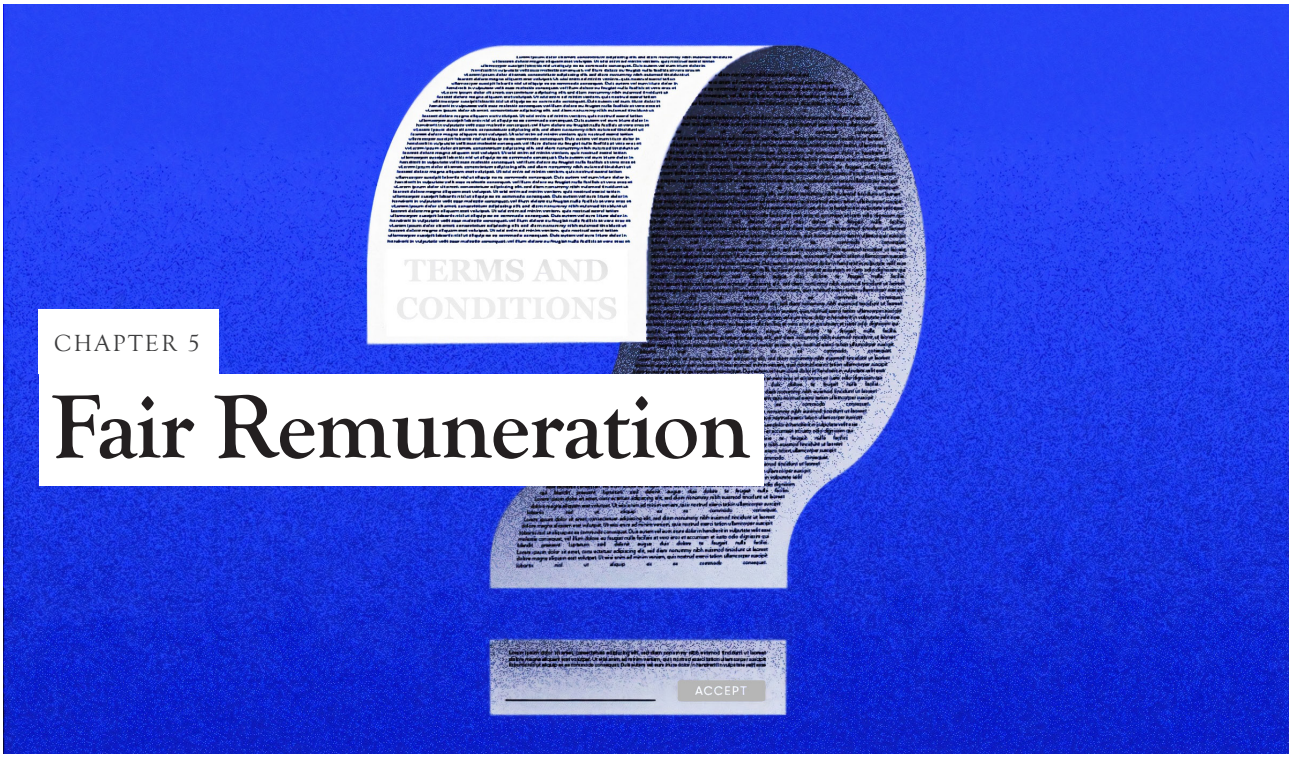


CHAPTER 5

Fair Remuneration

Introduction

Since the turn of the millennium the concerns of the international development community regarding social dimensions of development have broadened beyond issues such as health, education, poverty and social exclusion to also include income and wealth inequality.[104] More recently the SDGs, and SDG 10 in particular, have further reinforced the notion that vertical inequality in the distribution of economic resources needs to figure centrally in efforts to promote sustainable development.[105] This chapter examines what corporations can do to effectively measure sustainability performance related to income inequality within the firm. This requires going beyond conventional metrics associated with unequal pay for equal work, or indicators that compare wage levels to the minimum wage or industry norms. Here the focus is on measuring and assessing fair remuneration along two dimensions, namely, CEO-worker pay ratios, and wage levels compared to the living wage. In subsequent chapters, other aspects of unfair remuneration are addressed, in particular, gender inequality associated with the gender pay gap (Chapter 6) and skewed power relations associated with collective bargaining and corporate policy influence (Chapters 8 and 9).

[104] Social scientific analysis has played a key role in this process, not least via a series of flagship and other reports by United Nations agencies, the World Bank and think tanks (UNDP 2005, World Bank 2005, UNRISD 2010a, Anderson and O'Neil 2006). Academic research by Piketty and others has provided evidence of the growing disparities in income and wealth associated with the top 0.1 percent (Piketty 2014, Piketty and Saenz 2003). Banner headlines such as "Last Year 26 People Owned the Same as the 3.8 Billon People Who Make Up the Poorest Half of Humanity" prompted by advocacy work by groups like Oxfam have also fixed the spotlight on vertical inequality (Oxfam International 2019).

[105] In a context where international development agencies and think tanks were highlighting multiple negative impacts of inequality in relation to poverty reduction, social cohesion, efficiency and growth, it became apparent that inequality was a blind spot in the Millennium Development Goals (MDGs), and one that needed to be addressed in any post-MDG agenda, as it is now in the SDGs.

Income inequality within the firm

The CEO-employee pay ratio is an emerging performance indicator within corporate sustainability reporting. This reflects not only media and civil society concerns about now widely publicized disparities in income and wealth as well as how corporate elites appear to be driving this perverse phenomenon, but also growing concern among governments and investors. Policy makers have been confronted with a wealth of evidence about why inequality matters from the perspective of economic and social development as well as good governance (see Box 5.1). Investors are paying more attention to the issue of vertical inequality partly because of increasing evidence that CEO pay may not reflect corporate financial performance. Research conducted by the Vlerick Business School into 861 companies in six European countries found that firms which delivered strong financial performances over a sustained period shared the following characteristics (Baeten and Said 2016):[106]

- the remuneration of the CEO is relatively lower;
- the proportion of variable remuneration (such as bonuses or stock options) within the total CEO package is relatively lower;
- there is less leverage in the bonus (difference between target and maximum bonus);
- increasing or decreasing the use of long-term incentives is not important; and
- the CEO-employee pay ratio is lower.

Other research suggests that an extremely high level of executive pay may be partly determined by performance, but corporate culture may be as, if not more, significant:

> The salary package … stands as evidence of the potential strength of the company, of its capacity to play in a special league. It is a straightforward means to demonstrate reputation, legitimacy, and financial power. Put simply, it is the economy's unique impression management tool.

Box 5.1. Why does inequality matter?

The intellectual struggle to reincorporate vertical inequality in the portfolio of mainstream development concerns was intense as it involved overcoming not only a blind spot in conceptualizing and measuring development but also convincing key actors that inequality actually mattered both from a moral and a development perspective. Academic studies have highlighted multiple economic, societal and public policy implications.

Referring in particular to the United States, Boushey et al. (2017:14-16) note the following:

- "[I]nequality is a factor that leads enormous investments in resources to deliver little of ultimate value in the sense of human well-being and human satisfaction", as noted in the case of the distribution of medical care in the United States.
- Established or inherited wealth "is by its nature hostile to the creative destruction that accompanies rapid economic growth".
- "[H]igher inequality will slow growth by depriving the nonrich of the resources to invest in themselves, their children and their enterprises … [and] by focusing effort on helping the rich keep what they have at the cost of squelching the development of the new".
- Elites are opting out of public schools (and health services) and, as a result, may be less inclined to support the tax regimes underpinning public services. Furthermore, "reliance on private wealth to finance higher education has already made that sector far more unequal…".
- As a result of increased political and policy influence, elites can manipulate governments to "solve problems of concern to the plutocrats and not the people".
- As elites gain first-mover advantage in new sectors involving, for example, platform-based firms, their influence may make it extremely difficult for policy makers "to rein in the anticompetitive bent of … those who arrive first", thereby stifling innovation.
- Inequality can reinforce the ability of employers "to pick winners and losers" and drive them "to indignant outrage by the idea of a collective worker voice". It can also lead to greater segmentation or "fissuring"* within the workforce, which can marginalize the position of manual workers.
- "An unequal society is one in which *who* you know matters more to your ultimate well-being than *what* you know … [A] society in which the distribution of well-being is determined by 'who the rich like' is unlikely to preserve the gains of racial and gender equality made during the Social Democratic era".

* Boushey et al. 2017 citing Weil (Chapter 9).

[106] See "The Best Performing Companies Pay their CEOs Relatively Less". Vlerick Business School (20 December 2017). Accessed 30 November 2019. https://www.vlerick.com/en/research-and-faculty/knowledge-items/knowledge/the-best-performing-companies-pay-their-ceo-s-relatively-less

> This game is a 'ballgame' too, although not one played on the pitch, but in the company's pants, and the masculine smell is no coincidence. Whether the individual manager is worth the money and whether he or she meets the behavioural and performance expectations is not unimportant, but it is distinctly – secondary. Reward systems are a show of power (Wetzel 2014).

In other words, the issue of income and wealth inequality is intimately connected with that of the ongoing empowerment of corporate elites and the disempowerment of workers, issues that are addressed in later chapters of this report that deal with labour rights and corporate political influence.

The upshot of this restructuring of economic and power relations has been a shift in (i) the functional distribution of income, that is, the ratio of profits to wages which, over time, has moved in favour of profits, and (ii) the capacity of senior management to claim a greater share of the income pie. A convenient indicator that sheds light on this situation is the ratio of workers' pay to that of the highest paid executive in a particular company. Generally, this would be the CEO.

This discussion suggests that the following KPIs are relevant:

- CEO-worker or -employee pay ratios; and
- percentage annual increase in CEO or senior management remuneration compared to that of workers or other employees.

CEO-worker pay ratio

Methods for calculating CEO-worker pay ratios vary considerably. The calculation of CEO salaries often omits certain elements that make up the full compensation package. A comprehensive definition is that used by the Economic Policy Institute (EPI) for its study of CEO-worker pay gaps in the United States. This includes salary, bonuses, restricted stock grants, long-term incentive payouts and options realized or options granted (Sabadish and Mishel 2013).

Similarly, what CEO remuneration should be compared to also varies considerably. Most indicators focus on "employees" as opposed to "workers". The relevant GRI standard (see Annex 8) considers the legitimate comparator to be the median of the wages and salaries of all other employees. Some ratings agencies allow companies to report either the median or the mean average.

Given that workers, managers and other C-suite officers are all factored into the category of "other employees", the median and mean average can vary depending on the employment and pay structure. While mean averages may be easier to calculate, given the information already on hand, the median—the mid-point of a set of values—is generally considered to reflect more accurately the pay level of "typical" employees, notably in contexts of skewed distribution. The average pay of "other employees" may or may not bear a close relation to the wages of the lowest paid workers, who presumably should be a key focus of attention in any assessment of inequality. Accordingly, when calculating pay ratios, the EPI focuses more directly on "workers" as opposed to employees, defining workers as employees in production and non-supervisory positions when calculating pay ratios in the United States.

In its 2015 ruling related to the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the United States Securities and Exchange Commission (SEC) requires publicly traded companies to disclose, from 2017 onwards, the ratio of the compensation of the CEO to the median compensation of employees. The ruling, however, provides companies considerable leeway regarding the methods used.[107]

What might a fair CEO-worker pay ratio target look like?

Various reference points could inform the process of determining fair benchmarks and targets.

Historical norms that characterized periods that were considered "fair" are often referenced. During the so-called golden age of capitalism, or the era of "embedded liberalism" in the

[107] "... a company will be permitted to select its methodology for identifying its median employee and that employee's compensation, including through statistical sampling of its employee population or other reasonable methods." Further, "[t]he rule also permits companies to make the median employee determination only once every three years and to choose a determination date within the last three months of a company's fiscal year. In addition, the rule allows companies to exclude non-U.S. employees from countries in which data privacy laws or regulations make companies unable to comply with the rule and provides a *de minimis* exemption for non-U.S. employees. The rule does not apply to smaller reporting companies, emerging growth companies, foreign private issuers, MJDS filers, or registered investment companies." U.S. Securities and Exchange Commission. 2015. Accessed 10 September 2019. https://www.sec.gov/news/pressrelease/2015-160.html

decades following the Second World War, economic growth and public policy in many industrialized countries worked relatively well for both corporate elites and workers (Ruggie 1982). During this period, the CEO-worker pay ratio was approximately 20 or 30 to 1. It has been noted that during the 1970s a criterion for the determination of CEO pay in the United States was intra-firm equity, that is, how CEO remuneration compared to that of other employees within the same firm. In subsequent decades, however, there was a shift from this internal equity to what can be called external equity, that is, the determination of CEO salaries focused more on what other CEOs earn (Clifford 2017).

Another reference point could be pay ratios associated with what one might term gentler varieties of capitalism, as in Nordic countries like Denmark, Finland, Norway and Sweden where Bloomberg data comparing CEO pay to average income reveals ratios of 61-101 to 1. Similarly, in several Asian jurisdictions (Hong Kong, Japan, Malaysia and Singapore) ratios are in the 60 to 1 range. This is well below the level found in countries like Canada, the United Kingdom, the United States, India and South Africa, where ratios ranged from 203-541 to 1 (see Table 5.1).

Table 5.1. CEO pay to average income* ratio
(Selected countries, 2015-2016)

South Africa	541
India	483
US	299
UK	229
Canada	203
Switzerland	179
Germany	176
Spain	172
Netherlands	172
Israel	119
Republic of Korea	114
Australia	113
Norway	101
Denmark	82
Sweden	75
France	68
Hong Kong	66
Malaysia	66
Singapore	65
Japan	62
Finland	61
Austria	47
China	43
Poland	24
Thailand	4

Source: Lu and Melin 2016.
* "average income" refers to per capita gross domestic product adjusted for purchasing power parity.

One might also look to other enterprise models, such as large cooperatives or state-owned enterprises (SOEs). The Mondragon Corporation, for example, which has approximately 75,000 employees, has a pay ratio of 9 to 1 (Heales et al. 2017). Government regulations introduced for French SOEs in 2012 capped CEO pay at 20 times the average salary of the lowest paid 10 percent of workers. Similarly, among a group of South African SOEs, the highest ratio was around the same level (Francis 2017).[108] A ratio of 10 to 1 was proposed as a new benchmark for SOEs as part of China's anti-corruption drive in 2014.[109]

Various ratings, certification and research organizations have also provided guidance for determining fair pay ratios. During the boom years prior to the 2008-2009 global financial crisis, the well-regarded ratings firm KLD[110] assessed a company positively when the total compensation level for the CEO was below USD 500,000.[111] Taking United States GDP per capita adjusted for purchasing power parity,[112] this CEO remuneration level would amount to a ratio of about 11 to 1.

In Canada, the Wagemark Foundation oversees an international wage certification system for organizations with a ratio of 8 to 1 or less. The Wagemark Standard compares the total earnings of the highest paid employee with the average pay of the bottom decile of earners.[113]

The highest bar for fairness, however, seems to be set by the general public. A survey of some 55,000 people in 40 countries found that perceptions of an ideal ratio between CEO and unskilled workers' pay ranged from 2 (Denmark) to 20 (Taiwan, Province of China) to 1, with 4.6 to 1 being the global average (Kiatpongsan and Norton 2014).

[108] The author of the South Africa study points out, however, that the reported pay ratios would likely have been significantly higher had outsourced workers also been included in the calculations.

[109] See "The land of less pay: China combats corruption through cap." World Finance. 6 November 2014. Accessed 30 November 2019. https://www.worldfinance.com/strategy/china-the-land-of-less-pay

[110] KLD was acquired by RiskMetrics in 2009.

[111] See Appendix A. Criteria of RiskMetrics-KLD social ratings in Becchetti et al. 2013.

[112] World Bank data indicate that US per capita GDP at PPP was USD 46,437 in 2006.

[113] See Wagemark.org at http://www.wagemark.org/about/. Accessed 30 November 2019.

One study of fairness in relation to CEO-worker pay ratios makes the point that there is a need to distinguish between fairness from a utopian perspective and fairness in the context of actually existing systems and institutional settings (Venkatasubramanian 2017). Recent fiscal regulations and policy proposals provide pointers as to what fair ratios in the real world might look like. Several initiatives in the United States have emerged at local, state and federal levels. A number of cities and municipal authorities have enacted, or are considering, fiscal policies that target corporations with high CEO-worker pay ratios. An initiative introduced in Portland, Oregon in 2018 set a threshold of 100 to 1. Above this level a surtax of 10 to 25 percent is levied depending on the ratio (Anderson and Pizzigati 2017).[114] Branko Milanović observes that this "seems [to be] the first tax that targets inequality as such … It treats inequality as having a negative externality, like taxing carbon emissions" (The Guardian, 2016).

Under a legislative proposal introduced in 2014 in California (California Senate Bill 1398) the tax rate of publicly traded companies would vary depending on pay ratio (see Table 5.2), remaining at 8.8 percent for companies with a pay ratio of 50 to 1 or below, and increasing thereafter by 1 percent for every additional band, up to a maximum of 13 percent for companies with a pay ratio over 300 to 1. While this initiative was not successful, a similar proposal (SB-37) was reintroduced in 2019.[115]

Fifty to one is also the ratio established in the Tax Excessive CEO Pay Act, introduced at the federal level in the United States in November 2019. Under this proposal, large corporations with ratios between 50 and 100 to 1 would incur an additional tax of 0.5 percent. The rate would rise in subsequent pay ratio bands, reaching 5 percent above 500 to 1.[116]

Table 5.2. Variations in tax rate by pay ratio band (California Senate Bill 1398)

Pay Ratio	Tax Rate
0 to 50	8.84%
50 to 100	10%
100 to 200	11%
200 to 300	12%
Over 300	13%

In the run-up to mandatory disclosure of CEO-worker pay ratios, called for under Dodd-Frank and the SEC ruling, regulatory proposals were tabled in several other jurisdictions including Minnesota, Massachusetts, Illinois, Connecticut, Rhode Island and San Francisco (Center on Executive Compensation 2019). These initiatives aimed to impose fees or varied rates of tax based on pay ratios (Mishel and Schieder 2018). A Senate Bill in Rhode Island proposed to give corporations with CEO-worker pay ratios of no more than 25 to 1 preferential treatment in state contracting. Similarly, in Canada, the *Québec solidaire* party proposed in 2018 the introduction of the "Bombardier Clause", under which state aid in the form of subsidies or tax credits would only be provided to companies with a 30 to 1 ratio (or lower) for CEO to lowest paid employee.[117]

Depending on the country and institutional context, the above yardsticks suggest that normative targets that reflect a fair pattern of allocation associated with principles and goals of equality and sustainable development should lie in the range of about 10-50 to 1, if not below.

Other dimensions of vertical inequality

Beyond the question of income inequality within the firm, there is also that of income inequality within the broader value chain. Only touched upon in this report, this is an issue that deserves considerably more attention. Here, too, structural conditions are key, including the concentration of higher value-added economic activities in specific jurisdictions and significant variations in bargaining power among actors within a value chain. As discussed in Chapter 8, even among corporations that adhere to principles of sustainability and corporate responsibility, aggressive purchasing practices may seriously constrain not only income but also what suppliers can do vis-à-vis social and environmental upgrading. Also important is the extent to which corporations engage in meaningful forms of fair trade that boost the incomes of raw material producers and their communities.[118]

[114] Tax revenues will be channeled towards affordable housing and other local needs.

[115] See California Legislative Information. Accessed 20 December 2019. Available at: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200SB37

[116] See "Sanders, Lee, and Tlaib Partner to Combat Outrageous CEO Pay." Accessed 3 December 2019. https://www.sanders.senate.gov/newsroom/press-releases/sanders-lee-and-tlaib-partner-to-combat-outrageous-ceo-pay

[117] See Québec solidaire. "Lier la rémunération des patrons à celle de leurs employés, un choix responsable". Accessed 30 November 2019. https://appuyez.quebecsolidaire.net/salaire-maximum

[118] This issue has recently gained attention in a context where several large food corporations are withdrawing from the international Fairtrade certification scheme. See Subramanian 2019.

The contemporary enrichment of the business and financial elite is not a function simply of their skill set and contribution to economic growth, but also of rent-seeking (Reich 2007, Stiglitz 2016, 2018, UNCTAD 2017). In other words, it is associated with the power and influence they have due to their position and ability to influence shareholders, politicians, public policy and the media. Oxfam's work on inequality highlights the role of cronyism and monopoly power as two key determinants of perverse inequality, along with inheritance and tax-dodging via tax havens and other means (Oxfam 2018). Rising vertical inequality is also a function of changes in power relations that involve the strengthening of the managerial class vis-à-vis both shareholders and trade unions. These issues are addressed in subsequent chapters dealing with corporate taxation, labour rights and corporate political influence.

Living wages

A common response to the issue of vertical inequality within corporate sustainability accounting is to bypass what is happening at the top of the corporate pyramid, and focus instead on efforts to improve working conditions related to occupational health and safety (OHS), pay violations, workplace discrimination, overtime, and compliance with minimum wage regulations as well as norms or regulations related to equal pay for equal work. More recently, the principle of fair remuneration and the concept of the living wage have gained currency within corporate sustainability discourse.

In 2015, the Fair Labor Association (FLA), for example, enhanced its work on the compensation element of building socially responsible supply chains by implementing the FLA Fair Compensation Work Plan.[119] Similarly, the 2016 revision of the King standards for corporate governance in South Africa introduced the principle that "[t]he governing body should ensure that the organization remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term" (Principle 14, King IV). A number of corporations—adidas, PUMA, Unilever, H&M, IKEA, AstroZeneca, Vodafone and Standard Chartered Bank, for example—are now referencing fair remuneration or the living wage in their pay strategies.[120]

From the perspective of the 2030 Agenda, fair remuneration in terms of wage levels is a key element as it would simultaneously contribute to multiple goals, not least SDG 1 (poverty reduction), 5 (gender equality), 8 (decent work), and 10 (reduced inequalities), as well as improved access to food (2), health and well-being (3), education (4), clean water (6) and energy (7).

The concept of fairness in relation to remuneration should involve both the question of allocation—that is, fair patterns of distribution within the corporate structure—and establishing a sustainability threshold, in other words a level of wages conducive to human well-being.

Corporate sustainability reporting frameworks and practices often adopt a minimalist interpretation that judges fairness in terms of compliance with minimum wage regulations or industry norms (see Annex 8). Even an indicator as basic as real wages, that is, nominal wages adjusted for inflation, is often ignored. This is of particular concern given that real wage trends have declined or remained flat in many countries, notably in the G20 (ILO 2018a).

Indicators for transformative change need to go well beyond these minimalist yardsticks by considering progress towards the payment of a living wage.

What is the "living wage"?

The concept of the living wage refers to wage levels that allow a full-time worker, working normal hours, to provide for their family via a wage that covers basic food, housing, transportation, health, education and some other costs, as well as a small proportion for discretionary expenditure and savings. Calculations of living wages are site-specific, that is, they refer to geographical areas (such as countries, provinces, urban/rural areas) where costs of living are fairly similar. Furthermore, they must be periodically adjusted to factor in price changes.

[119] Previously, in 2011, "the FLA enhanced the compensation element in its Workplace Code of Conduct, affirming workers' right to wages that meet the worker's basic needs and provide some discretionary income". This work plan charts the path forward for implementing that element of the code, providing fair compensation for workers, one of the biggest challenges in building socially responsible supply chains. See: http://www.fairlabor.org/blog/entry/fla-board-directors-approves-implementing-fair-compensation-work-plan

[120] See Vaughan-Whitehead 2019:18.

How the term is interpreted and applied can vary considerably. Sometimes, it is used loosely by organizations to embellish performance related to compliance with minimum wages. In other instances, organizations may adopt a principle associated with the living wage but, in practice, focus on minimum wage norms that consider some level of living costs related to basic needs.

Indeed, this has occurred in the case of the International Labour Organization (ILO). Over its 100 year history, the ILO has referenced the notion of a living wage, or the need for minimum wages to cover basic needs, at pivotal moments.[121] Part XIII of the Treaty of Versailles, which established the ILO in 1919, refers to the need to urgently improve poor labour conditions via "the provision of an adequate living wage". The 1970 ILO Convention 131 and Recommendation 135 on Minimum Wage Fixing call on governments to consider "'the needs of workers and their families as a criterion to determine the level of minimum wages, taking into account the general level of wages in the country, the cost of living, social security benefits and the relative living standard of other social groups" (Reynaud 2017: 24). Focusing on fixing or defending minimum wages is not the same, however, as actively promoting the concept of the living wage (Reynaud 2017, AFWA 2017a).

In some contexts, a hybrid term has emerged, as in the case of the United Kingdom. In 2016 the government introduced "the minimum living wage" which simply added 50 pence onto the minimum wage for anyone over 25 years of age.

The task of defining norms associated with more expansive definitions has fallen to others, notably standard-setting and certification bodies, advocacy NGOs and academics.

A second issue concerns what basic needs and household expenditure elements the living wage should cover. While it is generally understood that the living wage should cover basic needs, what constitutes basic needs can be viewed quite differently. This is illustrated in the following typology of wages proposed by the social, economic, research and education organization CREA.

- Level 1 – Marginal survival wage: Wage level does not provide for adequate nutritional needs. Starvation is prevented but malnutrition, illnesses and early deaths are the result.
- Level 2 – Basic survival wage: Wage level allows for meeting immediate survival needs including basic food, used clothing, minimal shelter and fuel for cooking.
- Level 3 – Short-range planning wage: Wage level meets basic survival needs. Possibility of small amount of discretionary income allows for minimal planning beyond living from paycheck to paycheck. Allows for occasional purchase of needed item(s) as small amounts can be set aside after meeting basic survival needs.
- Level 4 – Sustainable living wage: Wage level meets basic needs including food, clothing, housing, energy, transportation, health care and education. Ability to participate in culturally-required activities (including births and related celebrations, weddings, funerals and related activities). Also allows for the setting aside of small amounts of money (savings) to allow planning for the future purchase of items and the meeting of needs. In addition to meeting basic needs and allowing the worker to set aside money for future purchases, allows for the availability of enough discretionary income to allow the worker to support the development of small businesses in a local community, including the support of cultural and civic needs of the community. Wage levels allow for long-range planning and participation (CREA 2019).

From the perspective of sustainable development and transformative change—or thriving—definitions and long-term targets should, presumably, be associated with level 4. In regulatory and advocacy circles, however, the dust seems to be settling on a definition that is somewhere between levels 3 and 4.

[121] These include the 1919 Treaty of Versailles which established the organization, the 1944 International Labour Conference in Philadelphia, which reviewed the organization's mandate in the wake of the Second World War; the context of decolonization in the 1960s; and in 2008 when the Declaration on Social Justice for a Fair Globalization was adopted (Reynaud 2017, AFWA 2017a).

Drawing on over 60 living wage descriptions and definitions, the Global Living Wage Coalition (GLWC), for example, defines a living wage as:

> remuneration received for a standard work week 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.[122]

Measurement issues

While a consensus may be emerging around the definition of a living wage, methods for calculating the living wage vary. Significant issues concern, for example, what constitutes an adequate diet in terms of calories per adult per day, the relative weight of housing costs, the composition of discretionary spending and savings, how many income earners and dependents make up a family or household, what constitutes wages, and how many hours of work are required to earn a living wage. Furthermore, national figures may mask significant variations within countries. These difficulties suggest a role for an international organization like the ILO, which has long acknowledged the principle of the living wage, to facilitate work towards a more standardized methodology that can be applied globally.

Basing their work on what is known as the Anker Methodology[123], GLWC (undated) notes some of the differences in methods, stating that theirs:

> is a practical compromise between separately estimating the cost of each and every expense families have, and the most common approach currently used for estimating living wage in developing countries, which uses just two expense groups (food costs based on a model diet and nonfood costs based on secondary data). Using normative standards for decent housing and estimating housing costs separately (not as part of nonfood costs, as in typical methodologies) ensures that living wage estimates enable workers to afford decent housing. In contrast, typical methodologies rely on available expenditure data to estimate housing costs and so replicate current (often substandard) housing conditions. Our methodology also better allows for different living wage estimates for rural and urban areas, as housing costs are usually the most important cause of differences in living costs. Our methodology also increases transparency, because the size of the "all other essential costs" bucket is much smaller and examined more thoroughly (and adjusted when necessary) than in typical approaches.[124]

The Asia Floor Wage Alliance (2017b) adopts the following assumptions:

- A worker needs to be able to support themselves and two other "consumption units" (1 consumption unit = 1 adult or 2 children).
- An adult requires 3,000 calories a day to be able to carry out their work.
- Food makes up half of a worker's monthly outlays; housing, health, education, transport and fuel make up 40 percent; 10 percent is for discretionary income associated with entertainment, savings, pension and redundancy of the main earner.
- The Asia Floor Wage is calculated in purchasing power parity (USD), or PPP$, which allows the standard of living between countries to be compared regardless of the national currency.

For its calculations relevant to garment workers in other regions, the Asia Floor Wage Alliance adapts these assumptions to local context:

> The Asia Floor Wage calculation cannot be simply applied to other regions as some of the assumptions do not apply, for example, food costs accounting for half of income. This is the case in Asia where food costs are relatively high and standards of living such as housing are very low, however in other regions such as Eastern Europe food costs are relatively lower when compared to housing (AFWA 2017b).

[122] See https://www.globallivingwage.org/about/what-is-a-living-wage/. Accessed 28 November 2019.

[123] See Anker, Richard and Martha Anker, 2017. *Living Wages Around the World: Manual for Measurement*. Cheltenham UK: Edward Elgar.

[124] See https://www.globallivingwage.org/about/anker-methodology/. Accessed 28 November 2019.

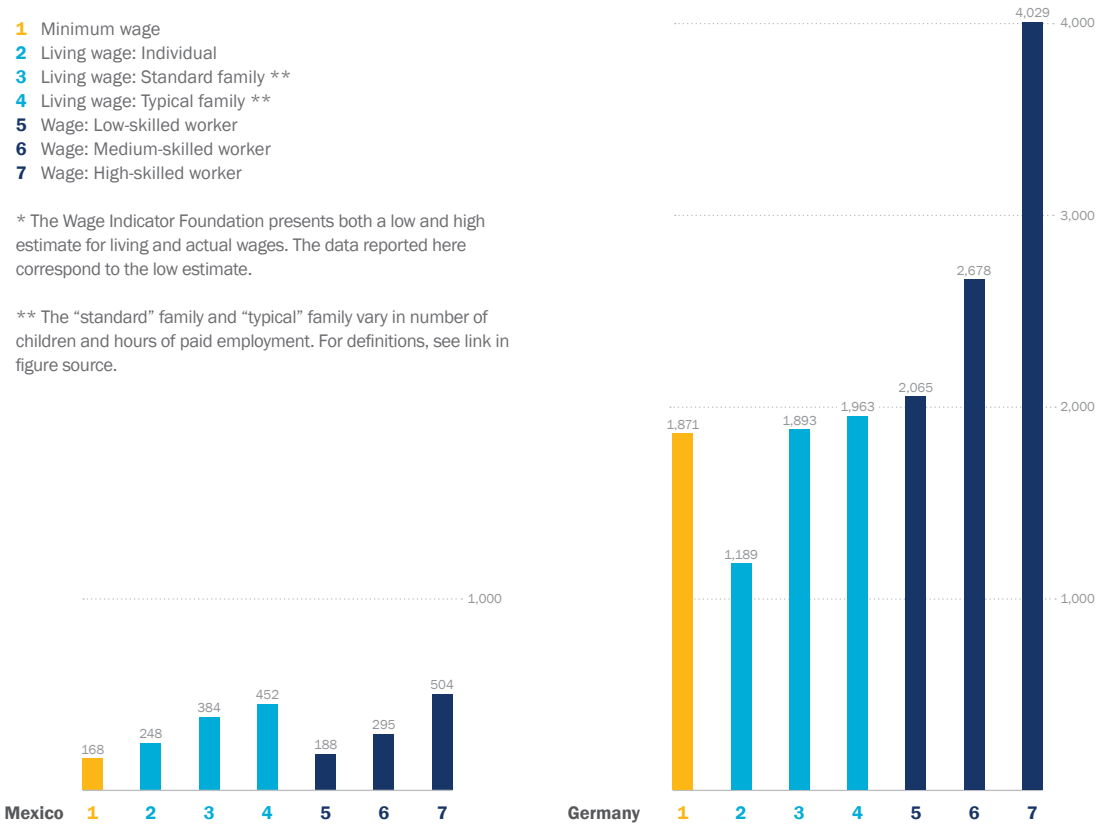
Work has been carried out by the GLWC[125] to inform auditors and certification organizations associated with six of the standards systems that operate under the ISEAL Alliance, a global membership association for credible sustainability standards.[126] GLWC guidance on what constitutes wages is outlined in Annex 9.

Comparing actual wages with the living wage

Several organizations and studies are now generating useful data to measure not only what the living wage is in specific countries or geographical areas, but also how actual wages compare with the living wage. This evidence is exposing the acute inadequacy of the conventional focus on minimum wage compliance as a yardstick to measure worker well-being. It also reveals that in many countries and supply chains, it is only through excessive overtime that workers can earn enough to meet basic needs. As noted in a study of compensation by the Fair Labor Association (FLA) in Viet Nam:

> The FLA's data show that although the average worker in FLA affiliate factories in Vietnam earns more than double the minimum wage, a worker would need a pay increase of almost 25 percent to adequately provide for themselves and their family according to the Global Living Wage Coalition benchmark. Those workers who earn an adequate wage can do so only through long hours and excessive days of work without rest, in clear violation of international standards. While all of the regional legal minimum wages in Vietnam fall well above the World Bank Poverty line, none meet even the lowest living wage benchmark (FLA 2019:11).

Figure 5.1. Minimum, living and actual wages per month, USD equivalent* (Selected countries, 2020)



Source: Based on data from the WageIndicator Foundation. *Wages in Context*. https://wageindicator.org/salary/wages-in-context. Accessed 10 August 2020.

[125] The Global Living Wage Coalition was founded by several standard setters to design, promote and implement a living wage for workers within the sphere of labour standards. The organizations agreed on a common definition of a living wage, use the same methodology for estimating a living wage, and have committed to working towards the long-term goal of improving wages and to involving brands, buyers, retailers and other relevant stakeholders in this process. See: https://www.globallivingwage.org/about/, accessed 30 November 2019.

[126] The six entities are Fairtrade International, Forest Stewardship Council, GoodWeave International, Social Accountability International, Sustainable Agriculture Network, and UTZ Certified. Some 19 sustainability standards and accreditation bodies are full members of ISEAL. See: https://www.isealalliance.org/about-iseal/iseal-members, accessed 30 November 2019.

Table 5.3. Minimum wage versus living wage

Country	Minimum wage* (euros)	Living wage** (euros)	Difference*** (%)
Bangladesh	49.56	259.80	19
Cambodia	72.64	285.83	25
China	174.60	376.07	46
India	51.70	195.30	26
Indonesia	82.14	266.85	31
Malaysia	196.06	361.21	54
Sri Lanka	50.31	259.46	19

* The method for calculating the minimum wage may vary by country.
** The living wage is based on the Asia Floor Wage 2013 figure of PPP $725.
*** Minimum wage as a percentage of the living wage.

Source: Merk 2014. http://asia.floorwage.org/wp-content/uploads/2019/10/LW-in-Asia-AFWA-CCC.pdf, accessed 20 April 2020

The Wage Indicator Foundation calculated the living wage for 76 countries in 2019.[127] Furthermore, the data compare the living wage to the minimum wage and to the prevailing wage of different types of worker categorized by skill levels (low, medium and high). Data reveal significant variations in wage relationships.

Regarding high income countries:

- with a few exceptions the minimum wage approximates the living wage of a "typical family";[128]
- wages of the low-skilled often exceed the living wage;[129]
- in a few countries, the wage of low-skilled workers is below the living wage of the "typical family".

In relation to developing and transition economies:

- in many countries the living wage exceeds not only the wage of low-skilled workers but also that of medium-skilled workers;
- in just a few countries, the wage of low-skilled workers exceeds the living wage;
- at the extreme, there are instances of countries where even the wages of high-skilled workers are below the living wage.

Figure 5.1 shows data on the minimum wage, the living wage and the actual wage of different skill categories of worker in Mexico and Germany. In the case of Mexico, low-skilled workers earn just above the minimum wage but neither they nor medium-skilled workers earn anywhere near the living wage for a family. This contrasts with the situation in Germany where the minimum wage approximates the living wage for a standard family and even low-skilled workers earn above the living wage.

Concerned by low wages in the garment industry in Asia, the Asia Floor Wage Alliance (AFWA) was formed to promote the living wage concept in this region. The AFWA measures how salaries based on the minimum wage compare with the living wage. Data for 2013, presented in Table 5.3, suggest that the gap is significant, with the minimum wage standing at approximately 50 percent of the living wage in the case of Malaysia and China, and just 19 percent in Bangladesh and Sri Lanka.

The use of different methods to calculate the living wage has led to concerns that different organizations—say, governments or NGOs or trade unions—tend to adopt methods that suit their particular preferences in terms of low or high valuations (Vaughan-Whitehead 2019). However, it can be argued that high valuations are not realistic from a business perspective, given the economic constraints experienced by firms. In the case of the Fair Wage Network, this concern has led to a focus on the requirement that management systems be in place—such as a fair wage policy, needs assessment, social dialogue—in order to gain certification (Vaughan-Whitehead 2019).

While such an approach is important for engaging companies in a fair wage strategy, it should not be seen as an alternative to a performance-based assessment process guided by ambitious targets. In keeping with the focus of this report, such targets are key for corporate sustainability accounting, as they suggest thresholds that need to be met from the perspective of sustainable development. It may well be that a company cannot bridge significantly, in the short or medium or even long term, the gap between actual wages and the living wage. From an accounting perspective, however, we at least know where that company is positioned in relation to this dimension of sustainable development and whether or not any progress is significant.

[127] For specific country data see: https://wageindicator.org/salary/living-wage, accessed 10 December 2019.

[128] In contrast to the "standard" family of two adults and two children, the number of children in the "typical" family is calculated on the basis on the national fertility rate (Guzi and Kahanec 2014).

[129] The Nordic countries have no minimum wage but tend to rely instead on sectoral collective bargaining to provide benchmarks.

Concluding remarks

The above discussion regarding fair remuneration suggests the following take-aways.

In a context where trends in income and wealth inequality are undermining the attainment of several SDGs, it is crucial to assess what corporations are doing both to measure their impacts in this area, and to adhere to sustainability principles and norms by correcting skewed patterns of distribution. As regards intra-firm inequality, the CEO-employee pay ratio is a convenient indicator.

While standard-setting organizations are paying more attention to such disclosure, there are considerable variations in methodologies and metrics used. Such inconsistencies need to be addressed to ensure, for example, that the median or the mean average wage reflects the prevailing wages of typical workers and that CEO salaries factor in the multiple sources of income that make up the CEO salary package.

As regards possible long-term targets for assessing progress, several of the initiatives and experiences reviewed in this chapter suggest a threshold of about 50 to 1 as an acceptable CEO-worker pay ratio within large corporations. From other vantage points, however, this remains excessive. From the more ambitious perspective of distributive justice associated with sustainable development and transformative change, a ratio in the range of 10-30 to 1 might be considered fair.

The living wage is another convenient reference point for gauging a company's contribution to sustainable development in relation to fair remuneration. While it has a long pedigree in terms of conceptualization, it has remained under the radar within both labour market policy and corporate sustainability accounting. Recently, however, it has gained traction within these fields. Companies should provide metrics that allow stakeholders to compare actual wage levels with not only the minimum wage or industry norm but also the living wage. It would be of interest to know the percentage of employees in a company who earn below the living wage. Companies could also adapt the WageIndicator method, which compares the living wage with the wages of different categories of worker, by referring to the median wage of each quartile of wage/salary earner.

Other key performance indicators related to fair remuneration should include real, as opposed to nominal, wage trends and the comparison of wage trends with those of labour productivity.

Achieving progress related to fair remuneration and living wages often requires a sectoral or regional approach to prevent responsive companies from losing competitive advantage. It also requires far greater attention to labour rights and enhancing the capacity of workers to bargain for improved pay and conditions, the issue discussed in Chapter 8 below.

From an accounting perspective, where consistency and comparability are important principles, variations in methodology suggest the need for different organizations and stakeholders to come together to harmonize methods. Given its long association with the principle of a living wage, its global regulatory and normative stature, and its convening power, the International Labour Organization seems well placed to play a facilitation role.