


Living Wage

A concise guide
to understanding
the concept and
integrating it into practice.

What is a Living Wage?

A *living wage* is the remuneration received for a standard workweek by a worker to afford a decent standard of living for the worker and their family - no overtime should be required. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, unexpected events, and other essential needs. Living wage calculations should account for the localised cost of living, specific to a time and place, and also for the contribution of other wage earners, as well as taxes and deductions (see Table 1).

Table 1: Calculating a Living Wage Estimate



Living Wage Estimate

Cost of Basic Needs

Cost of Taxes

Working Adults

Source: Based on [IDH definition](#) of a living wages estimate. See 1.1, “How living wages are Calculated”. Calculation of living wage estimates may vary depending on the methodology selected by a company.

Living wages differ from minimum wages. While minimum wages are legally required, the earnings are not typically enough to provide a decent standard of living to cover essential needs.

Despite [millions](#) of people surviving on low wages, a global shift is emerging towards living wages. A [2023 PwC international study](#) depicts that 24% of 205 respondents pay a living wage globally to their own, direct workforce, and another 54% plan to over the next five years. By contrast, fewer than [23%](#) of respondents include their supply chains in their living wage commitments.

Living wages for all, direct employees and supply chain workers, would help break the cycle of poverty and reduce related human rights risks while boosting business [productivity](#).

Why are Living Wages Good for Business?

Various factors influence businesses to adopt living wages. The momentum is mainly driven by the business case, ethical motivations, and a mix of external pressures - this includes responsible business [requirements](#), stakeholder expectations, and rising cost of living.

Figure 1: Factors Influencing Business Adoption of Living Wages

BUSINESS	ETHICS	OTHER
Boosts productivity & quality of performances	Promote international Human Rights	Upcoming pay disclosure requirements
Lowers absenteeism due to better health and higher commitment	Counteracts gender pay gaps that puts women at a higher risk of poverty	Helps workers address the rising cost of living and inflation
Talent attraction , reducing job offers rejection rates	Adhere to the UN SDGs, the UNGPs and the OECD Guidelines	Consumers and investors scrutiny
Talent retention lowers production costs	Promote pay fairness	ESG commitments
Reduction of labour unrest and work delays due to better worker relations		
Competitors meeting global living wage stand out in the industry		

Research demonstrates the business case for living wages. Wage gains of [4.2% to 9.7%](#) are shown to translate into profitability, with increased productivity of [8% to 10%](#) and decreased employee turnover*. Case studies support this growing body of evidence (see links below in “Build a Business Case”). [PayPal](#), for example, attributed past growth to its decision to pay ‘decent wages’ to all employees. According to the Living Wage Foundation and the Cardiff Business School, [90%](#) of consumers were more likely to buy a product or service from an employer that paid a real living wage.

Investors are also inspecting businesses on living wage issues. This includes:

- The Dow Jones Sustainability Index;
- JSE Sustainability Disclosure Guidance;
- PLWF Alliance.

Much of the [appeal is linked](#) to the social topic’s potential for easy measurability. Moreover, a survey of 1,532 employers demonstrated that [62% of investors](#) emphasise investment in employees, specifically regarding Living Wage Employer accreditation, as an important factor in their decision-making.

Wages are still a strain on the relationship between businesses, factory management, and workers. While worker productivity trends are on the rise globally, financial gains are still not trickling down to workers. This results in a perpetuation of poverty among those most vulnerable, human rights issues, and a degradation of potential profits.

*This research noted that in addition to paying workers more, the payment must be “...delivered through a more transparent, fair, and Lean-aligned compensation system...”

How to Integrate Living Wages into a Business:

1 Build a Business Case: Building internal alignment among senior leadership, shareholders, and colleagues from various teams - including Procurement, Human Resources, and Compliance - is an essential first step. In addition to understanding where a business stands relative to Figure 1 above, consider the following steps: (see table on the next page).

What should you do?

Ressources

1

Take a **self-assessment** to capture a baseline of your starting point.

- UN Global Compact, [The Living Wage Analysis Tool](#)

2

Identify relevant case studies that capture the opportunity (monetary and non-monetary)) and broaden understanding. Keep in mind that priorities and concerns on Living Wage will vary depending on the business unit.

- [IDH](#) case study database.
- [Global Living Wage Coalition](#) case study database.
- [Living Wage Foundation](#) case study database

3

Address the **biggest barriers** to paying a living wage:

- **Cost** - Current cost vs. future cost adjusted for inflation, cost of living, and volatile economies.
- **Lack of data** - Reliable, consistent, and up-to-date data required for multiple territories, pay grades, and pay inequities (gender, ethnicity, etc.)
- **Complexity** - adopting a robust methodology, the size of the exercise (e.g., due to numerous markets and number of employees), decentralised pay policies (e.g., differing data formats & sources of payroll and HR data.)
- **Impact** - Ensuring ring-fenced payments reach workers instead of being absorbed by suppliers' profit margins.

- PWC & WageIndicator, "[Living Wage: An emerging standard](#)", 2023, page-9.
- In 2025, [Wage Map](#) will launch globally comparable, locally specific living wage benchmark data.
- Common databases like [WageIndicator Foundation](#), [FairWage Network](#), and [Global Living Wage Coalition](#). (More information under "4. Close the Living Wage Gap", below.)
- Fairphone, "[Fairphone's Guide to Paying Living Wages in the Supply Chain](#)", 2022, pages-14-16.



- Frame the initiative internally as "*responsible compensation practices*", not as "*living wages*".
- emphasise the initiative as a phased, data-driven process to minimise disruptions and to progressively address systemic wage gaps.
- Consider adopting a two-way Codes of Conduct that holds both suppliers and the company accountable.

2 Conduct a Risk Assessment: A risk assessment can identify where low wages are most prevalent. AimProgress [Living Wage Playbook](#) (page-18) can help companies prioritise living wage activities.



Keep in mind several factors can exacerbate low wages when conducting a risk assessment:

- Purchasing practices that lead to excessive overtime, which is often linked to forced labour
- Insecure contracts between buyers and suppliers
- Seasonal labour/demand
- Minimum wage non-compliance due to weak enforcement, locally
- Exploitative piece-rate payment systems
- Complex wage structures incorporating wage deductions, etc.
- Discrimination against women, migrants, and disabled workers
- Excessive worker recruitment fees, oftentimes compounded by passport retention, which is often linked to forced

Tap into dialogue with workers, unions, and other stakeholders to understand risk at a local level that is sensitive to cultural context.

Understanding the link between living wages and recruitment processes is essential to risk assessment. Many workers pay high, up-front fees to secure a job. This leaves many indebted for months or even years, in extreme cases. If a company, or its suppliers, have [publicly committed](#) to responsible recruitment in line with the [Employer Pays Principle](#) (i.e., recruitment costs should solely be borne by the employer, not by the worker), this risk is low. If, however, recruitment processes leave workers in debt, their wages are reduced by recruitment loan repayments and they are likely unable to cover their basic needs. This interdependence between recruitment fees and low wages is key to assessing risk in a supply chain.

3 Prioritise, Commit, and Communicate: Once a company understands its unique risks, it can prioritise actions within a refined living wage strategy, and communicate these commitments. Depending on the company, public commitment may come at a later stage. For a step-by-step guide, refer to AimProgress' [Living Wage Playbook](#) (page-11).



Look to other companies, including competitors, to see how living wage commitments are framed.

Take a phased approach by extending living wage policies to a limited set of risky markets in the company's direct operations and then extend to the supply chain. A progressive, data-driven approach is more feasible to garner internal support and scale learnings by failing forward on a small scale to minimise disruptions.

4 Close the Living Wage Gap: The [Roadmap on Living Wages](#) is a one-stop platform, developed by IDH and various partners, to support companies on their journey towards implementing a living wage. These five steps and tools from IDH and others, provide companies with action-oriented guidance.



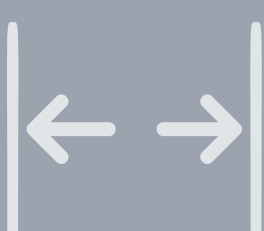
Identify the Living Wage



Measure the Living Wage Gap



Verify Your Calculation



Close the Gap



Share Learnings

1

Calculate the living wage by selecting a robust methodology and credible benchmarks for each market sourced from.

- [Living Wage FAQs](#).
- Select a [benchmark methodology](#) verified by IDH.
- Find benchmarks for each country sourced from. Credible benchmarks have been compiled. by [IDH](#) and the [Global Living Wage Coalition](#).

2

Measure living wage gaps by comparing the total remuneration of a company's workers to region-specific living wage benchmarks.

- [General information for this step by IDH and by Aim Progress \(pages 22-28\)](#).
- [IDH Salary Matrix](#).
- [Salary Matrix E-Learning by IDH](#).

3

Verify living wage gaps.

- [General information](#) for this step by IDH.
- IDH's [Guidelines for Auditing](#) are minimum procedures for auditing wage data and wage gaps.
- IDH's [Base Report](#) is the evidence auditors use to verify wage data and wage gaps.

4

Close the gap by identifying interventions most suited to your supply chain.

- The [Living Wage Action Guide](#) by IDH.
- Aim Progress' [Living Wage Playbook](#), pages 29-35, identifies various additional resources.

5

Share learnings and best practices publicly while continuing to learn from peers and experts by regularly participating in conferences and webinars. Colation is key.

- Check for event announcements on [Wage Indicator](#), [Global Living Wage](#), and [Wage Map](#).
- Participate in [Living Wage Week](#) events hosted by the Living Wage Foundation.
- Participate in [The Living Wage & Living Income Summit](#) hosted by IDH.
- Collabourate with peers via the [Mekong Club's](#) Living Wage Working Group, [ACT](#), and others.



- Consider addressing living wage challenges pre-competitively alongside other brands.
- Engage stakeholders (e.g., suppliers, NGOs, and governments) to create systemic solutions adapted to local markets.
- Worker consultation, especially via unions, and internal alignment are essential.
- Support suppliers by aligning wages with production metrics and worker needs to promote wage management.
- Embed living wage costs into buyer pricing models.
- Integrate living wage costs into product pricing
- Foster partnerships to address regional and industry-wide challenges.

5 Monitor & Disclose/Report: Tracking performance is key to evidencing the business case for living wages and ensuring impact. Refer to AimProgress' [Living Wage Playbook](#) (pages 36-40).



Review isreal's [Making Living Wage Claims](#) (2023) to avoid claims that potentially harm workers, undermine public trust, and lead to legal sanctions.

Use living wage indicator examples from the OECD's [Handbook on living wage and Incomes](#) (page 58, Table 4). These are tailored to the garment and agriculture sectors and can be used as a base and adapted.

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