Accounting for a Living Wage

Key Takeaways From Multi-Stakeholder Consultations, February 2022

About the Accounting for a Living Wage Project

In February 2021, Shift and the Capitals Coalition joined forces to form the Accounting for a Living Wage Project to develop an accounting model that companies can use to measure and report publicly on progress towards living wages across their employees, contractors and tier one supply chains. The project aims to complement leading initiatives that are developing living wages benchmarks and working with companies to support progress on living wages. Its focus is on developing robust but workable disclosures that could be included in reporting standards and benchmarks, as well as used internally in business decision-making, such that more companies are incentivized and rewarded for addressing living wage deficits in their workforce and supply chain.

In the course of 2021, the project team conducted extensive research and bilateral conversations with a range of experts, and held three group consultations in June to test some initial ideas and propositions as to how an accounting model might work. Summaries of the feedback received can be found here. Through the remainder of the year, the team internalized the feedback received and developed a more refined set of propositions.

In February 2022, the Project brought together 34 stakeholders from companies, accounting, multi-capital accounting, and living wage methodologies and initiatives to discuss the refined model, as set out in a paper that was circulated in advance and can be accessed here. The discussion took place in two sessions on February 9th and 11th.

About this document

This document summarizes the key feedback heard from the stakeholders who participated in the February 2022 consultations and indicates the ways in which this is shaping the project team's work in the final months of this initiative. The feedback is organized along six themes:

1. Overall framing
2. Scope of workers covered
3. Calculating actual wages
4. Estimating living wages
5. Practicality of disclosures
6. Additional suggestions

1. OVERALL FRAMING

A number of participants highlighted the need to balance the human rights approach and human capital approach in the introductory framing of the proposition for company reporting on progress towards living wages. While the language and framing of human capital can help some company practitioners to formulate an internal case for adopting the model, for other companies and stakeholders - particularly those conversant in human rights due diligence – it was felt that the grounding in human rights and implementation of the UN Guiding Principles on Business and Human Rights (UNGPs), was particularly important. Moreover the UNGPs set an expected standard of conduct for all companies with regard to respect for human rights such as the right to a fair living wage.

It was also suggested that the framing could be strengthened by including definitions of certain terms, such as 'well-being' and by more clearly highlighting the importance of including workers as active participants in wage-setting processes.

A further suggestion was to align the structure of the disclosures with the framework of the Taskforce for Climate-Related Financial Disclosures (TCFD) and the IFRS Foundation's Prototype on general requirements for disclosure of sustainability-related financial information. This was seen as useful in facilitating the potential uptake of the disclosures in international reporting standards.

The project team will reflect the suggestions regarding framing language and definitions in the final output, and will revisit the structure of the disclosures to follow more closely the framework used in the TCFD and IFRS Foundation Prototype.

2. SCOPE OF WORKERS COVERED

There was general support among stakeholders for the project's approach to the scope of workers covered under the model (employees, core contractors, non-core contractors and workers in the first-tier supply chain) and the categorization of the workforce as including both employees and core contractors.

However, one concern was raised regarding the language of 'core' and 'non-core contractors' on the grounds that the term 'non-core contractors' may be understood in a derogatory way. It is intended to refer to workers/contractors who are employed by third parties and whose workplace is controlled by the reporting company, but whose work is not part of the company's core operations. For example, it would address those workers providing ancillary services such as cleaning, catering and security.

After careful consideration and additional research, the project team has decided to maintain the current terminology and definitions. It is important to include these 'non-core contractors' within the model and yet there is not widespread support for seeing them as part of the 'workforce' of a company, as is the case for 'core contractors', so some distinction is required. A worker who is a 'non-core contractor' for one business will be an 'employee' for another: that is, these terms relate to the roles performed in the context of a business and not to the nature or value of the worker.

3. ACTUAL WAGE CALCULATION

With regard to the principles proposed in the paper for the calculation of wages, the following suggestions were made by participants:

a) It may be helpful to provide more in-depth guidance for companies with regard to the calculation of wages in general, and the valuation of in-kind benefits in particular, in order to ensure consistent approaches.
   - The project team recognizes the value of guidance on these points, yet sees this as something best coming from the leading initiatives that are already doing this work. Within the model, the team proposes to retain the current principles-based approach, setting clear parameters for acceptable methods, without becoming too prescriptive, but will look at clearly cross-referencing guidance resources in an annex.

b) Further clarification was sought with regards to wage calculation for part-time workers and workers with atypical contracts (zero hours or similar).
   - The project team will revise the guidance to ensure clarity that the calculation of wages for the purpose of the model should be based on full-time equivalence (FTE) for all workers. The accompanying disclosures on workforce composition will provide a means for seeing what proportion of employees are less than full-time.

c) There was a question about the use of annual vs monthly wages, since leading living wage benchmarks publish wage data as monthly wages.
   - While the project team acknowledges this reality, given that the context here is one of public reporting, it proposes disclosure of annual wages in order to align with wider corporate reporting practices.

The paper recognized that it may be impossible at present to get granular wage data for individual workers in the supply chain, and therefore proposed two alternative ways in which companies could calculate the living wage deficit pending improvements in data availability. The most basic method would use just the lowest wage paid multiplied by the number of workers below the living wage (which skews negative but would encourage progress in gathering more accurate data). The intermediate method would be based on the Fair Labor Association's approach of using the average wage per job category, which has been shown to be a viable approach in practice. Some participants expressed concern that using average wages per job category could obscure wages of the lowest paid workers. The project team recognizes this challenge. While it would not make sense to introduce a disclosure of the lowest wage in the calculation of the overall living wage deficit (since this specificity would be lost in the aggregation), it proposes to ask for the lowest wage for the disaggregated disclosures on the ‘priority locations’ identified by the company.

4. ESTIMATING LIVING WAGES

As with the calculation of wages, the paper proposed a principles-based approach with regard to the selection and application of a living wage benchmark. This tracks the work of leading initiatives in identifying common criteria among the most respected and generally-used benchmarks. It leaves some latitude for variation within specific methodologies, while also setting parameters.

However, the paper also proposed that benchmarks should be applied on the basis of just one wage earner per family. While many companies assume more than one wage earner, based on average family statistics in the jurisdictions where they work or source, the definition of the human right to a living wage assumes that one worker should, on their own, be able to earn a wage sufficient to sustain themselves and their family in a decent standard of living. The project team has been concerned not to imply that the human right threshold is in fact lower by assuming more than one wage earner in benchmark calculations.

The participants were divided about this proposition. Many recognized that assuming one wage earner is in line with the project’s human rights approach. It was noted that assuming more than one wage earner could particularly set back the cause of women workers in industries such as apparel, where they often do not have a second wage earner in the household, and already faced wage discrepancies vis-à-vis male counterparts.

Others were concerned about potential consequences such as reduced company uptake given that calculations based on one wage earner would show a more substantial living wage deficit and therefore a bigger challenge in closing the gap. There was concern that this would raise the barrier to entry for those interested in making progress, and make it harder for buyers to engage their suppliers if the deficit seemed too large to bridge.

Several suggestions were discussed, including the introduction of a phased approach, in which a company would start by disclosing the Living Wage Deficit using a typical number of wage earners (larger than 1) and move towards using one wage earner over time. Another proposition was that more than one wage earner might be used if the living wage was calculated to include child care.

The project team understands the validity of all the concerns raised. Given that the project aims to shape reporting standards, the project team considers it essential that the model should not dilute or undermine an international human rights standard, but also wishes to avoid creating unhelpful barriers to companies getting started on the journey of progress towards living wages. It therefore proposes to adjust the model’s approach such that the assumption will remain that living wage benchmarks are calculated on the basis of one wage earner, but leave room for companies to disclose and explain any decision to use more than one wage earner in their current approach.

5. PRACTICALITY OF DISCLOSURES

There was general support for the approach taken in the paper of distinguishing between ‘basic disclosures’ as those that could be taken into reporting standards immediately, and ‘expanded disclosures’, which are based on more recent innovations in the valuation of human capital. The expanded disclosures offer methods that companies can apply internally to gain greater insight into their impacts, with the potential for inclusion in future reporting, once further tested and developed.

A. BASIC DISCLOSURES

There was discussion of the number of basic disclosures suggested in the draft paper and whether they would be too extensive and complex, in part due to the challenges of data collection. The project team noted that, in recognition of the time needed to gather data, they had introduced a number of ‘on ramps’ in the disclosures. These include both the ability of a company to start with one category of worker (e.g. employees) and progress to cover others over time (while indicating a timeframe in which it will do so), and the allowance for using basic or intermediate methodologies when gathering wage data for workers in the supply chain.

The project team proposes also to scale back the request for disaggregated disclosures on ‘priority countries’ (those where the living wage risk is greatest), such that the expectation would be just to cover three priority locations for the workforce, and three for the first tier supply chain (assuming these workers are included in the scope of the company’s reporting). Other participants noted that there may be too *few* priority countries for a large company in dozens of jurisdictions. The model will make the three countries a minimum, while allowing for more to be included, but not requiring more given the concern to keep things manageable.

With these various provisions, the model should allow that any company can start measuring and reporting progress and build out its disclosures over time, as it manages to secure better data for more workers. Through the provision of year-on-year data, companies will be able to demonstrate the progress they are making towards living wages, including against any target they have themselves for closing the Living Wage Deficit.

A question was raised regarding the use of local currencies, as against US dollars, for country-level disclosures. To avoid potential distortions, it is proposed that the model should follow the financial reporting approach to currency exchange, which uses the average exchange rate for the given year. The project team also proposes that for priority countries companies will be asked to disclose the living wage threshold and deficit in local currency as well as US dollars.

All of these approaches will be tested in the piloting phase of the project

B. EXPANDED DISCLOSURES

There was a broad agreement among the participants that measuring the impact of underpaying wages on society is an important element of the project's proposition. However, the participants also suggested the need for a clearer narrative to expand further on the value and the logic behind the proposed calculation. Some suggested the need for additional caveats regarding the choice of the 'health utility of income' (HUI) as the methodology to calculate the impact on the well-being. The project team noted both that the HUI was an illustrative example, rather than a sole proposition, and that there was currently no ready alternative with data available at the global level, albeit the hope is that some will be developed. The team will reflect these suggestions in the final output, as well as expanding the rationale behind the proposal to use a global value for a disability-adjusted life year (DALY) rather than applying purchasing power parity (PPP).

While there were suggestions to expand the current model to measure also positive impacts on the business of paying living wages, as well as the positive impacts of wages above the living wage threshold, the project team considers these elements are beyond the scope of this initiative. However, Shift has been collaborating with Business Fights Poverty, the Cambridge Institute for Sustainability Leadership and Harvard Kennedy School's Corporate Responsibility Initiative in the development of a paper on the business benefits of paying living wages, which will be launched at the World Economic Forum in May 2022. The project team has also maintained close liaison with the Impact Weighted Accounts project at Harvard Business School, to build complementarity between this project and their broader initiative to look at multiple measures of the impact of employment.

6. ADDITIONAL SUGGESTIONS

The consultations brought several additional suggestions, which the project team would like to acknowledge. These included:

- Developing a guide to existing company tools to pay living wages: the team will provide an annex that cross-references leading initiatives in this arena.
- Guidance on how to include voices of workers in the living wage journey: the team agrees with the central importance of doing so and has embedded that within the principles for measuring wages and selecting benchmarks. Beyond this, the practical initiatives working with companies are best placed to help drive this forward.
- Guidance or disclosures on the internal governance of strategies to advance living wages: the team will consider how it could include some relevant governance disclosures, in line with common reporting requirements.

Next steps

The project team is deeply grateful to all those who took part in the consultations as well as the many who have provided bilateral input to the project to date. The feedback received will feed into the final output of the model.

The next step is to finalize the disclosures and present them in the form of a prototype that can be tested by companies. The project team will be reaching out to companies that have already indicated a wish to be part of this piloting in Q2 of 2022, and welcomes any additional expressions of interest. The project team will also continue its consultations with stakeholders, and expand them further to include more companies, investors, reporting standard-setters, benchmarks and ratings.

Annex- List of participants

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Catherine Benoit Norris	Amazon
Charlotte Lush	Share Action
Daniel Vaughan- Whitehead	Fair Wage Network
Griet Cattaert	UN Global Compact
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Johan Genneby	H&M
Jonathon Hanks	Incite
Julie Vallat	L'Oreal
Katie Panella	HBS Impact Weighted Accounts
Kea Tijdens	WageIndicator
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Marta Anker	Anker Methodology
Martin Buttle	Share Action
Michael Musaraca	The Income Inequality Project
Michelle Murray	Living Wage for US
Priya Agrawal	Unilever
Richard Anker	Anker Methodology
Richard Barker	Saïd Business School
Richard Spencer	ICAEW
Ronald Sanabria	IDH
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Sam Vionnet	Valuing Impact
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