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The living wage: towards better industry practices

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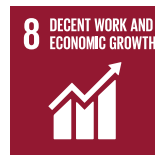
Amundi is Europe's largest asset manager by assets under management and in the Top 10 worldwide¹, totaling more than 1.4 trillion euros². Amundi offers a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes to over 100 million retail, institutional and corporate clients in Europe, Asia-Pacific, the Middle-East and Americas.

Amundi considers that an asset manager's responsibility extends beyond the purely financial aspect, and has built into its investment policies not only financial, but also general interest criteria, namely environmental, social and governance (ESG) criteria.

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Amundi believes no subjects or sectors should be taboo: the most sensitive themes need to be addressed. Thus, our discussion papers aim to shed the light on controversy and accompany companies toward best practices.

Amundi is determined to be a driver of progress and change and supports the Sustainable Development Goals (SDGs). The following study about the living wage raises specific issues related to 3 of the 17 SDGs:



<https://sustainabledevelopment.un.org/?menu=1300>

¹Source IPE "Top 400 asset managers" published in June 2017 and based on AUM as of December 2016

²Amundi figures as of December 31, 2017

The living wage: towards better industry practices

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Abstract

The concept of living wage goes back to the early twentieth century, with the creation of the International Labour Organization (ILO) in 1919. Subsequently, this concept was taken up several times in texts that played a structural role in labour law (Universal Declaration of Human Rights, Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, and the ILO Declaration on Social Justice for a Fair Globalization).

The living wage also forms an integral part of the concept of decent work, a major goal for the ILO, which placed it at the heart of the new 2030 Agenda for Sustainable Development, adopted in 2015. The living wage is defined as a level of income that allows an individual to meet his basic needs and those of his family (food, housing, education, health, etc.).

Failing to remunerate work with a decent wage is a violation of human rights. That said, the lack of consensus on how to calculate this decent wage prevents the imposition of sanctions.

This study enabled us to analyse the key issues related to the payment of a living wage in five sectors (retail, sportswear, technology, agriculture, construction) across 19 listed companies.

Knowledge of the supply chain, compliance with national and international labour standards, membership in industrial initiatives, the

implementation of coherent methodologies and policies, were all identified as critical elements in an appropriate living wage strategy.

For each of these criteria, we defined:

- The key indicators used to estimate each company's exposure to the living wage risk. This risk can be operational, regulatory or reputational, and may have significant financial consequences in the more or less long term.
- The key indicators used to assess the quality of the company's strategy relating to the implementation of a living wage.

A significant amount of data and information was provided by the stakeholders identified, but transparency and practices vary considerably from one company and one sector to another.

These indicators form the basis of the corporate assessment methodology we developed, enabling us to compare practices and highlight the best companies.

This study revealed substantial differences not only in terms of maturity, but also in terms of living wage strategy and methodology across the companies reviewed. For example, companies use different parameters to determine their internal living wage calculation methodology, and for most of them, this is still an ongoing process. In fact, companies often cite the absence of a single definition, and therefore the lack of a common understanding of the term 'living wage', as a major impediment to effective implementation.

It appeared that the textile sector is both the one most regularly affected by major controversies and the most mature in its living wage practices.

On the whole, however, the trend is positive, moving towards better practices and greater transparency in all the sectors reviewed, even though, for some companies, there is still considerable scope for improvement.

Keywords; ESG, Living Wage, Decent Work

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Introduction

In many sectors, particularly in emerging countries, the remuneration of the least-skilled jobs is kept extremely low. Several reasons are cited: companies seek to achieve the lowest possible production costs and governments want labour market to remain attractive.

However, the increase in wages is still one of the main social demands of employees and access to a decent wage is a major issue for many workers.

The concept of living wage and decent work goes back to the early twentieth century, with the creation of the International Labour Organization (ILO) in 1919. For the ILO, *“Decent work sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.”*

It is easy to see that the living wage is an integral part of the concept of decent work. It is defined as a level of income that allows an individual to meet his basic needs and those of his family (food, housing, education, health, etc.)

However, even though the UN considers that failing to remunerate work with a decent wage is a violation of human rights, the absence of a consensus on the choice of a calculation method makes sanctions impossible.

In view of this lack of legal framework and the need for a decent remuneration for work, the purpose of this study is to understand the key issues and obstacles related to the implementation of a living wage and to establish an inventory of best practices.

In line with our ESG approach, we analysed the living wage issue by studying sectors and companies from a practical and pragmatic perspective.

Understanding the constraints and obstacles to the implementation of a living wage, realising the consequences for workers, producing countries, companies and the consumption model in developed countries were the questions we faced throughout our investigations.

We decided to focus on the sectors most exposed to this issue given the very low levels of workers' wages. The sectors concerned are textile, retail, semiconductors, telecom equipment, construction and agri-food. Furthermore, our sample consists solely of companies operating directly or indirectly in emerging countries, where the living wage issue is more acute, in our opinion, than in developed countries, even though there are distortions within the latter.

I. Once upon a time... the living wage

1.1. A century-old definition

1.1.1 Major structuring texts for the living wage

The ILO was founded in 1919 with the idea that universal and lasting peace could be established only if it is based upon social justice¹. In its preamble, the 1919 ILO Constitution already referred to the concept of living wage (the improvement of conditions of labour included “*the provision of an adequate living wage*”).

In 1948, article 23 (3) of the Universal Declaration of Human Rights² stipulated that “*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*”.

The concept of living wage was taken up in 2006 and 2008, respectively, in the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and the ILO Declaration on Social Justice for a Fair Globalization.

Finally, at the General Assembly of the United Nations in September 2015, decent work and the four pillars of the agenda for decent work – employment creation and enterprise development, social protection, standards and rights at work, and social dialogue – became the central elements of the new 2030 Agenda for Sustainable Development (Sustainable Development Goals - Source: UN)³.

More recently, significant advances were made by the European Commission to give more importance to environmental, but also social criteria. Thus, under the new regulation⁴ on protection against dumped or subsidised imports from countries not members of the European Union, a reform of the methodology applies. This new reform takes into account the social and environmental standards of countries with a negative impact on those with the lowest standards.

Many terms are used by companies and academics: decent wage, living wage, fair wage. Whatever the wording and its connotation, the underlying idea is to guarantee the worker a remuneration ensuring for himself and his family

¹ <http://www.ilo.org/global/about-the-ilo/history/lang--fr/index.htm>

² http://www.ohchr.org/EN/UDHR/Documents/UDHR_Translations/frn.pdf

³ <http://www.un.org/sustainabledevelopment/fr/development-agenda/>

⁴ Regulation 2017/2321 of 5 December 2017 - <http://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:32017R2321&from=DE>

decent housing, feeding, clothing, access to education... In this study, we use the various terms indifferently.

In addition to the negative impact on employees' quality of life, maintaining low remuneration levels can have a negative impact on companies and countries.

Excessively low wages slow down consumption and therefore the growth of companies in a given country. In addition, the lack of savings prevents companies from investing in production factors. The country stagnates and the poverty trap⁵ sets in.

Lastly, maintaining low wages can have significant operational consequences. In some countries, workers can be drawn into organising demonstrations against the local authorities and their employers in order to press for better wages. Strikes and demonstrations can have major implications for productivity.

1.1.2 Lack of consensus on the methodology

The lack of methodological consensus hampers the widespread implementation of living wage strategies within companies and also at country level.

There are several calculation methods⁶ that lead to sometimes substantially different results, due notably to the assumptions used for the calculations.

⁵ *Impossibility to improve one's income below a certain threshold of wealth*

⁶ http://www.ilo.int/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_162117.pdf (Table 16)

1/ Different methodologies for calculating the living wage

Name	Expenditures included	Household size	Number of full-time workers	Comments
<p>Social Accountability International (SAI) is a global non-governmental organization founded in 1997. SAI's vision is of decent work everywhere – sustained by an understanding that socially responsible workplaces benefit business while securing basic human rights. http://www.sa-intl.org/</p>	<ul style="list-style-type: none"> > Food (location - or country -specific %) > Non-food (100% - %food) + Savings (10% added)" 	Average household size (estimated for each locality)	2	<ul style="list-style-type: none"> > Positive: Food costs based on model diet with 2,100 calories per person, which is reasonable. No suggestion on composition of diet Living wage must be earned in normal working hours > Negative: Non food needs/costs mentioned include clean water, clothes, shelter, transport, education and discretionary income. But not known if non-food basic needs are met "
<p>The Asian Floor Wage Alliance (AFWA) is an international alliance of trade unions and labour rights activist who are working together to demand garment workers are paid a living wage. It began in 2005 when trade unions and labour rights activists from across Asia came together to agree a strategy for improving the lives of garment workers. http://asia.floorwage.org/</p>	<ul style="list-style-type: none"> > Food (50%) > Non-food (50%) 	4 (2 adults and 2 children)	1	<ul style="list-style-type: none"> > Positive: Model diet uses 3,000 calories per adult equivalent Living wage must be earned in legal hours and at most 48 hours > Negative: No country specificities Living wage must be earned in legal hours and at most 48 hours"
<p>Institute of Labour Science and Social Policy and World Bank</p>	<ul style="list-style-type: none"> > Food (30-50% depending on location) > Non-Food (100%-Food) 	4 (2 adults and 2 children)	2	<ul style="list-style-type: none"> > Positive: Calories per day set at 2,300 for adults and 1,600 for children aged 4 to 6 Cost of diet estimated using observed food prices"
<p>Richard and Martha Anker</p>	<ul style="list-style-type: none"> > Food (percentage varies with level of development) > Non-food (100% - % food) + Emergencies (10%) 	Average completed family size for couples	Average number of full-time workers per couple	<ul style="list-style-type: none"> > Positive: Available Data Model diet is low cost; includes 11 food items; includes acceptable number of calories, proteins, fats and carbohydrates according to WHO recommendations; and consistent with national food preferences"
<p>World of Good Development Organization (ONG focused on improving the lives of workers in global supply chains)</p>	8 expenditure groups (housing, food, electricity, cooking fuel, transport, medical, school, clothes)	Not indicated	Not indicated	<ul style="list-style-type: none"> > Negative: simple methodology based on unknown and unrepresentative self-reporting "

Source: ILO

The most widely-used methods are the Asia Floor Wage Alliance (AFWA) and Anker. In this study, we used the data of the methodology developed by Martha and Richard Anker, for several reasons. First, the data obtained with this method are easily accessible and usable.⁷ Moreover, calculation assumptions are among the most far-reaching, taking into consideration:

- The level of development of countries so as to define the share allocated to food expenditure (by way of comparison, the AFWA methodology sets at 50% food and non-food needs – clothing, rent, healthcare, social protection, education, savings) regardless of the country
- An inexpensive but well-balanced diet in proteins, with carbohydrates, and fats, based on WHO recommendations
- Regional practices in terms of number of workers in the home

This table is not comprehensive as many companies have developed their own calculation methodology. For this purpose, these companies may (or not) have relied on analytical tools provided by a number of organisations such as the Fair Wear Foundation. All of these methods clearly reflect the significant distortions between the minimum wage and living wage levels, with differences from one country to another.

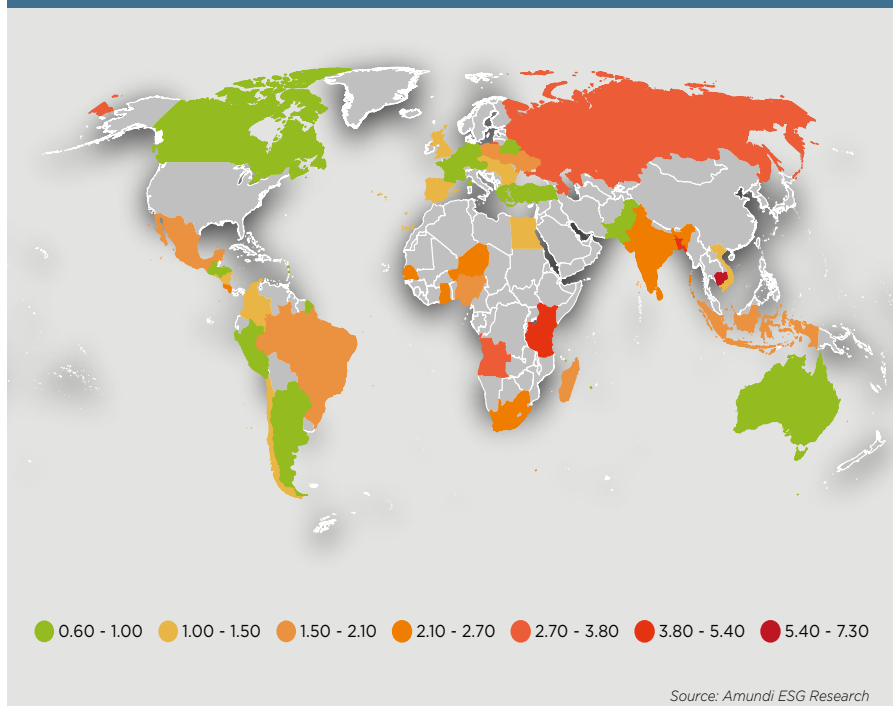
The map below uses data consistent with the methodology developed by Martha and Richard Anker and shows (in red) countries where the living wage is substantially lower than the minimum wage. For example, according to this method, in Bangladesh, the minimum wage is four times lower than the living wage; this ratio rises to six in Cambodia. It stands at 1.45 in India. These figures are average data by country, but there can be significant differences between various regions in the same country.

It should be noted that data on China is not available.

Emerging countries are the most affected by these differences. For the purposes of this study, we therefore decided to focus only on companies that produce or outsource their production in emerging countries.

⁷ <http://www.wageindicator.org/>

2/ Ratio between minimum wage and living wage - Anker methodology



1.2. Absence of freedom of association and recourse to sub-contracting: obstacles to the living wage

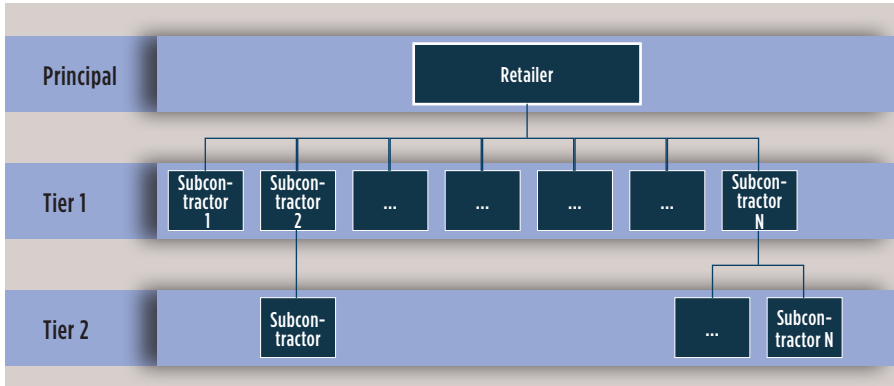
There are several obstacles to the implementation of a living wage.

First of all, the low productivity of low-skilled workers is a barrier for companies to increase their remuneration. In order to improve productivity, companies (notably sub-contractors) need to improve their production tools, train workers, and also organise work differently (better layout of workshops, better management of human resources in order to limit employee turnover, etc.). Principals can also support their subcontractors financially and/or operationally in this process and give them better visibility in terms of business.

Another issue is the structure of sub-contracting.

Most of the sectors we examined in this study rely more or less intensively on sub-contracting. However, the structure of subcontracting varies depending on the sector.

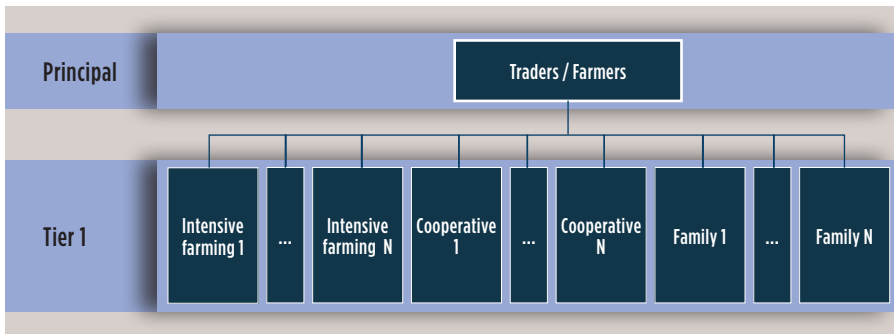
Horizontal subcontracting – Textile sector



In the textile industry, outsourcing mainly takes the form of horizontal subcontracting. The principal calls on several subcontractors which, in some cases, can also call on other subcontractors. However, the number of tiers of subcontractors remains fairly limited.

In technology-related sectors, the structure is somewhat similar with, however, a smaller number of first-tier contractors in most cases. The number of tiers is limited but can go beyond the second tier.

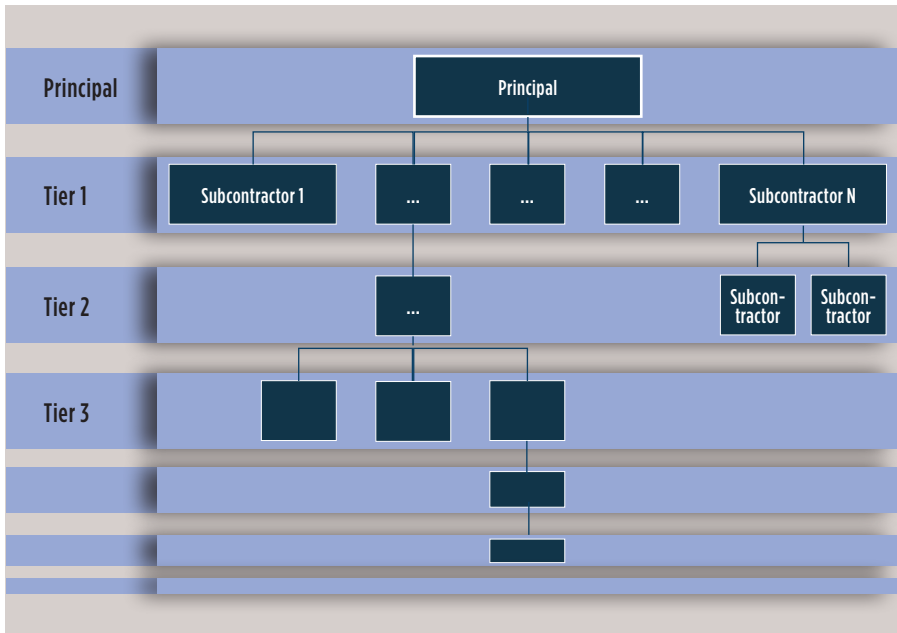
Horizontal subcontracting – Agricultural sector



In agricultural sectors, companies can rely on their own employees or outsource to farms of varying sizes (intensive, cooperative farms, homesteads, etc.). Tier 2 subcontracting is unusual.

Subcontracting – Construction Sector

Labour in the construction sector consists of both internal employees and employees of subcontracting companies, which can go way beyond the second tier. These companies sometimes have a very small number of employees.



Whatever the sector, subcontractors and suppliers can end up working for many principals, with each one often representing a small share of the subcontractor’s revenue. Ideally, to implement a decent wage at the various suppliers and subcontractors, all the principals would have to discuss and agree on a level of salary for all the workers. This is difficult to implement, as many companies are reluctant to cooperate for fear of breaking competition laws.

However, multiple sector initiatives (to which more and more companies are signing up) have emerged in recent years. Some focus exclusively on the concept of living wage (ACT via IndustriALL, Fair Wear Foundation), others on working conditions in the broad sense (ETI – Ethical Trading Initiative, FLA – Fair Labor Association), and others on several aspects of a specific sector, but with criteria relating to the living wage (RSPO in the palm oil sector is a case in point).

Furthermore, the companies placing orders use many different subcontractors in different countries and calculating the living wage for each of their entities comes at a cost. Implementation can only take place gradually.

In addition, given the short delivery times and last minute orders that subcontracting factories have to cope with, they sometimes have no choice but to outsource in turn to other suppliers that the principal does not always know.

3/ The various initiatives

Initiatives	Sector	Definition
ETI (Ethical Trading initiative) www.ethicaltrade.org/	Not sector specific	The Ethical Trading Initiative (ETI) is a alliance of companies, trade unions and NGOs that promotes respect for workers' rights around the globe.
Fair Labor Association www.fairlabor.org	Not sector specific	As part of FLA, brands have committed to ensuring fair labor practices and safe and humane working conditions throughout their supply chains.
Global deal	Not sector specific	The Global Deal is a global partnership with the objective of jointly addressing the challenges in the global labour market and enabling all people to benefit from globalisation.
Fair Wage Network	Not sector specific	The aim of this network is to regroup all the actors involved along the supply chain and present in the CSR arena who would be ready to commit themselves to work to promote better wage practices.
Labour Behind the label	Not sector specific	Labour Behind the Label is a campaign that works to improve conditions and empower workers in the global garment industry.
Fairtrade International	Various agricultural sectors	Fairtrade is an alternative approach to conventional trade and is based on a partnership between producers and consumers.
RSPO (Roundtable on Sustainable Palm Oil)	Palm oil	RSPO is a not-for-profit that unites stakeholders from the 7 sectors of the palm oil industry: oil palm producers, processors or traders, consumer goods manufacturers, retailers, banks/ investors, and environmental and social non-governmental organisations (NGOs), to develop and implement global standards for sustainable palm oil.
Fair Wear Foundation	Garment	Fair Wear Foundation works with brands, factories, trade unions, NGOs and sometimes governments to verify and improve workplace conditions in 11 production countries in Asia, Europe and Africa. FWF keeps track of the improvements made by the companies it works with. And through sharing expertise, social dialogue and strengthening industrial relations, FWF increases the effectiveness of the efforts made by companies.
IndustriALL (ACT)	Garment	ACT is a foundation jointly created by global brands and retailers in the garment and textile sector and IndustriALL, the global trade union federation representing garment and textile workers. Brands, retailers and IndustriALL realised that purchasing practices facilitating the payment of living wages, through the establishment of industry wide collective bargaining requires collaboration among brands and between companies and trade unions.
Asia Floor Wage	Garment	The Asia Floor Wage Alliance (AFWA) is an international alliance of trade unions and labour rights activist who are working together to demand garment workers are paid a living wage. It began in 2005 when trade unions and labour rights activists from across Asia came together to agree a strategy for improving the lives of garment
ILO better Work programme	Garment	Better Work – a collaboration between the United Nation's International Labour Organization (ILO) and the International Finance Corporation (IFC), a member of the World Bank Group – is a comprehensive programme bringing together all levels of the garment industry to improve working conditions and respect of labour rights for workers, and boost the competitiveness of apparel businesses.
Sustainable Apparel Coalition	Garment	Manufacturers, brands, and retailers are joining together to identify and measure their sustainability impacts on an industrial scale like never before. The Coalition develops the Higg Index, a set of standardized supply chain measurement tools for all industry participants.
Responsible Business Alliance (RBA) ex-EICC (The Electronic Industry Citizenship Coalition)	Tech	The RBA was founded in 2004 by a small group of electronics companies seeking to create a industry-wide standard on social, environmental and ethical issues in the electronics industry supply chain.
JAC (Joint Audit Cooperation)	Telecom	JAC is an association of telecom operators aiming to verify, assess and develop the Corporate Social Responsibility (CSR) implementation across the manufacturing centres of important multinational suppliers of the Information Communication Technology (ICT) industry.

Finally, in many countries, the level of social dialogue is very poor, making wage negotiations difficult. In Turkey, for example, the law requires that a trade union represent 50% of the workforce before collective bargaining can start. But in order to join a union, workers must first apply to a government office. Generally speaking, workers are poorly represented in the textile sector. According to IndustriALL, more than 90% of workers in the textile industry have no possibility of negotiating their salaries and working conditions.

1.3. Who absorbs the rise in labour costs?

One of the major issues of implementing a living wage is the absorption of the additional cost involved.

In the construction sector, this cost is difficult to absorb:

- Margins are low and the share of the cost of labour in the cost structure is high
- Competition is high and applying this type of measure to a single company would distort competition significantly

On the other hand, educating clients is a lever of improvement, as is training workers, as it allows them to enhance their productivity and expertise and gain access to higher salary levels.

In the textile industry, like in electronics and agri-food, margins are higher and an increase in wages, which represent a small percentage of costs (2% to 5%⁸) could be passed on to both brands and consumers.

The following table shows, for the textile sector, the impact of a 150% rise in the cost of labour on end product prices (150% being the difference between the minimum wage and the living wage in India, for example).

Often, passing on labour costs into final prices is calculated in a fairly simplistic way, merely adding them to the price of the end product.

In actual fact, the process is slightly more complicated as the various stakeholders reason at constant margins (for the plant, for the intermediaries, for the brand, etc.).

Take the commonly-used example of a €29 tee-shirt - when one increases the salaries of the production plant's workforce to meet the living wage level (in this example, by 150%) while maintaining margins in the value chain, the tee-shirt is sold not at €29.27, but at €30.66, i.e. an increase not of 0.9%, but of 5.7%.

⁸ Source: FWF

4/ Impact of rise in cost of labour on end product

Hypothesis: 150% increase in the cost of labor	Initial Level	initial margin level	With no escalation	Margin rate with no escalation	Escalation with fixed margin level
Labor	0.18		0.45		0.45
Material	3.40		3.4		3.4
Overhead	0.27		0.27		0.27
Total manufacturing Cost	3.85		4.12		4.12
Factory Margin	1.15	30%	1.15	28%	1.23
Free on Board	5.00		5.27		5.35
Transport	2.19		2.19		2.19
Agent Fee	1.20	24%	1.2	23%	1.28
Brand Margin	3.61	72%	3.61	69%	3.86
Wholesale	12.00		12.27		12.69
Retail Costs	17.00	142%	17	139%	17.97
Retail Price	29.00		29.27		30.66
Change in retail price			0.93%		5.73%

Source: *Climbing The Ladder To Living Wages, Amundi*

The opportunity to pass on the price increase to the end customer depends not only on the product's price elasticity, but also on its level of complexity. In the case of a pair of trousers, the percentage of increase is respectively 2.5% without maintaining margins and 13.5% when keeping margins at the same level. These numbers increase with the complexity of the end product and the difficulty of passing on the increase to the consumer also increases. In addition, the margin levels in this example are fairly conservative.

This is a clear illustration of the difficulty of passing on an increase in the cost of labour to a single player in the value chain. The consumer will probably not be happy to absorb the entire increase and the brand will have to take on a share by agreeing to reduce its margins, limiting the number of intermediaries or negotiating a reduction in their remuneration.

5/ And the winner is ...?



II. Analysis of the 19 companies in our sample.

In this study, we analysed issues related to the implementation of the living wage in five distinct sectors: retail, sportswear, technology, construction and agriculture.

As noted previously, our sample is composed of companies whose activity is strongly exposed to emerging countries. The living wage is a universal issue that also affects developed countries. The United Kingdom, in particular, has already embarked on a reflection about this topic. However, differences in politics, in development, among others, create significant distortions in the means and solutions implemented. Finally, as we mention it previously, emerging countries remain among the most exposed to wage issues.

Our objective is to define which companies in each sector have the best practices and to identify those that could be applied on a global scale. We worked on a sample of 19 companies and conducted interviews with all of them, taking into account:

- their sector
- the diversity of their activities
- their size in terms of market capitalisation
- controversies related to wage conditions

2.1. Analysis model: risk exposure and risk management capabilities

Our analysis is based on the assessment of exposure to the “living wage” risk and companies’ ability to manage this risk.

2.1.1 The risk model is based on several criteria

We considered the working conditions in the countries in which the companies and their suppliers operate. We therefore applied quantitative criteria relating to freedom of association, based on the International Trade Union Confederation’s (ITUC) country scoring.

The gap between the living wage and the minimum wage (data wage indicator⁹ calculated based on the Anker methodology) in each country was also analysed.

A company’s reputation is a crucial element in assessing its exposure to risk. The greater the reputation of its brand(s), the more the company is exposed to the reputation risk. We used the Interbrand ranking¹⁰ of the 100 best global brands to assess this risk. To appear on the list, brands must have a significant presence in Europe, Asia and North America and generate at least 30% of their revenue outside of their country of origin.

Another important criterion for our analysis was the percentage of production outsourced or produced in emerging countries and its breakdown by country.

For instance, a company with a well-known brand, producing mainly in countries where freedom of association is limited and the minimum wage is far lower than the living wage, will have high exposure to the risk of controversy related to its pay practices.

2.1.2 The performance assessment model includes three pillars

We identified several criteria to assess and compare the practices of the companies in our sample:

Policy & Strategy:

The idea is to assess the level of maturity of companies’ living wage strategy:

- Level of knowledge of the supplier chain
- Mention of the concept of living wage in the code of conduct
- Coherence with national and international standards
- Existence of a living wage strategy and main pillars
- Existence of a living wage calculation methodology

⁹ <http://www.wageindicator.org/>

¹⁰ <http://interbrand.com/>

Strategy implementation:

In order to analyse the strategy's deployment, several criteria are analysed:

- Mapping of the gaps between the living wage and observed wages (own employees and subcontractors)
- Integration of the concept of living wage in subcontracting contracts
- Training provided to employees and contractors to improve productivity
- Support given to employees and subcontractors in collective bargaining
- Cooperation with NGOs and governments
- Cooperation with competitors and membership of industry-level initiatives
- Checks of measures implemented and procedure in case of non-compliance

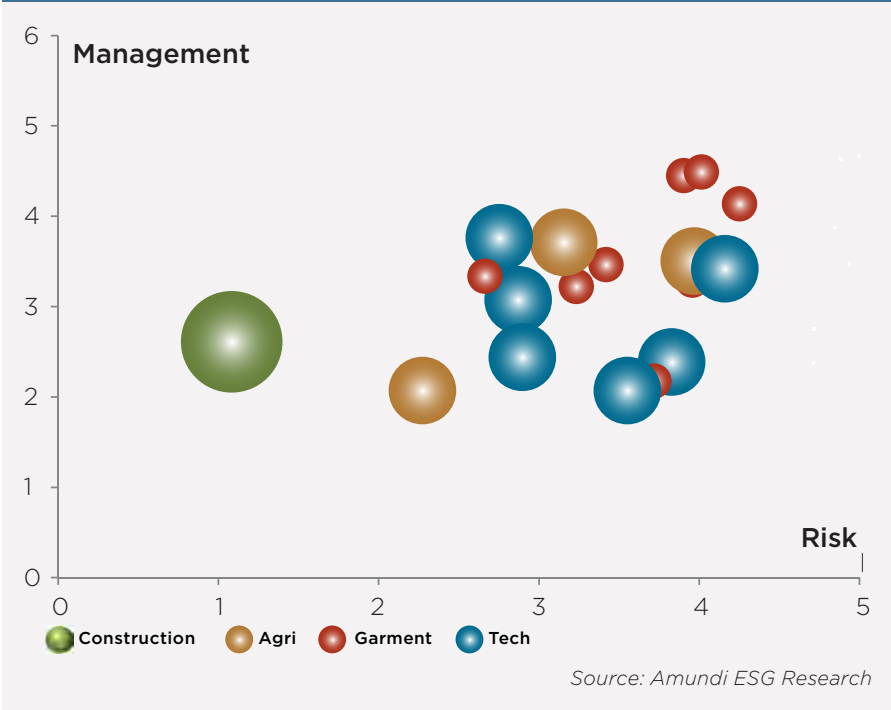
Performance monitoring:

In order to assess its strategy, the company must define performance indicators, disclose them and take any measures necessary in the event of bad results.

In addition, we take into account controversies related to the living wage and the mechanisms put in place to address these controversies.

2.2 Sample assessment and good practices

6/ Sample assessment



This chart gives an overview of the level of maturity of our sample and discrepancies between sectors.

The most mature sectors are also the most exposed and are those related to the textile industry (in red). The technology and agriculture sectors have already started to make efforts to improve their practices, but the actions taken are more heterogeneous.

The construction sector is represented by a single company and its approach is effective, but too recent to reach the level of the other companies in the sample.

6/ Measures necessary for the implementation of a living wage strategy

COMPANIES ASSESSMENT	GOOD	AVERAGE	LOW
Policies & strategies			
Understanding of the Supply Chain	68%	21%	11%
Corporate Code of Conduct;/ Responsible Sourcing Guidelines - Focus on Living Wages	47%	42%	11%
Coherence with National & International Standards	79%	21%	0%
Living Wage Strategy	47%	26%	26%
Internal Methodology	47%	47%	5%
Implementation			
Mapping of Salary Gaps & Risk Exposure in the Wage Landscape	16%	37%	37%
Integration of living wage clauses in supplier contracts and selection criteria	32%	53%	5%
Education of Suppliers and support to improve productivity	26%	37%	21%
Support to collective bargaining, and social dialogue at suppliers level	32%	26%	32%
Collaboration with governments, institutions and NGO's	37%	37%	16%
Collaboration with Competitors	21%	21%	42%
Membership to the initiatives (ACT, ETI, EICC, Building Responsibility)	47%	37%	5%
Monitoring of the measures (audits, questionnaire) and procedure in case of non-compliance	74%	11%	11%
Assessment			
Maturity of the Living Wage strategy	21%	37%	32%
Performance Measurement Indicators	16%	16%	63%
Active Communication on results, objectives and areas for improvement.	26%	16%	42%
Adjustment of policies, indicators and objectives according to the audit results	21%	68%	0%
Existence of controversies	68%	5%	16%

Source: Amundi

Overall, the companies in our sample know their supplier chain well and have suitable control procedures (audits, questionnaires, etc.).

In addition, compliance with national and international regulations is high.

On the other hand, there are strong disparities, notably at sector level, concerning the maturity of living wage strategies. This should be put in perspective with the disparities relative to implementing the methodology, as well as with a mapping of the risks inherent in this issue.

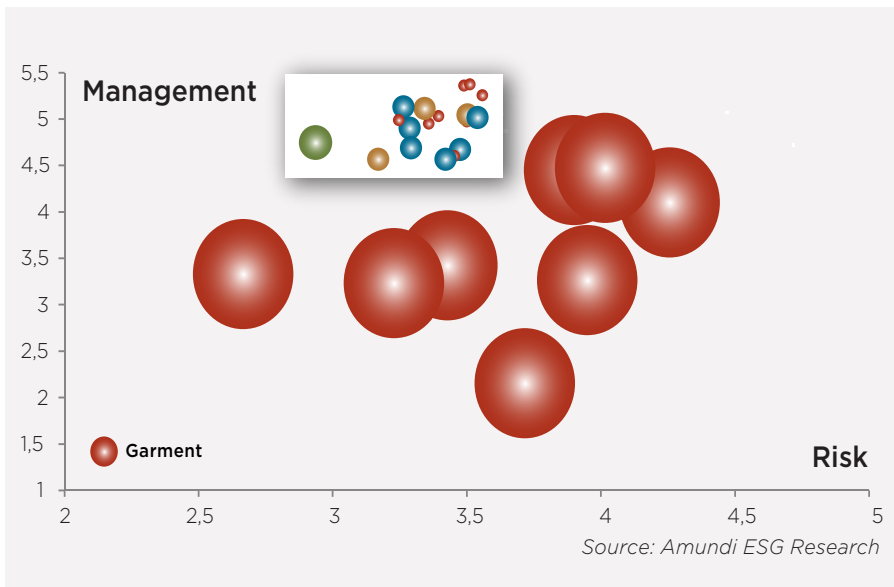
2.2.1 The most mature sector: the textile sector

The textile industry is one of the most globalised, mobile and dynamic industries in the world.

In this sector, the supply chain is global with a horizontal structure and subcontractors shared between several competing principals. In some cases, subcontractors also call on other subcontractors. However, the tiers of subcontractors remain limited.

Over the past thirty years, clothing has migrated to newly industrialised countries, developing countries and underdeveloped countries¹¹, resulting in increased exposure to risks throughout the supply chain, particularly for wages.

In this sector, we covered eight companies



¹¹ Network Structures in the International Clothing Industry <https://hal.inria.fr/hal-01055983/document>

Mature strategies in the textile sector:

In terms of risk, textile companies are among the most affected by the issue of the living wage as they produce or outsource their production to low-skilled workers, mainly in emerging countries.

All the companies in our sample have long-term relationships with their suppliers and have a clear understanding of their supply chains, allowing them to assess their exposure to salary issues. However, only half of those companies disclose the geographical breakdown of their suppliers (very few disclose the geographical breakdown in terms of production).

Six of the companies reviewed require the payment of a decent, vital or fair wages in their code of conduct and five of them have an internal methodology to calculate this salary level.

It is interesting to note that one of the companies in the sample works in collaboration with academics from Harvard and the ILO to define “fair pay practices” that go beyond the living wage concept, by including notions such as the timeliness of wage payments, living standards, worker performances and skills, and overtime.

A structuring framework but measures not always carried through

Only one quarter of the sample offers sufficient transparency on the salaries paid by mapping and disclosing pay gaps and using them to determine exposure to risk along the supply chain. Two other companies have an idea of the gap between the minimum wage and the salary paid but do not disclose it.

Many of the companies we reviewed carry out training and professional development programmes for their suppliers and workers in order to support the implementation of the company’s salary engagements and to increase worker productivity. For instance, one of the companies in the sample offers its suppliers, including factory managers, training on the code of conduct that they are required to sign as well as on workshop organisation techniques and human resources management. All of these companies have policies that recognise workers’ right to collective bargaining and freedom of association and one of them integrates it in the factory’s wage management systems. Two others take proactive measures to inform workers about their rights and support their exercise.

In all these companies, the trend is to promote the introduction of the living wage by signing up to industry initiatives such as ACT (Action Collaboration Transformation), ETI (Ethical Trading Initiative), FLA (Fair Labor Association). 63% of the companies in the sample also work with civil society, local governments and national institutions to define a living wage level. One good practice introduced in three companies in the sample consists in the use of the ILO’s Better Factories programme in factories in their supply chain to

improve working conditions in the sector, notably by instigating dialogue between management and workers.

All the companies reviewed have formalised a supply chain monitoring framework and defined rules of application of the living wage. These rules relate to the payment of decent wages, to checks at the sites (interviews with workers, review of administrative documents, etc.), the presence of teams of local auditors, the establishment of easily accessible whistle-blowing systems in local languages, the existence of supplier rating systems based on their CSR performance, notably the living wage.

Heterogeneous monitoring levels

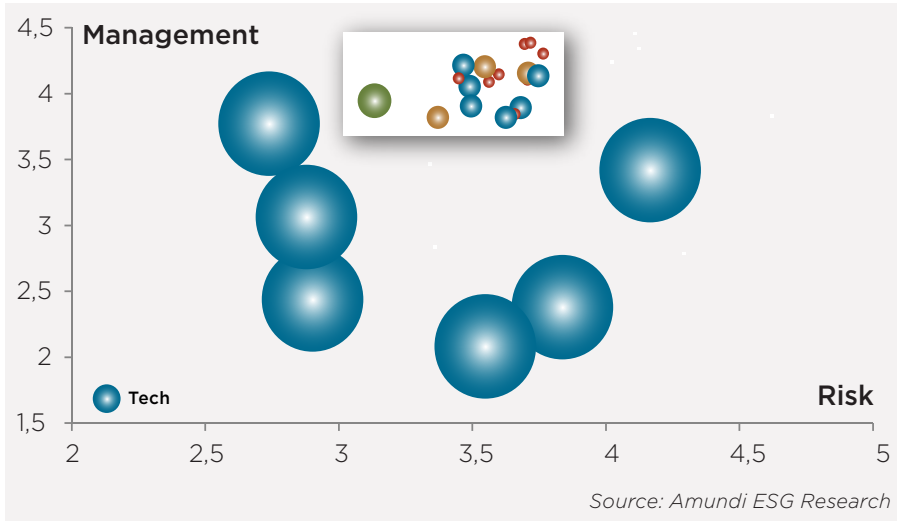
The level of maturity of companies' living wage strategies varies in our sample. Only three of the eight companies surveyed are proactive in their approach to the payment of a living wage through their policy and initiatives at enterprise level. For the remainder, the concept is relatively new and these companies are still in a phase of definition and/or implementation of their strategy. Only four companies in the sample have defined indicators to measure the supplier performance in respect of living wage. The best practice consists in establishing performance indicators such as gross wages paid, health insurance coverage, overtime, etc., and in collecting data in order to take corrective measures as appropriate. Only two of the four companies cited publish the audit results in their annual or sustainable development report, including areas of non-compliance, areas for improvement, and the corrective actions taken.

On the whole, the theme of the living wage is well integrated in the wage policies of the companies we were able to meet and in those of their subcontractors. That said, these practices are not homogeneous in terms of implementation and follow-up. Some sector companies are still lagging and even for the most mature, progress remains to be made. Supporting workers in their wage negotiations and training them are prerequisites to help them get better pay, but companies must also become more engaged by requiring their subcontractors to give their employees decent wages and by controlling their wage policy more systematically and more formally.

2.2.2 Awareness of the living wage issue in the technology sector: a mixed picture

The structure of the technology sector's supply chain is similar to that of the textile sector. An important part of production (including assembly) is subcontracted in emerging countries (with the exception of one company in our sample). However, the number of subcontractors and production volumes are more limited. In addition, technical and quality standards are more demanding and the prevalence of issues related to the living wage is lower than in the textile sector, as jobs are sometimes more skilled.

In this sector, we covered six companies.



Wage policies in line with national and international standards

The six companies in the sample have implemented wage policies in line with national and international standards and the industry code of conduct (RBA, formerly EICC). Only one company refers to the concept of living wage in its code of conduct. In practical terms, all the companies reviewed have a good knowledge of their supply chain, but only one discloses the breakdown of suppliers. In addition, this company is the only one to have defined an internal methodology to calculate and implement the living wage for all its activities. Overall, the trend is to pay competitive wages, in accordance with sector benchmarks.

Measures exist, but they do not always relate specifically to the living wage issue

All the companies in our sample are members of the Responsible Business Alliance (RBA), formerly the Electronic Industry Citizenship Coalition (EICC), and their suppliers are required to comply with its code of conduct. However, only 33% of them work proactively at industry level to define and promote the implementation of the living wage. One of the companies in the sample stands out by its membership in the Joint Audit Co-operation (JAC) initiative in which telecom operators participate to discuss how to handle wage policies.

All six companies have an idea of the gap between the minimum wage and the wages effectively paid, but only one of them stands out by including a clause in supplier contracts requiring the payment of the living wage.

All of the companies in our sample provide training, but its content varies. For some, this training consists merely in educating suppliers and workers about the company's wage commitments, while for others, the goal is to improve worker productivity. Only one company acknowledges the importance of educating workers on exercising their trade union rights, while most of the companies we interviewed do not consider this as an issue for the sector.

All of the companies have implemented a framework to monitor their suppliers and some have added the non-payment of the living wage as a criterion for non-compliance. Among good practices, we observed the creation of consultation committees on wages at production sites, the implementation of rigorous systems for corrective action at company and supplier level, the reduction of business volumes to influence suppliers' practices in the event of non-compliance. These practices are split between five companies, but no one company adopts all these practices, leaving further room for improvement.

Few monitoring indicators of the wage policy of subcontractors

For most of the companies in our sample, the theme of the living wage is new. For instance, only one company has defined indicators to measure supplier performance in respect of the wage policy. In addition, only one company in the sample discloses audit results, the objectives and areas for improvement identified, and uses them to make adjustments to its policies and strategies. Others use the results to take immediate corrective action to address identified gaps.

None of the companies reviewed faced a wage-related controversy in the past.

For some technology companies, wage issues in the sector are limited to a competitive compensation of employees in order to attract qualified employees. Moving down the value chain, however, jobs are sometimes far less qualified, legitimising the importance of this subject for sector companies. In fact, one of the companies in our sample has already started implementing measures relating to the living wage, bringing further proof of the relevance of this issue.

2.2.3 An emerging issue in the agricultural sector

In the agricultural sector, we examined the living wage issue through two companies in the palm oil industry, and one in the agri-food industry. The three companies' supply structures are very different. The first company has its own plantations; the second subcontracts to operators of different sizes (from small family holdings to more intensive farms). The last one uses suppliers with which it agrees on volume levels, which they are then free to outsource. Exposure to wage-related risks therefore varies accordingly, although there are some similarities in practices in this sector.

Budding awareness

One of the companies recommends the payment of “fair wages” and, like another company in the sample, it has defined an internal methodology based on a collaborative approach to calculate the salary to be paid to all workers in the supply chain.

The three companies’ code of conduct for suppliers refers to provisions on wages and workers’ trade union rights.

Measures are still low-key

Only one company actively maps wage gaps and publishes them in its annual report, a good practice that could be adopted in the sector. Two companies carry out training programmes to increase worker productivity, and one of them also implements programmes that allow workers to exercise their trade union rights.

Two companies in our sample are members of the RSPO, which recently undertook a study on the theme of the living wage. The third company (agri-food) systematically checks that its suppliers are not one of the farms listed by local authorities for having committed abuses. These companies are excluded from the supply chain.

Two of the three companies surveyed have implemented a control framework, a whistle-blowing system, in order to ensure the implementation of measures relating to the payment of decent wages.

No monitoring of subcontractors’ wage policies

The living wage concept is relatively new in the agricultural sector. As a result, no company has defined criteria to assess the performance of subcontractors on this issue. However, two companies disclose audit results and assess areas for improvement. One of them communicates widely on the adjustments made.

That said, the three companies in the sample have never faced any wage-related controversy.

Despite technical constraints that prevented us from interviewing more companies, we know from experience that this sector is very heterogeneous and that pay practices vary widely. A farmer who works on his own, a labourer on a farm or at an oil mill do have not access to the same resources to improve their working conditions. Implementing decent remuneration throughout the supply chain is challenging, but clearly, some companies are working on it. There is still considerable room for improvement, however.

2.2.4 Premises of living wage in the construction sector

In the construction industry, the supply chain is long and includes subcontractors of very different sizes. Dependence on suppliers and

subcontractors is high, and the industry has tended to make greater use of outsourcing in recent decades. This supply chain is also characterised by low skills and low wages. The very nature of the supplier chain structure in this sector is a hurdle to implementing living wage strategies.

We approached several companies for this study, but most of them do not consider the living wage as an issue for their sector. Only one company agreed to dialogue with us.

A subject still being considered

The company reviewed has a wage policy complying with national and international standards. Given the risk associated with the supply chain, suppliers are required to comply with the Supplier Code of Conduct and are assessed (for the most critical) on the basis of social and environmental criteria. Reflection on the living wage has only started recently and the company is working on developing an internal methodology.

No measures taken as yet...

The company does not map discrepancies between the minimum wage and the salary paid. Training programmes are put in place and are intended to improve worker productivity. Subcontractors are not concerned by these measures, however. Furthermore, there is no provision to support the workers' trade union rights. There is no industry-level initiative on wage conditions, which limits collaboration.

... and no specific monitoring framework

This theme is new to the company reviewed, which has not implemented any follow-up criteria. In general, audit results are disclosed and used to take corrective action.

Only one company agreed to dialogue with us on the living wage, reflecting the fact that this topic is very recently addressed in this sector. In addition, given the structure of the supplier chain, it is difficult to implement and is not supported by any market initiatives. However, companies are starting to focus on this topic, proving that it is legitimate, in a sector where the use of low-skilled labour is very common.

2.2.5 The prerequisites for a high-quality strategy

Our discussions with the companies met enabled us to single out a number of good practices (details in appendix). However, the state of progress of these companies' living wage strategies is highly correlated to industry practices in place, to the awareness of issues related to remuneration internally and in the supplier chain, and to the level of risk perceived by the company.

For most of them, even those whose strategy is already well advanced, there is still room for improvement.

That said, some measures are prerequisites for a high-quality strategy.

Mapping suppliers and identifying wage gaps in each of the countries in which the company produces gives an objective overview of the situation and makes it possible to implement an appropriate wage policy. The mapping of these gaps can only be performed by defining a suitable calculation methodology.

7/ Measures necessary for the implementation of a living wage strategy	
KEY THEMES	BEST PRACTICES
POLICIES & STRATEGIES	The company publishes the suppliers map and the entire list of suppliers working for the company
	The company explicitly recognizes the mandate to pay every worker a 'living wage' in its Code of Conduct or Responsible Sourcing Guidelines
	The company has a defined internal methodology to compute living wages
IMPLEMENTATION	The company actively maps and publishes the salary gaps in each sourcing country to assess risk exposure or measure performance
	The company imparts periodic tailor made training and development programs for suppliers and workers to increase the efficiency and productivity of workers
	The company collaborates with competitors through industry-level initiatives and other formal/informal international networks on wages
	The company proactively engages with workers on-sites through workers interviews, surveys, document review etc.
	The company has defined KPIs for data collection on wages
	The company implements multiple transparent and accessible grievance mechanisms for workers in local languages. This can include confidential and anonymous worker's hotline, and mobile apps
ASSESSMENT	The company has defined specific indicators to measure the supplier performance on the implementation of living wages in sourcing countries.
	The company publishes a breakdown of audits conducted geographically, the bifurcated areas of non-compliance including the topic of wages, assessed areas of improvement and determined corrective actions

In addition, the company must state explicitly the obligation for decent remuneration in its code of conduct, but also in supplier contracts or in the Supplier code of conduct.

Once these conditions have been met, various solutions can be studied. Training can be implemented to improve worker efficiency and allow principals

to be more productive, even with a higher level of remuneration. Training can also help workers stand up for their trade union rights. Dialogue is essential, especially with the less skilled workers. For instance, a grievance system accessible to the company's employees and to employees of subcontracting companies must also be implemented.

Collaboration with peers helps optimise corporate policies as they are established jointly and therefore do not distort competition.

Finally, the company must define specific monitoring indicators, notably relating to wage gap, and take appropriate measures in the event of non-compliance with objectives.

2.2.6 Limitations of the model

- The number of companies in the sample is limited and some areas are poorly represented
- The model does not take into account workers' level of skill
- The contact persons interviewed did not all hold the same positions
- Issues differ depending on the sector reviewed

Conclusion

Our approach allowed us to develop a picture of the main issues related to decent pay, to bring to light the regulatory framework, market initiatives that aim to promote accountability in the sector and the main measures introduced in companies. It gave rise to discussions with a sample of 19 companies in five different sectors.

These exchanges also legitimised the fact that this subject, although new to most of the companies we met, is nevertheless examined, sometimes in detail. Whatever the sector reviewed, there is always at least one company in our sample that has defined a living wage strategy and introduced measures accordingly.

The lack of a common methodology for the calculation of the living wage is often cited by companies as one of the impediments to the development of an effective strategy. However, many companies have overcome this hurdle by defining a proprietary methodology or applying an existing methodology.

The textile sector started working earlier than others on the subject of the living wage in light of its high exposure to emerging countries in its supplier chain, but also because this sector has been subjected to a great deal of controversy relating to remuneration levels in the past. Measures taken by companies in the textile industry, often supported by market initiatives, are among the best practices referenced.

Other sectors have faced a smaller number of controversies; most of the time, existing market initiatives do not relate to the living wage and, as a result, these sectors feel less concerned by the issue. However, in the agri-food sector for example, the search for better transparency in the supply chain has prompted companies to map their risks, including remuneration. For instance, the RSPO has initiated a study on the living wage.

Our sample is limited to five sectors. That said, any company subcontracting or producing in emerging countries can be exposed to this issue. Since we conducted this study and as part of our sector reviews, we now address the living wage issue in our discussions with companies. This allows us to continue refining our analytical model by extending it to other sectors.

Significant and probably costly efforts for companies remain to be made. During our discussions, we noted that many companies have implemented measures to raise workers' awareness for a better knowledge of their union rights as well as supportive measures to achieve better wage negotiations, considering, at least in the short term, that it is employees who must remain in control of the situation.

While these efforts are noteworthy, they cannot suffice to replace corporate engagement to intervene directly on wage levels, both in-house and in the supply chain. For this purpose, monitoring indicators must be introduced, controlled and give rise to concrete actions. Very few companies have defined and published this type of indicator, which makes their strategy difficult to read and does not tell us whether they comply with the United Nations' principles.






In addition, none of the companies surveyed have been able or willing to tell us who will bear the resulting increase in costs (companies, intermediaries, consumers and clients). In our view, however, margin levels in the textile, agri-food and technology industries are quite sufficient to absorb this increase (at least partly). That said, improving awareness of clients and consumers, whatever the sectors reviewed (including construction), could also help the industry move forward in the right direction.

Ensuring a worker has a level of income allowing him to meet his basic needs and those of his family (food, housing, education, health, etc.) is a universal right that is not respected in developed countries, either. The United Kingdom has recently taken up this issue, but in other developed economies, in some sectors, notably agriculture, labour income is often not sufficient.

It is therefore important that we continue to deepen this topic, expanding our universe of analysis from a sectoral and geographical point of view.

Annexes

Standard questionnaire for interview with the company:

	Framework for assessment:
	> Assessment of company's exposure
	> Mention of a Code of Conduct
	> Methodology
	> Application of the methodology

Assessment of company's exposure:

Supplier structure

- How many suppliers do you have?
- What percentage of your production is subcontracted?
- What is the percentage outsourced in emerging countries?
- What is the breakdown?
- What is the percentage of your production produced in emerging countries? What is the breakdown?
- Do you have long-term relationships with your suppliers? What percentage of them have you been working with for more than five years? Average term of your supplier contracts?
- Do your suppliers subcontract?
- What is the level of worker productivity in the countries in which you operate? Is it sufficient? Are there ways to increase productivity?
- What percentage of revenue do you represent for your suppliers? How do you manage dependency?
- Do you hold a stake in some of your suppliers?
- Have you implemented a supplier selection process and regular audits (ESG criteria, frequency)? Based on what criteria (living wage)? Can you encourage your suppliers to take corrective action? And/or delist them?

Salary component

- What is the share of wages in production costs? And the trend in the last three years?

- What is the share of production costs / Revenue?
- What is the current level of wages paid to workers at production plants in emerging countries in which the company operates? What is the trend over the last three years?
- Is the practice of undisclosed payments authorised in the countries in which you work, at the suppliers with whom you work?
- Have your suppliers set up an “open-costing approach” (transparency)?



Code of conduct:

- Do you mention the living wage in your:
 - Corporate Code of Conduct (for your own employees)?
 - Supplier Code of Conduct (subcontractors)?



Living Wage Strategy and Methodology

- Do you have a living wage policy? What is its level of maturity? Can you describe it?
- Which living wage definition and calculation methodology have you opted for? (Anker, Asia Floor Wage, internal methodology, etc.)
- Do you work with other brands/clients of your suppliers (or other stakeholders) to establish a living wage at some of your suppliers? How do you collaborate with other clients of your suppliers on this topic?
- Do you take part in any market initiatives relating to the living wage (e.g. IndustriALL in the textile industry)? With what objective? What are the principles of your participation in these initiatives and what benefits do you see?



Application of the methodology:

Implementation

- What are the major barriers to the establishment of a living wage?
- If you decided to implement a living wage, do you conduct audits in factories to confirm its effective payment to the workers?
- In the case of non-compliance with rules imposed on suppliers relating to the living wage, are corrective actions taken?
- Does the company sanction suppliers or subcontractors who fail to comply with the payment of a living wage as provided for in their contract (delisting of the subcontractor)?
- Does the company train its suppliers or subcontractors about the living wage issue?

-Is there a whistle-blowing system to escalate wage-related issues?

Impact on cost and price structure

-What increase in prices would your clients be prepared to accept? What is your product price elasticity?

-What increase in costs would you be willing to accept? How can one remedy escalation principles in the production cost structure?

-What measures could you or have you put in place to mitigate the impact for the client (increased productivity, reduction in the number of intermediaries, higher volumes, marketing: ethical brand)?

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