

From wage to prosperity: transition to sustainable business and pay 3/49/23



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Many people see the high cost of living as a challenge that forces the public and the government to take steps in order to obtain protection from today's unpredictable economic conditions. While every worker deserves to receive a wage that allows them to satisfy their needs and live a decent life, the UN recognises that more than a third of workers globally earn less than they need to secure such a standard of living. The problem remains unsolved in 2023, so this article summarises the various challenges that companies need to overcome if they are to implement what is known as a living wage.

What is a living wage?

PwC and WageIndicator have joined forces to conduct studies and educate people and companies on this topic, which was included in the International Labour Organisation's preamble calling for urgent improvements to working conditions, including a sufficient subsistence minimum, back in 1919. The authors of the study emphasise the lack of a common global definition, yet their report describes the living wage as a level of pay that allows an individual and their family to afford everything they need, to pay the necessary taxes, and to make savings for emergency situations in order to live a dignified life.

Importance and benefits for both sides

Living-wage issues are becoming increasingly relevant – this could be due to the inflation and the increased living costs as a result of global activities. PwC and WageIndicator conducted a survey of 205 clients across 43 global territories and found that financial difficulties are way more common in 2023 than they were in 2022.

A living wage is important not only for workers to ensure everyone is able to maintain a decent standard of living, but also for employers because fair and competitive pay helps them attract new talent and retain their current workers, as well as being one of the sustainable business factors. The survey suggests that some workers intend to change jobs in order to earn more and be able to provide for their household financially. The authors of the report refer to studies conducted by the World Economic Forum, which state that six out of ten Gen Z workers are looking for a new job because they want more pay. Work-life balance and development opportunities are also important factors.

The studies suggest that providing fair and competitive pay is not a simple and fast process. Implementing a living wage brings with it many challenges, yet it offers benefits to all stakeholders. The UN mentions various benefits for organisations and workers, such as increased productivity, reduced absenteeism, improved supply-chain relations, and increased competitiveness.

Challenges

Companies increasingly realise that the living wage is important, but there are a variety of complex problems they need to solve before they can implement it. The PwC and WageIndicator study outlines the main obstacles. The first obstacle is implementation cost. To raise pay, it's important to consider rate fluctuations in each country depending on the inflation and the overall cost of living. The second obstacle is a lack of available data. When a living wage is implemented, pay must be fair. Each region has different factors that form the basis for pay determinations. Examples being mentioned sadly include factors such as gender and ethnicity, which are currently incompatible with the member states' rules on diversity, inclusion and anti-discrimination. These factors are hindering efforts to set up a common standard for determining the living wage. The third obstacle is complexity. This manifests itself as a potentially decentralised pay policy globally and the inability to technically align various elements of pay, which in certain regions may be determined by the law, such as contributions to pension funds.

Sustainable business

The living wage has become a key ESG aspect. 53% of employers include a living wage in the social aspect of their ESG strategy, which is important because implementing decent pay will help employers meet their goals of sustainable business growth.

The survey suggests that businesses are on the road towards implementing a living wage. 24% of employers are paying a living wage, and 54% plan to start paying it in the next five years. These statistics are encouraging, given the goal set in the PwC and WageIndicator report that 100% of workers will receive a living wage by 2030, according to the UN global sustainability initiative, Forward Faster, launched in July 2023.

The situation in Latvia

The Ministry of Welfare has conducted a study that involved developing the methodology for calculating a household relative spending budget that takes account of the food basket and non-food expense categories.

A household relative spending budget for a person of working age who lives in Riga is EUR 423.27 a month. According to the official gazette *Latvijas Vēstnesis*, the Latvian minimum wage of EUR 620 is to be raised to EUR 700 from 1 January 2024. The latest available data suggests that 125,879 people are being paid the minimum wage or less in Latvia. So the pay for this social group is less than the living wage. Raising the minimum wage may drive positive change, such as reducing poverty risk for vulnerable social groups, given the rising consumer price levels.

The EU Council directive on adequate minimum wages passed in 2022 includes new EU rules to minimise the worker poverty and the pay gap, such as improving statutory minimum wage compliance and entering into collective agreements. The Council states that countries with a highly developed practice of collective agreements have a smaller percentage of workers on low pay. However, the directive is silent on a particular level of minimum wage the member states should achieve. They are allowed a time limit of two years after the directive is implemented to pass the new rules into their national laws. We will be monitoring how this aspect develops in Latvia.

Conclusions

In summary, the survey suggests we can expect positive changes that will benefit businesses, workers and the economy in general over the next five years. However, it takes time to overcome obstacles and challenges, and we need a commitment from organisations and governments to changes aimed at securing public welfare and improved living standards.