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B4IG Work Cycle on Living Wage

Key learnings, tools and tips



Business
for **Inclusive**
Growth



Disclaimer

Business for Inclusive Growth (B4IG) is a global CEO-led coalition of major companies fighting against inequalities of income and opportunity. With the OECD as its Strategic Partner, B4IG coordinates with governments to scale up business action on inequality.

More information on www.b4ig.org.

The opinions and arguments expressed herein are those of the authors and do not necessarily reflect the official views of the OECD or its member countries.

Introduction

Companies have a key role to play in contributing to an economy that supports decent living standards and sustainable growth. As such, **paying a living wage is a key component of respecting Human Rights**. It contributes significantly to alleviating poverty, **while providing significant business benefits**, such as talent retention, higher productivity, and improved quality of the services provided.

Living wage commitments have become an essential part of corporate policies while external pressure on companies is intensifying, notably with the inclusion of the living wage in an increasing number of reporting standards, rankings and ratings.

In this context, **Business for Inclusive Growth (B4IG)** launched a **Working Group on the Living Wage early 2021 under the leadership of Unilever and L'Oréal**, with the objective to find ways to collectively advance on the topic.

The first deliverable of this Working Group was the adoption of the June 2021 **Statement** by the B4IG Board, emphasising the critical role of companies in alleviating poverty in their workplaces and their supply chains and calling to action on living wage.

Following this strong stance, the **B4IG Working Group held a 6-month work cycle to support member companies** by presenting existing resources and tools, and enabling them to learn from their peers through share out sessions and discussions on common challenges. The work cycle focused on key topics such as gap analysis processes, third-party auditing, transparency, and engagement with suppliers.

With the objective to help companies advance on the topic and benefit from these exchanges, this document compiles key learnings from the work cycle on the following questions:

1. How to move the living wage agenda internally?
2. How to identify robust living wage data?
3. What role for social dialogue and collective bargaining?
4. Where to start closing the gap?
5. How to be transparent and report on the living wage?
6. How to accelerate the collective dynamic?

1. How to move the living wage agenda internally?

- **Ensuring top management support to align on living wage goals and prioritise them internally.**

When the company's **top management – including the CEO** – sets the living wage as a priority by communicating internally and/or externally on the company's commitments and strategy to advance on the living wage, it facilitates the process to reach the goals that have been set internally, but also encourages others, including suppliers, to join the journey. As such, **a clear mandate from the top management to prioritise the living wage agenda is key to effectively engage internal stakeholders and buyers.**



Interesting practice

> In the context of a major business event, a B4IG CEO shared his perspective on living wage in an article. In this piece, he highlighted the link between rising social inequality and unfair wages, emphasising the role of businesses in *“unlocking benefits in terms of health, gender equality and quality of life”* and enhanced productivity and worker engagement. Such an article strongly conveys the importance of the subject for the CEO and for the company, with a direct impact on internal and supplier engagement.

- **Cascading living wage as a corporate priority.**

Moving the agenda ahead internally also depends on **securing ownership from the company's employees**. Hence the importance to mobilise middle management and train the next level down on the living wage. Teams to train are generally Human resources, Procurement, Sustainability and Human Rights teams, depending on the organisation of the company.

As **Human Resources and Procurement teams** are not always familiar with the concept of living wage, it is important to demystify the topic to onboard them, create a sense of ownership of the project and overcome any initial push back. This includes clearly explaining **how the living wage differs from legal minimum wage** and highlighting that the objectives of a living wage is to provide workers with the basics required for a decent standard of living, to prevent them from falling into poverty.



Interesting practices

> In order to train the teams and equip them with the right tools to implement their living wage strategy, a B4IG company **enlisted the services of their living wage data providers to support them with training teams** on the living wage in different geographies and within different departments. Such support from external experts proved to be helpful when the company started engaging with its suppliers, especially on **knowledge transfer and how to engage with social partners and stakeholders.**

- > A B4IG company decided to set living wage objectives for its own employees and its priority suppliers' workers simultaneously. In order to reach this objective, the key to success for this company was to **build on the expertise of their living wage data provider** to help them build a strategy for the supply chain and provide additional support when relevant, for example on training. In parallel, this company is actively **engaged in multi-stakeholder initiatives to create a snowball effect** in its supply chain and ecosystem by onboarding other companies on the journey towards a living wage.
- > To onboard its suppliers, a company decided to **host a dedicated event with the CEOs of its supplying companies**, to share the vision and to highlight the importance of the topic. As the CEOs are aware of the living wage as a priority topic, it becomes easier to onboard their teams.



Useful resources

- > The **UN Global Compact's (UNGC) [Toolkit on Decent Work](#)** is intended for businesses that want to leverage their buying practices to help their suppliers to implement decent work commitments within their supply chains. They have also developed a **[Living Wage Analysis tool](#)** for businesses to assess their performance against best practice and set practical follow-up targets.
- > **IDH** published a **[Living Wage Action Guide](#)**, an interactive platform to help stakeholders such as buyers, suppliers, governments and supporting organisations, identify interventions to overcome challenges related to the payment of living wages in the supply chain and learn concrete tips.
- > In December 2022, **AIM-Progress** published a **[Living Wage Playbook for the Fast-Moving Consumer Goods Sector](#)** to assist its members, FMCG businesses, and others in integrating living wages into their supply chain.
- > **[The case for living wages: How paying living wages improves business performance and tackles poverty](#)**, Barford, A., Gilbert, R., Beales, A., Zorila, M., & Nelson, J. 2022. **Business Fights Poverty, University of Cambridge Institute for Sustainability Leadership and Shift.**

2. How to access robust living wage data?

- **Selecting data providers certified by a third party.**

Identifying and accessing living wage estimates is the first step to start comparing current paid wages with the living wage estimates calculated by data providers. Yet, **identifying a living wage data provider** can be overwhelming due to the presence of multiple data providers in the market and the underlying methodological and technical elements in the calculation.

At B4IG, we do not endorse any specific methodology, but **we recommend using data from methodologies that are transparent and analysed by a third-party**, such as the ones certified by **IDH – the sustainable trade initiative**.

- **Encouraging suppliers to follow a similar approach.**

For companies with global supply chain partners, **alignment with suppliers on both the living wage concept and how living wage gaps are measured is key** to create trust and scale up impact.

Some corporations ask their suppliers to use either the same data provider as the one they use themselves, or to use robust methodologies that are certified by a third-party to ensure that the assessment or audit of their suppliers is sound and consistent. This can be helpful to both the buyer and the supplier, as the buyer can leverage its relationship with the data provider to facilitate the onboarding of its suppliers with knowledge transfer and training, while the supplier may have easier access to living wage data.



Useful resources on living wage methodologies

> The [IDH Benchmark Series](#) explains how each certified methodology meets the IDH criteria, the core elements of their approach and information on the background of the organisation. As part of their recognition process, IDH has developed a **9-criteria process to identify rigorous and consistent** living wage methodologies.

> The [IDH Benchmark Finder](#) is a tool to **help companies select an IDH-certified benchmark**, depending on the region/country they would like to cover. The tool then redirects the user to the provider's website.

- > **IDH General Guidelines** help verify living wage gaps, preferably by third-party auditing, and provide a related base report that serves as physical documentation for such verification. First- and second-party auditors have also been given guidelines. These recommendations were created to assist schemes and auditing organizations in determining living wage discrepancies.
- > The **OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE)** published **“Living wages in context: A comparative analysis for OECD countries”** which reviews some of the most common methodologies, evaluates the different measurement criteria and puts forward key recommendations to strengthen the concept of a living wage.

3. What role for social dialogue and collective bargaining?

- **Using Living wage estimates as a basis for discussions with workers’ representatives.**

Social dialogue is key when it comes to sustainable working conditions, as it provides workers with a voice in wage negotiations that can lead to collective bargaining agreements, which ensures better terms and conditions of employment. Part of the answer to the living wage is data, but **social dialogue and collective bargaining** as well as **employee consultations** and **surveys** are also essential to define living wages whenever it is possible.

Taking the perspectives of employers into account also helps link discussions on fair wages to productivity and to the reality of the local economy. **The October 2022 ILO brief on “Setting adequate wages: The question of living wages”** points out that *“benchmarks should not be used as a “technocratic” substitute for bipartite social dialogue or collective bargaining in producing countries, but rather as information to promote evidence-based social dialogue”*.

As such, **living wage estimates should be used as a basis for discussion with employers and employees.** As they are conducting their gap analysis and looking at the countries in which wages are below living wage estimates, companies should keep in mind that **estimates are a means to an end, and not the final objective.**

This is also reflected in the language used, as organisations including B4IG refer to **living wage “estimates”** to indicate that the calculations are approximate and not fixed.

4. Where to start closing the gap?

• Adopting a strategy to close the gap.

Once the gaps have been identified, the next step is to start closing them. When it comes to closing the gap in their supply chain, companies follow an **approach including risk analysis based on the OECD Due Diligence Guidance for Responsible Business Conduct**. For example, starting with the region and the supplier **where the risk of low-paid wages is the highest** and **other considerations such as the number of employees or the amount of supplier spend in a specific country or region**.

Once this **prioritisation** is complete, companies create a plan to gradually increase wages for the workers paid below the living wage threshold. In regions with a high wage gap, the process of closing the gap can take years.



Interesting practices

- > A B4IG company working on the living wage in their own workforce - including on temporary workers and contractors - **started by conducting a gap analysis in all its countries of operation**. Having identified the countries with the highest number of workers with wages below the living wage, the company prioritised these countries to work on a first set of pilots.
- > Working on the living wage in their supply chain, after conducting a gap analysis, a B4IG company decided to **prioritise geographies and suppliers according to two criteria: the level of risks and the amount of supplier spend in that region**.
- > Another company created an approach to **prioritize purchase categories that are closer to operations e.g., third party manufacturing, and prioritizing geographies where the risks are higher** due to a higher spend base.
- > A B4IG company chose to **launch living wage pilots with a selected number of suppliers**. Following the onboarding of this first cohort and considering the positive outcome of this first pilot, the company decided to continue by onboarding a second group of suppliers, advancing cohort by cohort.

5. How to be transparent and report on the living wage?

As of now, there is **no standardised way for companies to publicly disclose** their action on the living wage. In fact, a majority of companies report on the living wage internally but rarely publicly disclose information on the methodology they use or on progress towards living wage across their workforce and supply chains.

In this setting, ongoing efforts to align reporting frameworks that take living wage into account are particularly important.



Interesting practices

> Several B4IG companies have been sharing information related to living wage, by **disclosing in their annual sustainability report or/and in their website** the methodology they use, the commitment they have taken and the progress they have made.

> For example, a B4IG company shared on its website its commitment to secure a living wage or living income for their own workforce and all of their strategic suppliers' employees.

The website also indicates which data provider they are partnering with.

> Another B4IG company published a document that includes the overall compensation process for its own employees while extending the concepts of this to a number of its direct suppliers. The document includes disclosures on the data provider the company is partnering with, definitions of concepts for “fixed compensation” as well the company’s internal compliance monitoring process for the framework.

> As part of its work on Social Metrics & Impact, B4IG developed a mapping of output and outcome living wage indicators based on existing standards and reporting initiatives, covering companies’ own operations and supply chains and referencing additional interesting work on impact measurement.

> **The draft disclosure requirement under the EU CSRD [ESRS S1 Own workforce](#) includes requirements on “adequate wages”, including:**

> Information on the methodology for calculating the living wage and the lowest wage.

> Whether or not all workers in the company’s own workforce are paid an adequate wage, in line with applicable benchmarks; and if not, which type of workers do not receive an adequate wage and what percentage of the own workforce is paid below the adequate wage.

> The countries where workers earn below the applicable adequate wage benchmark, and, for each of these countries: whether this is the case just for direct employees, just for non-employee workers or for both; and the percentage of the own workforce paid below the adequate wage, broken down for employees and non-employee workers.

> **Shift and The Capitals Coalition** have joined forces to develop the [Accounting for a Living Wage initiative](#) which is an accounting model that companies can use to measure and report publicly on progress towards living wages across their workforces and supply chains over time, showing companies the value of living wages both to society and to business.

6. How to accelerate the collective dynamic?

• Embracing transparency.

As the topic of the living wage has been gaining momentum within the business community and beyond, companies are looking for ways to accelerate action and ensure a level-playing field. As part of this, transparency from businesses on their living wage strategy can play an important role **to create collective momentum, hence making commitments that are public and sharing living wages goals and experience with transparency.**

While it can be bold for a company to make ambitious commitments before conducting the gap analysis due to the uncertainty of the results, it also sends a strong signal that can encourage other businesses from similar sectors (and others) to join and accelerate the overall momentum by facilitating certain aspects – such as onboarding suppliers.

• Leveraging multistakeholder initiatives to amplify impact.

As the living wage is an opportunity for companies to lift each other in providing decent working conditions to employees and workers, it should be a **collaborative journey by joining forces with other businesses, civil society organisations and multi-stakeholder initiatives** to advance together on shared milestones. As such, business organisations such as Business for Inclusive Growth provide platforms for companies to engage with one another in order to advance together and scale up.



Interesting practices

> In June 2021, B4IG adopted a **Statement on Living Wage** to set the living wage as a corporate priority and support efforts such as the [Call to Action](#) launched by IDH.

> In 2021 and 2022, the **UN Global Compact** launched and held a series of [Think Labs on the Living Wage](#) to leverage and amplify existing work as well as identify steps in order to scale up. Since April 2023, the UN Global Compact has been organising roundtable discussions in various countries, which will culminate in a global Business Call to Action to drive accelerated adoption of living wage commitments amongst their member companies.

> In July 2023, the **UNGC** launched the **Forward Faster campaign** asking leading companies to publicly commit to – and report on – ambitious targets identified as critical levers to progress on the SDGs. **This campaign includes two targets related to the living wage:**

- (1) 100% of employees across the organization earn a living wage by 2030.
- (2) Establish a joint action plan(s) with contractors, supply chain partners and other key stakeholders to work towards achieving living wages and/or living incomes with measurable and time-bound milestones.

