

Living Wage Implementation in Supply Chains: Tipsheet for Buyers and Brands

Background

This Living Wage Tip sheet has been written to provide companies with practical guidance on the steps required to implement the living wage in their supply chains. It assumes that the internal business case for the living wage has already been made, senior-level commitment and buy-in ensured, and that the company has a commitment and steps to implement a living wage in their own operations. Companies who are not yet at this stage should refer to the IDH Roadmap. For more details please also check the AIM-Progress Living Wage Playbook.

The document has been adapted from guidance developed for Unilever by Ergon. AIM-Progress are grateful for Unilever's willingness to support the wider dissemination of the document to help other FMCGs work towards living wages.

AIM-Progress published its Statement of Engagement on Living Wage and has a working group for members which supports the implementation of living wages in members' own operations and supply chains. As on all human rights topics, AIM-Progress regards the engagement of suppliers as a crucial step for improving the lives of workers.

Context

Addressing wage issues in supply chains is complex. Wages are impacted by global, local and enterprise level considerations and cannot be "fixed" through a single action. Companies can work in collaboration to address wage issues, but they cannot wholly be addressed by pre-competitive collaboration. This complexity is good reason to develop a considered strategy and communications, informed by best practice within the FMCG sector and beyond.

Living wage benchmarking is an important starting point to addressing wage deficits in global supply chains – but not the endpoint. Experience suggests that the real challenge is how to work with suppliers, over time, to support the development of wage setting and payment systems which enable suppliers to pay living wages in a transparent and sustainable manner. A holistic approach includes enhancing pay systems, productivity and incentivisation, industrial relations based on social dialogue, skills development and gender equality.

The overarching balance to be struck in supply chain living wage implementation is between (enhancing) supplier efficiency and (modifying) off-taker¹ purchasing practices. Sustainable changes to wages paid will often need to be supported by purchasing practices which enable suppliers to raise wages towards the living wage. Customers will need to be prepared to include purchasing terms (and prices) that support longer-term engagement and enable longer term investments on the part of suppliers.

Suppliers can create and share value with workers by improving efficiency and people management, focusing on developing systems for social dialogue at the workplace and also at the industry level. However, experience indicates that a lot of work needs to be put into building a business case with suppliers to invest in raising wages towards the living wage. Engagement, support and guidance will then be needed to help suppliers understand the steps they need to take and the upgrades required to business systems to sustain what may be significant increases in labour costs.

Often, the sheer scale of global supply chains means that implementation has to be informed by the feasibility of rolling out a commitment to the entire supply base. Companies may need to adopt a scalable approach focused on particular commodities or supply chains – for instance, where due diligence has identified a risk or potential impact in relation to low wages. However, experience indicates that living wage approaches need to be presented and executed in partnership in order that the maximum number of suppliers engage in the transformative change necessary to sustain labour cost increases.

This suggests the need for a progressive implementation approach which focuses on highest risk, on learning-from-doing at manageable scale, and – particularly in the case of suppliers from whom customers purchase a minority of production – on unlocking potential partnership opportunities with other companies and initiatives with whom shared interest and implementation efficiencies can be found.

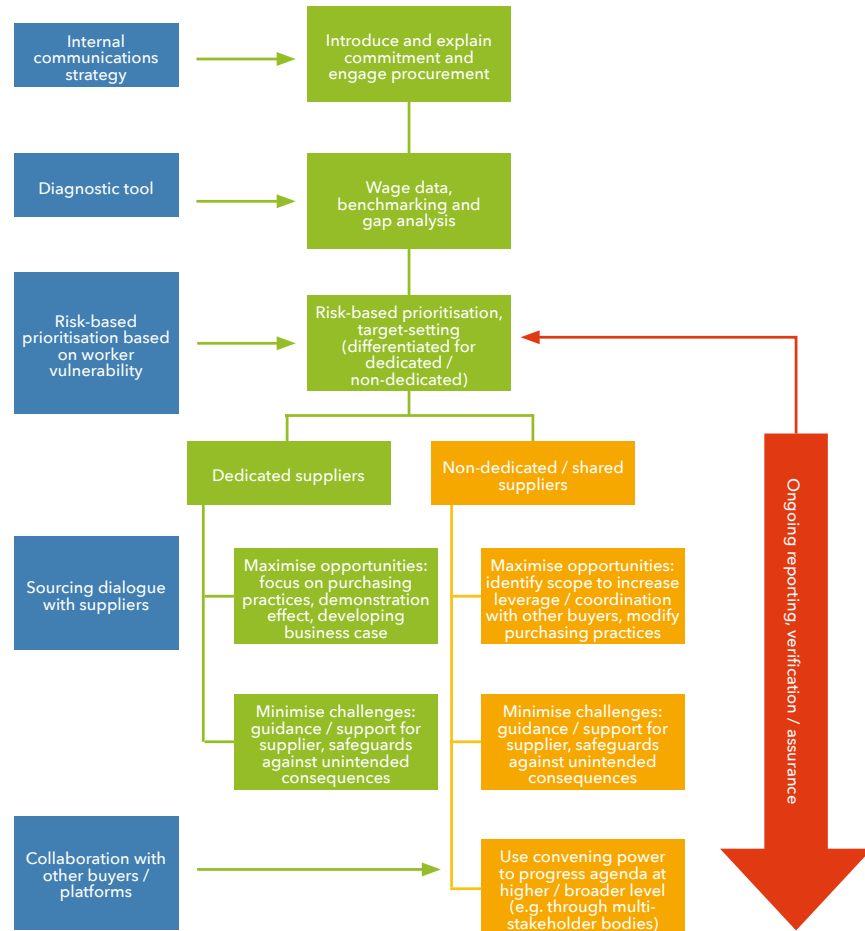
The integration of supplier and buyer actions to promote living wages is more straightforward for dedicated suppliers (from whom the buying company purchases 100% or close to 100% of production). There is greater leverage, greater scope to support wage improvements through purchasing practices, less risk of competitive harm to suppliers and no requirement for the buying company to coordinate with other off-takers. Therefore, the following considerations suggest a clear delineation between potential approaches to dedicated and non-dedicated suppliers, and a sequencing which prioritises an initial focus on dedicated suppliers – with a view to creating a 'demonstration effect' which can support the business case for other suppliers to collaborate on living wages. dedicated suppliers.

It is strongly recommended that activities to promote living wage with non-dedicated suppliers are informed by, and link up to, collaborative efforts to engage with suppliers at the sectoral level. Collaboration enhances leverage through aggregated buying power, allays competitive pressures on these suppliers (first mover disadvantage) and addresses the underlying structural root causes of low wages which play out across sectors and economies, including inadequate statutory minimum wages and the paucity or absence of collective bargaining.

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1. Living wage implementation process overview

The diagram below gives an indicative example of a process to implement a living wage commitment in supply chain operations. It assumes that the internal business case for the living wage has already been made, senior-level commitment and buy-in ensured, and - crucially - that the company is already taking steps to implement a living wage in their own operations.



2. Working with suppliers on living wage: what can buyer companies do?

2.1 Communications

Communication is key	Messaging used with suppliers will influence their willingness to engage	Messaging should reinforce the need to 'bring partners along' to foster constructive relations around a shared problem, and to focus on 'future-proofing' a resilient supply base and market, respectively. It will be important to involve procurement colleagues and in-country staff at all stages to ensure a coherent message to suppliers.
Foster trust, transparency and information sharing	Work on wages requires levels of trust and transparency which may not necessarily characterise all supplier relationships	Cooperation on wage systems may require (a form of) open-book transparency between customers and suppliers which is novel and demanding for both buyers and suppliers, and will also need to be properly calibrated so that such sharing is in compliance with applicable competition and privacy laws. This degree of cooperation and information sharing can only be developed over time. There may also be a need to incorporate a broader process to set expectations related to transparency at the tendering and onboarding stage for new suppliers or suppliers whose contracts are up for renewal.
Develop and communicate business case for suppliers	Living wages can only be paid by commercially sound businesses	Extract the lessons from early engagements, particularly where they have resulted in positive trends in workforce retention, engagement and motivation leading to quality and productivity outcomes which have supported a suppliers' business fundamentals. There could also be a step to communicate lessons learned/ good practices among suppliers to support implementation of the living wage commitment with the aim of emphasizing success and the business case for supplier participants.

2.2 Benchmarking

Align and harmonise with 'mainstream' approaches to Living Wages	Promote and support the IDH Living Wage approach and other recognised methodologies and benchmarks, including those developed by worker organisations	If the company is taking part/has committed to the IDH Roadmap on Living Wage or similar initiatives it will be able to accept all living wage benchmarks which have been recognised by IDH. The company can use this position to support public, no-fee access to these benchmarks. It can then encourage suppliers to use the online IDH Salary Matrix (this is a tool to identify possible gaps between workers' total remuneration packages and living wage recommendations) or similar.
Work with partners to keep wage benchmarking tools up-to-date	Develop or adopt an existing wage diagnostic tool and gather feedback from suppliers on usability and relevance and adapt accordingly	Diagnostic tools such as the IDH Salary Matrix help suppliers understand their living wage gaps. Companies can use external tools to help them validate that the information provided by suppliers on living wages is accurate, complete and internally coherent. Companies can also work with recognised benchmarks (e.g., Fair Wage Network (FWN), Wage Indicator, Living Wage for US and other partners) to ensure that the living wage benchmarks are regularly updated in light of inflation or other characteristics, and are shared with worker representatives to inform social dialogue on wages.

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2.3 Prioritisation and sequencing

Where to start?	It is not feasible for most companies to begin working across all (or even a significant section of) its supply base from day one.	Companies need to identify entry points and sequencing for work on wages in supply chains. Risk-saliency should be a key tool to identify priority 'hotspots', inherent country and industry risk as well as supplier capability should be assessed and then combined with leverage and feasibility criteria to identify not just the highest risk suppliers but those where it is possible to have a positive impact.
Not all suppliers are equal	There are obvious and significant differences in leverage and complexity between dedicated and non-dedicated suppliers	In likelihood, companies will need to take different approaches to support higher wages through purchasing prices and practices with non-dedicated suppliers. For this reason, prioritise initial efforts with dedicated suppliers.
Factor competitiveness concerns into prioritisation	Early (supplier) adopters of measures to implement supply chain wage commitments should not be unduly disadvantaged	Because for many buying companies, it is not possible to work from day one across an entire supply base, it will be important to ensure some form of 'risk underwriting' for early adopters. This could include committed long-term purchasing agreements, guaranteed minimum pricing/minimum purchase volumes or financial support contingencies.
Look for some 'quick wins'	The implementation strategy can be geared toward emphasising an early 'demonstration effect' which can support both an internal and supplier business case for engaging with this process	Many suppliers are sceptical that moving to living wage for all workers would be commercially feasible. It is therefore vital to identify some scope for 'quick wins' and to record 'what works' and the business case for investment in people. Creating effective demonstrations may depend in part on ensuring that early supplier selections do not disproportionately focus on contexts where the barriers to raising wages are highest. It may be useful to work with some (dedicated) suppliers with smaller, more achievable gaps, where there is a key opportunity emerging (new collective negotiations beginning, minimum wage revision, new capital investment by supplier) in order to create 'demonstration effect'.
Determine supplier wage targets	Develop protocol for engaging suppliers on the question of raising wages towards specific living wage figure	Include guidance on key process milestones and a menu of options for addressing common challenges. The process of engaging suppliers on the question of raising wages should acknowledge that achieving a living wage commitment requires incremental progression in wage growth, mindful of potential knock-on effect on local prices which could adversely impact workers' livelihoods. The company and the supplier can agree targets, timeframes and prerequisites before certain milestones are expected to be reached.

2.4 Maximising opportunities

Identify how wages fit in the strategic context of future-facing, resilient business	How can other key factors across the business support the living wage agenda?	Payment of unduly low wages is often cited as a failure of business models, which externalise cost and risk to the most vulnerable. It is important to take this seriously. In creating a smarter, more resilient business, buyer companies can support structural change which alleviates downward pressure on wages. For instance, supply chain optimisation or consolidation can increase leverage and increase scope for value transfer to wages, reducing the risk of 'compounding price escalation' through the supply chain.
How will costs be absorbed?	Depending on the scale of the 'living wage' gap, moving to living wages in supply chains may imply a significant cost increase	While some gains in value creation that can be passed on to workers could be made available through improvements in supplier efficiency and management capacity, it should not be expected that this will always cover the margin necessary to bridge the gap, nor is it sustainable to place the entire onus on the supplier. Buyer companies could develop a cost sharing commitment which indicates, for instance, that: <ul style="list-style-type: none"> • The customer can absorb some of the added cost – e.g. through higher unit Free On Board (FOB) prices or through volume commitments that provide certainty to suppliers on level of business supporting new payment practices • The supplier is expected to cover a portion of the difference • The remaining portion comes from efficiency gains. The position can be co-developed with procurement and accompanied by a process to incorporate living wages into commercial negotiations, recognising also the need to avoid giving perverse market signals which disincentivise value and quality. While in principle, moving to a living wage means incorporating the 'full costs of production' into supplier-side negotiation on price, it may be necessary to discuss and agree with senior leadership, buyers and other internal stakeholders what the buyer company will / will not explore when working with suppliers, particularly in terms of adjustments to purchasing practices with or without implications for (FOB) pricing. Having a clear mandate on what is in and out of scope for negotiation can support a more productive start to an engagement.
Assess scope to modify purchasing practices to support living wage payment	Review and determine potential scope for revising purchasing practices that could support longer term engagement with suppliers	In this context, 'purchasing practices' means fair terms of payment, reflecting wage increases in FOB prices, improving forecasting and planning, training and responsible exit. Here, it will be important to clarify internally what is on and off the table for negotiations. From the suppliers' perspective, price will tend to be a key variable. However predictable workflows and production efficiency (suppliers' ability to manage labour and labour costs) are also important enablers, providing opportunities for increased wages and regularised payment practices. Longer-term buying commitments can serve to underwrite some of the risks involved with suppliers making investments in their workforce. The continuity of trading relationships can support wage growth by allowing for longer-term partnership and engagement with suppliers.
Develop awareness and understanding of colleagues responsible for commercial negotiation / procurement	Modifying 'purchasing practices' means that staff who are responsible can – and will – integrate a company's Living Wage commitment into their commercial practice.	'Living wage' is an acid test of the integration or mainstreaming of sustainability commitments into commercial practice. It is crucial to closely engage and work with procurement colleagues to understand their concerns and levels of awareness of how purchasing practices can affect sustainability outcomes such as wage levels and working hours. Pending decisions on the nature and form of supplier expectations on living wage, there are a range of technical elements which will need to be covered (i.e. open-book costing, labour minute costing, ring-fencing labour costs etc) which will need to be properly calibrated so that such sharing is in compliance with applicable competition and privacy laws) to ensure that commercial functions can effectively support public commitments to living wage in the supply chain.
Consider how companies can support suppliers to improve their businesses	Support for suppliers can involve technical guidance, experience-sharing as well as co-investment and risk sharing	Boosting productivity is a central opportunity for increasing wages and, conversely, low productivity is a barrier to wage growth. Equally, low wages may be a disincentive for suppliers to invest in productivity-enhancing technology. Buyer companies can work with their supplier to set realistic, measurable and time-bound targets for productivity enhancements (see also 'safeguards against increased work intensity' directly below). These can then factor into negotiations around how much of the value/unit (representing the living wage gap) will be absorbed through productivity/efficiency offsets vs. how much will be covered through increased prices paid per unit. Further, ensuring or supporting improvements in HR systems is a pivotal focus point for promoting improvements in wages. Buyer companies can advise suppliers to take first steps towards laying the groundwork for developing improved pay systems. This could take the form of 'implementation guidance' on documenting wages paid, record keeping on benefits and discretionary compensation, consolidating benefits into wage, provision of wage-slips, digitising payments/supporting workers' financial inclusion and reviewing equal pay risks.

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2.5 Minimising challenges

Promote supplier safeguards to ensure that wage increases are not to the detriment of workers	Workers should not pay the price of increased wages through increased work pressure or intensity	It is crucial to ensure that wage increases are not achieved through unrealistic production targets, increases in working hours or overtime, or through other forms of work intensification. Make sure to reiterate the working conditions requirements under the buyer company's Responsible Sourcing requirements.
Ensure transparency of value transfer to wages	Systematic monitoring needs to demonstrate that creation and sharing of value is being transferred to worker wages	The logic of the living wage approach is that basic wages are the most effective form for workers to meet their needs and those of their dependents. Close attention therefore needs to be paid to outcomes for suppliers' workers (see 'Monitoring Progress' below) in order that the company can have a high level of confidence that value created or shared through modifications to purchasing practice or to supplier management systems and processes are effectively being transferred to the lowest-paid parts of the supplier workforce. In particular, a focus on the 'basic wage for regular working hours' is important to ensure that additional gains for workers are consolidated in a secure and reliable income, rather than as additional variable / contingent parts of remuneration, such as premia or bonuses.
Identify unintended consequences	Work with buyers and stakeholders to understand how to avoid potential unintended consequences	Engage buyers to understand what effects an increase in unit prices paid to suppliers could have on the business (e.g. how would added costs affect margins at different stages of trading?). The buyer company may also hold foundational or scoping interviews with local stakeholders, trade unions, industry associations, labour regulatory authorities or civil society groups to understand what the potential knock-on effects an increase in wages could have on the labour market, local costs of living or working conditions.

2.6 Monitoring progress

Develop Living Wage assurance processes	Ensuring effectiveness of the Living Wage commitment implementation requires a process to appraise overall progress towards achieving a living wage. This process should also include providing a window to recalibrate how much of the cost of filling the living wage gap is provided through efficiency offsets, and how much through higher purchasing prices.	This would be envisaged at two levels: <ul style="list-style-type: none"> • First, key actions agreed at the supplier level to enable payment of a living wage will need to be tracked with tailored key performance indicators (KPIs). These may relate to labour productivity, supplier profitability per unit produced, and the proportion of new value channelled through to higher wages for workers. • Second, a global method of tracking the degree to which the living wage gap has been narrowed will need to be developed. This can be a simple benchmark comparison of the lowest remuneration or median remuneration against the applicable living wage benchmark. However, there will need to be a process to ensure the completeness of the wage reporting (including all relevant subcomponents) and another to ensure the living wage benchmark is current.
Supplier-level reporting	Develop process for monitoring progress towards milestones with each supplier	The buyer company can work with its suppliers to monitor progress on activities and the status of their implementation. The framework should also include KPIs to monitor the expected outputs and outcomes (e.g. productivity enhancements, impacts of improvements in purchasing practices). Drawing on up-to-date wage data gathered using the diagnostic tool, the buyer company could then define a process to review how the wage gap has changed and share progress with partners.

2.5.1 Collaboration and coordination in case of non-dedicated suppliers

Collaborate to effect change for the whole workforce	Review potential for collaboration with other brands on wage increases in non-dedicated suppliers.	One key difference in relation to the approach for dedicated and non-dedicated suppliers is the focus needed on building leverage. Where a company purchases a minority (even if significant) of product from a supplier, building credible responses requires new forms of coordination and partnership between buyers. Engage with the legal department to consolidate the group's position on competition law (anti-trust) and living wage. (In the shorter term, the company can consider increasing the volume of a product it purchases from a strategic supplier it is aiming to work with.)
Work with other initiatives and platforms to support systemic change	The main root causes of low wages are beyond the sphere of influence of any individual brand	Collaborative initiatives – including IDH, and other initiatives such as the UN Global Compact, ACT, B4IG, AIM-Progress and others - can drive systemic change at both industry and government levels and can greatly inform and enhance individual company action on living wages, particularly in terms of exercising positive influence over minimum wage setting and scope for (sectoral) collective bargaining.
Remain mindful of, but not paralysed by, competition law concerns.	Maintain open communication with legal colleagues on any activities which could be construed as collusion or price-fixing	In the case of non-dedicated suppliers, anti-trust concerns are more complex, as most approaches to living wage would require some form of 'horizontal' collaboration between buyers in order to effect changes to purchasing practices that would enable payment of a living wage across the workforce and for the duration of production. Legal advice to Fair Wear Foundation, as an example, has suggested that these forms of collaboration do not constitute a competition law compliance risk, provided certain precautions are taken. Accordingly, consultation with legal advisors will be needed.