

# The Role of Social Dialogue in Promoting Living Wages



GLOBAL DEAL



## 1. LIVING WAGES ARE A HUMAN RIGHT

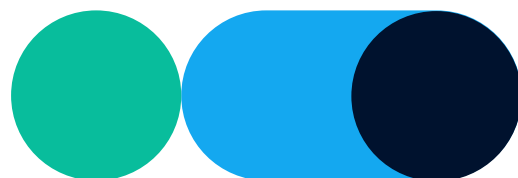
A living wage is meant to provide a decent standard of living, a safety margin, and corresponds to the remuneration for normal working hours.

Earning a living wage is regarded by the international community as a human right. This is reflected in the Universal Declaration of Human Rights, which considers that “everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity”. Achieving living wages can also contribute to several of the 17 Sustainable Development Goals (SDGs) around which the 2030 Agenda adopted by the United Nations in 2015 is built. For example, living wages can help eliminate poverty and hunger (SDGs 1 & 2), while also advancing decent work and economic growth (SDG 8). Moreover, living wages play a crucial role in reducing inequalities (SDG 10) and closing the gender gap (SDG 5). In

addition, earning a living wage is considered an enabling right as it has positive effects on other human rights and SDGs.

To facilitate exchange of good practices, stimulate peer learning and explore joint action, the Global Deal established in 2022 a Focus Group on Social Dialogue and Living Wages. Throughout five sessions, the Focus Group explored the contribution of social dialogue to achieving a living wage in companies’ own operations and, more broadly, throughout their supply chains.

This final note gathers a collection of examples, successful approaches, expertise and knowledge gained through the Focus Group, aiming to demonstrate practical and effective ways of using social dialogue to narrow the gap between current wages and living wages.



## 2. SOCIAL DIALOGUE PLAYS A PIVOTAL ROLE IN TACKLING THE CHALLENGES TO ACHIEVE LIVING WAGES

Putting the concept of the living wage into practice can be challenging due to differing perspectives and concerns among stakeholders. Following the [Global Deal's 2022 Flagship Report](#), there may be disagreements over how to calculate the living wage, which cost elements to include, and how to bridge the gap between current wages and a living wage. In addition, businesses may be hesitant to pay higher wages out of fear of losing profit margins and market share, while workers and their families typically endorse initiatives aimed at obtaining increased wages and enhanced working conditions, as these changes directly improve their quality of life and economic stability.

Social dialogue plays a pivotal role in tackling these challenges. Based on meaningful discussions between company management, employers' organisations and workers' representatives and trade unions, the living wage level can be set to accurately mirror the actual experiences of workers. Social dialogue creates trust and understanding, which is important to achieve win-win outcomes.

Collective bargaining for living wages offers several advantages: it establishes a wage standard; serves as a sector-wide benchmark; can help bridge the wage gap where minimum wages fall below the living wage threshold.

According to a [report](#) made by the ILO (2023), the collective bargaining process establishes minimum wage levels and allows for negotiations above these thresholds, ensuring that workers benefit from productivity gains without undermining business viability. Striking a balance between decent living standards for workers and sustainable enterprises is a key

objective. Wage bargaining is complex and influenced by institutional contexts and labour relations traditions.

Nevertheless, it is worth noting that, despite collective bargaining being the preferred method for wage negotiations, in many developing countries — where living wage discussions are crucial — the process is often weakened by inadequate workers' representation and limited union influence. Consequently, commitments between employers and workers' representatives become the norm to address wage concerns. These agreements, though different from traditional collective bargaining, are a pragmatic approach to wage negotiations in regions where formal bargaining capacity is limited or evolving.

Social dialogue is not solely about setting wage levels; it also plays a vital role in guaranteeing the prompt and accurate payment of wages, sufficient and dependable working hours, and access to non-wage benefits. By fostering balanced negotiations, social dialogue creates a platform to address all facets of setting and implementing living wages.



### 3. THE CONCEPT OF LIVING WAGES HAS BECOME MORE WIDESPREAD

Internationally, the notion of living wages has been included in the [ILO Constitution](#) since its establishment in 1919. The ILO's constitution has emphasised the need for "adequate living wages" in its Preamble. The [1944 Philadelphia Declaration](#) marked another significant turning point, underscoring the pressing need for social justice and the importance of wage policies to "ensure a just share of the fruits to all, and a minimum living wage to all employed and in need of such protection", a sentiment reaffirmed in subsequent declarations in 2008 and 2019.

As reported in a [publication](#) made by the OECD (2023), various institutional initiatives worldwide have recently emerged, involving corporations and global entities, aiming to integrate the concept of a living wage into a more inclusive business model. In 2021, Business for Inclusive Growth (B4IG), a collaborative effort between the OECD and prominent corporations, took a significant step towards reducing societal exclusion stemming from economic growth. B4IG advocates for a new growth model with three central pillars: advancing human rights in operations and supply chains, cultivating inclusive workplaces and strengthening inclusivity in business ecosystems. Moreover, as one of its objectives, it urges the global business community to join in to close the living wage gap. Also, the United Nations

Global Compact, set up in 2000, encourages companies to embrace living wages as a fundamental pillar of ethical labour practices,



thus ensuring the well-being of workers, their families, and the communities they are part of.

Following the same publication, it is worth noting that the debate on the "living wage" gained renewed interest with the rise in importance of global supply chains, and later in the context of the COVID-19 pandemic and of escalating energy and food expenses. Vulnerable workers, particularly in low-skilled and low-paid roles, faced reduced employment opportunities. Significant job losses were experienced in low-paying occupations, and the slow recovery of low-paid workers persists. More recently, the



ongoing energy crisis has eroded purchasing power despite nominal wage increases. In this context, commitments to ensuring a living wage for their workers and across their supply chain have been adopted by an increasing number of businesses within various programmes as a “voluntary tool”.

Supporting the adoption of a living wage offers a range of benefits, including to employers. The improved quality of life, higher self-confidence, and better balance between

professional and personal life can enhance productivity. Furthermore, the payment of living wages improves a company’s reputation and adherence to legal standards. Moreover, it contributes to long-term sustainability and positively impacts the communities in which these businesses are located. Finally, increasing the purchasing power of low-income households stimulates economic growth by increasing demand for goods and services.

## 4. EMPLOYERS COMMITTING TO PAYING LIVING WAGES: SELECTED GOOD PRACTICE EXAMPLES

Many large employers are committing to pay living wages. This section presents several case studies as examples of commitments by employers and implementation of living wages through social dialogue. It also presents the results of existing initiatives and the potential for scaling-up within and between sectors.

### COMMITTING TO PAYING A LIVING WAGE: THE CASE OF UNILEVER

In 2014, Unilever published its Framework for Fair Compensation, committing to paying all its employees a living wage. This was achieved in 2020 and the company has since raised its ambition by committing to ensure that all individuals who directly provide goods and services to Unilever earn at least a living wage or income by 2030.

To achieve its commitment, Unilever has developed a 10-year phased implementation plan focusing on the most vulnerable workers in manufacturing and agriculture. They are prioritising areas where the gaps between actual and living wages are greatest, where the social safety net for workers is weakest, and where they can make the most impact, based on their presence and scale in local markets. Using these criteria, the company

has begun creating implementation plans by purchase category in Brazil, China, India, Indonesia, Philippines and Vietnam.

Unilever also leverages several tools to bring suppliers onboard. Through the Living Wage Supplier Promise, Unilever encourages its suppliers to close the gap and work together to address joint challenges. Its Responsible Partner Policy also includes a future mandatory requirement for suppliers to pay their workers a living wage. Finally, in partnership with suppliers, other businesses, governments and NGOs, Unilever is leveraging purchasing practices, collaboration and advocacy to create systemic change to ensure the rights of everyone to collective bargaining and a decent standard of living.

As part of its collaboration with trade unions and worker representatives, Unilever emphasises that the payment of a living wage should serve as the 'floor' rather than the 'ceiling'. This highlights

the crucial role of collective bargaining in wage determination and underscores the significance of social dialogue to ensure the effective implementation of living wage commitments.

## MOVING FROM COMMITMENTS TO ACTIONS THROUGH SOCIAL DIALOGUE: THE CASE OF ACT

In 2018, 19 major brands in the garment, textile and footwear industries, signed a Memorandum of Understanding (MoU) with IndustriALL Global Union, through the ACT initiative. ACT was born out of the recognition that lasting improvement of wages and working conditions can best be achieved through national collective bargaining at industry level supported by purchasing practices. The payment of living wages is an explicit target to be facilitated through responsible purchasing practices and implemented through collectively negotiated agreements between trade unions and employers' associations. Promoting the full implementation of freedom of association in line with ILO Core Labour Standards and engaging with governments to support minimum wage increases are further supportive measures ACT members have committed to.

ACT's approach focuses on two pillars: first, workers' rights to Freedom of Association (FoA) and Collective Bargaining (CB), and two, responsible purchasing practices of buyers.

ACT is operating in three key garment producing countries – Bangladesh, Cambodia and Türkiye. As a key building block towards living wages, ACT has supported the development of effective grievance and dispute resolution mechanisms for workers and manufacturers which also support brands in meeting their due diligence responsibilities. ACT's accountability and monitoring framework includes agreed implementation steps, indicators and targets for each purchasing practices commitment, with

brands reporting evidence-based progress to IndustriALL.

Several valuable insights can be drawn from the ACT experience with sectoral bargaining in achieving a living wage:

- There is no "one-size-fits-all" approach, but living wages can be achieved at the country level through a tailor-made programme in cooperation with local partners.
- Supply chain social dialogue ensures collaboration between all relevant stakeholders.
- Stakeholder-led integrated supply-chain dialogue is essential to increase trust levels between employers, trade unions and brands and achieve resilient supply chains.
- Establishing and reinforcing social dialogue structures, locally and with global support, can prevent harm and resolve labour disputes.
- Locally integrated structures can provide brands with reliable information on their supply chains.
- Efficiency can be maximised through collaboration of manufacturers, trade unions and brands.
- Simultaneously improving business opportunities, working conditions and consumer satisfaction is possible.



## PROGRESSING TOWARDS A LIVING WAGE: THE CASE OF H&M

The H&M Group launched their Fair Living Wage Strategy in 2013 with the purpose of helping to enable a lasting transition to wages negotiated through well-functioning industrial relations and appropriately reflecting skill and seniority levels. The strategy was built upon four main pillars that prioritise social dialogue:

1. Implementing workplace dialogue programmes throughout the supply chain to facilitate discussions and negotiations on wage increases and working conditions.
2. Incorporating the provision of a living wage into the broader H&M Group Wage Management System Method, which considers workers' skills, education, and levels of responsibility.
3. In line with their commitments through ACT, developing a Purchasing Practices Roadmap, including a tool to factor in labour as a specific cost in purchasing prices and improving order plans to address production fluctuations.
4. Engaging with governments in the countries

where H&M Group operates, contributing to the creation of a conducive environment for social dialogue.

Since its introduction, the H&M Group has refined its strategy to support improvement of wage levels among its suppliers, based on accumulated experiences and independent external evaluation. The strategy now encompasses six focus areas that mutually reinforce each other and work together to raise wages. The strategy puts much focus on embedding worker representative engagement in the wage management system and review process at factory level and on trade union engagement at industry level. A workplace dialogue programme was rolled out and resulted in democratically elected worker representatives and the creation of ACT, the strategy which connects industry-wide collective bargaining with improved purchasing practices and increased wages. Additionally, programmes are implemented to enhance transparency, fairness, performance-



based promotions and wage increments. Efficiency improvement programmes have been implemented to ensure sustainable wage increases. With these initiatives, the H&M group is underscoring its commitment to responsible purchasing practices, an enabler for supplier's margins and wage improvements, and also tracks suppliers' social sustainability performance through their Sustainability Index, thus incentivising higher wages. They also promote wage-setting mechanisms and establish social protection systems to provide workers with security and alleviate financial hardships, aligning with the [ILO Call to Action in the Global Garment Industry](#).

Research conducted by external academic experts commissioned by H&M Group validates the positive impact of robust social dialogue on wages:

- Suppliers participating in workplace social dialogue programmes and wage management systems experience an average increase in real wages by 2.8% compared to non-participating suppliers.
- When combined with a wage grid that classifies jobs based on skill level, the wage effect is even more pronounced, surpassing the wages of non-participating suppliers by an average of 5%.
- Improved productivity serves as another catalyst for higher wages, as a 10 percentage points increase in factory productivity is associated with an average wage increase of 4.6%.
- The presence of trade unions at the factory level is estimated to contribute an additional average of 5.5% to wages.

## **SCALING-UP SUCCESSFUL INITIATIVES: THE CASE OF THE UNITED NATIONS GLOBAL COMPACT**

Companies participating in the United Nations Global Compact expressed interest in shaping and defining business leadership on providing and promoting living wages/living income as an essential aspect of decent work. They also expressed interest in identifying the needed steps, challenges and gaps in moving from commitment to action through engagement with relevant stakeholders. Consequently, the Global Compact established a Think Lab on Living Wage which brought together companies from various sectors and countries, as well as international organisations, to develop thought leadership for ecosystem engagement, address key business challenges and identify good practices across sectors and regions. Through this initiative, the Global Compact encourages companies to collect data, review their purchasing practices,

engage in social dialogue processes to pay living wages, and to engage with other stakeholders to work towards achieving living wages and/or living incomes for workers in their supply chain.

As an outcome of the Think Lab, the UN Global Compact has launched an assessment tool for companies in the form of a questionnaire. This tool enables companies to assess their progress on the living wage journey, learn what actions they can take to advance the living wage agenda and how to engage with workers' representatives and trade unions. Furthermore, throughout 2023, the UN Global Compact has been organising country roundtable discussions with Global Compact Local Networks together with national employers' organizations and business participants of



the Think Lab in 19 pilot countries and one regional European meeting. The objective of holding these discussions at the national level is to help convince more companies to engage in the living wage discussion as an essential aspect of decent work and economic growth, launch bold commitments to create momentum and send a signal to policymakers to adopt living wage policies.

The UN Global Compact has also launched the [Forward Faster initiative](#) across five areas of action – including living wage – where companies are best positioned to

accelerate progress across all 17 Sustainable Development Goals, and where the private sector can collectively make the biggest, fastest impact by 2030. 248 companies have signed up to the two targets on living wage:

1. 100% of employees across the organisation earn a living wage by 2030.
2. Establish a joint action plan(s) with contractors, supply chain partners and other key stakeholders to work towards achieving living wages and/or living incomes with measurable and time-bound milestones.

## SHIFT AND CAPITALS COALITION ACCOUNTING MODEL FOR LIVING WAGES

In 2023, Shift, a leading authority on the UN Guiding Principles on Business and Human Rights, and Capitals Coalition, a global non-profit collaboration dedicated to advancing the embedding of the value of natural, social and human capital into decision-making, released an [accounting tool for living wages](#).

The tool serves as a resource for organisations committed to quantifying and disclosing their progress towards living wages for their workforce and first-tier supply chains. It is designed with the aim of providing a sufficiently accurate and informative picture of the scale and scope of the living wage deficits experienced by workers, together with progress towards living wages. This model provides organisations with the means to measure and articulate progress towards payment of a living wage for their own employees, contractors, and workers in the first tier of their supply chain by demonstrating the year-on-year movement of workers towards living wages, in recognition of the central role of living wages in addressing inequality and the fulfilment of other rights including the right to health and education. Here's an overview of its main tenets and benefits:



1. Versatile scope: designed for companies, standard setters, and investors, covering diverse worker categories from direct employees to supply chain workers.
2. Building on past initiatives: simplifies and harmonises reporting on progress toward living wages, fostering transparent disclosures, and supporting better business decision-making based on a fuller understanding of the company's overall impacts.
3. Critical metrics: uses specific metrics based on wage data, location-based living wage estimates, and numbers of workers that fall below these.
4. Measuring human capital impact: facilitates measurement of the impact on workers below a living wage in health terms.
5. Business and Social Impact: emphasises how paying living wages can boost business performance and tackle poverty and inequality across operations and value chains, enabling a fairer and more sustainable future.

## KEY TAKEAWAYS

The case studies presented in this note highlight the crucial role of social dialogue in advancing towards achieving living wages. They shed light on the multifaceted benefits of living wages, from enhancing workers' standards of living to boosting productivity and fostering a fair and inclusive global economy.

The case studies exemplify how employers are translating commitments into action, reaffirming that the journey to living wages is not merely an aspiration but an achievable reality.

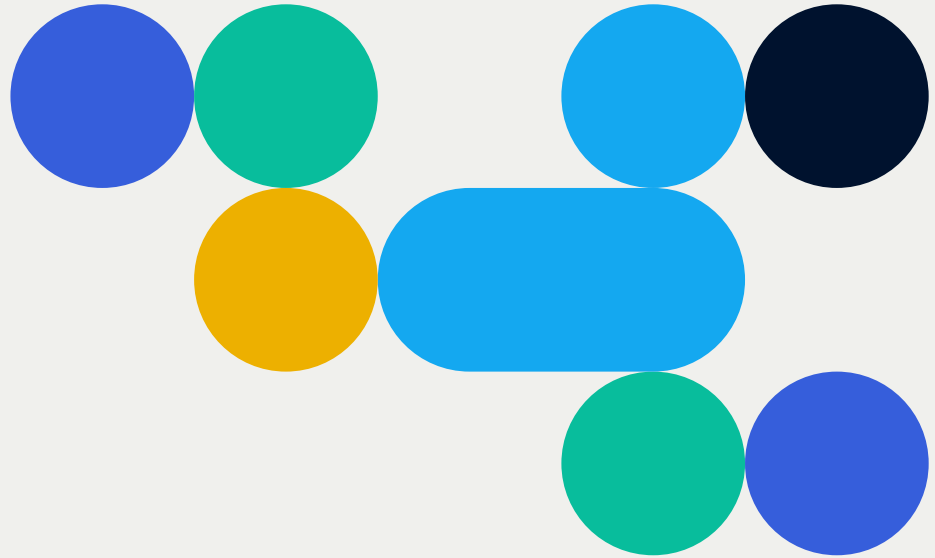
Furthermore, this final document underscores the relevance of global initiatives such as the United Nations Global Compact (UNGC) and ACT that bring businesses and/or

Furthermore, the perspective of trade unions has informed the model in several ways. Firstly, a requirement has been introduced into the IDH recognition criteria, stipulating that workers representatives and trade unions should be consulted in the process of establishing a valid living wage estimate. Additionally, the model has been refined to stress that benchmarks are indicative estimates, discouraging an undue focus on a single number and instead steering attention to the gap that needs to be addressed. Moreover, collective bargaining is now underscored as the primary means for closing this gap whenever feasible. As a contextual indicator, collective bargaining coverage is now taken into account by the model.

By leveraging this accounting model, organisations can take meaningful steps towards achieving living wages for their workforce and supply chains, contributing to a more equitable and sustainable future.

workers' representatives and trade unions together to drive positive change in wage policies. By offering tools and guidance, they enable global companies to embark on their living wage journey, promoting transparency, fairness, and worker empowerment.

Against the complex landscape of wage disparities and lack of social justice, the case studies presented here highlight the role of social dialogue in achieving and monitoring progress towards living wages, thus contributing to a more equitable and sustainable future. They highlight the value of open dialogue, collective bargaining, and partnerships in creating pathways to secure living wages.




## THE GLOBAL DEAL FOR DECENT WORK AND INCLUSIVE GROWTH

The Global Deal is a multi-stakeholder partnership of governments, businesses and employers' organisations, trade unions, civil society and other organisations for the promotion of social dialogue and sound industrial relations as effective means for achieving decent work and inclusive growth. The Global Deal enables knowledge sharing, facilitates policy discussions, strengthens the capacity of partners to engage in dialogue, and produces evidence-based research. As a unique action-oriented platform, the Global Deal accelerates positive change by encouraging partners to make voluntary commitments to advance social dialogue.

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