

Accounting for Progress Towards Living Wages

Summary of Expert Consultations, June 2021

Introduction

In February 2021, Shift and the Capitals Coalition launched the joint project Accounting for Progress Towards Living Wages. The aim of the initiative is to develop an accounting model for companies to measure and report publicly on progress towards living wages for workers in their workforce and the first tier of their supply chain. The ultimate goal is to leverage the power of accounting to build incentive mechanisms that inspire companies to tackle wage inequality connected with their business. A living wage is the minimum income necessary for a worker to meet the basic needs of himself/herself and his/her family, including some discretionary income. This should be earned during legal working hour limits (i.e. without overtime).

In June 2021, Shift and the Capitals Coalition held two consultations to discuss early stage propositions regarding key inputs to the proposed accounting model, most particularly:

- How to categorize the workers covered by the model
- How to measure actual wages for workers in all categories
- How to select a living wage benchmark as a basis for identifying the workers for whom wage progress is most needed

One consultation involved representatives from 10 companies that are already working to advance living wages in their workforce, supply chains or both. The second consultation involved experts from a number of leading initiatives in the field of living wages, whether focused on methodologies for measuring living wages in different locations, or collaborating with companies to support progress towards living wages. A draft discussion paper was circulated in advance of the meeting containing a number of key propositions, which are set out in Annex A.

Participants in the two consultations are listed in Annex B. Both consultations were held under the Chatham House Rule. This summary report aims to capture the key ideas discussed and their implications for the project's next steps. A third and separate consultation was held with accounting experts and economists for which the primary focus was on an early-stage proposition for the accounting model itself and a range of premises that underpinned it. Key takeaways from those discussions can be found on [the project resources website](#), while points raised that are relevant to the elements listed above are reflected in this summary.

Key points of discussion

1. PURPOSE AND ADDED VALUE

Participants recognized and supported the complementarity and added value of this project in relation to other initiatives on living wages. However, various participants encouraged the project team to articulate it more clearly and consistently so that it was properly understood. The project team underlined the goal of extending action by companies on living wages beyond a handful of volunteer leaders, by creating the incentives, through public reporting, for change at scale. While the accounting model should be of value to companies' internal decision-making, the primary purpose was to develop a sufficiently standardized and simple model that could allow for all companies to report publicly on their progress toward living wages. As such, the audience for the model included public and private standard-setters and the investors who should have this information available to inform their decisions.

2. A FOCUS ON PROGRESS

There was general agreement on the value of focusing an accounting model on showing *progress* towards living wages and not just looking at the numbers of workers above and below that threshold. This reflected participants' general experience that it can take considerable time to achieve such progress, particularly outside of the directly employed workforce, and that positive recognition for results that companies achieve en route to living wages for all workers would provide much needed incentives for more change. It also reflected the fact that living wages constantly evolve with inflation, such that meeting living wages is itself a dynamic proposition.

3. FLEXIBILITY VS PRECISION

Participants repeatedly highlighted the value of adopting an approach that provides some standardization while also allowing for flexibility and potentially some 'comply or explain' approaches. Experience suggested that aiming for too much precision or a single approach had only ever led to inertia and the best becoming the enemy of the good. A 'good enough' approach should help show that any company can get going in making progress; and with so much progress to be made, there is no value in trying to define perfection.

4. APPLICABILITY ACROSS SECTORS

A few comments in the consultation highlighted that work on living wages has been happening primarily in a small number of sectors – notably apparel, food and beverage and FMCG. Participants pointed to distinctions in methods between apparel and food and beverage, not least because living income is the necessary framing when considering smallholders in food and beverage supply chains. The project team noted that for now the project was limited to wage-based situations.

It was remarked that any accounting model should be tested with wider industries, including B2B companies, to check its applicability and robustness in other settings. The project team noted that they would broaden company consultations in the latter part of the year, based on the next iteration of proposals.

5. DEFINING CATEGORIES OF WORKER

The discussion paper had highlighted three alternative approaches to categorizing workers, each of which had some pros and cons (see Annex A, first slide). The project team noted that the scope of the project extended to the first tier of the supply chain only, given the existing challenges with securing data even at that level, and the much greater difficulty at more remote tiers where there is no direct relationship with the employers concerned. Experts from companies and living wage initiatives overwhelmingly supported this approach from a practical standpoint. In the discussion with accountants and economists, it was noted that broader industry or national data could be used to extrapolate wage estimates for workers at more remote tiers of supply chains. The project team will consider further whether this kind of wider approach might have viability in a reporting context or is more appropriate for internal company assessments.

Participants expressed greatest preference for three categories of worker, separating employees from contractors employed by a third party, from workers working for first tier suppliers. There was particular support for calling out the category of contractors employed through a third party, given experience that these workers typically have poorer terms and conditions and less bargaining power than employees. It was noted that some companies had historically moved employees into such categories as a means to lower their own costs, leaving workers in economically precarious situations.

It was also noted that as companies roll out their programs to achieve living wages, they are likely to distinguish between contractors who do core work (i.e. similar or equivalent to employees) and contractors who do non-core work (e.g. providing cleaning, security or catering services). Indeed, there may be different internal functions handling each category, such as HR and Procurement. It was felt there may therefore be a need to disaggregate these two types of contractor in practice. Similarly, it was seen as inevitable that companies advancing living wages in their supply chains would start with one set of suppliers and then progress to others. So any model designed for public reporting would need to allow for this progression.

There was some discussion of the extent to which it could be left up to companies to create their own categories of worker, with the expectation being simply that they disclose what approach they use. Some participants highlighted a risk of manipulation if this was left entirely open. For example, some types of worker may be excluded, such as informal workers or those

on ‘apprenticeship’ schemes – both of which are categories that have been used to avoid wage and benefit requirements.

It was noted that there are certain categories of worker typically used in official national accounts statistics (such as used by OECD) and also categories espoused by the ILO. While recognizing that there are different drivers behind those categorizations, the project team will revisit how far an alignment may be possible without introducing too much complexity.

6. MEASURING ACTUAL WAGES

The discussion paper set out three principles that could guide how companies measure actual wages of workers. The principles aim to provide a sufficiently rigorous approach while also allowing for some legitimate flexibility (see Annex A, second slide). There was general agreement with the approach taken. The greatest debate centered around the challenge of securing data at the level of individual workers from third party employers/suppliers. One set of experience suggested that this was quite feasible and highly valuable in order to fully understand who the most vulnerable workers were in a supplier’s workplace, including gender-based discrepancies. Another suggested that it could lead to wide discrepancies in the data submitted by suppliers, such that a more productive approach might be to allow for wage averages to be used by role or rank.

The project team will consider the merits of the accounting model taking a more rigorous or more flexible approach. One option may be to expect worker-specific data for employees and even core contract workers, while allowing wage averages with regard to, for example, the workers of suppliers. It may also be that this is another area where a ‘comply or explain’ or a more open ‘choose and explain’ approach may be needed.

7. SELECTING LIVING WAGE BENCHMARKS

The discussion paper proposed some basic principles to guide the selection and application of living wage benchmarks (see Annex A, third slide). Selecting a benchmark (or benchmarks) will be essential when seeking to assess how many workers fall below this threshold and by how far.

There was general agreement with the principles articulated. Discussion focused around choices regarding the size of family based on which living wage estimates are made, and the number of earners assumed per family. The need for some flexibility on these factors was emphasized – not least in order for buyers to be able to get suppliers on board in sharing data. There was discussion of whether to set a default assumption such as one earner per family, while allowing a company to use a higher number if they state and explain that choice. This could have the benefit of recognizing that not all choices are equal.

Again, some discussion arose around the merits of having constraints on what benchmarks could be used within the proposed model, or instead leaving it to companies to decide and explain their choice. Views against full flexibility pointed to the need to recognize some kind of minimum below which a benchmark is not credible. The work of IDH to develop criteria for assessing methodologies behind benchmarks was seen as valuable in allowing both a minimum threshold and some flexibility of choice. It was emphasized that benchmarks should provide for workers' own voices in the process of identifying what constitutes a living wage.

There was general recognition of the limits on progress that arise from living wage benchmarks being behind a paywall. There was equally recognition that until some viable alternative for funding this work at scale and speed comes about, this is probably inevitable. In general, there was a strong sense that there is a strong need for progress in the near term towards publicly and freely available living wage data, enabling also smaller companies, including suppliers, as well as workers themselves, to have access to this information.

Until such a data base exists, the most critical factor, as judged by discussions, was that the *methodology* behind a benchmark should be publicly transparent, even if the resulting benchmarks were not. The project team hopes that success in scaling demand for company reporting on living wages may itself generate alternative funding models so that benchmarks can become a public good.

Across the board, participants underlined that differences between benchmarks should no longer be an excuse for companies not to get started on making progress. Indeed, single, indisputable figures for a living wage would never be possible. Rather, companies would be working within ranges of numbers, and would need to follow how they change with inflation. This should be accepted as integral to the nature of the task, rather than a reason not to get started.

8. SUPPORTING AND CONTEXTUAL INDICATORS

In addition to the propositions sketched out in the discussion paper, the consultations touched on the question of potential high-value indicators that could provide context to any company's reporting on progress towards living wages. The project team recognized that any data that sits in an accounting model will need to be supplemented with some information that supports its broader interpretation, offering insight into the company's wider approach to inequality.

Many participants viewed workforce composition, including on a gender-disaggregated basis, as particularly important disclosures. Workforce composition could signal what proportion of a company's workforce is in a precarious form of labor relationship. Information about the extent to which a workforce is covered by collective bargaining agreements was also seen as key, not least since such agreements are enforceable and provide an automatic means of updating wages over time. Pay ratios were also flagged as being highly relevant (e.g. CEO:median pay

and gender pay gaps). Some of this information would inevitably be easier to provide in relation to the company's own entity and may create challenges if applied also to suppliers.

The other category of indicator highlighted – in particular by experts in living wage methodologies – related to purchasing practices. Participants pointed to the fact that low-level wages are often seen as a problem with a company's suppliers, ignoring the strong influence of buying companies' own practices (e.g. through pricing, predictability of orders and payment terms) in making it easier or harder for suppliers to provide living wages.

The project team will review a range of potential supporting and contextual indicators and make some proposals for consultation in autumn 2021.

Next Steps

Shift and the Capitals Coalition are grateful to all participants in these consultations for their time and feedback on the early-stage ideas that were shared. Over the summer, the project team will be:

- a. looking at how best to integrate the feedback received into the further development of the proposed accounting model, and pursuing any additional research and conversations needed to enable that;
- b. researching and developing some initial propositions for the model's supporting and contextual indicators;
- c. bringing together in a single document (i) an updated version of the various inputs to the accounting model that are the focus of this summary, with (ii) the accounting model itself, as updated in light of the separate consultation with accounting experts [available on the project's [website](#)];
- d. conducting additional research into the business case for companies to advance towards living wages for their workforce and supply chains.

The project team envisages holding a second round of consultations in October with an expanded set of stakeholders. The document referred to in (c) above will provide the preparatory reading and substantive focus for those discussions. The project team hopes that this second round of feedback will provide the team with the further insights needed to finalize a beta version of the accounting model that can then be piloted by companies in early 2022.

As we continue our work in the months ahead, we warmly invite any and all further feedback on the issues addressed in this consultation summary. Please reach out to us at jana.mudronova@shiftproject.org.

Annex A – Early-Stage Propositions Used as the Basis for Consultations

Please note that these should not be taken as reflecting the current status of the project’s work, but were an input for consultations and basis for gathering feedback. That feedback, along with subsequent comments received from additional conversations, are informing the development of the work, which will be reflected in future outputs later in 2021.



Potential principles for measuring actual wages

- **Apply the basic wage plus any fixed additional payments that are guaranteed and paid to the whole workforce.**
 - Exclude overtime and non-guaranteed payments
 - If including in-kind or other non-wage benefits, use an established methodology to attribute a fair value and disclose the methodology used.
- **Source wage data directly from facilities.**
 - Use more general forms of wage information only to put wages in context.
 - Where direct data from suppliers is not yet available, report on progress towards obtaining it.
- **Wherever possible, workers should be consulted** in gathering wage data, either through their trade unions or directly e.g. through surveys.

Potential principles for assessing living wages

- **Select a living wage benchmark:**
 - a. **From among the leading providers:**
 - ✓ Fully-fledged Anker
 - ✓ Fair Wage Network Typical Family
 - ✓ WageIndicator Typical Family
 - b. **That is geographically applicable to the workers covered in the disclosure**
- **Disclose the living wage benchmark being used**
- **Apply the benchmark on the basis of one full-time wage earner**, or disclose and explain any adjustment made for additional family wage earners.

Annex B - List of participants

CONSULTATION WITH COMPANIES

Catherine Benoit Norris	Amazon
Sara Blackwell	Amazon
Agathe De Rain	Chanel
Severine Nickler	Chanel
Klara Helmbold	H&M
Yola Kiwok	H&M
Benjamin Gatland	Heineken
Whitney Mayer	Hershey Company
Julie Vallat	L'Oreal
Quirim Zink	Novartis
Miriam Ofira Mendelberg	Novartis
Yolanda Jenni	Novartis
Alexander Katz	Patagonia
Graham Clewer	Primark
Lindsey Block	Primark
Rachel Cowburn-Walden	Unilever

CONSULTATION WITH INITIATIVES

Tiffany Rogers	Fair Labor Association
Renee Bowers	Fair Labor Association
Daniel Vaughan- Whitehead	Fair Wage Network
Anne van Lakerveld	Fair Wear
Ronald Sanabria	IDH
Honore Johnson	IDH
Dilan Gurgur	Living Wage Foundation
Marco Mira	OECD WISE
Martin Buttle	Share Action
Charlotte Lush	Share Action
Mike Musaraca	The Income Inequality Project
Griet Cattaert	UN Global Compact
Colleen Connors	UN Global Compact
Mari-lou Dupont	UN Global Compact

PROJECT TEAM

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