

ESG Viewpoint

Living wage in the retail sector

May 2022



2021 Update

- ▶ Our three-year engagement project on living wages comes to an end but our work in this area continues
- ▶ Overall, companies have improved pay and benefits to direct employees, but the dollar stores continue to lag behind
- ▶ We note only limited progress on the realisation of a living wage for supply chain workers as companies come to terms with the potential negative impacts their purchasing practices can have on suppliers
- ▶ We will continue to leverage our work on living wages through collaborative investor initiatives and bespoke engagement plans for our investee companies



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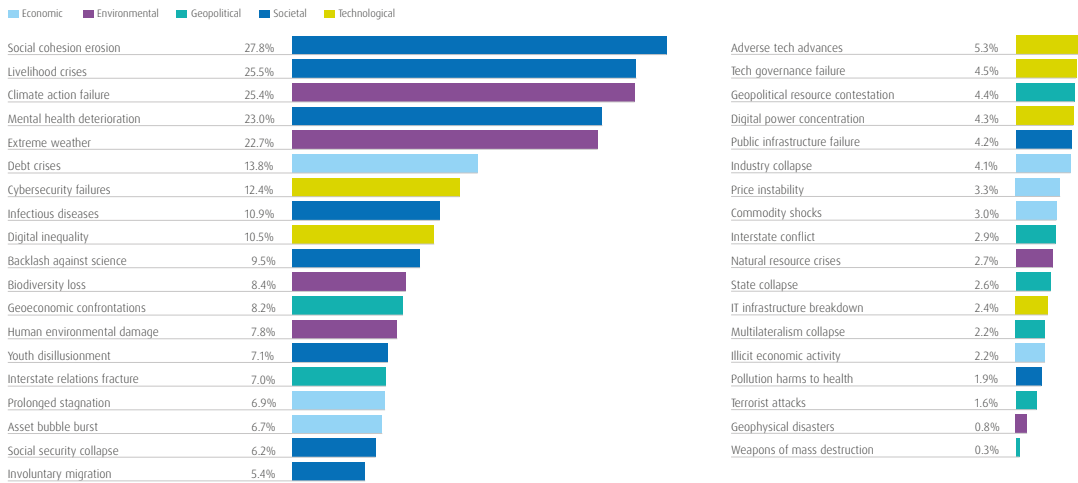
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COVID-19 Hindsight

Risks that worsened the most since the start of the COVID-19 crisis



Source: World Economic Forum - The Global Risks Report 2022 - Insight Report

Overview

2021 kicked off another year of uncertainty, we saw the proliferation of lockdowns and further restrictions on our ability to travel, as well as no end of supply chain disruption, be it caused by the pandemic or broader economic factors.

That said, the overarching sentiment was a return to business as usual, if only from the perspective of a new normal. This thinking translated into our engagement on living wages. At the start of the pandemic, we felt sympathy for retailers dealing with the devastating consequences of Covid-19 with furlough, redundancies and employee safety concerns being top of mind. However, in 2021, we took the view that there was no longer any excuse for inertia on this topic.

As highlighted in our [2020 update](#), the importance of improved employee pay and benefits increased. This is backed up by data disclosed in the [World Economic Forum, The Global Risks Report 2022](#), where the ‘livelihood crises’ was flagged as the second most immediate threat to the world according to respondents. Here, the report notes that the “structural deterioration of work prospects and/or

standards for the working-age population: unemployment, underemployment, lower wages, fragile contracts, erosion of worker rights etc” could cause significant negative impacts for many industries and countries over the next 10 years.

Through our engagement on living wages, whilst we note some progress in terms of increased pay and benefits to the direct employees of retail companies, improvements for workers in the supply chain have been more limited. Through our work with collaborative investor initiatives and as highlighted in the [Platform Living Wage Financials \(PLWF\) 2021 annual report](#), we note enhanced supply chain due diligence on the part of investee companies, for example, in the form of on the ground wage data collection. However, tangible improvements to worker pay is taking longer to come to fruition.



Living Wage Project

We started this iteration of our engagement program on living wages in early 2019. Our focus has been on companies in the retail sector and their approach to realising a living wage within their own operations and also their extended supply chains.

We decided to focus on large retailers, (>50,000 employees), and chose a sub-set of five leaders and laggards on environmental, social and governance (ESG) factors, following an initial analysis of public information.

This approach resulted in the following ten companies for our focus: Walmart, Tesco, Dollar Tree, Dollar General, Sysco, Costco Wholesale Corp, Loblaws, George Weston, Fast Retailing, and Ceconomy.

Following on from our [2020 project update](#), where we noted the lack of response from George Weston Ltd, Costco Wholesale Corp and Ceconomy, the Living Wage project maintained its focus on 7 companies in 2021.

In our engagement over the past year, we reiterated our expectations and respective reasoning around the subject of a living wage. We asked companies to consider best practice for their own operations as well as their extended supply chains.

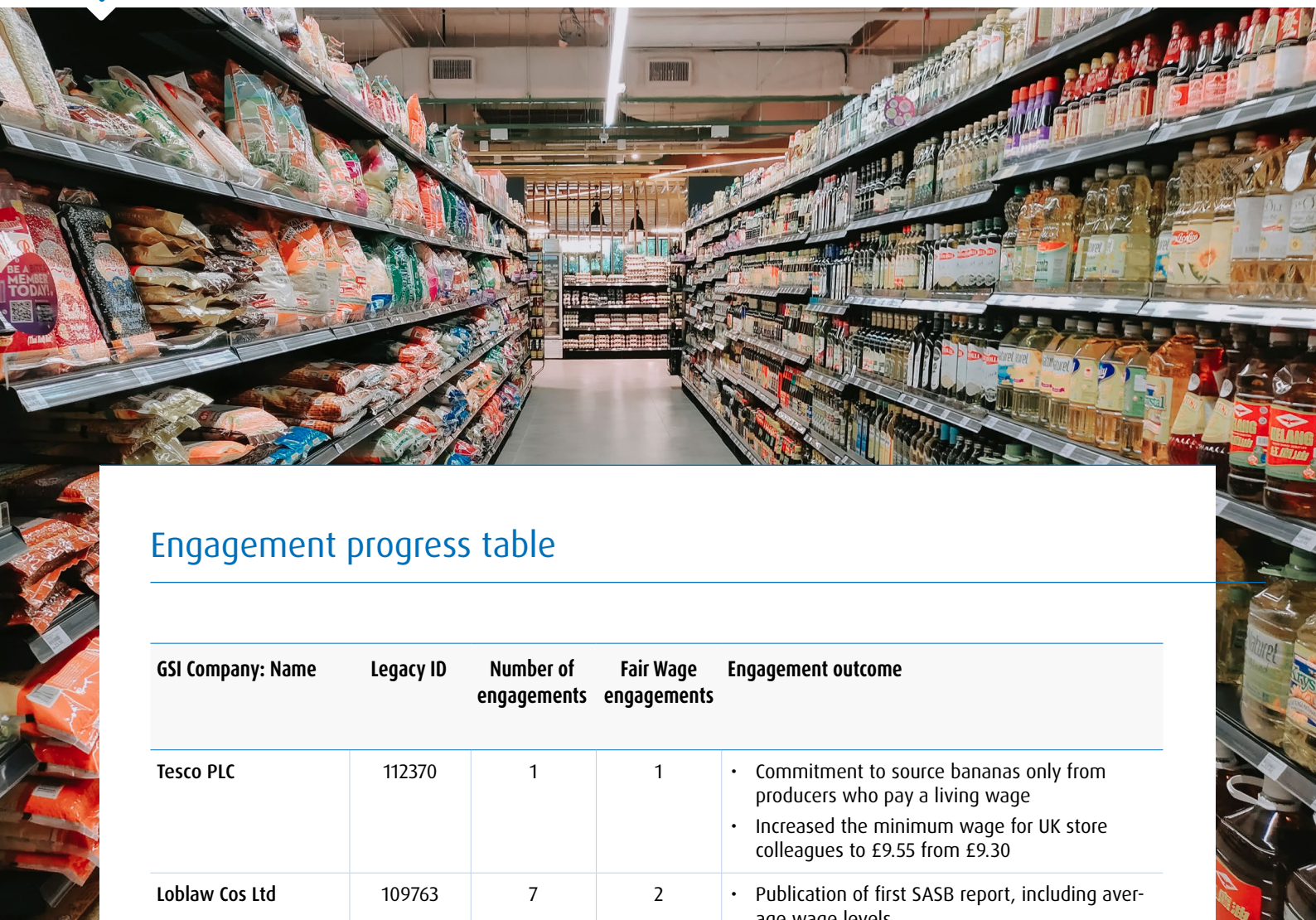


As part of the corporate responsibility to protect and respect human rights outlined in the **UN Guiding Principles on Business and Human Rights (UNGPs)**, working poverty caused by low wages in the workplace and supply chains, should be reflected in the human rights due diligence approach to businesses conduct.

In terms of their own operations, we noted the importance of employee engagement and managing relationships with trade unions to understand employee sentiment around reward frameworks. Where companies noted a lack of union representation within their employee base, we queried the effectiveness of mechanisms to communicate an employee's right to freedom of association. Further, companies will often point to additional benefits employees receive but ultimately, best practice indicates that real living wages should encompass base pay only rather than be bolstered by other reward mechanisms.

Our engagement also extended to topics beyond wages, where we see the potential for an adverse impact on employee retention. These topics included health & safety, diversity and inclusion efforts and executive remuneration. However, parallels can be drawn relating to pay disparity faced by employees from different demographics.

In terms of engagement on living wages in the supply chain, we fed into a number of consultations on the broader sustainability efforts of our investee companies. We leveraged our involvement with the PLWF to assess the framework of enhanced due diligence project companies apply to human rights concerns, including a living wage. Retail company supply chains are often within developing countries where minimum wage levels may be insufficient to meet the basic needs of workers and their families. In this regard, the need for collective bargaining agreements and collaboration with multi-stakeholder initiatives is key. We encouraged brands to work with unions to move beyond the provisions of local law, to identify and seek to close living wage gaps in their supply chains. We highlighted the need for improved transparency, with the amplification of human rights regulation, whereby investors face greater scrutiny and responsibility to evidence how the adverse impacts of investments are mitigated. This has led to an increased reliance on public disclosure and data from ESG ratings providers.



Engagement progress table

GSI Company: Name	Legacy ID	Number of engagements	Fair Wage engagements	Engagement outcome
Tesco PLC	112370	1	1	<ul style="list-style-type: none"> • Commitment to source bananas only from producers who pay a living wage • Increased the minimum wage for UK store colleagues to £9.55 from £9.30
Loblaw Cos Ltd	109763	7	2	<ul style="list-style-type: none"> • Publication of first SASB report, including average wage levels • Increased the start rate for some warehouse workers following union negotiations
Sysco Corp	101433	4	1	<ul style="list-style-type: none"> • executed a living wage study of their US employees
Walmart Inc	101616	8	1	<ul style="list-style-type: none"> • Improved pay and benefits for some workers, but continues to lobby against implementation of a federal requirement to pay \$15
Dollar General Corp	16887350	5	2	<ul style="list-style-type: none"> • stance on paying living wages remains unchanged, the company highlights its business as a great entry point into retail to justify the non-payment of living wages
Dollar Tree Inc	159765	4	2	<ul style="list-style-type: none"> • stance on paying living wages remains unchanged, continues to use provision of additional benefits to employees to support the non-payment of a living wage
Fast Retailing Co Ltd	151843	5	3	<ul style="list-style-type: none"> • Disclosed commitment to realise living wages • Published approach to living wages • Expressed appetite to build internal capacity on living wages by joining multi-stakeholder initiatives



Key takeaways from our engagement on a Living Wage

We note an improvement in the understanding of the importance of living wages across companies in the project. A core aim of our engagement program has been to educate our investee companies on the business case for a fair wage, including the economic cost of strikes and litigation and the positive effect implementation of best practice may have on a company's reputation, staff retention rates and employee productivity.

A key challenge in our engagement with some companies has been explaining the responsibility to promote living wages within their extended supply chains. Here, we highlighted how a brand's purchasing practice can negatively impact a supplier's ability to pay adequate wages. With fixed overheads, including permanent worker wages and often a need to pay for raw materials up front, suppliers often find themselves in the difficult position of finding ways to cut costs, frequently at the expense of workers. As we saw through the pandemic, the divergence between a brand's forecast orders and orders actually taken, can lead to an additional burden on suppliers to absorb the cost of orders not paid for by retailers.

As noted above, a number of companies improved payment terms for their direct employees, but their actions did not always extend to an improvement in living wage payments for workers within their extended supply chain. Where progress was achieved, this was often limited to only a sub-set of the company's operations. We encouraged companies to move beyond pilot projects and develop a holistic approach to the payment of adequate wages to their workers.

Spotlight on dollar stores

Dollar Tree/Dollar General

- Dollar stores capture underserved demographics. These small box retailers often operate in areas with high unemployment rates and few job opportunities for those from less advantaged backgrounds.
- Dialogues with these two US discount retailers were, unsurprisingly, strikingly similar and sadly did not progress as we had hoped.
- Given their business model, margins are tight and a considerable uplift in employee wages would no doubt have a knock-on effect on in-store prices, and in turn, be felt by the pockets of consumers – something neither Dollar Tree nor Dollar General are seemingly willing to accept at this stage.
- These companies consider employee benefits as holistic and beyond just a base wage – citing career growth opportunities and employment satisfaction as key factors.
- Whilst this approach is backed by high rates of internal promotion and low employee turnover figures, much more needs to be done to raise their hourly rates for in-store associates, which in our view remain unacceptable.



Our Involvement in the Good Work Coalition

It was another productive year for the Good Work Coalition that saw its remit continue to expand thematically – covering the core topics of living wages, living hours and insecure work – and expanded into the FTSE350.

Through the year, 8 FTSE companies became formal Living Wage Foundation accredited, a key milestone of the Coalition's work. In terms of our involvement, we:

- fed into 29 collaborative letters, setting out the expectations of the initiative
- joined 5 company meetings – Hargreaves Lansdown, Tesco, Waitrose, Rentokil Initial, Ocado.

Our work with the Coalition continues and in 2022, so far, we have participated in collaborative investor meetings with Sainsbury's and Iceland.

Other highlights of our involvement with the Coalition's work include:

- **Publication of an investor briefing on "Low wage and insecure work in the UK retail sector"** – intended to support investors engaging the supermarket retail sector on the Living Wage and insecure work.
- **Roundtable on escalation tactics at UK supermarkets** – investor gatherings to discuss the avenues and merits of possible escalation of engagement with UK supermarkets, including a potential resolution.
- **Connecting the dots on the Living Wage Globally** – a series of workshops, hosted by ShareAction and the Living Wage Foundation, to promote cross organisational collaboration on a Living Wage within, and between, multinational organisations to ensure an holistic approach addressing all levels of the value chain that constitute the Living Wage 'ecosystem'.
- **Launch of Living Wage for US** – a new organisation based in the US that recognises responsible employers who pay their workers and contractors a real Living Wage.

Case study Hargreaves Lansdown plc

Hargreaves Lansdown plc is a British financial service company listed in the FTSE100. While not part of the initial project scope, we have engaged with the company individually and as part of ShareAction's Good Work Coalition on paying a living wage, since 2019. Initially, the company had committed (to paying a living wage) but it delayed the roll out, requiring two AGM speeches to bring the topic back to senior management's attention. We also held a company call together with the Living Wage Foundation and ShareAction, explaining the relevance of the topic for investors and the technicalities of accreditation, as well as desired timelines.

After a total of six interactions with the company, that focussed on a living wage, in June 2021 the company committed to introduce the Real Living Wage and become accredited as a Living Wage Employer. Hargreaves Lansdown's commitment has seen all staff and contractors receive at least £9.50 per hour across the UK and £10.85 per hour in London (as of 2021).



The Platform Living Wage Financials

The Platform Living Wage Financials is a coalition of investors seeking to monitor and encourage companies to address the non-payment of living wages in global supply chains.

The PLWF is focused on companies in the garment, footwear, food and agricultural retail sectors. The overarching premise of the platform centres around what constitutes a living wage. The definition of a living wage is a core point of emphasis for engagement. A living wage should be enough to cover basic living expenses such as food, clothing, housing, health care and education – for workers and their families, with some discretionary income left over.

In February 2022, the PLWF Garment Working Group (GWG), which is Chaired by a member of our own Responsible Investment Team, hosted a side session at the OECD Forum on Due Diligence in the Garment and Footwear Sector. The topic of the session was, The Human Right to Living Wages and we utilised the GWG's company assessment methodology as an example of an holistic framework of human rights due diligence.

The methodology encompasses 8 pillars, Policy, Engagement with Multi-Stakeholder Initiatives, Engagement with Trade Unions, Assessing Impacts, Integrating Findings, Tracking Performance, Remedy and Transparency. You can read more on the Platform's assessment methodology [here](#).

Spotlight on BMO REP

Living Wage Accreditation & Net Zero Carbon Pathway

BMO REP's listed real estate fund BMO Commercial Property Trust (BCPT) was formally accredited by the Living Wage Foundation, a charitable body encouraging wages above the UK Government's minimum to reflect the real cost of living in London and the rest of the UK. The fund ensures all in-scope staff contracted on managed sites, such as cleaners and security guards, receive the [real living wage](#).

The fund has also released its [net zero carbon pathway](#). It is the second BMO REP fund to announce its commitment, targeting a delivery year of 2040 or sooner.



The future of our living wage engagement

While our three-year engagement project, that has functioned as an umbrella to our living wage dialogue, came to an end, our commitment to press for fair wages will continue. Among our key efforts are:

- Diversity engagement across the globe, particularly gender and ethnicity pay gaps. We will encourage the fostering of better disclosures and also focus on measures to decrease pay gaps.
- Executive pay / remuneration consultations with the aim to decrease CEO to median worker pay ratios and minimise excessive C-level pay packages more broadly.
- As part of one of our new engagement projects we will investigate the reliance on social audit firms to safeguard social standards, including wages, in supply chains. We will engage with listed social audit firms, on their framework, to assess audit quality, and with companies in the apparel, retail and service sectors on how audits support them in their social practices and what can be improved.



In 2021, we engaged with more than 80 companies on their disclosure to the WDI and we will continue to advance efforts in 2022.

- We will also continue to work with other investors:
 - 1) As an active member of the Platform Living Wage Financials we will engage with a group of garment companies on their supply chain wage levels.
 - 2) Our commitment to the Good Work Coalition remains strong and we will reach out to a broad scope of UK companies with a view to them working towards getting accredited as living wage or living hour employers.
- Disclosure and transparency about workforce topics, among them wage levels, which are still not at desired levels. We will continue to run our Workforce Disclosure Initiative (WDI). In 2021, we engaged with more than 80 companies on their disclosure to the WDI and we will continue to advance efforts in 2022.
- The final iteration of the EU Social Taxonomy report was published in February 2022. It notes the increased demand for socially oriented investment products and the rise of investor-led human rights initiatives that have come about due to a lack of disclosure on social risk mitigation. A living wage is specifically referenced as a sub-objective to the broader social objective of promoting 'Decent Work' under the UN Sustainable Development Goals. The report sets out the expectations for companies to make a substantial contribution to reduce negative impacts on workers, this includes a time-bound target for paying a wage that provides a decent standard of living for all workers and their families. Our engagement around the commitment and payment of living wages will continue beyond the realms of this project and will be increasingly informed by the changing landscape or regulation and expectations of disclosure on social risk mitigation.

Get to know the authors:

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Tim Bonds joined the Responsible Investment team in 2021, with his engagement focused on labour standards. He is a keen supporter of Arsenal FC and enjoys anything narrated by David Attenborough.

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Tenisha joined the Responsible Investment team in 2013 and focuses on emerging market corporate governance and the analysis of environmental and social risks for companies within retail and service sectors.

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Nina Roth joined in 2019 as an ESG analyst. In her engagement she focuses on financial institutions and social issues across sectors. Outside of work, pottery and the absurd world of crypto currencies are her passions.

Responsible Investment – a glossary of terms

Its wide-ranging nature means that responsible investment involves a host of associated language and jargon. Here we explain some of the most commonly used terms.



[Explore our glossary](#)

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