Understanding lead company engagements on living wages: a quick review

An ISEAL briefing paper

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Why this briefing paper?

This briefing paper shares insights and learnings from a series of semi-structured interviews ISEAL conducted with 14 leading global companies engaged in living wage actions. It shares insights about company commitments, actions and interventions on living wages; their partnerships along and outside the supply chain; and the challenges they have faced in achieving their living wage goals. These interviews were carried out as part of a larger project ISEAL is implementing in partnership with IDH on strengthening sustainability standards and systems to advance supply chain action on living wages. We hope this note will be a useful reference both for companies and for sustainability schemes working to support company and producer action on living wages in this space.

The global focus on equity, a just transition and the rapidly growing need for transparency within supply chains has resulted in many schemes and companies now integrating living wage or fair remuneration goals into their strategies.

To understand the larger picture across supply chains and across different industries, it was essential to get feedback from a range of companies actively working on living wages, to gather their views, uncover their shared problems, and learn from their successes. This involved speaking to actors across the supply chain through semi-structured virtual interviews that lasted for at least one hour. The companies we spoke to are leaders in their sectors, and most have worked on living wages for many years. Our goal was to understand their goals, their strategies and their living wage journey across the supply chain, as well as to identify critical roadblocks and opportunities.

We believe that these insights will be useful in the work of companies and schemes, as well as in ISEAL’s own work with voluntary sustainability standards and schemes, ultimately helping to strengthen systems to support company and producer action on living wages.
Summary and key insights

Our interviews reveal that the interest, focus and action on living wages by supply chain actors has increased significantly in the last decade. While this is good news, it also means that companies now need the tools, information and partnerships to be able to implement and scale up their work on living wages at a global level – and do so credibly. This indeed is the key challenge – how to take work on living wages from niche, individual pilot projects and make it into business as usual in supply chains. Our research suggests that this will require open access to data and information; large-scale awareness-raising on the core principles of living wage; strengthening systems around assurance, measurement and claims; and collaborating for systemic solutions.

We found that there are important differences in the living wage goals set and implementation challenges faced by different types of supply chain actors; we explore these later in this paper. But there were also shared issues. Overall, there is a clear call for more streamlined and reliable verification and assessment of wages and gaps, publicly available living wage benchmark data, more comprehensive guidance on making credible claims, and a vital need to create a level playing field and collaborative action in this space. As expected, we also picked up differences across sectors which are at different stages of their living wage journey and which contend with structural constraints. In some sectors the challenge is to collect data at site level, while in others it is to verify wage data and living wage gaps.

Our interviews specifically explored company perspectives on making living wage claims, and we found important differences in the way this topic is approached. For example, for a retail company, a marketing claim is vital to their reputation in the market; however, from the producer side, this claim is difficult to manage year after year and opens them up to risk and more responsibility. This difference is important to work through, given the collaborative nature of work on living wages and the fact that no one actor should be taking credit for collective efforts.

The extent to which companies are working with and relying on sustainability standards, and the expectations from such schemes, were also explored. Partnerships with standards vary depending on the sector and scope of living wage commitments that companies have taken on. Despite this, it is clear that companies are keen for standards to provide more support on assurance, claims-making and reporting, and measurement areas. For schemes, this expectation from companies will need to be considered alongside expectations from producers and other stakeholders.

It was clear, however, from all companies we spoke with that the wheel is turning on taking worker wages and remuneration issues within supply chains more seriously. With producers needing stability and retailers needing reliability, communication and shared responsibility are needed to achieve living wages. Companies are shifting their strategies from the traditional buy-and-sell model to one of engagement with all areas of their supply chain, with collaboration and transparency at the core.
Review of company commitments on living wages

The variety of commitments made by companies on living wages is interesting, and all are ambitious. Most of the companies we spoke to want to make a public commitment on living wages or wages in general, and to share their journey with their supply chain partners and customers. All the companies support action on living wages, and the companies who are yet to make public commitments are either already working on internal strategies or believe living wages are already an intrinsic aspect of their supplier relationships.

Out of the companies we spoke with, half have made a public commitment on living wages. For the 50% that have no public commitment, 36% are working on internal commitments on living wages while the remaining 14% are including wages within a larger social commitment.

Public commitments vs Internal commitments

Among those we spoke to, consumer-facing companies such as retailers and large global brands have primarily decided to make public commitments on living wages or worker wages in general. In contrast, companies working more upstream and closer to producers had ambitious internal commitments. The journey of living wages highlights the challenges of putting deadlines on any commitment as living wage benchmarks are constantly changing (in response to inflationary trends for example). Concerns regarding unreachable deadlines were shared across many of the companies we interviewed. Even the companies who had made public commitments with swiftly approaching deadlines raised concerns over putting deadlines on an evolving and potentially unstable commitment.

![Figure 1: The percentage of companies making public vs internal living wage commitments.](image)

Many companies we spoke with raised the importance of managing their commitments in high-risk areas. Some mentioned the simpler option of focusing on countries and suppliers with already
higher minimum wages but stated that they have focused instead on high-risk areas as this will have the biggest human impact. Retailers and buying groups in particular stated that focusing on closing wage gaps with their most high-risk suppliers may make it harder to fulfil their commitments, but it will help their industries in the long term.

Some companies we spoke with which implemented their internal commitments in the early 2000s were hoping to go public with their progress; however, due to a lack of a credible verification process, they are not certain how to go about doing so.

Internally and externally, the goals are set across short timelines and are ambitious. Some companies have made public commitments to bridge wage gaps across their entire supply chains, and others have focused on specific products as a starting point.

**Commitments by product**

Some companies’ commitments, primarily internal ones, have focused on certain products. Ninety per cent of the multi-product or food retailers said that within their strategies they are focusing on bananas first, with tea and flowers next in line.

Tea and bananas were a focus for many reasons. Like tea, bananas have small profit margins and the farming is labour-intensive, meaning a systemic change is needed. Some companies are using bananas as a trial product before rolling out living wage strategies for other products. We also spoke with companies within the banana supply chain and discussed the great strides that have already been taken to help close the living wage gap. Decades of work in this area are now used as best-practice examples for other complex products. However, competition in the agriculture industry is sharp and margins are minimal, so even a US$0.02 rise in cost has a huge impact and could risk losing business.

**Commitment timelines and scope**

The scope of companies’ commitments differed significantly, but their timelines were similar. Some commitments started in the early 2000s, with considerable work underway behind the scenes. The earlier commitments were internal, with strategies that have become more ambitious over time. What may seem like later commitments had in many cases in fact been in operation for years, but were only made public in or after 2015.

2025 and 2030 are magic numbers for most of the commitments made: this could be connected to the Paris Agreement\(^1\) goals set in 2015 and the 2030 Agenda for Sustainable Development\(^2\) which was also launched in 2015. These global and legally binding agreements recognise that ending poverty and other challenges must go hand in hand with strategies that improve health and education, reduce inequality, and propel economic growth – and this is reflected in the commitments made by the companies surveyed.

One company discussed the impossibility of having a living wage without also having worker representation through social dialogue and mature industrial relations, stating that “the two are completely intertwined and inter-reliant”. Although we often hear of living wage commitments in isolation, many companies are considering them as part of or in combination with broader business

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\(^1\) [ADOPTION OF THE PARIS AGREEMENT - Paris Agreement text English (unfccc.int)]

\(^2\) [Transforming our world: the 2030 Agenda for Sustainable Development | Department of Economic and Social Affairs (un.org)]
strategies. This more extensive scope includes looking at purchasing practices, introducing more extended contracts, promoting better social dialogue, and improving diversity and inclusivity. Combining these factors is likely to make living wage outcomes more stable.

Many commitments were put in place between 2015-19, while some were even launched in the early 2000s. These commitments may have been realistic at the time they were made. However, since most of them were actioned the world has faced a global pandemic, unprecedented inflation rises, and an ongoing war in Europe. The companies we spoke with are worried that, due to today’s economic climate plus verification roadblocks, it may not be possible to attain their 2025 and 2030 goals.
Dynamics of supply chain action on living wages: the need for a holistic approach

A large part of our interviews focussed on the implementation challenges faced by leading companies in making progress on worker wages and remuneration within global supply chains. We learned that there are solutions available, but the clear need is for shared responsibility, a commitment across the supply chain to deliver higher wages, and sector-wide movement on the topic that takes both sourcing companies and buyers and producing companies and suppliers along the journey.

This section details the challenges mentioned by companies in implementing wage improvement strategies in complex global supply chains, which are often characterised with low levels of trust between different actors. Speaking to different sections of the supply chain, we heard different versions of the same problem. Common challenges included contract length, price negotiations, and lack of purchase order liability resulting in suppliers and producers not trusting retailers. However, companies were actively seeking solutions to these challenges, and it is encouraging that people are thinking differently about creating a more secure and stable environment in the supply chain – this will, in time, result in the structural change needed to advance worker wages at a sector-wide level. Below, we explore some of the key structural concerns that were raised by interviewees.

Contract length

Many companies highlighted the challenge of short contracts, which showed their customers’ (i.e. their suppliers and producers) need for more commitment from buyers, retailers and brands. Simply put, producers and suppliers need stability and buying commitments to be able to commit to paying higher wages. The risk to producers committing to this without long-term, reliable contracts with retailers, is that if a contract is broken or not renewed, or the producer needs to negotiate new contracts, they could be left in a vulnerable situation having already committed to paying higher wages.

We spoke to some companies who had worked on more extended contracts, such as five years instead of six to twelve months, which quickly resulted in a new level of trust and stronger relationships across the supply chain. This level of commitment, especially in agriculture where climate change is an increasing worry, gives producers more stability and longevity. Payment terms were also reassessed. Eighty-four per cent of the companies we interviewed said that improving their hiring and contracting processes was a key part of their strategy.

Price negotiations

From the buyer’s side, competition is key to successful negotiations; however, if a producer is vulnerable, they may risk agreeing to unrealistically low prices to keep contracts and stop orders going to their competition. This inherent power imbalance in the supply chain is crucial to understand and address when considering living wage strategies. In price negotiations, fixed costs – such as shipping and tax – stay untouched; labour, on the other hand, is seen as a cost to be negotiated. Negotiable labour costs mean that when producers try to win or keep orders, labour is the first cost to be reduced and is sometimes negotiated off the cost sheet altogether. One producer
we spoke to said they wanted to increase wages, which would increase the cost of their product by as little as US$0.02 – but they were worried about becoming uncompetitive, even with such a slight price increase.

**Purchase order liability**

Once price negotiations and other details such as delivery dates are settled, a purchase order is issued to the supplier or producer. In many cases, this purchase order is used to secure loans from banks or lenders so the producers or suppliers can cover their costs before being paid by the customer. A purchase order should be a legally binding contract; however, the recent global pandemic saw some purchase orders cancelled by retailers even once the orders had been shipped, resulting in the producer or supplier not getting paid. Legally, and depending on the fine print on the contract, if the purchase order is cancelled by the customer it is up to the producer or supplier to take legal action. However, a lack of finance and legal support, plus the risk of damaging chances of future orders, mean it is very unlikely for a producer to take legal action and win. This situation reduces trust with supply chain partnerships, making it harder to create a stable platform on which living wages can be implemented.

**Payment terms**

Both retailers and producers raised issues with payment terms as a focus for improvement. Payment terms can result in there being little to no capital available to pay workers, meaning producers have to take on bank loans to cover costs and salaries. The added interest cost on a fragile wage bill deters producers from making wage commitments. In many cases farms and factories are in developing countries, and the payment terms determined by retailers result in the producers financing the western retailers’ orders.

**Efficiency programmes**

Some retailers mentioned efficiency or productivity programmes as a positive way to improve supplier performance, ultimately leading to higher wages. Efficiency programmes can mean several things, from production line changes or purchasing better machinery to offering incentives to increase worker speed. However, suppliers and exporters voiced their concern about this subject. A producer’s efficiency within its farms or production lines is already of paramount importance to the success of its business, so efficiency is already a key priority in any producer’s strategy. When a third party implements its own efficiency programmes within an already well-managed supplier, it risks leading to complications with the supplier’s other customers, overworked employees, added pressure on workers and management, and general unhappiness across the company. The strategy also assumes that low wages are a result of low productivity – however, this is something that should be tested and verified rather than taken as a fact.

These concerns illustrate the need for companies and supply chain actors to take a multi-pronged approach to implementing living wage goals in supply chains. To enable such holistic thinking, IDH, as part of its **Roadmap on Living Wages**, recently launched a **Living Wage Action Guide**. This presents 12 interventions to advance action on living wages along with interactive guidance; we used the interviews as an opportunity to assess company actions against this framework.

**Review of company actions against IDH Living Wage Action Guide**

IDH has produced a list of 12 interventions covering solutions such as stabilising higher prices, improving social dialogue, and enhancing price and supply chain transparency. We asked companies
to talk through the actions they were taking on living wages in general, and to reflect specifically on the 12 interventions in IDH’s guide.

The table below captures the overall picture. Many companies identified supply chain interventions such as procurement practices, contracting and human resource (HR) practices, and price and transparency as key living wage interventions. It is noteworthy that many companies also said they were working directly on non-supply chain interventions such as social dialogue.

*Figure 2: The range and relative importance of living wage interventions mentioned by each company.*

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<td>5 Increase wages, bonuses and in-kind benefits</td>
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<td>7 Improve product quality</td>
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<td>8 Improve hiring and contracting practices</td>
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<td>9 Advocate for better policies in producer countries</td>
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<td>10 Advocate for better policies in consumer countries</td>
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<td>11 Enhance price &amp; supply chain transparency</td>
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<td>12 Use financial leverage</td>
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The second chart shows clearly which interventions are most used across the companies. Sixty-four per cent of companies consider that improving procurement practices is a key part of their work to implement living wage action.

Overall, our interviews suggest that the IDH Action Guide list is a good introduction to the range of interventions that can be considered to support living wages. One key message is that interventions all have a role to play as part of a package, and it is not always useful just to pick and choose the ones that are convenient or easy to work on. A few companies questioned the ‘buyer-led’, ‘supplier-led’ categorisation, as they were implementing interventions in partnership across the supply chain and did not want to undermine the concept of shared responsibility. Some companies voiced their concern that several of these interventions are not measurable enough for their contribution to closing the wage gap to be calculated. Finally, companies also asked for more guidance on what these interventions meant and how they could be applied in practice.
Company partnerships and the role of sustainability standards

Partnerships are essential to drive living wage goals, so we asked companies about who they partnered with to do this and how. A specific objective was to understand how and to what extent lead companies were using or partnering with voluntary sustainability standards as part of their living wage strategies. All the companies we interviewed mentioned their crucial need for partnerships and their reliance on sustainability standards. A shared appetite for collaboration was evident in all the companies we spoke with, but their capacities and expectations varied. Most brands, retailers or buying groups said they worked closely with sustainability standards, relying heavily on them for on-the-ground support with issues such as transparency and data collection. Producers relied on standards for guidance and advice on dealing with customer expectations.

Pre-competitive partnerships with peers

Many companies spoke at length regarding the working groups, industry coalitions, collaborations and membership organisations they were involved in that focused explicitly on living wages. Examples of these include ACT on living wage action, the United Nations’ Global Compact, AIM-Progress, the Platform for Living Wage Financials, the retailers’ commitments to living wages in bananas that IDH and GIZ support, and so on. The key point raised by lead companies was the strong desire to drive action on living wages with peers, and to learn from peers about their experiences and approach to the issue. One of the critical benefits repeated by many was that competitors are coming together to share learnings and challenges faced during their living wage journey. Many emphasized that working as equals with companies usually considered competitors was rewarding, and highlighted the need for more collaborative work across all industry sectors.

Supply chain partnerships

Companies closer to producers and working directly with suppliers, wholesalers, and producers highlighted the importance of their supply chain partnerships with workers and trade unions. Regular open communication with their workforce is their main partnership priority.

“We’re 100% committed to engaging with IDH and with GIZ and with all the retail partners, but first and foremost and most importantly with our workers and with worker representatives.”

The partnership between buying groups is a key focus across all the companies we interviewed, and working to build these relationships is essential. However, the relationship with their workforce was a big focus, especially in companies further down the supply chain. Working more closely with the workforce is important to build trust and encourage social dialogue.
Many companies working directly with producers talked about the importance of building equal partnerships with their workforce and being aware of the importance of shared responsibility. One company revealed that part of its strategy included asking many of its key strategic suppliers to sign a promise to close the wage gap and publicly talk about their commitment to the said company. This concept was inspiring on one level, but concerning on another as producers agreeing to such commitments could lose competitive advantage with their other customers and could also carry too much responsibility for the company’s success. This example again shows the importance of competitors working together to help reduce producers’ concerns over competition.

**Role of sustainability standards**

One of the main insights gained was the significant difference in scope between company commitments on living wages and the scope of sustainability standards that operate in sectors they worked with. For instance, a company commitment on paying a living wage to its own employees and immediate direct suppliers (mostly based in Northern or Eastern Europe or the United States of America) would offer little potential for partnership with sustainability standards that focussed their reach and footprint on developing country producers and suppliers. The most potential for partnership with sustainability standards currently active in the living wage space comes with company commitments on living wages that go beyond tier one of the supply chain.

There was a strong potential for partnership with sustainability standards in sectors such as apparel and with some agri-food commodity sectors such as tea, flowers and bananas. In these cases, company expectations of voluntary sustainability standards are high and extensive. Many consumer-facing companies stated that a key strength of sustainability standards is in having direct access to producers. This often means more on-the-ground knowledge – and as a result, more access to information and more transparency in conversations around living wages, which they found was a significant support.

Companies clearly stated that a key expectation they have of schemes is related to robust and reliable wage verification and data collection. A few companies mentioned they were frustrated by audits which didn’t examine wage issues in enough detail, or which missed cases of non-compliance. The burden of having multiple certifications and audits – as a result of both company and scheme audits – was also raised. Some companies made the point that schemes cover a range of issues in their standards, with the result that auditors are able to devote only a little time to exploring wage issues in detail. Finally, many companies highlighted the need for more trained auditors in this field and more transparency on wage data being shared by suppliers.

What is clear from many of the consumer-facing companies we spoke with is the scale of work needed to ensure the payment of living wages. Some have tens of thousands of suppliers, so working directly with all of them is not possible – which means they rely heavily on the work of schemes to help them. It is clear that pressure on schemes is growing as the deadlines for hitting company targets get closer.

**Pilot programmes**

Pilot projects in partnership with sustainability standards were the most common actions taking place regarding all aspects of living wage work. A few companies talked to us about their living wage
programmes, from engaging directly with workers on wage negotiations to adding salary bonuses yearly.

**Auditing, data and assurance**

Many companies talked about using regular scheme audits to help them start their living wage journey, assess the gap, and verify their progress. Both producers and retailers rely on this audit data to prove their claims and verify their progress. For this reason, understanding and collecting the correct data is vital. Companies want the schemes to collect and verify wage data. One issue is the sample sizes of wages in general ethical audits and the need for larger sample sizes.

The main issue raised, however, is the need for more confidence in living wage data. Simply put, retailers and brands want a third party to review their self-assessment or to verify the credibility of their own data. Since retailers already work closely with sustainability schemes in some sectors, the expectation is that these organisations would verify the wage data as part of their annual factory or farm audits, and thus assess progress on a regular basis. Schemes and audit companies are already responding to this demand, but the ideal scenario is for schemes to be able to fully integrate wage data verification into their regular audits, with the credibility, robustness, assurance, and oversight that third-party schemes provide.

**Advocating for policy change by governments**

Throughout the interviews, there was a clear call for more government support to increase minimum wages in line with living standards, and for improvements to in-kind benefits. Many companies talked about their involvement in government-run programmes, and many are trying to make a change. As one company said, one retailer cannot change the mind of a government, but maybe all of them together can.

It was clear that partnership and collaboration were at the core of many strategies, but aligning these partnerships is essential for them to work. A lack of trust on producer and assurance verification, repeated audits from different companies, and differing views of living wage strategies from different customers, make it difficult for producers to make solid progress.
Measurement and verification of progress against company living wage goals

Many issues were raised regarding measurement, verification and reporting of progress against living wage goals. Often, sustainability teams have been fighting to get action on living wages for years – but the recent increase in support from upper management has both benefits and pitfalls. Ironically, after successfully inspiring management and other stakeholders to support their journeys, these sustainability teams are now finding it impossible to measure and report on their progress.

Many companies said they initially expected that verification processes could generate the data and provide the assurance needed to report progress against targets, but they have since realised this is not feasible. Audits and verification processes generate one type of data, but there is also a need to put in place some specific indicators and monitoring systems, both on the part of the companies and of the schemes that support them. The question is what these indicators are, who can collect this data, and with what frequency it should be collected, in order to allow companies to demonstrate progress.

Overview of challenges

There were different levels of challenges noted around measurement – both in terms of measurement of wages and gaps, and of overall measurement of progress against living wage goals.

Challenges around measurement of wages and wage gaps:

- Knowledge, availability, and open access to reliable living wage benchmarks for the entire scope of company operations and global supplier base
- The existence of multiple living wage benchmarks for some regions and products results in contradictory results and confusion for suppliers and producers
- Lack of verification support on data from suppliers, and concerns around small sample sizes used by verification or audit companies
- The challenge of managing data collected from different sources which has been managed and sorted differently – especially as the retailers we spoke with were global giants with tens of thousands of suppliers
- Getting adequate meaningful data to assess gender pay gaps
- One unexpected critical challenge was that of measuring unmeasurable data. Many companies have worked on interventions that do have a part in closing the wage gap but which are also impossible to measure against, making it harder to discern which interventions are working and which are not.

Challenges around measurement and reporting against living wage goals:

- Lack of meaningful indicators to assess and report on progress at a company-wide level rather than at farm level
- Issues with aggregation of data from across different contexts (geographies or sectors) which could be at very different stages of progress on living wages
- Data collection and verification – who can do this best? Companies themselves? Standards or other implementation partners?
- The need for industry or sector-level indicators that allow an entire sector or peers within that sector to assess progress (similar to a sector ranking or benchmarking approach)

**Tools and initiatives developed to advance on measurement**

Unsurprisingly, when it comes to measuring wages and gaps at site level, the IDH Salary Matrix was the most popular tool. Companies talked about investing time into training their supply chain partners to input the data into the matrix. However, concerns about the credibility of the data submitted into the Salary Matrix tool were raised by several companies. This relates to the need for third-party data verification.

However, when it comes to reporting against progress at a company level, this is mostly being done in-house. Many companies use self-assessments, but agree that this is unsustainable from a credibility and capacity point of view. A few notable initiatives that have emerged to support companies in measuring and reporting against living wage goals are the work from Capitals Coalition and SHIFT on their concept of the Living Wage Threshold; the work by B4IG (Business for Inclusive Growth) and IDH on core indicators, such as the percentage of workers above or below a living wage benchmark or threshold; and the inclusion of living wage indicators in the World Benchmarking Alliance’s Social Progress Framework. However, all these initiatives limit their measurement of living wage progress only to a company’s own employees or to Tier 1 of the supply chain. A more comprehensive approach is taken by the ACT initiative in its Accounting and Monitoring Framework to assess and publicly report on living wage progress by leading apparel and textile sector companies.

An overarching concern raised was the fact that some actions are not measurable. Many companies feel that they have worked extensively on closing the wage gap, from paying more for primary products, to offering grants to improve housing or healthcare, to making direct monetary contributions to close the living wage gap at farms they source from. However, they are yet to find a straightforward way to consolidate their work to see how they have contributed to closing the wage gap. Due to this lack of measurability, it can be hard to continue to make the case for such investments internally – so they are concerned they will lose momentum in their overall progress.
Assessing company needs and views on living wage claims

One of the key goals of ISEAL’s current project is to help guide companies and sustainability schemes in making credible claims on living wage commitments, actions and change.

A couple of the companies we spoke to have started to make public claims on their living wage progress, but surprising only 36% of the companies we spoke to have it as a goal to make living wage claims on the product they produce or sell. One midstream company we spoke to raised concerns about retail companies potentially not wanting to have any legal liability for claims made on living wages, and therefore desiring to ‘outsource’ such claims verification to independent third-party schemes.

“There is a danger that living wages is viewed as a point in time, or as a level, and not a process”

A worry from producers is that retailers can put a label claim on a product and if the living wage number changes or negative feedback is received, the retailer can pass this down to the scheme that gave them the go-ahead to make that label claim. There is a risk that retailers will use certification as a proxy for being accountable for claims they make around living wages, so when things go wrong due to the fragile nature of any supply chain, the blame is passed down the supply chain.

It was also brought to our attention that consumer-facing companies could profit financially by using the product claim as an opportunity to charge the consumer more. This price increase is good news if the profit goes to the workers, but how this is actioned and measured is critical.

Figure 4: Living wage claims: actions and products
Talking publicly

The importance of the wording of commitments came through clearly in our survey. Some companies have chosen to simplify the commitment claim, making it easier to market to their customers. However, the detail may still need to be clarified for customers and producers. For example, if a company has committed to closing the wage gap of its own employees and Tier 1 suppliers by 2025 but has worded the claim as “Living wages for all our workers by 2025”, it would imply that the entire supply chain will be paid living wages by 2025. This claim would not only open the company up to accusations of exaggeration or outright dishonesty, but it would also risk undermining the real progress the company has in fact made, as ensuring living wages for all Tier 1 suppliers is already a considerable achievement for a large company.

‘No’ to product claims

We were surprised to speak to certain consumer-facing companies who wanted to avoid making product claims about living wages, and it was clear that their approach to making claims was related to the length of their engagement with the issue. The companies which had been actively working on living wages for longer were more hesitant to make claims, and instead supported the need for general company communication guidance. This was not because they lacked confidence they could close wage gaps (in many cases, these companies were strides ahead of the others), but it was rather due to their realisation that living wages are a dynamic journey with an ever-moving target.

There was general hesitation around making product claims regarding living wages. This could partly be due to recent public investigations into slave labour in the apparel industry and the subsequent consumer backlash, or it may reflect tightening legislation around product claims in some jurisdictions.

However, all the companies we surveyed wanted clear guidance on communicating their journey with their stakeholders, whether consumers or workers, and agreed on the central importance of transparency in claims.
Looking forward

Our interviews with these lead companies, many of whom are giants in their sectors, reveal a strong commitment to progress on living wage action. However, it seems the final push needed to close the gaps will be much more difficult than was first predicted. One interviewee called this a “broken system,” with workers in the most marginalised settings and locations being the most at risk of not seeing any real change in wage levels, especially in the current inflationary context. Companies are concerned that after years of work and despite growing commitment to address wage gaps in supply chains, progress on living wages may stop in the tracks because of a few roadblocks, such as those raised in this briefing.

From our conversations, it seems that it is reluctantly accepted that simply having a consumer pay more for a product does not translate into higher wages for the worker. This is due to many factors, including lack of market price stability, wage negotiations and competition, purchase order liability and climate instability, all of which mean producers are unable to pay increased wages or commit to them in the long term.

Before highlighting some ideas for the future, we have outlined some of the roadblocks mentioned. These need urgent solutions to retain commitment levels and spur peers into action.

What’s holding back action?

Every company is different, so for this reason, roadblocks and their possible solutions differ according to the perspective of each supply chain actor. Based on the conversations we’ve had with companies during this project, as well as ongoing conversations with sustainability systems, it is important that each roadblock and its possible solution should be addressed as a collaborative responsibility. Some of these roadblocks are discussed below.

Differing level and pace of living wage commitments

While increased collaboration improves action on living wages, having different actors moving at different paces also presents a challenge. Supply chain actors, especially at the start of the supply chain, have to deal with differing demands and expectations from different customers. It is clear that all parties need to work together to arrive at and deliver solutions. The continuation of peer-to-peer working groups can improve collaborative action and result in shared commitments and a unified pace of progress, taking everybody along on the journey.

Definition, language and terminology

The use of language around living wages can be misleading, which can result in misinformation. Despite important progress being made over the last decade in developing a commonly agreed definition of what a living wage is, a multiplicity of definitions and understandings of the concept continue to exist. Some companies mentioned concerns around minimum wage being called living wage, which can cause confusion when they discuss the subject with their producers. The same issue arises when verifying wage data: different auditing organisations use different wording to refer to
wages meeting living standards. It is clear that progress will continue to be slow until a common definition and understanding of the living wage concept are agreed.

**Multiplicty of benchmarks**

The increased number of living wage benchmarks, following different methodologies, has increased confusion on what data to trust and use. Some benchmarks are created using local field work and deep-dive research processes but have limited geographic coverage, while others are created by desk research but have more global coverage. Some companies don’t have time to review each benchmark to select the most accurate, so they choose the easiest. The desire for a benchmark database was requested by multiple companies at all levels of the supply chain.

**Scaling and speeding up work on reliable wage data verification**

This was a point raised by nearly every company we spoke with as the biggest obstacle they faced to meeting their living wage commitments. Companies took different approaches to managing this area: some talked about self-assessment and then third-party verification from onsite audits, while others relied solely on sustainability systems. Many asked if there was a better system in existence, or even just guidance to help them with the verification process. The development of the IDH Guidance on Auditing is a significant step, but it is restrictive in its scope and it focusses only on auditing data on living wage gaps, mostly through the use of the Salary Matrix tool. Some companies mentioned difficulties with internal capacity when doing self-assessments, and some raised concerns that certain audits only require a small sample size of workers to check wage payments.

**Lack of trust between different actors in the supply chain**

Many companies we spoke with said that trust within supply chains – or rather the lack thereof – is a real hurdle to collectively tackling a problem like low wages. While retailers and buyers are making significant commitments on living wages, they continue to push producers on prices. Concerns were also raised on the legitimate ways of advancing on wages – is top-down pressure through the supply chain or bottom-up negotiation through trade unions and social dialogue more effective? There is no easy answer to the question of trust, but it is clear that more work is needed in some sectors on engendering trust first before advancing on living wages. Alternatively though, perhaps living wages could be a good opportunity to engender more trust between actors?

**Ideas to further living wage action**

As noted earlier, there is a growing commitment to advancing on living wages. Important actions have been taken, from making changes to procurement, to new payment terms across the supply base, to more open communication across areas of the supply chain where this would not commonly have happened. Below we have captured some of the other ideas and innovations mentioned, from using blockchain technology to track transparency throughout the supply chain, to supporting producers to access more sustainable finance as well as better contracts and payment terms.

**Blockchain**

Some companies talked about using technology to provide a time-stamped journey of progress. Lack of capital to invest in this is an issue, but retailers and producers discussed collaboration with buying groups, and governments providing grants for producers to acquire better technology. A blue-sky thought was that producers who share their production floors with competitors – who in many cases are working together in groups such as IDH – could open up the conversation about shared financing for technology. This collaborative action would help the factory while providing the companies with...
transparency. Not only could this result in one platform for all, but it could also open up an opportunity to see from the source if wages are being paid straight into the salary payslips.

Collaborative auditing

Sharing the cost of audits across competitors or aligning with auditing bodies and benchmarks within a supply chain would financially help the producers. There is no need for multiple audits providing the same data, and more peer-to-peer communication with competitors could streamline audits, leading to considerable savings in money and time.

Clear guidance on verification and claims

All companies said there was a need for clear guidance and a gold standard for verifying and measuring.

Public availability of benchmarks

The companies we spoke with used different benchmarks, sometimes multiple benchmarks, across different areas of production. The reasons cited for choosing different ones included their availability, a need for transparency, greater credibility, and public availability. Most companies, regardless of their preferred benchmarks, talked about the need for transparency and highlighted the benefits of publicly available benchmarks. Some also raised the idea that living wage benchmarks should be rated on levels of credibility. A few companies talked about the salary matrix, and said that if the benchmarks were rated from preferred to less credible it would make it easier to decide which to use. Most companies across the supply chain highlighted there was a lack of time to review each benchmark, so support in reviewing them or simply providing a preferred benchmark would be helpful.

Concluding with collaboration

Regardless of the different hurdles companies face on their living wage journey, what is clear is their robust determination. Companies who would normally be competitors are coming together to support each other as well as producers and suppliers. This collaboration is vital, particularly in an area as fundamental as wages.

Some companies talked about being among the first to acknowledge living wages and said it was initially difficult to be a change-maker – but now that more companies are working on the problem, it’s becoming easier to turn goals into actions.

Companies said that in the early stages peer groups were uncertain of each other but that over time those relationships have become stronger, and transparent sharing of experiences and problems is helping them all with their living wage work.

We hope this paper serves as a useful reference for all actors working in this space, and that it highlights the need for collaborative action to drive movement on living wages globally.
Companies interviewed

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