

Living Wage: Overcoming the challenges

The role of pension funds



About VBDO

The Dutch Association of Investors for Sustainable Development (VBDO) is a not for profit multi-stakeholder organisation. Our mission is to make capital markets more sustainable. Members include asset managers, NGOs, consultancies, trade unions, insurance companies, banks, pension funds and individual investors. VBDO is the Dutch member of the international network of social investment fora (SIFs). VBDO believes that sustainability has to be embedded in the capital markets. VBDO's activities target both the financial sector (investors) and the real economy (investees) and can be summarised as follows:

Benchmark

Benchmarks are an effective instrument to drive sustainability improvements by harnessing the competitive forces of the market. They create a race to the top by providing comparative insight and identifying frontrunners, thus stimulating sector wide learning and sharing of good practices. VBDO has extensive experience in developing and conducting benchmarking studies. VBDO has conducted annual benchmarking exercises; for example, since 2007 the benchmark on responsible investment by Dutch pensions funds, and since 2009 responsible investment by Dutch insurance companies. This has proven to be an effective tool in raising awareness about responsible investment and stimulating the sustainability performance of pension funds and insurance companies.

Currently VBDO is assessing the feasibility of an international responsible investment benchmark, which would focus on pension funds and insurance companies. VBDO is one of the founding partners of the Corporate Human Rights Benchmark, which ranks the 500 largest companies worldwide on their human rights performance. The information is made publicly available in order to drive improvements. VBDO's Tax Transparency Benchmark ranks 64 listed multinationals on the transparency of their responsible tax policy and its implementation.

Thought leadership

VBDO initiates knowledge building and sharing of ESG-related issues in a pre-competitive market phase. Recent examples of this include: three seminars on strategic asset allocation; the development of guidelines on taking Natural Capital into account when choosing investments and organizing round tables about implementing human rights in business and investor practices.

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Since its foundation more than 20 years ago, the core activity of VBDO has been engagement with 40+ Dutch companies listed on the stock market. VBDO visits the annual shareholders' meetings of these companies, asking specific questions and voting on environmental, social and governance (ESG) themes. The aim of this engagement is to promote sustainable practices and to track progress towards the companies becoming fully sustainable, thereby providing more opportunities for sustainable investments.



Living Wage: Overcoming the challenges

The role of pension funds

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Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events



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Foreword VBDO



Angélique Laskewitz

VBDO is pleased to present this report on living wage to FNV, the largest Dutch trade union. In this research VBDO investigates if and how Dutch pension funds take living wage into account in their (responsible) investment process.

Living wages can contribute to reducing poverty worldwide. In many developing countries legal minimum wages, provided they exist, are too low to meet the basic needs of a worker. Those workers are exposed to a multitude of risks ranging from child labour to working excessive overtime. Many companies are exposed to the risks of low wages in their own operations, but usually to a much higher extent in their supply chains. Institutional investors carry a responsibility in addressing this topic.

While living wage is increasingly a topic on the agenda of companies and institutional investors, acting on it still poses many challenges. This study aims to help pension funds in overcoming those challenges and aims to offer them the tools to start addressing the issue of living wage. We also hope this study offers more insight in the materiality of living wages for the investment community.

I would like to thank our sponsor FNV and hereby also thank the participating pension funds and their asset managers for their valuable contributions.

Angélique Laskewitz

Algemeen directeur VBDO

Foreword FNV



Coen van der Veer



Tuur Elzinga

The Dutch trade union federation FNV has a large number of trustees in sector-wide pension funds in as well as the public as the private sector in the Netherlands. FNV trustees act on behalf of employees and retirees. As such, we have a major role in establishing and managing pensions in the Netherlands and our trustees have considerable influence on the investment policies of their funds.

FNV's pension policy includes the very important basic principle that pensions must be invested fairly and equitably, in other words, in a socially responsible manner and all pension funds must develop their own environmental, social and governance (ESG) policy.

The 'S' in ESG is very important to the FNV and the ITUC (International Trade Union Confederation), not only because it is the trade unions' main sphere of activities, but also because studies have shown that, in general, the social component in investment policies receives (too) little attention.

Last year, the Dutch Association of Investors for Sustainable Development (VBDO) investigated the way pension funds in the Netherlands determine how companies in which they invest deal with employees' freedom of association and their right to collective bargaining. We learned from that study that there is still a long way to go to fully include these two fundamental labour rights in their investment policies. FNV decided to take action by developing a roadmap for our trustees to help them put these subjects firmly on the investment agenda.

This year we asked VBDO to conduct a study into living wages as a part of the decent work agenda and to investigate the way in which pension funds cope with this topic. Living wages are a particularly important issue for international trade unions. Our focus is on the global struggle for a living minimum wage and raising sub-standard wage levels for all workers. We urge governments across the globe to heed the call from working women and men for decent wages, safe and secure jobs, and an end to greedy corporations setting the rules of the economy. This means ensuring that minimum wage-floors must

be enough to ensure a decent standard of living, and that all workers must have the right to join a union and bargain collectively.

Pension funds can play a role in improving wage levels by designing their investment policy to include attention for living wages and decent work. To overcome the challenges involved, it is important that pension fund trustees are willing to learn from each other's experiences and to use the expertise and information of unions and other organizations.

We wish our trustees every success in applying the recommendations this study provides, and we encourage all pension funds to use the steps in the last chapter to implement an investment policy on living wage.

Coen van der Veer

Treasurer FNV & Chair of the Committee on Workers' Capital

Tuur Elzinga

Boardmember FNV & responsible for pension policy



Management samenvatting

Een leefbaar loon is een mensenrecht. In veel landen zijn lonen die verdiend worden gedurende standaard werkdagen te laag om te voldoen aan de basis-behoefte van werknemers en zijn of haar afhankelijken. De huidige standaarden voldoen vaak niet aan de definitie van inkomen zoals deze wordt gegeven in de Universele Verklaring van de Rechten van de Mens. Het betalen van een leefbaar loon heeft een positieve impact op economische ontwikkeling en op het verminderen van armoede wereldwijd.

Als aandeelhouders van grote bedrijven, kunnen pensioenfondsen een significant effect hebben op het beleid en de maatschappelijke impact van deze bedrijven. De uitdagingen met betrekking tot leefbaar loon liggen voornamelijk in de ketens van bedrijven. Deze ketens zijn door toenemende globalisering steeds complexer geworden. Productie wordt in groeiende mate uitbesteed aan landen waar weinig garanties op arbeidsrechten in het algemeen en leefbaar loon in het bijzonder, worden geboden. Hier ligt een belangrijke taak voor bedrijven, maar ook voor institutionele beleggers.

Deze studie laat zien dat hoewel veel pensioenfondsen indirect refereren naar leefbaar loon via onder andere de *UN Global Compact*, de ILO conventies en de OESO richtlijnen, de absolute meerderheid van de responderende pensioenfondsen leefbaar loon niet zelf heeft opgenomen in het verantwoord beleggingsbeleid.

Wanneer we kijken naar de redenen die werden aangedragen om leefbaar loon niet op te nemen, zien we dat hier een aantal grote uitdagingen aan ten grondslag liggen. Zo gaf 26% van de respondenten aan dat een heldere, algemeen geaccepteerde definitie van leefbaar loon nog ontbreekt. Nog eens 26% wees naar het gebrek aan (inter)nationale standaarden en richtlijnen. 5% gaf aan dat ESG data op dit thema nog sterk verbeterd moet worden. En twee derde van de pensioenfondsen gaf aan dat een combinatie van alle drie nodig is. Opvallend was dat die pensioenfondsen die leefbaar loon al wel hebben opgenomen in hun beleid, internationale standaarden als grootste uitdaging zagen, terwijl de overige pensioenfondsen aangaven een heldere definitie te missen.

De uitdagingen

Hoewel er een aantal uitdagingen liggen in het implementeren van een beleid op leefbaar loon, betekent dit niet dat deze uitdagingen onoverkomelijk zijn. Hieronder behandelen we de belangrijkste obstakels.

UITDAGING 1: Een internationaal geaccepteerde definitie van leefbaar loon ontbreekt

Hoewel er inderdaad meerdere definities van leefbaar loon worden gehanteerd, zien we dat deze allen dezelfde belangrijkste elementen bevatten. De breed geaccepteerde definitie stelt dat: de ontvangen beloning door een werknemer voor een standaard werkweek in een specifieke regio, moet voldoende zijn om een fatsoenlijke standaard van leven te handhaven voor de werknemer zelf en zijn of haar afhankelijken. Belangrijke elementen binnen deze standaard zijn voedsel, water, huisvesting, educatie, gezondheidszorg, transport, kleding en andere essentiële benodigdheden.¹ Gezien er algemene consensus bestaat over de elementen van een leefbaar loon, hoeft deze uitdaging niet in de weg te staan om beleid vorm te gaan geven.

UITDAGING 2: Een gestandaardiseerde methodologie ontbreekt

Heldere regels en transparantie zijn noodzakelijk voor een gestandaardiseerde methodologie die kijkt naar lokale context in het bepalen van een leefbaar loon. Een leefbaar loon is context afhankelijk en wisselt niet alleen per land, maar ook per regio. Er zijn vele methodes beschikbaar, maar ook de standaardisatie van deze methodes is nu hard in ontwikkeling. Deze standaardisatie is nu hard in ontwikkeling. Er ligt voldoende fundament voor institutionele beleggers om de dialoog aan te gaan met bedrijven en om transparantie te vragen.

UITDAGING 3: Er is niet genoeg data beschikbaar om te handelen op leefbaar loon

Voldoende data en informatie van hoge kwaliteit zijn essentieel in het proces van het meenemen van ESG factoren in het investeringsproces. Het gebrek aan data wordt vaak aangehaald als obstakel in het implementeren van een beleid op leefbaar loon. Ook voor deze uitdaging geldt dat dit een extra motivatie moet zijn om engagement te voeren op dit onderwerp met bedrijven en te vragen om betere rapportage en meer transparantie. Daarnaast kunnen institutionele beleggers het gesprek aangaan met lokale NGO's en vakbonden. Hier ligt veel kennis en zij kunnen een grote rol spelen in het onderzoeken van lokale situaties

¹ Global Living Wage Coalition, 2016

UITDAGING 4: De invoering van een leefbaar loon heeft een negatieve impact op aandelen

De positieve link tussen ESG prestaties en de financiële prestaties van bedrijven zijn algemeen bekend. Bedrijven met een goede beoordeling op materiele duurzaamheidsthema's (in tegenstelling tot algemene duurzaamheidsthema's), presteren beter dan bedrijven met een lage beoordeling.² Wanneer we specifiek naar het thema leefbaar loon kijken, laat onderzoek ook zien dat het doorvoeren hiervan een positieve impact heeft op bedrijfsresultaten. Voor pensioenfondsen geldt dat zij even goed kunnen presteren met strengere screeningprocedures.

Dit neemt niet weg dat de implementatie van een leefbaar loon op kleine schaal door individuele bedrijven wel degelijk obstakels tegenkomt. Bedrijven zullen ervoor waken hun concurrentiepositie niet te verliezen en systeemfactoren kunnen de positieve effecten van een leefbaar loon dan teniet doen. Samenwerking op dit thema is daarom vereist. Samenwerking tussen sectoren, actoren en industrieën.

Aanbevelingen

De uitdagingen die leefbaar loon vormen, mogen niet langer een reden zijn om te wachten op gestandaardiseerde internationale richtlijnen en meer beschikbare data. Hoewel deze uitdagingen niet gebagatelliseerd mogen worden, laten *best practices* zien dat er wel degelijk voldoende kennis beschikbaar is voor pensioenfondsen om dit thema mee te nemen in hun verantwoord beleggingsbeleid. De discussie blijft nu vaak draaien om deze uitdagingen, in plaats van om de vraag hoe de beschikbare kennis en informatie in te zetten. Samenwerking tussen pensioenfondsen en engagement met bedrijven vormen de twee belangrijkste factoren in het creëren van vooruitgang op leefbare lonen.

Een pensioenfonds kan de volgende stappen nemen in het integreren van leefbaar loon in het verantwoord beleggingsbeleid:

Definieer uw beleid

Bij het bepalen van uw standpunt kunnen verschillende stappen helpen:

- Het screenen van de internationale standaarden en richtlijnen die uw pensioenfonds heeft ondertekend kunnen als de basis gelden voor het creëren van beleid.
- Definieer een missie en visie met betrekking tot lonen.
- Breng de visies en meningen van de belangrijkste stakeholders in kaart.

² Khan, Mozaffar and Serafeim, George and Yoon, Aaron (2015). Corporate Sustainability: First Evidence on Materiality, The Accounting Review (forthcoming).

- Maak een materialiteitsscan van leefbaar loon en de ESG risico's die hieraan verbonden zijn.
- Breng het portfolio in kaart en onderscheid die sectoren die kwetsbaar zijn voor exploitatie (denk hierbij aan de kledingindustrie).
- Bepaal welke duurzame beleggingsinstrumenten het meest passen bij het beleid en de investeringsstrategie van uw pensioenfonds.

Rapportage en transparantie

Rapportage en transparantie van het beleid en de implementatie zijn van groot belang. Met name de argumenten voor de keuze van een bepaald beleid en de uitdagingen waarmee uw pensioenfonds geconfronteerd werd, kunnen als voorbeeld dienen voor andere pensioenfondsen. Een heldere formulering van de ondernomen stappen kan leiden tot meer bewustwording meer kennisdeling en uiteindelijk ook tot meer samenwerking.

Samenwerking

De uitdagingen met betrekking tot leefbaar loon kunnen alleen door samenwerking overkomen worden. Samenwerking niet alleen tussen bedrijven onderling of pensioenfondsen onderling, maar ook tussen pensioenfondsen, asset managers, data providers, vakbonden en NGO's. Met dergelijke samenwerkingsverbanden hebben pensioenfondsen de macht om aan te sturen op meer richtlijnen en criteria voor leefbaar loon. Het bundelen van dergelijke krachten kan een waarneembaar positief effect hebben op het leven van miljoenen arbeiders wereldwijd.

Executive Summary

Being paid a living wage is a human right. In many countries, wages earned during normal working hours are too low to meet the basic needs of the workers and their families. Current standards are often not living up to the definition of income as given in the UN Universal Declaration of Human Rights. Paying a living wage has a positive impact that can drive economic development away from poverty.

As large capital asset owners and shareholders of companies, pension funds can have a significant effect on the policies and activities of these companies and on their societal impact. The challenges regarding living wage lay mainly in the supply chains of companies. These supply chains have become more and more complex as a result of growing globalisation. Production is often outsourced to countries where there is limited guarantee of decent work, let alone living wage. Here lies an important task for companies but also for institutional investors.

This study shows that while many pension funds incorporated living wage indirectly in their responsible investment policy through the UN Global Compact, the ILO Conventions or the OECD Guidelines; the absolute majority of the respondents indicated they do not make a direct reference to living wage. Only 15% of the responding pension funds has incorporated living wage into the responsible investment policy.

When we look at the reasons offered for not implementing a policy on living wage many challenges came forward. 26% of the responding pension funds find a clear definition of the term living wage most needed. Another 26% point to the lack of (inter)national standards and/or guidelines on Living Wage. 5% find improved ESG data on living wage important, and 2 out of 3 pension funds indicated a combination of all is needed. Those funds that have experience with living wage in their RI policy clearly identify international standards as the main obstacle, whereas funds that do not have a policy, mostly point towards the lack of a clear definition.

The Challenges

While there are quite some challenges to overcome in creating a policy on living wage, these challenges do not have to be a reason to not include the topic in the investment policy. In this study we have focussed on the most heard challenges.

CHALLENGE 1: *There is no clear internationally accepted definition of living wage*

Although there are indeed multiple definitions for living wage, they all contain the same key elements. The broadly accepted definition states: remuneration received for a standard workweek by a worker, in a particular place, sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events.³

Since these key elements of living wage are broadly accepted, this challenge should not have to be difficult to overcome.

CHALLENGE 2: *There is no standardised methodology*

Clear rules and transparency are required regarding the methods that are being employed plus a methodology that looks at the local context to define the height of a living wage. A living wage is context dependent. It differs per country and region. So the challenge for investors is the standardization, which is now in rapid development. There is enough foundation to start a dialogue with companies and ask for more transparency on wages especially in the supply chain.

CHALLENGE 3: *There is not enough data available to act on living wage*

Sufficient, high quality data and information are important when embedding ESG factors into the investment process. Lack of data is often mentioned as an obstacle to the implementation of a living wage. The demand for more data on living wage has contributed to the spawning of data analysts, sustainability consultancies and benchmarks. The fact that there is a need for more data should again be an argument for engaging companies on increased transparency and information on labour circumstances. This should again be an argument for engaging companies on increased transparency and information on labour circumstances. Institutional investors can also use the expertise of NGOs and labour unions. They can play an important role in assessing local circumstances.

³ Global Living Wage Coalition, 2016

CHALLENGE 4: *Paying living wages has a negative effect on shares*

The positive link between ESG performance and corporate financial performance is generally known. Firms with strong ratings on material sustainability topics (as opposed to sustainability topics in general) have been found to outperform firms with poor ratings.⁴ In the case of living wage specifically, the research that looks at the implementation of a living wage in the United States shows that it has had an overall positive impact.

A pension fund can perform equally well with more stringent screening procedures. Nevertheless, implementing a living wage on a small scale by engaging individual companies can run against multiple obstacles. Companies will be careful not to lose their competitiveness and systemic factors can negate the positive effects of higher pay. For example, food and housing costs might rise along with wage. Therefore, acting on living wage requires cooperation between sectors, actors and industries.

Recommendations

The challenges of implementing a policy on living wage can no longer be a reason to wait until international guidelines become more standardised and data to become more complete. Although these challenges are real, best practices show there is enough knowledge about the theme of living wage for pension funds to make the topic part of the responsible investment policy. The discussion is now focused on the challenges, instead of on how to use the information that is available. Collaboration between pension funds and engagement with companies are two key factors in making progress on living wage.

Define your policy

Several inputs can help in defining your own point of view:

- Screen international standards and initiatives you have signed on to and use these as a basis for creating a policy.
- Define your mission and vision for your stance on wage.
- Map the opinions and viewpoints of your main stakeholders on living wage.
- Make a materiality scan of living wage and the ESG-risks.
- Map your portfolio and distinguish which sectors are particularly sensitive to exploitation, e.g., the garment industry.
- Define which responsible investment instruments would most likely fit your policy and investment management strategy.

⁴ Khan, Mozaffar and Serafeim, George and Yoon, Aaron (2015). Corporate Sustainability: First Evidence on Materiality, The Accounting Review (forthcoming)

Reporting and transparency

When developing a policy on living wage and putting it into practice, it is of importance to be transparent on your policy, the arguments for making this policy and the challenges faced. A clear explanation of the steps financial institutions can take on this topic will lead to more awareness, more knowledge sharing and hopefully to more collaboration on this issue.

Collaboration

The challenges concerning the implementation of a living wage can only be overcome if there is more collaboration, and not just between companies but also between financial institutions. For pension funds, it is important to also collaborate with asset managers, data providers, labour unions, NGO's and most important; other pension funds. If investors work together they will have the power to stimulate more specific guidelines and criteria for living wage. Joining forces can have a notable positive effect on the lives of numerous workers around the world.

1 Introduction

Over the last years there have been major developments in the field of responsible investment. Sustainability themes are increasingly high on the agenda of institutional investors. There is a growing attention to respect the fundamental human rights of workers. An important part of these labour rights are decent work and living wage.⁵

This study focuses on living wage as part of the concept of decent work. The focus is on the subject of a living wage because it presents many challenges but also because there is a world to gain here. VBDO research showed the topic is underexposed, not just on the agendas of institutional investors, but also in the sustainability policies of companies. Even though there are still many obstacles to tackle regarding living wage, one of the goals of this study is to show that these challenges do not have to be a reason to ignore the topic.

The main goal of this study is to provide an overview of how pension funds are coping with the topic of living wage. Based on the results, the final chapter aims to provide pension funds with recommendations on how to formulate and implement a policy concerning this theme. The following topics are discussed in order to achieve this goal:

- In chapter 3 we provide a short background of the theme of living wage as part of decent work;
- In chapter 4 we outline why living wage is a relevant topic for pension funds;
- An overview is offered on how pension funds deal with the topic of living wage in chapter 5;
- Chapter 6 shows practical recommendations on how to approach this topic as a pension fund.

We hope the recommendations will provide pension funds the information and the tools to take steps in developing a policy on living wage, because it is an essential labour right that can play an important role in reducing poverty worldwide.

⁵ ILO definition of decent work: <http://www.ilo.org/global/topics/decent-work/lang--en/index.htm>

2 Methodology

This study focuses on the fifty largest Dutch pension funds and their investments related to living wage. All answers have been aggregated anonymously and responses are not traceable to individual pension funds.

Data gathering

Three different methods of gathering data were used:

- A literature review of existing research was performed on the topic of living wage and the social and financial implications of creating a policy on living wage.
- Based on the desk research, a questionnaire was sent out to the fifty largest Dutch pension funds. This questionnaire was focussed on the policies applied by pension funds regarding living wage. The response on the questionnaire was processed on basis of anonymity.
- Qualitative interviews were held with pension funds to collect in-depth information about the policy choices pension funds make and what obstacles they encounter. Interviews were also held with experts in the field of living wage in order to provide a more comprehensive background of the topic.

39 funds replied to the questionnaire, which corresponds with a response rate of 78%. The questions related to the pension funds individual policy covering living wage and the implementation thereof. Policies could be internally or publicly available. The questionnaire and the respondents that have given permission to be mentioned can be found in the appendices of this report.

Finally, when judging the results, a response bias should be considered since funds with a more formulated and developed policy on living wage are more likely to respond. Although 78% is a strong representation of the sector, the remaining 22% is likely to have less policy than the averages reported. The information offered by pension funds was self-provided and not verified by VBDO.

3 Living Wage

Traditionally, the concept of decent work comprises four major components: employment, social protection, workers' rights and social dialogue. In short, it guarantees safety and health in the workplace and provides social protection. In addition, it includes the freedom for workers to organize and participate in social dialogue, which is important in order to secure a fair income. This research focuses on this last part of decent work, and in this chapter we will elaborate on the concept of living wage, why we need it and the possible implications of achieving a living wage worldwide.

3.1 What is a Living Wage?

Definition

The Universal Declaration of Human Rights recognizes the right of every worker to a “just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity” (Article 23).⁶ Living wage is a wage, which provides employees with the necessary income to maintain a decent standard of living based on geographical location and cost of living (local context).⁷ In many countries, wages earned during normal working hours are often too low to meet the basic needs – including food, housing, clothing, education and healthcare of the workers and their families. In order to sustain their livelihoods, workers have to work overtime, exceeding the norm of a maximum of 48 hours per week (excluding up to 12 hours per week overtime on a non regular basis), as set by the ILO.⁸ These work patterns may have adverse impact on the workers' physical and mental well being, as well as wider implications for social development at national/regional level. In addition, poverty wages may lead to other human rights violations, most notably child labour.

⁶ <http://www.un.org/en/universal5declaration5human5rights/>

⁷ VBDO Responsible Supply Chain Benchmark 2014: A comparison of responsible supply chain practices of global multinationals (2015).

⁸ Berenschot. (2012). Living wage in international supply chains: an inventory report. And: <http://ilo.org/global/standards/subjects-covered-by-international-labour-standards/working-time/lang--en/index.htm>

History

The concept of a living wage has a long history, dating from ancient Greece. Plato and Aristotle postulated that achieving virtue was superior to wealth accumulation. Their version of a living wage was: the least amount needed to develop the capability for virtue.⁹ In the 18th century Adam Smith wrote that, “no society can surely be flourishing and happy” without tolerable feed, clothe and lodge in a measure that is not just “indispensably necessary for the support of life” but decent.¹⁰ More recently, the ILO Constitution in 1919 identified the need for “an adequate living wage”.¹¹ A general agreement emerged that wages should be able to support workers at a decent living standard that provides for more than the basic necessities of food, shelter and clothing.

More recently, a living wage has been defined as a wage that provides employees with the necessary income to maintain a decent standard of living that covers a worker’s basic needs and some discretionary income.¹² According to the Universal Declaration of Human Rights, this income should ensure ‘for himself and his family an existence worthy of human dignity.’¹³

Living wage is part of the concept of ‘Decent work for all’, which has been a principal objective of the ILO since 1999. In 2015 the ILO integrated its principal objective into the 2030 Agenda for Sustainable Development of the United Nations. Decent work is part of the Sustainable Development Goal number 8, ‘Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.’¹⁴

With the growth of corporate social responsibility practices, the beginning of the 21st century saw a growing interest in living wage. These developments were further accelerated by growing public awareness to supply chain risks, due to NGO-campaigns and disasters such as the collapse of the Rhana Plaza in 2013. A growing number of multinational enterprises together with stakeholders have adopted corporate codes of social responsibility that include a living wage.¹⁵

⁹ Donald Stabile 2009 The Living Wage: Lessons from the History of Economic Thought

¹⁰ Adam Smith (1776) Wealth of Nations

¹¹ ILO Convention 1919

¹² FWF code of Labour practices <https://www.fairwear.org/resource/fwf-code-of-labour-practices/>

¹³ UDHR article 23.3 http://www.claiminghumanrights.org/udhr_article_23.html

¹⁴ SDG (website) <https://sustainabledevelopment.un.org/?menu=1300>

¹⁵ VBDO study “Walk the Talk. Sustainability performance of Dutch stock listed companies”, (2017).

3.2 Why is it important?

Being paid a living wage is a human right. In many countries, wages earned during normal working hours are too low to meet the basic needs - including food, housing, clothing, education and healthcare - of the workers and their families.

Social dialogue between worker and management is often seen as the crux to a living wage. This dialogue is often missing due to low levels of unionisation or the limited political leverage of existing unions in export-oriented manufacturing sectors.¹⁶ In a previous study, we argued that the Freedom of Association and Right to Collective Bargaining facilitate dialogue exchange, which allows workers to secure their rights. A living wage represents an empowerment of workers to enable stakeholder dialogue, beyond just an increase of income.

The most important reason for providing a living wage is that current standards are often not living up to the definition of income as given in the UN Universal Declaration of Human Rights. Particularly sectors that rely intensively upon low-cost labour, such as the garment industry, are more sensitive to insufficient incomes. Paying a living wage has a positive impact that can drive economic development away from poverty. These effects will be discussed below in more detail.

¹⁶ Ethical Trading Initiative, 'Base Code Guidance: Living Wages', (2016).

Interview

Kees Gootjes | Verification and Country Manager Indonesia
Fair Wear Foundation



I have worked for more than four years at Fair Wear Foundation. In my work I have visited many factories and talked to different brands and stakeholders in Europe, but also in production countries such as Macedonia, Tunisia, China and currently Indonesia. In Macedonia, I was also involved in a pilot project to implement factory-level wage increases.

Why should investors care about Living Wage and Decent Work?

If you are investing in brands with production in developing countries (possibly through the supply chain of large multinationals) you could be taking advantage of production cost arbitrage not only related to lower labour costs, but also other elements such as lower quality buildings, flexible contracts and less social security.

For example, in China most garment production is done by people who work 60-70 hours per week, if not more. Creating decent work requires diligent monitoring and purchasing practices¹⁷ that allow factories to improve their social compliance. The fear, however, is that costs will increase exponentially, but we believe that costs are often less than expected and can be offset elsewhere in the supply chain. It requires creativity, and that is the strength of the private sector. Furthermore, by creating decent work and paying a living wage you can stimulate local economies, creating new markets and even preventing social unrest.

The responsibility for decent work is laid down by the United Nations in the Ruggie framework.¹⁸ The framework says: no matter where something is made, you bear responsibility. As an employer and even as an investor you are responsible. The challenges related to implementation are reasons for FWF to work directly with brands to make improvements.

¹⁷ Purchasing practices are the business activities that occur between a brand and a factory, from order placement to delivery (eg. sampling, price negotiations, order placement).

¹⁸ UN Special Representative John Ruggie proposed a framework on business & human rights to the UN Human Rights Council in June 2008, resting on three pillars:

1. the state duty to protect against human rights abuses by third parties, including business;
2. the corporate responsibility to respect human rights; and
3. greater access by victims to effective remedy, both judicial and non-judicial.

The Human Rights Council unanimously approved the Framework in 2008.

Lack of data and standardization is often mentioned as an obstacle by investors. Is this something you notice with Decent Work in general and Living Wage in particular?

There is a lack of publicly available data, but that is no reason not to get started. In terms of living wage, there is a generally accepted qualitative definition but the difficulty lies with translating this into an operational, quantitative one. Living costs vary significantly, also within a single country or region. In our approach, we believe that you should just get started and determine together with relevant stakeholders what a realistic wage target is. We really believe that the best wage is a negotiated wage. The factory has to dialogue with employees about this. There is, however, also a role for brands in this process, as they have such a significant impact on what the factory is able to afford. FWF and a number of its brands are currently piloting this brand involvement.

What can investors do to improve on Living Wage and Decent Work?

Investors can start by asking more effective questions. If you invest in a company with production in developing countries, you can be pretty sure that there are social compliance issues. The question posed to brands should not be ‘what are the risks’, but ‘show me what you are doing to fix the issues’, issues that we all know are present. It’s a more pragmatic approach based on the reality of developing countries.

But maybe most importantly, there needs to be much more attention for purchasing practices and how, for example, prices and lead times are determined. Brands should be able to show that their purchasing practices are actively contributing to better working conditions. FWF’s Brand Performance Check methodology is a good way help investors in what kind of questions could be asked.

3.3 International guidelines, regulations and initiatives

To promote decent work in general and living wage in particular, effectively, international agreements are important to standardize practice and prevent a relative loss of competitiveness. In the case of a living wage, the success of initiatives partly lies in their capacity to develop methods to convincingly calculate a comparable living wage in different economic contexts.

Treaties

The eighth SDG is specifically dedicated to ‘decent work and economic growth’. The FNV has identified 8 criteria to qualify work as decent. These criteria are all linked to international treaties.

Decent work and international treaties

Decent work comprises human and social rights that have been internationally defined. The Committee on Economic, Social and Cultural Rights has made it clear in general comment No. 18, that “work” as referred to in the Covenant means “decent work” and makes specific reference to a range of ILO Conventions. FNV has identified 8 criteria to qualify work as decent, all of which can be linked to these conventions:¹⁹

- 1) **Fundamental labour rights** – *Declaration on Fundamental Principles and Rights at Work, 1988*
- 2) **Freedom of Association and Collective Bargaining** – *ILO Convention 98, ‘Right to Organise and Collective Bargaining Convention’, 1949*
- 3) **No discrimination** – *ILO Convention 111, ‘Discrimination (Employment and Occupation) Convention’, 1958*
- 4) **No forced labour** – *ILO Convention 29, ‘Forced Labour Convention’, 1930*
- 5) **No child labour** – *ILO Convention 138, ‘Minimum Age Convention’, 1973 & convention 182, ‘Worst Forms of Child Labour Convention’, 1999*
- 6) **Employment opportunities** – *ILO convention 122, ‘Employment Policy Convention’ 1964*
- 7) **Social security** – *ILO convention 102, ‘Social Security (Minimum Standards)’ 1952*
- 8) **Social dialogue** – *ILO Convention 98, ‘Right to Organise and Collective Bargaining Convention’, 1949 and ILO ‘Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy’ 1977*

The second and eighth right are important to guarantee a living wage. Several international treaties and covenants have recognized the importance of living wage.²⁰ Even before the UNDHR in 1948, the ILO in 1919 referred to an ‘adequate living wage’. In later documents this wording is changed into a ‘minimum living wage’. This change appears to suggest that a minimum wage should be a living wage.²¹

¹⁹ FNV, <https://www.fnv.nl/over-fnv/internationaal/mondiaal-fnv/decent-work/>

²⁰ United Nations Universal Declaration of Human Rights (1948)
United Nations International Covenant on Economic and Social Cultural Rights (1966)
Council of Europe's European Social Charter (1961)
ILO Declaration on Principles concerning Multinational Enterprises and Social Policy (2006)
ILO Declaration on Social Justice for a Fair Globalization (2008)
OECD Guidelines for Multinational Enterprises (2011)

²¹ Anker, 2011; Berenschot, 2012

Many of the respondents referenced the UN Global Compact when talking about policy on living wage. Principles 3 until 6 specifically address labour rights, and the third principle explicitly states that ‘businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.’ Decent work is mentioned as an important consequence but the UN Global Compact principles do not refer to this term. Another point of attention is that, because the Compact is not built upon compliance, its impact is hard to estimate. The fact that reporting is entirely voluntary and that there is no system for monitoring curbs the gravity of a commitment.

The key words defining a living wage also return in the OECD guidelines for Multinational Enterprises where it states that wages “should be at least adequate to satisfy the basic needs of the workers and their families.”²² The discussion circles the problem of finding consensus on a methodology to calculate the wages that fit these criteria, especially taking the local context into account. There are multiple initiatives that try to close this gap.

Living Wage Initiatives

When it comes to promoting living wage the most notable initiatives are; the Global Living Wage Coalition (GLWC), the International Social and Environmental Accreditation and Labelling Alliance (ISEAL) and the Global Reporting Initiative (GRI). The Global Living Wage Coalition brings together six of the world's most influential sustainability standards to improve wage levels in certified supply chains. The Coalition promotes a methodology developed by Anker and Anker, two of the foremost scholars on the topic. In the summer of 2017 they started publishing living wage benchmarks for different countries. Clear rules and transparency are required with regard to the methods that are being employed.²³ The Asia Floor Wage Alliance has calculated a minimum wage for Asian countries in Purchasing Power Parity \$ (PPP\$). Another example is the Wage Indicator. The foundation provides information on laws and (living) wages for workers around the world.²⁴

Living wage is part of the Corporate Human Rights Benchmark. Incorporation is an important marker along the way to an international standard. But with 84% of the assessed companies scoring zero points on the topic it goes to show that there is still a long road ahead. Nevertheless, the research can serve as a data provider for investment analysis and its methods as an example.

The starting point of moving towards ensuring fair wages is greater transparency and more reporting amongst and by companies. The Global Reporting Initiative is one of the leading providers of a framework for reporting on sustainability issues.

²² OECD Guidelines for Multinational Enterprises, 2011, Chapter V, 4.8

²³ Anker & Anker 2017

²⁴ Asia Floor Wage Alliance, ‘Calculating a Living Wage’: <http://asia.floorwage.org/calculating-a-living-wage>

The Fair Wear Foundation Wage Ladder

A wage ladder is a benchmarking system used to map wage levels in a factory relative to various wage standards in a country or region.

The Fair Wear Foundation has created such a wage ladder, an online tool that allows the wages paid at any factory to be compared against a range of wage benchmarks. The Wage ladder generates a clear graphic that shows where a factory's wages fall short in comparison to these benchmarks.

Brands, suppliers and worker's representatives can see how current wages compare to living wage estimates, and can start negotiations on improvements.

Interview

Catelene Passchier | Chair of the Workers Group in the ILO
and Special Adviser to the president of FNV



What is your experience with the topic of living wage at FNV and the ILO?

We see that most attention now goes to the ILO Core Conventions. The importance of these themes is widely supported. Living wage however, is a very complex matter and not yet included in an ILO convention. It is nonetheless an essential part of the theme of decent work and as such, living wage is on the agenda of labour unions. Living wage is always part of a larger agenda, which should also contain the topic of Freedom of association, since it is impossible to raise wages when employees are not able to bargain. Freedom of association is both a fundamental principle and an enabling right that can pave the way for achieving a living wage. Living wage is a difficult topic because there are no clear measures. However; the issue of living wage is gaining momentum. What we see now is that a growing number of companies are refusing to pay below a certain wage standard because, even with a lack of clear measurement, it makes common sense that for example, people in Bangladesh cannot survive on less than a certain minimum wage. But these companies form a small group of brave frontrunners.

Institutional investors are regarding the lack of a clearly defined internationally accepted definition of living wage, as an obstacle in creating a policy. Is this something you recognise?

This does not have to be an obstacle. It certainly wasn't an obstacle in creating minimum wages, just because wages differ per country and region. Although there are multiple definitions used for living wages, in essence they all contain the same indicators.

How do you view the second obstacle brought forward: lack of a standardised methodology?

A more standardised methodology would certainly make it easier to start creating a policy. But even without a crystallized methodology, as a company or an institutional investor, you should expect reporting on wages in the supply chain and a standardised methodology is not needed to understand that in the most pressing cases, wages are unacceptable. Nevertheless, an internationally accepted methodology will make it much easier to create clear criteria.

Lack of data is also seen as an obstacle in creating a clear policy.

In my view, there is enough data available to start creating a policy. But it is an essential step to identify these obstacles, because this will stimulate international organisations like OECD and ILO to focus on these challenges.

A last challenge brought forward, but to a much lesser extend, is the expected negative impact of living wages on share. This argument is part of the bigger question what the economic impact will be of implementing living wages for local economies.

When we look at comparable measures like the introduction 100 years ago of an eight our working day in the Netherlands, critics all stated this would have a negative impact on the economy. The opposite turned out to be true. The same applied for the implementation more recently of a minimum wage in the UK. In both cases productivity increased and the economy profited. The bigger issue for implementing living wages in developing countries is, that those companies or investors that are frontrunners, are operating in an environment where other parties lag behind. They are competing with parties in the same countries and markets who are not ready to raise low wages. That is why it is important to initiate a broader movement of employers and try to create a race to the top. This is exactly what the Fair Wear Foundation is trying to achieve.

How do you see the role of pension funds?

They have a very important role to play and as such also carry a large responsibility. The most effective policy would be to develop a set of clear criteria for sustainable investment based on cooperation, not just with other pension funds, but also with labour unions worldwide. Together, institutional investors can push international organisations and research providers to develop clear criteria on living wages and to ensure living wages are paid down the value chain.

4 Responsible investment

This chapter outlines the impact pension funds can have on establishing living wages, how they can create this impact and where the challenges lie.

4.1 Living Wage in the investment portfolio

As large capital asset owners and shareholders of companies, pension funds can have a significant effect on the policies and activities of these companies and on their societal impact. The challenges regarding living wage lay mainly in the supply chains of companies. These supply chains have become more and more complex as a result of growing globalisation. Production is often outsourced to countries where there is limited guarantee of decent work, let alone living wage.

The responsibility to take the S of ESG into account is not only supported by growing awareness but also enshrined in international law. The United Nations Guiding Principles on Business and Human Rights (UNGPs), also known as the Ruggie framework, lay down the corporate responsibility to “prevent and remediate any infringement of rights that they contribute to.”²⁵

4.2 Implementing a living wage; the motivations

The decisions of large asset owners and shareholders can have significant effects on the policies and activities of companies and their societal impact. Increased inequality as a consequence of not paying living wages, can lead to unrest in low-wage countries, which will eventually impact brands and businesses in Europe.²⁶ Local circumstances are no longer isolated events but ripple across the planet through financial, communication and trade networks. There are many more reasons why pension funds should integrate these themes into their responsible investment policy.

Financial: a focus on ESG issues in the investment research and decision-making process can improve the investment performance, especially in the long-term, as investors will be prepared for the future (laws and regulations and so on). In the financial community

²⁵ U.N. Human Rights Council, "The UN 'Protect, Respect, and Remedy' Framework for Business and Human Rights", September 2010.

²⁶ VBDO interview Fair Wear foundation with Kees Gootjes.

there is a growing recognition that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment. A study analysing research done in multiple cities in the United States concludes that the budget impact of introducing a living wage is modest.²⁷ The most commonly mentioned effect is a decreased employee turnover and improved job performance. The rise in costs, relative to the starting wage, is much less in the United States compared to many developing economies.

Ethical: many institutional investors acknowledge they have an ethical obligation to address ESG issues. This is related to the increasing acceptance by institutional investors that they share an ethical or moral responsibility for the external consequences of their investment choices. Living wage is a human right; it requires corporate social responsibility efforts to turn this right into reality. When decent work standards are upheld and a living wage is paid, workers are not forced to work excessive hours in order to sustain themselves. As a result they can grow from vulnerable working poor to working citizens.²⁸

When workers become active citizens and consumers, this does not only improve their life. It is a key element of local economies moving to the next developmental stage. Increasing the lower segments of income has a proportionally larger positive effect on local economy.²⁹

Reputational: increasingly, participants of pension funds expect to contribute to a positive impact on society. A strong responsible investment policy can prevent investments in companies that exploit workers, or engage with companies where supply chain worker rights are being violated. This will help prevent reputational damage for the investors. Moreover, having a sound responsible investment policy can create a good image for the pension fund and strengthen the license to operate.

Businesses are steadily acknowledging that commitment to corporate responsibility is a growing part of 'brand' image requirements. There is little research on the effects of a living wage in low-wage countries. This is partly due to the lack of data and difficulty to obtain information on working conditions. Some companies are struggling to obtain legitimate payment data in the first place. In these cases, making sure living wages are being paid is still a step to far.³⁰ Implementing a living wage is particularly challenging for companies with a large supply chain. Unilever, in cooperation with an independent NGO, is taking important first steps in creating a living wage framework (see textbox Unilever).

²⁷ Chapman & Thompson 'The economic impact of local living wages', *Economic Policy Institute* (2006).

²⁸ Berenschot (2012) 'Living wage in international supply chains. An inventory report.' *Berenschot Group BV*, commissioned by Dutch Ministry of Foreign Affairs.

²⁹ Berenschot (2012) 'Living wage in international supply chains. An inventory report.' *Berenschot Group BV*, commissioned by Dutch Ministry of Foreign Affairs.

³⁰ VBDO Interview MN with Anna-Sterre Nette.

Unilever Living Wage Framework

In 2014 Unilever set itself a target to create a structured way to: define and assess how the elements of compensation packages deliver a fair compensation as part of the Unilever Sustainable living Plan (USLP). In the past few years, Unilever has worked together with the Fair Wage Network (FWN) to create such a framework. FWN provides access to a global living wage database, which offers an objective view on living wage amounts for each country in which Unilever operates. This partnership resulted in a 'framework for fair compensation' that was rolled out in 2016. In 2016 Unilever made a formal commitment to pay every employee in the company's own businesses a living wage by 2020. The company is exploring the possibilities of applying this framework to its suppliers as well. Unilever has shared its ambition for the framework to become a worldwide standard for providing living wages.

4.3 Implementing living wage; the challenges

While we acknowledge there are quite some challenges to overcome in creating a policy on living wage, these challenges should not be a reason to ignore this topic. Below we focus on the most heard challenges and the extent to which they form an obstacle in implementing a policy on living wage.

CHALLENGE: There is no clear internationally accepted definition of living wage

Although there are multiple definitions for living wage, they all contain the same key elements. The broadly accepted definition states: remuneration received for a standard workweek by a worker, in a particular place, sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events.³¹

Since these key elements of living wage are broadly accepted, this challenge can be easily overcome. The biggest challenge here lies not in the lack of a clear definition, but in the lack of a standardised methodology and a lack of data.

³¹ Global Living Wage Coalition, 2016

CHALLENGE: There is no standardised methodology

The Global Living Wage Coalition promotes the methodology developed by Anker and Anker, two of the foremost scholars on the topic. Anker and Anker note, clear rules and transparency are required regarding the methods that are being employed plus a methodology that looks at the local context to define the height of a living wage.³² As the word ‘decent’ in the definition above indicates, a living wage is context dependent. A living wage differs per country and region. So the challenge for investors is the standardization, which is now in rapid development. There is enough foundation to start a dialogue with companies.

CHALLENGE: There is not enough data available to act on living wage

Sufficient, high quality data and information are important when embedding ESG factors into the investment process. It is important to determine the purpose of the information, how it can be interpreted correctly and how it is being verified. Lack of data is often mentioned as an obstacle to the implementation of a living wage. The demand for more data on living wage has contributed to the spawning of data analysts, sustainability consultancies and benchmarks. To a certain extend it is true that more data is needed. But this should be an argument for engaging companies on increased transparency and information on labour circumstances.

ASN Bank offers an example in creating a case study to tackle living wage issues in the garment industry, setting the following long-term human rights goal: All garment companies in the ASN Investment Universe have to introduce a living wage by 2030. The scope of this goal is the self-production of these companies plus the first-tier suppliers. Institutional investors can also use the expertise of NGOs and labour unions. They can play an important role in assessing local circumstances

Approach ASN:

“Based on international conventions and guidelines, such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines, the bank assumes responsibility for taking action to ensure responsible business practices at the companies in which it invests. As an investor, ASN Bank may decide to invest and divest, to vote and to engage. But since it wants to do more to put living wage on the agenda of companies and the sector, the Bank has defined additional strategies”³³.

³² Anker and Anker, 2017

³³ ‘Garment companies and living wage. Sustainable investment and social impact measurement: The case study of ASN Bank’. [file:///Users/hesterholtland/Desktop/publication-living-wage-asn-bank%20\(10\).pdf](file:///Users/hesterholtland/Desktop/publication-living-wage-asn-bank%20(10).pdf)

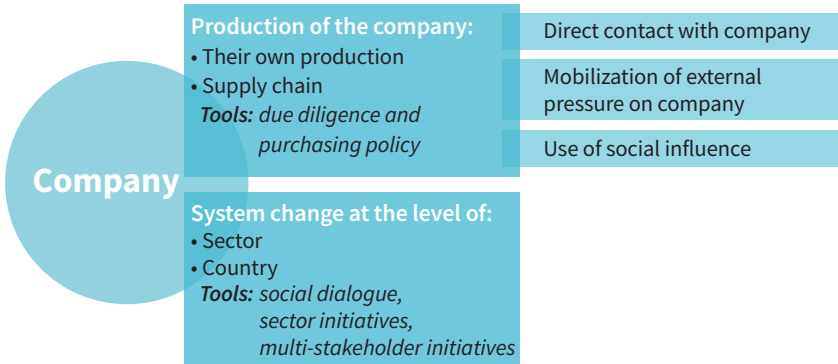


Figure 4.1 Case Study ASN Bank

CHALLENGE: Paying living wages has a negative effect on shares

A recent study named, *ESG and financial performance: aggregated evidence from more than 2000 empirical studies*, finds that there is a positive link between firm-level ESG performance and corporate financial performance.³⁴ Moreover, firms with strong ratings on material sustainability topics (as opposed to sustainability topics in general) have been found to outperform firms with poor ratings.³⁵ In the case of living wage specifically, the research that looks at the implementation of a living wage in the United States shows that it has had an overall positive impact.

A pension fund can perform equally well with more stringent screening procedures. Nevertheless, implementing a living wage on a small scale by engaging individual companies can run against multiple obstacles. Companies will be careful not to lose their competitiveness and systemic factors can negate the positive effects of higher pay. For example, food and housing costs might rise along with wage. Therefore, acting on living wage requires cooperation between sectors, actors and industries.

³⁴ Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210-233

³⁵ Khan, Mozaffar and Serafeim, George and Yoon, Aaron (2015). *Corporate Sustainability: First Evidence on Materiality*, *The Accounting Review* (forthcoming)

Interview

Anna-Sterre Nette | Senior Advisor Responsible Investment
MN



MN is the dedicated pension service provider for the manufacturing industries in the Netherlands. Key clients are PMT (Pensioenfond Metaal en Techniek), PME (Pensioenfond van de Metalektro) and bpf MITT (bedrijfstakpensioenfond voor de Mode-, Interieur-, Tapijt-, en Textielindustrie). On their behalf, MN executes a responsible investment policy comprising of four pillars: exclusion, ESG-integration, active ownership (voting and engagement) and impact investing. In practice this means that these four pillars support the asset management teams with cooperation of ESG-issues into all investment analysis and decision-making processes. On this level, all ESG-issues receive equal consideration.

What is the importance of engaging on Living Wage for MN?

Social issues such as health and safety, decent work and living wage are in the DNA of our pension funds that are built on the basis of employees and employers contributing to collective retirement saving plans. As part of the responsible investment policy, *Freedom of Association (FoA)* and *the Right to Collective Bargaining (RtCB)* were our main priorities for the S of ESG in 2016. These are important enablers for achieving any other labour rights such as living wage for workers in complex supply chains. It is essential that companies support empowerment (possibly in cooperation with trade unions) first, before we can expect workers to negotiate the terms of their own employment contracts.

What is MN's experience with enabling a living wage in the investment portfolio?

MN joined an engagement collaboration on together with ASN Bank and Triodos Asset Management specifically on the topic of living wage. From previous experience we learned that FoA and RtCB are important enablers for living wage, which is why we focussed on these two rights first. ASN Bank developed, together with Erasmus University, a method that can measure what companies already do regarding living wage and offers them an action plan to address the topic. We applied this method on 14 companies, informed the companies of the findings and have received good feedback thus far. But we should remember that ensuring living wage in the supply chain is a complex topic for all stakeholders involved. An important lesson of this collaboration already is that we cannot expect individual companies to solve a systemic issue such as living wage by themselves. Governments, industry organisations, trade unions and academics all have an important

role to play. Investors can initiate more research and share knowledge. We collect and share best practices among companies.

What obstacles did you encounter?

Although data can be challenging, we saw that the companies we are working with, are often already making first assessments regarding living wage. As an institutional investor there is a lot you can do before facing data limitations. Focussing on purchasing practices is an example. Ask companies what the share of labour is in price, and how value is transferred down the chain. In some cases implementing a living wage is still one step too far for companies. Acting on a living wage assumes that you know what is being paid in the first place, and that is not always the case.

In our experience there are a number of excuses that we often hear from companies:

- A minimum wage is sufficient. These companies are not aware, or not willing to acknowledge, the gap between a living wage and a minimum wage.
- We are not responsible for our suppliers. We don't hear this often anymore, and there's a growing consensus that responsibility reaches down the supply chain.
- We need regulation. This is another example of denying your own responsibility. Lack of regulation is not a legitimate reason to ignore the responsibilities you have as an employer, and as an investor.
- We don't know what constitutes a living wage. This is simply avoiding the problem instead of being part of the solution. There are sufficient initiatives and methods available to start a dialogue.
- If we act alone it would affect our competitiveness. This is why at MN we are searching for collaborations that engage whole sectors and different stakeholders, to lift the level playing field.

How should pension funds address living wage in their investment policy?

When addressing living wage, there are three important factors:

- 1. Purchasing practices**
- 2. Suppliers collaboration**
- 3. Collective engagement on national level**

It is important to add these different dimensions to your approach. Investors need to ask about purchasing practices. It is important to take the whole stakeholder field into account and engage on different levels. In order to find structural solutions, investors need to stimulate collaborations amongst suppliers. Look at business policy, regulations, civil

society and industry initiatives. When initiatives are aimed at one level and individual companies, they run the risk of being negated by systemic factors. For example, local living costs can rise disproportionately, in response to the wages of a particular factory. The responsibility is shared amongst everyone and in the end the consumer needs to be willing to pay a higher price.

What we see is that companies are aware of the problem, but few have set targets to improve. They are looking into it but not working on structural solutions. What is missing is collaboration within the sector. In our engagement we expect to see the following steps.

1. **Develop policy and set targets.**
2. **Research; figure out the problem and identify the wage gap.**
Consult local living wage benchmarks.
3. **Develop a strategy, how are you going to tackle these problems. Look at your own operations but also the supply chain and purchasing practices. Identify the stakeholders and engage with the government and peers.**
4. **Report and evaluate results.**

5 Results

This chapter presents and analyses to what extent living wage is considered in the investment process. The results are based on questionnaires sent to the 50 largest Dutch pension funds.

5.1 Living Wage in the investment portfolio

Many pension funds have incorporated living wage indirectly through the UN Global Compact, the ILO Conventions or the OECD Guidelines in their responsible investment policy. Over three quarters of the respondents indicated that the pension fund does not make a direct reference to living wage. Of the respondents, 15% indicate that a reference to living wage is made explicitly, and 28% indirectly through OECD.

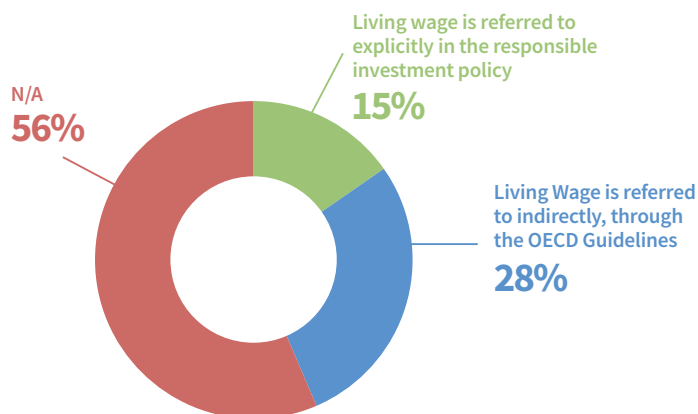


Figure 5.1 Living wage in the investment portfolio

When we look at the motivations for including living wage in the RI policy, an overwhelming majority, 75% of the pension funds that included the theme, stated the board identified it as important topic.

On a scale from 0-5, pension funds rate the importance of living wage a **2.33**

When it comes to identifying the challenges, the opinions are somewhat divided. 26% find a clear definition of the term living wage most needed. Another 26% point to the lack of (inter)national standards and/or guidelines on living wage. 5% find improved ESG data on living wage important. And 2 out of 3 pension funds indicated 'other', a combination of all is needed. Those funds that have experience with living wage in their RI policy clearly identify international standards as the main obstacle, whereas funds that do not have a policy, mostly point towards a lack of definition.



Exclusion

Exclusion is a responsible investment strategy that systematically excludes certain companies, sectors or countries from the investable universe. In some cases exclusion is considered to be a last resort after a period of engagement. The reasons to exclude can vary from reputational, legal grounds or an ethical perspective.

9 out of the 39 pension funds that have cooperated with this study, indicated that living wage is being used as one of the criteria for exclusion. It is not clear how many companies the pension funds actually exclude based on a violation of living wage criteria. Out of the 9 pension funds that use living wage as a criterion, 1 fund indicated compliance with the UN Global Compact is an exclusion criterion.

Therefore companies that show grave misconduct in the area of labour rights in general can be excluded. The UN Global Compact refers to decent work in general of which living wage is part, but not specifically to living wage itself.

Is living wage used as one of the criteria for exclusion?

Yes, living wage is one of the criteria for exclusion of companies

23%

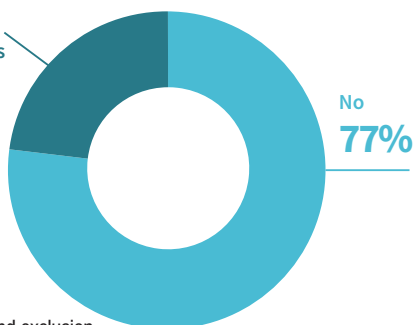


Figure 5.2 Living wage and exclusion



ESG integration

ESG integration is a process in which ESG factors are systematically integrated into the investment analysis. ESG identifies and weighs those ESG factors that could have a significant impact on the long-term performance of the portfolio. Pension funds can apply ESG integration in different ways. The three methods of ESG integration according to the VBDO Pension Fund Benchmark³⁶ are:

- A basic form of ESG integration. This could be, for example, the requirement for asset managers to be a signatory to the PRI.
- A more advanced form of ESG integration. This could, for example, mean that ESG information is included in the composition of an ESG-index or that one-pagers detail the company's sustainability performance;
- A very advanced form of ESG integration. In these cases ESG is not only taken into account, but also has a demonstrable effect on individual holdings. For example, there could be an automated under- or overweighting in company stock valuation based on ESG criteria.

Best in class investments can be seen as a specific form of ESG integration. This goes beyond under- or overweighting company stocks. When we look at living wage within ESG-integration we see that 31% of the responding pension funds take this issue into account in the selection of investments, 21% state to do so with a demonstrable effect on individual holdings.

Is living wage taken into account in ESG-integration?

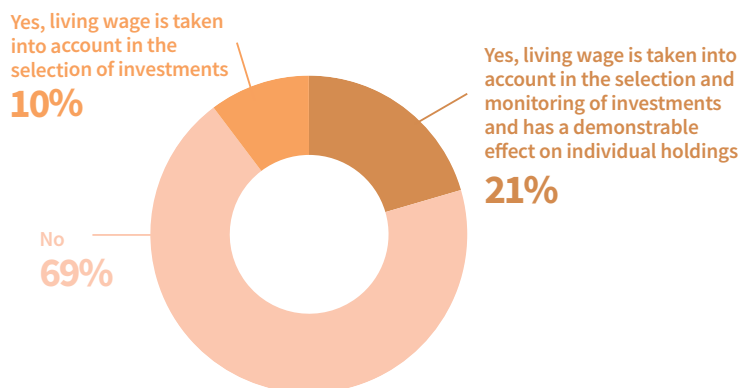


Figure 5.3 Living wage and ESG-integration

³⁶ VBDO Benchmark 'Responsible Investment by Pension Funds in the Netherlands 2017'
http://www.vbdo.nl/files/news/VBDOBenchmarkPensionFunds2017_980.pdf



Engagement

Pension funds provide companies with the capital to engage in a range of activities. In return, asset owners can actively influence the policies and activities of these companies. In most cases, the asset manager conducts engagement activities on behalf of the pension fund, whether or not by an external engagement service provider. With engagement, the pension fund enters into dialogue with the companies it invests in, in order to address business strategy and ESG issues.

Has living wage been a theme for engagement with companies?

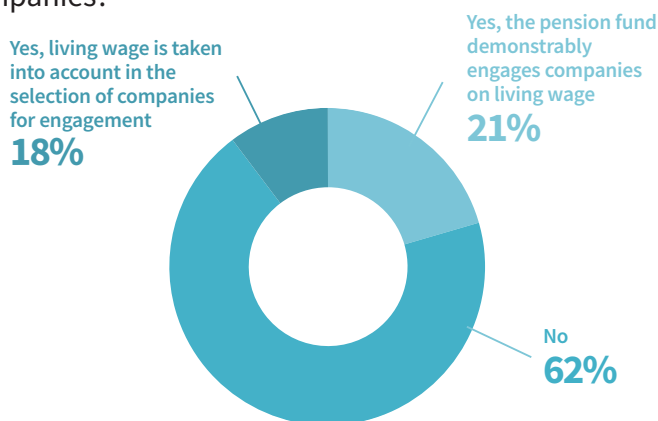


Figure 5.4 Living wage and Engagement

Figure 5.4 shows that 8 (21%) the pension funds demonstrably engage with companies on living wage. 15 pension funds indicate that living wage is taken into account in the engagement yet only 7 (18%) make a reference in the RI policy.

In addition to the information provided in figure 5.4, the engagement focuses for some (11%) on the own operations of the company, others (11%) on the entire supply chain and 8% promote collaboration between companies on these topics.

Serious misconduct of the UN Global Compact can be a reason to start the engagement. Unfortunately it is not always clear what the impact of engagement activities has been and whether it has led to improved behaviour.

Freedom of Association and the Right to Collective Bargaining

In 2016 VBDO performed a study on the role of pension funds in subject of ‘Freedom of Association and the Right to Collective Bargaining’. Although 96% of the responding pension funds made a reference to labour rights in general in their responsible investment policy, only 6% made an explicit reference to freedom of association and the right to collective bargaining. Both are core labour rights according to the International Labour organization. And both need to be in place if living wage is to be affectively addressed.

Although living wage was explicitly referred to by 14% of the pension funds (more than twice as much as to FoA and RtCB), we see pension funds are in practice acting more on the themes of FoA&RtCB:

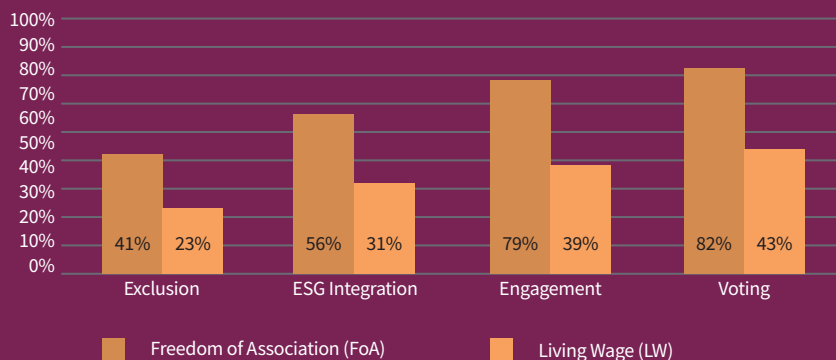


Figure 5.5 Living wage and voting decisions

This discrepancy can mostly be explained by the fact that there are still many challenges in addressing living wage. For both themes engagement is seen as the most effective instrument for pension funds to make a difference.



Voting

As a shareholder, institutional investors have certain rights that can be exercised to address particular themes. Voting at annual general meetings is one of such rights. This provides the investor with a tool to directly influence a certain policy or activity. Shareholders can suggest, adopt or reject resolutions through voting.

Has living wage been taken into account in voting decisions?

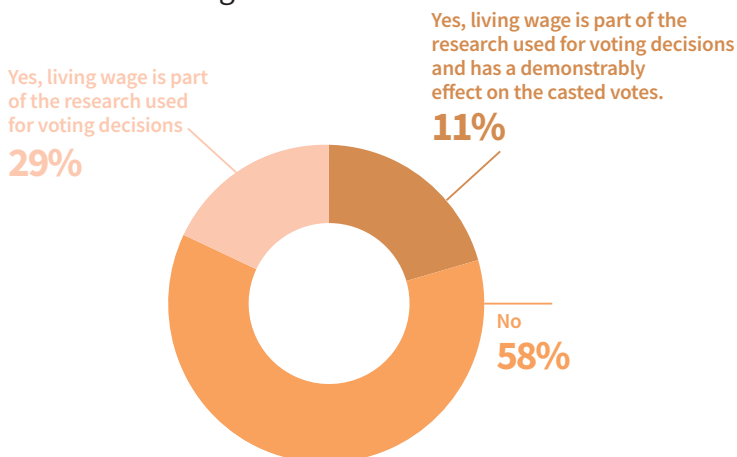


Figure 5.6 Living wage and voting decisions

58% indicated that living wage has not been taken into account in the ESG criteria used for voting. 29% said that living wage was part of the research used for voting. It is unclear what the impact of this research is on the final vote. Finally, 11% said it was used for the research and had a demonstrable effect on the voting.



Impact Investing

Only 1 pension fund indicated to use impact investment as an instrument to improve living wage. This fund indicated that it participates in several bonds that contribute to higher wages and fair labour practices.

Acting on living wage

The majority of the pension funds indicated that engagement is the best way to act on living wage. Engagement has two distinct advantages; firstly the pension fund can still invest in the company and secondly they can try to generate a real impact by encouraging behavioural change. Engagement is most effective when the investor sets time-bound and measurable targets.

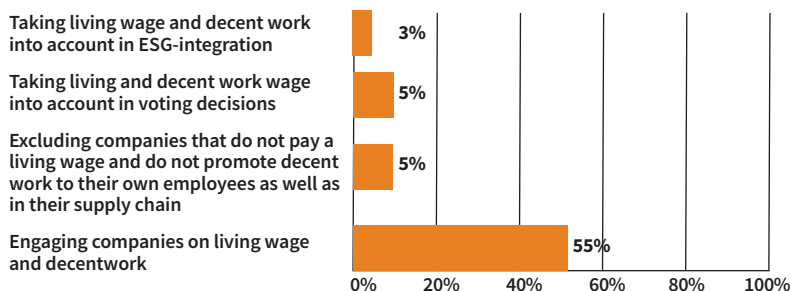


Figure 5.7 Acting on living wage

6 Conclusions and recommendations

6.1 Conclusions

This study shows that a lot of progress can, and has to be made, regarding living wage as part of the decent work agenda. Though the majority of the responding pension funds indicated living wage is an important theme, it is not given much priority by most pension funds. The reasons for not including living wage in the responsible investment policy have been explained by the challenges, of which most still have to be overcome. But this study has also shown that the challenges do not have to be a reason to ignore this very pressing topic.

For a successful promotion of a living wage, a convincing methodology is needed. As pointed out previously, clear rules and transparency are important to stimulate this development. Any method is subject to criticism but the initiatives can serve as important starting points. Different initiatives and organizations such as the Asian Wage Floor, the Corporate Human Benchmark and the Fair Wear Foundation have developed tools that can be used as a baseline to start acting on this theme.

The challenges

The identification of the challenges is particularly interesting. Based on this study it can be concluded that a rather coherent and widely accepted definition of the term living wage has been around for a considerable time. Although there is still a lack of a standardised internationally accepted methodology, this should not be a reason for institutional investors to ignore this issue.

The challenge of international standards does not only refer to defining the concept, but there is also the fear of losing competitive edge when insisting on passing value down the supply chain. In order to overcome this obstacle, a more widespread awareness of the topic and demand for financial institutions to act upon it is necessary.

Data will continue to be a challenge. An important starting point is increased transparency amongst companies. There is a consensus amongst pension funds that engagement is the best way to achieve change. Important sources are data providers and NGOs.

Although most of these challenges indeed have to be faced, best practices show they do not have to stand in the way of pension funds to start creating a policy on living wage.

6.2 Recommendations

Look beyond the challenges

The challenges of implementing a policy on living wage can no longer be a reason to wait until international guidelines become more standardised and data to become more complete. Best practices show there is enough knowledge about the theme of living wage for pension funds to make the topic part of the responsible investment policy. The discussion is focused on the challenges, instead of how to use the information that is available. Collaboration between pension funds and engagement with companies are two key factors to make progress on living wage.

Use the expertise of labour unions

Via pension funds, labour unions could champion the interests of millions of employees, both within and outside the Netherlands. Pension funds can benefit from the expertise of labour unions to develop an investment strategy including decent work and living wage. They can play an important role in assessing the local circumstances. Trade unions can also play a role in the empowerment of other trade unions in developing countries, with respect to living wage.

Steps to implement a successful responsible investment policy on living wage

In this section we discuss the example of tobacco policy and the policy development phases used to implement a policy on living wage as part of decent work. To define a policy on tobacco, pension funds need to move through several phases of policy development (see figure below). These phases can be used as a basis to translate the development and implementation of a policy on living wage as part of decent work.

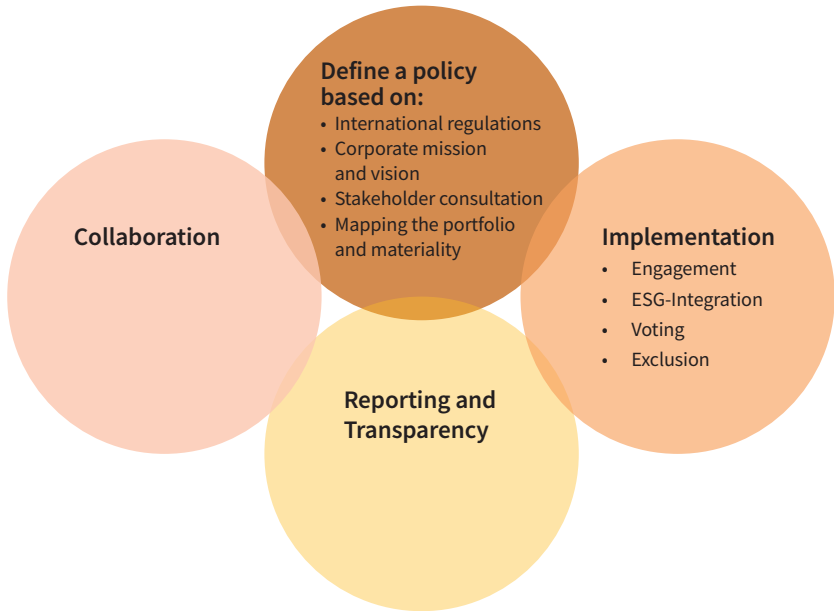


Figure 6.1 Implementing a policy on living wage

Define your policy

The questionnaire showed us the many challenges that still exist, especially regarding living wages. These challenges, although they should not be trivialised, do not have to cause problems in of creating a policy. Several inputs can help in defining your own stance:

- Screen international standards and initiatives you have signed on to and use these as a basis for creating a policy.
- Define your mission and vision for your viewpoint on decent work in general, and living wage in particular.
- Map the opinions and stance of your main stakeholders on living wage.
- Make a materiality scan of living wage and the ESG-risks.
- Map your portfolio and distinguish which sectors are particularly sensitive to exploitation, e.g., the garment industry.
- Define which responsible investment instruments would most likely fit your policy and investment management strategy.

Putting policy into practice



Engagement

When it is clear that a company is exposed to risks of underpayment, especially in the supply chain, or when it is unclear if the company has sufficient mechanisms in place to prevent underpayment, an engagement process will be a powerful instrument to address these issues. The following steps can be taken by the pension fund:

- Assessing transparency is an important first step in the engagement process.
- Engage companies to commit to paying a living wage in their Code of Conduct.
- Engage companies to identify key risks both in their own operations as well as across their supply chain.
- Perform due diligence on companies to assess if they pay a living wage in their own operations and engage companies to do so in the supply chain.
- Set relevant and time-framed targets.



ESG-Integration

Make sure to collect relevant and up-to-date information. This information needs to be integrated into the management portfolio. A next step is to develop specific living wage criteria for investments to be assessed on.



Voting

When engagement is not successful and exclusion is still a step too far, voting policies can be initiated by tabling questions and resolutions at the annual shareholder meetings. Increased transparency on relevant activities in the annual report can also be requested.



Exclusion

Exclusion can be the right instrument to use when a company is exposed to underpayment in its own operations and/or in the supply chain, is not responding to engagement within a reasonable period of time, and no progress is being observed.

Reporting and transparency

When developing a policy on living wage and putting it into practice, it is of importance to be transparent on the policies, the arguments for making these policies and the challenges faced. A clear explanation of the steps financial institutions can take on this topic will lead to more awareness, more knowledge sharing and hopefully to more collaboration on this issue.

Collaboration

The challenges concerning the implementation of a living wage can only be overcome if there is more collaboration, and not just between companies but also between financial institutions. For pension funds, it is important to also collaborate with asset managers, data providers, labour unions, NGO's and most important; other pension funds.

If investors work together they will have the power to stimulate more specific guidance and criteria for living wage. Joining forces can have a notable positive effect on the lives of numerous workers around the world.

Appendix 1: List of respondents *

- Ahold Pensioenfond
- Algemeen Burgerlijk Pensioenfond
- Bedrijfstak Pensioenfond voor de Bouwnijverheid
- Bedrijfstakpensioenfond Koopvaardij (KVD)
- Bedrijfstakpensioenfond Schilders
- Bedrijfstakpensioenfond voor de Media (PNO Media)
- Heineken Pensioenfond
- Pensioenfond Bakkers
- Pensioenfond Horeca en Catering
- Pensioenfond Metaal en Technie (PMT)
- Pensioenfond Openbaar Vervoer (SPOV)
- Pensioenfond PGB
- Pensioenfond Progress (Unilever)
- Pensioenfond TNO
- Pensioenfond Vervoer
- Pensioenfond Zorg en Welzijn (PFZW)
- Philips Pensioenfond
- Rabobank Pensioenfond
- Pensioenfond SNS Reaal
- Stichting Pensioenfond voor de Woningcorporaties
- Spoorweg Pensioenfond

* Below, the participants who have given permission for their names to be published are listed alphabetically.

Appendix 2: Definition Living Wage

Living wage

The Universal Declaration of Human Rights recognizes the right of every worker to “just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity” (Article 23).³⁷ Living wage is a wage which provides employees with the necessary income to maintain a decent standard of living based on geographical location and cost of living (local context).³⁸ In many countries, wages earned during normal working hours are often too low to meet the basic needs – including food, housing, clothing, education and healthcare of the workers and their families. In order to sustain their livelihoods, workers have to work overtime, exceeding the norm of a maximum of 48 hours per week (excluding up to 12 hours per week overtime on a non M regular basis), as set by the ILO.³⁹ These work patterns may have adverse impact on the workers’ physical and mental well being, as well as wider implications for social development at the national/ regional level. In addition, poverty wages may lead to other human rights violations, most notably child labour.

The concept of living wage has been attracting growing attention and several MNEs have started discussing related issues with their stakeholders.⁴⁰ To date, continuous consumer demand for ever decreasing prices as well as companies’ concerns that the rewards might not compensate for the higher wage costs, appear to have hindered the application of living wage across global supply chains.⁴¹ Yet, such a social investment would not only minimise reputational risk from campaigns pointing out underpayment, but it would also provide the company with opportunities to enhance its corporate image and build sustainable, long-term relationships with its suppliers.⁴²

*Note: Living wage is not to be confused with the legal minimum wage, as the latter is set by government mandate (law) and, in most cases, it is lower than the former. Minimum wage has failed to protect workers sufficiently: in many developing countries, if a minimum wage exists, it equals the UN-defined poverty line of US\$2/day.*⁴³

³⁷ <http://www.un.org/en/universal5declaration5human5rights/>

³⁸ VBDO Responsible Supply Chain Benchmark 2014: *A comparison of responsible supply chain practices of global multinationals*. (2015)

³⁹ Berenschot. (2012). Living wage in international supply chains: an inventory report. And: <http://ilo.org/global/standards/subjects-covered-by-international-labour-standards/working-time/lang--en/index.htm>

⁴⁰ <https://www.isealalliance.org/our-work/improving-effectiveness/global-living-wage-coalition>

⁴¹ Special P+ Living Wage. From: https://www.hivos.org/sites/default/files/01-12-p_hivos_living_wage_edition.pdf

⁴² Ibid.

⁴³ Ibid.

The VBDO believes that companies should publicly commit to paying workers a living wage across their operations and supply chains and establish long-term targets. Companies should incorporate living wage in their sourcing policies and supplier agreements, and continuously assess the performance of their supply chains. These practices are consistent with a long-term corporate vision aimed at achieving non-financial objectives and ensuring sustainable business.

Appendix 3: Questionnaire

This year an extra tab with questions on labour rights, more specifically "Living Wage and Decent Work", is included in the questionnaire. Living wage and decent work is included in several declarations of the International Labour Organization (ILO). A living wage is not to be confused with the legal minimum wage, as the latter is set by government mandate (law) and, in most cases, it is lower than the former. Minimum wage has failed to protect workers sufficiently: in many developing countries, if a minimum wage exists, it equals the UN-defined poverty line of US\$2/day. Living wage is a wage, which provides employees and their direct dependents with the necessary income to maintain a decent standard of living based on geographical location and cost of living (local context). The term living wage does not necessarily have to be literally named, terms as 'fair wage' and 'living income' may also apply, provided that the definition is the same.

- 1. How are labour rights incorporated in the responsible investment policy?**
 - a. N/A
 - b. Through reference to the ILO conventions
 - c. Through reference to the UN Global Compact
 - d. Through reference to the SDGs
 - e. Through reference to the Corporate Human Rights Benchmark
 - f. Through reference to the OECD guidelines
 - g. Other; please specify
- 2. Does the pension fund make a reference to living wage and decent work?**
 - a. Yes
 - b. No
- 3. How is living wage and decent work included in the pension fund's responsible investment policy?**
 - a. N/A
 - b. Indirectly, through the OECD guidelines
 - c. Living Wage is referred to explicitly in the responsible investment policy
 - d. A distinctive policy has been developed on living wage

- 4. What was the main reason for including living wage and decent work in the responsible investment policy? (Multiple answers possible)**
 - a. N/A
 - b. The board identified living wage and decent work as an important theme for responsible investment
 - c. Participants identified living wage and decent work as an important theme for responsible investment
 - d. Media and/or NGOs identified living wage and decent work as an important theme for responsible investment
 - e. The asset manager identified living wage and decent work as an important theme for responsible investment
 - f. Other, please specify

- 5. Please indicate on a scale of 0-5, 5 being most relevant, how relevant the topics of living wage and decent work is considered by the pension fund?**
 - a. 0
 - b. 1
 - c. 2
 - d. 3
 - e. 4
 - f. 5

- 6. What is most needed in order to include living wage and decent work in the responsible investment policy?**
 - a. N/A
 - b. A clear definition of the theme of living wage and decent work
 - c. (Inter)national standards and/or guidelines on living wage and decent work
 - d. Collaboration with civil society
 - e. Improved ESG data on living wage and decent work
 - f. Legislation
 - g. Collaboration between pension funds
 - h. Other, please specify

- 7. Is living wage and decent work used as one of the criteria for exclusion?**
 - a. No
 - b. Yes, living wage and decent work is one of the criteria for exclusion

8. **Is living wage and decent work taken onto account in ESG-integration?**
 - a. No
 - b. Yes, living wage and decent work is taken into account in the selection of investments
 - c. Yes, living wage and decent work is taken into account in the selection and monitoring of investments
9. **Has living wage and decent work been a theme for engagement with companies?**
 - a. No
 - b. Yes, living wage and decent work is taken into account in the selection of companies for engagement
 - c. Yes, the pension fund demonstrably engages companies on living wage and decent work
10. **Which of the following topics have been part of engagement with companies? (multiple answers possible)**
 - a. N/A
 - b. Living wage and decent work in the own operations of the company
 - c. Living wage and decent work in the company's entire supply chain
 - d. Living wage and decent work being part of the Supplier Code of Conduct of the company
 - e. Living wage and decent work being part of the due diligence approach for suppliers
 - f. Promotion of collaboration between companies on the topic of living wage and decent work
11. **Has living wage and decent work been taken into account in the ESG-criteria used for voting decisions?**
 - a. No
 - b. Yes, living wage and decent work is part of the research used for voting decisions
 - c. Yes, living wage and decent work is part of the research used for voting decisions and has a demonstrable effect on the casted vote
12. **Has the pension fund invested in impact investments that have the aim to strengthen the payment of a living wage and promotion of decent work?**

13. How would you recommend pension funds/asset managers to act on living wage and decent work

- a. Excluding companies that do not pay a living wage and do not promote decent work to their own employees
- b. Excluding companies that do not pay a living wage and do not promote decent work to their own employees as well as in their supply chain
- c. Taking living wage and decent work into account in ESG-integration
- d. Engaging companies on living wage and decent work
- e. Taking living wage and decent work wage into account in voting decisions
- f. Using impact investments to strengthen living wage and promote decent work

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