

ESG Viewpoint

January 2020




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Key risks

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Living wage in the retail sector

The way we shop has changed radically over the past decade. The growth of low-cost online retailers has put unprecedented pressure on the margins of high street stores. Many have had to respond by cutting costs to stay in business, which can mean squeezing the wages of workers and of those in their supply chains.

The short-term alleged cost benefits of a low-wage strategy need to be weighed against longer-term costs. Poor wages can result in higher worker attrition and lost productivity, not only from depleted morale but also a constant need to train new starters.¹ This in turn can lead to a decline of the in-store shopping experience, further damaging the business prospects for high street retailers.

Our engagement on living wages has sought to bring companies' attention to these less immediate issues and encourage them to take a progressive long-term strategic approach to human capital management, which recognises the benefits of a stable and motivated workforce. This engagement supports various Sustainable Development Goals (SDGs), the strongest links relating to SDG 1 - No Poverty; and, in particular, target 1.2, which relates to halving families living in poverty; and SDG 8 - Decent Work and Economic Growth, within which Target 8.5 focuses on decent and productive work for all. In addition, given that women are often disproportionately represented in low wage jobs, engagement on living wages also supports SDG 5 - Gender Equality.

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¹ <https://www.piiie.com/blogs/realtime-economic-issues-watch/higher-wages-low-income-workers-lead-higher-productivity>

What is living wage?

There is often confusion around the term “living wage”, with many confusing it with nationally mandated minimum wages. Whilst a minimum wage is the lowest level that an employer can legally pay their worker, this is often, in practice, not enough to support basic needs. According to the Global Living Wage Coalition², a living wage is:

The 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, transportation, clothing, and other essential needs including provision for unexpected events.

Living wage levels are not uniform globally, but are calculated according to national or regional costs of living.³

Companies engaged

Our engagement focused on ten large (>50,000 employees) retailers, chosen to represent five we judged as leaders on ESG and five laggards, based on an initial analysis of public information.

This approach resulted in ten companies to focus on: Costco, Dollar General, Dollar Tree, Sysco, Walmart (all US), Tesco (UK), Fast Retailing (Japan), George Weston and Loblaw (Canada), and CECONOMY (Germany).

In total, these companies employ approximately 3.7 million people.

Engagement expectations

Our engagement with these ten focus companies commenced at the beginning of 2019. Our strategy has been to start with a focus on raising awareness on the living wage, understanding of

companies’ positions on wage levels in their own operations, and encouraging enhanced disclosure on wage levels.

As the engagement progresses, we plan to ask for time-bound plans for adjustments in wage levels and benefits, and for companies to consider wage levels in their supply chains.

Ultimately our aspiration is that all engaged companies have set time-bound plans and have adjusted wage levels to living wage for applicable scopes of employees.

If during the engagement process we judge that a company is responding well and on track to deliver a good living wage strategy, we may remove them from the engagement and initiate dialogue with another company.

Our 2019 engagement dialogue focused on the following:

- Raising awareness about the concept of a living wage and the benefits it provides to employees, as well as for the business as a whole
- Encouraging companies to consider how workers’ wage levels are relevant to long-term business success
- Asking whether, and how, companies assess the financial consequences of a wage level adjustment across their operations
- Asking for enhanced disclosure on (a) average wage levels per business section and region; (b) a list of benefits and to which employees they apply; and (c) wider workforce issues, through the Workforce Disclosure Initiative survey

Observations, challenges and best practice

Seven out of the ten focus companies were responsive to our engagement. Despite several follow-ups, Walmart, George Weston and CECONOMY did not respond to our outreach efforts⁴.

With the responsive companies, we spoke at a range of different levels. At one we spoke with the CEO; at others, our dialogue took place with representatives including the head of HR, head of Compensation and Benefits, sustainability experts, as well as Investor Relations.

Most discussions were open, though the information provided was limited overall, with one very positive exception: Tesco. All companies highlighted the need to pay appropriate wages, though interpretation varied as to what this meant in practice. Only one company, again Tesco, had pilots running for living wage payments in their supply chain. In addition, for their own staff, their new 2019 payment scheme – when combining base pay and other benefits – was forecast to reach UK living wage levels.

² <https://www.globallivingwage.org/>

³ There are various methodologies to measure local and regional living wage. Among them are ISEAL Alliance – A Shared Approach to Estimating Living Wages (the Anker methodology), MIT’s Living Wage Calculator, Centre for Policy Dialogue Bangladesh and Berenschot.

⁴ As of December 19th, 2019



Whilst all companies assured us that they regularly assess wage levels, they also made it clear that the main criteria for pay decisions were inflation and pay rates at competitors. There was no information from any company that they would include social considerations – such as retention rates, health implications or customer satisfaction – in their methodologies.

Some of the companies we spoke with perform regular employee surveys, which include questions on overall satisfaction with pay and benefits packages. None of the companies disclose the results, even in an aggregated manner. We will continue to push for regular and transparent employee engagement surveys, which help detect areas and themes of dissatisfaction.

The current overall level of workforce disclosure by the retailers we engaged was very poor. Enhanced disclosure on workforce aspects, including wage level data, is needed

to allow us to compare best practice, frame engagement asks in a more targeted way and take better informed investment decisions.

Outlook

We will continue in 2020 to engage the focus companies on their attitude to paying a living wage and on enhanced workforce data disclosure. We will also start asking for targets for adjustments in remuneration and social benefits.

In addition, to build the case for action, we are working with a group of companies, NGOs and an agency for international development cooperation to develop and pilot a methodology for ‘social opportunities scenario analysis’, which would help companies to consider the trade-offs between short-term cost management and long-term employee satisfaction and performance in a more structured way.

Living Wage – disclosure and jurisdictional availability

Issuer	HQ country	Platform Living Wage Financials ⁵ methodology score (Maximum = 40)	Workforce Disclosure Initiative (WDI) ⁶ disclosure 2019
Costco	USA	3.8	No
Dollar General		1	No
Dollar Tree		1.9	No
Sysco		1.9	No
Walmart		1.5	No
Tesco	United Kingdom	10.3	Yes
Fast Retailing	Japan	6.8	No
George Weston	Canada	1	No
Loblaw		1.9	No
CECONOMY	Germany	0	No

⁵ The Platform Living Wage Financials is an alliance of investors that encourages and monitors investee companies to address the non-payment of living wage in global supply chains. The Platform’s rating methodology is aligned with the UN Guiding Principles on Business and Human Rights and has eight overarching categories covering various aspects of best practice. We used this methodology to score companies, using publicly available information, i.e. the company’s annual and sustainability reports as well as their websites. Scores cover own operations and supply chains, and have been weighted and rounded to one decimal place.

⁶ The Workforce Disclosure Initiative (WDI) is a project run by UK-based NGO ShareAction that aims at improving data from listed companies on how they manage workers in their direct operations and supply chains. The survey covers themes including human rights, diversity, pay ratios to overall wage levels, turnover rates, training, occupational health and safety, freedom of association, whistleblowing, structure of the company’s supply chain as well as sourcing procedures. An ESG Viewpoint on our WDI-related engagement from November 2019 can be found here: <https://www.bmogam.com/gb-en/intermediary/news-and-insights/esg-viewpoint-the-quest-for-workforce-disclosure/>

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