we make the point that, actually, inequality is a systemic risk for societies; and particularly if you are a universal owner, you should be addressing inequality.”*

**Martin Buttle, Head of Good Work, ShareAction**

**The living wage is an engaging social topic for investors, in part due to its potential for quantification and measurement.**

The investor initiatives that we interviewed explained that, compared to other aspects of decent work,<sup>98</sup> it is easier to measure the extent to which companies close the living wage gap and analyse this in the context of company policies and processes. Thus, the living wage can be included in social analyses and modelling. As an example of the increased scrutiny of companies' performance in promoting living wages, the investor alliance Platform Living Wage Financials evaluates corporate processes, then categorises companies as being “embryonic” to “leading” in their commitments and actions.<sup>99</sup>

**Living wages are becoming more prominent in investor indices such as the Dow Jones Sustainability Index (DJSI).**

In 2021, S&P Global introduced a living wage criterion into their Corporate Sustainability Assessment (CSA). The criterion is compulsory for companies in 11 industries with significant numbers of low-income workers at high risk of labour issues. For example, these include food retail and products, mining, construction, electronics and textiles.<sup>100</sup> In 2021, 2081 companies in these industries were invited to undertake the CSA.<sup>101</sup> The CSA now assesses whether such companies have made public living wage commitments in relation to direct employees and their supply chain, and whether they have adopted living wage methodology to ensure living wages are being paid.<sup>102</sup> At least two interviewees indicated that this development had galvanised discussions on living wages within their companies.

### 2.3.3 Mitigating investment risk

**Investors see living wages as important for mitigating risk and benefitting from opportunity.**

Investors are starting to consider how living wages can reduce value chain risk, operational risk, reputational risk, loss of market risk, risks to resilience, and legal or regulatory risk. As a result, once living wage and decent work considerations are more comprehensively included in investors' risk assessments, businesses that address living wage concerns in their value chains (among other decent work issues) will be seen as less risky investments, thus likely to attract more capital.



98 These other elements of decent work include access to benefits, equality of opportunity, and social dialogue.

99 Platform Living Wage Financials. 2020. 2020 Assessment Results.

100 S&P Global. 2021. 2021 CSA Methodology Updates.

101 S&P Global. 2021. S&P Global Corporate Sustainability Assessment (CSA) Invited Universe 2021.

102 Global Inc. Methodology Updates CSA 2021 Living Wage.



**Social controversies pose a material risk and potential cost to business.**

While data on wages and working conditions in global supply chains remain limited, financial data providers such as MSCI<sup>103</sup> inform investment managers of business controversies. Once flagged, investment managers usually engage companies. As the public exposure of social controversies within companies is picked up by the media and consumers, more investment managers are engaging on these topics or setting higher expectations and tighter timelines for engagement with and exclusion of companies in their portfolios. An example of this comes from ShareAction, who report that many of Good Work Coalition investors actively boycotted the Deliveroo IPO due to concerns about workers' rights. ShareAction have also filed what is thought to be the first shareholder resolution calling for a major UK supermarket to become living wage-accredited by July 2023.<sup>104</sup>

<sup>103</sup> Morgan Stanley Capital International, an investment research firm that provides investment decision-makers with data, indexes, and research-driven models and tools.

<sup>104</sup> Jones, R. 2022. Investors call for Sainsbury's to pay workers 'real living wage'



*“We believe that it’s reasonable to assume that our [pension fund] members and our savers want to retire into a world that’s at least as sustainable as the one in which they currently live. ... We’d argue that inequality issues are really important to that.”*

**Will Martindale, Group Head of Sustainability, Cardano**

**Mitigating the systemic risk of inequality is a longer-term motivation for large investors to promote action on living wages.** Our interviews found that mitigating systemic risk to society is particularly important for universal owners, such as sovereign wealth funds and certain major pension fund providers, whose returns depend significantly on market returns and the economy's overall health. When society is prosperous and stable, when people are paid a living wage in decent working conditions, when poverty and inequality are reduced, sustained and widespread economic growth becomes more likely,<sup>105</sup> the market becomes less volatile, and the returns of long-term investments benefit.<sup>106</sup> This represents another motivation for institutional investors to contribute to a stable, resilient, and well-functioning economy.

<sup>105</sup> UN. 2020. World Social Report 2020.

<sup>106</sup> Peres da Costa, S., & Chandler, P. 2019. Active Ownership 2.0.



*“COVID has brought quite a few investors to think differently about these issues – realising that workers going from paycheck to paycheck is not sustainable. Having a workforce that is not resilient to shocks has resonated with investors, seeing the impact that it had on the economy at large.”*

**Nabylah Abo Dehman, Head of Stewardship, Social Issues and Human Rights, PRI**

**Lastly – but importantly – the COVID-19 pandemic has advanced investors’ thinking on social issues, especially around workforce and supply chain resilience.** Many of the investors interviewed agreed that the economic impact of workforce precarity led them to request wage data from companies, and to pay attention to ensuring workers are remunerated and treated fairly. Linked to this, major ESG data providers such as Sustainalytics are starting to use their engagement services to encourage commitments to living wages in supply chains.<sup>107</sup> It is only a matter of time until living wages and decent working conditions become more embedded in mainstream investment decisions. Early adopters may well benefit the most.

<sup>107</sup> Nilsson, S. 2020. The quest for supply chain resilience.

### *2.3.4 Corporate disclosure and stricter regulation*

**Proactively paying living wages can help companies to pre-empt or prepare for future reporting and regulatory requirements.** Several interviewees told us that adopting living wages early can help to avoid late-mover disadvantages. Many of the leading sustainable brands we interviewed were dedicated to being ahead of the curve - not wanting to be caught out by new reporting requirements. Thus, they were proactively looking out for gaps in their management and reporting systems and were keen to remedy these; living wages were part of this process. Furthermore, moving early can have practical and financial benefits if regulation later requires living wage payments. Externally driven wage-setting means there is less time to prepare for this change and to identify and engage living wage suppliers. Additional operational costs may come as a steep jump rather than a gradual increase managed according to a business’ own timescales.

### **The legal and regulatory environment increasingly addresses living wages, especially in Europe.**

Representing workers, business and government, the International Labour Organisation states: “The ILO is committed to promoting policies on wages and incomes that ensure a just share of the fruits of progress to all and a minimum living wage for all employed in need of such protection.”<sup>108</sup> The European Union (EU) is especially active. Currently, the EU Non-Financial Reporting Directive requires public interest companies

<sup>108</sup> ILO. 2021d. Wages.



*“If companies see something coming, whether it takes 5 years or 10 years to be embedded in regulation, they know that the sooner they start moving, the lower the cost of the transition will be for them.”*

**Ted van der Put, Executive Advisor, IDH  
(The Sustainable Trade Initiative)**



with over 500 employees to report on their treatment of employees and human rights. This disclosure enables stakeholders to evaluate the c.11,700 companies affected by this directive.<sup>109</sup> In 2022, the new EU Corporate Sustainability Reporting Directive (CSRD) should be adopted, mandating a new sustainability reporting standard-setting body to propose mandatory non-financial reporting requirements, which are expected to include living wages.<sup>110</sup>

**In other fora, the European Council agreed that adequate and fair minimum wages, which allow decent living standards, are within the European Pillar of Social Rights.** On this basis, a new legal framework exists to promote adequate minimum wage levels set via collective bargaining and

with minimum wage protection.<sup>111</sup> Furthermore, moves are afoot to demand increased commitment to living wages. An EU Citizens Initiative (ECI)<sup>112</sup> was in preparation at the end of 2021, to promote living wage payments in the garments, footwear and textiles sector. If one million EU citizens support this proposal, there will be an open hearing and debate in the EU Parliament. This initiative will help keep living wages on the agenda of European policymakers.

**It is likely that living wages will be embedded as a new labour standard, by countries and multilateral institutions.** There was a powerful sense amongst most interviewees that the living wage is here to stay. Those questioned drew analogies with other social concerns: for example, 20 years ago, there was little concern about gender equality in pay, but now it is a standard part of reporting. Sebastian Soria from Newmont Corporation commented “I think from a compliance, regulatory perspective, maybe this is not an issue today, but it could easily

109 European Commission. 2021. Corporate sustainability reporting. Referring to Directive 2014/95/EU.

110 KPMG. 2021. Corporate Sustainability Reporting Directive.

111 European Council. 2021. Council agrees on mandate for negotiations on a EU framework on adequate minimum wages.

112 European Parliament. 2021. European Citizens' Initiative.

become an issue down the road - particularly if this follows, which I expect it will, the same path as pay equity ... we may well be having regulatory frameworks around living wage in some countries over the next few years."

Regarding regulation, Martin Buttle from ShareAction discussed how just as with the living wage now, businesses initially thought employee health and safety regulations were very costly - some even saw these regulations as pointless. However, employee health and safety are now standard practice, which protects workers while saving companies money through reducing costs of compensation for injury and medical expenses, avoiding penalty payments and accident investigations, and reducing recruitment and training to replace injured staff.<sup>113</sup>



*"Today, you have pay equity regulations in almost every country. This wasn't the case several years ago. I think the living wage issue could very well follow the same path."*

**Sebastian Soria, Vice President, Total Rewards, Newmont Corporation**



*"The business case stems from the need for the sustainability of the entire economic system."*

**Richard Anker**

### 2.3.5 Economy, society and existential risk

**Wage increases stimulate local economies, leading to positive multiplier effects.** It is well-established in economic literature that increasing wages boosts local spending; this new spending on goods and services then leads to more jobs, referred to as a multiplier effect.<sup>114</sup> Goldman Sachs report that increasing wages to lower income groups has a proportionately greater economic stimulating effect than increasing higher income groups' pay.<sup>115</sup>

A recent UK report pins down some of these economic benefits, pointing to a living wage dividend. Assuming a quarter of low wage employees are increased to living wages, the calculated dividend is £700 per person in London, and £730 per person in other local authority areas of the UK.<sup>116</sup> Turning to the BRIC countries, Brazil, Russia, India and China, new models of the employment effects of fair wages also show wage increases stimulate local demand, resulting in job creation.<sup>117</sup> Living wages thus offer benefits stretching beyond the individual employee to the local business ecosystem.

<sup>114</sup> Reich, M. 2012. Increasing the Minimum Wage in San Jose: Benefits and Costs.

<sup>115</sup> Living Wage Canada. n.d. The Business Case for Paying a Living Wage.

<sup>116</sup> Hunter, P. 2021. The Living Wage Dividend.

<sup>117</sup> Mair, S., Druckman, A., & Jackson, T. 2019. Higher wages for sustainable development?

<sup>113</sup> Occupational Safety and Health Administration. 2021. Business case for safety and health.



**Living wages can contribute to improving societal well-being, creating a better operational environment for businesses.**

A study of the impact of income inequality in OECD countries shows that most symptoms of societal dysfunction get worse as income inequality increases - this ranges from child well-being and levels of trust to illegal drug use and homicide.<sup>118</sup> Countries with lower wage inequality had better outcomes for society as a whole.<sup>119</sup> Thus, today's workers and the next generation stand to benefit from living wage payments, and for business, this means a healthier, more engaged, and better-educated workforce and consumer base. Paying living wages can help to avoid future social crises but it can also be a crucial tool in responding to today's already existing social problems.<sup>120</sup>



*“Now, more than ever, stakeholder discussions are wage-related.”*

**Anonymous interviewee, Sustainability Function, Garment Sector**

**Paying living wages throughout global supply chains can reduce the push factors driving young people to leave their home countries in search of work.**

While economic migration is a reasonable response to a widespread and long-standing lack of job opportunities in many developing countries,<sup>121</sup> the associated danger, exploitation, and disempowerment is only considered worthwhile due to a lack of opportunity at home. Living wage supply chains may be one way to offer people better opportunities without the need to follow treacherous migration routes. One business we interviewed, for example, reported the US Government's interest in American companies paying living wages in Latin America, in order to change the balance of costs and rewards for potential migrants to the United States.

118 Pickett, K. & Wilkinson, R. 2010. The spirit level.

119 Ibid.

120 Dorling, D., Barford, A., & Wheeler, B.W. 2007. Health impacts of an environmental disaster.

121 See, for example: Barford, A., Coombe, R., & Proefke, R. 2021; Cieslik, K., Barford, A., & Vira, B. 2021; Barford, A., Coombe, R. & Proefke, R. 2020.

## 2.4 LIVING WAGES CONTRIBUTE TO OTHER CORPORATE AGENDAS

### **Companies' stances on living wages put substance behind corporate purpose and values statements.**

The rise of stakeholder capitalism raised the question of the purpose of a company beyond the accumulation of profit. It has also broadened the scope of companies' obligations to stakeholders, including employees and workers in supply chains.<sup>122</sup> As several of our interviewees noted, public expectations of companies to act in the broader social interest increased during the COVID-19 pandemic.<sup>123</sup> Strikingly, the 2021 Edelman Trust Barometer reported that across all markets, demographics and sectors surveyed, workers' rights and paying the living wage was the top issue that the public felt business "must speak out on or risk losing trust."<sup>124</sup> In this context, the payment of living wages clearly expresses how a company views its role in society and demonstrates the authenticity of purpose statements and brand values.

**Living wages both depend on and contribute to the achievement of corporate commitments on human rights.** Companies have made specific commitments to human rights - for example, the UN Global Compact includes voluntary commitments from 14,670 companies across 162 countries.<sup>125</sup> Moreover, the UN Guiding Principles on Business and Human

Rights have set a global standard that all companies should respect the human rights of people affected by their business operations and value chains. This requires implementing human rights due diligence processes, which include identifying and addressing working poverty caused by low wages in the workplace and supply chains. New human rights due diligence laws and disclosure requirements are being introduced in some European countries, and draft European Union legislation on mandatory human rights due diligence is due to be proposed in 2022.

**The corporate responsibility to respect human rights provides a foundation for achieving living wages.** At the same time, payment of living wages could significantly impact the enjoyment of rights beyond the right to a fair wage alone. By its definition, a living wage provides enough income for a family to access housing, food, water, education, and healthcare, contributing to the realisation of these rights. Additionally, interviewees noted that payment of living wages can help address human rights harms such as discrimination and gender or racial pay gaps, child labour, excessive working hours, and violations of women's rights.

**Living wages provide a pathway for achieving the Sustainable Development Goals.** Living wages most obviously contribute to SDG 1: Eradication of Poverty and SDG 10: Reduced Inequality, with its target of "income growth of the bottom 40% of the population at a higher rate than the national average."<sup>126</sup> Additionally, they

<sup>122</sup> Business Roundtable, 2019. Statement of Purpose of a Corporation; Schwab, K. 2019. Davos Manifesto 2020.

<sup>123</sup> See also Buckholz, A. 2020. Lessons for COVID-19-era CEOs.

<sup>124</sup> Edelman. 2021. Trust: The New Brand Equity, p.20.

<sup>125</sup> UN Global Compact. 2021. About the UN Global Compact.

<sup>126</sup> UN. 2021. The Sustainable Development Goals.



*“SDG 1 calls on us to eradicate poverty in all its forms - everywhere. Without action on poverty, it will be all but impossible to achieve the other SDGs. Living wages are an essential stepping-stone to a world with zero poverty.”*

**Rachel Cowburn-Walden, Global Director Human Rights, Unilever**

can contribute to achieving many other SDGs (see [Figure 1](#)). Many interviewees reflected on how living wages must be delivered in the broader context of decent work (SDG 8) - for example including fair conditions and hours of work, digitised payment of wages, dialogue and collective bargaining and access to training and upskilling.<sup>127</sup>

One interviewee reflected on how the living wage would strengthen their company's existing initiatives on gender equality (SDG 5) which included programmes to improve financial literacy and to counter gender-based violence: “If women still can't earn enough, they have restrictive choices, they are still stuck. [My company] has not explicitly connected the two, but it's only a matter of time.” Other interviewees highlighted how living wage calculations must be gender sensitive. Hourly living wages need to account for the fact that many women's paid work is part-time, because women often also do extensive unpaid work.

**To achieve greater economic security and fairness, living wages must be implemented in tandem with action on other issues.**

A living wage would transform the lives of millions of people; however, on its own, it is insufficient to overcome wealth inequality and the discrimination that many workers face. For example, wealth inequality will continue to rise if returns on capital continue to outstrip returns to labour, rises in wages and economic growth, and this will continue to pose challenges to the economy and social cohesion.<sup>128</sup> Furthermore, many interviewees stressed living wages should be implemented alongside the other features of decent work, not in isolation.

**Strong social protections will continue to be necessary to protect those who cannot work.** If discriminatory practices and norms remain, living wages alone will not resolve race or gender pay gaps. For instance, women undertake around three-quarters of the world's unpaid care work, reducing their availability to engage in paid employment. In an ILO study of ninety countries, 41.6 percent of economically inactive women were full-time unpaid carers, compared with just 5.8 percent of economically inactive men.<sup>129</sup> Such inequalities will lessen the positive impact of living wages on those who are already experiencing disadvantage. On the other hand, combined action on the care economy and living wages could have a transformative impact on women worldwide.

<sup>127</sup> See, for example, the Fair Wage Network's approach to living wages as part of a broader commitment to 12 Fair Wage Dimensions: Fair Wage Network. 2019. 12 Fair Wage Dimensions.

<sup>128</sup> Piketty, T. 2013. Capital in the Twenty-First Century.

<sup>129</sup> ILO. 2018. Care work and care jobs for the future of decent work.

# 3. FROM MAKING THE CASE TO TAKING ACTION

The case for implementing living wages is compelling. Above all, paying living wages is the right and fair thing to do. The most important reason to pay living wages is the life-saving and life-enhancing benefits it could bring to hundreds of millions of workers and their families.

This research paper sets out the case that paying living wages can produce dividends for business - via more productive and engaged workforces, more resilient value chains, and a more stable and buoyant operating environment. On the flipside, the cost of inaction to businesses will continue to grow.

It is now imperative that more companies make living wage commitments and take action to deliver on them. Although each company's journey to paying living wages will be unique, IDH's Roadmap on Living Wages<sup>130</sup> provides five clear stages through which companies can progress:

- i Identify the living wage for relevant locations
- ii Gather data on actual wages paid in order to measure living wage gaps
- iii Verify calculations through independent audit or certification
- iv Take action to close living wage gaps
- v Share learnings and best practice.

Implementing the living wage is complex and cannot be reduced to a tick-box exercise. This section poses some key questions companies and investors should be asking, to start to make sense of living wages in relation to their own companies or portfolios. A growing number of organisations, networks and resources can help companies begin their living wage journey.

Tables 2 to 6 signpost some useful resources; however, those listed here are not exhaustive. In addition, some countries have national living wage campaigns and organisations that can also offer valuable information.



130 IDH. n.d. Roadmap on Living Wages.



## KEY QUESTIONS FOR COMPANIES:

**A** *What is a living wage in the countries, regions and cities in which we operate?*

One commonly-cited hurdle to paying living wages is determining living wage rates across all the places in which a company operates. This analysis can be complex, because the living wage level varies within and between countries, and over time. Several methodologies and databases are available to establish relevant benchmarks for the living wage. These can be used alongside employee consultations, surveys, and dialogues with worker unions.

Table 2. **Some of the key living wage methodologies and benchmarks**

<b><u>Anker Methodology</u></b>	A methodology for calculating living wage levels through engaging local people and local organisations. The living wage is calculated to provide a “basic but decent standard of living” for a typical-sized family.
<b><u>Anker Reference Values</u></b>	A set of estimates of living wage or income for rural and urban areas in countries not yet covered by a full Anker Methodology benchmark study. The reference values provide internationally-comparable data on 24 additional countries to assist companies with living wage risk assessment and prioritisation.
<b><u>Fair Wage Network’s Living Wage Database</u></b>	Paid-for wage benchmarks for 200 countries and more than 1500 regions and cities.
<b><u>Global Living Wage Coalition Database</u></b>	Information on living wages in 37 regions or countries.
<b><u>IDH Benchmark Finder</u></b>	A database of IDH-recognised living wage benchmarks for over 140 countries.
<b><u>IDH Benchmark Series</u></b>	A list of living wage methodologies recognised by IDH as having met nine quality criteria.
<b><u>National methodologies and benchmarks</u></b>	For example, in the USA Living Wage for US adapts the Anker Methodology to produce its <a href="#">Living Wages Map</a> ; see also MIT’s <a href="#">Living Wage Calculator</a> and the Economic Policy Institutes’ <a href="#">Family Budget Calculator</a> .
<b><u>WageIndicator Foundation’s Typical Family Methodology</u></b>	Benchmarks with a low and high range, based on data collected by universities in 140 countries through online and face-to-face surveys.

**B** *How can we be certain that we are paying living wages in our core business operations, and advancing wages in our value chain? And how can we implement policies, targets and management systems to close the gaps where they exist?*

Living wages are usually higher than market rates or statutory minimum wages. There may be a tendency for senior leadership to assume that their organisation is already paying living wages if they are meeting regulatory requirements and paying competitive rates; however, this can only be corroborated through data.

As with any social impact area, action on living wages requires companies to put in place effective systems of governance to drive internal and external accountability and progress. Companies must make public commitments, set specific goals and targets, publish clear policies, conduct due diligence risk assessments and establish mechanisms for measuring and reporting on progress. Established frameworks for reporting on human rights and social risks can provide a useful starting point (Table 3). In addition, there are several organisations that now offer guidance and independent certification (Table 4).

*Table 3. Some of the available reporting standards on human rights and sustainability*

<b><u>Global Reporting Initiative</u></b>	The GRI Standards offer universal and sector-specific reporting standards on impact for the economy, environment and people. Its Employment Standard includes reference to “adequately remunerated work... sufficient to meet the basic needs of employees and their families and to provide them with some discretionary income.”
<b><u>UN Guiding Principles Reporting Framework</u></b>	Developed by Shift and Mazars, the UN Guiding Principles Reporting Framework and its 31 SMART questions guide a company through the steps they should take to both manage human rights risks and report on them.
<b><u>World Benchmarking Alliance</u></b>	World Benchmarking Alliance measures companies’ contributions to the SDGs via publicly available benchmarks. It includes living wages as a core indicator within its social transformation framework, which is used to rate 2000 of the most influential companies.

Table 4. **Selected organisations with expertise in identifying and/or rectifying living wage gaps**

<b><u>Fair Labor Association</u></b>	The FLA's accreditation of participating companies and suppliers assesses the extent to which companies' compliance systems and procedures uphold fair labour standards throughout supply chains, in substantial accordance with the FLA Workplace Code of Conduct.
<b><u>Fair Wage Network</u></b>	Fair Wage Network partners with companies to assess, remediate and certify the payment of fair wages (including payment of living wages) throughout core business and the supply chain.
<b><u>Fair Wear Foundation</u></b>	The Wage Ladder compares wages paid at any factory against living wage benchmarks in eleven countries. It was designed for the garment industry. It is also applicable to other industries, including electronics, toys, and agriculture.
<b><u>IDH</u></b>	The IDH Roadmap provides a step-by-step guide to implementing the living wage. The Salary Matrix provides a framework for measuring wage gaps and IDH's verification guidelines provide advice on independent audit.
<b><u>Living Wage for US</u></b>	USA-based organisation providing certification for companies and a pathway to continual improvement on living wages.
<b><u>Living Wage Foundation</u></b>	UK-based charity providing accreditation, information and advocacy on living wages.
<b><u>Worker Financial Wellness Initiative</u></b>	A collaboration between JUST Capital, PayPal, the Financial Health Network and the Good Jobs Institute. It provides resources for companies to assess their own workers' wellness and learn about the benefits of worker financial health.



**C** *What actions are we taking to ensure that our procurement and recruitment practices, and other aspects of our business model, don't work against the payment of living wages in core operations and value chains?*

Procurement practices - such as over-emphasis on cost, short-term contracts and lengthy payment terms - can severely undermine the ability of suppliers and contractors to pay the living wage. Contracting out certain core operations, whether entire functions like payment services or customer services, or hiring contractors to do the same or similar work as employees, can mean

wage levels are pushed down with reduced knowledge of the working conditions. Long value chains with multiple contributors also obscure wage information and can dissipate efforts to make improvements. Asking this question can prompt a review to identify company-specific opportunities to tackle poverty wages.



Table 5. **Selected sources of information on responsible business models and procurement**

<b><u>AIM-Progress</u></b>	AIM-Progress is a global initiative of consumer goods manufacturers working pre-competitively to promote responsible sourcing. Its Living Wage/Living Income Working Group shares good practice and identifies opportunities for collaborative action.
<b><u>Consumer Goods Forum Sustainable Supply Chain Initiative (SSCI)</u></b>	The SSCI provides guidance in the consumer goods industry to buyers and suppliers on which third-party auditing, monitoring and certification schemes cover key sustainability requirements and apply relevant governance and verification.
<b><u>Ethical Trading Initiative (ETI) - Base Code</u></b>	ETI brings together companies, trade unions and civil society organisations to improve working conditions in supply chains. The ETI Base Code is an internationally recognised code of labour practice.
<b><u>Farmer Income Lab report, "Poverty and Procurement through a Pandemic"</u></b>	Although written in the context of living incomes rather than living wages, this report contains several relevant recommendations for transforming procurement practices to reduce poverty.
<b><u>Shift Business Model Red Flags</u></b>	A set of indicators to evaluate business models for their human rights risk. These cover indicators of risk in a business' value proposition, in its value chain, cost structure and revenue model.

## **D** *Where are the major systemic obstacles to achieving living wages and how can we partner with others to address them?*

Individual companies will encounter systemic obstacles as they make progress towards payment of living

wages. These could include lack of transparency and access to data in supply chains; lack of supportive regulatory environments; or the need to remain competitive in volatile and unpredictable markets. Successfully implementing living wages relies on cross-sectoral action, some examples of which are listed below (Table 6).

**Table 6. Some global cross-sectoral initiatives working to drive systemic shifts on living wages and economic inequality**

Platform	Remit
<b><u>ACT</u></b>	A collaboration between IndustriALL Global Union and 19 global brands in the garment, footwear and textile sectors. Its remit is to transform wages and working conditions through collective bargaining and responsible procurement.
<b><u>Business 4 Inclusive Growth</u></b>	A CEO-led coalition of major global companies working with OECD as a strategic partner to advance inclusive growth through concerted public and private sector action, including on decent wages.
<b><u>Business Commission to Tackle Inequality</u></b>	This commission, convened by the WBCSD, aims to mobilise a shared narrative and agenda for action to tackle inequality and promote prosperity for all. It also supports companies wanting to act with practical support initiatives.
<b><u>Fair Labor Association</u></b>	A collaboration of companies and civil society organisations working to find sustainable solutions to systemic labour issues. Affiliate companies commit to a Code of Conduct that includes complying with pay regulations and progressively realising living wages.
<b><u>Global Living Wage Coalition (GLWC)</u></b>	An alliance of the Anker Living Wage and Income Research Institute and the GLWC Action Network. It supports research and action and promotes the Anker Methodology of estimating living wages.
<b><u>IDH Call to Action on Living Wages</u></b>	The Living Wage Roadmap is a step-by-step approach to living wages supported by a collaboration of companies, international and sustainability organisations. The Call to Action calls on businesses to 'build together a living wage economy,' with a working group on global supply chains.
<b><u>United Nations Global Compact</u></b>	A voluntary initiative encouraging companies to align to Ten Principles on human rights, labour, environment and anti-corruption, and to work towards the SDGs. UN Global Compact released a report on <a href="#">Improving Wages to Advance Decent Work in Supply Chains</a> and hosts a microsite on living wages.
<b><u>World Business Council on Sustainable Development (WBCSD)</u></b>	WBCSD's work on inequality addresses global inequalities of income, wealth, opportunity, power, political voice, and overall wellbeing.

## KEY QUESTIONS FOR INVESTORS:

**A.** *How can we better equip our portfolio managers, analysts, and ESG stewardship and research teams to engage with companies on living wages?*

**B.** *How can we assess company performance and integrate living wages into ratings and modelling frameworks?*

**C.** *How can we learn from and collaborate with global initiatives to standardise measuring and reporting on living wages?*

Investors can use their leverage to encourage companies to consider paying living wages, as well as directing finance towards those companies that are progressing living wages within their operations and value chains. Investors can introduce assessments of company performance in relation to living wages, and integrate living wages into ratings and modelling frameworks.



There is now a track record of investors collaborating globally on specific issues – such as climate change or human rights. There are substantial international and sectoral initiatives calling for united action on living wages, with great potential for investors to collaborate to highlight this issue and accelerate implementation. In particular, investors can play a useful role in global initiatives to standardise measurement and reporting on living wages (Table 7).

**Table 7. Investor-focused initiatives on how to define, measure and promote stronger company performance on living wages**

<b><u>Good Work Coalition</u></b>	ShareAction's Good Work Coalition helps investors to collaborate, learn and advocate on good work standards, including the living wage.
<b><u>International Financial Reporting Standards (IFRS) Foundation</u></b>	The new International Sustainability Standards Board (ISSB), will include the CDSB Framework for reporting environmental and social information. The latest revision includes the provision of living wages in the list of measures that companies may report to reflect their contribution to social inequalities.
<b><u>Investor Alliance for Human Rights</u></b>	A collective action platform promoting and equipping the investment community to put into practice their responsibility to respect human rights.
<b><u>Platform Living Wage Financials</u></b>	An alliance of 18 financial institutions covering €4.6 trillion of assets under management, using its leverage to spur action on living wages in global supply chains. It provides a framework for assessing the implementation of living wages by investee companies, ranking them from 'embryonic' to 'leading.'
<b><u>Principles for Responsible Investment (PRI)</u></b>	PRI's Collaboration Platform enables investors to pool resources and share information on ESG issues.
<b><u>ShareAction</u></b>	ShareAction defines standards for responsible investment and advocates for their global adoption. ShareAction worked with Living Wage Foundation on <a href="#">a toolkit</a> to help investors in UK markets encourage their portfolio companies to adopt the real Living Wage. Their <a href="#">Workforce Disclosure Initiative</a> comprises 53 institutions with \$7.5 trillion in assets under management. Their annual survey of companies provides data on workforce practices which are integrated into investment analysis. In 2020, 141 global companies were surveyed.
<b><u>Shift and Capitals Coalition initiative on Accounting for a Living Wage</u></b>	A collaborative initiative to develop an accounting model for companies to report publicly on progress towards living wages in their workforce and first-tier supply chain.

# LOOKING AHEAD

Living wages offer companies a suite of business benefits. These wide-ranging benefits can at once improve value chain reliability and quality, boost employee health and well-being, while also contributing to a positive multiplier effect in the local economies in which living wages are paid.

While there are some challenges for the companies pioneering efforts to drive progress, there are also rich rewards. Investors and consumers are increasingly looking for strong social commitments – to the extent that living wages are increasingly seen as a social equivalent to net zero commitments. Like net zero, living wages offer a clear goal, which lends itself to the type of measurement and reporting valued by business leaders and investors alike.

Amid these business benefits and opportunities, many organisations pay living wages for other reasons: to address poverty; to help reduce inequalities; to uphold human rights; and to contribute to the Sustainable Development Goals.

Further research is needed to assess the macroeconomic effects of living wages on local, regional or national economies. At the micro level, businesses need to capture and disclose relevant data to enable the analysis of how living wages impact business performance. This can include statistical records and qualitative research with workers. Case studies on how business models can accommodate the payment of living wages could also be useful to the wider business community.



This paper sets out the urgent need for living wages, the business benefits associated with paying living wages, and offers a directory of major organisations currently collaborating in this space. We already know that good business contributes to good society and vice versa – living wages offer a key to unlocking these benefits.



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***Shift***