

# Supplier Tipsheet on Living Wages



## Note for buyers / brands:

This document is intended for supplier companies operating in global consumer goods supply chains who are working with one or more brands, retailers or customers that have a commitment to or interest in addressing low pay issues or achieving living wages for workers in the supplier company's operations. This includes manufacturing and processing facilities, as well as storage, logistics and distribution.

For buyers and brands looking to share this Tipsheet with suppliers, it assumes that the internal business case for the living wage has already been made within your company, senior-level commitment and buy-in ensured - including to modifying purchasing practices - and that, crucially, your company already has a commitment and steps to implement a living wage in their own operations. Buyer and brand companies who are not yet at this stage should refer to the IDH Roadmap.

## What is a living wage and why is it important?

Compliance with statutory and / or negotiated minimum wage requirements is a prerequisite for lawful business operation. In several countries, however, the legal minimum wage may not be sufficient to afford workers a decent standard of living for themselves and for their families. Low incomes may mean that workers and their families lack or have limited access to food, education, health care, housing or other essential needs. This is a brake on economic and social development and on value creation in the economy.

A growing number of businesses globally are making commitments toward achieving living wages for their own employees and for workers within their supply chains. A living wage means remuneration received for a standard working week which is sufficient to afford a decent standard of living for the worker and their family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.

## Why should supplier companies invest in living wages?

<b>BE A RESPONSIBLE EMPLOYER</b>	Ensuring that your workers can afford a decent standard of living is the right thing to do. Improved wages also support the economic and social development of the broader community around the workplace.
<b>MAINTAIN A STABLE AND SKILLED WORKFORCE</b>	Addressing wages can contribute to improved worker satisfaction, higher retention rates and therefore lower recruitment costs, better quality management and a safer workplace. And acting on wages can enable you to build your reputation as a responsible and attractive employer for new talent.
<b>DEVELOP SYSTEMS TO MANAGE BROADER WORKFORCE RISKS</b>	Developing wage management systems to deliver living wages serves to control broader risks, while maintaining and improving both workers' income security and employee turnover. For instance, inadequate wages may be a driver of excessive working hours, which themselves constitute a serious risk to worker health and safety.
<b>IMPROVE ACCESS TO MARKETS AND INVESTMENT</b>	Acting on wages can strengthen and deepen access to higher-value markets and buyers and meet the demands of other customers and investors.

## What can suppliers do?

There are several steps which suppliers can take - in dialogue with their customers - to support sustained improvements in wage levels and capacity to support wage growth.

Suppliers can:

- 1** Benchmark current wages
- 2** Identify the role of labour costs in the competitiveness of your business
- 3** Develop effective wage systems, and focus on social dialogue and worker engagement

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## 1.1.1 What is a 'living wage benchmark'?

- Estimated values of a living wage, living wage 'benchmarks', are published by various organisations using their own methodologies. To establish a living wage benchmark, these organisations gather data on local costs of, among others, food, housing, education, healthcare, transportation for a typical household. To understand the wage that is needed for one worker to meet the basic needs of their household, these costs are commonly divided by the typical number of wage earners in a family, and mandatory deductions (such as social security or taxes) are accounted for.
- A database of living wage benchmarks recognised as credible by IDH is available for companies to use to compare with wages paid to their workforce. Because the cost of living in a big city may be different than the cost of living in a rural area, local estimates can be especially useful. In the case of unavailable local figures, national or sectoral estimates can also serve as a useful point of reference.
- Note that there may be credible local benchmarks for the specific country or sector, such as those developed by workers' organisations.

## 1.2.2 How do I benchmark wages?

- Benchmarking wages depends on a fair and careful comparison of two elements:
- Data showing what workers are actually paid (effective wage data) on a guaranteed basis, for standard working hours, and:
  - A credible living wage benchmark that represents local living conditions and living costs.
  - As an example, suppliers can use the online IDH Salary Matrix or other similar tools. These tools can help to identify possible gaps between workers' total remuneration packages and living wage recommendations.
- The IDH tool makes a comparison between the total value of what employees receive in an average month (counting average working week hours, including gross monthly cash wages, bonuses, and in-kind benefits), against a living wage benchmark.
- Some elements of remuneration (overtime, non-guaranteed bonuses) are excluded from comparison. This is because the living wage concept signifies that a standard wage paid to worker for standard working hours should enable the worker to meet the costs of their basic needs. The rule of thumb is that when a payment or benefit can be reliably anticipated by a worker and is not discretionary, then it should form part of the wage for comparison against the benchmark. Other costs of employment, such as employer social security contributions or training costs, are not included in the comparison, as they do not directly serve to enable a worker to meet their economic needs.

- The IDH tool collects data on average total remuneration per job category. When a facility's payroll system allows, total remuneration can be collected per employee.
- More guidance on using the IDH Salary Matrix is available [here](#).
- Note that living wage benchmarks or estimates, where they exist, are an important diagnostic tool to identify and focus efforts on gaps. They should also serve to inform - not replace - evidence-based social dialogue, including collective bargaining, and facilitate the setting of wages considered as adequate by the parties involved.

## 1.2 Identify the role of labour costs in business competitiveness

**Having identified potential gaps between current basic pay and living wage benchmarks, it is crucial to identify what this means for your business.**

- **Review the role of labour costs in product costing and commercial terms:** The principal question for any supplier in most cases will be: who pays? There is a growing recognition that international retail and brand customers have a shared responsibility for addressing unduly low pay in sourcing locations. This includes commercial negotiation and broader purchasing practices, including contract duration, lead time and ongoing commitment. However, to work together with customers towards achieving a living wage commitment for your operations, there may be greater need for transparency on labour costs. Therefore, as a vital first step, it is recommended suppliers have an accurate assessment of their current labour costs as a factor of production, and the significance of any implied increases to these labour costs on product price: that is, the difference between current labour costs and labour costs associated with living wage payments. Customers can be expected to consider changes to pricing, purchasing practices, investment or direct support it can provide to share in the costs incurred towards closing the living wage gap.
- **Undertake a review of labour management and production efficiency capabilities.** It is helpful to identify opportunities and prerequisites necessary to enable payment of a living wage to allow you and your customers to decide where new investments could be usefully made. Globally, most suppliers in food and consumer good production operations should see some opportunity through making improvements and efficiencies to labour management practices and labour productivity. Well-designed and properly negotiated productivity and efficiency improvements can play a role in freeing up resources to support better wages. However, adjustments to productivity or efficiency can raise the risk of increased work pressure or intensity: programmes leading to higher production targets for workers need to be realistic and negotiated with workers or their representatives. Key opportunities include:

<sup>1</sup>ILO definition for working poverty

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<b>UPSKILLING</b>	<ul style="list-style-type: none"> <li>• Firms' ability to innovate depends crucially on their ability to adapt their production processes and the adaptability of their employees</li> <li>• Investing in workforce skills development can sustain a virtuous cycle of enhanced productivity leading to returns which can sustain higher wages</li> </ul>
<b>ENHANCING PRODUCTION PROCESSES</b>	<ul style="list-style-type: none"> <li>• Optimize the efficiency of workflow, team composition and organisation of labour</li> <li>• Implement planning and processes aimed at finding efficiencies such as reducing down-time, improving product quality or consistency, including workforce engagement formats (such as Improvement Circles) to identify and enhance workplace efficiencies</li> <li>• Consider scope for technological upgrading</li> </ul>
<b>INVESTMENT IN BUSINESS UPGRADING</b>	<p>Consider where there is the scope for:</p> <ul style="list-style-type: none"> <li>• Product upgrading: moving into more sophisticated product lines that have increased unit values</li> <li>• Functional upgrading: acquiring new chain functions, such as in-house packaging, design or marketing</li> <li>• Cross-sector upgrading: applying the competencies acquired from a particular chain function (such as competence in producing particular inputs, or in export marketing) to a new sector</li> <li>• HR capacity upgrading (training, new systems, technology)</li> </ul>

- Work with buyers and stakeholders to understand how to avoid potential unintended consequences: An emphasis on productivity improvements and capital investments (e.g. new machinery or new processes) which create higher paying jobs in traditionally low pay sectors, particularly if effected at scale, may entail job losses as a sector shifts to a higher productivity or higher value-added model. Fewer workers will be needed to achieve the same targets. It is advisable that suppliers engage with local stakeholders, worker representatives and 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.

## 1.3 Develop effective wage setting and payment systems

Effective wage management systems and the process of working with partners to achieve them, will enable factories to better identify and reward skills and productivity, while helping to ensure that workers know how much they should be earning. A clear and transparent wage management system should be seen as a vital part of and tool for human resource management, and contain the following:

### 1.3.1 Transparency on wage rates and calculation

- **Accurate payment of wages** according to contracts, legal regulations, and existing collective bargaining agreements, including full documentation of wages paid and hours worked.
- **Document progress:** It is important to properly document and collect verifiable information on wages paid and progress towards living wage goals. Such documentation can support verification and assurance processes.
- **Digitisation:** Where workers are currently paid in cash, explore possibilities to move to full digitisation of worker salaries, linked to digital working hours recording. Where one does not exist, investing in a computerised payroll system and payment through bank transfer can support the business to more easily track outgoings related to labour costs and manage deductions and contributions easily.
- **Consolidate different pay elements into one basic wage:** Living wage refers only to standard pay for a regular working week and does not include variable elements or bonuses which are not guaranteed or cannot be reliably anticipated by workers. The aim of working to raise wages should be to contribute to stability and income security for workers. It is therefore important to position any supplements to wages in terms of increases to the basic wage rather than one-off payments or bonuses. It is worthwhile to consider if there may also be scope to consolidate any variable elements of pay into the standard, basic wage.

### 1.3.2 Integrating strategic incentivisation into Human Resources (HR) management

- **Develop HR policies and processes** to ensure competitiveness, worker motivation and a positive workplace environment, supported by training of relevant managers and supervisors.
- **Develop a progressive and coherent pay system** that rewards workers according to their, skills, education, performance and experience, and ensures that there is no discrimination in pay terms on the basis of factors irrelevant to workers' ability to do their job, such as gender.
- **Develop skills-based reward:** developing a pay system which clearly reflect skills requirements for different occupations can help ensure transparent and equitable classification and payment of workers.

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## 1.3.3 Ensure that wage systems are comprehensive and up-to-date

- **Ensure pay systems are adapted to cover all workers** - including third-party / outsourced / contract workers (potentially though including wage provisions in service contracts) - and reward work effort and skills fairly, without discrimination, on basis of legal / basic working hours.
- **Regularly update wages in light of capacity increases and living costs.** Suppliers can be expected to ensure pay systems reflect local costs of living (and include revision mechanisms). Progress can be indicated by wage growth above the rate of inflation. Suppliers can also be expected to propose milestones - reviewed and supported by the customer - for a staged, progressive plan for wage increases for the lowest-paid towards a living wage. Suppliers can be asked to develop a plan for how raising wages for lowest paid will impact on wider differentials and how capacity gains (productive efficiency, lower new hire training costs, etc.) at different stages of the engagement will be utilised to enable pay increases. This will ensure that allowing an incremental shift towards higher wages does not mean delay.

## 1.3.4 Engage in social dialogue

- **Consider how to improve worker-management dialogue**, including on working time and wage issues, in line with local law, looking to build the capacity of HR staff to engage with workers, and further developing worker-management dialogue at the enterprise level.
- **Seek to support mechanisms for workers' involvement** in workplace decision-making. Involving workers and their representatives in workplace decision-making can generate a process of open communication and dialogue on a broad series of workplace issues which can foster a better workplace for employers and workers alike. Experience shows that workplace improvements are durable when workers are actively involved in the process.
- **Engage with collective bargaining processes on wage-setting.** Collective bargaining may take place at different levels - enterprise, industry or national. Wages which are set through collective bargaining at the industry or sector level can establish an equal playing field for all employers, and determine wages which correspond to the needs of both employers and workers in the sector. Collective bargaining has the advantage that it settles issues through dialogue and consensus rather than through conflict and confrontation.